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Socially Responsible Investments
The Sustainability Concerns

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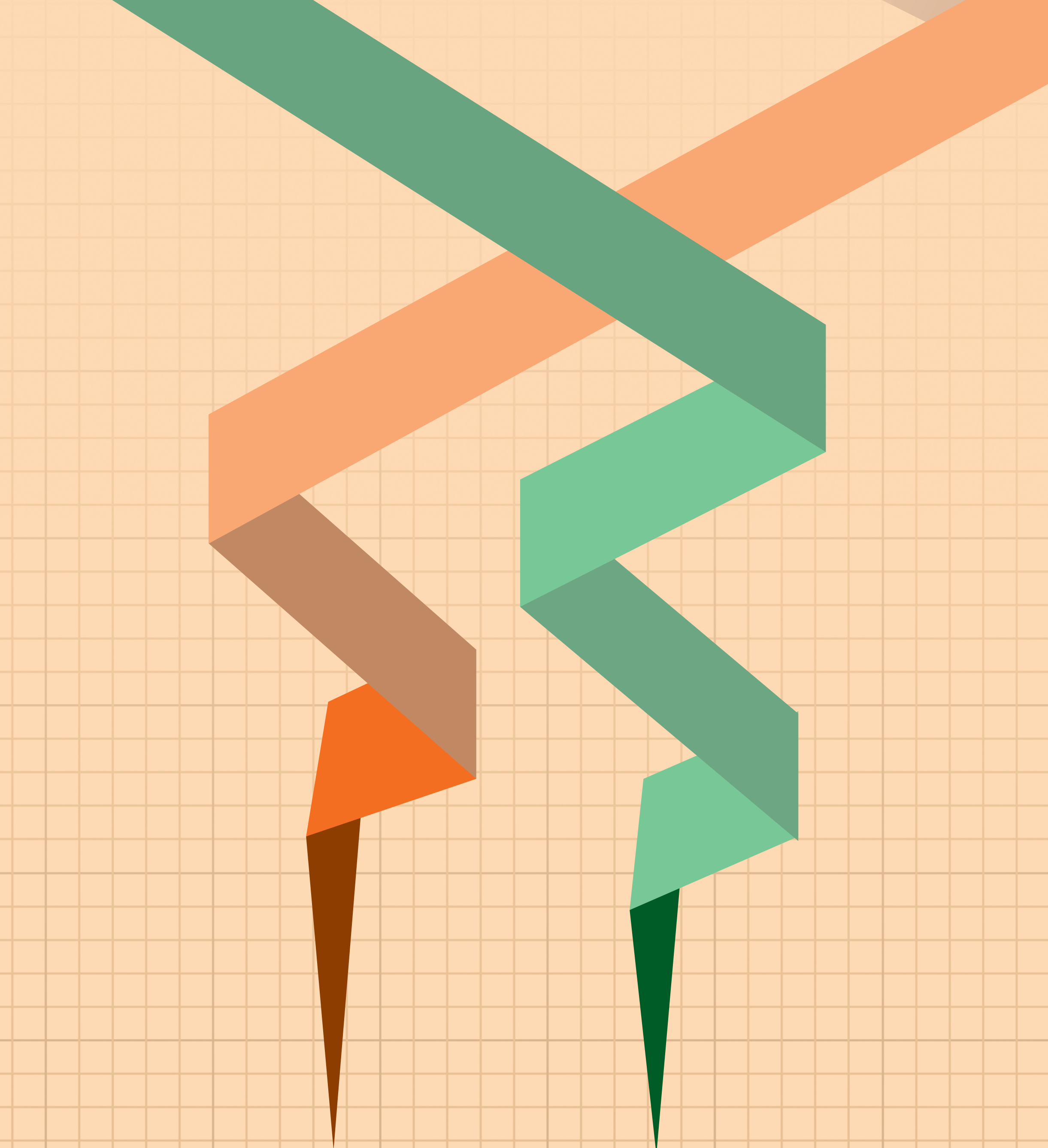

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The Culture

Socially Responsible Investment (SRI) is an umbrella term to describe an investment process which takes environmental, social, governance (ESG) or ethical considerations into account. SRI is not a new concept and has gone by many names through the years: Values-Based investing; Ethical investing; Green investing; Environmental, Social, Governance (ESG) investing; and most recently, Sustainable and Responsible Impact investing .

SRI tend to mimic the political and social climate of the time. Karl Marx (1818-1883), a political theorist, 180 years ago, commended an SRI aligned positive initiatives for ethical conduct in workplace relations, production, and the environment. The growth of SRI arises in the 1990s from a combination of legislative compulsion and pressure from actual and future beneficiaries. As awareness has grown in recent years over global warming and climate change, socially responsible investing has trended toward companies that positively impact the environment by reducing emissions or investing in sustainable or clean energy sources. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling, and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts.

SOCIAL RESPONSIBILTY is the idea that businesses should balance profit-making activities with activities that benefit society; it involves developing businesses with a positive relationship to the society in which they operate. The International Organization for Standardization (ISO) emphasizes that the relationship to the society and environment in which businesses operate is "a critical factor in their ability to continue to operate effectively. It is also increasingly being used as a measure of their overall performance." Two inherent goals of socially responsible investing: social impact and financial gain. The two do not necessarily go hand in hand; just because an investment touts itself as socially responsible doesn't mean that it will provide investors with a good return. An investor must still assess the financial outlook of the investment.

Demand for Responsible Investment is increasing

Societies now feel passionate about a range of issues such as the effects of climate change, the use of sweatshops, the production of weapons of mass destruction, the effective use of natural resources, a rapidly growing and ageing population or the corporate, environmental and social practices of companies. The recent Global Financial Crisis made more investors aware of the importance of considering good corporate ethics, governance and environmental issues when examining the future worth of any investment.

While Responsible Investment was once considered a fad, today it is a very mainstream investment style with responsible investors coming from all walks of life and across all ages. There are many varied and universal reasons why someone may be motivated to invest responsibly: (a) An interest in social issues, or membership to community, environmental, political or human rights organizations. (b) A scientific background or passion for new energy technologies as a way to solve the problem of climate change. (c) Belonging to a faith-based or other spiritual organization. Or simple enjoyment of being close to nature, and wanting to ensure its preservation.

Religious investing

Often SRI chosen according to stated religious beliefs, for example Judaism, Christianity, or followers of Islam. In fact, the history of SRI goes back to the ethical precepts embodied in Jewish law. Quakers and other religious orders starting in the 18th century refused to invest in "sinful" industries such as distilleries and weaponry. The first SRI mutual fund was Pax World Funds, a $1 billion fund created in 1971 by Luther Tyson and Jack Corbett both of whom worked for the United Methodist Church. In 2004, faith-based organizations filed 129 resolutions, while socially responsible funds filed 56 resolutions.

Islamic social scientists believe that the Zakat is compatible with principles of economic and social equity. Muslim socialists found their roots in anti imperialism. Muslim socialist leaders believe in the derivation of legitimacy from the public. The Zakat promotes a more equitable redistribution of wealth and fosters a sense of solidarity amongst members of the community. Zakat is meant to discourage the hoarding of capital and stimulate investment. Because the individual must pay Zakat on the net wealth, wealthy Muslims are compelled to invest in profitable ventures, or otherwise see their wealth slowly erode. Furthermore, means of production such as equipment, factories and tools are exempt from Zakat, which further provides the incentive to invest wealth in productive businesses.

Jeebika, a Livelihood & Human Development Program was developed by the Center for Zakat Management (CZM) in Bangladesh to ensure sustainable socio-economic development of the hardcore poor. Through conducting a baseline survey the Zakat-deserving households are identified and grouped in grass-root organization comprising 25-30 families. They open a joint bank account and a certain amount of Zakat money for each family is deposited to their account. Besides, they are advised to form a savings fund. The group members, with a view to do business can take interest free investment from their joint account. After engaging in business as per shariah rule, the members can carry lion share of their profit to family and equally shares a portion with other members of the group. The project also provides other services like healthcare, safe water & sanitation facilities, child & adult education, skill development training, awareness building etc. Thus, all the members are engaged in establishing a friendly society.

The Jeebika Karnaphuli project was a small-scale experimental livelihood project focused on the sustainable graduation of 450 impoverished families comprising two communities on the bank of river Karnaphuli in the Mohra area of Kalurghat in the eastern outskirt of Chittagong city in Bangladesh. The project was launched in February, 2011 by CZM with the financial support of leading local corporate group A.K. Khan who deployed their Zakat and CSR funds for the purpose. Though relatively small-scale, the Jeebika Karnaphuli Mohora project has a number of features that marks it out as different from the generally-known micro-finance model. It may perhaps be more accurately characterized as a micro-finance+ model with an explicit and far greater emphasis on the issue of sustainability. Beneficiaries are provided with a five-fold stake in the project: (a) ***Equity capital*** in the form of the Zakat and CSR allocation for each beneficiary that forms part of a group equity held in a bank account (b) Access to a revolving fund for ***micro-loans***. The beneficiary group's pooled equity capital constitutes the revolving fund. Each member of the group has the option of applying for a micro-loan as per the family's need with the provision for paying a service charge/interest as in the regular micro-finance model (c) ***Group profit*** accruing from the interest charged for the micro-loans which accumulate in the group bank account. This secondary income stream is earmarked for equal distribution to each member of the group. (d) ***Social sector support*** covering education, health, water, sanitation and home gardening. (e) ***Capacity building*** on management, leadership and enterprise skills with the eventual goal of graduation.

Social entrepreneurship

Popularly known as Social Business, theory of Nobel laureate Professor Muhammad Yunus (1940-) is the use of the startup companies and other entrepreneurs to develop, fund and implement solutions to social, cultural, or environmental issues. This concept may be applied to a variety of organizations with different sizes, aims, and beliefs. For-profit entrepreneurs typically measure performance using business metrics like profit, revenues and increases in stock prices, but social entrepreneurs are either nonprofits or blend for-profit goals with generating a positive "return to society" and therefore must use different metrics. Social entrepreneurship typically attempts to further broad social, cultural, and environmental goals often associated with the voluntary sector in areas such as poverty alleviation, health care and community development.

Investing in Capital markets

Social investors use several strategies to maximize financial return and attempt to maximize social good. These strategies seek to create change by shifting the cost of capital down for sustainable firm and up for the non-sustainable ones. The proponents argue that access to capital is what drives the future direction of development.

Negative screening excludes certain securities from investment consideration based on social or environmental criteria. For example, many socially responsible investors screen out tobacco company investments. Despite this impressive growth, it has long been commonly perceived that SRI bring smaller returns than unrestricted investing. So-called "sin stocks", including purveyors of tobacco, alcohol, gambling and defense contractors, were banned from portfolios on moral or ethical grounds. And shutting out entire industries hurts performance.

Disinvesting is the act of removing stocks from a portfolio based on mainly ethical, non-financial objections to certain business activities of a corporation. Recently, CalSTRS (California State Teachers' Retirement System) announced the removal of more than $237 million in tobacco holdings from its investment portfolio after 6 months of financial analysis and deliberations.

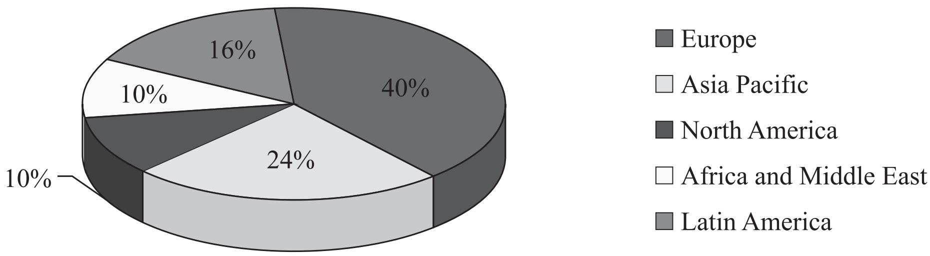
Shareholder activism efforts attempt to positively influence corporate behavior. These efforts include initiating conversations with corporate management on issues of concern, and submitting and voting proxy resolutions. These activities are undertaken with the belief that social investors, working cooperatively, can steer management on a course that will improve financial performance over time and enhance the well being of the stockholders, customers, employees, vendors, and communities. Recent movements have also been reported of "investor relations activism", in which investor relations firms assist groups of shareholder activism in an organized push for change within a corporation; this is done typically by leveraging their enhanced knowledge of the corporation, its management (often via direct relationships), and the securities laws as a whole. Hedge funds are also major activist investors; while some pursue socially responsible investing goals, many simply are seeking to maximize fund returns.

Positive investing is the new generation of socially responsible investing. It involves making investments in activities and companies believed to have a positive social impact. Positive investing suggested a broad revamping of the industry's methodology for driving change through investments. This investment approach allows investors to positively express their values on corporate behavior issues such as social justice and the environment through stock selection – without sacrificing portfolio diversification or long-term performance. Positive screening pushes the idea of sustainability, not just in the narrow environmental or humanitarian sense, but also in the sense of a company's long-term potential to compete and succeed. In 2015, Morgan Stanley conducted a review of 10,000 funds and concluded "strong sustainability" investments outperformed weak sustainability investments, tackling the idea of a trade-off between positive impact and financial return, while the Global Impact Investing Network's 2015 report on benchmarks and returns in impact investing in private equity and venture capital found market-rate or market-beating returns were common in impact investments.

The Global Context

Socially responsible investing is a global phenomenon. With the international scope of business itself, social investors frequently invest in companies with international operations. As international investment products and opportunities have expanded, so have international SRI products. The ranks of social investors are growing throughout developed and developing countries. In 2006, the United Nations Environment Program launched its *Principles for Responsible Investment* (PRI) which provide a framework for investors to incorporate environmental, social, and governance (ESG) factors into the investment process. PRI has more than 1,500 signatories managing more than US$60 trillion of assets.

Figure 1. Signatories UNEP FI by region in 2016



Source: UNEP Fl, http://www.unepfi.org/signatories/index.htmp (Accessed: 12.07.2016).

Since 1985, most of the major investment organizations have launched ethical and socially responsible funds, although this has led to a great deal of discussion and debate over the use of the term "ethical" investment this is because each of the fund management organizations tend to apply a slightly different approach to running their funds.

In recent years there has been growth in the market for high social impact investments; this is a style of investing where the businesses receiving investment have social or environmental goals as a primary purpose. UK institutions are also getting more involved in social investing through impact investing funds, with those such as Deutsche Bank and NESTA, alongside other institutions such as Big Issue Invest, which is part of The Big Issue Group.

Socially Responsible Investing (SRI) is a growing force in markets across the world. According to the US SIF Foundation, the responsible investing market in the US increased 486 percent while the broader US market of professionally managed assets grew 376 percent between 1995 and 2012. SRI investments are generally demand-side driven. More and more investors are looking for vehicles that are aligned with their values and priorities. In 2014, the total Assets Under Management (AUM) of the 1,278 signatories of the UN Principles for Responsible Investment (PRI), which include asset owners, investment managers and professional service partners, totaled $45 trillion. The SRI niche is not going away.

These investors want to send signals to the market economy regarding the way they want to get things done. For example, the California Public Employees' Retirement System (CalPERS) actively encourages corporations to improve environmental responsibility, examine executive compensation, and include more women and people of color in their boards. Investment beliefs adopted by the CalPERS board affect its organizational culture, and in turn, the organization has intensified its own focus on sustainability. To be a sustainable, prosperous organization, CalPERS' long-term liabilities must also be sustainable, because some of them will be on their books for nearly 100 years.

The Asian arena

The value of world SRI market is estimated for 21.4 billion US$, from what 11.05 billion EUR falls on the European market (Global Sustainable Investment Review GSIR, 2014). Although Europe is a global leader, a similar developing markets such as the USA, Canadian or Australian are gaining more popularity. Asian countries became a vital part of market too. Both world economic powers like China and Japan, but also South Korea, Singapore and Malaysia are joining this global trend. Nowadays the socially responsible investment seems to be an investment direction of a modern, post-crisis international financial markets.

Table 1. Socially responsible investment asset growth in Asia (ex Japan) in 2011 and 2013 (min USD)

SRI market	2011	2013
Bangladesh	n.a.	14
China	1535	1729
Hong Kong	7328	11329
India	153	115
Indonesia	595	1142
South Korea	6288	8426
Malaysia	9956	15087
Pakistan	427	505
Singapore	724	5660
Taiwan	724	714
Thailand	14	20
Vietnam	n.a.	195
Total	29988	44937

Source: Asia Sustainable Investment Review, 2014, P.12.

Sustainable investment assets in Asia, although still comprising only a small share of world total professionally managed assets, stand at 53 billion US$ in 2015, an increase from the 40 billion US$ reached at the beginning of 2012. The collected data include twelve SRI markets, such us Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Pakistan, Singapore, South Korea, Taiwan, Thailand, and Vietnam (table 1). The three largest Asian markets for socially responsible investments, by asset size, are Malaysia, Hong Kong and South Korea. The fastest growing are Indonesia and Singapore markets. According to historic maturity, the most developed market in the Asia region is Japan. Innovational products concern ESG policies like impact investing, bonds and green real estate are gaining popularity in Japan.

In the Asia region in 2016 it is observed that a growth number of sustainability reporting instruments by about 75% since 2013.This initiatives came more often from financial market or industry regulators than governments. Increased attention applied to the nonfinancial activities of companies and transparency of reports influence on development of socially responsible investment market in Asia. The key participants in this market are institutional investors, asset managers, individual investors and investment banks. The involvement of so many actors as a financial market affect the number of potentially engaged in SRI market development.

The SRI fund market is strongly affected by religious attitude. Islamic funds are the major contributor to sustainable investment assets in Asia, mostly in Malaysia and Indonesia, where the government policy supports development of the Islamic fund market. Another important form of socially responsible investment in Asia is impact investing and community investment. This investments approach concentrate on financial and social inclusion. The capital from investors is directed to microfinance programs.

Table 2. The popularity of socially responsible investment strategies for the Asian market at the end of 2012 and 2014 (billion USD)

SRI market	2011	2014	Growth 2012-2014
Norms-based screening	0	0	n.a.
Negative screening	10.82	16.55	53.0%
Positive screening	2.31	1.73	-25.2%
Integration of ESG factors	16.53	23.41	41.6%
Sustainability-themed investing	3.37	4.17	23.5%
Impact investing	7.14	5.91	-17.2%
Corporate engagement and shareholder action	0	1.16	nc
Total	40.17	52.92	31.7%

Source: Own study based on: Asia Sustainable Investment Review, 2014, P.30.

Microfinance offers access to capital to people of low income, who have been excluded from the formal banking sector or enterprises on the early stage. Microfinance programs provide access to credit, equity and basic banking products. The most well-known and in the same time the most developed product is a microcredit. Microcredit provides financial capital for poor or entrepreneurs who toil in the informal, poverty sectors in developing country economies. The motherland of microcredit is Asia exactly. The best known examples coming from the Grameen Bank of Bangladesh, which was established by Professor Muhammad Yunus.

Asia Stock Exchange is playing significant role in developing regional socially responsible investment markets. One of the targeted method is enhancing ESG reporting by companies listed on stock exchanges. Many initiatives are taken in this field. The Shenzhen Stock Exchange (SZSE) in 2006 and the Shanghai Stock Exchange (SSE) in 2008 as first have introduced guidelines for listed companies. The important driver for the SRI market in Asia, therefore, will be concentration on environmental issues relating to climate change, energy and resource scarcity. In 2016, during China's leadership of the G20, according to research results taken by Green Finance Study Group (GFSG), China sums up its needs around 460 billion US$ yearly to finance green investment plan (G20 Green finance).

The Sustainability of the Environmental, Social and Governance factors

With issues continuing to manifest from income and wealth inequality to climate change, expect these trends to only continue and strengthen going forward especially as sustainability strategies continue to add financial value for companies and their shareholders.

Examples of environmental, social and governance (ESG) factors are numerous and ever-shifting. They include:

Environmental: climate change; greenhouse gas (GHG) emissions; resource depletion, including water; waste and pollution; deforestation

Social: working conditions, including slavery and child labor; local communities, including indigenous communities; conflict; health and safety; employee relations and diversity

Governance: executive pay; bribery and corruption; political lobbying and donation; board diversity and structure; tax strategy

One more concern remain, the SRI legal and its environmental challenges, ethical investment, or, SRI as this financing movement is more commonly known today, increasingly downplays ethics. Traditionally it championed an explicit ethical agenda, these investors addressed social or environmental concerns not for any financial reward, but for the moral desire and responsibility to improve the world. The renaissance of SRI in the mainstream financial markets since the late 1990s has problematically, somehow rather, have disavowed this ethical posture. Responsible investors increasingly pitch their case for taking social or environmental issues into account on business grounds, on the assumption that SRI will make them prosperous, rather than merely virtuous.

While business case SRI is becoming popular, it risks perpetuating business-as-usual and reducing the SRI movement's capacity to leverage lasting change for environmental sustainability. Environmental problems have become the most important SRI cause today, yet it is doubtful whether present forms of SRI will make a significant difference to their resolution. Ethical investment to promote sustainability should no longer be a discretionary option for financiers, to follow only if there is a compelling business case. In a world facing grave ecological problems, the financial sector must shoulder some of the responsibility to shift economic activity towards sustainable development. UN Sustainable Development Goal (SDG) numbers Seven, Eight, Twelve, and Thirteen have strong proponents for this paradigm shift.

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Dr Muhammad Abdul Mazid is currently the Adviser of A K Khan Foundation. He is also a member of the Board of Directors at the Centre for Governance Studies (CGS). He served as a Secretary to the Government of Bangladesh. He also led the National Board of Revenue, Chittagong Stock Exchange and South Asian Federation of Exchanges as Chairman.

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