SMITH SCHOOL OF ENTERPRISE AND THE ENVIRONMENT

UNIVERSITY OF OXFORD

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UBS –Smith School Essay Competition for Enterprise and the Environment

June 2015

Winning Essay by

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Sustainable or responsible investing has garnered increasing political, economic, public, media and business attention recently. The reasons given for this are manifold, with Birdwell and Bani (2014) seeing a generational shift in the increasing consideration of environmental and social issues. The global financial crisis of 2007/2008 has also been labelled as a contributing factor due to the environmental, social and economic scandals that came to light through inspection and dissection. Prominence and visibility of global issues such as food production, water scarcity and poverty have also been named as triggers for increased attention to SRI and CSR. This essay seeks to explore the extent to which sustainable or responsible investing can substitute effectively for government policy or regulation, by considering how it can contribute to welfare provision and environmental protection directly, and address market failures and obstacles that social and environmental investments are currently suffering from. Then the essay will address the potential failings of sustainable or responsible investing, looking at the issues of uneven investment; the need for returns; being tied to the market; and self-regulation. This essay argues for the importance of state support, regulation, and cooperation with the private sector to address environmental and social problems, as without one of the other, inequality has the potential to increase due to environmental and social failures.

First, it is important to define 'sustainable' or 'responsible' investing. In this essay they will be used synonymously to mean investment into companies directly, stocks, bonds, and debt that are predicted to do social or environmental good at the same time as achieving a roughly market-rate, or above, financial return. Under the umbrella of sustainable or responsible investing there sit many other smaller terms with, arguably, stricter parameters such as ethical investing and impact investing, but they will be considered under their overarching term of sustainable or responsible investing for the purpose of this essay. Definition itself is a large issue for sustainable or responsible investing as well as the actors involved in the market, with Big Society Capital commenting that there seems to be no set definition, and in each report there is a slightly differently worded glossary. It was found to be an obstacle to the market in a recent report on sustainable investment done in 2014. The definition would need to be addressed and given further rigidity if the market were to grow to take some kind of role in addressing social or environmental issues.

Sustainable or responsible investing has been criticised as being neoliberal due to the requirement of the private sector involving itself in the public sector, or even taking away some of the role of the public sector/state in the provision of regulation and welfare. It also does, to some extent, commodify social services and environmental goods, creating opportunities for profit from objects, services and spaces which may previously have been considered to be value-less and under control of the commons, as Harvey (2010) suggests. However, in general, neoliberalism has been associated with the exploitation of natural resources and the lack of attention paid to welfare, and sustainable or responsible investing could potentially reverse that myopia by attributing value to social and natural spaces. In that sense, sustainable or responsible investing could be considered to be more of a moral economy, something which neoliberalism, as an agenda, would struggle to create.

The critique of sustainable or responsible investing being a response to government failure may be more accurate in some ways, particularly where the government can be argued to be 'failing' its citizens by not providing basic needs and conditions, such as in Sierra Leone or the Democratic Republic of Congo (Watts, 2004). In this case, sustainable or responsible investing has stepped in where economic opportunity has also arisen to invest in projects such as rainforest and mangrove protection in Tanzania with REDD+ (Burgess, 2013) or sanitation in

Mumbai (McFarlane, 2008). However, in countries such as the UK, the government has invited private investment into welfare, so whether that is a response to state failure is questionable. This role of sustainable or responsible investing as addressing government policy or regulation will now be considered in more detail below.

What can sustainable or responsible investing do?

Invest in welfare: so far, in the UK, there has been the creation of 'sustainable' or 'responsible' market investing in welfare and charities, mainly through the means of bonds. These have included adoption bonds, the Peterborough Prison Bond, Green Bonds, and Water bonds, amongst many others. Generally, demand has been strong and many companies and charities involved see them as able to remain profitable, providing a return for investors. Therefore, sustainable or responsible investing is providing the capital needed to roll out of maintain welfare services in developed nations in particular – success has also been seen in the USA, Australia and Scandinavia. Considering the welfare budget cuts anticipated under Cameron's new government today, there is going to be limited capital available for addressing social issues and there is the potential for sustainable or responsible investing to provide this. Of course, this would require either payment for services from citizens, or collaboration with the government. Governments would need to provide a return for the investment, so it would be a loan of sorts. Outside of the public sector, sustainable or responsible investing could invest directly into companies aiming to improve social conditions through innovation, such as educational software, therefore encouraging innovation and providing SMEs with liquidity and capital.

Secondly, sustainable or responsible investing could invest in the environment. Currently, the environment is perceived as a collective good, hence the application of the tragedy of the commons to the present situation (Hardin, 1968) where individuals exploit the environment in the belief that any damage done will be distributed among all actors involved, thus minimising cost for the individual. Sustainable or responsible investing would attach a value to the environment, as has already been seen with REDD+ initiatives, carbon trading schemes, assigning cost to water usage, and payment for ecosystem services (PES). In theory, this would increase responsibility towards the environment, encouraging sustainable management and decrease degradation, particularly where governments have not implemented environmental regulations or sustainable policy. In addition, sustainable or responsible investing could challenge the problem of the market failure involved with the externality of research and development in renewable energy. Take, for example, the oligopoly of the UK energy market – there are six leading companies who set prices and dominate the market. If one of those companies were to increase renewable energy R&D it would experience a loss of competitive advantage as knowledge cannot be purely individual and the other companies may benefit from their research, thus making profit from their costs involved in R&D. However, if research could be funded by sustainable or responsible investing into either a government body or a collective organisation funding renewable research, then beginning a drive in R&D could be less risky. Research and development is labelled as critical to the success of renewable energy, yet government contribution is lacking and there are no policy initiatives to encourage it. In this respect, sustainable or responsible investing could substitute effectively for government policy or regulation if a framework was agreed, either between energy companies or government(s) to create a fund, or to invest directly into companies innovating and developing renewables. This is not limited to renewable energy either, as innovation in food/water sustainability or social projects could also follow this format.

There has been huge demand for Green Bonds recently, with the market growing to become mainstream and dealt with by large investment banks. Generally, these have been from large companies looking to improve environmental practices, such as Sainsbury's issuing a Green Bond to improve the efficiency of their refrigerators. In this instance, and many similar, sustainable or responsible investing has substituted for a lack of regulation on efficiency or energy usage or waste by showing that there is investor demand for Green Bonds and that it can be beneficial for both the investor and the issuer. Water bonds have also been issued, and renewable bonds, and by going through mainstream markets there is potential that investments that may previously have been seen as risky may become more appealing to individual and institutional investors.

This leads into the third area that sustainable or responsible investing could efficiently substitute for government policy or regulation – by providing demand and growing the market. End market demand is one of the key reasons for a company to improve or change its governance standards. Thus, if sustainable or responsible investing grows to exhibit significant demand, then it would follow that those companies would be encouraged by this to improve or introduce social and/or environmental considerations into their governance, therefore partially addressing the lack of government regulation in many countries on environmental and social standards.

Demand for sustainable or responsible investing could also help to overcome issues with the market that exist at the moment, and that governments need to address, but have not yet provided. In a recent study on the obstacles to the market, there were a number of issues found to be discouraging or slowing the growth of impact investing, which can be applied to sustainable or responsible investing (unpubl.). These were: a lack of definition, as previously mentioned; a lack of education/awareness; a lack of liquidity; lack of secondary market; lack of ratings agency; unsuitable size of investments; and a lack of track record. Government policy or regulation could aid the creation of a secondary market, liquidity, definition and education. However, apart from in the UK where the Social Stock Exchange has been set up to try and encourage a secondary market and liquidity, there has been little to no government intervention. Sustainable or responsible investing could, purely through supply and demand, grow the market and thus indirectly contribute to the solution these problems. Therefore, the market would not need to be an artificially create government venture, but a naturally evolving market.

Finally, sustainable or responsible investing could contribute to growing shareholder concerns with company environmental and social conduct. Christensen and Murphy (2008) highlight the lack of consideration that traditional CSR/SRI has given to tax. Tax is the fundamental way in which companies engage with wider society, and yet firms such as Goldman Sachs and Enron have previously got away with only paying 1% and 0% - 2007 and 1995-2000 respectively. Awareness of sustainable or responsible investing could potentially encourage firms to be better global citizens, although of course this is a utopian view. Private movement may be the only way of creating global governance, as previous efforts have met resounding failure, but firms concerned about their reputation are increasingly adopting global supply chain regulation (Angel and Rock, 2005), again fulfilling the role of government in government in the regulating MNCs and educating consumers. China's environmental policy is said to be failing due to lack of transparency, but recent activism has come from investors to increase disclosure by companies, and increase accessibility (Riley and Huiyan, 2007). If sustainable or responsible investing demands can facilitate transparency, another government policy failure would be

addressed as, in the instance of China, government still have not moved to increase requirements due to fear of putting off businesses.

What issues are there with the sustainable or responsible investing replacing government regulation?

However, there are numerous problems with sustainable or responsible investing substituting for government policy or regulation. Investment will inevitably be exceptionally uneven as some countries will be more appealing to investment than others, some companies will be more open to environmental and social considerations, and some governments may be more accommodating. Therefore the importance of geography in sustainable or responsible investing must not be underestimated. Ultimately, sustainable or responsible investing is trying to address social and environmental issues, and uneven investment can actually increase inequality and decrease standard of living. Therefore there is a role in which sustainable or responsible investing could not be an effective government substitute.

In addition, as the market grows, it would inevitably require regulation as the number of actors, institutions, and networks increased. It would be highly unlikely to be able to regulate itself, and the dangers of extreme deregulation have been seen since 2008, this some form of specific regulatory intervention would be needed. This would depend on jurisdiction and require them to explicitly recognise sustainable or responsible investing and its associated instruments. In this respect sustainable or responsible investing cannot substitute for government effectively either.

It would also be dangerous to allow a significant a significant proportion of social or environmental provisions, services, and products to be so closely tied to the markets. Markets are cyclical and prone to booms and busts, therefore in a time of crisis of downturn, social and environmental provisions and services may be subject to cuts, selling off, or an increase in cost, which could have disabling effects on the population dependent on them. The market cannot provide a safety net that would have to be government provided and would be exceptionally difficult to navigate. It has already been shown that in some instances environmental exploitation increases in a downturn due to the environment being use for profit seeking activities, so an entire market based on the environment and its commodification could present exceptional risks without stringent regulation. Continued demand also could not be guaranteed, and if investment was withdrawn, or companies providing services went bust then it would be impossible to maintain, and one would not be able to predict whether liquidity and capital would return, therefore a lack of government safety net could have devastating effects.

Finally, the last problem with sustainable or responsible investing acting as a substitute for state policy would be that often social problems in the developed world are addressed with free or subsidies welfare services and policy, such as the NHS providing free healthcare in the UK to ensure high standards of living and low health inequality, or Denmark providing free childcare to increase gender equality. As sustainable or responsible investing is still an investment, there must be returns, therefore it cannot give something away or provide it for free. Government collaboration would again be needed, but sustainable or responsible investing could provide a cheaper or easier way of gaining funding for welfare services.

The question of scale is essential to include in this discussion. Sustainable or responsible investing on a small scale certainly could not do the aforementioned things and potentially

substitute for government policy or regulation. At best, it would provide the mainstream financial markets with a conscience of sorts, and provide consumers with a greater awareness of the importance of socially and environmentally considerate investment of all forms. However, at a large scale, such as with a number of pension funds and SWFs engaging, it has the potential to wield large amounts of power over the financial markets, in terms of direct effects of investment into numerous large projects and indirect effects of demonstrating demands and overcoming obstacles. There could be the simultaneous effect of both small and large scale at this level, with individual investors and smaller firms working more from the bottom up, and large firms and SWFs and pension funds working from the top down. This has the potential to address some of the issues of the geographically uneven investment patterns that would inevitably occur, but as the market is still highly profit focused and still capitalist, it is likely that investment flows would mimic mainstream flows. As Clark (2005) writes, money pools together like mercury, it does not flow evenly like water.

This essay has addressed where sustainable or responsible investing may have the potential to substitute effectively for government policy and regulation. Direct investment into social welfare and environmental causes were considered, with the benefits of potentially providing cheaper services, encouraging innovation/facilitating creation of technology, and assigning a value to nature, resources, and social factors, thus encouraging more careful management. In addition, the indirect effects of creating a market to overcome the current obstacles to growth, encouragement of shareholder activism, companies adopting higher social and environmental standards, and increasing consumer awareness were considered. Then the potential problems of sustainable or responsible investing were discussed, focusing on the issues of uneven investment patterns and potential exacerbation of inequality; the question of who would regulate the market to ensure risk awareness and suitability, as well as quality, present problems; involving social and environmental problems with the market also could put a large number of people at risk from market fluctuations and downturns; and sustainable or responsible investing would not be able to provide free or subsidised welfare services as investment requires a return. Therefore, this essay shows that sustainable or responsible investing can do a large amount of beneficial direct and indirect actions on social and environmental problems, and in some cases substitute government policy and regulation effectively - particularly with governance standards, creation of a market, and education of consumer, as well as direct investment to provide capital. However, the sustainable or responsible investing market is still a financial market in a capitalist system that depends upon the inequality inherent in our world, therefore government regulation and collaboration of or with sustainable or responsible investing would be essential. Without it, sustainable or responsible investing could have the potential to move away from the 'moral economy' due to its flexibility on definition, and begin to exploit social and environmental opportunities. Government may be more willing to step in if it sees success and opportunity, therefore presenting a greater chance of collaboration and regulation if scale is large enough. Without scale and growth sustainable or responsible investing may become another fad, and therefore only influence the markets slightly, or not at all. Governments cannot see sustainable or responsible investing as a replacement for their social and environmental concerns as that just encourages apathy and negligence – there needs to be a clearer message from all sides – we need to invest responsibly and sustainably to see any beneficial change.