

A risky environment for investment

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A number of initiatives have been worked out to integrate sustainability and profitability. On a global level, the United Nations has been working with businesses and industries to make their activities more environmentally sustainable - among these are the UN Environment Programme (UNEP) including the UNEP Finance Initiative, and the UN Global Compact. A notable non-UN initiative is the Equator Principles developed by banks to manage environmental, social, and corporate governance (ESG) issues. The launch of the UN Principles for Responsible Investment (PRI) in April 2006 was intended for pension funds (constituting about 35% of total global investments) and large institutional investors, and provides a "framework for achieving better and long-term investment returns and more sustainable markets". About 50 institutional investors from the US and Europe with a portfolio of about \$4 trillion have signed on to PRI. PRI provides guidelines for fund managers, acting on the best interests of their beneficiaries to integrate ESG issues into how they pick a stock and analyze companies from which to base their investment decisions. Investors would seek disclosures from the companies regarding their ESG issues, promote the principles within the investment industry, and monitor how the implementation is progressing. The principles outline 35 specific actions in which investors and fund managers can integrate ESG considerations into their investment activities - among these are the inclusion of ESG considerations for research and analysis for investment service providers, the development of an active ownership policy consistent with PRI, etc. Moreover, signatories to the PRI are required to report on implementation progress and explain if principles are not being complied with. The PRI Investor Group is on the process of developing short and medium-term tools to support the implementation and <https://assignbuster.com/a-risky-environment-for-investment/>

interpretation of the principles. Among these tools are the means for assessing and comparing the extent for which fund managers are dealing with ESG issues, an online resource for signatories offering advice on the different means for implementing the PRI with respect to different asset classes, and a platform for collaborative engagement with companies in which signatories jointly invest.

Since the principles are voluntary and self-reporting (in order to achieve consensus in a large group), their implementation according to some parties should be accompanied by policy changes at the national level in order for them to be effective. Also, on the ground, the activism of civil society and consumer groups work hand in hand with initiatives such as the PRI and with the current focus of investors on company disclosures. In a way, this activism, like in the case of Green Peace sounding an alarm with regards to loans by IFC and Rabobank to a company threatening the Amazon rainforests results in swifter disclosures to the public of how and where financial organizations invest money. With doubts concerning the effectiveness of the UN PRI and similar initiatives, the fact is that integrating sustainability with profitability has only begun and that conscious efforts towards this, in the financial community have yet to be fully embraced.