IS SUSTAINABLE INVESTING GOOD FOR THE ENVIRONMENT?

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ABSTRACT

Purpose- The primary objective of this research initiative is to gain insight to the conceptual layers of sustainable investing and to shade light on the ESG impact, ESG rating diversities and on the counterproductivity issues with respect to sustainable investment strategies. Conceptually, the Sustainable Investing are numerous and evolving. The old definition of "An investment is sustainable if the investment is fortified with "financial returns only" is transformed into an ESG-investing mode. Within this transformatory process a new and rapidly evolving type of investment called 'Impact Investment' has heated the debate. The strategic focus might be on the "Impact First Investors" or on the "Financial First Investors" on many sectors and themes (Jaquier, 2011:25). A more recent definition "Fiduciary Investing" defines an Investment as sustainable, if the investor seeks to minimize the negative impact or the losses from ESG related investments. Major impact areas are financial services, agriculture, energy, environment, community housing, water, education and health. Given the broad range of definitions and areas, the global sustainable fund assets under management rose by 8% over the last quarter to USD 3 trillion at the end of December 2023 (Morningstar Manager Research, Jan. 25, 2024). Within the impact capacity of the Sustainable Investments, investor impact happens through three different impact mechanisms called Shareholder Engagement, Capital Allocation and the Indirect impacts (Kölbel, J.F. et all, 2020). Hartzmark, S. M., and Shue, K., aims to reveal emprically the granularity of the "impact elasticity" and hence the emission levels and ratios for green and brown firms based on the changes of their implied cost of capital, financial performance, interim returns, financial distress, leverage, productivity shocks and portfolio holdings of sustainable funds. Investors can screen out investments further based on the ESG ratings criteria. In this respect, Sustainable Investors representing over USD 100 trln in combined asstes are heavily usind the ESG ratings of different rating agencies (Berg, F., et all, 2022). However, ESG ratings which increasingly influence Sustainable Investment decisions, are very much diversified by different rating companies. The divergence of ESG ratings introduces uncertainity and performance evaluation difficulties for the decision makers (Berg, F., Kölbel J.F., Rigobon, R., 2022:1316).

Methodology- The ESG Divergence research is based on the critical evaluation of the data stemming from six different ESG rating providers such as KLD, Sustainalytics, Moody's ESG, Refinitiv, MSCI and S&P Global. A new taxanomy is developed for the divergence of ratings are evaluated on the basis of scope, measurement and weightings diversities of the models. The counterproductivity analysis for Sustainable Investing strategies is based on the definition of "impact elasticity". The impact elasticity is measured as the level change in a firm's emissions intensity for a unit change of its cost of capital.

Findings- Sustainable Investing differs from conventional investments considerably. According to Kölbel, J.F. et all, Sustainable Investors, whose decisions are based primarily on the layer of social impact, mechanisms, should pursue shareholder engagement throughout their portfolio, allocate capital to sustainable companies whose growth is limited by external financing conditions, and screen out companies based on the absence of specific environmental, social, and governance practices that can be adopted at reasonable costs.

Conclusion- A very important conclusion stemms from the fact that, in the absence of green substitutes for entire brown industries, the diminishing sustainable investments could contribute to more emission levels. Accordingly, the greening of a sector should come from the internal and revolutionary Dynamics withing the brown industries.

Keywords: Sustainable investing, ESG ratings, corporate social responsibility, ethical investing.
JEL Codes: G4, O44, Q56, D81

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