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Student Officer:

Carlo Martin & Eren Mercan

Issue:

The contribution of sustainable investing in the fight against climate change

Forum:

GA2

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Forum: Second Committee of the General Assembly

Name: Carlo Martin & Eren Mercan

Position: Chair & Deputy Chair

Introduction

Sustainable investing is an investment strategy that has gained in popularity over the previous years. Proponents of said practice seek to make a positive influence on the environment and climate through investments into companies that hold themselves accountable to certain standards and thus incorporate environmentally friendly practices into their corporate strategy. The demand for investments that align with a person's values has been on the rise as well, particularly among millennials.
The issue at hand points to whether this phenomenon can further contribute to fighting the threat of climate change in the near future and if so, how it should be applied and how it could further be promoted.

Definition of Key Terms

Millennial
Though there is no exact time frame which is commonly agreed upon, the term millennial generally refers to the generation that entered young adulthood in the early years of the 21st century.

Investing
In the context of this report, the term 'investing' refers to the allocation of funds towards a business in the expectation of a return (financial gain). This can e.g. be done by buying shares of a company.

Sustainable Investing: A type of investing that takes social, environmental and corporate governance criteria into consideration whilst investing. This type of investing focuses more on long-term financial returns and aims to make a positive impact.

Corporate Governance: The extent to which a company is transparent, fair, and accountable in their actions and governance. Corporate Governance is a criteria in Sustainable Investing

General Overview

ESG investing
One of the main metrics used to base ones investment decisions upon is ESG investing, which is a combination of the factors "environmental, social and governance". For this issue in particular, a special focus will be put on the environmental part of the ESG factors, though, social and governance aspects can be considered as well.
ESG factors are commonly used in risk assessment, when a party interested in investing in a company tries to evaluate in how far it will have future problems relating to these factors. Environmental scandals or a bad social image are only a few of the risks that can lead to financial loss for the investor.

Environmental risks considered in ESG analyses
Environmental analyses under the ESG principle evaluate a variety of issues. Those include resource efficiency, environmental transparency, the degree of carbon emission and other types of pollution as well as future plans by the company on reducing its carbon footprint.

Social risks considered in ESG analyses
Social aspects of ESG analyses include a company's attitude towards labour rights, human rights as well as its overall impact on the society and the well-being of its workers (also referring to health and wages).

Governance risks considered in ESG analyses
These factors refer to how a company is run, including diversity and accountability in the governing entities of the company, transparency and respect for the rights of its shareholders. Tax strategies as well as bribery or corruption are often taken into consideration too.

Socially Responsible Investing and Impact Investing
Socially responsible investing is an older form of sustainable investing which usually only uses negative screening, in which socially irresponsible companies (e.g. from the tobacco or military industries) are excluded from investments. Impact investing however is seen as a more proactive approach, during which companies that are focused on environmental or social progress are specifically favoured to achieve a positive impact. When considering the issue at hand, delegates should consider both negative screening as well as proactive positive investment strategies.

United Nations Principles for Responsible Investing
In 2006, a group of institutional investors established a set of six voluntary principles, facilitated by the Secretary General. These United Nations Principles for Responsible Investing are:

I. "We will incorporate ESG issues into investment analysis and decision-making processes.
II. We will be active owners and incorporate ESG issues into our ownership policies and practices.
III. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
IV. We will promote acceptance and implementation of the Principles within the investment industry.
V. We will work together to enhance our effectiveness in implementing the Principles.
VI. We will each report on our activities and progress towards implementing the Principles."

These principles can be voluntarily signed by investors to commit themselves to these goals.

Major Parties Involved

China

Having immense economic impact and investment potential, China has long been absent in the wagon of ESG investing. Having being ranked the least sustainable investing country in several indices, China has only recently began to embrace ESG investing. However still, China is not actively present on the ESG investing world, and with China's investing potential, if necessary steps are taken the battle with climate change may become more convenient.

World Bank

To this day, the World Bank has made deliberate efforts to support and encourage ESG investing, their most notable effort being the issuing of green bonds. The World Bank has an active stance in which they strive to encourage ESG investing in order to tackle environmental problems such as climate change.

NGO's

NGO's in general play a big role in sustainable investing. Many investors, donors and funds turn to NGOs to carry out sustainable investing. However there is an ever increasing problem of NGOs, losing their funds. As a result, some NGOs choose to tailor their mission and practices in order to put a stop to the loss of their funds. This situation can be both beneficial and deficient in sustainable investing and combating climate change. Some investors expect NGO's to increase their transparency and sustainable investing acts. In such instances, NGOs have the potential to be very beneficial for ESG investment and the environment. However some investors may expect the opposite from NGOs, forcing NGOs to change their course into non-environmentally beneficial investments

Timeline of Key Events

1971: Launch of Pax World Fund, the first socially responsible mutual fund in the US

1980-1989: Disinvestment from South Africa for the purpose of protesting appartheid.

1989: Formation of Valdez Principles (CERES principles)

1990: Domini 400 Social Index was founded

1998: The UK publishes the first Corporate Governance Code

1999: Dow Jones sustainability Indices are launched

2006: Launch of three United Nations' Principles for Responsible Investment (PRI)

2008: World Bank issues first labelled green bond

2015: UN sets the Sustainable Development Goals (SDGs)

2017: Launch of climate action 100+

Previous attempts to resolve the issue

Valdez Principles (CERES Principles) Pledge (1989)
The Valdez Principles, consisting of 10 guidelines, is a pledge that was aimed to regulate and monitor the conduct of corporations regarding matters relating to the environment. It consists of principles that encourages investments that minimize risk to the environment and encourage sustainable use of natural resources.

Domini 400 Social Index (MSCI KLD 400 Social Index) (1990)
An index consisting of 400 companies that aims to include companies that are most socially and environmentally responsible. Helped increase sustainable investing and simplify the search for sustainable investment opportunities.

The Dow Jones Sustainability Indices (DJSI) (1999)
Are a family of indices that aims to evaluate and rank the sustainability performance of thousands of companies trading publicly. The indices help create a guideline for possible investors, and helps ease the search for investors looking at investing sustainably

World Bank Issued Green Bonds

An effort by the World Bank to bring together willing investors and governments, companies that aim to help combat climate change. The World Bank issues Green Bonds were issuers borrow funds from investors, agreeing to pay back the funds at a certain rate. The issuers use the funds for climate projects.

Possible Solutions

Delegates should try develop solutions on how we can prevent a further escalation of the climate crisis by means of investing sustainably. This can include approaches from several sides of the issue. On the one hand, delegates could think about measures to exclude irresponsible companies and make investing in them less financially attractive. Delegates can also think about actively promoting companies thriving towards a sustainable future. It should also be considered how it can be made easier for the consumer to identify environmentally friendly companies and tell them apart from companies that do not support these values Other ESG factors can also definitely be taken into consideration as part of this issue, as they fall under the category of sustainable investing as well.

Incorporating ESG factors and the United Nations' Principles for Responsible Investing into potential resolutions should be considered too. Delegates should ask themselves how we, on the one hand, can promote the already existing values, but also think about new principles that they would wish to be incorporated into the investment world.

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