What Is a Socially Responsible Investment (SRI)?

Socially responsible investing (SRI), also known as social investment, is an investment that is considered socially responsible due to the nature of the business the company conducts. Common themes for socially responsible investments include socially conscious investing. Socially responsible investments can be made into individual companies with good social value, or through a socially conscious mutual fund or exchange-traded fund (ETF).

KEY TAKEAWAYS

- Socially responsible investing is the practice of investing money in companies and funds that have positive social impacts.
- Socially responsible investing has been growing in popularity in recent history.
- Investors should keep in mind that socially responsible investments are still investments, and be sure to weigh the potential for return into their decisions.
- Community investing is a type of investing where the return is measured on community impact rather than monetary return.
- Socially responsible investments tend to mimic the political and social climate of the time.

Understanding Socially Responsible Investment (SRI)

Socially responsible investments include eschewing investments in companies that produce or sell addictive substances (like alcohol, gambling, and tobacco) in favor of seeking out companies that are engaged in social justice, environmental sustainability, and alternative energy/clean technology efforts.

In recent history, “socially conscious" investing has been growing into a widely-followed practice, as there are dozens of new funds and pooled investment vehicles available for retail investors. Mutual funds and ETFs provide an added advantage in that investors can gain exposure to multiple companies across many sectors with a single investment. However, investors should read carefully through-fund prospectuses in order to determine the exact philosophies being employed by fund managers, along with the potential profitability of these investments.

There are two inherent goals of socially responsible investing: social impact and financial gain. The two do not necessarily have to 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, and the promise of a good return is far from an assurance that the nature of the company involved is socially conscious. An investor must still assess the financial outlook of the investment while trying to gauge its social value.

Socially responsible investing has become a more politically polarizing topic due to the fact that the popular vessel by which those invest in socially responsible ways revolves around Climate Change, a cause that is viewed quite separately by different political factions.

Special Considerations

Socially responsible investments tend to mimic the political and social climate of the time. That is an important risk for investors to understand, because if an investment is based on a social value, then the investment may suffer if that social value falls out of favor among investors.

For this reason, socially responsible investing is often considered by investment professionals through the lens of Enviornmental, Social and Governance (ESG) factors for investing. This approach focuses on the company's management practices and whether they tend towards sustainability and community improvement. There is evidence that a focus on this approach can improve returns, whereas there is no evidence for investing success from investing purely on social values alone.

For example, in the 1960s, investors were mainly concerned with contributing to causes such as women's rights, civil rights, and the anti-war movement. Martin Luther King Jr. played a large role in raising awareness for the civil rights movement by targeting companies that opposed the cause as socially irresponsible.

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. Consequently, these investments avoid industries such as coal mining due to the negative environmental impact of their business practices.

The U.S. Department of Labor released a new regulation in late October 2020 that may limit or eliminate socially responsible investing in retirement plans. While the rule was revised to remove explicit references to environmental, social, and governance (ESG) factors, it mandates that fiduciaries of retirement plans choose investment strategies based entirely on how those strategies affect financial performance. This ruling may have a significant impact on funds and investments classified under ESG and socially responsible investing.

Example of Socially Responsible Investing

One example of socially responsible investing is community investing, which goes directly toward organizations that both have a track record of social responsibility through helping the community, and have been unable to garner funds from other sources such as banks and financial institutions. The funds allow these organizations to provide services to their communities, such as affordable housing and loans. The goal is to improve the quality of the community by reducing its dependency on government assistance such as welfare, which in turn has a positive impact on the community's economy.

Impact Investing

By JAMES CHEN

Updated Oct 9, 2019

What Is Impact Investing?

Impacting investing aims to generate specific beneficial social or environmental effects in addition to financial gains. Impact investments may take the form of numerous asset classes and may result in many specific outcomes. The point of impact investing is to use money and investment capital for positive social results.

Impact investing refers to an investment strategy that not only generates financial returns but also creates constructive outcomes. The strategy actively seeks to make a positive impact by investing, for example, in nonprofits that benefit the community or in clean-technology enterprises that benefit the environment. Impact investing attracts individuals as well as institutional investors including hedge funds, private foundations, banks, pension funds, and other fund managers.

Volume 75%

1:59

What is Impact Investing?

Types of Impact Investments

Impact investments come in many different forms of capital and investment vehicles. Like any other type of investment class, impact investments provide investors with a range of possibilities when it comes to returns. But the most important thing is that these investments offer both a financial return and are in line with the investor's conscience. According to a survey by the Global Impact Investing Network (GIIN), the majority of investors who choose impact investing look for market-rate returns.

The opportunity for impact investments varies and investors may choose to put their money into emerging markets (EM) or developed economies. Impact investments span a number of industries including:

- Healthcare
- Education
- Energy, especially clean and renewable energy
- Agriculture

An example of an "impact investment" is one that would give back to the community by helping less fortunate groups of people.

How Impact Investing Works

The term impact investing was first coined in 2007, but the practice was developed years earlier. A basic goal of impact investing is to help reduce the negative effects of business activity on the social environment. That's why impact investing may sometimes be considered an extension of philanthropy.

Investors who use impact investing as a strategy consider a company's commitment to corporate social responsibility (CSR), or the sense of duty to positively serve society as a whole, before they become involved with that company. The type of impact that can evolve from impact investing varies based on the industry and the specific company within that industry, but some common examples include giving back to the community by helping the less fortunate or investing in sustainable energy practices to help save our planet.

The bulk of impact investing is done by institutional investors, but a range of socially conscious financial service companies, web-based investment platforms, and investor networks now offer individuals an opportunity to participate in it. One major venue is microfinance loans, which provide small-business owners in emerging nations with startup or expansion capital. Women are often the beneficiaries of such loans.

KEY TAKEAWAYS

- Impact investing refers to an investment strategy that not only generates financial returns but also creates a positive social or environmental impact.
- Investors who follow impact investing consider a company's commitment to corporate social responsibility or the duty to positively serve society as a whole.

Special Considerations

Because socially and environmentally responsible practices tend to attract impact investors, companies can benefit financially from committing to socially responsible practices, and investors also tend to profit. A 2018 study by GIIN found that more than 90% of impact investors reported that their investments were meeting or surpassing their projections.

Impact investing appeals largely to younger generations, such as millennials, who want to give back to society, so this trend is likely to expand as these investors gain more influence in the market. By engaging in impact investing, individuals or entities essentially state that they support the message and the mission of the company in which they're investing, and they have a stake in the company's welfare. As more people realize the social and financial benefits of impact investing, more companies will engage in social responsibility.

Impact Investing vs. Socially Responsible Investing

Impact investing is a subset of socially responsible investing (SRI). SRI is also referred to as sustainable or socially conscious investing. In some spheres, this kind of strategy is also called green investing. While the definition of socially responsible investing encompasses avoidance of harm, impact investing actively seeks to make a positive impact via its investments.

Investors who practice socially responsible investing tend to believe in and choose companies that subscribe to their views with respect to human rights, environmental protection, and a sense of responsibility to consumers. For example, some investors may choose not to invest in companies that manufacture, distribute, or promote cigarettes because of their overall negative effect on people's health. Many asset management companies, banks, and other investment houses now offer funds specifically tailored to socially responsible investors.

Related Terms

Socially Responsible Investment (SRI)

Socially responsible investing looks for investments that are considered socially conscious because of the nature of the business the company conducts.

more

Environmental, Social, and Governance (ESG) Criteria

Environmental, social, and governance (ESG) criteria are a group of standards used by socially conscious investors to screen investments.

more

Corporate Social Responsibility (CSR)

Corporate social responsibility (CSR) is a business model that helps a company be socially accountable to itself, its stakeholders, and the public.

more

Return on Investment (ROI) Definition

Return on Investment (ROI) is a performance measure used to evaluate the efficiency of an investment or compare the efficiency of several investments.

more

Corporate Accountability Definition

Corporate accountability refers to a publicly traded company's performance in non-financial areas such as social responsibility and sustainability.

more

Social Responsibility

Social responsibility is a theory that asserts that businesses have an obligation to act in a manner that benefits society.

more

Environmental, Social, and Governance (ESG) Criteria

By JAMES CHEN

Reviewed By GORDON SCOTT

Updated Nov 3, 2020

What Are Environmental, Social, and Governance (ESG) Criteria?

Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

KEY TAKEAWAYS

- Environmental, social, and governance (ESG) criteria are an increasingly popular way for investors to evaluate companies in which they might want to invest.
- Many mutual funds, brokerage firms, and robo-advisors now offer products that employ ESG criteria.
- ESG criteria can also help investors avoid companies that might pose a greater financial risk due to their environmental or other practices.

In recent years, as younger investors, in particular, have shown an interest in putting their money where their values are, brokerage firms and mutual fund companies have begun to offer exchange-traded funds (ETFs) and other financial products that follow ESG criteria. Robo-advisors such as Betterment and Wealthfront have also used them to appeal to these investors. According to the most recent report from US SIF Foundation, investors held $11.6 trillion in assets chosen according to ESG criteria at the beginning of 2018, up from $8.1 trillion just two years earlier.[1]

The U.S. Department of Labor released a new regulation in late October 2020 that may limit or eliminate socially responsible investing in retirement plans. While the rule was revised to remove explicit references to environmental, social, and governance (ESG) factors, it mandates that fiduciaries of retirement plans choose investment strategies based entirely on how those strategies affect financial performance. This ruling may have a significant impact on funds and investments classified under ESG and socially responsible investing.

ESG investing is sometimes referred to as sustainable investing, responsible investing, impact investing, or socially responsible investing.

How Environmental, Social, and Governance (ESG) Criteria Work

To assess a company based on environmental, social, and governance (ESG) criteria, investors look at a broad range of behaviors.

Environmental, social, and governance (ESG) criteria help investors find companies with values that match their own.

Environmental criteria may include a company's energy use, waste, pollution, natural resource conservation, and treatment of animals. The criteria can also be used in evaluating any environmental risks a company might face and how the company is managing those risks. For example, are there issues related to its ownership of contaminated land, its disposal of hazardous waste, its management of toxic emissions, or its compliance with government environmental regulations?

Social criteria look at the company's business relationships. Does it work with suppliers that hold the same values as it claims to hold? Does the company donate a percentage of its profits to the local community or encourage employees to perform volunteer work there? Do the company's working conditions show high regard for its employees' health and safety? Are other stakeholders' interests taken into account?

With regard to governance, investors may want to know that a company uses accurate and transparent accounting methods and that stockholders are given an opportunity to vote on important issues. They may also want assurances that companies avoid conflicts of interest in their choice of board members, don't use political contributions to obtain unduly favorable treatment and, of course, don't engage in illegal practices.

No single company may pass every test in every category, of course, so investors need to decide what's most important to them. On a practical level, investment firms that follow ESG criteria must also set priorities. For example, Boston-based Trillium Asset Management, with $2.8 billion under management as of March 2020, uses a selection of ESG factors to help identify companies positioned for strong long-term performance.[2] Determined in part by analysts who identify issues facing different sectors and industries, Trillium's ESG criteria include avoiding companies with known exposure to coal mining and those a certain percentage of their revenues from nuclear power or weapons. It also avoids investing in companies with major recent or ongoing controversies related to workplace discrimination, corporate governance, and animal welfare, among other issues.[3]

Pros and Cons of Environmental, Social, and Governance (ESG) Criteria

In years past, socially responsible investments had a reputation for requiring a tradeoff on the investor's part. Because they limited the universe of companies that were eligible for investment, they also limited the investor's potential profit. "Bad" companies sometimes performed very well, at least in terms of their stock price.

More recently, however, some investors have come to believe that environmental, social, and governance criteria have a practical purpose beyond any ethical concerns. By following ESG criteria they may be able to avoid companies whose practices could signal a risk factor—as evidenced by BP's 2010 oil spill and Volkswagen's emissions scandal, both of which rocked the companies' stock prices and resulted in billions of dollars in associated losses.

As ESG-minded business practices gain more traction, investment firms are increasingly tracking their performance. Financial services companies such as JPMorgan Chase, Wells Fargo, and Goldman Sachs have published annual reports that extensively review their ESG approaches and the bottom-line results.[4] [5] [6]

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Related Terms

FTSE4Good Index Series

FTSE4Good Index Series is a series of equity indexes that include companies that meet globally-recognized social responsibility standards such as ESG.

more

Green Fund

Green funds invest only in sustainable or socially conscious companies while avoiding those deemed detrimental to society or the environment.

more

Socially Responsible Investment (SRI)

Socially responsible investing looks for investments that are considered socially conscious because of the nature of the business the company conducts.

more

Golden Hello

A golden hello is a signing bonus offered to a candidate from a rival company, specifically designed to entice employees of competing firms to leave.

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MSCI KLD 400 Social Index Definition

The MSCI KLD 400 Social Index is a stock index focusing on companies that maintain high environmental, social, and governance (ESG) standards.

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What Is a Carbon Disclosure Rating?

A carbon disclosure rating is a measure of the environmental sustainability of a company, based on voluntary disclosures by the company itself.

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The Green New Deal Explained

This call to end fossil fuels and build green jobs is fiercely debated

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By DEBORAH DSOUZA
Updated Oct 8, 2020

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The term "Green New Deal" was first used by Pulitzer Prize-winner Thomas Friedman in January 2007. America had just experienced its hottest year on record (there have been five hotter since), and Friedman recognized that there wasn't going to be a palatable, easy solution to climate change as politicians hoped. It was going to take money, effort, and upsetting an industry that has always been very generous with campaign contributions.

Transitioning away from fossil fuels, he argued in a New York Times column, would require the government to raise prices on them, introduce higher energy standards, and undertake a massive industrial project to scale up green technology.

"The right rallying call is for a 'Green New Deal,'" he wrote, referencing former President Franklin D. Roosevelt's domestic programs to rescue the country from the Great Depression. "If you have put a windmill in your yard or some solar panels on your roof, bless your heart. But we will only green the world when we change the very nature of the electricity grid—moving it away from dirty coal or oil to clean coal and renewables."

Since then, "Green New Deal" has been used to describe various sets of policies that aim to make systemic change. The United Nations announced a Global

Green New Deal in 2008. Former President Barack Obama added one to his platform when he ran for election in 2008, and Green party candidates, such as Jill Stein and Howie Hawkins, did the same.

But the Green New Deal is a big part of policy debates in the country today largely due to the remarkable ascent of Rep. Alexandria Ocasio-Cortez (D-NY), the youngest woman to be elected to the House of Representatives and already a favorite to run for president in 2024. Her ambitious and wide-ranging proposal, which was a centerpiece of her campaign, addresses an issue 60% of Americans say is already affecting their local community and promises to tackle economic inequality through the creation of high-quality union jobs. The Green New Deal has also been helped by a grassroots outfit called the Sunrise Movement, which organized that much-talked about protest at Sen. Dianne Feinstein's office in February 2019.

Ocasio-Cortez's GND

That same month, Ocasio-Cortez and Sen. Ed Markey (D-Mass.) introduced in Congress a 14-page nonbinding resolution calling for the federal government to create a Green New Deal. The resolution has more than 100 co-sponsors in Congress and attracted several Democratic presidential candidates, though not the ultimate winner—Former Vice President Joe Biden (see below).

On March 26, 2019, lawmakers in the Senate voted 57-0 against advancing the resolution with 43 out of 47 Democrats voting "present" in order to not take a formal position. The Democrats were protesting Senate Majority Leader Mitch McConnell (R-Ky.) bringing up the vote without scheduling hearings and expert testimonies first.

While the idea of a Green New Deal and the threat of climate change have been known by politicians for years, this is the most detailed plan yet to transform the economy presented to the American people, even though it is itself extremely vague and more a set of principles and goals than of specific policies.

The resolution says the U.S. must take a leading role in reducing emissions because it is technologically advanced and has historically been responsible for a disproportionate amount of greenhouse gas emissions, as displayed below in a chart from the World Bank.

It details how climate change affects the economy, the environment, and national security, and outlines goals and projects for a 10-year national mobilization.

The plan also emphasizes environmental and social justice. It acknowledges how historically oppressed groups—indigenous peoples, people of color, the poor, and migrants—are more likely to be affected by climate change and asks that they be included and consulted. Its progressive spirit is reflected in the calls for the protection of workers' rights, community ownership, universal healthcare, and a job guarantee.

What's in the Green New Deal?

The main goal of the plan is to bring U.S. greenhouse gas emissions down to net-zero and meet 100% of power demand in the country through clean, renewable, and zero-emission energy sources by 2030. The Green New Deal also calls for the creation of millions of jobs to provide a job guarantee to all Americans, along with access to nature, clean air and water, healthy food, a sustainable environment, and community resiliency.

These goals are to be accomplished through the following actions on the part of the federal government:

- Providing investments and leveraging funding to help communities affected by climate change
- Repairing and upgrading existing infrastructure to withstand extreme weather and ensuring all bills related to infrastructure in Congress address climate change
- Investing in renewable power sources
- Investing in manufacturing and industry to spur growth in the use of clean energy
- Building or upgrading to energy-efficient, distributed, and "smart" power grids that provide affordable electricity
- Upgrading all existing buildings and building new ones so that they achieve maximum energy efficiency, water efficiency, safety, affordability, comfort, and durability.
- Supporting family farming, investing in sustainable farming, and building a more sustainable and equitable food system
- Investing in transportation systems, namely zero-emission vehicle infrastructure and manufacturing, public transit, and high-speed rail
- Restoring ecosystems through land preservation, afforestation, and science-based projects
- Cleaning up existing hazardous waste and abandoned sites
- Identifying unknown sources of pollution and emissions
- Working with the international community on solutions and helping them achieve Green New Deals

Green New Deal and the Presidential Debates

The Green New Deal has been brought up in the 2020 Presidential and Vice-Presidential debates and in campaigning by both parties. In the first Presidential debate, while saying he wanted crystal clean water and air, President Trump disparaged his Democratic opponent Joe Biden's plan to deal with climate change calling it a Green New Deal and saying it would cost $100 trillion. Biden denied the charge saying, "That's not my plan."[1]

In the Vice-Presidential debate, Vice-President Pence said that Biden and Harris wanted to bury the economy under a $2 trillion Green New Deal, noting that Harris was one of the original co-sponsors. Without referring to it by name, Harris disputed Pence's claims regarding banning fracking, taxing Americans making less than $400,000; she promoted Biden's plans regarding clean energy as a job creator.[2]

Trump-Pence on the Green New Deal

Trump has acknowledged that that human activity contributes to climate change "to an extent," but also said "science doesn't know" recently. Trump and Pence want to keep fossil fuels in the energy conversation both to appeal to those workers and to keep the U.S. relevant as a gas and oil exporter.[3]

Mike Pence, making similar charges to those of President Trump, said at the VP debate, "They [Biden-Harris] want to bury our economy under a $2 trillion Green New Deal. [They] want to abolish fossil fuels, and ban fracking, which would cost hundreds of thousands of American jobs all across the heartland."[2]

Biden's Clean Energy Revolution

Although Joe Biden has refused to fully endorse the Green New Deal, his running mate, Kamala Harris was an original sponsor. Harris, however, says she fully supports the Biden climate plan. Called "A Clean Energy Revolution," the plan has many of the same goals as the Green New Deal but on a less ambitious time frame and at lower cost.

For example, the Green New Deal aspires to net-zero greenhouse gas emissions and 100% clean, renewable energy sources by 2030. Biden's plan achieves that goal by 2050. The Green New Deal is estimated to cost about $93 trillion to implement. The proposed Biden plan would involve a Federal government investment of $1.7 trillion and private sector, state, and local buy-in of about $5 trillion.[4]

What's at Stake?

A common rebuttal to opponents from supporters of the Green New Deal is that although it will be expensive to implement, not doing so will be more expensive in the long run.

Over the past decade, the federal government has spent $350 billion due to extreme weather and fire events, according to a 2017 report by the U.S. Government Accounting Office. But it will only get uglier, according to experts.

Reports by the Intergovernmental Panel on Climate Change and the U.S. Global Change Research Program say the global average temperature exceeding pre-industrialized levels by 2 degrees Celsius or more will cause more than $500 billion in lost economic annual output in the U.S. by the year 2100. Forest areas affected by wildfires in the U.S. will at least double by 2050, and there is risk of damage to $1 trillion of public infrastructure and coastal real estate in the U.S..

In order to stop temperatures from rising beyond 1.5 degrees Celsius—the target aimed for in the 2015 Paris Agreement—global emissions need to go to zero by 2050. This means that the window to avoid the most severe impact is rapidly closing.

How Much Will It Cost and How Do We Pay for It?

The very real existential threat to the planet makes the Green New Deal a unique mission statement that is hard to ignore or dismiss.

But critics have called it too socialist, too extreme or too impractical. Some are even worried their hamburgers would be taken away.

The U.S. currently gets 80% of its energy from coal, petroleum, and natural gas. Hence, the kind of overhaul the deal is calling for would be very expensive and require significant government intervention. The center-right American Action Forum pegs the cost at $93 trillion.

The Green New Deal resolution doesn't mention how the U.S. government, which has $22 trillion of debt, would pay for it.

Tax Policy Center senior fellow Howard Gleckman has said the plan may slow the economy by adding to the debt and even drive jobs overseas.

"Instead of the Green New Deal, the federal government could adopt a revenue-neutral carbon tax to decrease emissions without exacerbating the fiscal imbalance," said Jeffrey Miron, director of economic studies at the Cato Institute.

Edward B. Barbier, the American economics professor who wrote the report that formed the basis of the UN's Green New Deal, said that, instead of deficit funding, the government should use revenues that come from dismantled subsidies and environmental taxes.

On the other hand, Ocasio-Cortez has told CBS's "60 Minutes" that "people are going to have to start paying their fair share in taxes" to pay for the Green New Deal and suggested tax rates of 60% to 70% for the very wealthy.

Advocates of the Green New Deal who promote a heterodox macroeconomic framework called Modern Monetary Theory (MMT), including Ocasio-Cortez, believe the government shouldn't be too concerned about the cost. "The federal government can spend money on public priorities without raising revenue, and it won't wreck the nation's economy to do so," a group of prominent MMT supporters wrote in an op-ed for The Huffington Post. "The U.S. government can never run out of dollars, but humanity can run out of limited global resources. The climate crisis fundamentally threatens those resources and the very human livelihoods that depend on them."

There are also savings to be expected, say Green New Deal supporters.

The Green Party, whose plan also calls for America to move to 100% clean energy by 2030 and a job guarantee, says it will result in healthcare savings, (there will be fewer cases of disease linked to fossil fuels) and military savings (there will be no reason to safeguard fuel supplies abroad). In addition, it advocates for a robust carbon fee program.

Healthcare and other savings were also touted in a 2015 study by a group of scientists from Stanford University and the University of California, Berkeley that said it is possible for the U.S. to replace 80% to 85% of the existing energy systems with ones powered entirely by wind, water, and sunlight by 2030 and 100% by 2050.

Investing in a GND Economy

Passage of the Green New Deal is extremely unlikely in the current political climate. However, it's worth looking at investing opportunities that may arise if it influences action at the state level or gets the green light in the future.

Global bank UBS has said the Green New Deal is indicative of a longer-term trend towards more sustainable and green ways of producing and consuming. Chief Investment Office (CIO) strategist Justin Waring, who recommends investing in environmentally oriented sustainable investments, said, "In addition to tapping into the themes' return potential, such an investment also represents a type of 'hedge' against the possibility of more-aggressive environmental legislation. It may seem counterintuitive, but if you are worried about environmental legislation, you might want to invest in environmentally friendly investments."

Josh Price, an energy analyst at Height Capital Markets, told MarketWatch that while the resolution isn't "a near-term catalyst for us by any means," the biofuels and renewables space is an interesting place to look for "slow-money, long-time-horizon guys." He mentioned NRG Energy (NRG), AES (AES), Xcel Energy (XEL) Renewable Energy Group (REGI) and Darling Ingredients (DAR) as stocks to watch.

While a Green New Deal doesn't explicitly call for eliminating fossil fuel usage, it would hit the industry hard. Nuclear energy stocks are best avoided as well in such a scenario since many don't consider it to be a safe, renewable, or clean source and it isn't a part of the resolution. On the other hand, the semiconductor sector and electric vehicles industry would be among the winners.

Green Economics

By CLAY HALTON

Updated Jun 14, 2019

What is Green Economics?

Green economics is a methodology of economics that supports the harmonious interaction between humans and nature and attempts to meet the needs of both simultaneously. Green economic theories encompass a wide range of ideas all dealing with the interconnected relationship between people and the environment. Green economists assert that the basis for all economic decisions should be in some way tied to the ecosystem, and that natural capital and ecological services have economic value.

KEY TAKEAWAYS

- Green economics refers to an economics discipline which focuses on devising an approach that promotes harmonious economic interactions between humans and nature.
- It has a broad canvas that incorporates means of interaction with nature to methodology for goods production to social justice.
- It is closely related to ecological economics but is different from it because it is a holistic approach that includes political advocacy of sustainable solutions.

Understanding Green Economics

The term green economics is a broad one (it's a term that's been co-opted by groups ranging from green anarchists to feminists), but it encompasses any theory that views the economy as a component of the environment in which it is based. The United Nations Environment Programme (UNEP) defines a green economy as "one which is low carbon, resource efficient and socially inclusive."

As such, green economists generally take a broad and holistic approach to understanding and modeling economies, paying as much attention to the natural resources that fuel the economy as they do the way the economy itself functions.

Broadly speaking, supporters of this branch of economics are concerned with the health of the natural environment and believe that actions should be taken to protect nature and encourage the positive co-existence of both humans and nature. The way that these economists advocate for the environment is by making an argument that the environment plays a pivotal role in the economy, and that the health of any good economy is essentially determined by the health of the environment it is an essential part of.

While the idea of an equitable economy powered by renewable energy sources is alluring, green economics has its share of critics. They claim that green economics' attempts to decouple economic growth from environmental destruction have not been very successful. Most economic growth has occurred on the back of non-renewable technologies and energy sources.

Weaning the world, especially developing economies, from them requires effort and has not been an entirely successful endeavor. The emphasis on green jobs as a social justice solution is also fallacious, according to some. The raw material for green energy in several cases comes from rare earth minerals mined in inhospitable conditions by workers who are paid cheaply.

An example of this is electric car maker Tesla, whose car batteries are made using raw materials mined from Congo, a region wracked by civil war. Another criticism of green economics is that it is focused on a technological approach to solutions and, consequently, its market is dominated by companies with access to the technology.

Green Economics and Ecological Economics

In many ways, green economics is closely related to ecological economics in the way that it views natural resources as having measurable economic value and in how they focus on sustainability and justice. But when it comes to the application of these ideas, advocates of green economics are more politically focused. Green economists advocate for a full cost accounting system in which the entities (government, industry, individuals, etc.) who do harm to or neglect natural assets are held liable for the damage they do.

There are a few different definitions of a green economy. In 2012, the International Chamber of Commerce (ICC) stated in their *Guidebook To The Green Economy* that a green economy is one "in which economic growth and environmental responsibility work together in a mutually reinforcing fashion while supporting progress and social development." One way that green economics has made its way into the mainstream has been by way of consumer-facing labels indicating a product or a business' degree of sustainability.

Related Terms

Economics

Economics is a branch of social science focused on the production, distribution, and consumption of goods and services.

more

Steady-State Economy

A steady-state economy is an economy structured to allow economic growth to be in balance with environmental integrity.

more

Climate Finance Definition

Climate finance is a broad term relating to the role of finance in facilitating international responses to climate change.

more

Green Fund

Green funds invest only in sustainable or socially conscious companies while avoiding those deemed detrimental to society or the environment.

more

How Social Economics Influences Your Future

Social economics is a branch of economics that focuses on the relationship between social behavior and economics.

more

Socially Responsible Investment (SRI)

Socially responsible investing looks for investments that are considered socially conscious because of the nature of the business the company conducts.

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- Social Impact Bond

- HISTORY OF SRI
- INVESTING IN SRI

SUSTAINABLE INVESTING SOCIALLY RESPONSIBLE INVESTING (SRI)

United Nations Global Compact

By WILL KENTON

Updated Apr 20, 2020

What Is the United Nations Global Compact?

The United Nations Global Compact is a strategic initiative that supports global companies that are committed to responsible business practices in the areas of human rights, labor, the environment, and corruption. This UN-led initiative promotes activities that contribute to sustainable development goals to create a better world.

KEY TAKEAWAYS

- The United Nations Global Compact is an initiative that global corporations can sign on to committing to responsible business practices in the areas of human rights, labor, the environment, and corruption.
- The UN Global Compact has 10 operating principles outlining these values.

- For example, a corporation that is part of the UN Global Compact could commit to providing free Wi-Fi access in remote areas of the world.

Understanding the United Nations Global Compact

The UN Global Compact is based on 10 principles that should define a company's value system and approach to doing business. These principles were collectively founded in the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the UN Convention Against Corruption. Member companies are expected to engage in specific business practices that benefit the people and the planet while pursuing profitability with integrity.

The United Nations Global Compact's 10 Principles for Businesses

The 10 principles for businesses, as stated on the UN Global Compact's website, are the following:

- **Principle 1:** Support and respect the protection of internationally proclaimed human rights.
- **Principle 2:** Ensure that business practices are not complicit in human rights abuses.
- **Principle 3:** Uphold the freedom of association and the effective recognition of the right to collective bargaining.
- **Principle 4:** Eliminate all forms of forced and compulsory labor.
- **Principle 5:** Abolish child labor.
- **Principle 6:** Eliminate discrimination in employment and occupation.
- **Principle 7:** Adopt a precautionary approach to environmental challenges.
- **Principle 8:** Conduct environmentally responsible activities.
- **Principle 9**: Encourage the development and diffusion of environmentally friendly technologies.
- **Principle 10:** Fight corruption in all its forms including extortion and bribery.

Companies that join the compact are expected to integrate these principles into their corporate strategies, culture, and day-to-day operations. Companies are also expected to advocate the principles publicly and communicate with stakeholders on progress toward meeting the principles. Any company that commits to upholding the principles may join the compact, which is not legally binding and is purely voluntary.

Member Company Responsibilities of the UN Global Compact

Member companies of the UN Global Compact are expected to act in environmentally responsible ways with regard to climate change, water and sanitation, energy, biodiversity, and food and agriculture. They are also expected to recognize the link between environmental issues, and social and development priorities.

Member companies must also be focused on social sustainability, particularly human rights as they apply to labor, women's empowerment and gender equality, children, indigenous peoples, people with disabilities, and people living in poverty. The compact believes that protecting human rights is primarily a government responsibility but businesses should contribute or, at a minimum, avoid harm.

Ways in which businesses can contribute to human rights include creating jobs, developing goods and services that help people meet their basic needs, promoting public policies that support social sustainability, partnering with other businesses to have a greater impact, and making strategic social investments.

Incentives for Businesses to Support the UN Global Compact

Companies might choose to join the compact because of the importance of corporate codes of conduct for developing and maintaining positive relationships with customers, employees, and other stakeholders, and to avoid regulatory and legal problems. Businesses may support the compact for the greater good but also because operating in environments associated with poverty and inequality where the rule of law is weak can harm the company's reputation and bottom line.

Further, companies that commit to sustainability may have an advantage in accessing untapped markets, attracting and retaining business partners, developing innovative new products and services while operating in a lower-risk environment, and encouraging employee satisfaction and productivity.

An example of sustainable activity by a member company is to support inclusive, equitable quality education and promote lifelong learning opportunities for all. A company might partner with governments and other companies to create open-source technology. This technology can deliver education to hard-to-reach communities and develop low-cost learning materials for under-resourced schools.

Related Terms

FTSE4Good Index Series

FTSE4Good Index Series is a series of equity indexes that include companies that meet globally-recognized social responsibility standards such as ESG.

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São Paolo Stock Exchange (SAO.SA)

São Paolo Stock Exchange, also known as the Bovespa or B3, has the 4th-largest market cap in the Americas and the 13th largest in the world.

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Corporate Accountability Definition

Corporate accountability refers to a publicly traded company's performance in non-financial areas such as social responsibility and sustainability.

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What is Stakeholder Capitalism?

Stakeholder capitalism is a system in which corporations are oriented to serve the interests of all their stakeholders.

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Brexit

Brexit refers to the U.K.'s withdrawal from the European Union after voting to do so in a June 2016 referendum.

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Food and Agriculture Organization (FAO) Definition

The Food and Agriculture Organization (FAO) is a United Nations agency that works on international efforts to defeat hunger by developing agriculture.

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Climate Finance

By JASON FERNANDO

Updated Dec 14, 2020

What Is Climate Finance?

The term climate finance has both broad and narrow uses. In its broad sense, it refers to an enterprise that uses financial institutions or technologies to advance the cause of environmental sustainability, such as by developing or deploying new solar panels or other renewable energy sources. In its narrow usage, climate finance refers to the transfer of capital from developed to developing nations in adherence to the recommendations laid out in international agreements such as the 2016 Paris Agreement.

KEY TAKEAWAYS

- Climate finance is a broad term that can refer either to the role of finance in facilitating efforts to address climate change or to the obligations owed by richer nations to poorer ones.
- Discussions around climate finance are increasing in importance, as the world wrestles with climate change's visible and severe effects.
- Many argue that developed economies should subsidize the adoption of environmentally friendly energy sources by developing nations, along with other such investments.

How Climate Finance Works

Climate change is the long-term progression of patterns in the world's climate. These changes are commonly related to human activities such as the use of certain nonrenewable resources like fossil fuels. Once burned, these energy sources help raise the Earth's temperature by increasing greenhouse gases in the atmosphere. Climate finance is a way for individuals and nations to help fight climate change. In the most general sense, climate finance refers to any type of financing used to tackle climate change. Financing normally takes place on the municipal, national, or international level and comes from various sources—both public and private.

Climate finance—which takes place on the municipal, national, and international levels—may come from either public or private sources.

The topic of climate finance is growing in international importance, as countries and companies become increasingly aware of the risks and opportunities associated with climate change. For instance, the United Nations Environment Programme (UNEP) reported in September 2019 that between 2010 and 2019, global investments in renewable energy technologies exceeded $2.5 trillion, roughly quadrupling the global energy capacity associated with renewable sources.[1]

Various financial institutions and technologies played an essential role by facilitating this shift in global energy infrastructure. Among the examples of how finance plays a role in this process include the use of:

- Banks and other intermediaries to transfer capital overseas
- Financial markets to price energy commodities
- Derivative markets to hedge and exchange risks related to energy prices
- Stock exchanges and investment vehicles to facilitate investment in renewable energy companies

Climate finance encompasses all of these activities, which are likely to accelerate even further in the coming years.

As noted above, the term also has a more narrow meaning. In this sense, it relates to the question of how developed countries should support developing ones in their transition toward energy sources and other technologies with improved environmental footprints. These discussions are frequently contentious—at times, implacable—raising a slew of morally ambiguous questions.

Example of Climate Finance

Let's look at an example to show how climate finance works in the real world. A common demand from developed countries, such as those in North America and Europe, is that developing nations, such as those in Asia or sub-Saharan Africa, should refrain from relying on new coal-fired power plants. On the other hand, these developing countries often contend that this demand is hypocritical since developed countries were able to achieve their current level of development in part by exploiting coal and other inexpensive fossil fuels during their own periods of industrialization.

For this reason, many believe that developed countries have a moral obligation to subsidize developing countries by helping them invest in more environmentally friendly energy sources such as wind, solar, and hydroelectric power. Of course, this debate becomes increasingly difficult when one seeks to find the exact definition of a developing country. Should the United States provide subsidies to China, for example, due to the fact that its per capita income is still far below that of the United States? Many Americans are likely to consider this politically unacceptable, citing China’s rapid development in recent years.

Political discussions surrounding climate finance can also prove contentious around the question of which investments should be considered eligible for funding under the climate finance programs. For example, some would argue that child education should receive funding, on the grounds that it would reduce population growth and therefore help curb emissions. However, others may wish to restrict climate finance initiatives to projects with a more direct and near-term association with climate change, such as the installation of renewable energy sources.

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Why Renewable Resources Are Becoming More Vital

A renewable resource is a substance of economic value that can be replaced or replenished in less time than it takes to draw the supply down.

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What Is Biodiesel?

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Corporate Social Responsibility (CSR)

Corporate social responsibility (CSR) is a business model that helps a company be socially accountable to itself, its stakeholders, and the public.

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International Energy Agency (IEA)

The International Energy Agency (IEA) is an international intergovernmental organization that was established in 1974 to ensure the world's oil supply.

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Environmental Tariff Definition

An environmental tariff is a tax on products imported to or exported from countries with unsatisfactory environmental pollution controls.

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Conscious Capitalism

By WILL KENTON

Updated Apr 21, 2018

What Is Conscious Capitalism?

The term conscious capitalism refers to a socially responsible economic and political philosophy. Proponents of conscious capitalism believe that businesses should operate ethically while they pursue profits. This means they should consider serving all stakeholders involved including their employees, humanity, and the environment—not just their management teams and shareholders. The idea of conscious capital was created by Whole Foods co-founder John Mackey and marketing professor Raj Sisodia.

KEY TAKEAWAYS

- Conscious capitalism is a socially responsible economic and political philosophy created by John Mackey and Raj Sisodia.
- Proponents believe businesses should operate ethically by serving the interests of all stakeholders involved—not just corporate management and shareholders.
- The four guiding principles behind conscious capitalism include a higher purpose, stakeholder orientation, conscious leadership, and conscious culture.

Understanding Conscious Capitalism

The concept of conscious capitalism was coined and popularized by John Mackey, Whole Foods co-founder, and co-CEO, and Raj Sisodia, professor of marketing at Bentley University, in their book "Conscious Capitalism: Liberating the Heroic Spirit of Business." The two are also co-founders of Conscious Capitalism, a nonprofit organization that has chapters in more than two dozen U.S. cities and ten other countries.

The conscious capitalism credo acknowledges that while free-market capitalism is the most powerful system for social cooperation and human progress, people can aspire to achieve more. It does not minimize profit-seeking but encourages the assimilation of all common interests into the company's business plan.

Building on the foundation of traditional capitalism—which includes competition, entrepreneurship, freedom to trade, the rule of law, and voluntary exchange—the credo adds elements like trust, compassion, collaboration, and value creation to the formula. Although profits don't take a backseat in conscious capitalism, the philosophy emphasizes doing so in a manner that integrates the interests of all major stakeholders in a company.

There are four guiding principles behind the concept:

- **Higher Purpose**: A business that adheres to the principles of conscious capitalism focuses on a purpose beyond pure profits. In doing so, it inspires and engages its key stakeholders.
- **Stakeholder Orientation**: Businesses have multiple stakeholders including customers, employees, suppliers, investors, among others. Some companies focus on return to their

shareholders to the exclusion of everything else. A conscious business, on the other hand, concentrates on the whole business ecosystem to create and optimize value for all of its stakeholders.

- **Conscious Leadership**: Conscious leaders emphasize a "we" rather than a "me" mentality to drive the business. By doing so, they work to cultivate a culture of conscious capitalism in the enterprise.
- **Conscious Culture**: Corporate culture is the sum of the values and principles that constitute the social and moral fabric of a business. A conscious culture is one where the policies of conscious capitalism permeate the enterprise, fostering a spirit of trust and cooperation among all stakeholders.

Benefits of Conscious Capitalism

Conscious capitalism has become an increasingly popular concept in the business world. In fact, a growing number of businesses have adopted its principles including Whole Foods Market, Starbucks, The Container Store, and Trader Joe's. By rejecting this philosophy, corporations may see their positions adversely impact both revenues and profits.

Because of the increasing popularity of socially responsible investing, companies that reject conscious capitalism may see a negative impact on their profits and revenue.

Although conscious capitalism focuses on doing the greater good for its stakeholders and not just for shareholder profit, firms that adopt this philosophy reap significant rewards. Many consumers and investors consider the impact businesses have on the environment and its inhabitants. These stakeholders seek businesses that align moral principles with corporate values. According to Nielsen's report entitled Global Survey on Corporate Social Responsibility, 43% of consumers said they would prefer to spend more on products and services that support worthwhile causes.

DESCRIPTION

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Environmental, social, and governance (ESG) criteria are a group of standards used by socially conscious investors to screen investments.

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Corporate Citizenship: What You Should Know

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Utilitarianism Defined

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Corporate Social Responsibility (CSR)

By JASON FERNANDO

Reviewed By GORDON SCOTT

Updated Nov 17, 2020

What Is Corporate Social Responsibility (CSR)?

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

To engage in CSR means that, in the ordinary course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to them.

Understanding Corporate Social Responsibility (CSR)

Corporate social responsibility is a broad concept that can take many forms depending on the company and industry. Through CSR programs, philanthropy, and volunteer efforts, businesses can benefit society while boosting their brands.

As important as CSR is for the community, it is equally valuable for a company. CSR activities can help forge a stronger bond between employees and corporations, boost morale and help both employees and employers feel more connected with the world around them.

KEY TAKEAWAYS

- Corporate social responsibility is important to both consumers and companies.
- Starbucks is a leader in creating corporate social responsibility programs in many aspects of its business.
- Corporate responsibility programs are a great way to raise morale in the workplace.

For a company to be socially responsible, it first needs to be accountable to itself and its shareholders. Often, companies that adopt CSR programs have grown their business to the point where they can give back to society. Thus, CSR is primarily a strategy of large corporations. Also, the more visible and successful a corporation is, the more responsibility it has to set standards of ethical behavior for its peers, competition, and industry.

Small-and-mid-sized businesses also create social responsibility programs, although their initiatives are not often as well-publicized as larger corporations.

Example of Corporate Social Responsibility

Starbucks has long been known for its keen sense of corporate social responsibility and commitment to sustainability and community welfare. According to the company, Starbucks has achieved many of its CSR milestones since it opened its doors. According to its 2019 Global Social Impact Report, these milestones include reaching 99% of ethically sourced coffee, creating a global network of farmers, pioneering green building throughout its stores, contributing millions of hours of community service, and creating a groundbreaking college program for its partner/employees.[1]

Starbucks' goals for 2020 and beyond include hiring 10,000 refugees, reducing the environmental impact of its cups, and engaging its employees in environmental leadership.[1] Today there are many socially responsible companies whose brands are known for their CSR programs, such as Ben & Jerry's ice cream and Everlane, a clothing retailer.[2] [3]

Special Considerations

In 2010, the International Organization for Standardization (ISO) released a set of voluntary standards meant to help companies implement corporate social responsibility. Unlike other ISO standards, ISO 26000 provides guidance rather than requirements because the nature of CSR is more qualitative than quantitative, and its standards cannot be certified.[4]

Instead, ISO 26000 clarifies what social responsibility is and helps organizations translate CSR principles into practical actions. The standard is aimed at all types of organizations, regardless of their activity, size, or location. And, because many key stakeholders from around the world contributed to developing ISO 26000, this standard represents an international consensus.[5]

Frequently Asked Questions

What is corporate social responsibility (CSR)?

The term corporate social responsibility (CSR) refers to practices and policies undertaken by corporations that are intended to have a positive influence on the world. The key idea behind CSR is for corporations to pursue other pro-social objectives, in addition to maximizing profits. Examples of common CSR objectives include minimizing environmental externalities, promoting volunteerism among company employees, and donating to charity.

Why should a company implement CSR?

Many companies view CSR as an integral part of their brand image, believing that customers will be more likely to do business with brands that they perceive to be more ethical. In this sense, CSR activities can be an important component of corporate public relations. At the same time, some company founders are also motivated to engage in CSR due to their personal convictions.

What is the impact of CSR?

The movement toward CSR has had an impact in several domains. For example, many companies have taken steps to improve the environmental sustainability of their operations, through measures such as installing renewable energy sources or purchasing carbon offsets. In managing supply chains, efforts have also been taken to eliminate reliance on unethical labor practices, such as child labor and slavery. Although CSR programs have generally been most common among large corporations, small businesses also participate in CSR through smaller-scale programs such as donating to local charities and sponsoring local events.

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Social Responsibility

Social responsibility is a theory that asserts that businesses have an obligation to act in a manner that benefits society.

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Impact Investing Definition

Impacting investing aims to generate specific beneficial social or environmental effects in addition to financial gains.

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Triple Bottom Line (TBL) Definition

Triple bottom line (TBL), in economics, believes that companies should focus as much on social and environmental issues as they do on financial issues.

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Social Impact Statement

By JASON FERNANDO

Updated May 21, 2018

What Is a Social Impact Statement?

A social impact statement—also known as a corporate social responsibility (CSR) statement—is a report or press release issued by a company that outlines the steps it has taken to improve the social and environmental standards of its business operations. Many companies will issue these statements once per year, releasing them alongside their annual reports to shareholders.

KEY TAKEAWAYS

- Social impact statements are documents produced by companies which outline the investments they have made in tackling various social or environmental priorities.
- They are commonly delivered once per year, provided to shareholders along with the company's annual report.
- Although critics argue that social impact statements are often little more than marketing exercises, some companies have nonetheless achieved substantial results through their social and environmental initiatives.

How Social Impact Statements Work

Social impact statements have become more popular in recent years, as investors increasingly look for companies with high environmental, social, and governance (ESG) ratings.

This trend has been driven in part by the leadership of initiatives such as the United Nations Principles for Responsible Investing (PRI), which had secured support from over 2,300 financial institutions as of January 2020—collectively responsible for over $80 trillion in assets under management (AUM).

Typically, social impact statements will include qualitative commitments such as the firm's stated values and priorities, alongside various facts and figures concerning their progress so far. Of course, the actual results obtained can vary substantially from one firm to the next, leading some to argue that social impact statements are for the most part simply marketing exercises without serious on-the-ground commitments.

Criticisms of Social Impact Statements

In a similar vein, a common criticism of social impact statements, and the movement toward socially conscious investing more generally, is that it tends to favor large firms which are already dominant in their respective industries. After all, many ESG initiatives are likely to require additional overhead costs, at least in the medium-term.

For small and medium-sized companies, many of whom are already struggling to compete with larger competitors in their industries, these additional costs might mean the difference between financial viability and failure. Large companies, on the other hand, can absorb these added costs and potentially transform the resulting marketing benefits into an even greater advantage over their smaller competitors.

Example of a Social Impact Statement

Nevertheless, it is hard to deny that some companies have made substantial progress. In its 2018 Global Social Impact Report, for example, Starbucks (SBUX) reported that it had committed over $140 million between 2016 and 2018 on the development of renewable energy sources. The goal of this ongoing project is to power 100% of the company's 9,000 United States stores or over 75% of its global store footprint.

Similarly, the consumer products giant Procter & Gamble (PG) has a stated mission of powering all of its factories with 100% renewable energy sources, along with a slate of other ambitious environmental goals. Perhaps the most impressive of these goals is the company's stated goal of delivering 15 billion liters of clean drinking water through its non-profit organization, Children's Safe Drinking Water.

This program, which was sparked by an invention by a Procter & Gamble research and development (R&D) scientist which allows used laundry water to be rapidly converted into clean drinking water, initially set out to deliver 15 billion liters by 2020. However, the program met its 2020 target one year in advance, causing the company to raise its target to 25 billion liters by 2025.

Related Terms

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Corporate social responsibility (CSR) is a business model that helps a company be socially accountable to itself, its stakeholders, and the public.

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"Cleantech"—short for "clean technology"—refers to various companies and technologies that aim to improve environmental sustainability.

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Community investing refers to institutions and investment products that are intended to support economically disadvantaged communities.

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Green Tech Definition

Green tech is a type of technology that is considered environmentally-friendly based on its production process or supply chain.

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Impact Investing: The Ethical Choice

- FACEBOOK
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By ERIN JOYCE
Updated Jan 2, 2018

Investing isn't just about making money. By putting your cash behind a company, you are implicitly stating your support for their products and practices. While some have no problem choosing companies based solely on the likelihood of a good return, others consider it their social responsibility to invest in accordance with their beliefs and ideals. Luckily, the two need not be mutually exclusive; there are many options when it comes to social finance and impact investing.

In Pictures: *Top Green Investing Opportunities*

What Is Impact Investing?

Socially responsible investing, or sustainable investing, encompasses a lot of choices. Basically, it means the investments you make adhere to a set of standards or beliefs held by you. As the Global Impact Investing Network website explains, impact investing is not the same as negative screening - the process by which potential investments are excluded based on set criteria, for example the exclusion of sin stocks – but instead seeks "to place capital in businesses and funds that can harness the positive power of enterprise."[1]

It's not about avoiding the bad; it's about finding and supporting the good. (Can your principles make you richer or poorer? Find out if it pays to pick your portfolio based on ethics in *Socially Responsible Investing Vs. Sin Stocks*.)

Areas of Investment

Impact investing focuses primarily on social and environmental causes. However, the definition can be expanded to include faith-based investing as well as any other investing strategy based on a personal, philanthropic interest. But don't let that fool you into thinking there isn't money to be made. Impact investing as an industry is currently worth as much as $114 billion.[2] (For those who follow a particular faith, this is just one more form of socially responsible investing. Learn more in *Faith-Based Investing: An Inspired Choice*.)

How You Can Participate

Choosing impact investments isn't much different that choosing regular investments. Here are four ways you can integrate socially responsible investing into your portfolio.

Indexes

The NASDAQ Clean Edge Green Energy Index (CELS) is just one example of a stock index which tracks companies involved in the manufacture, development and distribution of clean-energy technology. (Other endeavors may be experiencing a credit crunch, but investing in energy conservation, sustainable energy and resource maximization is on the rise. Check out *The Future Of Green Technology Investing*.)

Exchange-Traded Funds (ETFs)

The Clean Edge index is tracked by the First Trust Nasdaq Clean Edge (Nasdaq:QCLN). If you are looking for faith-based investments, S&P 500 Catholic Values ETF (CATH) provides exposure to companies approved by the United States Conference of Catholic Bishops.

One example is the Domini Social Equity Fund, a fund that focuses on companies that proactively support human rights, pay fair wages and enforce a code of conduct for their employees. Or, you might consider the Pax Ellevate Global Women's Index Fund (PXWIX), which is "designed to capture investment returns associated with gender diversity and women's leadership."

Screened Portfolio

If you are investing directly in stocks, you can either do the research yourself, or enlist a portfolio manager who offers an appropriate screener for your goals.

The Bottom Line

Where you put your money is ultimately up to you. The continued expansion of impact investing allows more and more options for the everyday investor to uphold their beliefs and social responsibility, without sacrificing their financial well-being.

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SOCIALLY RESPONSIBLE INVESTING (SRI)

The Top 5 Impact Investing Firms

The Top 5 Impact Investing Firms

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By J.B. MAVERICK
Updated Nov 3, 2020

Impact investing is an extension of socially responsible investing, which focuses on companies that promote ethical and socially responsible consciousness such as environmental sustainability, social justice, and corporate ethics. Impact investing goes a step further by actively seeking investments that can create a significant, positive impact.[1]

Impact investing focuses on investing in companies or organizations to create a measurable societal benefit while still generating a favorable financial return. Impact investing is typically centered around addressing a social issue, such as poverty or education, or an environmental issue, such as clean water.

As of publication, the top five impact investing firms on the basis of assets under management are Vital Capital Fund, Triodos Investment Management, The Reinvestment Fund, BlueOrchard Finance S.A., and Community Reinvestment Fund, USA.

The U.S. Department of Labor released a new regulation in late October 2020 that may limit or eliminate socially responsible investing in retirement plans. While the rule was revised to remove explicit references to environmental, social, and governance (ESG) factors, it mandates that fiduciaries of retirement plans choose investment strategies based entirely on how those strategies affect financial performance. This ruling may have a significant impact on funds and investments classified under ESG and socially responsible investing.

Vital Capital Fund

Vital Capital Fund is a private equity fund with approximately $350 million in assets. The fund invests in developing areas, principally sub-Saharan Africa, in businesses and projects designed to enhance quality of life, and also offer substantial investment returns[2].[3] The primary investment focus of the Vital Capital Fund is on the development of infrastructure, housing projects, agro-industrial projects, renewable energy, health care, and education. Among the fund's investments are the Luanda Medical Center in Angola and WaterHealth International.[4]

Triodos Investment Management

Triodos Investment Management is a subsidiary of Triodos Bank, headquartered in the Netherlands, which manages over a dozen sustainable investment funds. Triodos has been actively engaged in impact investing since 1995 and as of publication has approximately $5 billion in assets.[5][6] Primary areas of interest include renewable energy, sustainable food and agriculture (including organic farming), health care, and education.[7] Triodos is one of the founding members of the Global Impact Investing Network.[8] Its investments are spread throughout Europe, South America, Africa, India, and Southeast Asia.

Reinvestment Fund

The Reinvestment Fund, headquartered in Philadelphia, Pennsylvania, is a non-profit community development financial institution. With an estimated $1.2 billion in assets under management as of publication, the fund finances housing projects, access to health care, educational programs, and job initiatives. It operates primarily by assisting distressed towns and communities in the United States. It also provides U.S. cities with public policy advice and data analysis services to assist in developing community programs.[9]

BlueOrchard Finance S.A.

BlueOrchard Finance, with principal offices in Switzerland, operates in more than 80 emerging and frontier markets around the world, including areas in Asia, Latin America, Africa, and Eastern Europe. Created as part of a United Nations initiative in 2001, BlueOrchard Finance was established as the first commercial manager of microfinance debt investment worldwide. As of publication, BlueOrchard has invested in more than 200 million entrepreneurs across the globe. It provides both debt and equity financing to businesses and institutions, with an emphasis on alleviating hunger and poverty, fostering entrepreneurship, establishing food production and education programs, and working on climate change issues.[10] BlueOrchard Finance has approximately $3.5 billion in assets under management.[11]

Community Reinvestment Fund, USA

Community Reinvestment Fund, USA was founded in 1988, in Minneapolis, Minnesota, as a national non-profit certified community development financial institution. Its mission is to empower people to improve their lives and their communities. The Community Reinvestment Fund partners with local private lenders to provide financing capital for community development projects. These include small business loans for the purpose of growing a business, expanding staff or increasing energy efficiency.[12] But with more than $250 million in assets, along with access to additional long-term loan capital through the Community Development Financial Institution Bond Guarantee Program, the Community Reinvestment Fund also provides funding assistance for community housing projects, health care centers, charter schools, daycare centers, and small businesses.

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Alberta Investment Management Corporation (AIMCo)

The Alberta Investment Management Corporation is a government-owned investment-management corporation headquartered in Edmonton, Alberta, Canada.

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Green Fund

Green funds invest only in sustainable or socially conscious companies while avoiding those deemed detrimental to society or the environment.

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Climate Finance Definition

Climate finance is a broad term relating to the role of finance in facilitating international responses to climate change.

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European Bank for Reconstruction and Development (EBRD) Definition

The European Bank for Reconstruction and Development is a bank was established in 1991 to aide ex-Soviet and Eastern European countries.

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Socially Responsible Investment (SRI)

Socially responsible investing looks for investments that are considered socially conscious because of the nature of the business the company conducts.

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Environmental, Social, and Governance (ESG) Criteria

Environmental, social, and governance (ESG) criteria are a group of standards used by socially conscious investors to screen investments.

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