National Research University Higher School of Economics
Data Science and Business Analytics

Business Essay

Green Investing and Business Ecosystems: New strategies for international business

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Introduction

Nowadays economic policies are not only focused on making profit disregarding consequences as it used to be decades ago, but environmental impact is also taken under consideration. However, Environmental Social Governance (ESG) issues have become widespread in the last few years, and now occupies one of leading positions for general global business priorities. To stay relevant and competitive on the global market companies have to reevaluate the strategies and introduce new mechanisms of running business.

The purpose of this paper is to discover new actual frameworks and opportunities as well as evaluate risks they provide, and reduce tension around problems linked to the environment.

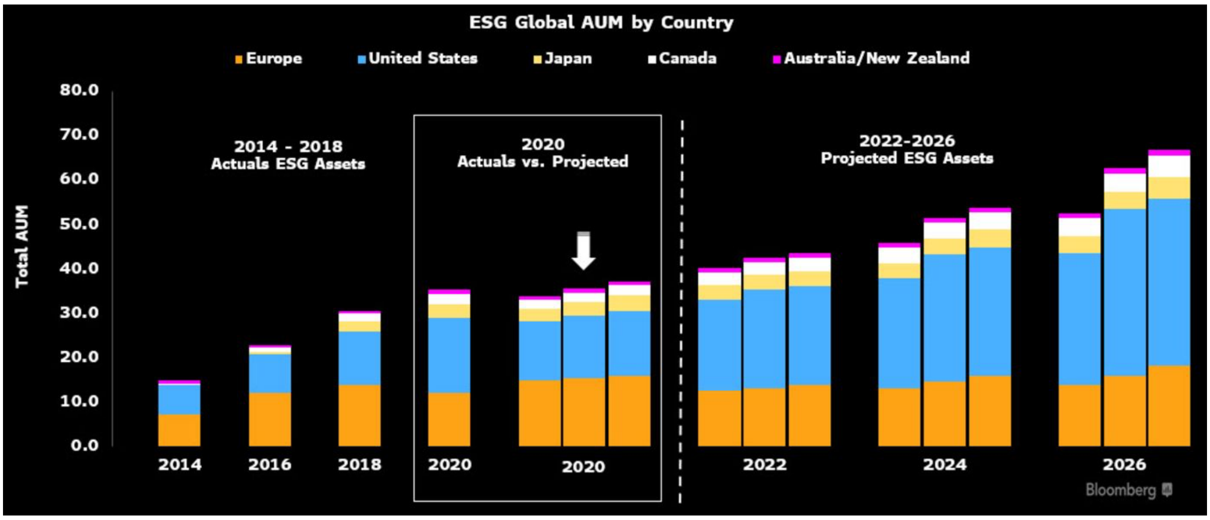
Background

Over the recent period of time one can observe a huge ESG trend going on among almost every industry. Climate change, fossil fuels crysis, deforestation, shortage of resources, and other consequences of unreasonable consumption lead to renovation in people's lives and in turn the way their business is run also changes.

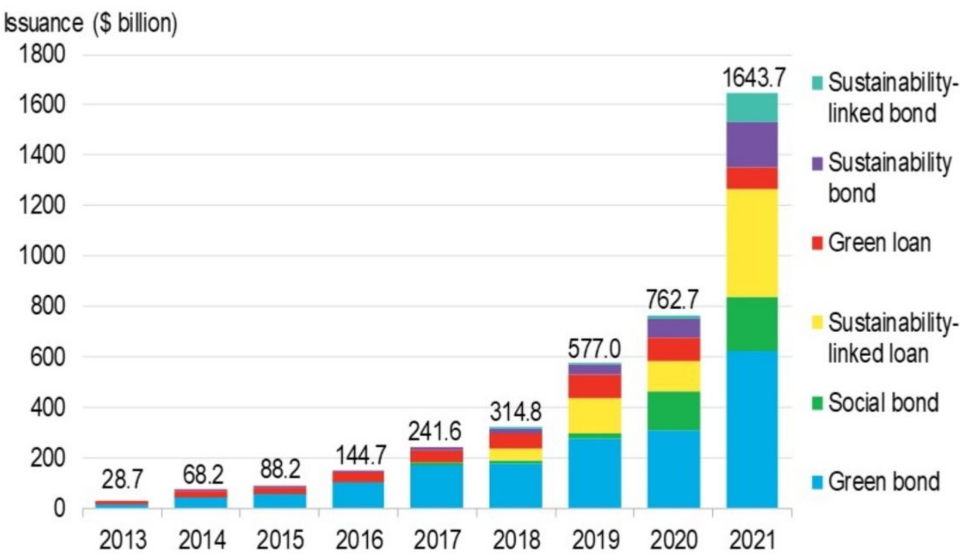
If invested in correct business capital can be used to pursue goals of lowering carbon emissions as well as generate a decent rate of return - that is the basics of ESG investing. The idea is complemented by fractionating companies judging by contribution to such spheres as environment, social and governance. Helping solve such problems as global warming companies can raise more capital than before and fight issues that not only affect people's lives, but also business strategies.

Opportunities

Driven by the demand, total capital of ESG assets reached 41 trillion of US dollars, and according to data from Bloomberg Intelligence it has a high probability to go up to 50 trillion of dollars in 2025.



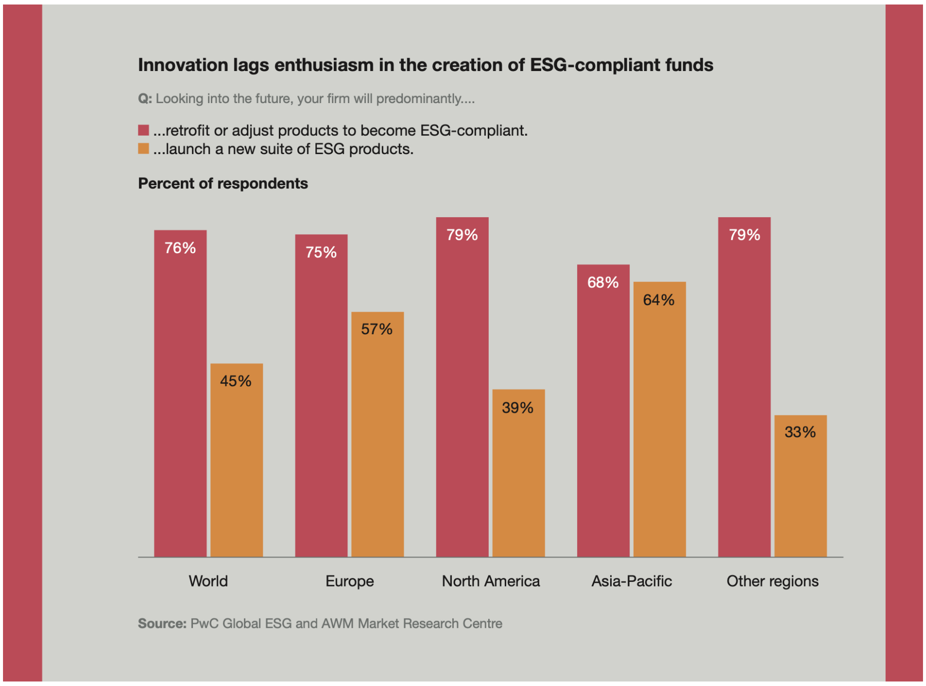
And despite the fact, ESG was born as a purely equities phenomenon, nowadays there are several ways to participate in the movement. Another example is corporate bonds created by the companies to raise an additional capital for their expenses, which in summary exceed 1.6 trillions of dollars and brought more that 4 trillions by transactions since inception.



The “Net-Zero” United Nations plan to reach net-zero emissions by 2050 and limit global warming to 1.5C expects to change the ratio of investments between green ones and ones linked to fossil fuels, which is now 90 cents against 1 dollar. With the support of governments and socially responsible investors it will bring the additional capital to companies with low-carbon usage, which in turn will allow businesses to expand even more. Overall cash flow is expected to climb to as much as 114.4 trillion dollars by the year of 2050.

Moreover some banks provide ESG-linked loans (a kind of ethical debt) to businesses, in this case the borrower can expect capital gain with smaller interest rate, which skyrocketed overall cash flows from $4.9 billion in 2017 to $500 billion in 2021.

Nearly nine out of ten institutional investors believe that the market should be filled with more ESG products than it is now, it encourages businesses to be more proactive in creating ones and opens the opportunities for financial benefits.

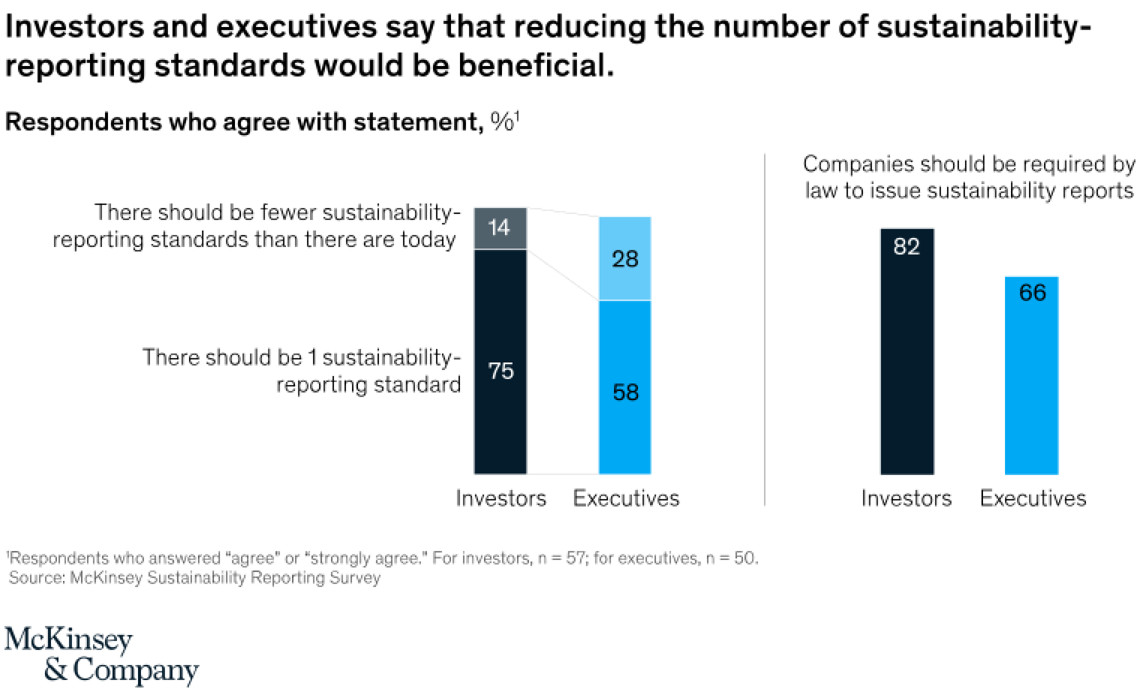


Risks

Investment and regulation risks:

Wouldn't it be great to invest in some green business, help the planet and as a bonus make decent returns down the road? Of course, but in reality not everything is that simple.

The main problem with ESG by date is regulation, according to a PwC survey about 71% institutional investors demand higher levels of ESG regulatory requirements and decreasing the number of mislabeling. And the same research was run by McKinsey&Company with the approximately same results.

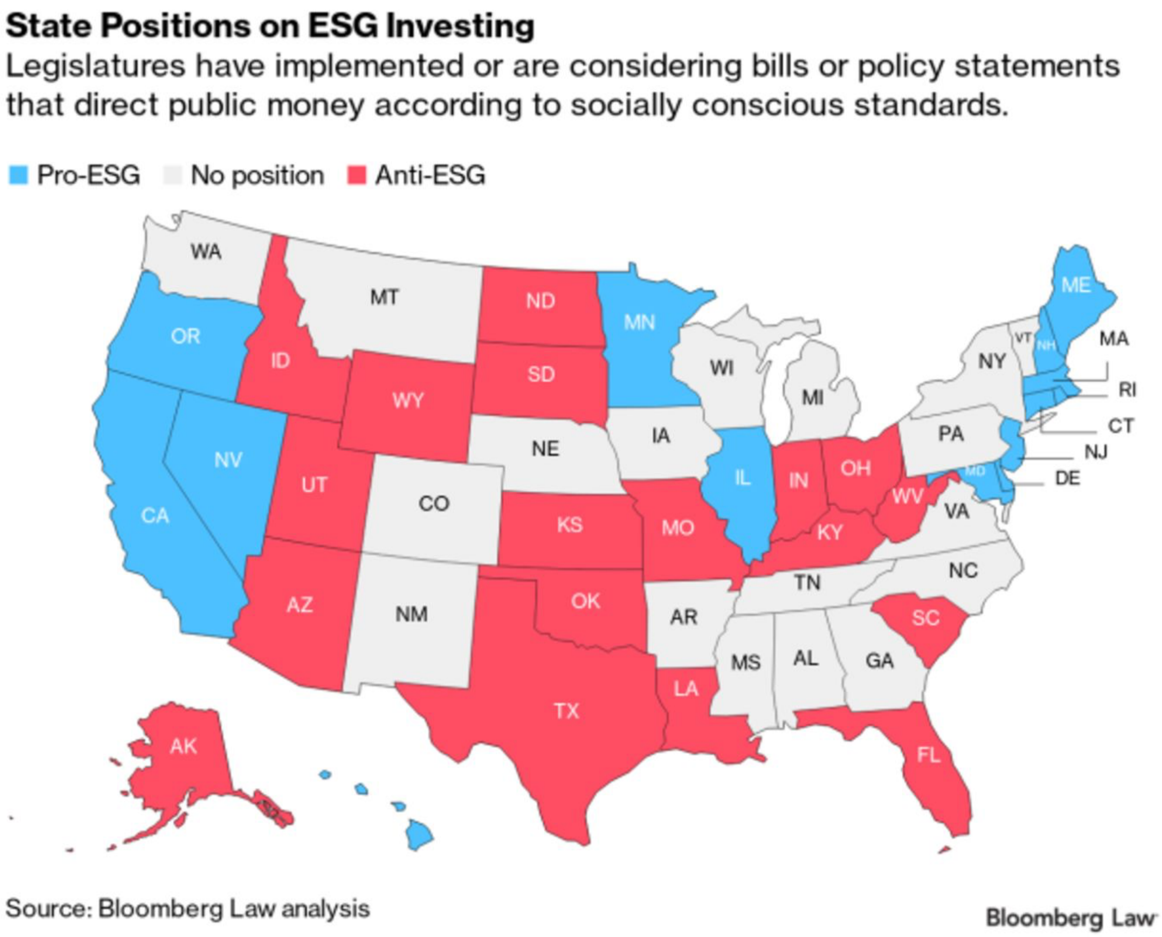


There are several indexes and funds which allow one to focus their capital on development of companies which contribute to the environment and society. The problem is that it is always mostly the same companies that in regular finds. For instance, Microsoft makes statements about fighting global warming and women rights so it's included in most of ESG funds but in regular ones as well. The only difference is that one pays an additional fee for green investment in the first case.

One more issue regarding investments in green businesses is subjectivity of funds construction which often leads to mislabelling companies, for instance, Tesla, electric vehicles manufacturing company, is no longer a part of it just because the company does not disclose their carbon emissions report.

Political and social risks:

By the end of 2022 US Labor Department plan to ease restrictions on green private sector and apart from anti-ESG policies recent waves it is expected to amid these problems with victory of socially conscious investors.



Conclusion

Needless to say, ESG regulation still has some room for improvement, since then one should consider specialized funds or other financial instruments for investments in very detail. Still demand for ESG products overstrip the supply, and the provided gap gives an opportunity to enter the market for more companies and businesses. Regarding the last part, the manager is advised to consider the following points to verify if business is ready to do so.

- How quickly can you remodel and relocate existing ESG products in the short term?
- How quickly can you develop and produce brand new ESG products to meen growing investors' demand?
- Are you able to sustain margin from these products in the long run?
- What improvement do you need to operate and leverage ESG data?
- How can you establish the assurance of ESG data analysis frameworks to avoid mislabeling issues?

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