Ethical Finance : What it is and why it is growing ?

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The perspective

In the latter part of the 20th century, the market for these investments in western developed economies has developed steadily. Growing themes around sustainability, climate change and social justice, combined with concerns arising from the 2008 financial crisis, has led to increased debate and interest in a more responsible financial sector that operates on a more transparent and ethical basis.

We live in an interconnected and globalized world. As the well-known adage goes; 'a butterfly beating its wings on one side of the globe, can create a hurricane on the other side of the world.' In today's world, the butterflies can be simple financial transactions that have an impact in other parts of the world, as happened in the recent global financial crisis. Yet there are those who, under the current volatile financial climate, are working to rebuild a real economy - a system of production and consumption built upon ethical, sustainable and responsible principles. Recent history has shown how dangerous it is to act without ethical principles. An ever increasing section of civil society is aware of this and is calling for new rules and evaluation criteria which take into account impacts upon the environment and people.

What is Ethical Finance ?

Ethical finance is a difficult term to define. A very restrictive way to describe it would be as an "umbrella concept" for a philosophy of investing based on a combination of financial, social, environmental and sustainability criteria. Ethical finance is commonly used to describe finance which takes into account not only financial returns but also environmental, social and governance (ESG) factors. This reflects an increasing recognition of the importance and value attributed by investors, both institutional and retail, to delivering measurable positive environmental and social impact on a sustainable basis. Ethical finance is a long established process of investing and financial management along values based principles.

According to the Report produced by the Commission on the Measurement of Economic Performance and Social Progress, chaired by Joseph Stiglitz, it is acknowledged that "...*GDP is an inadequate metric to gauge well-being over time particularly in its economic, environmental, and social dimensions, some aspects of which are often referred to as sustainability***." Since Ethical Finance, in the shape of ethical banks or responsible investments, clearly state their lending policy which is related with their mission, which in turn is associated with a set of values that go beyond shareholder maximisation profit, then one can see the ethical finance sector as a tool to promote the new well being defined above. In fact, ethical bank's values are instead associated with the maximisation of society well being, since economic, social, environmental and cultural aspects are all taken into consideration in a transparent way.**

Understanding Ethical Finance

'Can finance be ethical?' and the alternate, 'Why would finance not be ethical?' are two simple questions, but their answers are far from simple. Addressing these questions requires understanding the meaning of ethics and its position in the financial business context. The concept of ethics or morality is complicated and perplexing, since there is not a universal agreement on everything that qualifies as moral or ethical. Further, there is not even an agreement on the criteria that should be used in the conceptualization process of these notions (i.e. morals or ethics). It is important to note that ethics and morality are used interchangeably in this context considering that morality includes ethics and vice versa. there are three key elements that the financial sector should observe in order to operate within acceptable ethical parameters, which are moral virtue, human dignity and common good.

Ethical Finance is any activity that

- Invests money in people and the environment, supporting actions for social and/or environmental enhancement
- Provides credit without discrimination, based on wealth, gender, ethnicity or even migration status.
- Uses money as a means and not an end.

Ethical Finance does not

- Use money for purely speculative purposes.
- Use money merely as a charitable action.
- Aim at maximizing profits (at the expense of people and the environment).
- Support any activity or organization that is not sustainable in social and/or environmental terms.

We can thus describe "Ethical Finance" as an alternative to "Speculative and Market" Finance and therefore as a tool used to maximize positive externalities. Ethical finance aims to develop a fairer and more equitable interaction between humanity and the environment through the global economy.

To sum up, once the right governance systems are in place, there is no doubt that the three key grounds—

moderation, human dignity and common good, upon which ethical financial institution are founded can significantly help re-establish the missing traditional foundations of the financial business, namely responsibility, prudence, trust and honesty. The strong presence and participation of these ethical institutions in the financial market will force their counterparts to improve their ethical standards in order to be able to compete.

Evolution of Ethical Finance

Ethical nance’ is commonly used to describe nance which takes into account not only nancial returns but also environmental, social and governance (ESG) factors. This reects an increasing recognition of the importance and value attributed by investors, both institutional and retail, to delivering measurable positive environmental and social impact on a sustainable basis. Scotland has been at the heart of the ethical and sustainable finance movement since the beginning of the 19th century, when the world’s first commercial savings bank was opened in 1810 by the Rev. Henry Duncan, followed by the formation of Scottish Widows, Scotland’s first mutual life office, in 1815. The principles of ethical and sustainable financing have continued to the present day, with the launch of the Ethical Finance Hub in Edinburgh in 2016, with the aim of helping SMEs to access ethical finance and more recently the Scottish Government’s public commitment to Scotland reducing carbon emissions by 90% by 2050 and becoming a net zero carbon economy as soon as possible.

Interest in Ethical Finance is growing

Whatever we mean by ethical finance, it is an expanding market, as more people want their cash to have a conscience.The ethical financial sector, in terms of “values-based investments” and bank accounts, is up by 20% compared with last year. And sales of ethical products, from food to fuel, have risen by 18%. Ethical finance and investment is growing momentum, globally and nationally, at an exceptional pace. Previously, it was principally the remit of specialist finance providers and investors supporting enterprises with an environmental or social purpose, now it has morphed into the mainstream with an ever-increasing recognition of the importance and value of taking ESG factors and values into account. It has been estimated by the Global Ethical Finance Forum that there are over $27 trillion worth of assets under management globally on an ethical basis. This reflects a huge and growing market, with more retail and professional investors recognizing that ESG factors have a material role to play in determining risk and reward. As the investment and finance market has developed, ethical principles are increasingly being seen as the new normal, providing essential controls to underpin investment and finance decisions. Increasingly, funds and lenders are being challenged when they are perceived as failing to apply suitable ESG factors in their decision-making processes.

Although still in its infancy, answers to difficult questions regarding the profitability and sustainability of Ethical Finance are now beginning to emerge. An increasing amount of data supports Ethical Finance as a viable and appropriate method for running a real economy. A reformed and resilient economy based on the commitment of people, on tangible corporate responsibility and on innovation derived from shared values and alliances.

What are the values that Ethical Finance promotes?

In 2012 the European Federation of Ethical and Alternative Banks (FEBEA), drew up a list of key values to be used for the identification of Ethical Finance institutions in Europe. FEBEA is a key European body financing the non-profit sector, including nonbankable, environmental and cultural activities.The basic approach used by FEBEA is to understand banking as a tool for the community’s common good and to raise awareness and promote education on finance. The Ethical Finance criteria that FEBEA considers are:

- **The origin of money:** an Ethical Finance institution does not accept “dirty” money coming from illegal, speculative or highly polluting activities.
- **The destination of money:** the lending activities of an Ethical Finance institution are oriented towards positive social, environmental and/or economic impacts. For this reason it supports activities to promote weaker human, social and economic sections of the population and the most disadvantaged areas by promoting social integration and employment.
- **The criteria and values for the use of money:** transparent management of loans and symmetric information between an Ethical Finance institution and its customers.The business model is traditional, in that most of the savings collected are used for lending activities. The granting of personal financial guarantees go together with economic guarantees.
- **The management and objectives of the Ethical Finance institution:** an Ethical Finance institution does not consider the search for profit as an end in itself. A fair profit is necessary to ensure reliability and affordability to the institution. Profits are reinvested for the most part in the social objectives of the bank or institution.

Challenges to Ethical Finance

There is also no common industry wide methodology used for identifying whether finance is ethical or sustainable, with a wide variety of principles and measures being used to assess compliance. This leads to risk that the terminology may be used as a label to attract institutional or retail investment. There is also a risk of ‘ethical washing’ of investments to increase attractiveness to ethical finance investors. Officers and investeers in investment companies, charities and finance providers seeking to adhere to ethical principles face potential conflicts between their classic corporate fiduciary duties, particularly to their shareholders and charitable beneficiaries, and adherence to a commitment to compliance with ethical finance principles Increasingly however, institutional investors and providers of finance are committing to compliance with internationally recognized standards such as the UN Sustainable Goals and as this market develops consistent themes and principles are increasingly emerging.

Conclusion

The world is passing through an economic and financial crisis unprecedented in modern times. Its global scope transcends the cyclical adjustments of national economies and the corrective instruments usually used by business and national governments. The general malaise and loss of confidence point to deeper issues and more fundamental flaws in the economic system, extending to a crisis of leadership and values. As the present crisis is fundamentally one of trust and integrity, and therefore ethical in its foundation, its solution cannot be a mere institutional reorganization or some additional regulatory measures. It needs an ethical response at all levels: the individual, the corporation and the government and regulatory entities. Ethical finance aims to develop a fairer and more equitable interaction between humanity and the environment through the global economy.

Ethical finance is a system of financial management or investment that seeks qualitative outcomes other than purely the management of returns. Outcomes sought may reflect ideas from faith, social, environmental and governance theories. Ethical finance and investment is growing momentum globally and nationally, at an exceptional pace.People everywhere are starting to realize that we have a right to demand a fair system in alignment with their personal values and ethics, and making ethical investments on a personal level is a way to do this. Until we start talking about how to create a financial system that really serves society, we'll struggle in vain to bridge the gap between Wall Street and Main Street.

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Minimum Criteria for selection of Article/Paper for WIRC Bulletin

As per the decision taken in Editorial Board Meeting held on 14th February 2020, following is the minimum criteria for selection of Article/Paper for WIRC Bulletin.

1. Type of Article: Related to theme of the month or any other professional matter.
2. Font: Arial / Times New Roman / Calibri
3. Font Size: 11
4. Minimum length of the Article : 1,000 Words (Other than graphs / tables / figure / pictures)

Kindly note the final decision to consider Article / Paper is left with Chairman - Editorial Board.

Theme Base WIRC Bulletin

As per the decision taken in Editorial Board Meeting held on 14th February 2020, WIRC will start Theme base WIRC Bulletin from upcoming month. Theme for the next five months are as under:

Month	Theme
April	GST
May	Banking
June	Insurance
July	Cost Audit
August	ERP/SAP

Paper/Articles are invited for the above theme.