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SOCIALLY RESPONSIBLE INVESTMENT IN ASIA

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J E L Classification: G11, G15, M14, O53.

Abstract: The main goal of the article is to characterize and analyze the socially responsible investment in Asia. Choice of the subject was dictated the lack in knowledge about Asian SRI market. There are many differences in a scope and actual development levels of the SRI market between Asian countries. The paper is divided into three major parts. The first part is related to characteristic of socially responsible investment. The second part of the article is dedicated to institutional view on SRI market in Asia. In the third part the attention is paid to statistical data concerning socially responsible investment market in Asia as well as main directions of SRI development in this region. The literature of the subject and data published by the organizations which are involved in promotion SRI were analyzed for the purpose of this article.

Introduction

The formulation and implementation the strategy of corporate social responsibility (CSR) in enterprises activities are important factors in the development of socially responsible investment (SRI) in the financial market. Due to the growth of CSR popularity among companies, it can be observed a increasing investors' attention on the need of widening the evaluation criteria of investment

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projects, such us human rights, labour rights, environmental impact and transparent corporate governance.

The value of world socially responsible investment market is estimated for 21.4 billion USD, from what 11.05 billion EUR falls on the European market (Global Sustainable Investment Review, 2014). Although Europe is a global leader, a similar developing markets such as the USA, Canadian or Australian are gaining more popularity. Asian countries became a vital part of market too. Both world economic powers like China and Japan, but also South Korea, Singapore and Malaysia are joining this global trend. Nowadays the socially responsible investment seems to be an investment direction of a modern, post-crisis international financial markets.

Research methodology and the course of the research process

The main goal of the article is to characterize and analyze the socially responsible investment in Asia. The closer look at the Asia SRI market size, actual trends and institutional background will be taken. In addition, the article aims to describe how the Asian SRI market evolved in recent years to better understand in what directions this evolution may continue. Moreover, the article highlights country-level across the Asia SRI market.

Choice of the subject was dictated the lack in knowledge about Asian SRI market. For the purpose of realization agreed aims, there will be the following research methods used: descriptive, comparative, analysis of subject literature and statistical data.

The paper is divided into three major parts. The first part is related to characteristic of socially responsible investment based on literature and world market tendencies. The second part of the article is dedicated to institutional view on SRI market in Asia. In the third part the attention is paid to statistical data concerning socially responsible investment market in Asia as well as main directions of SRI development in this region.

The concept of socially responsible investment and its global character

Socially responsible investment (SRI) is a kind of investment approach that considers the environmental and social impacts of investments in financial analysis. Consequence of SRI are two forms of returns for investors: financial return and added value, based on social, environmental benefits and nonfinancial management of risk.

Socially responsible investment is closely linked to corporate social responsibility (CSR). SRI allows investors to identifying, checking and investing in companies that meet CSR standards. The wide variety of nonfinancial factors – including environmental, social, and governance (ESG) factors – are used to better understanding the potential impact on the evaluation of a company and its long-term value.

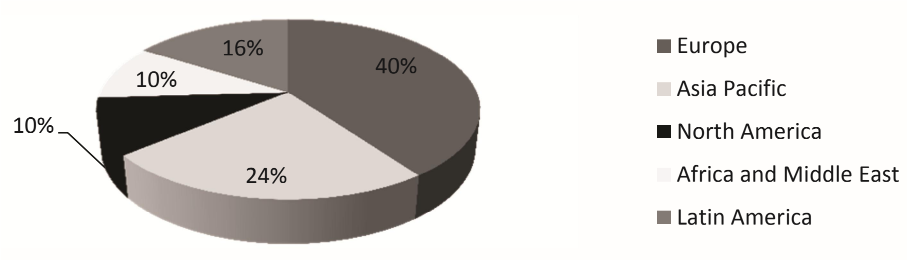
The socially responsible investment can be also defined as funds employing sustainable investing strategies. The most commonly adopted sustainable investment strategies are (Kłobukowska, 2014, pp. 80–82; Krupa, 2012, pp. 308–309):

- negative screening,
- best-in-class screening,
- norms-based screening,
- integration of ESG factors,
- sustainability-themed investing,
- impact investing,
- corporate engagement and shareholder action.

Socially responsible investing emerged in the late 1960s in the USA. The growth of SRI arises in the 1990s from a combination of legislative compulsion and pressure from actual and future beneficiaries (Sparkes & Cowton, 2004, p. 49). Making the fundament for growth socially responsible investment market many world organizations were established for. It is worth to draw attention to The United Nations Environment Programme Finance Initiative (UNEP FI) and Global Sustainable Investment Alliance (GSIA).

United Nation Environment Programme Finance Initiative (UNEP FI) is a program of the United Nations (UN) and global financial sector to promote sustainable finance founded in 1992 (UNEP FI). Currently, the organization brings together at least 200 financial institutions in over 50 countries. UNEP FI is dominated by representatives of the European institutions (44%) and on the second place, institutions from Asia and Pacific region (28%). From a few years there has been increased interest in environmental financial players from Africa or Latin America. The geographical structure of all members of the UNEP FI presents a figure 1.

Figure 1. Signatories UNEP FI by region in 2016



Source: UNEP FI, http://www.unepfi.org/signatories/index.html (accessed: 12.07.2016).

Among the signatories UNEP FI are both banks, insurance and investment companies, although so far with a banks predominance. Among the leading banks can be distinguished: ABN AMRO Bank N. V., Barclays Bank plc, Credit Suisse, European Bank for Reconstruction and Development (EBRD), Bank of America or Royal Bank of Canada. Among the insurance companies we can mention Thai Bangkok Insurance Public Company Ltd, Japenese Mitsui Sumitomo Insurance Co. Ltd., French AXA – Group Management Services or German Munich Reinsurance Company. Furthermore the investment companies are represented by Investa Property Group (Australia), Aviva plc (UK), Robeco Asset Management (Netherlands), Calvert Investments and Pax World Management Corpor. (USA) and many others.

Global Sustainable Investment Alliance (GSIA) is a partnership of many regional sustainability investment forums. Due to this cooperation the concept of socially responsible investment can be promoted around the world. The effect of collaboration are worldwide conducted researches. The main statistical data about international SRI market are provided by this organization. GSIA defines a national market as a country where the sustainable investing assets are managed what have huge influence on reported figures (Global Sustainable Investment Review, 2012, p. 7).

Globally, the socially responsible investment market stood at 21.4 trillion USD at the beginning of 2014, up nearly 61% from 13.3 trillion USD at the start of 2012. The fastest growing region was the United States, followed by Canada and Europe. In the meantime Asia's socially responsible investment assets stood at 53 billion USD, an increase of 32% from the start of 2012. That is 0,2% of the SRI global total (Global Sustainable Investment Review, 2014).

The institutional view on SRI market in Asia

The Association for Sustainable & Responsible Investment in Asia (ASrIA) is one of the cooperator of Global Sustainable Investment Alliance (GSIA), mention in the paragraph above, and one of the most important national SRI forum in Asia.

ASrIA is a non-profit organization whose activity is dedicated to sustainable finance and responsible investment in the Asia Pacific region. Since its establishment in February 2001 by Tessa Tennant and D. St Maur Sheil in Hong Kong, the organization aims to build a space for responsible investment, which promotes the creation of socially responsible products and financial services (ASrIA). ASrIA provides trainings, organizes conferences, seminars, conducts researches and published them. Members ASrIA are not only Asian financial institutions, but membership is open to all financial entities applying SRI standards on the financial market in Asia. ASrIA members include investments institutions managing 4 trillion USD in assets (CHINA CSR MAP). In order to achieve synergies ASrIA takes cooperation with regional forums such as:

- JSIF (Japan Sustainable Investment Forum),
- China SIF,
- Korea SIF,
- RIRA (Responsible Investment Research Association).

The mission of the Japanese Sustainable Investment Forum is to set social norms that would support investing in a socially responsible companies, organizations and projects, which would contribute to solving various social problems and market development of socially responsible investment (JSIF).

The main aim for China SIF (China Social Investment Forum) is providing a discussion platform about SRI opportunities in China and promoting the development of China's SRI market for investor and other actors on this market including shareholders, professionals from SRI organizations and corporate social responsibility experts (Asia Sustainable Investment Review, 2014). The Korea SIF (KOSIF) plays similar role in the Korean financial market.

Responsible Investment Research Association (RIRA) is India's Sustainable Investor Forum. It is a non-profit organization founded by Bloomberg, IDFC, GIZ, MCX SX and YES Bank. The key members of RIRA are ICICI Prudential AMC, Penn Schoen Berland and PwC. RIRA serves three types of activities (SRICONNECT):

- generating attention on SRI matters in investors, companies, academics and financial society,
- developing awareness in research problems connected with ESG factors, especially on issues such us sustainable infrastructure and climate finance,
- creating synergies by cooperation with other regional or worldwide initiatives.

The Asian market directed towards socially responsible investing is composed of a number of regional centers. The most significant role is played by ASrIA which split forces with UN PRI in 2015 to form the Asia Network (excluding Japan) (UN PRI). The UN PRI provides spread access to research, training and high willingness to cooperate.

Asia Stock Exchange is playing significant role in developing regional socially responsible investment markets. One of the targeted method is enhancing ESG reporting by companies listed on stock exchanges. Many of initiatives are taken in this field. The Shenzhen Stock Exchange (SZSE) in 2006 and the Shanghai Stock Exchange (SSE) in 2008 as first have introduced guidelines for listed companies (Vermander, 2014, p. 227). In 2012 the ESG reporting guidelines were published by Hong Kong Exchanges and Clearing Limited (HKEx). The Singapore Stock Exchange (SGX) has obliged listed companies to publish their sustainability reports on a *comply or explain* basis two years later, in October 2014.

Meanwhile, the SSE introduced SSE Sustainable Development Industry Index (SHA). The methodology of selection socially responsible investment companies based on three areas: the low carbon emission economy, economy closed circulation (saving natural resources) and educational services. Furthermore Bursa Malaysia launched socially responsible index in cooperation with FTSE in December 2014. So-called FTSE4Good Bursa Malaysia (F4GBM) Index became an example of popularization socially responsible companies from the ASEAN region to global investors. Regional stock exchanges strength the effect of their activities being part of Sustainable Stock Exchange – the gathering of global stock exchanges promoting SRI on their markets (SSE).

The state of socially responsible investment market in Asia

Sustainable investment assets in Asia, although still comprising only a small share of world total professionally managed assets, stand at 53 billion USD, an increase from the 40 billion USD reached at the beginning of 2012. The collected data include twelve SRI markets, such us Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Pakistan, Singapore, South Korea, Taiwan, Thailand and Vietnam (table 1). The three largest Asian markets for socially responsible investments, by asset size, are Malaysia, Hong Kong and South Korea. The fastest growing are Indonesia and Singapore markets. According to historic maturity, the most developed market in the Asia region is Japan. Innovational products concern ESG policies like impact investing, bonds and green real estate are gaining popularity in Japan (Global Sustainable Investment Review, 2014, p. 4).

Table 1. Socially responsible investment asset growth in Asia (ex Japan) in 2011 and 2013 (mln USD)

SRI market	2011	2013
Bangladesh	n.a.	14
China	1535	1729
Hong Kong	7328	11329
India	153	115
Indonesia	595	1142
South Korea	6288	8426
Malaysia	9956	15087
Pakistan	427	505
Singapore	724	5660
Taiwan	724	714
Thailand	14	20
Vietnam	n.a.	195
Total	29988	44937

Source: Asia Sustainable Investment Review, 2014, p. 12.

The integration of ESG factors is the most popular strategy in the Asian market outside Japan. In contrast, the market in Japan is based on strategy of investing in society and thematic funds, which can be clearly distinguished in the statistics of the total market, as shown in table 2. The most commonly adopted socially responsible investment strategies in Asia are ESG integration at 23.4 billion USD (44% of SRI assets) and exclusion/negative screening at 16.6 billion USD (31% of SRI assets). The fastest growing strategy in Asia is negative screening with 53% growth since the beginning of 2012, followed by ESG integration at 42%.

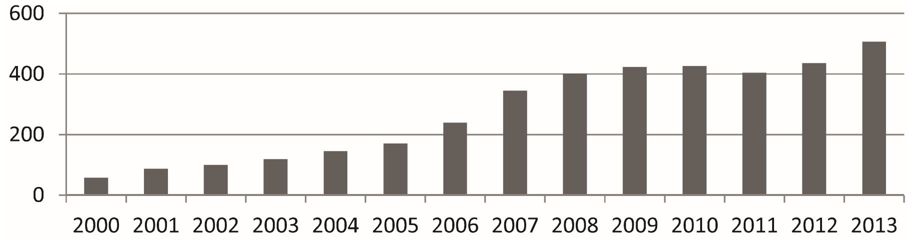
Table 2. The popularity of socially responsible investment strategies for the Asian market at the end of 2012 and 2014 (billion USD)

Strategy	2012	2014	Growth 2012–2014
Norms-based screening	0	0	na
Negative screening	10.82	16.55	53.0%
Postive screening	2.31	1.73	-25.2%
Integration of ESG factors	16.53	23.41	41.6%
Sustainability-themed investing	3.37	4.17	23.5%
Impact investing	7.14	5.91	-17.2%
Corporate engagement and shareholder action	0	1.16	nc
Total	40.17	52.92	31.7%

Source: own study based on: Asia Sustainable Investment Review, 2014, p. 30.

In the Asia region in 2016 we can also observe a growth number of sustainability reporting instruments (like a branch regulations, recommendations, guidelines, standards etc.) by about 75% since 2013. This initiatives came more often from financial market or industry regulators than governments (Carrots & Sticks, 2016, p. 11). The most important documents are China's *Guidelines on CSR for Financial Institutions* (2009), the Malaysian *Code for Institutional Investors* (2014), the *Social Contribution Performance Reporting System* (2013) for the insurance industry in South Korea and the *Environmental Risk Management Guidelines for Financial Institutions* (2011) in Bangladesh (Carrots & Sticks, 2016, p. 17). Increased attention applied to the nonfinancial activities of companies and transparency of reports influence on development of socially responsible investment market in Asia. The key participants in this market are institutional investors, asset managers, individual investors and investment banks. The involvement of so many actors as a financial market affect the number of potentially engaged in SRI market development. Currently, we can point out more than 500 sustainable investment funds in the Asian market, thereby affecting expand number of socially responsible companies on the stock market (figure 2).

Figure 2. The number of socially responsible investment funds in Asia in the period 2000–2013



Source: own study based on: Sustainable finance in Asia; Asia Sustainable Investment Review, 2014, p. 10.

The SRI fund market is strongly affected by religious attitude. Islamic funds are the major contributor to sustainable investment assets in Asia, mostly in Malaysia and Indonesia, where the government policy supports development of the Islamic fund market (Global Sustainable Investment Review, 2012, p. 19). Another important form of socially responsible investment in Asia is impact investing and community investment. This investments approach concentrate on financial and social inclusion. The capital from investors is directed to microfinance programs.

Microfinance offers access to capital to people of low income, who have been excluded from the formal banking sector or enterprises on the early stage. Microfinance programs provide access to credit, equity and basic banking products. The most well known and in the same time the most developed product is a microcredit. Microcredit provides financial capital for poor or entrepreneurs who toil in the informal, poverty sectors in developing country economies (Ali et al., 2016, p. 335). The motherland of microcredit is Asia exactly. The best-known examples coming from the Grameen Bank of Bangladesh, which was established by M. Yunus or institutions gathered in Kiva (KIVA).

The important driver for the SRI market in Asia will be concentration on environmental issues relating to climate change, energy and resource scarcity. In 2016, during China's leadership of the G20, according to research results taken by Green Finance Study Group (GFSG), China sums up its needs around 460 billion USD yearly to finance green investment plan (G20 Green Finance). It is worth to say about Asia's first green bond from Asian Development Bank which supports by credit enhancement renewable energy projects such a geothermal plant in the capital of Philippines (SUSTAINABLE INVESTMENT FO-

RUM). This product has a Climate Bonds Initiative certificate and is first climate bond used to finance single project in Asia and also in an emerging market as a whole (SUSTAINABLE INVESTMENT FORUM).

Asian's engagement in popularization green financing is important for domestic market but also has a global significance (Chenghui, Zadek, Ning & Halle, 2015, p. 8). The climate changes became a challenge for modern societies. During transformation process to sustainable economic development in Asia, financial market introduce more credit and investment instruments.

The outcome of the research process and conclusions

Western patterns have been inspiration for many actions taken on the internal market in Asian countries. Globalization and its cultural, social and financial impact supports global growth in the popularity of socially responsible investment. Therefore, the concept of corporate social responsibility quite freely settles among Asian companies and financial institutions which are signatories of the UN PRI principles.

However, the Asian market is very diverse, as shown on the example of the listed investment strategies and their values. In the development of socially responsible investment in Asia, the most important role is played by the SRI global organizations, stock exchanges and governments. Asian stock exchanges are also platform for implementing new products consisting on ESG investment criteria and access increasing to socially responsible companies and institutional investors.

Such a noticeable steady increase number of SRI funds in the period 2000–2013 implies need to enlarge the number of institutions in Asia involved in research, building and evaluation sustainable stock indexes or professional consultants in the field of corporate social responsibility. The significant role will be played by ASrIA which split forces with UN PRI in 2015.

The climate changes and environment protection will be one of the crucial challenges for adoption new solutions in the Asia market. Socially responsible investment may help catalyst investors activities in this problem. Now it is mostly driven by religious attitude.

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