Czech University of Life Sciences Prague

Faculty of Economics and Management

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Diploma Thesis

Responsible finance and the definition of an ethical investment

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Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

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Economics and Management

Thesis title

Responsible Finance and the definition of an ethical investment

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Objectives of thesis

The thesis will examine concepts of responsible finance, with a particular focus on the role of green bonds. The concept of responsible finance has grown in importance in recent years. It reflects the evolution of ethical standards in the business world based on the idea of sustainable development. Indeed, responsible finance, also known as Socially Responsible Investments (SRI), is a particular application of Corporate Social Responsibility. Its specificity lies in the fact that businesses can negatively affect people and the environment, which raises ethical questions for investors who make the decision to support (or not) these businesses.

However, to determine whether an investment is responsible or not is far more complicated. First, because these issues are complex and do not have just one miracle solution. Second, not everyone will set the same limits to responsible investment because of different values and/or priorities. These two difficulties bring confusion to the sector. Several methodologies have been developed to invest in the most ethical way. But the scope of responsibility and the set of principles founding the investment decision approaches differ, reflecting different interpretations and applications of ethics. Therefore, in theory and in practice, the same question arises: what is a truly responsible investment?

In its practical part, the thesis will consider this issue through a focus on ’green investment’, as a particular example of socially responsible investment.

Methodology

The thesis will consider definitions of green investment through the study of different standards used to label a bond as green. In the market, there are several guidelines, frameworks, indices, and ratings that have established their own set of criteria for green bonds. By examining and comparing them, we will show the confluence points and the contradictions related to the definition of green. The thesis will depict the practical position of the financial world on this particular aspect of ethics. Indeed, the green characteristics of such financial tools tackles environmental issues, which is just one of the challenges that businesses should address in order to be ethical.

The proposed extent of the thesis

50-60 pages

Keywords

Responsible Finance, Green Investment, Business Ethics

Recommended information sources

DALY, Herman. (1997). Beyond Growth: The Economics of Sustainable Development. Beacon Press.
FREDERICK, Robert. (1999). A Companion to Business Ethics. Blackwell.
HARRISON, Mike. (2005). An Introduction to Business and Management Ethics, Palgrave MacMillan
HILL, Robert Paul, et al. (2006). 'Corporate Social Responsibility and Socially Responsible Investing: A Global Perspective'. Journal of Business Ethics 70, pp. 165-174.

Expected date of thesis defence

2018/19 SS – FEM

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Electronic approval: 10. 3. 2019

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Electronic approval: 11. 3. 2019

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Prague on 25. 03. 2019

Declaration

I declare that I have worked on my diploma thesis titled "Responsible finance and the definition of an ethical investment" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 29th of March 2019 ______________________________

Acknowledgement

I would like to thank my supervisor Daniel Swain for his very valuable recommendations and his trust in the vision I had of this thesis. I am grateful to the Czech University of Life Sciences for giving me the opportunity to conduct an in-depth study of a topic I like.

Responsible Finance and the definition of an ethical investment

Abstract

The thesis investigates issues related to responsible finance in the activity of investing. It presents the responsibilities of investors in a context of business ethics shaped by sustainable development and CSR. In this view, all the stakeholders have to be considered, even the environment and the next generations. Along with new responsibilities come new ethical principles which can be theoretically applied in a deontological or utilitarian way. But in the reality, there are several approaches to what is called Socially Responsible Investing, among them shareholder advocacy or screening strategy. In particular, screening is an appropriate way to punish or support the best businesses according to the investors' line of ethics. The goal being that the personal values and aspirations of investors can be reflected as much as possible in their investment decision. The thesis will eventually focus on the case of green bonds as a way to invest ethically, especially to respect the environment. The study of different standards will show how financial markets tackle environmental issues through the creation of an original investment vehicle. We will demonstrate that SRI can be applied to the reality to entail a change in the society, acknowledging the strengths and weaknesses. The whole thesis can be considered as a guidebook for an investor who would like to know what it means to invest ethically.

Keywords: Responsible Finance, Green Investment, Business Ethics

Zodpovědné financování a definice etického investování

Abstrakt

Práce se zabývá problematikou zodpovědného financování v oblasti investic. Představuje odpovědnost investorů v kontextu podnikatelské etiky formované udržitelným rozvojem a společenskou odpovědností firem (Corporate Social Responsibility - CSR). Z tohoto pohledu je třeba zvážit všechny zúčastněné strany, a to i životní prostředí a příští generace. Spolu s novými povinnostmi přicházejí nové etické principy, které lze teoreticky aplikovat deontologickým nebo utilitárním způsobem. Ale ve skutečnosti existuje několik přístupů k tomu, co se nazývá Společensky odpovědné investování (Socially Responsible Investment - SRI), mezi něž patří prosazování akcionářů nebo screeningová strategie. Screening je zejména vhodným způsobem, jak trestat nebo podporovat nejlepší podniky podle etiky investorů. Cílem je, aby osobní hodnoty a touhy investorů mohly být v investičním rozhodnutí co nejvíce zohledněny. Práce se nakonec zaměří na případ zelených dluhopisů jako způsobu, jak eticky investovat, zejména s ohledem na životní prostředí. Studie různých norem ukáže, jak finanční trhy řeší otázky životního prostředí vytvořením původního investičního nástroje. Ukážeme, že SRI lze aplikovat na realitu, která znamená změnu ve společnosti, uznání silných a slabých stránek. Celá práce může být považována za průvodce pro investora, který by chtěl investovat eticky.

Klíčová slova: zodpovědné financování, zelené investice, etika podniku

Table of content

List of pictures

None

List of tables

List of abbreviations

CSR: Corporate Social Responsibility

SRI: Socially Responsible Investing

ESG: Environment, Social and Governance

SDGs: Sustainable Development Goals

GBP: Green Bond Principles

CBI: Climate Bond Initiative

1 Introduction

This thesis will address ethical issues related to finance, in its specific activity of investment. Let's start by giving a clear definition of these words.

On one hand, finance is defined as the management of money, in other words, it consists in determining how much money will be directed to which economic activity and under which conditions. Investing, which is one of its several sub-activities, encompasses the distribution process of money between two economic actors. Indeed, an investment gathers together an investor, who expects to make some benefits in the future thanks to the capital he owns, and a business, which will make use of that money.

On the other hand, ethics is a branch of philosophy that deals with the concept of right or wrong conduct, and thus try to resolve questions of human morality. As a matter of clarity, the following couples of words will be used interchangeably: morality and ethics, good and right. More precisely, the thesis will mainly tackle business ethics as defined as the set of values that judge the rightness of a business action in its context. From this regards, and both from the point of view of the investor and of the financed activity, an investment is a business action, and therefore raises ethical questions.

Finally, the concept of responsible finance, also called Socially Responsible Investing (SRI), deals with ethics and questions the definition of a good financial decision. It emphasizes the aspect of responsibility within the investing activity: an investment decision brings along consequences for the economy, and more broadly for society, for which the investor can be held responsible, or answerable. However, SRI has developed in a context where the set of values upon which the rightness of an investment is determined are changing. This is due to the alarming climate change, the environmental and social damage caused by companies, the constant attention of civil society towards business activities, or even the growing awareness of a need for action. Consequently, investing finance has been updating its practices to meet with the standards of ethics.

All the above leads us to the following questions: what do we consider today as a responsible investment? What are the values or principles according to which an investment can be said ethical and how are they applied to the financial reality?

To address that question, first we are going to examine the traditional and the new responsibilities entitled to investing finance. Then, we are going to explore the new ethical principles that have to be respected and how they can be applied in theory. It will be followed by the way financial world is adopting different approaches to link theory with practices and business reality will be studied. And eventually, we will conduct an analysis on a particular type of ethical investment vehicle called green bond.

2 Objectives and Methodology

2.1 Objectives

The thesis will examine concepts of responsible finance, with a particular focus on the role of green bonds. The main goal will be to answer the following question: what is a truly responsible investment?

To do so, we will need to draw up the theoretical background for an ethical investment, which will lead us to address:

- The responsibilities hold by investors as regard to the society;
- Competing views on ethics in finance: classical economic theories vs. Corporate Social Responsibility;
- The rise of new ethical principles based on the respect of the stakeholders, and their theoretical application;
- The application of ethics to the reality of Socially Responsible Investing strategies such as shareholder advocacy and screening.

Then, to get a clearer idea of what an ethical investment can be, we will analyse the definitions and requirements for a green bond. Indeed, the green characteristics of such financial tool tackles environmental issues, which is just one of the challenges that businesses should address in order to be ethical. We aim at showing to which extent an green bonds can be ethical according to the market. Our study will explore the following points:

- The definition of a green bond
- The activities that can (and cannot) be financed through a green bond
- The technical and practical requirements to make ethics apply to business reality
- The way investors deal with ethical dilemma

The final goal is to have a perfect understanding of what it means to invest ethically and in particular to invest in a green bond, which is supposed to comply with the new line of ethics based on the sustainable development concept.

2.2 **Methodology**

First, this thesis will be composed of a literature review that will provide in-depth theoretical material based on articles, papers, books and reports about the topic.

Then, we will consider definitions of green investment through the study of different standards used to label a bond as green. In the market, there are several guidelines, frameworks, indices, and ratings that have established their own set of criteria for green bonds. By examining and comparing them, we will show the confluence points and the contradictions related to the definition of green.

The practical study will consist in a qualitative study of several aspects of 9 standards on the following points:

1) The broad definition of a green bond
2) The base for the standards' creation
3) The range of eligibility
4) The mechanisms of control
5) The way the standards deal with controversial issues

See practical part for further methodological details.

3 Literature Review

3.1 The responsibilities and the moral role of an investor in the society

3.1.1 Traditional tenets of investing finance in a liberal economy

3.1.1.1 What is investing finance?

3.1.1.1.1 A conceptual definition

As explained in the introduction, investing finance is one activity of the financial world. It encompasses "acts of committing money or capital to an endeavour (a business, project, real estate, etc.) with the expectation of obtaining an additional income or profit"[1], according to Investopedia. In other words, it implies that someone owns money, the investor, and that the money will be dedicated to an economic activity, which should reward the investor in some way.

From the point of view of the investor, the investment decision is a commitment and a risk, balanced by an expected income. There is commitment in the sense that the money owned today by the investor will be given to someone else for a certain period of time, during which the investor won't have immediate access to it. Instead of investing, it is still possible to save or spend. There is also a risk that the activity funded by the investment fails and finds itself unable to pay the money back, or that the financial product bought at a certain value loses it in the future. On the other side, the expected income of a financial investment would often take the form of interests or added-value. So, traditionally, an investor would balance these 3 elements to make an investment decision. But, several opportunities will be obviously considered in order to act wisely, therefore there will be a comparison. This characteristics is important to be highlighted because it is the ethical aspect of this very act that will be later questioned.

From the point of view of the money passing from one hand to another, a financial investment brings out the question of reallocation of capital. An investment happens when a demand for money meets an offer. Indeed, the supply and demand model applies perfectly to financial capital, the equilibrium price being the return on investment available on the

[1] James CHEN, 'Investing', Investopedia, n.d., https://www.investopedia.com/terms/i/investing.asp.

market. It can be done directly or through some intermediaries, but in any case, an investment enables the distribution of money from the investors who have no operational use of that money to those who have an operational funding need.

Finally, from the point of view of the economic activity receiving the investment, it is a way to finance it and to contribute to its growth. Indeed, all businesses need capital to operate. However, some businesses may not get these capitals because of a lack of financial competitivity, or some very polluting companies may be financed. That's why we can consider that investing in a business means to promote it, to encourage its continuation, and to help sustain it on a medium-long term. In that way, the investing finance sector is really powerful and has huge responsibilities.

With this first conceptual definition of investing finance, we remark that investing finance is the business of all businesses. Any person or company engaged in investing finance will take part in many other businesses through the supply of money. Thus, when later on we address the question of ethics related to investing finance, we will consider general business ethics because through the investment an investor shares the responsibility of the financed business, and also because there are entities involved in the business of investment.

3.1.1.1.2 A practical presentation

Finance is often divided in three categories that refer to different aspects of the economy and are related to investing finance in some way. First, personal finance is the financial management of the monetary resources of an individual or a family. Each person is able to own money and has to choose what do with it: spend in goods and services, save in a bank account, buy an insurance, subscribe to a retirement funds, buy a share of a company… Several actions can be considered an investment. Second, public finance encompasses the management of the State's incomes and expenditures. States play a central role in the economy, in particular as an investor of the public money in infrastructures and public but also private companies. Third, corporate finance deals with sources of funding, capital structure and financial resources allocation of companies. This field views the corporations as investors but also as receivers of investments.

Apart from these wide categories of actors in finance, individuals, States and businesses, banks, insurance companies, investment funds or even private investors are the entities that will be mainly concerned by the question of ethical investment because they hold considerable amounts of capital.

All in all, everyone who owns money is an investor. Then, there are several ways to make a financial investment, among them the most known:

- Equity investment. The main example being the purchase of shares of stock from a company, which makes the investor a shareholder of that company, i.e. gives the right to receive dividends and sometimes to vote at shareholder's meetings;
- Debt investment. It can be a loan from a bank to a company, but can also be a bond, which is a loan made by any investor to the issuer of the bond in exchange for periodic interest payments plus the return of the bond's face amount when the bond eventually matures;
- Mutual funds. They are pooled investment vehicles managed by an investment managers who invests in different companies through other financial instruments with the money of some investors who have contracted to the fund.

Most of these investments have to be made through the financial market, where all the actors can trade stocks and bonds. It acts as an intermediary which helps the allocation of capital and the pricing of investments. However, there are many other ways to invest money as there exist many financial tools for it. In real estate for instance, by buying a commercial or residential property. Or it is possible to entrust money to an investment fund which will invest it in other activities as explained above, just to mention few of them.

3.1.1.2 **The economic principles ruling the economy, and especially the investment activity**

When talking about investing finance we have to consider it in a liberal capitalist and globalized context where capitals can freely flow around the world to fuel the businesses, and the general economic activity in general, responding to investors' interests. In this lie the tenets configuring the investment dynamics.

3.1.1.2.1 Liberalism and free flow of capital, the widening of investment opportunities

In the previous part, we explained that an investment involves a choice. In a liberal economy, this choice has to be made as freely as possible, without restriction. Indeed, nowadays, there are very few barriers to the flows of capital within and between countries. This means that an investor has a very wide range of investment opportunities, almost infinite, among which the investor has to choose.

According to the general understanding of economic liberalism, the greatest number of economic decisions should be made by individuals rather than by collective organization or institutions. It ensues from Adam Smith's reflection on the role of the State in the economy, of which he spoke in these terms in *The Wealth of Nations*: "The statesman who would attempt to direct individuals how to employ their capitals would be responsible not only to care very redundant, but assume an authority which could safely be entrusted to no council or senate and which would nowhere so dangerous in the hands of a man so foolish and presumptuous enough to believe themselves capable of exercising"[2]. Despite the evolution of the liberal theories toward a greater involvement of states in the economy over the centuries following A. Smith, recent decades have been marked by a comeback of the non-intervention principle. The defenders of the conservative conception of liberalism, among them the economist Milton Friedman, have strongly advocated for the reduction of barriers to trade. On the whole, this gives more freedom to individuals and corporations in business management.

Regarding finance, the World Bank and the International Monetary Fund have imposed the "3D theory" of deregulation, disintermediation and decompartmentalization stated by Henri Bourguinat in *Les vertiges de la finance internationale*[3], which settled the base for the financial globalization. It was backed at the same time by the Washington Consensus applied by the IMF to many countries, which recommended the liberalization of inward foreign investment. Its theorist John Williamson wrote the following in *Latin American Adjustment: How Much Has Happened?*: "a restrictive attitude limiting the entry of foreign direct investment (FDI) is regarded as foolish. Such investment can bring needed capital, skills, and know-how, either producing goods needed for the domestic market or contributing new exports."[4]

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[2] Adam SMITH, *The Wealth of Nations* (W. Strahan and T. Cadell, London, 1776).

[3] Henri BOURGUINAT, *Les Vertiges de La Finance Internationale* (Economica, 1987).

[4] John WILLIAMSON, *Latin American Adjustment: How Much Has Happened?* (Peterson Institute for International Economics, 1990).

More than any other sector, finance is sticking with the conservative view of liberalism. As a result of the wide liberty of choice given to the investors, more responsibilities may come along.

3.1.1.2.2 The capitalist system enhances the capital, and so the investors

When drawing up the business context of our societies, we can't avoid addressing capitalism. One aspect of capitalism is that it makes money, and those who own it, very powerful. Capital is the key to the system in which our societies are working. As a productive factor, it has the power to fuel the businesses. Consequently, the businesses are run according to the interests of the holders of that particular productive factors.

Capitalism is defined by the International Monetary Fund as "an economic system in which private actors own and control property in accord with their interests"[5]. One of its pillars is private property, which allows people to own assets, both tangible and intangible. It is supposed to incentivise the owner of any property to make use of it in the most efficient way in order to satisfy their interest and that of society. But, it also gives the possibility to individuals to concentrate in their hands two of the three factors of production: land and capital. Both, along with labour, are necessary for the development of economic activity. Although some businesses can get started with very little capital and land, the general rule is that the money of investors will enable entrepreneurs to buy and gather all the offices, materials, energy, tools, etc.

If money is necessary for the setting up and the development of a business, it never stops playing a key role in it. From a legal point of view, the first and main goal of the company is to favour the shareholders, in other words to bring them benefits. We talk about shareholder wealth maximization. In both cases of the French's and UK's law, the real holders of the power in the economy are the "members" or "associés" (associates), but in practice, due to the bargaining power of the investors, members and associates are usually shareholders. According to the French law, in the Code Civil, article 1833, a company is defined as follows: "Every company shall have a lawful object and be constituted in the common interest of the associates" (in French - "Toute société doit avoir un objet licite et

[5] Sarwat JAHAN and Ahmed Saber MAHMUD, 'What Is Capitalism? - Back to Basics', June 2015, https://www.imf.org/external/pubs/ft/fandd/2015/06/basics.htm.

être constituée dans l'intérêt commun des associés"[6]). Even though this definition is being question by the Loi Pacte currently discussed in the French Parliament, it has been defined as such since 1978. In the UK's law, the "members", who can be shareholders, have the right to fire any director by a simple majority as stated in the *Companies Act* of 2006, s168: "a company may by ordinary resolution at a meeting remove a director before the expiration of his period of office, notwithstanding anything in any agreement between it and him"[7]. And again, the directors have to favour the shareholders: "A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole"[8] (s172).

These two examples of countries involved in a liberal capitalist form of business show that the supremacy goes to the shareholders, i.e. those who invest money. Therefore, investors have a great power, which entails great responsibilities.

3.1.1.3 **The conservative view of ethics in this context**

After shaping the responsibilities of investing finance, this part will try to answer to the following question: in a liberal capitalist system, according to which principles are the ethical issues solved? As a definition of an ethical issue, we can quote Ferrell and Fraedrich who wrote in these terms about it: *"a problem, situation or opportunity requiring an individual or organization to choose among several actions that must be evaluated as right or wrong, ethical or unethical"*[9].

3.1.1.3.1 Profit is the first motive of an investment, and a good decision criteria

When defining investing finance in the point 2.3.1.1.1, we did not focus on the second part of the definition which said "with the expectation of obtaining an additional income or

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[6] French National Assembly, 'Code Civil - Article 1833', 1833 Code civil § (n.d.), accessed 4 February 2019.
[7] Parliament of United Kingdom, 'Companies Act 2006', Text, n.d., http://www.legislation.gov.uk/ukpga/2006/46/section/168.
[8] Parliament of United Kingdom.
[9] O.C. FERRELL and J. FRAEDRICH, *Business Ethics: Ethical Decision Making and Cases* (Boston: Houghton Mifflin Company, 1991).

profit"[10]. However, the profit motive is the first reason why people and businesses decide to invest instead of keeping their money in a safe.

At the scale of a private individual, according to the liberal theories, profit is regarded as a rational objective for all economic agents, which will even bring positive effects. For Adam Smith, "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest"[11]. In his view, self-centred profit seeking behaviour makes the economy run because, by pursuing our own interest we engage in economic activities that will benefit everyone. In that sense, investors who would like to increase their incomes, in order to gain more purchasing power and increase their happiness, would engage in the activity of financing and foster economic activity.

Accordingly, at the level of a business, mainstream microeconomic theories posit that profit is the reason for a business's existence. In other words, if there were not profit to be made out of a business, it would be pointless to start this business. As explained by the economist Henry Hazlitt about the efficient use of resources: "If there is no profit in making an article, it is a sign that the labour and capital devoted to its production are misdirected: the value of the resources that must be used up in making the article is greater than the value of the article itself"[12]. Therefore, any business willing to make an investment will seek the generation of profit, which will match with its investors' expectations. This is especially the case for investment funds, which also rely on the profit motive of all the single individuals who have entrusted the fund with their money.

The profit motive is also justified by the sustainability over time of a business. Indeed, without profit a business may die of cash flow mismatch if there is no one to provide extra funding.

To sum up, liberal theories have made profit the reason for which people will engage in businesses and maintain them afloat. It applies to financial institutions and private investors without any restriction. It is in their advantage and that of the economy to make profits, so it is a good indicator to solve an ethical issue.

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[10] CHEN, 'Investing'.
[11] SMITH, *The Wealth of Nations.*
[12] Henry HAZLITT, *Economics in One Lesson: The Shortest and Surest Way to Understand Basic Economics*, Currency, 1988.

3.1.1.3.2 Empathy and social construction of justice is enough to constrain any derive

Again, Adam Smith has considerably influenced the question of ethics in our societies. In *The Theory of Moral Sentiments*[13], Smith recommends that we follow our self-interest, which will be restrained in some way by our empathy. By pursuing our own interest and engaging in economic activities, we create the best environment for others, promoting their welfare. Then, morality will arise from our social experience: balancing self-interest and empathy, we will work out how to live alongside other people without causing them any harm. In business, the free competition advocated by Smith will also play its role of limiting the harms people can do to each other. There will also be someone with more empathy to provide a better solution. In case it is not enough, Smith agrees on a regulatory body to set the limits of justice. Although the question of harm remains vague, following our self-interest and respecting the laws set by justice, itself constructed through social experience and empathy, seems to be enough in the liberal system to act ethically.

3.1.1.3.3 The law is a good enough line of ethics

In the spirit of Smith's thinking, abiding by the law seems to be the most commonly adopted position in the business world shaped by neo-classical economists. The law is supposed to outline what can and cannot be done, so it is a good line of ethics: if I invest in a company which complies with the law, I am also complying with the law and causing no harm to anyone.

This position has been backed by the economist Milton Friedman and his stockholder theory, which influenced the economic policies of the 20th century's last decades. For him, in *Capitalism and Freedom*, when talking about the scope of business responsibilities, "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud"[14]. If executives are tempted to care about other concerns that the maximization of profit, they will fail in their role of agents contracted by the stockholders in order to achieve a certain set of goals. The reason is that they would dedicate either financial or labour resources in ways that haven't been authorized. Therefore, the only way for businesses to act rightly is first to

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[13] Adam SMITH, *The Theory of Moral Sentiments* (Strand & Edinburgh: A. Millar; A. Kincaid & J. Bell, 1759).
[14] Milton FRIEDMAN, *Capitalism and Freedom* (University of Chicago Press, 1962).

follow the stockholders' goals who have invested in the venture, and second to abide by the law which may set limits to certain practices. This theory is based on the classical liberal view of the pursuit of self-interest as the best way to serve society. For him, there is no such thing as corporate social responsibility as we will explain later.

3.1.1.3.4 In practice the most common used morality is amorality

If respecting the law and pursuing its own interest if enough to be ethical, it seems like morality is just amorality: there is no room for ethical thinking in business. And for Archie B. Carroll, it is a very widespread attitude taken by the managers in the business world, including the investment managers of funds for instance. He underlines that the question of morality is situated well above the question of the law[15], which is just a minimal standard, all the more that the law should let enough freedom to business according to the liberal theory. However, most managers don't even integrate any ethical thinking to their managerial decisions, intentionally or unintentionally. They are not aware of, or avoid considering for the simplicity of management, the ethical facets or dimensions of the situations faced in a business context. Instead of considering the implications of their decisions on the stakeholders, they prefer to stick to the law, which is a steady and widely accepted limit to business practices. Typically, an investor will think as follow: if I respect the law and the business I am investing in is not submitted to any legal proceedings, there is no reason not to support it.

To conclude with the traditional tenets of investing finance in a liberal economy, we notice that the investment decision carries a lot of responsibilities. After comparing the many investment opportunities given by the free market, investors choose to reallocate their capitals, which is the most important and powerful productive factor, to the businesses they want, shaping the economic activity of society. Investors usually deal with this responsibility by acting according to the traditional ethics of the liberal capitalist system. By serving their own interest, seeking profit and abiding by the law, it is enough to be ethical, there is no need to bring any other ethical thinking to the investment decision.

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[15] Archie B. CARROLL, 'Ethics in Management', in *A Companion to Business Ethics*, Robert E. Frederick-Bentley College (Blackwell Companions to Philosophy, 1999).

3.1.2 Corporate social responsibility, the widening of businesses' ethical responsibilities

Even though the previous theories have been the norm for many years, they are now being questioned. Some new elements, or maybe a new awareness of these elements, are changing the conception of business, which will affect the responsibilities and the ethics of investing finance.

3.1.2.1 The moral responsibility of a business

First empirically, and then theoretically, the concept of moral responsibility of a business has developed over the last century, until giving birth to the so-called Corporate Social Responsibility (CSR). Indeed, business ethicists have developed the idea of moral obligation of the businesses toward their stakeholders.

3.1.2.1.1 Corporate Social Responsibility

At the basis of CSR, there is an undeniable observation: a business is an economic agent which carries out its activities in the particular context of a society. Thus, a business interacts with other agents, such as people or public organizations. To regulate the close relationship between a business and its environment, there are rights and duties, which are fixed by the law, and which cover the legal scope of responsibilities.

However, Joseph W. McGuire, as early as in the 60s', raised the idea of a wider range of responsibilities for the businesses: "the idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations"[16]. He goes on explaining that companies should consider the consequences of their action in the whole society. By saying that, he contemplates the idea of moral obligations that would start where the law ends and which would be very similar to the moral obligations of any citizen. Although in many countries the legislation is shifting toward a better protection of people and the environment, there are many non-legally-covered ways in which companies affect society, in good, but unfortunately also in bad. That is where Corporate Social Responsibility comes in.

[16] Joseph W. MCGUIRE, *Business and Society* (McGraw Hill, 1963).

Slowly, the people, as employees, consumers but also mere citizens, have become aware of the power of businesses. This awareness has brought along new expectations, and new moral obligations for the companies to maintain their legitimacy in society. Archie B. Carroll, who has deeply investigated the notion of CSR, especially refers[17] to a survey published by Business Week in 1996 that depicts the expectations people have as regard to companies: 95 percent of the 1,000 adults surveyed felt that US corporations owe something to their workers and the communities in which they operate, and that they should sometimes sacrifice some profit for the sake of making things better for their workers and communities. This study brings to light the responsibility of businesses toward people, but it is necessarily bound to the responsibility toward the environment as people rely on it to live.

So, by applying at a higher level than the law, CSR is necessarily based on the notion of morality. This morality is to be analysed in the frame of the relationship between the company and its stakeholders, a concept inherent to CSR.

3.1.2.1.2 Businesses are morally responsible for their impacts on their stakeholders

A stakeholder is "any constituency or person who can affect or is affected by the goal-oriented actions of an organization"[18] as explained by Freeman. Stakeholders are numerous, and even though their scope varies depending on the author and the time, Harrison named some of them in *An introduction to business and management ethics*[19]: employees, customers, suppliers, shareholders, other suppliers of capital, local communities, Government, pressure groups, and competitors. Each stakeholders cited could be divided in sub-categories in order to include the actual reality of the interactions between a business and society.

The reality behind the notion of stakeholder is nothing new: businesses have always interacted with the whole society. However, the innovative contribution of the concept lies in the consideration of these external entities in business decisions, motivated by the assumption of mutual effects. It breaks with the notion of shareholder as the sole person who has an interest in a business.

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[17] CARROLL, 'Ethics in Management'.
[18] R. Edward FREEMAN, *Strategic Management: A Stakeholder Approach*, Cambridge University Press, 1984.
[19] Mike HARRISON, *An Introduction to Business and Management Ethics* (PALGRAVE MACMILLAN, 2005).

The impacts that a company can have on its stakeholders can be very minor, but in some cases they can be very harmful. Some major events in history are usually used to illustrate it. For instance, in the city of Bhopal, in India, the Union Carbide India Limited pesticide plant accidently leaked a mortal gas which killed and injured thousands of citizens[20]. The Bhopal disaster is an example of a business affecting a stakeholder, the local community in this case, who may not have been considered enough while making security decisions. We can also point out the explosion of the Deepwater Horizon drilling rig of BP[21], which caused a huge oil spill in the Gulf of Mexico harming the marine wildlife and threatening fishing activities. The widening scope, the increasing dangerousness, and the growing power of companies make the impacts very worrying.

Like any individual has the moral duty not to harm their peers, a company is morally entitled to protect its stakeholders.

3.1.2.1.3 Companies have the duty to bring positive solutions to their stakeholders

Not harming the stakeholder is a first good step, but providing positive solutions to the issues faced by society is a much greater duty for companies. In CSR literature, some writers, and especially W.C. Frederick in his book *Business and Society*, claims that "the obligation to work for social betterment is the essence of the notion of corporate social responsibility"[22]. In their views, any agent of the society with the resources and knowledge necessary to solve any social or environmental issue has the moral obligation to do so, which is often the case for companies, assuming they don't sacrifice their own sustainability.

However, the difficulty of that position is the extent to which companies should involve themselves in that social betterment. Frederick's theory posits that for a business there is more to do than only selling a product or a service to their customers, paying their employees and enriching their shareholders. Especially when a firm has the capacity to relieve someone's suffering, the moral duty of assistance can be considered. But on the other side, the moral obligation shouldn't distract the businesses from the production of goods or services that contribute to the economy.

[20] 'Bhopal Disaster', in *Wikipedia*, n.d., https://en.wikipedia.org/w/index.php?title=Bhopal_disaster&oldid=885104865.
[21] 'Deepwater Horizon', in *Wikipedia*, n.d., https://en.wikipedia.org/w/index.php?title=Deepwater_Horizon&oldid=883961118.
[22] W.C. FREDERICK, *From CSR1 to CSR2: The Maturing of Business and Society Thought* (Business and Society, 1994).

Finally, the notions of CSR and stakeholder reflect a new conception of business as an economic agent endowed with a moral obligation toward society. Businesses acquire then new responsibilities, which are again passed on to the investors.

3.1.2.2 Sustainable development, a responsibility for the years to come to be tackled now

Along with CSR and stakeholders, there is a key notion that have been used and repeated on and on for already several decades: sustainable development. It was defined by the *Brundtland Report*, published by the United Nations in 1987, as a "development that meets the needs of the present without compromising the ability of future generations to meet their own needs"[23]. Centred on the preservation of the planet and on the next generations of people, this concept extends the responsibilities of the businesses over time.

3.1.2.2.1 The world is finite, a new paradigm for the economy that has consequences for businesses

Environmental economics has made a great contribution to the concept of sustainable development. Theories about a finite world question the way businesses should manage natural resources, and more broadly the planet.

The lack of consideration of the effects caused by economic activities on the environment on the long run has been the standard for a long time in the business world. However, awareness about environment issues has grown with the increasingly damaging environmental scandals, such as the Deepwater Horizon oil spill. It is not possible anymore to deny that humans can negatively impact the environment in an irremediable way. Every citizen or business person has already heard of global warming, pollution of natural areas, soil erosion, reduction of biodiversity, waste disposal issues, diminution of the fossil fuel reserves… Some environmental problems may even not be so visible, but they exist and are much more harmful than we perceive it. The nature can take a very long time to be renewed, and in many cases it may never fully recover. As a result, the current economic activity will affect the next generations.

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[23] World Commission on Environment and Development, *Our Common Future* (United Nations - Oxford University Press, 1987).

The American ecological economist Herman Daly has provided a theoretical basis to what people could feel. In *Beyond Growth*[24], he claims that the world economy is but a subsystem of a fixed-size ecosystem. He contests the idea that we will forever have the ability to replace natural resources by human ones thanks to technological progress. For him, natural capital is limited because, first, it includes non-renewable natural capital such as fossil fuels and mineral deposits. Second, some elements of the renewable natural capital such as the ecosystems can't be consumed faster than their self-capacity to be renewed. As a result, Desjardins summarizes Daly's theories by saying that "within the neoclassical model, a healthy economy is a growing economy – more people are continuously receiving more of what they want – and business is the engine that powers this growth"[25], but "there are biophysical limits to such growth"[26].

In practice, businesses can't ignore these limits. Daly advocates for a complete change in the business mentality, which should target development instead of growth, i.e. "qualitative improvement or unfolding of potentialities" rather than "quantitative increase in physical scale"[27]. Still, in a more moderated view, this theory endows businesses with the responsibility to consider environmental issues as non-negligible side-constraints. Desjardins highlights that businesses must pay attention to the pace at which we use the non-renewable natural resources, and dispose our waste. Plus, according to him, "business should stop promoting products that are unsustainable, and help to educate consumers to the need for ecologically benign, if not beneficial, choices." He specifically recommends to the investors to invest for a better use of natural capital: more efficiency in their use, restoration and preservation of it, development of alternatives…

For holding an essential role in our societies, both current and future, environment has to be considered as a key stakeholder. This is all the more true as the environment has a major weakness: its incapacity to fully recover from human degradation. Therefore, environment must be included, if not by law at least as a moral obligation, in the scope of responsibilities of the companies, as it was advocated in the *Brundtland Report*: "the case for

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[24] Herman E. DALY, *Beyond Growth: The Economics of Sustainable Development* (Beacon Press, 1997).
[25] Joseph R. DESJARDINS, 'Business' Environmental Responsibility', in *A Companion to Business Ethics*, Robert E. Frederick-Bentley College (Blackwell Companions to Philosophy, 1999).
[26] DESJARDINS.
[27] DALY, *Beyond Growth: The Economics of Sustainable Development*.

the conservation of nature […] is part of our moral obligation to other living beings and future generations."[28]

3.1.2.2.2 Intergenerational justice, the action of today affects the life of tomorrow

As it may have been already perceived, the environmental issue presented above is intimately connected with the concept of intergenerational justice. Together they form the concept of sustainable development as defined earlier.

Intergenerational justice relates to the fairness between generations. It encompasses the relations between children, youth, adult and senior, but also between generations currently living and generations yet to be born. It relies on the idea that no generation should bear the burden left by any other one. The youth of today can already blame the previous generation of our parents and grandparents for the irremediable impacts on the planet that they have made. Indeed, in September 2015, the US federal government was sued by a group of young environmental activists for insufficiently protecting against climate change (as of February 2019, the trial is still on hold). More lawsuits have been filled in other countries as well. It brings the question of intergenerational justice to the law, which reflects the construction of the international environmental right upon the possibility to preserve a healthy ecosystem for the generations to come.

Meanwhile the law evolves at its pace, it seems that there is again a moral responsibility toward the next generations. Harrison, aware of our consumption of unrenewable natural resources and the creation of waste just to mention some issues, argues that "at even a basic level, there is surely a moral imperative that we should seriously address this issue [of preserving the ability of the future generations to meet their own needs] and this is why the notion of sustainability, however vague, is an important component of business ethics"[29]. It relies on the idea that we are judged by our peers in our actions, which builds up our moral obligations, but the next generations will judge us as well. In a French article[30], the philosopher Bernard Baertschi asks « Can we base a responsibility on generations that do not yet exist?". For him, The people who will live after us will find no other responsible for their misfortunes than we.

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[28] World Commission on Environment and Development, *Our Common Future*.
[29] HARRISON, *An Introduction to Business and Management Ethics*.
[30] Sébastien CLAEYS, 'Faut-Il Reconnaître Le Crime Contre Les Générations Futures ?', Usbek & Rica, 2018, https://usbeketrica.com/article/faut-il-reconnaitre-le-crime-contre-les-generations-futures.

However, it is necessary to overcome the physical and temporal distance of the not-yet-born next generations. This obstacle has to be balanced by the moral imperative mentioned by Harrison. Otherwise, it is going to give place to the Tragedy of the Horizons. This concept was clearly explained by Mark Carney, governor of the Bank of England, in a speech made on September 29th 2015: “climate change is a tragedy of horizons, […], the catastrophic impacts of climate change will be felt beyond the traditional horizons of most actors – imposing a cost on future generations that the current generation has no direct incentive to fix”[31]. By saying that, Carney recalls the duty for immediate action. It makes even more sense as he is a high representative of the financial world.

Along with the environment, the next generations are a new kind of stakeholder that cannot be ignored. Business ethics must consider this issue.

Finally, a company, like any other economic agent, is submitted to the moral obligation of not harming its stakeholders, further than what the law can say. Some theoreticians even defend an obligation to work for a social betterment. In any case, the scope of responsibilities of a business doesn't stop at its immediate stakeholders. Because a business can have long-term negative impacts, the environment and the next generations have to be considered in its moral duty.

3.2 Outlining the new ethics for a responsible investment

We will examine now the set of values ruling the ethics shaped by CSR and sustainable development. Then, we will consider two major ethical approaches that represent best the reality of responsible finance: deontology and utilitarianism. Other approaches such as virtue ethics or pragmatic ethics will be left aside on purpose.

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[31] Bank of England, *Breaking the Tragedy of the Horizon – Climate Change and Financial Stability - Speech by Mark Carney*, n.d., https://www.youtube.com/watch?v=V5c-eqNxeSQ.

3.2.1 The formalization of CSR into commonly accepted ethical principles

3.2.1.1 The construction of ethical principles to be called responsible

The Corporate Social Responsibility sector has drawn up a set of standards that must be followed by economic agents to claim themselves responsible. Both deontological and utilitarian approaches feeds in these principles to set a code of ethics or measure the outcomes of an action.

3.2.1.1.1 An international comprise

The existing standards about CSR and sustainable development aim at assisting the companies in making the right decisions. They take the form of guidelines, frameworks, labels, or certifications. They may differ in some points due to the people who have worked on their development, but we can find similar bases in them. They have the advantage of harmonizing the definition of what is good, which makes it easier for the companies to evaluate themselves with regard to a clear set of principles. We can mention two of the most famous ones that are the result of international cooperation:

- The 17 Sustainable Development Goals adopted by all United Nations Members States in 2015, whose aim is to provide “peace and prosperity for people and the planet, now and into the future.” [32]
- The ISO 26 000 standard on Social Responsibility[33] developed by the International Organization for Standardization (ISO)

They both take on topics such as the protection of the environment, resources use, pollution, human rights, local communities, fair business practices, health, education, any kind of inequalities, sustainable products, shared governance, social inclusion, income distribution and poverty, etc. Without going too much into details, it presents what the world considers as the most important challenges to be addressed by companies to be called ethical.

3.2.1.1.2 The Sustainable Development Goals of the United Nations

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[32] United Nations, ‘Transforming Our World: The 2030 Agenda for Sustainable Development’, Sustainable Development Goals - Knowledge Platform, n.d., https://sustainabledevelopment.un.org/post2015/transformingourworld.

[33] ISO, ‘ISO 26000 Social Responsibility’, ISO, n.d., http://www.iso.org/cms/render/live/en/sites/isoorg/home/standards/popular-standards/iso-26000-social-responsibility.html.

The Sustainable Development Goals covers a wide range of issues that States should solve. However, any agent in our societies can contribute to it, especially businesses. Actually, many businesses, such as the biggest French bank BNP Paribas just to give one example, have already adopted this framework to evaluate their activities. Here are the goals[34]:

Table 1 - The 17 Sustainable Development Goals of the UN

1) End poverty in all its forms everywhere 2) End hunger, achieve food security and improved nutrition and promote sustainable agriculture 3) Ensure healthy lives and promote well-being for all at all ages 4) Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all 5) Achieve gender equality and empower all women and girls 6) Ensure availability and sustainable management of water and sanitation for all 7) Ensure access to affordable, reliable, sustainable and modern energy for all 8) Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all 9) Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation 10) Reduce inequality within and among countries 11) Make cities and human settlements inclusive, safe, resilient and sustainable 12) Ensure sustainable consumption and production patterns 13) Take urgent action to combat climate change and its impacts 14) Conserve and sustainably use the oceans, seas and marine resources for sustainable development 15) Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss 16) Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels 17) Strengthen the means of implementation and revitalize the global partnership for sustainable development

3.2.1.1.3 The ISO 26 000 standard on Social Responsibility

The ISO 26 000 standard on Social Responsibility provides to the businesses a wide range of guidelines on 7 general topics divided in several sub-categories in order to act at the height of their responsibilities. It enables companies to consider all their stakeholders.

[34] United Nations, 'Transforming Our World: The 2030 Agenda for Sustainable Development'.

Table 2 - ISO 26 000 - Social Responsibility: core subjects and issues

Core subject	**Organizational governance**
Core subject	**Human rights**
Issue 1	Due diligence
Issue 2	Human rights risk situations
Issue 3	Avoidance of complicity
Issue 4	Resolving grievances
Issue 5	Discrimination and vulnerable groups
Issue 6	Civil and political rights
Issue 7	Economic, social and cultural rights
Issue 8	Fundamental principles and rights at work
Core subject	**Labour practices**
Issue 1	Employment and employment relationships
Issue 2	Conditions of work and social protection
Issue 3	Social dialogue
Issue 4	Health and safety at work
Issue 5	Human development and training in the workplace
Core subject	**The environment**
Issue 1	Prevention of pollution
Issue 2	Sustainable resource use
Issue 3	Climate change mitigation and adaptation
Issue 4	Protection of the environment, biodiversity and restoration of natural habitats
Core subject	**Fair operating practices**
Issue 1	Anti-corruption
Issue 2	Responsible political involvement
Issue 3	Fair competition
Issue 4	Promoting social responsibility in the value chain
Issue 5	Respect for property rights
Core subject	**Consumer issues**
Issue 1	Fair marketing, factual and unbiased information and fair contractual practices
Issue 2	Protecting consumers' health and safety
Issue 3	Sustainable consumption
Issue 4	Consumer service, support, and complaint and dispute resolution
Issue 5	Consumer data protection and privacy
Issue 6	Access to essential services
Issue 7	Education and awareness
Core subject	**Community involvement and development**
Issue 1	Community involvement
Issue 2	Education and culture
Issue 3	Employment creation and skills development
Issue 4	Technology development and access
Issue 5	Wealth and income creation
Issue 6	Health
Issue 7	Social investment

3.2.1.2 Ethical principles are the result of a social contract

These international standards cover a wide range of topics and seem to be universal and neutral. However, in practice there is still room for flexibility because they don't constitute the only reference to judge of an ethical action. Society, in all its diversity, remains the main judge and keeps on constructing the principles for an ethical behaviour.

According to contractarian theories, ethics is based on an agreement within a social group. Often reduced to an organization, a community or a country, the social group will decide on what is right and wrong, and may be challenged by other groups. This leads to a collective construction, or a social development of morality. In our society, each actor promotes its own vision. It results in a kind of negotiation of the morality that is the mirror of not only the theoretical morality, but also of the real power of each actor.

One main actor of the sustainable development advocacy is the NGOs, who act as a representative of the public opinion. They often denounce the harmful practices of companies by protesting, boycotting, publishing studies, broadcasting images and videos, launching petitions… Their role is crucial because it becomes compulsory for the businesses to engage in ethical behaviour if they don't want to see their image being tarnished. Moreover, in case of an environmental catastrophe provoked by a business, the damage to the business's reputation can be hard to deal with. More generally, we can talk about pressure groups or groups of interest, who would lobby for their point of view. The lobbyist of the GMOs are especially known because it is a very controversial topic, on which they compete with environmentalist associations. In terms of representation of public opinion, we can't avoid mentioning political parties, and governments, who have the power to criticize, and regulate if elected, business activities. In all this, the media represents the platform where debates about morality takes place. It is through them that each person is able to develop their own vision of ethics.

All of this reflects the thought of Jeurissen, who posits that "moral concepts in society no longer come from a central source and come in evermore multiple forms, which mean businesses are less and less able to predict who will approve or criticize their actions."[35] As a result, companies have to be ready to answer to any critics. One way to do it is to comply with the most widely accepted standards of ethics. But it also important for them that even though the benefits of their activity are really great, they don't do it at the expense of something very bad. In this respect, the moral obligations of businesses are highly submitted to the look of the society.

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[35] R. JEURISSEN, *Ethics in Business*, Assen, 2007.

3.2.2 Two different applications of ethical principles

The international standards of CSR and sustainable development give a set of principles to be ethical. A good deontologist businessman would do everything they can to comply with these principles. But in the reality it is rarely possible to meet with all the requirements. First because the scope of actions is very wide for just one economic agent, and second because in practice some goals can appear difficult to combine. That's why an utilitarian approach is often preferred by businesses.

3.2.2.1 Deontological ethics

3.2.2.1.1 What is a deontological approach?

Deontological ethics is a normative ethical theory that will consider an action morally good because of some characteristics of the action itself. The morality of each action has to comply with a predefined set of rules.

The first and main philosopher to define deontological principles was Immanuel Kant in the 18th century. He argued that we have some universal duties, also named "categorical imperatives", to which we have to act accordingly. He gave the following sentence as a rule: "act only on that maxim by which you can at the same time will that it should become a universal law."[36] On this base an action is permissible or forbidden.

Unlike utilitarianism, deontology doesn't require to weight the cost and benefits of an action, it disregards the consequences. That makes is easier to apply. Moreover, by setting universal rules that are ready to be followed, it avoids subjectivity and uncertainty. We often mention duties such as 'don't lie', 'don't steal' or 'don't cheat'. The problem comes when some duties are in conflict, because deontology doesn't deal well with it.

3.2.2.1.2 Independent and clear principles to be applied in CSR

Originally, deontology has been applied to business through ethical codes. They consist in a set of rights and duties chosen for their universality and meant to assist the people in understanding the difference between right and wrong while carrying out their job. It tackles the practices of a particular profession, as well as the relationships between stakeholders.

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[36] Immanuel KANT, *Grounding for the Metaphysics of Morals*, Hackett, 1785.

The sets of principles have often derived from ideas of human rights and social justice, prohibiting any behaviour that would go against it. Harrison notes that "human rights are general statements which are meant to apply to all people"[37]. Indeed, deontology is often related to not causing any harm to anyone, as it is required by CSR.

Based on the Sustainable Development Goals or on the ISO 26 000 standard, it is possible to set a list of independent principles saying what is wrong or right, for instance:

- Not to discriminate people on their gender
- Not accept any bribe
- Not support child work
- Not pollute the water
- Not sell a product that can harm consumer's health

We could go on stating rules that are used in CSR, and taken one by one all the principles are hardly questionable by anyone in any case. But sometimes it can happen that they compete, or that they are too difficult to be respected. So, some people will rather prefer an approach that takes consequences into consideration.

3.2.2.2 Utilitarian approach of ethics

3.2.2.2.1 The utilitarian ethics and its link to social responsibility

Utilitarianism derives from the broader moral theory of consequentialism, which states that the consequences of a given action must form the basis of any moral judgment of that action. The utilitarian ethics, founded by the English social and political thinker Jeremy Bentham, supplements this approach with the idea of utility maximization. He described utility as the sum of all pleasure that results from an action, minus the suffering of anyone involved in the action. The "calculus", which is the aggregation of all the pleasures and pains, has to be the highest as possible to consider an action as moral. This theory is supposed to produce the greatest well-being of the greatest number of people, and in case of business, of the stakeholders. It applies with impartiality to everyone in the particular context of the action, which means neither do it favour the self-interest of the decision maker nor do it give extra weight to a person or group.

[37] HARRISON, *An Introduction to Business and Management Ethics*.

Then, some questions rise up, which can be partially solved using the CSR and sustainable development point of view. Indeed, Harrison posits that ”utilitarianism assumes we have responsibility for the consequences of our actions with the widest possible scope and seeks to provide a practical methodology for balancing positive and negative effects”[38]. However, he remarks that there is no limit until which we can trace the consequences of an action. By referring to the intergenerational justice, we can say that consequences can be very long term so it is necessary to measure the consequences until as far as possible. This argument retakes the idea that any action can trigger a long chain of events which can have impacts on the long term, especially on the environment. Also, it is never easy to determine a list of stakeholders. Humans are usually put first because of our anthropocentric mindset. But, the environmental ethics argues that the well-being or suffering of the environment, the animals, affect us in some ways, so it is in our interest to consider them. In CSR, the best is to take the widest number of stakeholders into account. Harrison goes on asking: “even if we can find an acceptable list of stakeholders, how do we balance, in particular, the advantages gained by many people against severe disadvantages suffered by the few”. It is undeniable that the evaluation of pleasure and pain is highly subjective, so it might be necessary to agree on a set of principles to distinguish the good from the bad.

Finally, the utilitarian approach is more pragmatic: it tolerates that not all the world issues can be solved at once, and it assumes that an action always has positive and negative impacts, even minor ones.

3.2.2.2.2 How this ethics deals with contradictions

The contribution of the utilitarian approach is particularly important in case of contradictions. Unless the deontological approach, utilitarianism can provide a real answer to dilemmas, which comes up very often in CSR. It is very difficult for a person to balance the positive and negative impacts of a business considering the employees, the consumers, the shareholders, the biodiversity, the pollution, the resources, the energy, the local community, etc. Big dilemma on key questions usually arise such as the following:

[38] HARRISON.

Table 3 - Ethical dilemma examples

From a sustainable development point of view…	**Solution A**		**Solution B**
… is it better to produce energy from…	A **nuclear plant** that doesn't reject CO2 in the atmosphere, but that generates radioactive wastes with unlimited life, and that can explode in the worst situation	Or	A **coal power plant** that rejects a lot of CO2 and consumes non-renewable natural resources, but that is very cheap and doesn't leave any waste behind
… is it better to drive…	**Electric cars** that don't reject any exhaust fumes harming the people and the environment, but that require for the battery very rare natural resources whose extraction process is very polluting and that cannot be recycled	Or	**Conventional gasoline cars** that rejects CO2 and other polluting components in the air, but are built with common and accessible materials

How to ethically choose between the solution A or B? The utilitarian approach recommends to weight the good and bad sides of each solution and select the best one. By doing so, it prevents from remaining stuck in a contradiction.

In practice, there exist some methodologies to measure and evaluate actions. They are based on indicators, scientific studies, and social observation. The most common one is the Life Cycle Assessment (LCA). It consists in analysing all the impacts of a particular product or service over its entire life, from the extraction of material to the end of its life as a waste or its transformation into something new. This work is not easy because of the multiplicity of actors and processes involved in each product or service. Moreover, as explained before, the consequences of each actions are infinite. At least, for instance, it may help to decide between two actions using their CO2 emissions.

All the above shows that utilitarianism is a better approach to solve real dilemmas of morality in the view of sustainable development and CSR.

To conclude this point, we see that there are widely accepted set of principles to integrate sustainable development ideas to business practices. Society as a whole has played and keeps on playing an important part in their creation and evolution. However, these principles can be interpreted in different ways. Some will prefer the certainty and objectivity of deontology, risking to face irresolvable dilemma, while other will rather turn to the flexibility and balance of utilitarianism.

3.3 The different applications of ethics to investing finance

With the advent of corporate social responsibility, investing finance has been endowed with new responsibilities that follow new ethical principles. As a result the field of responsible finance has emerged with new approaches and methods to include ethics to its practices. We will first define responsible finance in more details, continue with the presentation of wide-spread strategies, and finish examining the gaps between ethical principles and reality.

3.3.1 Definition of responsible finance

3.3.1.1 Concept

Responsible finance has developed at the same pace as CSR, as it is its direct application to finance. Many names have been given to this sector of finance such as Socially Responsible Investing (SRI), which we have used earlier in the thesis, but also ethical investing, or sustainable finance. To simplify, these terms can be used interchangeably, and we will mainly refer to it as SRI.

SRI is defined by Sandberg as the ‘‘integration of certain non-financial concerns, such as ethical, social or environmental, into the investment process.”[39] If Sandberg talks about ‘concerns’, Cowton rather directly focus on the existence of investment ‘criteria’: “the exercise of ethical and social criteria in the selection and management of investment portfolios”[40]. In substance, it wishes to combine ethics and investing.

Consequently, a demand has grown for new investment vehicles and tools that would reflect the moral, as well as economic goals of investors. Several strategies have been developed such as the shareholder advocacy strategy or the screening strategy, with its

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[39] Joakim SANDBERG et al., ‘The Heterogeneity of Socially Responsible Investment’, *Journal of Business Ethics*, 2009.
[40] Christopher COWTON, ‘The Development of Ethical Investment Products’, in *Ethical Conflicts in Finance*, A. R. Prindl and B. Prodhan (Blackwell, 1994), 215.

negative and positive approaches. Subsequently, financial products marketed as ‘ethical’, ‘sustainable’, ‘socially responsible’, or ‘green’ have emerged.

However, SRI doesn’t hold in its definition any fixed ethical principles. It is to the investor to define them, to set their criteria of the good, and to invest accordingly. Indeed, in his definition of SRI, Schueth talks about “the process of integrating personal values and societal concerns into investment decision-making.”[41] Still, the no-harm principle remains very present in the literature.

3.3.1.2 **History**

SRI existed before its concept was even created. Many religious groups have used ethical criteria for their investments. The case of the Methodist Church is often mentioned for the use of social screens focusing on child labour and working conditions as early as in the 1700s’.

In the article *Corporate Social Responsibility and Socially Responsible Investing: a global perspective,* the authors date the rapid expansion of SRI to the 70s because of “major social upheavals including the Vietnam War, environmental degradation, urban strife and Apartheid”[42]. They explain that later in the 90s “the emphasis shifted to human rights violations and global labour standards, particularly in the apparel, shoe, and toy industries”. Recently, the notion of stakeholder concerns and sustainability have gained importance in the SRI approach.

SRI has evolved differently between the countries. For instance, negative screenings have been highly developed and present in the US for already several decades, while now France can be seen as one of the major actor of responsible finance thanks to the performance of its impact funds using multi-criteria approaches[43]. Even in some countries, the law is catching up with voluntary practices. For instance, in France, the law 2015-992

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[41] Steve SCHUETH, ‘Socially Responsible Investing in the United States’, *Journal of Business Ethics*, 2003.
[42] Ronald PAUL HILL et al., ‘Corporate Social Responsibility and Socially Responsible Investing: A Global Perspective’, *Journal of Business Ethics*, 2006, https://doi.org/10.1007/s10551-006-9103-8.
[43] Arnaud DUMAS, ‘Sept Des Dix Fonds Européens Les plus Performants Sur Le Climat Sont Français’, Novethic, n.d., https://www.novethic.fr/actualite/finance-durable/isr-rse/7-des-dix-fonds-europeens-les-plus-performants-sur-le-climat-sont-francais-146990.html.

about ecological transition in the article 173[44] obliges investors to report on their environmental and social objectives.

3.3.1.3 **Motivations**

In the SRI literature, the question of investor motivations is often raised. Not that we want to investigate what pushes someone to act ethically, but still motivations play a central role in the implementation of ethical personal values into practice. Different motivations can lead to different strategies.

It is worth noting that according to Schueth the increase in responsible investments among private investors over the past decade has been based on ‘‘grassroots pressures’’, which means instead of been ‘‘cooked up by Wall Street’’ it has been driven by consumer preferences. In other words, SRI was not a marketing move from investment funds to collect money, even though in some cases SRI can be used as a way to make higher profits. A survey conducted by YouGov in 2017 and mentioned in the Financial Times[45] has showed that especially the young people want to "use their money for good". Indeed, "millennials were twice as likely as the overall investor population to invest in companies targeting social or environmental goals".

Schueth suggests two main types of investors according to their motivations, that can work together or not: "feel good" investor and "social change" investor[46]. The former responds to "the need to put their money to work in a manner that is more closely aligned with their personal values and priorities". In this case, investors aim at relieving their conscience from any guilty feeling. The latter is linked to "the need to put their investment capital to work in ways that support and encourage improvements in quality of life".

About the social change, the purpose of investing ethically is to force companies to change their behaviour. For example, for Laan and Lansbury, "by not financially supporting companies that are considered "dirty", "unethical" or "unsustainable" [investors] hope to

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[44] French National Assembly, ‘Law N° 2015-992 of August 17th of 2015 about Ecological Transition - Article N°173’ (2015).
[45] Kate BEIOLEY, ‘Millennial Money: When Ethical Funds Aren’t so Ethical’, Financial Times, 2018, https://www.ft.com/content/dbe06aa0-5e77-11e8-ad91-e01af256df68.
[46] SCHUETH, ‘Socially Responsible Investing in the United States’.

either influence management action toward the area of concern or limit the opportunities of the company"[47]. There is a financial reason for companies to react to this SRI policies: due to the higher cost of capital they have to pay to finance themselves, 'bad' companies are punished by capital markets. Reciprocally, by investing only in a particular type of company seen as good, provided that the cost of funding is competitive, it's an incentive for them to keep on in their activity and for the others to improve their business. So, SRI is supposed to entail a social change by fostering CSR practices and high sustainability performance in companies.

Let's now have a closer at the SRI strategies, that is to say how this intention to feel ethically good or to encourage a social change take place in the reality of investing finance.

3.3.2 Shareholder advocacy: invest and influence

3.3.2.1 Origins and principles

The shareholder advocacy strategy, also called shareholder activism, consists in using the powers of shareholders to positively influence corporate behaviour. Joakim Sandberg, in *The ethics of investing – making profit or making a difference?* refers to this strategy in these words: "it may sometimes be morally justified to invest in companies which are otherwise regarded as morally unacceptable, if such investments allow investors to have a certain 'insider' influence on these companies and thereby to change their activities for the better"[48]. It is based on the idea that "the rights and privileges which shareholders normally enjoy in relation to the companies they invest in can be exploited as tools for social change". As explained in the point 2.3.1.2.2., shareholders can force the managers to satisfy their interests, which often means generation of profits, but it could be also the enhancement of the well-being of all the company's stakeholders. So, in a way, this strategy is nothing new.

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[47] Sandra Van Der LAAN and Nina LANSBURY, 'Socially Responsible Investing and Climate Change: Contradictions and Challenges', *Australian Accounting Review* 14, no. 34 (1 November 2004): 21–30, https://doi.org/10.1111/j.1835-2561.2004.tb00237.x.

[48] Joakim SANDBERG, *The Ethics of Investing - Making Money or Making a Difference?* (University of Gothenburg, 2008).

The contribution of responsible finance lies in the definition of the ethics for which investors will advocate. It is supposed to be in line with the idea of sustainable development.

There are several practical means of action. The most common one is the filling and voting of shareholder resolutions at the Annual General Meeting. We can also mention direct dialogue, i.e. asking questions in the AGM to raise social and environmental issues. Moreover, in some cases, an investor can advocate for the nomination of a manager with more ethical practices. As a last resort, a major investor can threaten the company to divest, and may finally do it, which means selling the shares of the company.

This strategy doesn't imply any change in the investment policy of investors, but is based on their advocacy ability. We can see it as a smoother approach of SRI because there may be a gap between the intended ethics of the investor and the practical application to the business. In advocacy there is a negotiation of values and principles between the difference entities that hold power in the organisation. For instance other investors may not share the same point of view, or the managers may face conflicts of values. Sandberg recalls that there is "little empirical evidence of the efficacy of different kinds of shareholder activist campaigns for individual investors". Nonetheless, these actions can create awareness among other shareholders, can put pressure on the managers, or call the attention of public opinion and the press.

3.3.2.2 **Examples of shareholder advocacy**

Blackrock, the biggest asset manager in the world, in the traditional letter sent from the CEO to the companies they have invested, has recently pledged them to engage in practices that will "drive sustainable, long-term growth and profitability"[49]. They use their power of investor to open a dialogue and push them to take into consideration the challenge of sustainability in their business. They state in this letter their priorities: "governance, including your company's approach to board diversity; corporate strategy and capital allocation; compensation that promotes long-termism; environmental risks and opportunities; and human capital management". Even though the letter remains very limited in terms of

[49] Larry FINK, 'Larry Fink's Letter to CEOs', BlackRock, 2019, https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.

environmental ethics for instance, its scope is so wide that it is scrutinized by all the companies of the world.

Another example could be the shareholder resolution to push for a climate action plan that has been submitted by Amazon's stockholders to be voted at the AGM in May 2019[50]. Thirty current and former employees who owns stocks urge the multinational company to reduce its impact on climate, and especially limit its dependency to fossil fuels. If this resolution truly calls for social responsibility, its influence on Amazon still needs to be proven.

This approach could be considered as post-investment, but what can an investor do even before the investment? We will detail in the next approach.

3.3.3 Screening approach

The screening approach encompasses "the practice of including or excluding companies from portfolios based on social and/or environmental criteria"[51], as stated by Schueth. It relies on the definition of criteria that match with some ethical principles and that are designed to target companies that succeed or fail to meet them. It is more disruptive than the shareholder advocacy strategy because it applies before the investment. Domini rather talks of a guideline portfolio investment strategy, acknowledging that there exist different ways of outlining and setting these guidelines.

3.3.3.1 The negative approach

3.3.3.1.1 Principles of the approach

The negative approach, also called avoidance approach or exclusionary screening, is the oldest and most wide-spread method to apply ethical principles to investing finance. It consists in avoiding investing in "companies engaged in business areas or practices which are morally unacceptable, or problematic, in some sense – that is, [investors] incorporate negative ethical criteria in their decisions on what companies' shares to acquire, hold or get

[50] Alvarez CONCEPCION, 'Amazon Employee Shareholders Push for Climate Action', Novethic, 2019, https://www.novethic.com/csr/isr-rse/amazon-employee-shareholders-push-for-climate-action-146832.html.
[51] SCHUETH, 'Socially Responsible Investing in the United States'.

rid of"[52], according to Sandberg. It is based on the moral idea of no supporting products and business practices that are harmful to individuals, communities, or the environment. The most often prohibited activities will be detailed in the next point.

This strategy is often supported by a rather deontological approach of ethics because investors state rules that they should respect under any circumstance. In their investment policy, investors will say for instance "we will not provide banking services to any business, organisation or government that manufactures or transfers indiscriminate weapons"[53]. The principles that follow can usually be seen as quite Manichean because they mean to set a clear limit between the bad and the good. Similarly to "do not ever lie", we can meet with a "do not ever invest in the tobacco industry".

The definition of the kind of activity that should be excluded ,and the duty to abide by this rule seem enough in itself to be ethical.

3.3.3.1.2 The main "evil" industries

They are different ways of setting up an exclusion list that meet with the personal values or concern of an investor. Novethic[54] mentions two main negative sub-approaches:

- Norm-based exclusion: "exclude from the fund's portfolio issuers that do not respect norms or international conventions";
- Sector-based inclusion: "exclude issuers in controversial industries".

Exclusion lists have evolved over years along with the predominant ethics. As church organizations started to implement negative screenings, they would talk of 'sinful' or 'evil' industries. Investors have later worked on their own criteria based on their own ethics. Among the most common and oldest banned industries there is: tobacco, alcohol, pornography, gambling and weapons. With the emergence of environmental concerns, several sectors have fallen under the unethical exclusion lists such as fossil fuels, shale gas, coal mining, or nuclear power. In terms of norms, exclusion can be based on the use of Genetically Modified Organisms, the practice of animal testing, the violation of human and child rights, the link with oppressive regimes, or the severe pollution of the environment.

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[52] SANDBERG, *The Ethics of Investing - Making Money or Making a Difference?*
[53] The Co-operative Bank, 'Values and Ethics, Our Customer-Led Ethical Policy', 2018, https://www.co-operativebank.co.uk/assets/pdf/bank/aboutus/ethicalpolicy/ethical-policy.pdf.
[54] Novethic, 'Understanding Responsible Investment', n.d., https://www.novethic.com/sustainable-finance-research/understanding-responsible-investment.html.

These sectors and norms are a good beginning to set limits to investment, but it needs further details to apply them to business reality. For instance, The Social Investment Forum Industry Research Program defines alcohol screening as "the exclusion or partial exclusion of companies involved in the production, licensing, and/or retailing of alcohol products, or the manufacturing of products necessary for production of alcoholic beverages, as well as ownership of or by an alcohol company"[55]. We see that there is room for flexibility. About military contracts, Cowton[56] notes that some investors ban all involvement in arm trade, while others only the manufacturing or the distribution of weapons. The most radical will even exclude a company with a small foreign subsidiary that produces strategic items such as radar equipment, but some investors will only reject companies with a substantial interest in military contracts. It is necessary for investors to describe very precisely in a position policy paper, an investment policy, or a code of ethics, what they accept as good or bad

3.3.3.2 **The positive approach**

3.3.3.2.1 Principles of the approach

Instead of not supporting what is bad as the negative approach does, the positive approach aims at encouraging, supporting good businesses to make them thrive and entail positive change. Also called supportive strategy, inclusive or affirmative screening, this strategy is based on the intention to make the good, still in a Manichean way. Sandberg define this strategy as an attempt from investors "to seek out and invest in companies engaged in business areas or practices which are morally praiseworthy, or exemplary, in some sense"[57]. Through their investment in companies meeting with specific social or environmental objectives, investors can positively express their values.

There is a debate in the literature about whether to include investment in charities as part of a positive approach of ethical investing. But, Bugg-Levin and Emerson rather defend

[55] Social Investment Forum Industry Research Program, '2005 Report on Socially Responsible Investing Trends in the United States: 10-Year Review', 2006.
[56] COWTON, 'The Development of Ethical Investment Products'.
[57] SANDBERG, *The Ethics of Investing - Making Money or Making a Difference?*

an idea of ‘impact investing’[58] where positive impacts on social and environmental challenges are combined with financial return.

All in all, the obligation to work for a social betterment of W.C. Frederick (see point 2.3.2.1.3) finds its application thanks to this approach.

3.3.3.2.2 Invest in socially and environmentally responsible businesses

In practice, there are many ways of investing in a positive ethical way. Firstly, because investors don’t have the same values, and secondly because it depends on the reality of the financial market. In general, positive investors seek out companies involved in activities related to sustainable development such as renewable energies, water, health, climate change… This approach follows the emergence of social and green businesses, who are companies created to tackle specific social or environmental issues, and who are great candidates to receive money from positive ethical investors.

New investment vehicles have been created to drive capitals to these projects. The so-called impact funds declare what kind of activities they want to support, e.g. Gaia Impact Fund focuses on fostering the development of renewable energies by empowering innovative entrepreneurs[59]. In an article of the New York Times, they mention a fund engaged in promoting gender equality so their investment criteria are the number of women on the company’s board of directors and in executive roles, and the adhesion to a set of guidelines called the women’s empowerment principles[60].

The bond market has also join the impact investing trend thanks to the creation of green, social or sustainable bonds. We will later see to which extent green bonds can be ethical.

3.3.3.2.3 The specific case of community investing

For some authors like Schueth, community investing is a whole different type of investment strategy, but for others it is just a sub-category of the positive screening approach. Its particularity is to “provide capital to people in low-income, at-risk communities who have

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[58] A. BUGG-LEVINE and J. EMERSON, *Impact Investing: Transforming How We Make Money While Making a Difference*, 2011.

[59] ‘Gaia Impact Fund - Specialized Investor in Energy Access’, Gaia Impact Fund, n.d., https://gaia-impactfund.com/en/.

[60] Paul SULLIVAN, ‘With an Eye to Impact, Investing Through a “Gender Lens”’, *The New York Times*, 21 December 2017, sec. Your Money, https://www.nytimes.com/2015/08/15/your-money/with-an-eye-to-impact-investing-through-a-gender-lens.html.

difficulty accessing it through conventional channels"[61], as stated by Schueth. It responds to the Anglo-Saxon viewpoint on charity for the poor and excluded people in need, although some profits are expected by investors. It covers a wide variety of initiatives, and according US Forum for Sustainable and Responsible Investment some of them are[62]:

- Needed services (healthy communities, food access, education, child care, access to transit, access to jobs, affordable housing)
- Economic development (quality job creation, infrastructure development)
- Sustainable communities (mixed use/income smart growth, environmentally focused community investment)

One particular application of it is microfinance because it creates job activities for poor people thanks to microcredits. Many impact funds or banks such as BNP Paribas, Credit Agricole or Triodos Bank specifically target microfinance institutions in their portfolio.

We would like to point out that both negative and positive SRI strategies reflect a rather normative approach of ethics where the good and bad are schematically outlined. But in the business reality, the line between good and bad is blurred, which makes it hard for investors to act in the most ethical way.

3.3.3.3 ESG screening approach

3.3.3.3.1 Principles of the approach

An ESG screening approach consists in integrating Environment, Social and Governance issues into the traditional financial analysis and investment decision. This approach has been developed to respond to the difficulty for investors to prioritize over competing sustainability issues. Indeed, to be ethical a company has to act responsibly with all its stakeholders, but it's possible to have a very good policy toward its employees and suppliers, and at the same

[61] SCHUETH, 'Socially Responsible Investing in the United States'.
[62] The Forum for Sustainable and Responsible Investment, 'Community Investing', n.d., https://www.ussif.org/communityinvesting.

time be detrimental to the environment. Consequently, in order to evaluate a company, an ESG screening will check a wide range of issues.

The ESG screening is based on an utilitarian approach of ethics. The investment will be ethical if the utility is maximized, i.e. the sum of all the positive aspects of a company minus the negative ones is as high as possible. Thanks to an ESG analysis, it is possible to give an overall score of a company that balances several ethical issues. Then the investor can identify what is the most responsible company. This approach looks for the best compromise, or maybe the least bad one. It is up to the investor to make their decision upon their ESG analysis.

There are different ways of making the investment decision[63]:

- Best-in-class: selection of the best issuers within their sector of activity, without excluding or favouring any sector of activity, using indicators specific and more adapted to the particular sector;
- Best-in-universe: selection of the best issuers irrespective of their sector of activity, which may lead to dismissing the sectors where all companies are poorly rated or, on the contrary, favouring companies with ESG best practices on average;
- Best-effort: favour issuers that demonstrate an improvement in their ESG practices over time.

More flexible, this approach is better adapted to solve ethical dilemmas than the two previous methods. In the investment market, there is a growing integration of ESG screening by the funds' managers.

3.3.3.3.2 The ESG analysis

The ESG analysis is a long process that aims at examining businesses' practices related to:

- Its impacts on the natural environment: carbon emissions, water, energy use, environmental risk prevention, waste management…
- Its impacts on society: product safety, employees' rights and well-being, philanthropy, health and safety, fair trade principles…
- The quality of corporate governance: corruption and bribery, board independence, stakeholders activity and protection…

[63] Novethic, 'Understanding Responsible Investment'.

However, the ESG scope is very wide and open to a case-by-case adaptation. Each investor is free to set their own ESG criteria, which can cover in some cases only few aspects of all the ESG issues. Actually, there is a lack of homogeneity in the application of ESG screening among investors.

One reason for that is that the integration of ESG considerations to the investment decision process requires in-depth research work. To quote Schueth: "tough choices, informed by careful research, are an integral part of the process."[64] ESG analysts have to examine and counter-check many documents coming from the company under study, but also from external parties such as NGOs, government agencies or rating agencies. It requires time and skills.

The biggest banks and investment funds have their own ESG research team to analyse companies' practices. These teams have developed an expertise on SRI issues. For the other investors who would like to invest using the ESG approach, they can refer to the ESG indices set up by rating agencies. Despite the variety of applications, few teams of experts are leading the evaluation of ethical practices of companies.

3.3.4 Limits – the gap between ethics and reality

We have seen above several ways for an investor to match their personal values with their investments. However, in the reality it is hard to make the perfect ethical investment and precisely distinguish a good activity from a bad one.

3.3.4.1 The contradiction of ethical issues is not totally solved by screening

Even though screening approaches do their best to solve ethical issues, they often compete between each other, making it hard to affirm that a particular activity is perfectly morally right or wrong.

It is especially the case for positive and negative approaches. The sectors presented as good (to be supported) reject other sectors that could also be ethical and deserve an investment. Similarly, sectors presented as bad (to be excluded) integrate activities that could be ethical and be worth an investment. As for ESG screening, the choice to balance several

[64] SCHUETH, 'Socially Responsible Investing in the United States'.

issues using indicators on environment, social and governance aspects leads to invest in 'grey' activities, to recall Schueth, with the hope to be the lightest grey.

The case of wine and glue has been pointed out by de Colle and G. York[65]. Indeed, wine production is often seen as a 'sinful' activities and thus affected by the exclusion approach of alcohol. However, the authors ask:

> "Are certain products and industries themselves morally corrupt, bereft of any societal benefit, or is this a simplifying assumption that leads to easy answers and a lack of thoughtfulness? Can we say that any company producing alcohol is not socially responsible, while those that produce seemingly innocuous products such as school supplies, soft drinks, and glue are inherently socially beneficial?"

On the one hand, they remark that wine production can often be a local activity that perpetuate traditions and its consumption in reasonable quantity can be healthy. While on the other hand, a school furniture like glue used to be sniffed by children in the streets of Honduras. For the authors, the use of an a priori criteria can hide a reality that is neither all white nor all black.

3.3.4.2 The diversity of values among investors blurs the definition of responsible finance

We would say nothing surprising by noting that values are highly subjective. Every investor will have their own personal values, will want to invest accordingly, but it may not match with other investors. We had a first outlook of this problem with the wine example. This idea is also supported by Sparkes who states that "if one fund favours investment in pharmaceutical shares as benefiting humanity, another will forbid it because of the role of

[65] Simone DE COLLE and Jeffrey G. YORK, 'Why Wine Is Not Glue? The Unresolved Problem of Negative Screening in Socially Responsible Investing', *Journal of Business Ethics*, 2009.

animal testing"[66]. Or put in other words, the paradox in SRI is that ''one person's taboo is another person's sacred cow''.[67]

We see that there is a diversity of understanding and application of the ethics in finance. As a result, an investment fund could claim himself to be responsible, but other investors would disagree with its definition of responsible. It is barely possible to get to just one universal understanding of an ethical investment, all the more that SRI approaches are different. For example, according to a study conducted in 2004 "15 of the 16 Australian socially responsible investment funds include in their portfolios companies that are involved in fossil fuels", while fossil fuels are well known for being the primary cause of climate change and entailing premature deaths[68].

To solve this problem, the first step for the investor is to clearly define their code of ethics. Then, it is possible to refer to the ethical principles such as the SDGs or any other label. In France, the French Label for the Energy and Ecological Transition assesses that funds are focused in the energy and ecological transition pledged by sustainable development defenders. Or, as we will see later, for green bonds, the compliance with a standards ensures the ethical aspects of a particular project.

In short, a case-by-case approach of investments is needed.

3.3.4.3 How to evaluate a responsible activity

For any ethical decision, it is important to be well aware of all the aspects of the issue in order to make sure that the investor's deontological principles apply to the situation, or to evaluate the consequences of the decision.

The first step is to gather a fair amount of reliable information about the activity the investor wants to support. It can be qualitative information in order to know about the nature of projects and its impacts. Some elements like the rebound effects should be taken into account for instance. But, as it is developed by the ESG screening approach, an investment

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[66] Russell SPARKES, 'Ethical Investment: Whose Ethics, Which Investment?', *Business Ethics: A European Review* 10, no. 3 (1 July 2001): 194–205, https://doi.org/10.1111/1467-8608.00233.
[67] C. GASPARINO and P.W. TAM, 'Feel-Good Mutual Funds Haven't yet Found Favor', *Wall Street Journal*, 1998.
[68] LAAN and LANSBURY, 'Socially Responsible Investing and Climate Change'.

decision can be based on quantitative information, i.e. indicators that will cover ethical issues. These indicators can be even more relevant when used to compare activities of a same sector because the ethical issues can be similar. Indeed, the impact on the environment of the agriculture industry and the transport industry are not the same. Therefore an sectoral harmonization of the indicators may be recommended.

As for the most utilitarianist investors, because the consequences are important, it is important to have access to real data. Although consequences can be anticipated before the launching of a project, measurement of the impacts can help deciding on the ethical aspects of it.

In any case, the disclosure of objective information by companies on their environmental and social performance is still crucial. Transparency help investors to make wise decisions. On the contrary, a lack of transparency can make a company slowly shift toward green or social washing. The example of ING is given by Laan and Lansbury: “Other funds, such as ING, label their fund as ‘sustainable’ but fail to inform potential investors why, except in broad and general terms”. In any case, it’s often difficult for investors to have access to all the needed information to make wise and enlightened ethical choice[69]. It makes the distinction of good and bad activities harder

To conclude this point on the applications of ethics to investing finance, we note that both shareholder advocacy and screening strategies enable investors to meet personal ethical values with investment and entail a social change. In particular, the different screening strategies can cover any ethical principles such as not harming the stakeholders as pledged by CSR, using deontology or utilitarian approaches. However, the complexity of ethical issues in the business reality, the diversities of values of investors, and the issues of transparency for the evaluation of ethical aspects weaken the original intentions underlying ethical investing..

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[69] H. HUMMELS and D. TIMMER, ‘Investors in Need of Social, Ethical, and Environmental Information’, *Journal of Business Ethics*, 2004.

Practical Part

3.4 Presentation of the study

3.4.1 Objectives

The main objective of the practical part is too give an example of the application of a financial tool of the new ethical challenges faced in responsible finance. The choice has been made to focus on bonds, and on the particular aspect of environment, i.e. green bonds.

We want to see how the financial world takes into account the new principles of ethics related to sustainable development. By examining the ethical approach used and the practical approach of SRI preferred, we want to picture the commonly accepted definition of a green investment. We will show also the difficulties, the contradictions of reaching a single definition of it.

3.4.2 Green bonds

3.4.2.1 Definition

First of all, a bond is a loan made by any investor to the issuer of the particular bond in exchange for periodic interest payments plus the return of the bond's face amount when it eventually matures. Concretely, a company which needs to raise money to finance its activities will issue a bond that investors such as banks, investment funds, or private investors will buy.

Secondly, the "green" characteristics of a green bond refers to environmental issues. As presented in the theoretical part, the environment takes an important place in sustainable development, therefore the Socially Responsible Investing (SRI) sector has developed this tool to address it. Green bonds must have an added-value for the environment compared with conventional bonds.

All in all, a green bond is an opportunity for an investor to invest money in a project that will benefit to the environment.

3.4.2.2 In practice

In practice, a green bond works as follows. When issuing a bond, the issuer can self-label it as green, which means it says that the money of the investors, also called “proceeds”, will be directed toward an environmental friendly activity. The issuer can give details to the investors about the “green” use of proceeds, and refer to a framework. Then, for more transparency, the issuer can appoint an external reviewer to assess the green use of proceeds, either before the issuance, after, or both.

In the financial market, there are several taxonomies that have been established by different actors to define a green bond. Associations of investors, banks, external reviewers, and rating agencies have developed their own standards, frameworks, guidelines, ratings, or indices, depending on their position in the market. In any case, to be green, a bond has to comply with the criteria of at least one of these taxonomies.

In this context, the process of applying ethics to a financial products is less on the investor’s side than on the standards’ creators. The elaboration of a green bond standard is still very similar to the definition of any ethical investment policy that an investor could do.

3.4.2.3 WWF’s view on green bonds

As a starting point of our study, it is worth mentioning a WWF’s report published in 2016 called *Green bonds must keep the green promise!*[70]. The environmental NGO remarks that the proliferation of standards, frameworks, and guidelines has created complexity and confusion in the green bond market. The definitions of green bonds vary, making it impossible for the actors of the sectors to understand clearly what it means for a bond to be green, and so impossible to be confident in the positive environmental impacts of green bonds.

In that context, WWF made several observations and recommendations. One of them is that there is currently no commonly-accepted definition of what does and does not constitute a green bond, even though the two most prominent initiatives are the Green Bond Principles convened by the International Capital Markets Association (ICMA), and the Climate Bonds Initiative. In any case, a standard should be developed by bringing a maximum of stakeholders together, especially scientists.

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[70] WWF, ‘Green Bonds Must Keep the Green Promise’, 2016, http://d2ouvy59p0dg6k.cloudfront.net/downloads/20160609_green_bonds_hd_report.pdf.

About the activities concerned by green bonds, WWF notes that some environmental challenges, such as the depletion of natural resources other than energy, pollution prevention, waste reduction and biodiversity conservation, are rarely addressed in existing standards. Moreover, some activities must not be considered as green such as: nuclear power production, animal testing, fossil fuels, tobacco, arms… They also remark that Among all the definitions of green that exist in the different standards, there is room for controversies. Finally, for them a definition based only on "the 'promised' or 'pledged' environmental benefits is not enough". It is important to assess the actual performance of green bonds, all the more that many standards appear to focus on the process only.

Our study will help us to confirm or invalidate WWF's observations.

3.4.3 Methodology

We will study the voluntary green bond taxonomies that exist in the market. To do so, we will use official documents, and sometimes external reviews to complement the information such as for the Chinese Green Bonds Guidelines. We will compare them on several aspects presented hereafter.

3.4.3.1 The sample under study

To conduct our study we have selected the major standards of green bonds used in the market. We based our selection on WWF report about green bonds[71]. But also, we kept those that provided enough material to be studied. Indeed, for some of them it was not possible to have access to a detailed methodology.

Here is the list of the 9 studied standards, representing investor associations, rating agencies, external reviewers, banks and government agencies:

1) **Green Bond Principles**, established by the International Capital Market Association in 2014, and updated in June 2018
2) **Climate Bonds Standard**, established by the Climate Bond Initiative, revised in September 2018
3) **Bloomberg Barclays MSCI Green Bond Index**, jointly created by Bloomberg and Barclays MSCI in 2014

[71] WWF.

4) **Moody's green bond assessment tool**, developed by Moody's in 2016
5) **CICERO's shades of green**, established by CICERO (Center for International Climate and Environment Research of Oslo), in 2016
6) **Natixis' Green Bond Issue and Reporting Analysis Grid**, established by Natixis in 2018
7) **HSBC's green bond framework**, produced by HSBC in 2015
8) **Chinese Green Bonds Guidelines**, published by the Peoples' Bank of China in 2016
9) **Disclosure Requirements for Issuance and Listing of Green Debt Securities**, of the Securities and Exchange Board of India, from 2017

3.4.3.2 The analysis

1) The broad definition of a green bond

We will analyse the words used in the broad definitions stated in the standards. We would like to see if they all agree on the general definition of a green bond, and on the ethical principles that motivate them.

2) The base for the taxonomies' creation

These taxonomies play the role of ethical standards and practical approaches. Their creation is the result of discussions, but also decisions and arbitrations. It is necessary to compare the creation process because it may explain further content distinctions or similarities. The purpose of this part is also to understand the dynamics between the taxonomies themselves.

Therefore, we will examine the standards through the following questions:

- Who initiated the taxonomy?
- Did climate or environmental experts take part in the taxonomy elaboration?
- Did finance experts take part in the taxonomy elaboration?
- Was the taxonomy submitted to an external consultation?
- Was the taxonomy audited by an external entity?
- Was the taxonomy used for other green bond taxonomies?
- Is the taxonomy specifically based on any other standards/taxonomies/study ?

3) The range of eligibility

A key point of the taxonomies is the use of proceeds. Each taxonomy specify which activities can and cannot be eligible to the green bond appellation. By doing so, they outline the definition of a green activity with a deeper level of detail than the vague definition of green bond analysed before. Therefore, we will compare the taxonomies on the eligible activities, on the excluded sectors, and on the controversial activities.

To consider the range of eligibility presented in the standards, we will focus on only 6 taxonomies (out of 9), because:

- CICERO's shades of green don't give a list of eligible projects/activities, but rather relies on the appreciation of its experts;
- Moody's green bond assessment tool and HSBC's green bond framework use the taxonomy presented by ICMA in the Green Bond Principles;

We will sum up in a table the broad categories of eligibility presented by the 6 studied standards. We will only look at the general categories because the standards don't give the same level of details of eligibility, therefore we may lack information to compare them very precisely. However, the details can be used to get a better understanding of the broad categories. We will highlight the similarities, contradictions, and nuances. It will be necessary to create general topics categories in the blue left row because of some overlaps between the eligible activities categories of the different taxonomies

As for the excluded sectors, four out of the 9 standards specifically name activities that cannot be related to a green bond under any circumstances. However, it doesn't mean that the sectors left out of the exclusion list will be financed, neither for these 4 standards nor for the 5 others. As seen before, the inclusive approach sets limits to the investments. We will give a clear comparison of the excluded sectors in a table and comment it.

Finally, to address the controversial activities, we will mainly focus on the controversies assumed by the standards.

4) The mechanisms of control

After picturing what a green investment is in theory according to the range of eligibility stated by the standards, we will have a closer look at how this definition takes place in reality. Thus, we will compare the mechanisms of control that are required or recommended by the standards to make sure that a bond labelled "green" will truly comply with its definition. We will point out the main standards' expectations regarding 3 aspects that are usually mentioned: management of proceeds, external review and, reporting and transparency of the issuer.

5) How to deal with controversies

Despite a rather clear definition of green bond given in the standards, there is still room for controversies, either on the range of eligibility or on the mechanisms of controls. Therefore, we will examine the strategies or criteria to cut it short. Most standards have different approaches which can hardly be compared, but we will describe them:

- Indicative and flexible guidelines
- Committee decisions about the eligibility
- Rating/scoring
- Percentage of proceeds allocated to green activities

3.5 Results of the study

3.5.1 The broad definition of a green bond

First of all, we compare the definition of a green bond as stated in broad terms in all the standards. Here are the definitions:

Table 4 - Green bond definitions stated in the standards under study

	Taxonomy	Green bond definition
1.	Green Bond Principles of ICMA	Any type of bond instrument where *the proceeds will be exclusively applied to finance or re-finance*, in part or in full, new and/or existing *eligible **Green** Projects* and which are *aligned with the four core components of the GBP*: (1) use of proceeds, (2) process for project evaluation and selection, (3) management of proceeds, and (4) reporting.
2.	Climate Bonds Taxonomy/Standards by CBI	Bonds that finance the assets and projects needed to deliver a **low carbon economy** and gives **greenhouse gases emissions** screening criteria consistent with the 2-degree global warming target set by the COP21 Paris Agreement.
3.	Bloomberg Barclays MSCI Green Bond Index	Fixed income securities in which *the proceeds will be exclusively and formally applied to projects or activities* that promote **climate** or other **environmental sustainability** purposes through their use of proceeds
4.	Moody's green bond assessment tool	Fixed-income securities, […], that raise capital for use in financing or refinancing projects and or activities *with specific* **climate or environmental sustainability** purposes
5.	CICERO's shades of green	Fixed-income financial instrument issued with the aim of financing **climate or environmentally friendly** projects
6.	Natixis' Green Bond Issue and Reporting Analysis Grid	Green Bonds address **environmental sustainability**. *Loans refinanced should constitute* a positive contribution to **reduction of climate change effect** (CO2 emissions) or **other environmental challenges** (eg biodiversity, waste, water) through clean energy production, energy savings, or other type of actions.

7.	HSBC's green bond framework	A bond whose proceeds are used to *finance eligible businesses and projects* that promote the **transition to low-carbon**, **climate resilient and sustainable economy** and provide clear **environmental sustainability** benefits
8.	Chinese Green Bonds Guidelines of PBoC	A green bond has to *comply with the list of projects* presented in the China **Green** Bond Endorsed project Catalogue (official list of the types of green projects eligible for financing via green bonds)
9.	Disclosure Requirements for Issuance and Listing of Green Debt Securities by SEBI	A Debt Security shall be considered as '**Green**' if *the funds raised through issuance of the debt securities are to be utilised for project(s) and/or asset(s) falling under any of the following broad categories* (see range of eligibility).

From a semantic point of view, we can note the following elements:

- Most definitions mention in broad terms climate or environmental projects/activities. These words are sometimes complemented by green, sustainability, transition and low-carbon economy. (see bold words)
- The green component is often presented as a positive objective. We can spot the words "purpose", "promote", "benefits", "target" or "positive contribution". (see underlined words)
- There is a notion of compliance to a set of criteria: "comply with a list of projects", "funds […] are to be utilised for project(s) and/or asset(s) falling under any of the following broad categories", or "eligible business and projects". (see italic words)
- In terms of finance, the important words are the financing or re-financing of projects and the use of proceeds.

To summarize, in its broadest version, a green bond is a financing tool for economic activities that have to bring climate or environmental benefits. There is no fundamental ethical difference between the taxonomies' definition. However, a bond must meet a set of criteria relating to the use of funds raised to ensure that the "green" objective is respected. That is where further distinctions can be made.

3.5.2 The base for the taxonomies' creation

The following table sums up the answers to the questions presented in the methodology.

Table 5 - About the taxonomies' creation

	Green Bond Principles	Climate Bonds Standard	Bloomberg Barclays MSCI Green Bond Index	Moody's green bond assessment tool	CICERO's shades of green	Natixis' Green Bond Issue and Reporting Analysis Grid	HSBC's green bond framework	Chinese Green Bonds Guidelines of the PBoC	SEBI (India)
Who initiated the taxonomy?	The International Capital Market Association, through the Members and Observers of the Green Bond Principles	Climate Bonds Initiative, an international, investor-focused not-for-profit	Jointly elaborated by Bloomberg and Barclays MSCI, finance profesional agencies	Moody's, rating agency	CICERO (Center for International Climate Research), an independent non-profit climate research center based in Oslo, Norway	Natixis, French bank (BPCE Group)	HSBC, international bank from UK	The People Bank of China, the China central bank	Securities and Exchange Board of India, Indian regulation body of bonds
Did climate or environmental experts take part in the taxonomy elaboration?	YES	YES	YES	YES	YES	YES	YES	YES	NO
Comments	The Observers	NGOs, environment experts and researchers…	ESG research team of Barclays MSCI	ESG analyst of Moody's	Including members of the IPCC	ESG analyst of Natixis	Internal experts on climate change		At least, not mentioned in any document
Did finance experts take part in the taxonomy elaboration?	YES	YES	YES	YES	YES	YES	YES	YES	YES
Comments					CICERO collaborates with institutional investors				
Was the taxonomy submitted to an external consultation?	YES	YES	NO	NO	NO	YES	NO	YES	YES
Comments	The Observers come from the civil society and can freely apply to take part in the working groups	The parties taking part in the working group come from very various horizons				Dialogue with clients and other stakeholders (non-financial rating agencies, experts)		Many experts from different fields and different countries contributed	Public consultation
Was the taxonomy audited by an external entity?	NO	NO	NO	NO	NO	YES	YES	NO	NO
If yes, by who?						Vigeo Eiris	CICERO		
Was the taxonomy used for other green bond taxonomies?	YES	YES	NO	NO	NO	NO	NO	YES	NO
If yes, for which ones?	• Bloomberg Barclays MSCI Green Bond Index • Moody's green bond assessment tool • Natixis' Green Bond Issue and Reporting Analysis Grid • HSBC's green bond framework • Chinese Green Bond Guidelines of the PBoC	• Moody's green bond assessment tool • Chinese Green Bond Guidelines of the PBoC • SEBI (India)						Moody's green bond assessment tool	
Is the taxonomy specifically based on any other standards/taxonomies/study ?	NO	YES	YES	YES	NO	YES	YES	YES	YES
If yes, which ones?		Research from the Intergovernmental Panel on Climate Change and the International Energy Agency	Green Bond Principles	• Green Bond Principles • Climate Bond Standards • The International Finance Corporation's Definitions and Metrics for Climate-Related Activities • OECD Green Bonds Taxonomy • Chinese Green Bond Guideline from the PBoC		• Green Bond Principles • Sustainable Development Goals of the UN	Green Bond Principles	• Green Bond Principles • Climate Bond Standards	• Climate Bond Standards • Targets of India's Intended Nationally Determined Contribution (INDC) as established for COP21

Here are the elements that we can conclude from the table:

- The Green Bond Principles of ICMA, and the Climate Bond Standards of the Climate Bond Initiative have served as a base for many other standards. They can be considered as the major standards in the market.
- All the issuers of taxonomies come from the finance and investing world, except CICERO, which nonetheless works with financial experts. We can consider that the practical reality has been sufficiently taken into account while setting up these taxonomies
- As for the environmental aspects, all the taxonomy issuers have collaborated with experts on this topic, either externally (NGOs, researchers…) or internally (ESG analysts).
- We notice that the private banks and agencies have developed their taxonomy on their own and later made it reviewed by external entities. On the other hand, associations and public agencies have consulted external actors, building their taxonomies on a wider variety of opinions.
- As other standards or studies used for the elaboration of the green bond taxonomies we can mention: the Sustainable Development Goals, the work of the scientific group of Intergovernmental Panel on Climate Change and the International Energy Agency.

To conclude, the ethical standards that prevail on the green bond market seems to be those of ICMA and the Climate Bond Initiative. In any case, the taxonomies, frameworks, guidelines, and other standards have been jointly elaborated upon environment and finance expertise.

3.5.3 The range of eligibility

3.5.3.1 Eligible activities

3.5.3.1.1 Table

Find below the table that summarizes the range of eligibility proposed by the 6 studied taxonomies, with colours.

Table 6 - Analysis of the taxonomies' inclusive range of eligibility

General topics	Green Bond Principles	Climate Bonds Standard	Bloomberg Barclays MSCI Green Bond Index	Natixis' Green Bond Issue and Reporting Analysis Grid	Chinese Green Bonds Guidelines	SEBI
Energy	Renewable energy	Energy	Alternative Energy	Renewable energy	Clean energy	Renewable and sustainable energy
	Energy efficiency		Energy Efficiency	Energy efficiency	Energy saving	Energy efficiency
	Green buildings	Buildings	Green Building			
Pollution	Sustainable water and wastewater management	Water	Sustainable Water	Sustainable Water Management		Sustainable water management
	Pollution prevention and control	Waste	Pollution Prevention and Control	Sustainable Waste management	Pollution prevention and control	Sustainable waste management
Management of natural resources	Environmentally sustainable management of living natural resources and land use	Land use & marine resources			Resource Conservation and Recycling	Sustainable land use
Transport	Clean transportation	Transport			Clean transportation	Clean transportation
Climate change adaptation	Climate change adaptation		Climate Adaptation		Ecological Protection and Climate Change Adaption	Climate change adaptation
Biodiversity conservation	Terrestrial and aquatic biodiversity conservation			Biodiversity conservation		Biodiversity conservation
Others:	Eco-efficient and/or circular economy adapted products					
		Industry				
		Information & Communication Technologies				

Legend:

- Green cells display the titles of eligible activities as stated by the taxonomies
- Yellow cells inform that the topic tackled is mentioned at least in the details (sometimes just partially), but not as a core topic
- Red cells mean that the topic is not mentioned by the taxonomy

3.5.3.1.2 Comments on the range of eligibility

The **energy** topic is covered unanimously by all the taxonomies, especially concerning renewable (or clean) energies and energy efficiency. It seems to be one of the key elements of the green bonds. A part from the production and transmission of clean energy, it will include projects such as energy storage, district heating, or smart grids. As for **green buildings**, even though is a topic highly related to energy efficiency, it appears to be less crucial.

Pollution is another widely accepted key topic. It encompasses water, air and waste pollution, for the reduction of them but also to treat it.

Management of natural resources and **transport** are also quite important in the green bond taxonomies. The former tackles topics such as environmentally sustainable agriculture, fishery, and forestry. The latter is related to electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions, according to the GBP. Just to remark that Bloomberg Barclays MSCI green bond Index does not make them core topics, even though they are mentioned, but Natixis doesn't even refer to them.

Climate change adaptation appears to be tackled by every taxonomy, but its understanding may be slightly different from one taxonomy to another. For Natixis and the Climate Bond Standards, this topic is indeed transversal. The GBP mentions information support systems, such as climate observation and early warning systems.

Biodiversity conservation is not included by all the taxonomies. One reason could be that biodiversity conservation projects are rarely addressed by bonds. However, this idea is inherent to the philosophy claimed by the standards.

The category "**Eco-efficient and/or circular economy adapted products**" elaborated by the GBP is quite innovative. It is about the development and introduction of environmentally sustainable products, with an eco-label or environmental certification, resource-efficient packaging and distribution. The other taxonomies haven't included it.

The Climate Bond Standards has a quite different approach compared to the other taxonomies because it starts from wide topics and then qualify it in the details. That's why the 2 categories "**industry**" and "**ICT**" are very specific to the CBS, but in practice, they are considered under other topics in the other taxonomies.

3.5.3.1.3 Comments on the taxonomies

The **Green Bond Principles** seems to be the most reliable standard in the market due to the wide scope of environmental issues embedded by its taxonomy, and also to the fact that other actors have based their range of eligibility on them.

The **Natixis'** guideline gives a very short list of eligible activities, without much detail. Consequently, several topics are not covered. We could consider this taxonomy to be strict, but the lack of details let us rather think of poor analysis of the green challenges.

For **CICERO**, even though they haven't established a list of eligible projects/activities for the green bond, they state that a green bond should "contribute to a low carbon and climate resilient future through financing mitigation and adaptation actions" and "mitigate negative environmental impacts, such as local and regional air, water and soil pollution". These elements match with the general understanding of a green activity as showed by the other standards.

3.5.3.2 Excluded activities

The excluded sectors are summed up in the following table:

Table 7 - Excluded sectors in the standards under study

	Climate Bonds Standard	CICERO's shades of green	Natixis' Green Bond Issue and Reporting Analysis Grid	HSBC's green bond framework
Nuclear activities			X	X
Defense/weapons			X	X
Oil related activities	X	X	X	
Gas related activities		X	X	
Coal related activities	X		X	
Mining	X		X	
Alcohol				X
Gambling / adult entertainment				X
Agricultural production on peatland	X			
Waste disposal on landfill	X			

The table shows that polluting energy production activities (oil, gas, coal and nuclear activities) cannot be considered as green, even though the standards are not unanimous. It is the same for mining which is often criticized for harming biodiversity ecosystems. Then, defence, alcohol, gambling, and adult entertainment are just the most common banned sectors in SRI exclusive approach. Moreover, they don't seem particularly bad for the environment but they are rejected for other ethical reasons. Finally, the Climate Bond Standards broaden the scope of excluded sectors on two topics related to the environment: agricultural production on peatland and waste disposal on landfill.

3.5.3.3 Controversial activities

The **Climate Bond Initiative** has identified several topics on which they still haven't decided whether they should ban them or they could consider them for financing under certain conditions:

1) Uranium mining
2) Nuclear waste treatment and disposal
3) Gas extraction
4) Fossil fuel power production with carbon capture and storage
5) Aviation
6) Industries using primary resources: cement, metals, chemicals, glass, and others

Nuclear, gas, and fossil fuel activities were already evoked in the excluded sectors, but, the CBI still consider them controversial.

As for **HSBC**, they consider fossil fuels as controversial in the sense that eligible projects to their taxonomy can include the use of fossil fuels. So they study and decide upon "the net sustainability benefits".

A major controversial issue remains that of the **Chinese green bond guidelines of the PBoC** regarding fossil fuel. This issue was spotted by many international observers. They accept fossil fuel projects such as coal-powered generation, production of "clean coal" or transport projects that use fossil fuels. These kinds of projects are banned by the other standards.

3.5.4 The mechanisms of control

3.5.4.1 Management of proceeds

This topic relates to the allocation of the proceeds to the green project for which the funds were raised. A sound process of tracking and transparency binds the issuer with external observers because it ensures that the issuer will have no other choice to respect environmental ethics. This technical aspect is necessary to make the link between ethical intentions and reality.

All the studied standards require or recommend that a methodology for the management of proceeds is disclosed by the issuer of the bond. According to them, there are two ways of proving the correct allocation of proceeds: earmarking and ring-fencing. However, not all the standards give specifications about it. We can still highlight that:

- ICMA, CBI, Moody's and PBoC recommend to use at least one of the two methods
- Bloomberg Barclays MSCI can only consider bonds in their green bonds index if a ring-fencing procedure is publicly disclosed

Also, the disclosure of a methodology for the management of unallocated proceeds is often similarly recommended in the standards, even though there is no unanimous way of managing them.

3.5.4.2 External review

An external review gives credit to the issuer's claim of green. By submitting himself to an external point of view, the issuer accepts to be judged as regard to the compliance to ethical principles. What do the standards say about the external reviews? is the issuer judged on his intentions or performance? And who is in position to judge the issuer and upon which base?

Most standards recommend to submit the bond to an external review. Indeed, CICERO and the CBI conduct reviews respectively under the form of second-party opinion and certification. Then, Natixis and HSBC have had their frameworks reviewed by an external entity. All the other standards recommend to disclose at least one of these reviews: second-party opinion, third-party verification, certification, or scoring/rating.

The external review can be pre-issuance or post-issuance, meaning that the green bond will be evaluated respectively on its intentions or on its real performance. Most standards simply talk about a pre-issuance review. Only the Climate Bond Standards, in their certification process, conduct a post-issuance evaluation. Thus, mainly the intentions have to be scrutinized by external reviewers according to the standards.

As for the external reviewers themselves, little information is specified in the standards. However, according to the market's reality, they are often independent entities that have developed expertise on environmental issues. Moreover, ICMA has developed a framework for the external review in order to evaluate the green bond as regard to the Green Bond Principles. It is a very wide-spread framework in the market.

3.5.4.3 Reporting and transparency

The question of transparency and reporting is also very important so that the moral obligation applies to the bond' issuer. Transparency plays a role to evaluate the projected contribution of the bond to environmental ethics, but also to measure the real impacts.

Regarding pre-issuance transparency, all the standards obviously require the disclosure of a fair amount of information in order to evaluate them. They should get enough material to check the compliance with the eligible activities and with the expected mechanisms of control.

Then, all the standards require, or at least recommend, the issuers to publish an annual report that depicts the details about the funded projects. Other information should or must be integrated such as environmental key performance indicators or the use of unallocated proceeds if any. In China, a quarterly update of the real use of proceeds must be done as well, and in India the report must be bi-annual. It is even required to have these reports audited according to them. The Climate Bond Standards is especially demanding in terms of post-issuance disclosure because they want to check in details whether the pre-issuance intentions have been implemented and respected.

3.5.5 How to deal with the controversies

3.5.5.1 Indicative and flexible guidelines

The position of ICMA confers to its green bond guidelines a particular point of view: the Green Bond Principles are only indicatives. Their aim is to constitute a reference for the different actors of the sector. As seen before, they are very complete, but they leave room for flexibility. By giving only recommendations, the GBP discharge themselves from making controversial decisions on a particular green bond project. External reviewers are those who really check and give their opinion on the compliance to the principles.

3.5.5.2 Committee decisions about the eligibility

In some cases, standards decide to rely on an internal committee to cut short to any controversy. They grand themselves with the right to give a ruling on the eligibility of a particular project. For HSBC, above the committee and the teams involved in the framework and the project selection, the Group Sustainability branch composed of environmental experts have a final veto vote on eligibility decisions. As for Natixis, they have created a Sustainable Development Bond Governance Committee whose role is to "approve the definition of selection criteria and the scope of monitoring and reporting" described by the business teams. This committee composed of banking and environmental experts has the power to select a green bond or not. In both case, the existence of a reliable governance system leaves room for flexibility in the attribution of the "green" characteristic to a bond.

3.5.5.3 Rating/scoring

Some institutions such as CICERO and Moody's have chosen the rating and scoring approach. By weighting the positive and negative aspects of green bonds, following utilitarian ethics, they avoid a Manichean decision about their eligibility. Instead, they provide valuable information for the investors who can decide to set their limits to the investment according to the score of the bond.

However, CICERO and Moody’s differ in their rating methodology. CICERO bases its rating on a qualitative appreciation of the bond by its experts, taking into account the wide effects of any project such as the rebound effects. A bond can get one of these ratings, from the best evaluation to the rejection of any environmental benefits: dark green, medium green, light green, and brown. On the other hand, Moody’s has developed a precise scorecard based on 5 weighted factors, each of them including several quantifiable criteria. The methodology is explained and detailed, along with an 5-grades assessment scale that goes from excellent to poor.

3.5.5.4 Percentage of proceeds allocated to green activities

One difficulty of green bonds is that the green project claimed may not fully overlap with the eligible categories of the taxonomy. It can especially happen when a pure player, i.e. a company only focused on eligible activities such as renewable energies, raise money through a bond but may still have some ineligible projects. To solve this, Bloomberg Barclays MSCI considers bonds eligible “if at least 90% of the projected use of proceeds falls within eligible categories”. And pure players are also considered as so when they have “greater than 90% of activities (as measured by revenues) within one or more of the eligible environmental categories”. Similarly, in Moody’s scorecard, a criteria is the “% of proceeds allocated to eligible project categories that are determined based on the issuer’s adopted policies and the categories established under the Green Bond Principles“, which can be higher than 95% to get the best grade or less than 50% to get the worst one. With this approach, both give flexibility to the range of eligible projects. HSBC has also adopted a similar criteria for eligibility.

4 Discussion and conclusion

4.1 Conclusion of the theoretical part – advising an investor on how to invest ethically

As a conclusion, let's take an hypothetical case of investors who would like "to invest in the best way". Based on the thesis, here is how we could advise them.

First, they have to be well aware of the responsibilities they hold as investors. We can assume that they don't want to support a business that wouldn't meet with their personal values. They may even feel guilty for financing polluting activities. They know they can find many investment opportunities that would bring them more money. However, they want to look further than the immediate monetary gain, and question the morality of the activities they would finance. We should explain them that the scope of responsibilities of investors has widened with the idea of Corporate Social Responsibility, that when considering a business activity we have to think of the environment as finite world and of the next generations. We hope to raise their sensitivity to sustainable development and other climate-related issues to convince them that companies can bring about positive change for the people. All in all they should not follow the conventional ethics of business, but rather embraced a new approach.

To guide them in their reflexion on what kind of activities is good or bad, we can advise them to look at two things: the Sustainable Development Goals and the news. This way, they could get an idea of the ethical comprises reached by society, at international and local levels. And then, they should think of the deontological rules they would like to follow while investing. But, as they may face dilemmas, they can consider the utilitarian approach of ethics.

At this point, investors should be quite sure that they want to venture in Socially Responsible Investing, so we can move on to practical issues. If their savings are rather small and their time limited, we wouldn't recommend them to follow the shareholder advocacy approach, otherwise some investors may like to influence companies from the inside. Then investors must be introduced to screening. It is all the more relevant that they have surely heard of 'ethical', 'sustainable development' or 'green' funds, which often prefer this approach too. So, we must point out that they are different ways of screening: excluding some 'bad' activities, including only some 'good' activities, or choosing the companies based on an ESG evaluation. As a private investor who wants to buy stocks or share in the financial market they may want to exclude some companies and select only those who meet with their values. However, in the case they chose to entrust a bank or a fund with their savings, they could expect them to conduct an ESG screening. However, they should pay attention to the code of ethics of the fund, the way they report on their activity and the way they deal with competing ethical values.

Let's now have a look at a potential investment vehicles that could correspond with investors' will to meet their personal values with their investment.

4.2 Discussion of the practical part

Based on our results, we are now able to picture the definition of green bond according to the market. By choosing to invest in a green bond, an investor can be sure it will finance economic activities that must bring climate or environmental benefits. All standards have been jointly created with environment and finance experts, even sometimes with wide public consultations or at least with the opinion of external experts. This collaboration has led to a comprise, which gives trust in the green credentials. Moreover, the Green Bond Principles and the Climate Bond Standards, which are the most advanced and reliable standards, have served as a base for other standards. As for the financed projects, no matter the standard, an investor can expect their green bond to support the following activities: renewable energies, energy efficiency, prevention of pollution, waste management, water management, clean transportation and sustainable management of resources. The inclusive approach often chosen by the standards limits the eligibility of a green bond to these activities. It excludes the most polluting and unethical ones. Some standards even draw up an exclusion list. We see that the principle of not harming stakeholders, in this case the environment and by extension the next generations, is highly taken into consideration. The responsibilities of investors and the CSR spirit is totally present. It even seems that green bonds are a way to set deontological principles that meet with the SDGs, especially the goals number 6, 7, 13, 14 and 15.

To be sure that the proceeds will be truly affected to them, the investor can refer to methodology for the management of proceeds disclosed by the bond issuer along with other pre-issuance information. Indeed, most standards require high transparency to be able to assess the intended performance of any green bond. It is important to make sure that the project will truly meet with the investors' ethical principles. Furthermore, for all the investors who are not expert on environmental projects, they can trust the review of the bond conducted by an external independent entity, which is strongly recommended by all standards. As for the actual environmental performance and the control of the use of proceeds over time, investors can expect an annual report to be published by the bond issuer.

Nonetheless, depending on the standard to which a green bond refers, an investor can have some doubts about the projects' environmental benefits. In terms of eligibility, although any activity related to oil, gas or coal is usually banned, Chinese bonds may consider it as green activities. Also, some green activity can involve fossil fuel consumption due to rebound effects for instance, which may not be considered by all the standards. Moreover, we can regret that no ESG screening is mentioned, which means governance and social issues are not considered by green bonds. Then, for activities seen as borderline or controversial in terms of environmental benefits, each standard has its own way of selecting them. Some provide only indicative guidelines to be submitted to a second party opinion. Others adopt an utilitarian approach when they choose to rely on their own discretionary power, to give a rating, or to fix a limit about the percentage of use of proceeds dedicated to green activity. This can affect trust in green bonds, all the more that the taxonomies are sometimes not detailed enough and that the mechanisms of controls are mainly made up of recommendations instead of specific requirements.

In the best case, a green bond will support very environmental friendly activities such as climate change adaptation, biodiversity conservation, and eco-efficient or circular economy adapted products. And for the most advanced green bonds, a post-issuance review to assess the actual environmental performance will be conducted, which can be complemented or substituted by a very detail report with key environmental indicators done by the bond issuer.

All in all, most of WWF's remarks happen to be confirmed by our study. We can especially highlight the lack of requirements in terms of real environmental performance, which may create a gap between the intended ethics and the reality. Plus, the variations in the green bond definition is linked to the issuer of the taxonomy: voluntary associations of investors who want to make a change go deeper in their definition and mechanisms of controls than private actors like banks or States like India and China. It has an impact on the eligible and excluded activities who can still be improved to encompass more stakeholders.

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6 Appendix - List of documents used in the practical part

1) Green Bond Principles
    - Green Bond Principles - Voluntary process guidelines for issuing Green Bonds (June 2018): https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/
2) Climate Bonds Standards
    - Climate Bond Taxonomy – A guide to climate aligned assets & projects (September 2018): https://www.climatebonds.net/files/files/CBI-Taxomomy-Sep18.pdf
    - Climate Bond Standard, version 2.1 (January 2017): https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2_1%20-%20January_2017%281%29.pdf
3) Bloomberg Barclays MSCI Green Bond Index
    - Bloomberg Barclays MSCI Green Bond Index: https://www.msci.com/documents/10199/242721/Barclays_MSCI_Green_Bond_Index.pdf/6e4d942a-0ce4-4e70-9aff-d7643e1bde96
4) Moody's green bond assessment tool
    - Green Bond Assessment (March 2016): https://www.cdfa.net/cdfa/cdfaweb.nsf/0/7BB14C064ABCD8B288257F450074DE9E/$file/MoodysRatingsMethodology.pdf
5) CICERO's shades of green
    - Framework for CICERO's 'Second opinions' on green bond investments: https://www.cicero.oslo.no/file/2/CICERO%20Second%20Opinion%20Framework%20280416.pdf/download
6) Natixis' Green Bond Issue and Reporting Analysis Grid
    - Groupe BPCE – Sustainable Development Bond Program: framework (July 2018): https://www.groupebpce.fr/en/content/download/15967/280643/version/2/file/Groupe%20BPCE%20-%20Framework%20of%20Sustainable%20Development%20Bond%20Program%20-%2020%20July%202018.pdf
7) HSBC's green bond framework
    - HSBC's green bond framework (November 2015): https://www.hsbc.com/-/files/hsbc/investors/fixed-income-investors/green-and-sustainability-bonds/pdfs/151115-hsbc-green-bond-framework.pdf
    - Second opinion on HSBC's green bond framework by CICERO (November 2015): https://www.hsbc.com/-/files/hsbc/investors/fixed-income-investors/green-and-sustainability-bonds/pdfs/cicero-second-opinion
8) Chinese Green Bonds Guidelines
    - Roadmap for China: Green bond guidelines for the next stage of market growth: https://www.climatebonds.net/files/files/CBI-IISD-Paper1-Final-01C_A4.pdf
    - China Green Bond Endorsed Project Catalogue: http://www.greenfinance.org.cn/displaynews.php?cid=79&id=468
9) Disclosure Requirements for Issuance and Listing of Green Debt Securities
    - Disclosure Requirements for Issuance and Listing of Green Debt Securities of the Securities and Exchange Board of India (May 2017): https://www.bseindia.com/downloads/whtsnew/file/SEBI%20_Cir_Green_Debt_Securities.pdf