SUSTAINABLE INVESTING TRENDS. CAN THEY HELP THE TRANSITION TO CIRCULAR ECONOMY?

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Abstract
Sustainable investing has been growing in the past decade. Both institutional and individual investors have shown increasing interest in the various forms of it. This could be attributed to a number of factors. The decision of the European Union to move from linear to circular economic model has certainly played an important contribution to this trend.

The aim of the current paper is to present the trends in sustainable investing in international perspective during the past years within the analytical context of the EU efforts to move towards circular economy.

Keywords: circular economy, SRI

1. INTRODUCTION

The Circular Economy is a new term for a millennium-long concept. Historically, due to a number of circumstances, mankind has followed a predominantly circular economic model in which the raw materials have been invested in the creation of goods, and after the end of the useful life these goods have been used to create new ones. The lack of technology as we know them today for the processing of raw materials has imposed this type of economic behavior.

The policy of transition to a circular economy in developed countries, driven by climate change and increasing pollution problems, requires state-level policies to address new challenges. In this direction are the EU's decisions to place environmental protection as a priority area for the policies and actions of all countries in the Union.

The transition to a circular economy is unthinkable without the active involvement of capital markets as it requires enormous financial resources. Socially responsible investment (SRI) are investments that are targeting in one way or another improving the environmental and social aspects of the operations of organizations. This is why it could be considered that they are assisting the transition to circular economy. The latest trends reveal increasing interest in SRI among the investment community globally. They have the capacity to act as an important driver of the transition to circular economy.

2. THE CIRCULAR ECONOMY

The circular economy appeared as a concept in the second half of the 20th century. It emerged and evolved as a result of the fast industrialization of many countries in the world a side effect of which was the creation of waste which could not be reused or absorbed in nature.

The increase of waste have started to reveal a number of weaknesses of the linear economic model which has been followed to date, and according to which raw materials are used to produce various goods which, after being used, are thrown away and buried in dumps. The linear economic model rests on the usage of conventional energy sources, i.e. such that are delectable like oil, gas, and coal.

A major problem associated with the linear economic model proved to be the dependence of the global economy on such sources of energy for its sustenance. This dependence led to a series of adverse economic effects both for the countries producing and exporting the raw materials, and for those importing them due to price volatility. An example of how painful such consequences could be are the oil price shocks in the 70s. Raw material price volatility in general, on the other hand, is tightly...
connected to major currencies volatility, especially that of the US dollar, since prices of raw materials are quoted primarily in USD.

Apart from purely economic effects, strong externalities such as climate change and pollution have started to become more and more visible inflicting serious consequences on all aspects of life, and hence - on the business cycle.

All these developments led to the growing understanding that the current dominant linear economic model has major deficiencies. They need to be addressed so as to ensure economic sustainability and wellbeing.

The European Union acknowledges the necessity to start changing the existing patterns the current economy operates in as climate change consequences become more evident and their fallout more protracted than in the past, and as pollution keeps on growing globally. In 2015, the European Commission adopted the so-called Circular Economy Package which aims at implementing the transition from linear to circular economy [1].

3. THE SRI MARKET AND LATEST TRENDS

Asset management within capital markets is an area of financial activity essential to the success of efforts to move towards a circular economy. Under market economy conditions, 'effective use of financial resources is achieved through the financial market' [2, p. 38]. In this report, we are discussing some phenomena that are observed on the stock markets. We pay special attention to them, because the information from these markets, due to their transparency and volume, gives a very good opportunity for analyzes. Moreover, trends in stock exchange trading to a large extent reflect the processes that take place both in purely economic, and in political terms.

The transition to a circular economy could not be achieved without the active involvement of financial institutions and markets. The role of banks, which undoubtedly play significant and in many cases a leading role in determining the "rules of the game" on the credit resource market, has been in the focus of a number of research papers already. Stock exchanges and securities trading that take place on them, and in which asset management efforts are materially materialized by different market participants, should also be the subject of research to highlight the main trends that would support the transition to a circular economy.

Exchange trading in some of its segments is also indicative of the preferences of the third major group of financial actors - insurance companies. Since they are significant institutional investors due to the large volume of funds they attract under the premiums they collect, trends in their preferences are particularly indicative of the assessment that is given to certain market segments in terms of profitability and, above all, of long-term stability.

What has been observed during the past years? There has been an ostensibly clear interest by a growing number of investors in the assets of companies which define themselves, or the market defines them, as "green", i.e. such whose activities contribute to the protection of environment in one way or another, including battling climate change and pollution. The market presumes that such companies ought to be actively working for the sustainability of their own operations, and therefore rewards them with increased demand on the stock exchanges, which, on its part pulls share prices up.

Because, due to the nature of their activity or due to the intentional efforts in this direction, such companies practically manifest themselves as socially responsible, the investments made in securities issued by them are known by the terms "socially responsible" investments, SRI) and "sustainable and responsible investments" (SRI). Since these terms will be used in this statement, it is important to clarify them in some detail. Indeed, in the scientific literature, heterogeneity is present at the time of their definition. On the one hand, socially responsible are investments that are oriented towards one or another social cause.

Often this term is used as a synonym for "ethical investment" or "value-based investment" ("value-oriented investment") and denotes the "integration of some non-financial considerations - ethical, social
or environmental - into the investment process." [3]. The term is also used in connection with corporate social responsibility, which includes social and environmental considerations, and which, as has been said, has been the subject of growing investor interest and frequently followed practice in recent years [4, p. 3].

Currently, there are several well-established typologies of socially responsible or sustainable and responsible investment in the literature. Typing helps investors and analysts identify the type of investment they want, as well as track the trends typical of each.

The main sources of regular information on the exchange rate trends of socially responsible investments are Eurosif, the Global Sustainable Investment Alliance (GISA), the Principles of Responsible Investment (PRI) and the European Association for Funds and Asset Management (EFAMA), each of which makes its own analyzes based on exchange data and various investor surveys on socially responsible investment trends.

3.1. Eurosif

Eurosif is Europe's leading association, whose work is to promote sustainable investment, including lobbying to create Europe-wide rules and regulations in this area [5]. This association is also committed to initiating and maintaining a variety of cooperative activities between communities interested in socially responsible investment in individual countries across Europe. Eurosif practically unites these communities and works to strengthen the demand for sustainable investment by using different methods and tools to produce reports on trends in this market, the participation of members of the association as lecturers of various events of the investment community at a high level and more.

The Eurosif members include the Dutch Association of Investors for Sustainable Development, the German, Austrian, Liechtenstein and Swiss Social Investment Forum, the Spanish Social Investment Forum, the Italian Social Investment Forum, the French Social Investment Forum, the British Association for Sustainable Investment and Finance, the Irish Sustainable Nation Organization and other similar forums from different countries.

Each of these organizations is active locally, and Eurosif is making efforts to establish cross-border standards and lobbying the European authorities.

Eurosif issues reports describing trends in the European market for sustainable and responsible investments every two years. The first report was released in 2003, the next one in 2006, and since then the reports have been issued at that periodicity [6].

3.2. Global Sustainable Investment Alliance (GISA)

The Sustainable Investment Alliance, in turn, brings together regional associations working in this area. One of these associations is Eurosif, the rest are the American Forum for Sustainable and Responsible Investments, acting in the United States, the Australian Association for Responsible Investment, the British Association for Sustainable Investment and Finance, and the Dutch Association of Investors for Sustainable Development. It is noteworthy that the British and Dutch organizations are members of both the European Forum - Eurosif and the World Alliance. This is due to the development of sustainable and responsible investment markets in these countries, which outstrip most other countries and can be said to be trending in this area.

The World Alliance, as well as Eurosif, issues a report on the trends of responsible investment markets every two years, tracking the specificities of these trends at a global level. The first such report was released in 2012 [7].

3.3. Principles of Responsible Investment (PRI)

The Principles of Responsible Investment (PRI) are a global network of investors whose main goal is to promote investment in companies that seek to be responsible to society and the environment in their activities. Also, this network works to help investors value and understand the impact on investment by integrating environmental, social and governance factors into their business. This network also acts as
a lobbyist to raise awareness of the importance of sustainable investing in value creation by companies in the long run.

The members of the network support six basic investment principles, which they believe lead to that. The network is independent, although it works closely with the UN [8].

3.4. European Fund and Asset Management Association (EFAMA)

EFAMA is an association that brings together 26 branch associations and 61 corporate members. It is undoubtedly the most powerful European association of asset management funds and companies and acts as well as the above mentioned organizations as a lobbyist to the European authorities, protecting the interests of its members.

It is important to note that each of these organizations has developed its own categorization (typology) of the types of socially responsible investments, and in its reports it presents the trends that are observed for each particular category (type).

In addition to these organizations, some others are also conducting research on this particular market. In this respect, KPMG and the Association of the Luxembourg Fund Industry are amongst themselves with their research on the European market and the Social Investment Forum Foundation in the United States.

3.5. SRI Latest Trends

As evident from GSIA Global Sustainable Investment Review (GSIR) as of 2016 (the latest published to date, July 2018), SRI keep on growing. The pace of growth proves to be lower than in the previous reporting period, however, despite of that, the tendency of increasing of increasing investment interest is evident [9, p. 7].

The growth by region presented in Table 1 in terms of compound annual growth rate (CAGR) shows that it is biggest in Japan, followed by Australia and New Zealand, Canada and the USA. Overall the total growth is approx. 12% for the last two years covered by GSIA report.

<table>
<thead>
<tr>
<th>Region</th>
<th>Compound Annual Growth Rate, 2014-2016</th>
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<tbody>
<tr>
<td>Europe</td>
<td>5.70%</td>
</tr>
<tr>
<td>USA</td>
<td>15.20%</td>
</tr>
<tr>
<td>Canada</td>
<td>22.00%</td>
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<tr>
<td>Australia and New Zealand</td>
<td>86.40%</td>
</tr>
<tr>
<td>Asia ex Japan</td>
<td>7.60%</td>
</tr>
<tr>
<td>Japan</td>
<td>724.00%</td>
</tr>
<tr>
<td>Total</td>
<td>11.90%</td>
</tr>
</tbody>
</table>

Source: GSIR, 2016

Figure 1 presents the distribution of global SRI in 2014 by region as part of total assets under management. It reveals the leading role of Europe in this market. This could be explained by the strong determination that leading European economies such as Germany, the United Kingdom, France, the Netherlands, and others occupy in the efforts for the transition from linear to circular economy.
Only two years later, in 2016, as displayed in Figure 2, the picture has changed, Europe remaining in leadership position, while Australia and New Zealand, Canada and the USA seeing also significant increase in the proportion of SRI as part of total assets under management.

Another interesting tendency, displayed on Fig. 3, is visible from the distribution of SRI between retail and institution investors. While by 2014 only 13% of the SRI market was occupied by retail investors, by 2016 their number grew and their share reached almost 26% of the total assets under management in this segment.
This reveals a growing interest in individual investors for obtaining and trading with SRI, which has traditionally been a territory for institutional investors that are better aware of the meaning and benefits of investing in this type of financial instruments. Obviously, companies are being more and more evaluated based on non-financial considerations, and vice-versa, as Dimitrov stresses, quality and quantity factors are influencing the their financial performance [10, pp. 232-260, 270-296].

4. CONCLUSION

As can be seen from the GSIA data and the analysis that has been made, in recent years there has been strong interest from the investment community in investing in securities of companies that can be identified as responsible for the environment and society. This trend is indicative of general market attitudes and resonates with the policies of the world's leading countries to work actively towards a circular economy.

Without the support of financial markets, this could hardly happen. At the same time, financial markets are also a barometer of overall societal and economic attitudes and expectations.

Their positive response to the offer of securities of firms that have an active attitude to environmental issues is encouraging for all economic actors who work in the field of the transformation of the linear economic model to a circular, as this means that they could relatively easier access finance from the markets.

The very fact that currently there are several leading international organizations such as GSIA, Eurosif, EFAMA and others, which unite the interests of investors in such securities, speaks clearly of the market tendencies.
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