Analysis on the Investment Policies in the Context of Sustainable Development

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Abstract

It is the opinion of all specialists that the most important (if not the only) means of achieving economic growth and development is through investments. Indeed, a durably developed economy cannot be conceived without the support from massive investments in all areas of activity: economic, social, cultural etc. Sustainable Development is the form of economic growth that satisfies the needs of the society, leading to general wellbeing in the short, medium and long term. It is based on the consideration that development must meet the current needs without jeopardising the capabilities of future generations to ensure their own development. The principle for sustainable development is based on the idea of ensuring a superior quality of life for each individual, and for future generations alike.

Keywords: Sustainable development, resources, investment, factors

A definition largely utilised in the literature is ‘The development that meets the needs of the present without compromising the ability of for future generations to meet their own needs’. (Bran, 1998).

Sustainable development is linked to five objectives: 1. Conservation of resources; 2. balanced development; 3. environmental quality; 4. minimising resource consumption 5. collective participation.(Bran, 2002).

Achieving major sustainable development objectives, such as the equilibrium society-economy-environment, requires not only the implementation of investment projects meant to improve the natural environment, but also the employment of investment assessment techniques from the point of view of the ecological impact, as well as from a social point of view (creation/disappearance of jobs, health and safety, increase in life standards), and also from an economic perspective, in comparing effects to efforts made in the said projects.

Al Gore, Nobel Peace Price laureate in 2007, together with David Blood, former CEO of Goldman Sachs Assets Management, have laid the, in 2005, the foundations of an investment management firm, whose purpose was to integrate notions such as renewable resources or sustainability in the baseline analysis for any business. They stated that ‘Sustainability investing is the explicit recognition that social, economic, environmental, and ethical factors directly affect business strategy—for example, how companies attract and retain employees, how they manage the risks and create opportunities from climate change, a company’s culture, corporate-governance standards, stakeholder-engagement strategies, philanthropy, reputation, and brand management’. In order to design a
sustainable investment, the team specially retained for this purpose includes in the development strategy the factors aforementioned. Preoccupation for the environment is, perhaps, the most important driver, but it is also the most expensive. Subsequent to the elaboration of the business strategy, the investment project is analysed by the financial department; inevitably so, discrepancies appear between the proposed targets and the business budget to which the investors contribute. The investors must be convinced that a dollar more spent today, will be returned tenfold only in a few years, and not in the very year to come.

In the process of assessing the efficiency of the investment project with an impact in the environment, various methods can be employed, amongst which we mention:

- the ACB method: cost-benefit analysis that allows for choosing the optimum investment project from an economic, ecologic, social and technologic point of view. A description of the cost-benefit analysis was once provided by Henley and Spash (Henley, Spash, 1993) and by Randall (Randall, 1987) showing that „the purpose of a cost-benefit analysis is to emphasise the fact that sum of impact effects is not greater than the net benefit to society‘. By net benefit to society, we understand the sum of monetary and non-monetary returns on a rational exploitation of the environment. It quantifies the monetary as well as non-monetary elements with an environmental impact, resulted from implementation of the investment project. From 1970, the method is mainly applied to the public as well as private investment projects that have ecological effects, and in agriculture, with the support of this method the feasibility of the ecological rehabilitation can be substantiated. At the level of the European Union, a cost-benefit methodology was proposed for elaboration, a methodology that would be applicable to all investment projects that have included an environmental component; it was admitted though the difficulty in applying the ACB method due to insufficient data on environment, the difficult assessment of costs and damages caused by certain contaminating technologies to the environment and to the effects of introducing non-polluting technologies, and, in general, due to a monetary assessment of the impact on environment;

- cash-flow, an indicator that measures net results obtained from the implementation of the investment project with an impact on the environment, adding to the equation time as a factor. The significance of the adjustment factor should reflect in this case the importance and the value given to the environment, at least to the time span that defines the duration of the economic exploitation of the investment;

- the method of economic-ecological profitability threshold, which is established on the basis of economic costs, costs for the production ecologisation and the total turnover (economic and ecological);

- the method of financial indicators, these indicators are the onset of the financial analysis of the project. For assessment purposes, the indicators are classified as follows:
  - Liquidity ratios: general liquidity ratio (RLG); acid ratio test;
  - Solvency ratio: debt ratio, creditworthiness, fixed charge coverage ratio, debt management ratio;
  - Management ratios: turnover speed, stock turnover ratio, average stock ratio, total asset turnover, cost management;

1Commission of the European Communities Towards Sustainability, A European Community Program of Policy and Action, Brussels
- Profitability ratios; profit margin, return on equity, total asset return;
  - variation coefficient measuring the return variation on the basis of turnover variation, at the same time allowing for the risk assessment of the ecologisation project.

The investment activity implies significant material efforts that render necessary the concentration of actions in a general, strategic, long-term concept. At the same time with meeting economic objectives, one must take into consideration the necessity to conserve and protect the natural environment, the enrichment of the landscape, improvement of the quality of life, thus achieving an integration of the economic into the natural environment that is not prejudicial to the future generations.

The fundamental question to which the sustainable development investment process answers is: ‘What is to be done?’ In order to achieve this, the economic potential of the factors involved in the accomplishment of the ecologisation investments (local economic agents, management bodies, various institutions) in order to establish priorities, funding resources, appraisal criteria for the efficiency of the investment projects and actual means of implementation.

The decision to invest given the economic market conditions is based on rigorously established economic efficiency criteria, the investor being first and foremost interested in the return on their initial investment. Economic efficiency of investments renders on a conceptual level the quality of the investing action (quality investing) being determined by the ratio established between the quantity and the structure of the investment effort and the level of results.

In case when sustainable development is the goal, it is recommended to take into account not only the short term results obtained from an economic development based on conventional technologies that do, generally, offer a high productivity rate, but that also, through an intense exploitation of the raw materials end in resource depletion and increase in pollution, can irreversibly affect ecosystems. The sustainable approach of the investing strategies impose that long term benefits be taken into consideration in relation to the allocation and utilisation of resources, in a global economic-ecological global conception where the environmental paradigm is present. It is believed that a rational and efficient resource management can be attained by using organic and inorganic resources, as well as by utilising resources that, until recently, have been seen as free of charge, such as: air, water, soil, landscape, cultural heritage. Therefore, the economic-ecological approach on the investing context emphasises various types of benefits that may be derived from the implementation of the sustainable development projects.

Amongst the main effects, which can result from the implementation of the sustainable development projects we mention the following:
- economical – financial effects: profit, economical development, local development, regional, national development; increase in the productivity of certain economic areas, tourism, agriculture, pisciculture;
- social effects: decrease in the unemployment rate by creation of new jobs, increase in social stability, decrease in health costs, increase in quality of life;
- ecological effects: avoid costs related to pollution prevention and control, benefits from education and eco training, conservation of the natural environment, conservation of the historical and cultural heritage etc.

Nevertheless, investing in sustainable development can lead to additional costs related to the acquisition of technologies with a minimum impact on the environment,
purchase of specialised equipment, adequate working capital, training of the labour force, ecotaxes etc.

As a conclusion, we appreciate the fact that sustainable development must become the central objective of the investment policy.

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