

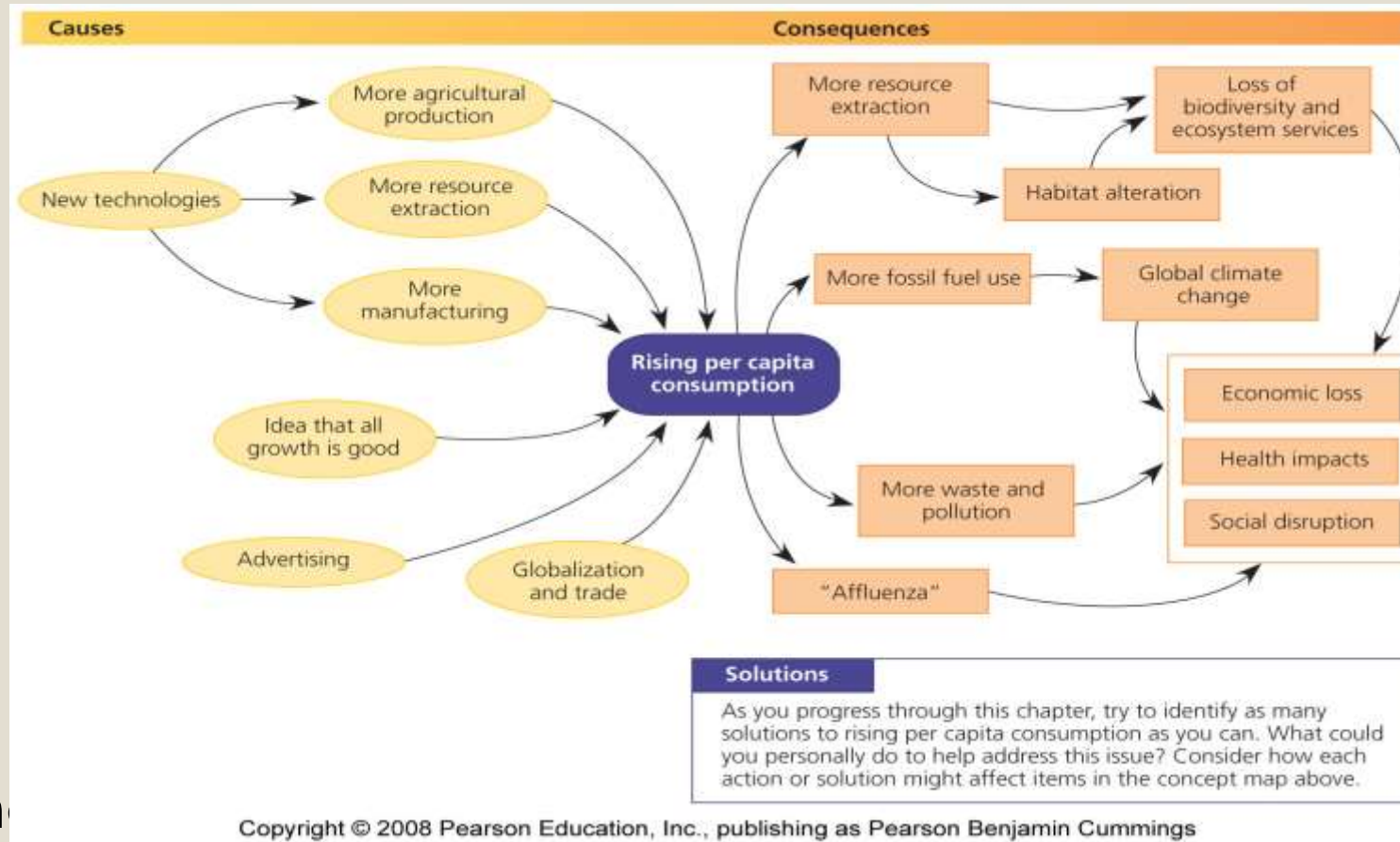


# LINGKUNGAN DAN BISNIS

Dony Abdul Chalid

# Is the growth paradigm good for us?

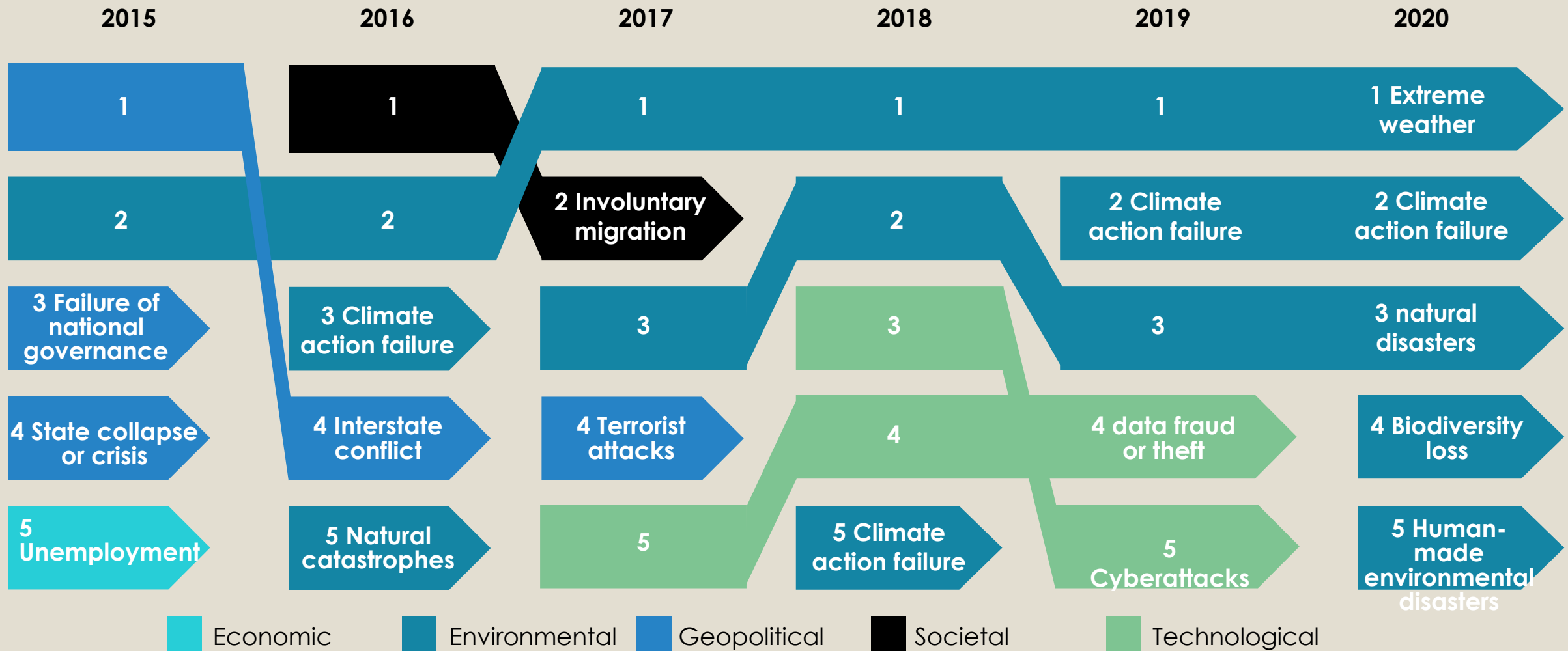
- “More and bigger is better”

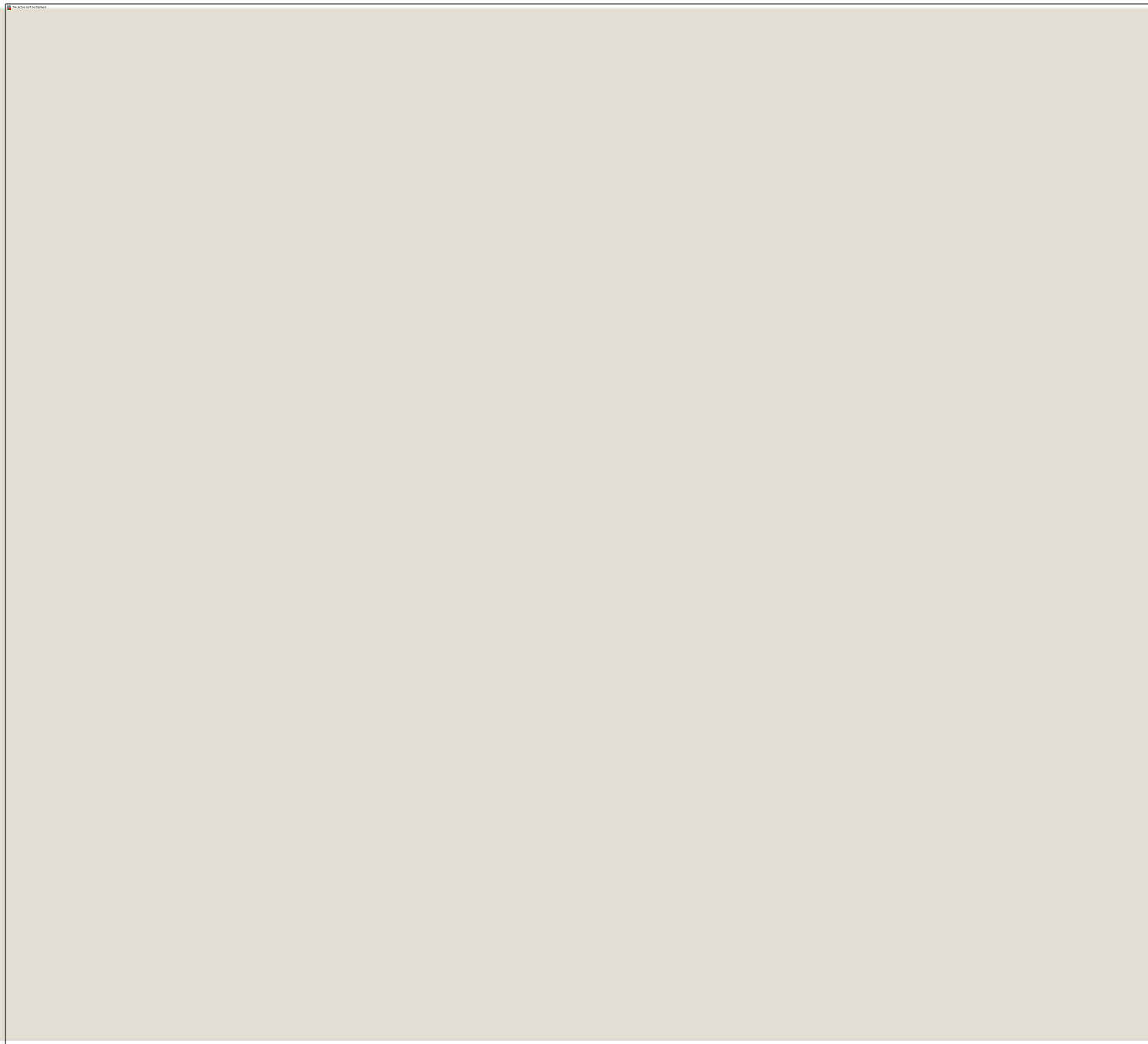


- The dramatic consequences

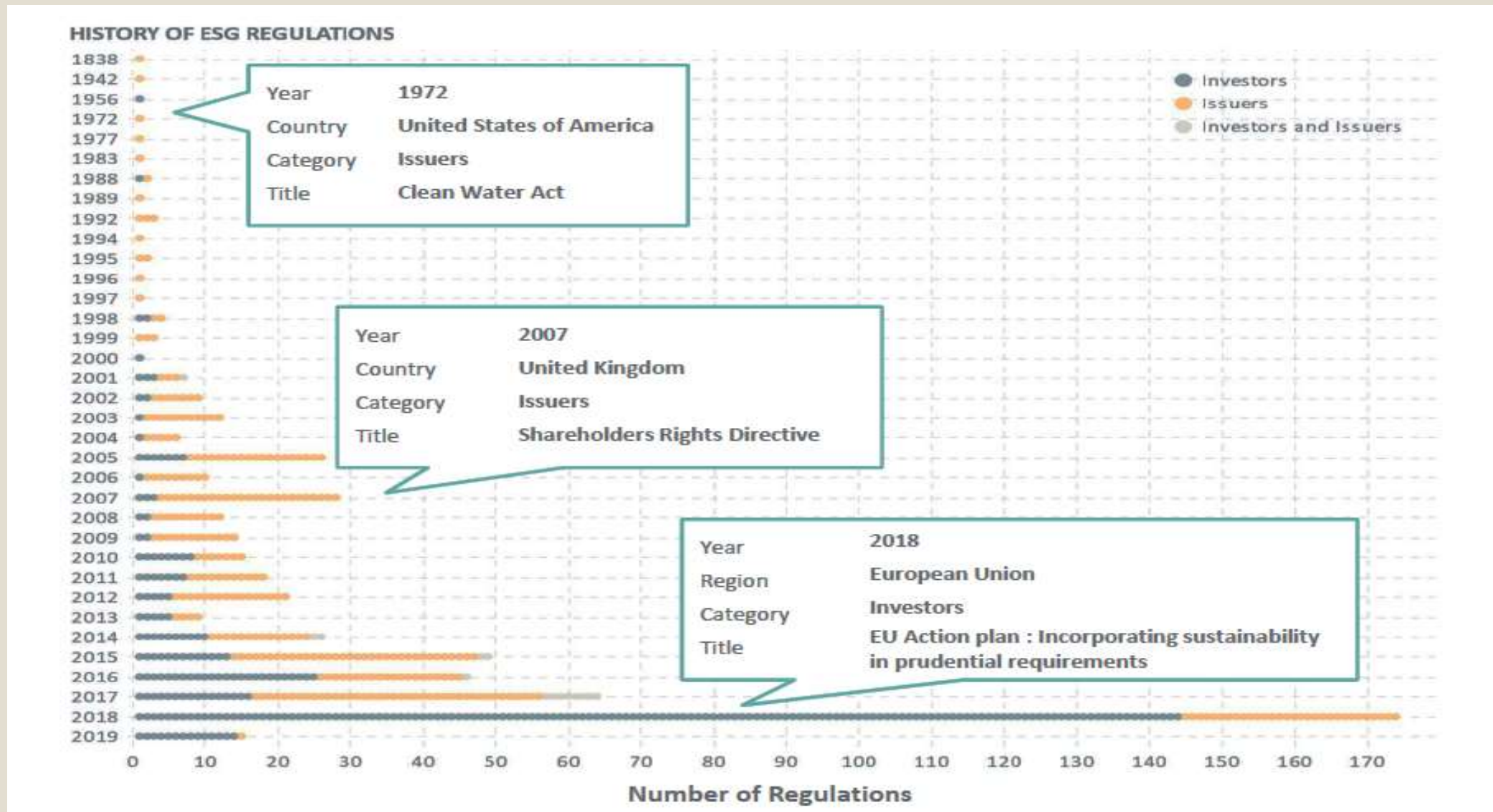
Environmental

# The WEF 2020 top risks





# Exponential growth in ESG regulations



# Environmental Risk

Country Portfolio Returns and Temperature Beta

Country	$\ell$	$R$	$\beta_w$
Group 1	0.10	19.74	-28.28
Group 2	0.30	16.56	-21.28
Group 3	0.45	15.11	-0.45
Group 4	0.62	12.44	37.53

**“countries closest to the Equator earn the highest risk premium”**

Table IV presents descriptive statistics and the temperature-related betas for four country distance-sorted portfolios. Group 1 corresponds to countries closest to the Equator, and Group 4 corresponds to countries furthest from the Equator. The table reports the average distance to the Equator  $\ell$ , the average temperature  $w$ , the average real equity return  $R$ , and the temperature beta  $\beta_w$  for the countries in each group.  $\ell_i$  is computed as the absolute value of the latitude in degrees divided by 90 to place it between 0 and 1. The average temperature is expressed in degrees Celsius and is computed as the average temperature within each group's countries. The temperature betas  $\beta_w$  are computed from the fixed-effects model presented in Table III. The data is annual, and market equity returns are real and expressed in percentage terms.

Source: Bansal, R., Ochoa, M. (November 2011), *Temperature, Aggregate Risk, and Expected Returns*, NBER Working Paper No. 17575.

# “Green” Business?

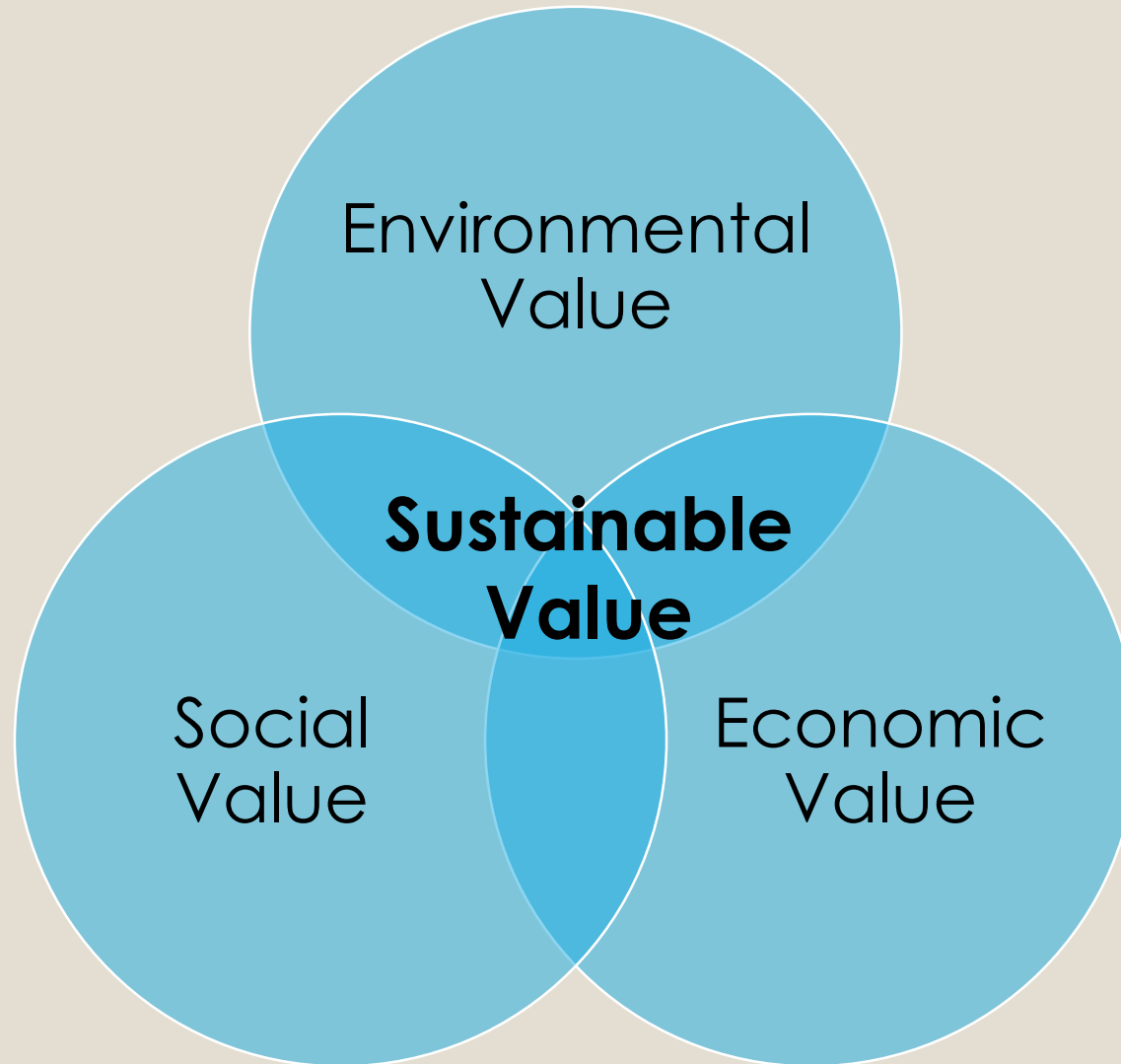
- Definition:
  - A business that minimizes the environmental impact of its activities?
  - A business that offer environmentally friendly products/services?
  - A business that supports “green” causes?
  
- Reasons:
  - Government Regulations
  - Consumer preferences/pressure
  - Strategic advantage
  - Risk management
  - Ethical considerations
  
- Is more responsible bad for business?

# Reasons for going “Green”

- Government Regulations
- Consumer preferences/pressure
- Strategic advantage
- Risk management
- Ethical considerations



# Sustainable Business



# What needs to be done

- Integrating the Environmental Risk
  - Stress testing
- Helping reduce the Environmental Risk
  - “Going green”