The ESG ecosystem update week ending 25 June 2021

ESG Integration Series

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In the ESG circle, we often speak of the ecosystem – the importance of regulations, the influence of reporting standards, changes in investors' preferences and behaviours, the voices of industry organisations and interests' groups, and the sustainable value creation capabilities of companies. Making sense of the information we receive every week is a positive challenge. I write this blog to share my highlights of the week and hope you will find it useful.

Just Transition – just how difficult is it going to be?

At the **Climate Readiness and Journey To Net Zero Webinars** last week @James Leiman @Claudia Chapman (recorded videos available here), we brought together experts on energy transition, clean technology, green hydrogen, sustainable agriculture, mobility solutions, emissions regulation (global), and ESG investment to discuss the challenges ahead, and how we can increase capital flows to enable a successful low carbon transition.

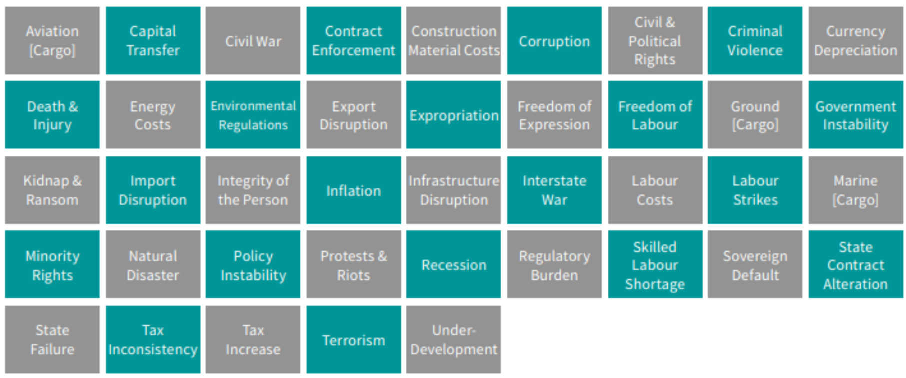
There is growing recognition that a low-carbon economy is not possible without managing Scope 3 emissions from the energy sector. Having a thorough understanding of how sectors are inter-connected; how policies are intertwined; how tax and subsidies create incentives that influence corporate and consumer behaviours help us to establish a holistic approach towards transition – a key goal of the webinars. As noted in a recent IPCC report, nature positive practices are important to public health and food security. There are additional materials linked to our webinar series:

1) Preview: Welcoming of our distinguished guests Commissioner Leiman, State of North Dakota, USA and Claudia Chapman, Head of Stewardship, FRC UK
2) Oil and gas scope 3 emissions
3) Life Cycle Assessment (LCA) in Automotive

Transition is not possible without a coordinated ESG ecosystem, as suggested by the title of this blog. G7 leaders emphasised the importance of narrowing the funding gap, but where do we start?

1) **Supra(national) power to monitor sovereign level transition** : In an IMF interview by @Mahmood Pradhan, @Richard House of Allianz Global Investors, and @David Lubin of Citibank suggest that IMF can play a role particularly given its commitment to helping them achieve the UN Sustainable Development Goals (SDGs). There are internationally used principles on green, social, and sustainable bonds—and lots of public and private data available. More specifically, IMF can help monitor engagement and reporting. Engagement with countries is critical. As noted in the **IHS Markit Sovereign ESG data and metrics** (Figure 1), we monitor over 40 country and territory level ESG indicators with 12 month forward looking guidance. A paper by @Alexia Ash (graduate of the LSE!) can be downloaded here.

Figure 1: Sovereign ESG Theme Metrics



2) **Governments to build resilience**: In the week that follows G7's publication of the joint communiqué, The Investor Agenda that leads 457 investors managing US$41 trillion assets urge governments to set ambitious climate policy ahead of COP26. The 2021 Global Investor Statement to Governments on Climate Crisis recognises the significant role plays by government, and the need for policies to be coordinated – covering carbon pricing, fossil fuel subsidy removal, phasing out thermal coal-based electricity generation, avoid new carbon-intensive infrastructure and developing just transition plans. Take **Japan as an example**: Inter-regional grid inefficiency in transmission and distribution is a long-standing bottleneck in Japan due to legacy and locally initiated power utility development from the 19th century. Things are starting to change with the establishment of the Organisation for Cross-Regional Coordination of Transmission Operators (OCCTO). This is important from the Just transition perspective because research has shown that if carbon pricing mechanism is implemented under an inefficient grid system, consumers will be

impacted unequally. There are other challenges too - see this blog by @Kevin Adler on Japan's new climate pledge for 2030 put pressure on power and transport industries.

3) **Industry actors to set clear goals**: Besides top-down policy initiatives, coordinated industry-led actions can drive change – well, we already know about how asset owners and investment managers drive change through Say on Climate. South Korea insurers announced the 'Korea Beyond Coal' campaign recently. See this blog by Amena Saiyid. When companies set clear goals, it becomes easier to raise funds through sustainability-linked instruments. See examples here on **TotalEnergies** and **Enel**.

4) **Private capital to show commitment**: Every week there is announcement of impact funds. This week, **Metlife** announced its commitment to originate US$500 million in new impact investments by 2030. **ABN Amro** launched the Sustainable Impact Fund (SIF) making private equity and venture capital investments in circular economy, energy transition and social impact. Over the last 100 business days, **IHS Markit** has tracked over US$140 billion of global cleantech deal flow involving 23 different investment banks and 68 separate transactions @Peter Gardett.

We should expect the climate focus is to broaden with the formal launch of the Taskforce on Nature-related Financial Disclosures (TNFD); its implementation will be strengthened by lessons learned from CA100+ as noted in this World Bank blog. The trend of a nature positive approach in business practices has been growing over the years. For example, more than 100 businesses commit to Extended Producer Responsibility (EPR) for packaging to address pollution and waste management issues through a life cycle lens. Standards setters such as the British Standards Institution (BSI) has launched its natural capital accounting standard. This is aligned with the EU natural Capital Accounting Development and the UN System of Environmental Economic Accounting (SEEA). SEEA has five stages which integrate biodiversity asset assessment with benefits accrued to the well-being of local businesses and households.

Diversity & Inclusion

At the **CFA UK** Why the Ethics of Diversity Matter event, we discussed the key recommendations on how to help boardroom to become truly diverse and inclusion based on a Board Briefing by @Deborah Gilshan and @Mark Chambers. We focused on what constitute a diverse board, changes in recruitment and interview practices, inequalities and racism as systemic risks and investors perspective, engagement approach and influence on board diversity. The recording is available on YouTube. Thanks @Arun Kelshiker @Raj Tulsiani @Ruth Cairnie @Michael Barker

Our discussion echoes well with the launch of the Women on Board report The Hidden Truth: Diversity and Inclusion in the FTSE All Share. See this blog that summarises the findings by @Fiona Horthorn.

We are very far from creating level playing field when it comes to providing equal opportunities for talent, whether it is from the perspective of gender, ethnicity, social groups or leadership styles - it is well known fact that extroverts are often expected to be more effective leaders, but this is not necessarily true, there are introverts leaders and many of them are in the tech space. Service leadership, empathy and listening skills are as important. Three key abilities of great leaders here irrespective of their leadership styles.

Women in Banking and Finance, the London School of Economics and Wisdom Council published a report @Grace Lordan finds that women struggled if they did not perform consistently well compared to what they recognise as mediocre men in the City of London who are surviving in financial services in high numbers, for a number of different reasons which include social norms, retention bias, and a difficulty among women, especially black women to gain recognition on their performance at work. A further striking finding of the research surrounds the tendency for managers to fake empathy when managing women, recognising that the trait was now very valuable.

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