RISE OF ESG WORLDWIDE

ESG factors are the fundamental framework for measuring a company's sustainability. The importance of environmental considerations has increased as a key element of ESG due to issues affecting climate change, such as water scarcity, severe temperatures, and carbon emissions. The environmental component of ESG takes into account the company's use of natural resources and the impact of its operations on the environment, both in its direct operations and across its supply chains.

Climate Change

To understand the concept of ESG with a thrust on 'E' and its growing significance worldwide, a quick look at the background of what made it a need is indispensable. 'Climate change' has become a pressing issue not for an individual or society or nation but for the World and every living being who inhabits this planet. But what is climate change? a word used oft-times these days by everyone. Climate change is the shift in weather patterns and temperature. Climate change can be attributed to natural factors but human agency has been principally responsible for the Climate change in the past two centuries.

Human activities have been adding green house gases to the atmosphere which is the major reason behind climate change. Carbon dioxide and methane are two examples of greenhouse gas emissions that are contributing to climate change. These are produced, for instance, while burning coal or gasoline to heat a building. Carbon dioxide can also be released during forest and land clearing. Methane emissions are primarily produced by waste landfills. Among the major emitters are energy, industry, transportation, buildings, agriculture, and land use. If these human activities are carried on more consciously, in a controlled manner being conscious of the harmful effect it can have on the environment then the climate change can be reversed.

The level of greenhouse gas concentrations is the highest it has been in 2 million years[1]. The result of climate change is that we see the headlines in the news of water scarcity, rising sea levels, intense droughts, severe fires, flooding, melting polar ice, catastrophic storms and declining biodiversity. As we are all aware of the humongous catastrophe that we have brought upon ourselves there is no need of delving into the details of climate change.

Climate change affects every aspect of our life and affects everyone leaving no exception. There are 3 broad categories of actions which can be taken for curbing the climate change- cutting emissions, financing required adjustments and adapting to climate impacts. These courses of actions are now being actively taken into consideration by the governments of the different nations and consequently policies are being framed in this direction.

Meaning of ESG

TThe phrase "environmental, social, and governance" (ESG) refers to a company's corporate financial interests, which are primarily centered upon ethical and sustainable outcomes. ESG is a tool used by capital markets to assess businesses and forecast their financial success. While corporate governance, sustainability, and ethics are all seen as non-financial performance measures, they serve to establish accountability and frameworks for controlling an organization's impact, such as its carbon footprint.

There are three aspects i.e., environmental, social and governance.

Environmental- How seriously an organization takes the preservation of natural resources, the environment, climate change, energy use and consumption, and their combined effects, some of the issues under this head.

Social- it is the relationship that the organization maintains with the stakeholders and the impact it has on the lives of the people. Some of the factors under this head are the consumer's satisfaction, regulations and initiatives for data protection and privacy, safety and health of employees,

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[1] https://www.un.org/en/climatechange/what-is-climate-change

human rights, such as against slavery and child labour, employee inclusion, equity, and diversity (DEI), the funding of initiatives or organizations that support underprivileged and impoverished populations worldwide, workplace norms, relations with the community, relation with the employees etc

Governance- Governance looks at the internal system checks and compliance procedures used by a company to govern it. Transparency, industry best practices, effective management of the business, and related growth activities are the main goals of governance. Some examples being composition of the company's board of directors, including diversity and structure, leadership in the company, bribery and corruption, executive policies and compensation, Tax planning, including the composition of the audit committee, internal controls, and regulatory guidelines, Whistleblower initiatives, Political lobbying and donations etc

Growing Significance

When the concept became a crucial component of many institutional investors' books, ESG truly became mainstream. The transparency and consistency of the ESG information that companies are disclosing publicly is being improved by the increasing number of ESG rating agencies that issue ESG ratings as well as new and evolving reporting formats (often called ESG Disclosure).

People and institutions are increasingly becoming conscious and their behavior has evolved over time and has become more sustainable. They strive to reduce waste, recycle, and make eco-friendly decisions. Additionally, this habit affects financial and investing decisions.

Investors are therefore eager to utilize their funds to support businesses that uphold these principles. As investors look to fund businesses whose beliefs on environmental sustainability and social responsibility line up with their own, ESG investing, also known as sustainable investing has experienced exponential growth.

The capital markets have the potential to be an effective tool for change. Bad actors may be inspired to improve performance across e, s, or g measures as access to capital will be restricted if the terms are unfavorable. On the other hand, investor's rewarding businesses and their management teams by investing more for good ESG performance promotes further development and advancement.

Global landscape

More than ever, the nations must take action to control greenhouse gas emissions and to motivate private sector actors to follow the same. The policy suite each country formulates to achieve its agenda serves as the foundation for these emission reductions, with a significant component of these policies explicitly focusing on measuring and publicizing the climate effect from businesses and the financial sector. These regulations, which can be categorized into two main categories—sustainable finance and environmental, social, and governance (ESG) disclosure—take various forms, such as a national sustainable finance strategy or a taxonomy that identifies which actions or investments are considered green or sustainable.

'Unpacking the Baggage of ESG Regulation' a report by BloombergNEF[2] examines the global regulatory environment for ESG disclosure and sustainable finance policy according to which as of August 2021, 86 markets had accepted these rules and regulations, whether they were imposed by the government, business associations, or international organizations, or were voluntary.

The world is witnessing ESG movement which is a trend which is growing of making commitments related to ESG and investing more in companies making such commitments. Many global initiatives have been taken at the global front. Taskforce on Climate-related Disclosures[3] by Financial Stability Board, Sustainable Finance Task Force by International Organization of Securities Commissioners[4], Network for Greening the Financial System[5] and International

[2]https://about.bnef.com/blog/europe-leads-on-esg-policy-but-trend-promising-for-all/
[3]https://www.fsb-tcfd.org/
[4]https://www.iosco.org/about/?subsection=about_iosco
[5]https://www.ngfs.net/en

Platform on Sustainable Finance[6] are some of the initiatives in the direction of environmentally sustainable development. Different countries have taken initiatives by incorporating the ESG disclosures through different policies, for instance UK's pension investment regulations now require ESG-related policies to be set out in a scheme's Statement of Investment Principles[7], EU has adopted The Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (SFDR)[8] etc, the China Securities Regulatory Commission has made regulations for disclosure of environmental information of listed companies[9] etc.

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[6]https://finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance

[7]https://iclg.com/practice-areas/environmental-social-and-governance-law/02-esg-and-uk-pension-schemes-a-matter-of-governance

[8]https://iclg.com/practice-areas/environmental-social-and-governance-law/04-esg-for-asset-managers

[9]https://iclg.com/practice-areas/environmental-social-and-governance-law/china