

▶ **Module 2 – What is ESG**

▶ **2.1 Introduction to ESG concepts and definitions**

Clarifying Key Acronyms in Sustainability

Overview of Terms: Understanding key acronyms is essential for clarity in sustainability discussions.

- **ESG (Environmental, Social, and Governance):** Framework for assessing a company's sustainability practices.
- **SDGs (Sustainable Development Goals):** Global goals set by the UN to address urgent environmental and social challenges.
- **SRI (Socially Responsible Investing):** Investment strategy considering ethical criteria.
- **CSR (Corporate Social Responsibility):** Company initiatives to assess and take responsibility for its societal impact.
- **RBC (Responsible Business Conduct):** Ensuring business operations adhere to ethical standards.

What and why

- **What is ESG?**

ESG (Environmental, Social and Governance) is a fast-growing trend in the business world today.

ESG refers to how organizations promote sustainability, social responsibility and ethical governance practices within their businesses.

- **Why did we start focusing on ESG?**

The focus on ESG has recently grown due to the finance sector considering the impact of firms they allocate capital.



ESG refers to the three factors:



The **ENVIRONMENTAL component** focuses on the business's impact on the planet, including carbon emissions, waste management and resource use



The **SOCIAL component** covers how a business manages their relationships with workers, suppliers, customers, and communities



The **GOVERNANCE factor** involves the businesses leadership, executive pay, audits, internal controls and shareholder rights



ENVIRONMENTAL

TRANSITION RISK

- Greenhouse gas emissions
- Policy and legal changes
- Shifts in consumer and investment sentiment
- Technological and energy advances



PHYSICAL CLIMATE

- Acute – events
- Chronic – long term changes (such as increasing temperature)



NATURAL CAPITAL

- Renewables
- Energy usage
- Water security
- Biodiversity
- Deforestation
- Resource availability



WASTE MANAGEMENT

- Recycling processes
- Production of waste
- Contaminated land
- Noise pollution



Open question 1:

Where do you see the biggest E risks in your sector/country/region?

► Customizable Slide - Environmental Contextualization

After exploring the Environmental (E) aspect, please add insights specific to your region or industry.
Consider including:

- Key environmental regulations or policies in your country.
- Local environmental challenges (e.g., pollution, natural resources, climate adaptation needs).

► Case studies of national companies with notable environmental practices.



SOCIAL

HUMAN and LABOUR RIGHTS

- Fair working conditions
- Social protection
- Employee relations
- Occupational safety and health
- Forced Labour and Human Trafficking
- Child Labour
- Diversity and inclusion (Gender equality, equal opportunities)

WORKPLACE

- Workplace culture
- Privacy and data security

CONFLICTS and POLITICS

- Engagement in high-risk areas
- Political risk
- Social inequalities

STAKEHOLDER IMPACT

- Community engagement
- Philantropy
- Consumer safety
- Product accessibility



Open question 2:

Where do you see the biggest S risks in your sector?

► Customizable Slide - Social Contextualization

After covering the Social (S) aspect, provide relevant information about social issues in your region.
Examples could include:

National labor laws or social policies impacting businesses.

Social challenges unique to your country (e.g., diversity, gender equality, community engagement).

Success stories or challenges faced by local companies in addressing social responsibility.



GOVERNANCE

GOVERNANCE STRUCTURE

- Ethical standards
- Board diversity
- Committee structures
- Separation of powers
- Stakeholder engagement
- Decision-making and approval processes
- Good Leadership

RISK MANAGEMENT, CULTURE AND OVERSIGHT

- Policies and standards
- Risk culture
- Enterprise Risk Management Framework
- Risk appetite strategy

TRANSPARENCY AND REPORTING

- Executive remuneration
- Tax payments
- Shareholder rights
- Bribery and corruption



Open question 3:

Where do you see the biggest G risks in your sector?



► Customizable Slide - Governance Contextualization

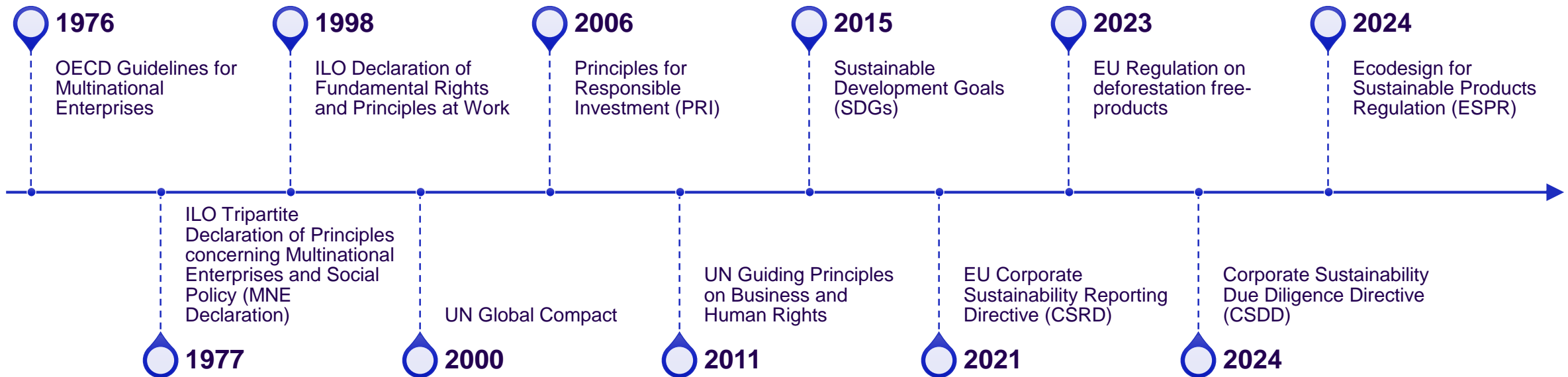
Following the Governance (G) aspect, incorporate information on governance practices relevant to your local context.

Consider:

- Key governance frameworks, such as national corporate governance codes or anti-corruption laws.
- Examples of governance issues faced by businesses in your region.
- Profiles of companies with strong governance structures in your country.

▶ 2.2 Evolution of ESG Frameworks

Evolution of Sustainability Frameworks



1960s – The Origins: Socially Responsible Investing (SRI)

1960s: ESG's roots can be traced back to Socially Responsible Investing (SRI), which emerged as a reaction to social movements such as civil rights and opposition to the Vietnam War.



1970s – Establishing Standards



Corporate Social Responsibility (CSR) gained significant momentum in the 1970s.

It emerged as businesses recognized their responsibility not just to shareholders but also to society, driven by growing public awareness of social and environmental issues.

► Evolution of Sustainability Frameworks (1976-1998)

OECD Guidelines for Multinational Enterprises (1976, revised in 2023)

- Non-binding recommendations for responsible business conduct.
- Covers various areas, including:
 - **Human Rights:** Respect and promote human rights in operations.
 - **Labour Standards:** Uphold fair employment practices, including collective bargaining and non-discrimination.
 - **Environment:** Encourage sustainable environmental practices and policies.
 - **Anti-Corruption:** Combat bribery and corruption.
 - **Consumer Interests:** Ensure fair treatment, product safety, and transparency.
 - **Taxation:** Comply with tax laws and avoid illicit tax practices.

ILO Tripartite MNE Declaration (1977, amended in 2022)

- Provides guidance to multinational and national enterprises on inclusive, responsible, and sustainable workplace practices.
- Addresses:
 - **Employment:** Promotion, social security, elimination of forced labor and child labor, equality.
 - **Training:** Skill development and fair opportunities.
 - **Conditions of Work:** Wages, benefits, safety, and health.
 - **Industrial Relations:** Freedom of association, collective bargaining, grievance resolution.

ILO Declaration of Fundamental Rights and Principles at Work (1998, amended in 2022)

- Commitment by governments, employers, and workers to uphold essential human values.
- Core principles:
 - Freedom of association and right to collective bargaining
 - Elimination of forced labor
 - Abolition of child labor
 - Elimination of employment discrimination
 - Safe and healthy working environment

► 2000s – The Birth of ESG as a Framework

2004: The term ESG was officially coined in a report titled 'Who Cares Wins,' commissioned by the UN Global Compact.

2006: The United Nations Principles for Responsible Investment (PRI) is launched, encouraging investors to incorporate ESG factors into their decision-making processes.



► Evolution of Sustainability Frameworks for Private Companies (2000 - 2011)

UN Global Compact (2000)

- Encourages businesses to adopt sustainable and socially responsible policies.
- Ten Principles across four areas:
 - **Human Rights:** Support, respect, and avoid complicity in human rights abuses.
 - **Labour:** Uphold freedom of association, eliminate forced labor, child labor, and discrimination.
 - **Environment:** Promote environmental responsibility and sustainable technologies.
 - **Anti-Corruption:** Combat all forms of corruption, including extortion and bribery.

Principles for Responsible Investment (PRI) (2006)

- Framework for incorporating environmental, social, and governance (ESG) factors into investment decisions.
- Six Principles:
 1. Incorporate ESG issues into investment analysis and decision-making.
 2. Be active owners and incorporate ESG into ownership policies.
 3. Seek appropriate ESG disclosure from entities invested in.
 4. Promote acceptance and implementation of PRI within the industry.
 5. Work together to enhance effectiveness in implementing PRI.
 6. Report on activities and progress towards implementing PRI.

UN Guiding Principles on Business and Human Rights (2011)

- Global standard for preventing and addressing business-related human rights abuses.
- Three Pillars:
 1. **Protect:** States must protect human rights from abuses by third parties, including businesses.
 2. **Respect:** Businesses must respect human rights by avoiding violations and addressing negative impacts.
 3. **Remedy:** Ensure access to effective remedy for victims of human rights abuses through judicial and non-judicial means.

UN Sustainable Development Goals (2015)

The United Nations Sustainable Development Goals (SDGs) are a collection of **17 interlinked global goals** designed to be a blueprint to achieve a better and more sustainable future for all.

They were agreed in **September 2015** and are intended to be achieved by 2030.

Through 17 commitments and **169 targets**, the goals seek to drive global action across social, environmental and economic development issues.

The SDGs aim to guide **governments' regulations and policies**.



► The evolution of ESG is still ongoing

For instance, between 2022 and 2024, some important new regulations emerged in Europe...

EU Corporate Sustainability Reporting Directive (CSRD) (2022)

- **Objective:** Modernizes and strengthens sustainability reporting for companies.
- **Who is Affected:** Large companies and listed SMEs. Non-EU companies with over EUR 150 million in EU market revenue.
- **Key Features:**
 - Enhanced Transparency: Ensures stakeholders access critical social and environmental information.
 - Harmonization: Reduces reporting costs through standardized information requirements.
 - European Sustainability Reporting Standards (ESRS): First set published on December 22, 2023; applicable to all sectors.
 - Assurance Requirement: Mandates verification of reported sustainability information.
- **Implementation Timeline:** First reports due in 2025 for the 2024 financial year.



EU Regulation on Deforestation-Free Products (2023)

- **Objective:** Prevent commodities linked to deforestation (e.g., cattle, wood, cocoa, soy, palm oil) from being placed on or exported from the EU market.

- **Who is Affected:**

- Operators and traders handling listed commodities in the EU.
- Special provisions and extended timelines for micro and small enterprises.

- **Key Features:**

- **Proof Requirement:** Companies must demonstrate that products do not originate from recently deforested land or cause forest degradation.
- **Targets:** Reduce carbon emissions by 32 million metric tonnes annually and address deforestation driven by agricultural expansion.

- **Implementation Timeline:**

- Rules applicable by December 2025 for large and medium companies.
- Micro and small enterprises have until June 2026.

- **Support Mechanisms:**

- Multi-stakeholder platform for best practices.
- EU Observatory on deforestation monitoring and supply chain transparency.



Summer 2024: Corporate Sustainability Due Diligence Directive

On 25 July 2024, the Directive on corporate sustainability due diligence (Directive 2024/1760) entered into force.

The aim of this Directive is to foster sustainable and responsible corporate behavior in companies' operations and across their global value chains.

The new rules will ensure that companies in scope identify and address adverse human rights and environmental impacts of their actions inside and outside Europe.



Summer 2024: Ecodesign for Sustainable Products Regulation

Ecodesign for Sustainable Products Regulation (ESPR)

The ESPR entered into force on 18 July 2024, is the cornerstone of the Commission's approach to more environmentally sustainable and circular products.

Products and the way we use them can have a significant impact on the environment. Consumption in the EU can therefore be a major cause of climate change and pollution.

The ESPR is part of a package of measures that are central to achieving the objectives of the 2020 Circular Economy Action Plan. They will contribute to helping the EU reach its environmental and climate goals, doubling its circularity rate of material use and to achieving its energy efficiency targets by 2030.



Who Translates The Big Frameworks?



The Role of ESG Rating Agencies



ESG rating: is a method used for measuring environmental, social, and governance (ESG) practices and corporate efficiency.



ESG rating agencies: collect data on all kinds of factors, such as greenhouse gas emissions, working procedures, diversity of company boards, and engagement with communities, to evaluate the company's overall performance. Such rating is also used by investors, analysts, and other stakeholders to assess the company's long-term sustainability and for the purposes of risk management.



ESG rating methodology: is not unified and every rating agency can thus use various methods and criteria for the purposes of company evaluation. One should also note that ESG rating is only one of the tools available for the evaluation of corporate sustainability and it should be used in connection with other sources of information.

► Customizable slide - National Context for ESG Rating Agencies

Consider adding a list of well-known global or local ESG rating agencies relevant to your context.

▶ 2.3 SDGs vs ESG

UN Sustainable Development Goals (2015)

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The Sustainable Development Goals:

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality Education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and economies
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnership for the goals



► Customizable slide - Country-Specific SDG Priorities

- Most Relevant SDGs: [Insert SDGs relevant to the country, e.g., Affordable and Clean Energy, Decent Work, etc.]
- Briefly explain why these SDGs are important for the country's development.

► Why are the SDGs Relevant for the Private Sector?

- **Business Value:**

- **Align with Global Priorities:** Companies that integrate SDGs into their strategies show leadership on globally recognized sustainability issues.
- **Opportunities for Innovation & Growth:** The SDGs open new markets and attract investment by addressing **sustainable solutions** to global needs.
- **Build Reputation:** Engaging with the SDGs enhances **corporate responsibility**, building trust with stakeholders and consumers.

- **SDGs vs. ESG:**

- **SDGs:** Focus on global development goals and broader societal outcomes.
- **ESG:** More company-centric, measuring how environmental, social, and governance factors impact business performance.

A Common Starting Point: SDGs help businesses **identify priorities** and **set the foundation** for comprehensive ESG strategies, aligning corporate responsibility with global development goals.

How SDGs and ESG align: understanding their differences and shared goals

	Sustainable Development Goals (SDGs)	Environmental, Social, and Governance (ESG)
Focus	Global goals to address sustainability challenges	Framework to measure company performance in sustainability
Purpose	Guide international efforts toward a sustainable future	Help investors and companies assess sustainability and risk management
Scope	17 goals with 169 targets covering global issues	Focused on environmental, social, and governance factors in businesses
Users	Governments, NGOs.	Businesses, investors, and analysts
Timeframe	Targets to be achieved by 2030	Ongoing assessment of business performance
Examples	No poverty, clean energy, climate action	Carbon footprint, labor practices, board diversity

► **Thank you very much**