Session 4: “Corporate governance and investment policies”

United Nations ESCAP’s Asia-Pacific workshop on mainstreaming the Sustainable Development Goals into planning, budgetary, financing and investment processes

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What can Ministries of Finance and Planning do to integrate SDGs in sustainable financing?

- SDGs serve as the compass to achieve sustainability (Environment, Social, Governance)
  - Establish and implement standards which can be applied both domestically and internationally
  - Systemize linkages from inputs to outcomes in an apolitical manner
- Establish a clear role for governments
  - Become aware of international practices and apply to country-based risk analysis and demands
  - Understand fiscal liability implications over long-term
  - Establish clear regulations and policies
  - Integrate sectoral ministries and agencies in planning, budgeting and fiscal risk discussions
  - Engage in regional and international cooperation

Source: www.ijustloveit.co.uk and broadeffect
Building sustainability values- environment, social and governance

*Global Sustainable Investment Review (GSIA) definitions of sustainable investment, www.gsi-alliance.org*

- **NEGATIVE/EXCLUSIONARY SCREENING**: the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria;

- **ESG INTEGRATION**: the systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis;

- **CORPORATE ENGAGEMENT AND SHAREHOLDER ACTION**: the use of shareholder power to influence corporate behavior, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

- **POSITIVE/BEST-IN-CLASS SCREENING**: investment in sectors, companies or projects selected for positive ESG performance relative to industry peers;

- **SUSTAINABILITY THEMED INVESTING**: investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture);

- **NORMS-BASED SCREENING**: screening of investments against minimum standards of business practice based on international norms, such as those issued by the OECD, ILO, UN and UNICEF;

- **IMPACT/COMMUNITY INVESTING**: targeted investments aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose; and

- **SHAREHOLDER ACTION**: the use of shareholder power to influence corporate behavior, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.
ESG is a recent investment trend... ... movement spread with the launch of UN Principles of Responsible Investment (UNPRI) in 2006.

...to address factors related to environmental, social and corporate governance.

ESG serves as the foundation of sustainability-themed investing by considering how well a firm manages the three factors.
Integration of ESG and SDGs into investment decisions is growing...

Source: Capital Partners 2019: ESG to SDGs - the road ahead; n=207 from 28 countries o/w 5 UNESCAP countries
...but policies remain fragmented

Pension fund regulations:
- Incorporates ESG into investment decision making
- Trustees formulate the fund’s investment strategy as well as internal investment policies accordingly

Stewardship codes:
- Set of standards that help govern interactions like oversight and engagement between investors and investee companies.
- Established by local regulations on a country by country basis.

Corporate Disclosure Guidelines:
38 out of the largest 50 economies have, or are developing, disclosure requirements for corporations covering ESG issues

The Task Force on Climate-related Financial Disclosures: 2019 Status Report reviewed financial filings, annual reports, integrated reports, and sustainability reports. It found that:

- Disclosure of climate-related financial information has increased since 2016 but is still insufficient for investors.
- More clarity is needed on the potential financial impact of climate-related issues on companies.
- Of companies using scenarios, the majority do not disclose information on the resilience of their strategies.
- Mainstreaming climate-related issues requires the involvement of multiple functions.

Source: [www.FSB.org/2019](http://www.FSB.org/2019) for over 1,100 companies from 142 countries in eight industries over a three-year period.
To ESG or Not? – What does evidence say?

ESG: indication of efficiency, strong operational and financial performance

• Positive correlation between corporate environmental responsibility and long-term stock performance (Cai and He, 2014)

• HSBC suggests companies with improving ESG scores outperform the broader equity market, especially in emerging markets. (Figure 1)

• Bloomberg found that the MSCI KLD 400 Social Index, (excludes “sin stocks” such as alcohol and gambling companies and screens for ESG criteria) outperformed the S&P500 from its inception in 1990 to 2018, with slightly higher volatility due to the lower average market capitalization of its constituents. (see Figure 2)

Member type: global asset owners

• UN-supported international network of investors to develop a more sustainable global financial system

• 6 principles: voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

• As of October 2019: over 2400 signatories globally with total AUM exceeding US$80 trillion o/w 14% are in Asia-Pacific

Member type: emerging markets regulatory agencies, banking associations

• A voluntary community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance

• Member countries’ financial sectors to improve ESG risk management and disclosure, and increase funding for activities with positive climate impact

• The 54 members from 38 countries represent US$43 trillion (85%) of the total banking assets in emerging markets o/w 21 are in Asia-Pacific

Member type: developed countries sustainable investment forums (SIFs)

• A collaboration of membership-based sustainable investment organizations globally

• Deepen the impact and visibility of sustainable investment organizations at the global level

• Currently there are 7 alliance members based in Europe, Australia, Canada, UK, US, Netherland, and Japan

Source: IFC report, UN PRI and GSIA website
Overview of Global financial initiatives (cont.)

Member type: corporations
• UN pact to encourage businesses to adopt sustainable and socially responsible policies, and to report on their implementation
• Support companies to align their strategies and operations with Ten Principles on human rights, labor, environment and anti-corruption
• Currently there are 13,807 voluntary participants including business associations, NGOs and corporates

Member type: corporations
• Task Force on Climate-related Financial Disclosures chaired by Michael Bloomberg develops voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders
• As of June 2019: 785 companies and other organizations have committed to support TCFD; 340 investors with nearly US$34 trillion in AUM have asked to report under TCFD; 36 central banks/supervisors encourage TCFD reporting

Member type: miscellaneous
• UN Environment Program Finance Initiative is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development
• Works with more than 290 members and over 100 supporting institutions to help create a financial sector that delivers positive impacts

Source: TCFD 2019 Status report, UN Global Compact website, UNEP FI website
Principles for Sustainable Insurance

- Embed in our decision-making environmental, social and governance issues relevant to our insurance business
- Work with clients and business partners to raise awareness of ESG issues, manage risk and develop solutions
- Work with governments, regulators and other key stakeholders to promote widespread action across society on ESG issues
- Demonstrate accountability and transparency in regularly disclosing publicly progress in implementing the Principles
Thank you!

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