RAISING THE BAR: HOW CORPORATE ENVIRONMENTAL, SOCIAL AND GOVERNANCE DISCLOSURE IS HELPING DELIVER THE UN SUSTAINABLE DEVELOPMENT GOALS

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Promoting environmentally sound and sustainable development is a core part of the EBRD's mandate. In line with its 2015 Green Economy Transition approach, the EBRD is on track to achieve its ambitious target to increase green financing to 40 per cent of its annual business volume by 2020.[1] In fact, the Bank surpassed this target in 2019. The GET approach is aligned with the 2015 Paris Climate Agreement, and is delivered through the EBRD's unique business model combining investments, concessional financing, policy engagement and technical support. The Bank has also embraced the strategic long-term vision for development, as set out in the United Nations' Sustainable Development Goals (SDGs).

The SDGs are the global blueprint for environmentally sustainable and inclusive economic development. There are just 10 years to go before the 2030 deadline to achieve the Goals, to which members of the international community signed up in 2015.

Pursuing the SDGs is closely linked with delivery of the EBRD's mandate, as encapsulated in the six Transition Qualities by which impact is measured. These define a sustainable, well-functioning market economy as competitive, well governed, green, inclusive, resilient and integrated.[2] In addition, the Bank has a robust and inclusive Environmental and Social Policy ensuring proper safeguards are put in place in every project and benefits for the wider community are maximised.[3]

Four years after the SDGs were created, progress has been made in some areas, but it is clear that a "much deeper, faster and more ambitious response on a global level is needed to unleash the social and economic transformation needed to achieve our 2030 goals," according to the Secretary-General of the United Nations António Guterres.

The lack of progress is particularly apparent when looking at SDGs related to the environment, such as climate action and biodiversity. The impacts of climate change and increasing inequality across and within countries are factors that are undermining progress on the sustainable development agenda, threatening to reverse many of the gains made over the last decades that have improved people's lives, warns the United Nations' latest report on the Sustainable Development Goals.[4]

CLIMATE ACTION

There are numerous factors in a complex world that contribute to driving big transformation towards a low-carbon and resilient economy. Nonetheless, over the last couple of years, several key interconnected trends have emerged, which influence this transformation on a global and regional level.

First, the impacts of climate change are becoming far more tangible. People and governments increasingly have to deal with the impacts of a warmer world: extreme weather, heatwaves, a rising sea level and ocean acidification are intensifying. Businesses are experiencing financial losses from the unpredictability of the climate. Natural disasters and the collapse of ecosystems are causing increased food insecurity, displacement and widening inequality gaps. Simultaneously, general awareness is growing and many national, city and regional leaders have called for urgent, coherent and transformative climate action.

Second, there has been a strong social movement on a global scale that has been driven by young people who are calling for change. This wave of activism is shaping public opinion and has led to a growing focus on the climate change challenge in the media and in political debate.

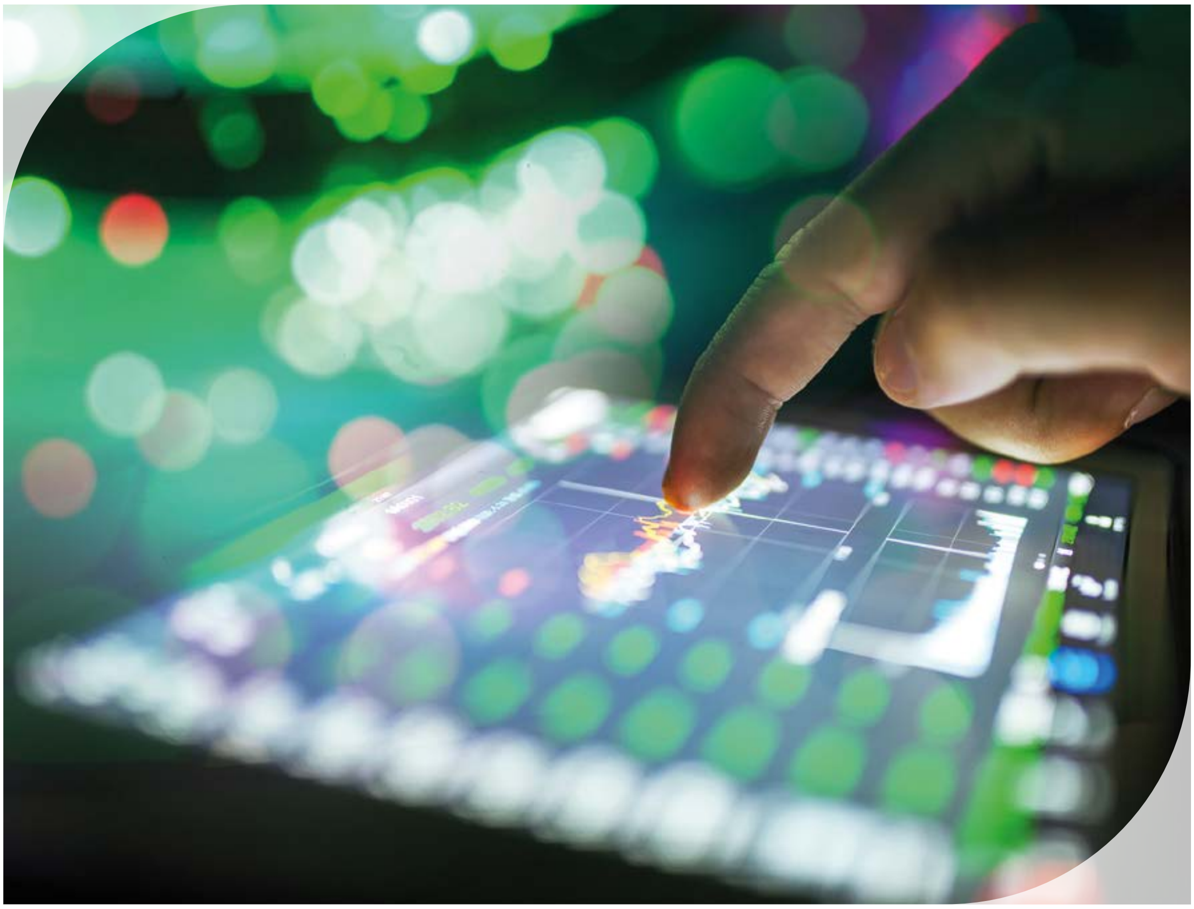
Third, the cost of renewable energy technology is plunging, largely due to ambitious national policies, earlier subsidies and current targets for green energy. Other technologies are becoming increasingly attractive (for example, energy storage) and their deployment will help reduce dependency on fossil fuels. Digital technologies are transforming the energy sector and other industries: for example, the application of data gathering, open access data and smart contracts are increasingly becoming integral to the decarbonisation and decentralisation of energy systems, while artificial intelligence and disruptive technologies are being used for verifying and analysing companies' environmental, social and governance (ESG) data.

The EBRD is supporting the economies where it invests in developing renewable energy markets and in implementing competitive renewable energy auctions that ensure increased transparency and low prices for end consumers.

INVESTORS SHIFT TO SUSTAINABLE PRODUCTS AND SEEK ESG REPORTS

The fourth factor is closely related to the concerns of corporations and investors about sustainable investment and the impacts of climate change. Investors are taking a sustainable approach to pursue their investment objectives by requesting ESG insights into traditional investment approaches. There is overwhelming research showing that better management of ESG risks leads to better long-term financial performance of firms.[5] The strength of this relationship depends, among other things, on the type of industry in question, the firm's location and the quality of governance in the country where the firm is located.

Reports show that the ESG disclosure rate for top companies has quadrupled since 2011. It has been a significant challenge to decipher this data, which has burgeoned in recent years. In addition, the range of ESG reporting frameworks, standards and voluntary initiatives is expanding, making the reporting landscape complex and challenging



for companies, especially for those from emerging markets. Criticism has been directed at a lack of standardisation of data, favouritism of some ESG considerations over others, a lack of historical data and the fact that some sectors report more than others. A growing number of ESG ratings providers are tackling these problems, but challenges in implementation and a lack of consistency and comparability of reports remain. Investors are increasingly enquiring about sustainable investment, including the risks and opportunities emerging from energy transition in a warmer world. Accordingly, market-leading initiatives and standards have been developed which acknowledge that useful corporate information on climate-related risks and opportunities will help mitigate the risk of financial loss and reveal the potential for financial gain.

Some of these reporting frameworks and standards apply to investors, such as the UN Principles for Responsible Investment (UNPRI), which require investors to have appropriate disclosure on ESG issues by the entities in which they invest. While others, such as the OECD

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Guidelines for Multinational Enterprises and the Due Diligence Guidance of Responsible Conduct, apply directly to corporates. The market-led recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), for example, apply directly to corporates and aim to ensure that investors, lenders and insurance underwriters have sufficient information about how climate change could affect their actual and proposed investment. Other disclosure bodies join forces to ensure consistency in their standards and requirements and contribute to the emergence of knowledge around the good practices in implementing the TCFD recommendations.[6] Blackrock, a global investment management company, announced that the companies it invests in will be asked to disclose information in line with the guidelines of the Sustainability Accounting Standards Board and the TCFD. This may be a real game changer for the market as it is encouraging its financial institutions to do so too.[7] Nonetheless, providing decision-useful sustainability reporting remains a challenge, especially in emerging economies where reporting is patchy and burdensome. Clearly there is a role for development banks to play.

The EBRD is a signatory to UNPRI and was the first multilateral development bank (MDB) to support the TCFD.

Sharing their ambition for climate action, in 2018 the EBRD and other MDBs signed a joint declaration aligning their activities with the goals of the Paris Agreement. The MDBs stated that: “there is an international consensus on the urgent need to ensure that policy engagements and financial flows are consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”[8] In 2019 the MDBs announced plans to increase the global climate action investments they support each year to US$ 175 billion by 2025.[9]

EMERGING REGULATORY FRAMEWORKS

The fifth central factor driving markets to low carbon and resilient transformation is the move by governments and regulators to standardise and simplify ESG disclosure regimes, which will increase board-level engagement on this topic in the short to medium term.[10] To achieve the SDGs in Europe, the European Commission developed the Sustainable Finance Action Plan. The Plan aims to redirect capital flows towards a more sustainable economy, mainstream sustainability in risk management and foster transparency and long-termism. Accordingly, the European Commission has adopted 10 separate action points, including developing legislative proposals in relation to some of the work streams. Key contributions of the Plan include establishing a European Union (EU) classification system for sustainable activities (so-called taxonomy), strengthening sustainability disclosure and accounting rule-making and fostering sustainable corporate governance. The EU’s ambition to mainstream sustainable investment by providing the relevant definitions, tools and regulatory regime will help develop a consistent and comparable assessment and reporting of ESG data. In 2019 the EU incorporated TCFD recommendations in its supplement to the Guidelines on Non-Financial Reporting, which is another positive development towards streamlined reporting requirements.

On a national level, for example, the UK’s Financial Reporting Council encourages non-financial reporting and requires companies to report on their principal risk and environmental matters, when material. The UK’s Green Finance Strategy (July 2019) aims to align private-sector financial flows with clean, environmentally sustainable and resilient growth. France is among the first countries to require institutional investors to disclose information about their contributions to climate goals, compelling them to provide information on the methodology applied under the “comply or explain” approach. Other countries are also moving to provide guidance for ESG reporting. Meanwhile, the Network for Greening the Financial System, a group of central banks and financial regulators, has put forward recommendations aimed at making climate risk management a standard component of financial supervision across a range of advanced and emerging market economies.

Lastly, another factor is the increasing number of legal claims brought in courts by shareholders against companies and company directors for failing to disclose information related to climate risk, for failing to account for possible risks to carbon-intensive assets or for contributing to extreme weather conditions by burning fossil fuels and raising CO_2 levels in the atmosphere. In some cases, claimants are seeking billions of dollars in damages. Such climate liability risks can be mitigated, if companies develop long-term strategies and disclosure policies for climate-related risks.

The uptake of climate governance for companies, in practice, especially in emerging countries, is still at an early stage. A 2018 EBRD study led by the LTP highlighted the key practices that have emerged for companies to adopt in line with international standards. A senior buy-in at the highest level is essential. Nonetheless, even with the right buy-in, developing a forward-looking strategy incorporating the climate may still take several years, requiring close cooperation of finance, risk management and audit teams, as well as local business units in order to account for local climate-related risk and impacts. Furthermore, companies may also need to establish partnerships with experts and scientific organisations in order to translate scientific data into workable and operational action plans and to improve access to data. More mature companies should carry out climate scenario modelling tests to feed into the analysis of risks and opportunities and to support organisational decision-making processes. Governance of climate risks also needs to be supported by regular meetings of designated governance bodies and training for board members and key managerial staff.

Based on the study the EBRD has launched a pilot project to support an energy-sector client in developing an action plan to identify, assess and manage climate-related risks and enhance its climate governance. This will lead to an open and transparent dialogue with investors, policymakers and stakeholders on managing climate risks and opportunities and will make the company more climate-resilient.

OPPORTUNITIES IN A CHANGING WORLD

Despite market, litigation and emerging regulatory pressure to report on ESG and the climate in particular, there are also valuable incentives that exist to accelerate progress by leveraging the opportunities in tackling climate change. Financial experts have stated that firms that do not adapt "will go bankrupt", while “there will be great fortunes” for those who are working to tackle global warming.[11] Interlinking climate action with the rest of the SDGs will also unveil opportunities. Reducing greenhouse gas emissions, for instance, goes hand in hand with creating jobs, building more liveable cities and improving health and prosperity for all.

It is expected that the emerging frameworks and alignment initiatives will provide a cornerstone for transforming the financial system to reward the most sustainable companies and allow their solutions to achieve the scale that society needs. Delivering on the Paris Agreement and the SDGs requires improved, robust, meaningful ESG and climate disclosure practices.

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EBRD building partnerships for achieving SDG 12 (Responsible consumption and production), SDG 13 (Climate action) and SDG 17 (Partnerships for the goals)

by Vesselina Haralampieva (Senior Counsel) and Kate Harrington (Chief Counsel, EBRD)

Few things are as interwoven with human existence and culture as food. At the most basic level, we need food to survive. Beyond sustenance, the production and sharing of food is often central to cultures around the world. However global food production is also a major contributor to climate change, and nearly one-third of food produced for human consumption is either lost or wasted. This amounts to 1.3 billion tonnes of food, resulting in US$ 1 trillion in economic costs, around US$ 700 billion in environmental costs and around US$ 900 billion in social costs.[12] Despite this, more than 10 per cent of the global population goes hungry.[13] And the number of people who are undernourished or facing severe food insecurity worldwide is increasing. Reducing food loss and waste (FLW) included in SDG Target 12.3 requires global food waste at the retail and consumer levels to be halved and food losses along production and supply chains to reduce by 2030.[14]

Reducing FLW is an important way to increase the efficiency of the food system, improve food security and nutrition, and contribute towards environmental sustainability. In addition to SDG 12 (responsible consumption and production), reducing FLW contributes directly to SDG 2, which calls for an end to hunger, the achievement of food security and improved nutrition, and the promotion of sustainable agriculture. The positive environmental impacts from reducing FLW support SDG 6 (sustainable water management), SDG 13 (climate change), SDG 14 (marine resources), SDG 15 (terrestrial ecosystems, forestry, biodiversity) and other SDGs. In service of SDG 17 (partnerships for the goals), the EBRD works closely with Food and Agriculture Organization of the United Nations (FAO) and the International Fund for Agricultural Development (IFAD) to address FLW.

The EBRD invests in the private sector to encourage companies to adopt sustainable practices, reduce waste and integrate ESG data into their reporting. Climate change will affect food security, including food production and distribution channels. At the same time FLW negatively affects climate and environmental sustainability. Companies adopting sustainable business roadmaps will generate less waste, fewer greenhouse gas emissions, and more considerate usage of food resources.

In accordance with the objectives of the EBRD's Agribusiness Strategy (2019-23) and the EBRD's Green Economy Transition Approach, the LTP developed FLW Guidelines for Greece and Turkey[15] in 2019 aimed at identifying and promoting policies, regulatory measures and business practices that would have a positive impact on prevention, reduction and management of FLW at supply and retail levels. In addition, the guidelines highlight good sector practices for the integration of the circular economy approach into the relevant stages of the food supply chain.[16] This initiative has been implemented in partnership with FAO.

FLW represents economic losses for all actors along food supply chains, including end-consumers. Investments designed to reduce FLW yield more safe and nutritious food for human consumption than investing only in increasing food production. Engaging the public sector, private sector and civil society is critical to raise awareness and focus efforts for change at the retail and consumer levels. From better matching supply with fluctuating demand for different food types, using “ugly” fruits and vegetables as ingredients for food products such as baby food and spreads to ensuring expiration dates reflect the true shelf life of products, retailers can reduce their food waste. Retailers can also play an important role in ensuring any surplus edible food is redistributed for human consumption, helping divert food waste from landfill and providing high quality nutrition to food-insecure consumers. Interventions that help people avoid overbuying food and letting it spoil can help save money while also creating new business opportunities.

FLW is a significant global challenge for business, policymakers and civil society. The EBRD is committed to work in partnership with all stakeholders to meet the SDG Goals.

1. See https://www.ebrd.com/what-we-do/get.html (last accessed 10 January 2020).

2. See https://2018.ar-ebrd.com/our-transition-qualities/ (last accessed 10 January 2020).

3. See https://www.ebrd.com/environmental-and-social-policy.html (last accessed 20 February 2020).

4. See https://www.un.org/sustainabledevelopment/blog/2019/07/sdg-progress-report-2019/ (last accessed 10 January 2020).

5. Manrique and Martí-Ballester (2017), Xie et al. (2019) and *Transition Report 2019-20*, EBRD.

6. In September, the Sustainability Accounting Standards Board (SASB) and Climate Disclosure Standards Board (CDSB) published the TCFD Good Practice Handbook, which provides examples of good practice from across the G20 countries.

7. See https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter (last accessed 31 January 2020).

8. See https://www.ebrd.com/news/2018/mdbs-make-joint-declaration-on-climate-finance-alignment.html (last accessed 10 January 2020).

9. See https://www.ebrd.com/news/2019/-mdbs-pledge-to-join-forces-to-raise-annual-climate-finance-to-175-bn-by-2025.html (last accessed 10 January 2020).

10. See https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/Reporting-matters/News/Reporting-matters-2019-regulators-and-standard-setters-urged-to-simplify-and-align-the-corporate-reporting-landscape (last accessed 10 January 2020).

11. See https://www.theguardian.com/environment/2019/oct/13/firms-ignoring-climate-crisis-bankrupt-mark-carney-bank-england-governor (last accessed 10 January 2020).

12. FAO, *Food loss and food waste*, http://www.fao.org/policy-support/policy-themes/food-loss-food-waste/en/ (last accessed 31 January 2020).

13. Hunger Notes, *How many people are hungry in the world?* (2016), https://www.worldhunger.org/hunger-quiz/how-many-people-are-hungry-in-the-world/ (last accessed 31 January 2020).

14. Food and Agriculture Organization of the United Nations (FAO) describes FLW as the decrease in quantity or quality of food along the food supply chain – with food loss occurring along the food supply chain from harvest/slaughter/catch up to the point of sale, and food waste occurring at the retail and consumption level. This definition aligns with that in SDG Target 12.3.

15. See https://www.ebrd.com/cs/Satellite?c=Content&cid=1395286955709&pagename=EBRD%2FContent%2FContentLayout (last accessed 31 January 2020).

16. The EBRD is a leader among multilateral development banks in circular economy work, engaging with external parties and financing projects that are explicitly aligned with the circular economic model. The Near Zero Waste Programme (NØW), introduced in 2015, supports waste minimisation and resource efficiency investments.