SECTORAL UPDATES

AUG 2021

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ESG

Staying alert to ESG risks and opportunities in global supply chain

Reuters, 9th August 2021

Over the last two years, ESG has become important in business, political, and economic agendas, as well as in the public conscience, such that enterprises, financial institutions, and professional service providers would be wrong to ignore the trend.

Achieving sustainable, responsible, and ethical supply chains is undeniably a monumental task. However, the greater proliferation of ESG into supply chain management is a promising development. Significantly, the European Commission's final proposal for a regulation establishing a European Union Carbon Border Adjustment Mechanism (CBAM), as part of the broader European Green Deal, has been released in recent weeks, with the goal of regulating greenhouse gas emissions embedded in "covered products" (such as cement and certain iron, steel, and aluminium products) imported into the EU. In the US, Customs and Border Protection (CBP) has issued a rising number of "withhold release orders" to exempt products from Section 307 of the Tariff Act of 1930, which restricts the import of goods mined, produced, or manufactured by forced or indentured labour.

The rise of ESG and the emergence of ESG components playing a larger role in supply chain management is a trend that will continue in the months and years ahead.

https://www.reuters.com/legal/legalindustry/staying-alert-esg-risks-opportunities-global-supply-chain-2021-08-09/

E S G

Switzerland Announces Mandated Climate Reporting for Public Companies, Financials

ESG Today, 18th August 2021

The Swiss government has proposed a timeframe for requiring significant firms to make their climate disclosures, joining a growing list of countries that have increased their sustainability reporting requirements. According to the Swiss Federal Council's announcement, public companies, banks, and insurance companies with 500 or more employees and more than CHF 20 million in total assets or CHF 40 million in turnover will be required to report publicly on climate issues in 2024 to use TCFD-aligned disclosures.Under the new mandate, firms will be required to report not only on financial risks associated with climate change, but also on the impact of their operations on the climate and the environment.

https://www.esgtoday.com/switzerland-announces-mandated-climate-reporting-for-public-companies-financials/

India has fewer ESG funds than other top 10 economies

Reuters, 27th August 2021

Data shows that India has fewer funds focused on ESG issues than other top 10 economies, amid investor caution about ESG funds that have yet to build a track record in the Indian market. Institutional investors and distribution partners frequently encounter regulations prohibiting them from investing in funds that have been in the market for less than three, or in some circumstances five years. Morningstar data shows that 12 of the last 14 months have seen withdrawals from Indian ESG funds. In July, however, inflows into equities mutual funds reached a new high of US $3.04 billion, according to data from the Association of Mutual Funds.

In May, the Securities and Exchange Board of India (SEBI) issued new ESG-based disclosure guidelines for the top 1,000 publicly traded companies in India. In the next two to three years, there's a good chance that more ESG funds emerge, as the growth of ESG funds will be aided by increased transparency on ESG performance.

https://www.reuters.com/business/sustainable-business/india-has-fewer-esg-funds-than-other-top-10-economies-2021-08-26/

ESG

JPMorgan Plots Derivatives Path Into New Era of ESG Finance

Bloomberg Quint, 16th August 2021

As Wall Street begins to tag more complicated financial services, the world's largest underwriter of green bonds wants to considerably expand its offering of investment products, highlighting ESG indicators. The bank plans to repeat a new cross-currency swap with Enel SpA, an Italian energy business, in which both parties must fulfil particular ESG criteria or face additional expenses.

Green and ESG bonds are already well-established, with US $1 trillion in sales expected this year. However, Wall Street's promotion of green finance in developing countries demonstrates that a once-niche profession has become mainstream. ESG products are expected to account for about a third of the world's US $140 trillion in assets by 2025, according to Bloomberg Intelligence.

According to Tom Prickett, co-head of EMEA rates at JPMorgan in London, the "essence of ESG derivatives" is "providing clients the ability, and hopefully eventually a sense of obligation, to include ESG in every step of their financial risk management." Rather than limiting influence to a small number of specific securities like green bonds, it allows clients to incorporate it into every aspect of their financing.

https://www.bloombergquint.com/business/jpmorgan-plots-derivatives-path-into-new-era-of-esg-finance

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UK FinTechs Chosen to Showcase Groundbreaking ESG & Green Finance Solutions During New York Climate Week

UK GOV, 19th August 2021

After a highly competitive recruitment process, 11 UK-based FinTech companies specialising in ESG and sustainability, were chosen to join a virtual trade delegation to New York Climate Week beginning September 20th. The UK Department for International Trade (DIT), the City of London Corporation, the Investment Association, and the Green Finance Institute have an important role in this. Those fintech companies have developed game-changing new products and services that are already assisting companies, investors, consumers, and regulators around the world overcome key challenges in ESG adoption.

This trade mission comes at a critical time for US financial services organisations, as they scurry to enhance their capabilities, tools, and products to fulfil rising demand for ESG investing strategies. One out of every three dollars invested in the United States, or US $17 trillion in AUM, is subject to an ESG or sustainability mandate, and that amount is only expected to grow. Aside from investment, the financial industry is projected to play a critical role in achieving net-zero energy, enabling climate action, and ensuring universal access to services, all of which will be supported by new technologies.

https://www.gov.uk/government/news/uk-fintechs-chosen-to-showcase-groundbreaking-esg-green-finance-solutions-during-new-york-climate-week

SUSTAINABLE FINANCE

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Billions are pouring into the business of decarbonisation

The Economist, 21st August 2021

According to BloombergNEF, last year, investors poured more than US $500 billion into the energy transition which is two times the investment made in 2010. This trend of investments in climate-tech is much stronger than the previous inflows to clean-tech. The America's Department of Energy has announced a US $1.5 billion partnership with a network founded by Bill Gates i.e., the Breakthrough Network Catalyst, to develop new technologies in field of green hydrogen, sustainable aviation fuel, direct air capture and long-term energy storage.

PwC has estimated that venture capital investments in climate-tech grew five times as compared to the rate of global startup funding between 2013 and 2020. The modern climate-tech businesses look more financially sustainable than a decade ago. Between 2006 and 2011 these venture capital firms lost over half the US $25 billion invested in clean-tech startups.

Microsoft, the IT giant has set up a US $1 billion climate-tech fund, while the Seattle tech titan has launched a fund of US $2 billion entirely from its balance sheet, whereas, Reliance from India has fundraised US $144 million for Ambri (an energy- storage startup). Amazon has also ordered 100,000 vans to help decarbonise its e-commerce delivery fleet. All these investments indicate that the world has become more serious towards tackling climate change. The investment in climate-tech will not only help in climate change mitigation and adaptation efforts, but also in achieving the net zero goals.

https://www.economist.com/business/billions-are-pouring-into-the-business-of-decarbonisation/21803649

The Federal Reserve Takes Climate Change Seriously

Bloomberg, 23rd August 2021

The two main areas where the American central bank, the Federal Reserve can work towards tackling climate change is financial supervision and monetary policy. Currently, its officials are fully engaged on financial supervision, where they are conversant with climate risks such as more volatile weather with frequent hurricanes, wildfires and extreme drought which can not only damage homes and businesses, but also impair the borrowers' creditworthiness and thereby, precipitate losses for banks. Rising sea levels can also threaten waterfront properties everywhere reducing the lenders' diversification.

Unlike the cyclical trends in supply and demand that dominate the near-term economic outlook, climate change is a slow-moving trend and hence, most relevant for monetary policy as well, which tends to have a horizon of a few years or less. Therefore, officials recognise the threat which climate change is posing to the US and global economy in terms of financial supervision and monetary policy. Critics are undoubtedly unhappy that the Federal Reserve is not taking climate change seriously, however, there is a need to acknowledge the limitations under which the Fed operates. Bank officials do recognize the threats of climate change to the U.S. and world economy, but they must go cautiously, in order to maintain the powers to mitigate the risks.

https://www.bloomberg.com/opinion/articles/2021-08-23/the-federal-reserve-takes-climate-change-seriously

Where's All That Green Bond Money Really Going?

Bloomberg, 4th August 2021

The overall issuance of green bonds is approaching an all-time high, with about US $294 billion raised in the sale of green bonds in first two quarters of 2021, just shy of the record US $309 billion sold during all of 2020. On the face of it, this fundraising should seem like good news for the environment, but the reality is that it is difficult to tell where all the green bond money is going. There is no mandatory requirement and no standardised manner to check how green bonds' proceeds are used which makes it difficult for the market to assess the environmental benefit of green debt.

EnBW Energie Baden-Wuerttemberg AG, a publicly traded energy company based out of Germany, mentioned in its 2020 impact report that its green bond sales were allocated to help produce electricity from its wind and solar plants and avoid carbon dioxide emissions.

Since EnBW is one of the few companies that publishes a sustainability report, the information published about the green bonds is hopeful and can give a better idea about where the green bond money is going. However, according to Peter Ellsworth, Senior Director of the Ceres Investor Network, “It’s up to issuers to explain the climate impact of the projects they’re financing, and it’s up to investors to determine whether that use of proceeds merits calling a bond ‘green’.”

https://www.bloomberg.com/news/articles/2021-08-04/where-s-all-that-green-bond-money-really-going-green-insight

Climate funds often fall short of Paris goals, says report

Financial Times, 27th August 2021

About 72 of the 130 climate-focused funds examined by think-tank InfluenceMap were found to be misaligned with the Paris Agreement goal of limiting global warming to well below 2°C. These 72 funds collectively hold more than US $67 billion in assets and are managed by leading investment houses including BlackRock and State Street Global Advisors.

The responsible, sustainable and green financial products have gained popularity in recent years due to the transition towards net zero emissions, but this has put asset managers under pressure to align their portfolios in this phase of transition. However, these financial products are criticised for having links with polluting companies and being socially or environmentally irresponsible.

Ben Caldecott from the University of Oxford has suggested that there is need to push polluters to become greener through engagement with asset owners, as this can have a greater impact on moving towards a lower carbon economy, rather than investing in green stocks. According to the think-tank, InfluenceMap State Street had an average of minus 14% of the 7 climate-focussed funds misaligned. Likewise, an average of minus 8% of the 8 UBS funds were misaligned and minus 6% of the 8 BlackRock funds were misaligned. The report has also assessed 593 broad ESG funds out of which 71% were misaligned with the Paris Agreement.

https://www.ft.com/content/86ecb21b-c7da-4197-914a-3e1e8e3c5324

Bill Gates pledges $1.5 billion for climate change projects if Congress passes infrastructure bill

CNBC, 12th August 2021

Microsoft Co-Founder, Bill Gates has said that his climate investment fund would pledge US $1.5 billion for joint projects with the federal government in combating the climate change if the bipartisan US $1.2 trillion infrastructure bill, funding clean energy technologies, is passed by the Congress.

Gates' fund which is run by his firm, Breakthrough Energy, would spend the money on initiatives to lower emissions over three years. The projects would be focussing on zero emissions plane fuel, long-duration energy storage, green hydrogen, and direct air capture.
The Senate's infrastructure bill amounting to US $1.2 trillion will provide the Department of Energy with an amount of US $25 billion, which will focus on climate demonstration projects. The bill, however, has not yet passed through the House. Once the bill is passed, these investments on climate change projects will help in discovering innovative technologies in order to make the US a global leader in the field of clean energy economy and thereby generate well-paying jobs for all kinds of workers in every corner of the country.

https://www.cnbc.com/2021/08/12/bill-gates-pledges-1point5-billion-for-infrastructure-plans-climate-projects-.html

Children in India, three other South Asian nations at extremely high risk of climate crisis impacts: UNICEF

The Hindu, 21st August 2021

UNICEF’s new report titled ‘The Climate Crisis Is a Child Rights Crisis: Introducing the Children’s Climate Risk Index’ [CCRI] introduces an index that ranks countries based on the exposure that children face in relation to the environmental hazards. It also includes a component of vulnerabilities that may arise due to the inability to access the essential services.

India ranks 26th and is deemed to have an extremely high risk of climate hazard impacts for children. The repeated environmental shocks that the country faces include flooding and air pollution which have socioeconomic consequences on children and women. The report estimates that in the near future, more than 600 million Indians will become vulnerable due to acute water shortage.

Dr. Yasmin Ali Haque, UNICEF India Representative, stated that there is a need to identify the reasons for children being uniquely vulnerable to climate change, to build resilience and effectively addressing the issue. With a rise in temperature around the world, a majority of India’s urban areas will be affected by untimely extreme events such as flash flood and this needs to be accounted for in adaptation measures for the wellbeing of the women and children.

https://www.thehindu.com/news/national/children-in-india-three-other-south-asian-nations-at-extremely-high-risk-of-climate-crisis-impacts-unicef/article36031221.ece

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CLIMATE RISKS

Another Climate Risk for Cities: Higher Borrowing Costs

Bloomberg, 23rd August 2021

The US Drought Monitor estimates that more than 60 million people are living under the condition of drought in Western US. Prolonged droughts affect the creditworthiness of local government authorities, and cities experiencing drought generate less income from their water systems-generated resources like crops and have to pay more for water-related resources. This affects the economic growth of the region, reduces its property values, and affects the region's credit rating.

To fund projects, governments have to issue bonds but with the lower credit rating, they must provide higher interest rates. This could affect the cities which fund their projects with debt. Drought conditions may lead cities to restrict water usage for farmers and residents of that area and may also limit the commercial activities in that region which could further lead to a decrease in growth. This could add on the already existing expenses which the government has in the infrastructure sector due to climate hazards.

https://www.bloomberg.com/news/articles/2021-08-23/another-climate-risk-for-cities-higher-borrowing-costs

Extreme Weather Makes Everything Harder, Except Climate-Risk Analysis

Bloomberg, 13th August 2021

IPCC's 6th AR report draws the connection between natural hazards and anthropogenic climate change, with anthropogenic activities worsening natural hazards. The strong connection between extreme events and climate change will boost the need for climate risk modeling, although climate science research may not be able to forecast with the precision that is expected for businesses.

Estimated insured losses from extreme events topped US $42 billion in the first two quarters of this year. This only reflects the people whom the policy covers, but more are affected who are not accounted for. The IPCC report also talks about compounded events, which are concurrently occurring extreme events one after another which affects the human society.

https://www.bloomberg.com/news/articles/2021-08-13/extreme-weather-makes-everything-harder-except-climate-risk-analysis

Rich Nations Lagging on Climate Goals May See Higher Bond Yields

Bloomberg, 25th August 2021

The value of government bonds is increasingly being linked with climate risks and developed nations that are not adhering to their green goals are facing higher borrowing costs. Countries that rely less on their natural resources have lower risk premiums on sovereign debt.

The quantification of carbon emissions on stocks and bonds is difficult. A study conducted by Ardea and Fortlake Asset Management measures transition risks associated with climate change by taking carbon dioxide emission, natural resources earnings, and consumption of renewable energy, into consideration. This study suggests that bond holders of developing countries seek development and growth from the existing natural resources rather than looking at transition goals. Their focus needs to shift to a more sustainable approach for developing countries to get better economic growth in the long term.

https://www.bloomberg.com/news/articles/2021-08-24/rich-nations-lagging-on-climate-goals-may-see-higher-bond-yields

Britain’s economy is already seeing a rapid shift due to climate change

CNBC, 31st August 2021

According to the UK Climate 2020 report published by the Royal Meteorological Society, it is noted that last year was the third-warmest year in England, since accounting for the records beginning in 1884. The UK Met Offices has predicted that there are going to be more extreme weather events. Farmers are at the forefront of the impact due to these extreme weather events, with getting pastures for the livestock becoming an issue.

Extreme weather events elsewhere also affect the home country. Like in the case of the UK where there is a dependency on Brazil to export soya for the pastures, but if soya production in Brazil where to be affected then its implication will roll down to the UK. The changing climate has also affected the crop growing pattern with now more areas becoming suitable for growing certain crops like maize. With the change in crop growing pattern and move towards biodiesel there has been an increase in specific crop production and there is a need to encourage diversity of crops.

https://www.cnbc.com/2021/08/31/britains-economy-is-already-seeing-rapid-change-due-to-climate-change.html auctusESG

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