A Response to Climate Change is the core of ESG & Sustainability

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Background

It has been 49 years since the first time World Environment Day (a United Nations Environment Programme) was celebrated. The theme for this year is #OnlyOneEarth. While awareness on the role of nature and its importance for our survival is on the rise, it is nowhere close to the work that needs to be done to restore — or at least contain — the climate crisis.

Nature underpins our existence and that of our economy. According to a report by World Economic Forum[2], \$44 trillion of economic value—i.e over half of the world's GDP is moderately or highly dependent on nature and as a result, exposed to risks from climate change and the resultant biodiversity losses. While countries and corporations are trying to reduce their carbon emissions by transitioning to low carbon economies, the current impact of global warming is already raising massive concerns. The 2022 report from the Centre for Science and Environment (CSE) shows that water bodies in India, China and Nepal have recorded over 40% rise in their water spread areas since 2009, affecting livelihoods and lives of millions and threatening the existence of five Indian states and two Union Territories. According to the report, from 1995 to 2020, India experienced 1,058 floods, cyclones, droughts, cold waves and heatwaves. Floods accounted for 33% of these disasters, followed by heatwaves (24%), droughts (22%), cold waves (16%) and cyclones (5%).[3]

ESG & Sustainability Frameworks

Corporations are mapping their dependencies on nature across their business operations, including their supply chains and downstream processes in order to be able to build resilience. While the direct impact from climate change is currently only visible locally, it will soon manifest as a knock-on effect across the value chain causing disruption and eventual breakdown.

The frameworks provide a structure and direction to begin the sustainability journey. It is worth noticing, that the environmental parameters of such frameworks are most commonly associated with the sustainability efforts, but parameters such as Diversity, Equity &

Inclusion (DEI) and those related to governance of business operations which assess the level of inclusivity (inclusion of thoughts and actions) and accountability (the company's sense of ownership and seriousness on the matter) on materiality issues specific to businesses, are not often associated with the sustainability of the organisation.

ESG is about mainstreaming impact into business operations. Therefore businesses that have traditionally focussed on only efficiency and profitability, must now also factor in risk (physical, transitional and reputational) that impact their long-term sustainability. While with respect to ESG, the industry specific materiality challenges may remain similar, the ESG parameters prioritised across businesses differ and ultimately each business/organisation develops their own roadmap to tackle the challenges faced. However, it is crucial to remember that the response to climate risks can neither be addressed by taking actions in isolation, nor by one time action. The only way is to have a well-rounded, holistic plan, coupled with continuous effort and local participation. Crucially, early adopters and organisational leaders can take on the role of thought leaders, thereby influencing employees, customers as well as the business ecosystem on the importance of embedding ESG and sustainability, and treating it as an investment into the future.

Organisational disclosures are often the primary source(s) of information for all stakeholders, hence it is incumbent on the organisation to transparently disclose their intent, efforts and initiatives in an explicit manner. Although such disclosure processes also pose a high risk of greenwashing, the associated penalties and reputational loss outweighs any short-term gain. ESG ratings and allied scores are a quick way to assess how stakeholders may perceive the organisation's performance on E, S & G factors. However, the perspectives are indicative and specific to the specific rating agency's methodology.

It also needs to be well understood that the responsibility of managing climate risks does not rest on corporations alone. While corporations may exert the largest and most visible impact on nature and its resources, their actions are in turn driven by investors, consumer behaviour, regulatory policies, and employee expectations. Alternatives to non-eco friendly options need to be known, widely accessible and within comfortable price points for all stakeholders - government, financial institutions, businesses, international foundations, and civil society organisations to promote adoption. We all can then work together to drive the transition towards a low carbon economy.

ESG can be remarkably helpful provided we understand its true value and purpose.