SETTING THE SCENE FOR ESG

Since catastrophic and unpredictable consequences of climate change and resource depletion is increasingly affecting ecosystems and biodiversity, **urgent action is needed for businesses,** among others, to adapt to this new reality.

Recently, in July 2021, the European Commission adopted a package of proposals to make the EU's climate, energy, land use, transport and taxation policies fit for reducing net greenhouse gas emissions by at least 55% by 2030, thus making the initiative of the European Green Deal a reality. The overarching commitments will necessitate **sustainable financing** by re-orienting investment support in the areas of sustainable technologies and projects across both public and private sectors. The financial system has a key role to play here and is being reformed to be part of solutions towards a greener and more sustainable economy. To this end, there are also great expectations coming from all stakeholders, investors, lenders, employees and especially from civil society.

Businesses are the most significant pillar for change, and they have to adopt new approaches to develop sustainable products and services. The companies' management team should promptly acknowledge the importance of transforming their organizations and strengthening their financial stability by incorporating **Environmental, Social and Governance (ESG)** investing practices into company structure, operation and investment decision-making.

Incorporating ESG insights for strategic transition in compliance with Climate Change

EU has already formulated climate change strategies based on Paris Agreement and the European Green Deal. Specific legal acts are proposed to ensure that companies, market participants and investors support EU's climate change targets and sustainability agenda. Indicatively, the promulgated legal acts include the Taxonomy Regulation, the Climate Benchmark Regulation, the Sustainable Finance Disclosure Regulation etc., whereas the Corporate Sustainability Reporting Directive, the Sustainability Amendments of Rules on Fiduciary Duties, the Suitability Assessments etc. are expected to be finalized soon and complete the context of ESG implementation in the EU**.**

ESG indicators provide the quantifiable measure of a company's sustainability and social impact that matter for investors but also for the public opinion. It has become the preferred term for capital markets, often used to identify superior risk-adjusted returns. In addition, ESG has recently become a familiar acronym throughout many industries, including investment funds. The number of institutions that integrate ESG in their decision-making processes is on the rise globally. Further increase is expected in the post-Covid-19 economy, as **assessments have demonstrated that companies with high ESG ratings performed better than their competitors during the crisis.**

The ESG approach builds on vigorous criteria applied to investment projects, and comprises ESG integration and risk management, communication, and reporting. The ESG risks are managed through compliance with ESG criteria set out in relevant policies, accompanied by a broad range of operational guidelines and toolkits.

On a practical level, businesses that follow ESG criteria must follow certain steps, indicatively:

- Perform ESG assessment and identify potential material issues.
- Set climate strategy and actions aligned to their business strategies.
- Reduce GHG emissions by 2030 by developing relevant products and services.
- Disclose information on the way ESG criteria are integrated in their sustainability risk processes, discourage greenwashing, and promote responsible and sustainable investments.

The ESG challenge

Businesses should initially understand which **ESG materiality risks** are relevant to their respective sector and overall operating context, and then address those which can prove to be challenging exercise even for the most forward-looking and well-intentioned companies. The formulation of a **new low-carbon strategy** in businesses should acknowledge the links between decarbonization of the economy and building infrastructure adaptation and resilience to climate change, by promoting a just and inclusive green transition. Moreover, the effective and transparent governance of public and private organizations plays a fundamental role in ensuring the integration of environmental and social considerations in the decision-making process.

Currently, several companies face a mounting pressure from their finance systems to disclose ESG reports that create limited visibility across corporate systems proscribing predictability and increasing the risk. On the other hand, the limited resources and time, the data collection for **ESG metrics** that need to be verifiable, often scatter across papers and multiple positions. This situation and the perception of companies' management that

ESG is another obligatory procedure to cope with, may not unveil the ESG substantial role in the process of business adaptation to forthcoming economic and financial conditions. Specifically, the carbon intensive industries, often, due to an incomplete understanding of the ESG principles, limit themselves to only consider investments that will reduce their carbon footprint, and do not holistically revamp their strategies to actually improve their ESG performance and eventually produce sustainable products and services.

ESG is beneficial only if it acts as the vehicle for preparation of businesses to **climate adaptation risks and relevant resilience measures**. To this end, significant technical and technological aspects have to be considered by decision-makers leading to the necessary transition strategy measures.

At present, the continuous evolution of a **stricter regulatory framework** with technical criteria at the European Union and national (Member State) level triggers the need for continuous awareness for compliance and therefore avoidance of additional costs (penalties and GHG allowances).

EXERGIA is committed to be a **corporate impact partner** and advisor on sustainability by supporting businesses to navigate the path to global decarbonization through transitional markets and new legal requirements. Our extensive experience working with carbon intensive sectors helps us understand the unique challenges and the needs to transform them to reach net zero carbon emissions by 2050. We view sustainability as an opportunity for proposing innovation tools and solutions and for boosting the capability of businesses to create value over the long term in alignment with Environmental, Social and Governance (ESG) topics. Our technical expertise may support businesses to refine a tailored low carbon strategy. In particular, our palette of services for investee companies and projects includes, among others:

- Technical support on assessing the carbon emissions intensity for different sectors and value chains, risk assessment on **carbon performance of investments** in infrastructure under EU Guidelines and International institutions' requirements.
- **Environmental Due Diligence** and evaluation of relative importance of materiality issues; review of environmental compliance with the EU and national legislation.
- Improvement of **resource efficiency** targeting better environmental outcomes, development of action plans covering issues such as water efficiency measures, incorporating circular economy initiatives and minimizing wastewater and air emissions etc.
- Support in the assessment and design of energy efficiency measures and support for the introduction of renewables and alternative sources of energy supply in infrastructure and buildings to achieve a reduction of **carbon footprint.**
- Formulation of **ESG implementation mechanisms** by setting KPIs, monitoring, reviewing, and reporting of progress.