Does the private sector have a role in climate action?

Part 3

Author

Lauren Bain
ESG and Business Consultant –
Renewables, Environmental Policy,
Sustainable Development
Strategy and Transactions
EY Caribbean

29 July 2022

In this consecutive three-part series, we will give you some insights to hopefully generate some 'food for thought' as we explore and discuss (1) the science and trends of climate change, (2) the traditional definition of 'development' in our societies and (3) gaining perspective on solutions for the Caribbean.

EY Building a better working world

As the world continues to come to terms with the reality of climate change, debates are cropping up around the extent of the private sector's role in climate action. In the last few years, this topic has certainly gained traction and is an emerging focus in business strategy today.

Part of this acceleration is due to substantial growth in 'Environmental, Social and Governance' (ESG) funds — portfolios of equities and bonds with ESG integrated considerations (SEC.gov) — available for investment into global sustainability projects and transformations. Globally, the value of these funds has increased 120% from US$285b to US$649b in just two years (Reuters, 2021), emphasizing the commitment that investors have made to play their part in driving a much-needed reduction in carbon emissions.

As we have outlined in the parts one and two of this series, companies and individuals must work together to protect our planet. We all have a role to play in changing our futures, and the private sector will be a key resource in transforming industries through responsible business practice and ESG disclosures.

How can we bring the ESG discussion in our boardrooms and why?

ESG exploded in popularity after countries around the world, including T&T, adopted the Paris Agreement. Non-financial reporting — based on ESG — is expected to play a major role in helping countries meet climate action targets by enabling the private sector to reduce emissions in line with national goals. Since the agreement was signed in 2015, companies around the world have been jumping on opportunities to leverage ESG metrics to identify, measure, and monitor the non-financial risks and opportunities to their operations.

Many businesses assume that their current Corporate Social Responsibility (CSR) or Environment, Health and Safety (EHS) programs mean they are meeting ESG requirements, but it is important to understand that while intersections exist between these programs, there are also clear delineations. CSR and EHS can be viewed as subsets of ESG, with many aspects of each touching on the 'E' and the 'S' pillars. However, a key difference here is that ESG is broader, covering the 'G' pillar, or governance, as well. More importantly, ESG programs require measurement, validation and reporting of a company's chosen metrics as they are considered material to businesses and ultimately increase their value. So, where an investment decision may have previously come down to differences in a company's EHS strategy, it is now being made based on differences in their ESG strategies.

How is ESG linked to climate change?

The answer is simple. As businesses begin to evaluate their sourcing practices across supply chains, their carbon footprint and the levels of Diversity, Equity and Inclusion (DEI) in their workforces, the opportunities for (1) cost savings, (2) risk mitigation and (3) growth will become apparent. Given this combination of business opportunity and climate action, private sector participation in ESG and climate action is highly incentivized.

However, if voluntary incentives do not drive participation, regulations and policies are in the works to ensure compliance. This year alone, the United States Securities and Exchange Commission (US SEC) put forward a proposal mandating the disclosure of climate-related information by public companies in their SEC filings (SEC.gov), and the European Securities and Markets Authority (ESMA) has made ESG disclosures mandatory for companies whose operations significantly contribute to climate change (S&P ESG regulatory tracker).

Although the Caribbean has not formally required private sector climate-related disclosures as yet, the Ministry of Planning and Development has announced that they are in the process of updating T&T's legal frameworks. The proposed update includes the introduction of mandatory greenhouse gas emissions disclosures by emitting entities (Ministry of Planning and Development), meaning that the private sector should be prepared for ESG reporting requirements in the near future.

How do businesses become ESG compliant?

1. **Educate your board, your employees, and your clients**
   The most important thing when setting an ESG strategy is to provide your organization with a holistic understanding of what ESG is and how it fits into the day-to-day operations of your business. ESG is not the implementation of a new department, but rather part of the overall business strategy and purpose of the organization. For your strategy to be successful, it must not be a project but a part of your business. In this way, it becomes less about doing and more about being.

2. **Clearly define your ambitions and set achievable targets delegated through an accountability framework**
   Determine your baseline, which should include current practices, policies and emissions, and set a defined timeline for your ambitions. Once targets are confirmed, congregate a multi-disciplinary brainstorming team who will develop the initiatives and projects to change the way you transact, who you transact with and how your business operates. As a bonus, this may reduce cost and waste, improve profitability and promote higher employee commitment and performance.

3. **Measure, monitor and decarbonize**
   To assess progress, there must be continuous measurement of the actuals versus the targets. Once data has been identified and captured, the monitoring aspect begins. This allows for the observation of patterns, identification of anomalies and emergence of reduction/improvement opportunities to provide the company with long-term value.

4. **Report**
   Transparency and communication with stakeholders bring your ESG strategy together. Businesses can utilize frameworks from the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and the Task Force on Climate-related Financial Disclosures (TCFD) if they wish to incorporate ESG reporting into business practices. They provide a summary of the non-financial benefits that your company has to offer and allows investors, potential employees, and supply chain partners to align their values to yours. Additionally, they provide a resource for stakeholders to assess your company and easily prove a low risk of environmental, social or governance failings.

Is it all buzzwords or will the hype result in a safer planet?

No emissions reductions solution is perfect, and this has already been proven in the ways that countries and companies alike are failing to meet their climate action targets (New Climate Institute). Public and private sector participation in emissions reductions and sustainability is undoubtedly a huge piece of the puzzle, however, with every supply curve there is also a demand element. If governments are setting legislation, and companies are changing the way they operate, then what is left?

The final part of the solution lies with the individual. In last week's column, we addressed our unsustainable consumption patterns and behaviors, and the key takeaways of that article hold firm. We are trying to adapt the world to our behaviors with technology advancements and new business practices, but a key piece of our attaining the 1.5 degrees is to reduce our consumption.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

EY Caribbean refers to the Caribbean organization of member firms of Ernst & Young Caribbean Limited, each of which is a separate legal entity. Ernst & Young Caribbean Limited does not provide services to clients.

© 2022 EYSL.
All Rights Reserved.

Contact us – Ernst & Young Services Limited

- **Maria Daniel**, Sustainability Lead
  Partner, Strategy and Transactions
  maria.daniel@tt.ey.com
- **Marcus Jardine**, Associate Partner
  Consulting
  marcus.jardine@tt.ey.com
- **Rudolph Hanamji**, Business Development Senior Manager
  Strategy and Transactions
  rudolph.hanamji@tt.ey.com
- **Lauren Bain**, ESG and Business Consultant
  Strategy and Transactions
  lauren.bain@tt.ey.com
- **Sara Low**, ESG Consultant
  Strategy and Transactions
  sara.low@tt.ey.com
- **Charlotte Tom**, ESG Consultant
  Strategy and Transactions
  charlotte.tom@tt.ey.com