



Climate Change, State Emergency and Stakeholder Pursuit

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"China witnesses its heaviest rainfall in a 1000 years" – July 2021

"Climate scientists shocked by scale of floods in Germany" – July 2021

"The Amazon rainforests are now releasing more carbon than they absorb, scientists confirm for the first time" – July 2021

"Record-breaking all-time-high 'pressure-cooker' heatwave hits Canada, US northwest" – June 2021

"Climate change is real: 600-900% excess rain in many Maharashtra districts" – July 2021

"Australia suffers devastating fires after hottest, driest year on record" – January 2020

There is no dearth of record-breaking climate change indicators. Are we surprised? Science predicts for us and ALL measures are flashing red! While we are still figuring out why the cicadas emerged earlier than their 17-year life span and what we did is causing frequent and devastating locust swarms, we are marching closer to the yet-to-occur climate change predictions:

- Half of all plant and animal species to face local extinction
- Severe food insecurity
- Marine ecosystems to collapse and fish species to go extinct
- Economic damage to lead to average incomes cut by 23%
- Three-quarters of the world's population to experience potentially deadly temperature extremes and significantly frequent extreme droughts.

All the top 5 risks by likelihood are converging, making "Environmental Stewardship" pivotal to planet sustainability. Global ESG action will be the bulwark against massive direct impact on global social and economic dimensions.

As the UN Chief reminds us, "we are way off track" from the "ambitious, yet achievable" goal of reaching carbon neutrality by 2050, we continue to witness the stark differences at G20 nation meets. Contributing to 85% of the global greenhouse gas emissions and staying at top on per capita emissions, the G20 discussions on climate change often create a cacophony that misses the real point: we are in danger as a species! Focus has to dramatically shift to absolute reductions in quick time. The entire planet must converge on this thinking.

The latest European green deal "Fit for 55" is set to influence a wide range of policies aligning them to cut EU's emissions by 55% by 2030. While we dissect and weigh the effectiveness and fairness across multiple dimensions, let's salute the EU for its focus, action and commitments: be it legally binding policies; be it EU taxonomy, the first-ever of its kind; or the extension of Corporate Sustainability Reporting Directive (CSRD) to 50,000 companies.

The US federal administration qualifies its announcement to cut 50 – 52% of carbon emission by 2030, as pushing progress, creating jobs and achieving justice. The world, particularly the next generation of global citizens is watching as the US, a historical polluter that stands second in total and per capita emissions, fulfills its moral responsibility to reduce the emission disparity that it heavily contributed to.

While India has not yet declared a net-zero commitment date, its Nationally Determined Contribution (NDC) is already aligned to the 2 degrees target of the Paris Agreement and is set to exceed the agreement with commitments such as 450 GW of green energy by 2030. Top priority for developing countries, and particularly for India, is to prepare for the devastating consequences. They have to be self-sufficient in terms of policies, solutions, technology, actions and behavioural changes, as they have more to correct with less. Posting the lowest per capita emission among G20 countries, India has rightfully urged others to reduce.

Urgently scientists need to project scenarios based on ESG policies of China, Russia, Brazil and Australia. G20 as a pack have the out-and-out power to save or fail the planet. That makes COP 26 the most significant global event which must unfalteringly initiate the journey of action led by collaboration, accountability, attitude and urgency.

Let us zoom a level down to markets and businesses and see how ESG is influencing corporate and ecosystem practices.

Sustainable Investments: As per the latest report from Global Sustainable Investment Alliance, the global sustainable investment reached USD 35 trillion, a 15% increase in the past two years (2018- 2020). The most common sustainable investment strategy is found to be ESG integration, followed by negative screening and corporate engagement & shareholder action. The fact that the investments under “Impact Investing” were low in the ranking indicates the need for more outcome-based commitments.

Indian Sustainable funds inflow has already risen by more than 75% so far this year according to the data released by Morningstar. India's sustainable bond issues have made up over 60% of total external commercial borrowings so far this year, according to a recent report by Bloomberg.

Regulators and Reporting: A vast majority of the leading market and financial regulators across the globe have kept stakeholders on their toes through actions such as the establishment of the Sustainability Standards Board, uniform reporting policies and expansion of mandatory disclosures. Global Standard Setters are exploring synergised actions such as establishment of Value Reporting Foundation and common reporting frameworks. Planet earth needs trustworthy disclosures and binding commitments urgently.

India becomes one of the first few countries to mandate sustainability reporting through the establishment of BRSR (Business Responsibility and Sustainability Reporting) this year. BRSR is significantly more quantified, qualified, comprehensive and well-aligned to global standards and frameworks when compared to BRR (Business Responsibility Reporting), its predecessor. BRSR, a set of prescriptive disclosures complements Integrated Report which is principle-based. BRSR

is expected to transform India's corporate annual reporting across three dimensions:

- Enable the narration of a truly integrated storyline through financial and non-financial dimensions.
- Significantly increase the relevance and relativity of information that is presented.
- Curb greenwashing by ensuring consistency of messaging and claims through data supported validations.

Assurance: Reporting has established a reasonable amount of clarity and direction. Assurance, rating and ranking of ESG disclosures and performance need standardisation and regulation. The demand for ESG data and rating has grown epidemically. We now need transparent rating methodology, relevant assurance parameters and harmonisation across different providers. International Organization of Securities Commissions (IOSCO) has just taken steps towards regularization by way of a consultation paper. An ESG assurer will need to certify an organization's stakeholder engagement; materiality; reporting frameworks; globally acceptable measures and their relevance; impact and claims of outcomes across financial and non-financial parameters.

When it comes to emissions, disclosure through CDP (formerly known as Carbon Disclosure Project) is increasingly considered a standard business practice as over 10,000 companies across the globe adopt CDP standards. 67 of India's top 200 companies have disclosed their emissions through CDP in 2020. The Science Based Target Initiative (SBTi) enables businesses to set emission targets in line with the latest climate science (and thereby the most assured method available). SBTi has just announced its strategy to reset corporate targets to '1.5°C' instead of 'well below 2°C'. All companies and financial institutions that submit targets from 15 July 2022 will need to align to the new criteria.

Business Integration and linked outcomes: ESG has eventually made its point beyond disclosures and reporting for a vast majority of entities in the last couple of years. Businesses globally are recognizing the need and advantages of integrating sustainability into their strategy, model, products, services, supply-chain and risk.

Reimagining the business through the lens of sustainability is leading to sustainability strategies that have potential to be a competitive advantage. Leaders and early starters such as Hindustan Unilever and Hindustan Zinc are conveying that sustainability is an obligation only until the right solutions are figured out. They are demonstrating that sustainable solutions can deliver long term value, stakeholder intimacy, increased financial performance and brand image.

Focus by Board of Directors: Right now boards, who have not so far responded to ESG, must commence actions to reap the lead-

time advantage. Several Indian boards such as Infosys, L&T Financial Holdings and Welspun India have established ESG committees with a focused charter.

Leaders are setting the tone at the top; ensuring ESG integration with core business; and overseeing strategy linkage to outcomes and communication. These aspects are typically found to be included in the charter of ESG Committees. Upskilling of the board and enriching board composition with ESG expertise are getting traction and are positively expected to deliver outcomes in the medium to long term.

Digital Technology: Sustainability Transformation has kicked off the exhilarating journey of digital transformation. On one end is the European Space Agency's massive "Digital Twin of Earth", which is expected to monitor the health of the planet and forecast extreme climate change through simulation of effects of human behaviour. On the operational side, the gap is narrowing between ERP and ESG when it comes to an entity's resource planning. We need an insightful supply of digital capabilities that would enable end to end Sustainability Transformation such as:

- ESG integration into business and supply chain
- Manage and monitor implementation of ESG charter across the value-chain
- Enable Net Zero journey
- Assess, measure, manage and report materiality
- Identify and manage risks and opportunities
- Analyse impacts and course-correct
- Understand and adopt best practices from ecosystems
- Correlate to measured outcomes
- Trustworthy data and data analytics
- White box rating and ranking
- Democratisation of sustainability

We postulate that most digital technologies such as Blockchain, Artificial Intelligence (AI), Machine Learning (ML), Internet of Things (IoT), Augmented and Virtual Reality (AR/VR) will find their use cases deployed in sustainability sooner than later.

Net Zero Commitments: While just 100 companies are responsible for 71% of total global GHG, having a net-zero commitment from over 1500 companies may look a lot for the cause. However, the devil is in the details! The commitments are made by the world's biggest fossil fuel polluters, big techs, wealthiest financiers, and retailer giants. Around 60 of India's largest firms such as Tata, Reliance, Adani, Infosys, Wipro, Mahindra, ITC, ACC, JSW Energy, HCL and HDFC Bank have made their carbon neutrality commitments.

All net-zero promises are to be read along with:

- Efficacy and reliability of the solutions that are mapped out.
- Vicinity of timelines.
- Clarity and reliability of underlying plans.
- Overall intent and action, the organizations demonstrate consistently across all of its current touch-points.

Dangerous Distractions: Several fundamental misconceptions and questions regarding Net Zero concept design and implementation have led to research and discussions of "Dangerous Distractions".

To list a few:

- Convenient and irresponsible focus on "removal" than "reduction".
- Over-reliance on non-existent, expensive, energy-intensive and unproven-to-be-deployed-at-scale removal technologies.
- Unestablished business case of offsets being able to deliver same impacts in same timescale as emissions draw down.
- Ability of policies and commitments to address the disparity of emissions.
- Impact and action between the richer northern and exploited southern hemisphere.

CCS (Carbon Capture and Storage), CCUS (Carbon Capture Utilization and Storage), non-linear afforestation, Direct Air Capture (DAC), Solar Geoengineering, Carbon trading and offsets; have all come under the scrutiny of "Dangerous Distractions".

Focus on aggressive reductions and proven solutions are priority! Climate Solutions 101 presented by **Project Drawdown**, drawing on humanity's collective wisdom about the practices and technologies that can begin to reverse the curve by mid-century, could be a great start to understanding solutions and making them happen while we still work on the latest technologies to figure out faster and cheaper solutions.

The time to act is NOW. Be aggressive, be persuasive, be collaborative, be anxious for outcomes to deliver reductions, be faithful to commitments and above all LOVE YOUR PLANET. Communities, Governments, Regulators and individuals will all have to come together to save our only home: Planet Earth. There is no Plan B!

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