HOW MIGHT ESG TRANSFORM THE GLOBAL MARKET?

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INTRODUCTION

Environmental, Social, and Corporate Governance (ESG) is an increasingly popular method used by investors to screen for potential investments that align with their personal values. Its primary purpose is to implement a common set of standards to measure the impact of business investments from an environmental, societal, and moral basis in addition to mitigating risk.

OBJECTIVES

We believe that implementing ESG on a global scale, keeping in mind regional differences, will ultimately lead to more sustainable national economies. Not only would this increase these nation's long-term Gross Domestic Product (GDP) which measures an economy's overall size and health, it would ultimately improve the livelihoods of their citizens.

METHODOLOGY

When conducting our research, we chose a country from each continent with the highest respective GDP. The higher the GDP, the stronger the economy and a greater chance that reporting will be accurate. Pulling data from the World bank dating back to 1970 when ESG was first globalized, we chose to measure a variable from each pillar of ESG, most notably CO2 emissions as they are relatively easy to measure. This gave us a way to compare the ESG performance between countries and gain a better perspective on which countries might be successful in implementing this practice.

CONCLUSION

Recent studies have shown that 88% of companies that practice ESG will have greater operational output. Additionally, 80% of companies stock price of those that use ESG have preformed better due to sustainable practices. Although implementation is challenging due to a lack of standardization, knowledge gaps, and green washing, ESG has gained a lot of traction in the financial field in the past decade.

Going forward, organizations such as the new International Sustainability Standards Board (ISSB) will pave the way for ESG to become fully integrated into the broader market's investment practices in tandem with the United Nations Sustainable Development Goals (SDGs).

"Why Strong ESG Practices Can Offer Companies a Competitive Advantage." John Hancock Investment Mgmt | A Better Way to Invest, 8 July 2016, www.jhinvestments.com/viewpoints/esg/strong-esg-practices-offer-advantages.

NIGERIA

ANALYSIS

As one of the "seven lions" of African debt, Nigeria has struggled to implement ESG criteria into its national investment strategy, primarily due to major social issues and lack of awareness. However, having the highest nominal GDP ($480.5 million USD), the largest population, and the most bonds issued on the African continent in 2021, Nigeria has a lot of room growth on the international stage.

RESULTS

In 2012, the Nigerian Sustainable Banking Principles (NSBP) were adopted. Currently, it is only one of three African nations to have issued green bonds to finance sustainable projects and has showed intentions to continue in the future to meet their goal of net zero carbon emissions by 2060. However, Nigeria will have to attend to broader issues such as poverty and climate change in order to ensure long-term benefits.

FASAN, OLU. "ESG: NIGERIA FAILS ON THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE FRONTS." BUSINESSDAY NG, 20 NOV. 2021, HTTPS://BUSINESSDAY.NG/COLUMNIST/ARTICLE/ESG-NIGERIA-FAILS-ON-THE-ENVIRONMENTAL-SOCIAL-AND-GOVERNANCE-FRONTS/.

VEZÉR, MARTIN, ET AL. "(PDF) NEW FRONTIERS: AFRICAN SOVEREIGN DEBT AND ESG RISK." RESEARCHGATE, 21 NOV. 2019, HTTPS://WWW.RESEARCHGATE.NET/PUBLICATION/337680316_NEW_FRONTIERS_AFRICAN_SOVEREIGN_DEBT_AND_ESG_RISK.

CHINA

ANALYSIS

Having the largest population in the world, China's nominal GDP ($14.72 trillion USD) ranks 2nd in the world. While emitting the most CO2 per year and no prominent background in ESG investing, China has seen a recent uprising of ESG practices. International investors and regulations have been the key drivers in China's ESG growth. In 2016, China's central bank established mandatory environmental information disclosure system know as the Green Financial System.

RESULTS

IIn February 8, 2022, China's Ministry of Ecology and Environment enactment of companies being required to disclose environmental information annually was in full affect. Factors such as carbon emissions, pollutant generation as well as environmental management are required to be reported.

"ESG Integration in China: Guidance and ... - Cfa Institute." CFA Institute, 2019, https://www.cfainstitute.org/-/media/documents/survey/esg-integration-china.ashx.

GERMANY

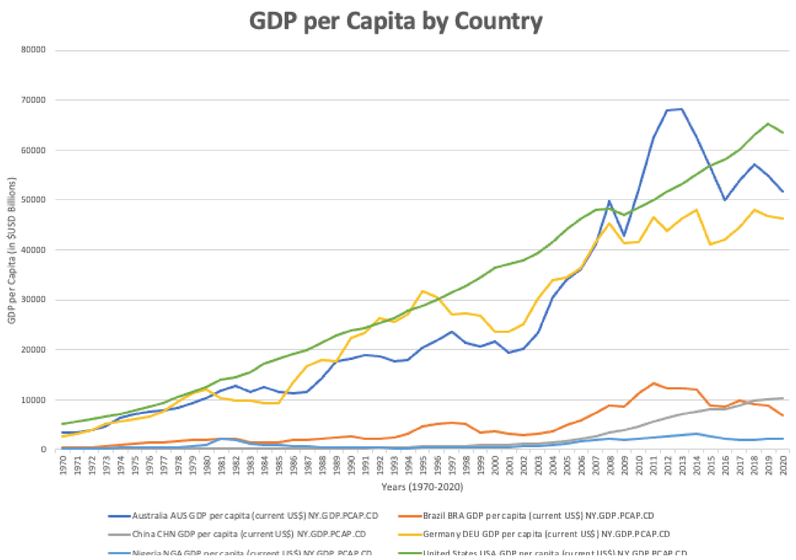
ANALYSIS

Germany has the 4th highest nominal GDP in the world ($4 trillion USD) and has led Europe in the ESG practices. Germany ranked 4th out of 193 UN nations. In 2016, the National Action Plan on Business and Human Rights was enacted which protect human rights as well as supports supply chains and value creation processes. The Germany Supply Chain Act will be instilled by January of 2023, setting down ESG regulations for corporations.

RESULTS

In 2023, German companies with over 3,000 employees will have mandatory reporting on their sustainability practices. Taxonomy regulation will apply to all countries in the EU starting in 2022 according to the official Journal of the EU by two Commissions. The 1st delegated act distinguishes whether an economic activity advocates for climate change sustainability while the 2nd act requires companies to disclose practices and to what extent are they related to sustainability.

"Germany: Call for an Improvement of the Supply Chain Due Diligence Act." International Federation for Human Rights, www.fidh.org/en/issues/globalisation-human-rights/germany-call-for-an-improvement-of-the-supply-chain-due-diligence-act#:%7E:text=The%20Supply%20chain%20due%20diligence%20act%20was%20adopted%20by%20the,companies%20and%20their%20value%20chains. Accessed 6 Apr. 2022.



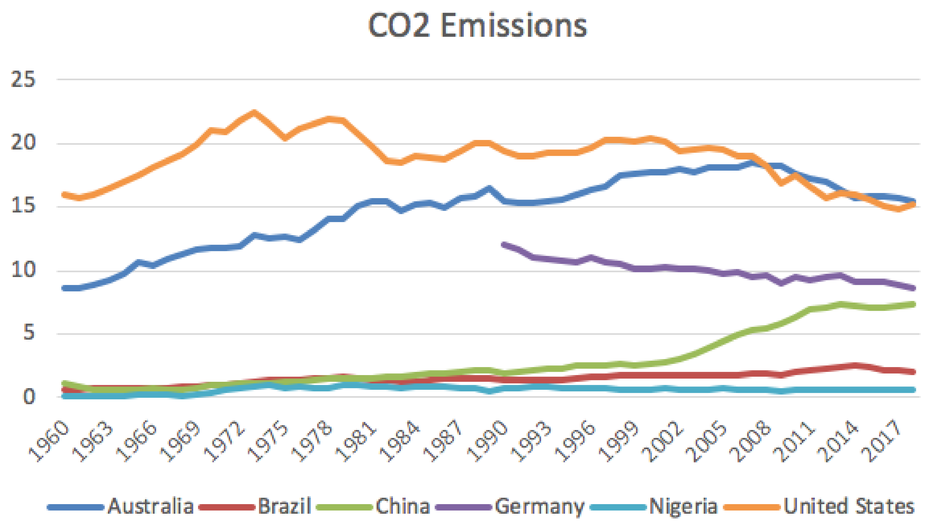


FIG. 1 & 2 (WORLD BANK OPEN DATA, 29 MARCH 2022)

UNITED STATES

ANALYSIS

With the highest nominal GDP in the world ($20.49 Trillion USD), the United States allocates about $17.1 trillion in ESG spending. Reporting is not mandatory but a plethora of corporations such as JP Morgan, Goldman Sachs and Wells Fargo practice ESG. Attempts at mandatory reporting date back to 2010 when the SEC attempted to deliver guidelines on climate exposures but ultimately failed due to standardized disclosures, In June of 2021, the US passed the Corporate Governance Improvement and investor Protection Act.

RESULTS

While reporting is not mandatory in the US, ESG Investing continues to grow. In 2020, it was reported that Esg investing has grown 19% since 2018. ESg is forecasted to be above $50 trillion within the next two decades.

Tyson, Alec, et al. "Americans Largely Favor U.S. Taking Steps To Become Carbon Neutral by 2050." Pew Research Center Science & Society, 1 Mar. 2022, www.pewresearch.org/science/2022/03/01/americans-largely-favor-u-s-taking-steps-to-become-carbon-neutral-by-2050

BRAZIL

ANALYSIS

Even with the highest with the highest nominal GDP in South America ($1.87 trillion USD), Brazil has only recently seen a spark in ESG investing. In 2005, B3 (a Brazilian stock exchange) joined the UN Global Compact becoming the first stock exchange to do so. B3's initiative helped kindle Brazil's ESG strategy going forward as the government and Central Bank have enacted regulations regarding ESG.

RESULTS

As recent as 2021, Brazil's Banks consider ESG risks in the same category as financial risks. Banks are also required to document and report any ESG risk, forcing companies to perform regular portfolio-level analysis.

"Brazil's Banking System Braces for New ESG Regulation." LatinFinance.Com, www.latinfinance.com/web-articles/2021/9/brazils-banking-system-braces-for-new-esg-regulation. Accessed 6 Apr. 2022.

AUSTRAILIA

ANALYSIS

Australia has the 13th highest nominal GDP in the world ($1.61 trillion USD) and a population of over 25 million. The Responsible Investment Association Australasia (RIAA) highlighted increased client demand for ethical investment options in its October 2021 report as sustainable investments were $33.42 billion at the end of June 2021, up 66% from the same period in 2020. Experts point to the COVID-19 pandemic as the catalyst of this

RESULTS

44 ASX-listed companies (Australian securities exchange) are currently working to address ESG-related issues in their companies. It's been predicted that assets in ESG will reach $30 trillion USD by the end of the decade.

GRIFFITHS, NEIL. "THE RISE OF ESG IN AUSTRALIA AND WHY THERE'S NO SLOWING DOWN." IFA, 13 DEC. 2021, HTTPS://WWW.IFA.COM.AU/NEWS/30555-THE-RISE-OF-ESG-IN-AUSTRALIA-AND-WHY-THERE-S-NO-SLOWING-DOWN.