

# KERATAN AKHBAR

TARIKH : 16 JULAI 2022  
AKHBAR : THE STAR  
MUKA SURAT : 5 & 6

## ESG - inspiration, aspiration or perspiration



ANDREW SHENG

### Think Asian

IT'S fashionable to talk about environmental, social and governance (ESG) investing. Will it make a difference to your money and your life?

The ESG initiative evolved out of the United Nations Sustainable Goals that are supposed to be implemented by 2030.

The ESG approach is a fundamental shift out of corporate "shareholder value" maxim that dominated the free market mindset to deliver profits without explicitly considering a firm's responsibility to society or the planet.

ESG caught global headlines when the Glasgow Financial Alliance for Net Zero (GFANZ), led by UN Special Envoy for Climate

## ESG – inspiration, aspiration or perspiration?

Action and Finance Mark Carney, corralled 450 members representing US\$130 trillion (RM578 trillion) in assets under management to unite "net-zero financial sector-specific alliances from across the globe into one industry-wide strategic alliance".

In the words of Carney, "GFANZ is accelerating the best practice tools and methodologies that are essential for ensuring that the climate is at the heart of every financial decision."

As a vision, ESG looks impeccable, except one needs to ask – whose vision?

As an aspiration, will ESG deliver net-zero?

As to perspiration, who will work hardest to deliver?

My immediate reaction when GFANZ was announced was: how did 450 institutions, mostly in advanced markets, with assets amounting to 1.3 times world gross domestic product, have so much power?

If they had cared really about net-zero and ESG, how come it took so long to shift out of short-term greed to long-term value? If GFANZ will not lend or invest in companies

that do not meet ESG standards, isn't that more a stick rather than a carrot?

The US\$130 trillion (RM578 trillion) sounds a lot of money but how come their governments couldn't even agree on US\$100bil (RM444bil) in actual aid to emerging and developing economies (EMDE) to help achieve net-zero?

After all, a lot of that US\$130 trillion (RM578 trillion) is also the EMDE money that is being recycled in New York, London, Frankfurt and Tokyo.

Furthermore, I cringe whenever someone talks about best standards and practices because the best standards for the financial sector may not be the same for the real sector borrowers or companies.

Note that those who practiced best standards got more into the 2008 Global Financial Crisis than those low standard EMDEs who suffered the spillovers.

The medicine for complex and advanced economies and financial systems are not the same for EMDEs which have less sophisticated systems. Cancer medicine does not cure malaria.

After 40 years working in financial sector regulation to push best standards designed by the West, my experience is that the rest of the world would have preferred "best fit", meaning the best should never be the enemy of the good.

Whenever the multilateral banks and agencies insist on "best standards and practices", their loan conditionalities became so complex and stringent that many EMDEs could neither meet them nor access the funds in a timely manner for their real needs.

Actually, ESG is a trilemma where you have to trade-off between three factors. Harvard professor Dani Rodrik brought out the "Democracy, sovereignty and globalisation trilemma", where "nation-state system, democratic politics and full economic integration are mutually incompatible."

Think about globalisation as being the environmental side because we all live on one planet and are entangled with each other through financial, supply, media and

> SEE PAGE 6

## ESG standards for companies so far are all about disclosure

> FROM PAGE 5

cultural networks. How we consume and act affects not just other people but also the planet.

The social side is about inclusivity and social injustices, which is a matter of democracy, which ideally is the greatest good for the greatest number. But governance is really a sovereignty matter.

And governance is critical because without good governance (or discipline) at the individual, family, firm, city or state levels, there will be no order, little social justice and bad consequences for the planet.

In short, ESG matters but if we can't get our domestic and global governance acts together, we will live the consequences of bad outcomes for the people, profit and planet.

ESG basically happened when businesses realised that the total drive for profits had terrible consequences for the people and the planet in terms of inequality and environmental damage.

Thus social responsibility and trusted governance that care about people and the planet moved from expense to profit opportunity.

Of course, consumers and employees know all about "green-washing", getting the public relations guys to white-wash corporate misdeeds and poor behaviour.

This is the part about ESG that worries me, when asset managers are pushing out ESG products as if they are mother's pies that will deliver better results than non-ESG companies.

The facts show that currently oil and gas companies and arms producers are reaping super-profits, and no one can say with

hand to heart that these are fully ESG-compliant.

Cynically put, ESG standards for companies so far are all about disclosure but not really about compliance in both spirit and letter of ESG aspirations.

As inventor Thomas Edison said, "Invention is 1% inspiration and 99% perspiration".

Truly delivering net-zero and avoiding social injustice and damaging biodiversity is mostly perspiration and hard work, which means that real people and companies have to deliver, whereas financial wizards can just claim that they are doing their fair share of policing ESG.

In other words, I will believe in GFANZ when all their members first disclose how they themselves meet net-zero carbon standards and treat their customers and employees

fairly, rather than demanding that their borrowers or companies they invest in deliver net-zero via ESG. Doctors, heal thyself first.

For EMDEs, the real ESG hardwork is to make sure that they have the governance capacity to deliver on real social inclusivity and regeneration of the natural habitat.

ESG is not just a private sector project but a partnership between companies, governments and communities that recognises huge barriers to change at every level.

ESG requires real mindset change but perspiration will only begin when the top leaders show that they are sweating and walking the same as everyone else, rather than just talking about it.

Andrew Sheng writes on global issues from an Asian perspective. The views expressed here are the writer's own.