

ESG Essentials for SMEs: *Kickstart your ESG Journey*



IN PARTNERSHIP WITH
Enterprise
Singapore



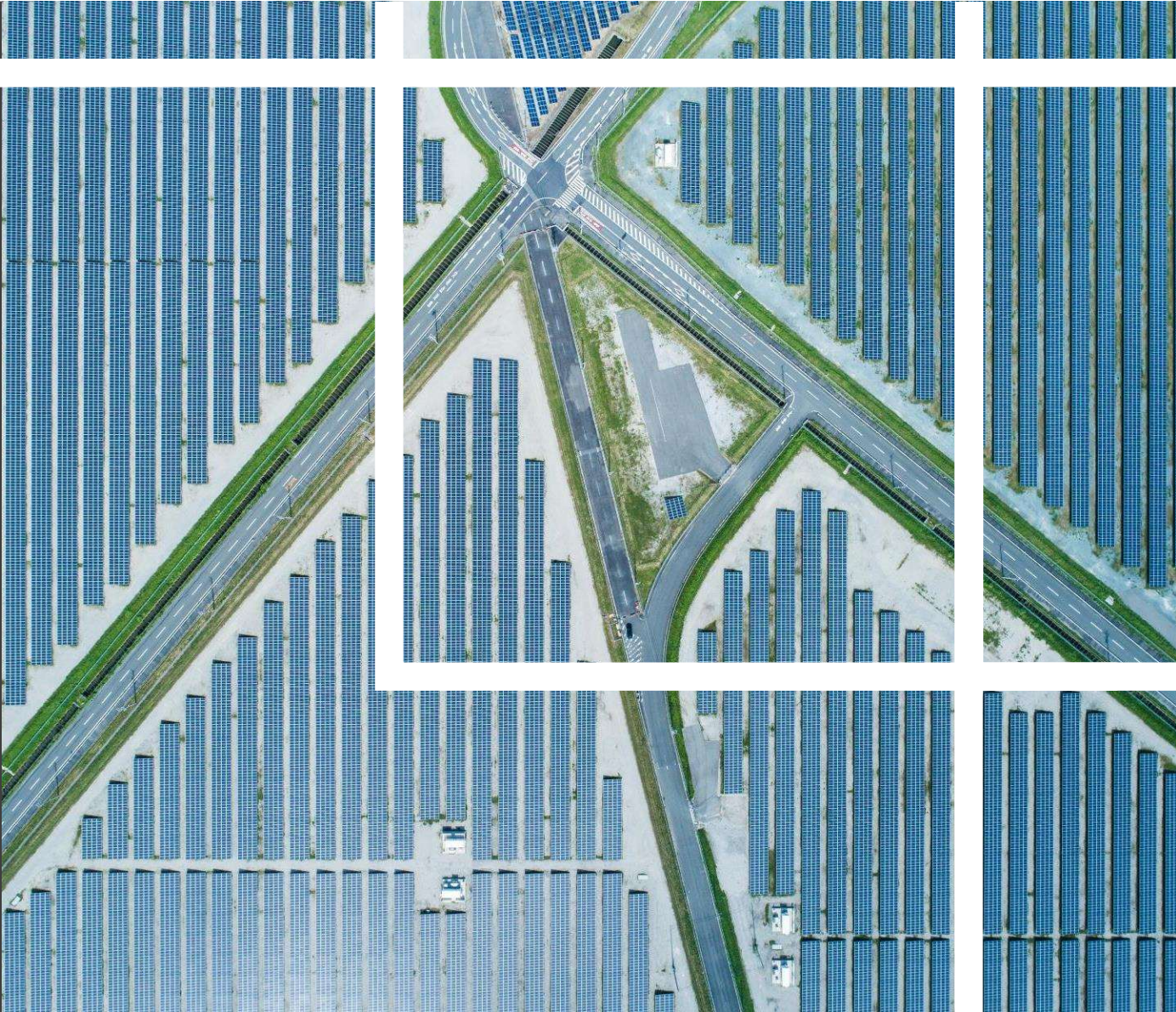
Understanding ESG - Global and Local Trends

ESG Essentials for SMEs:
Kickstart your ESG Journey



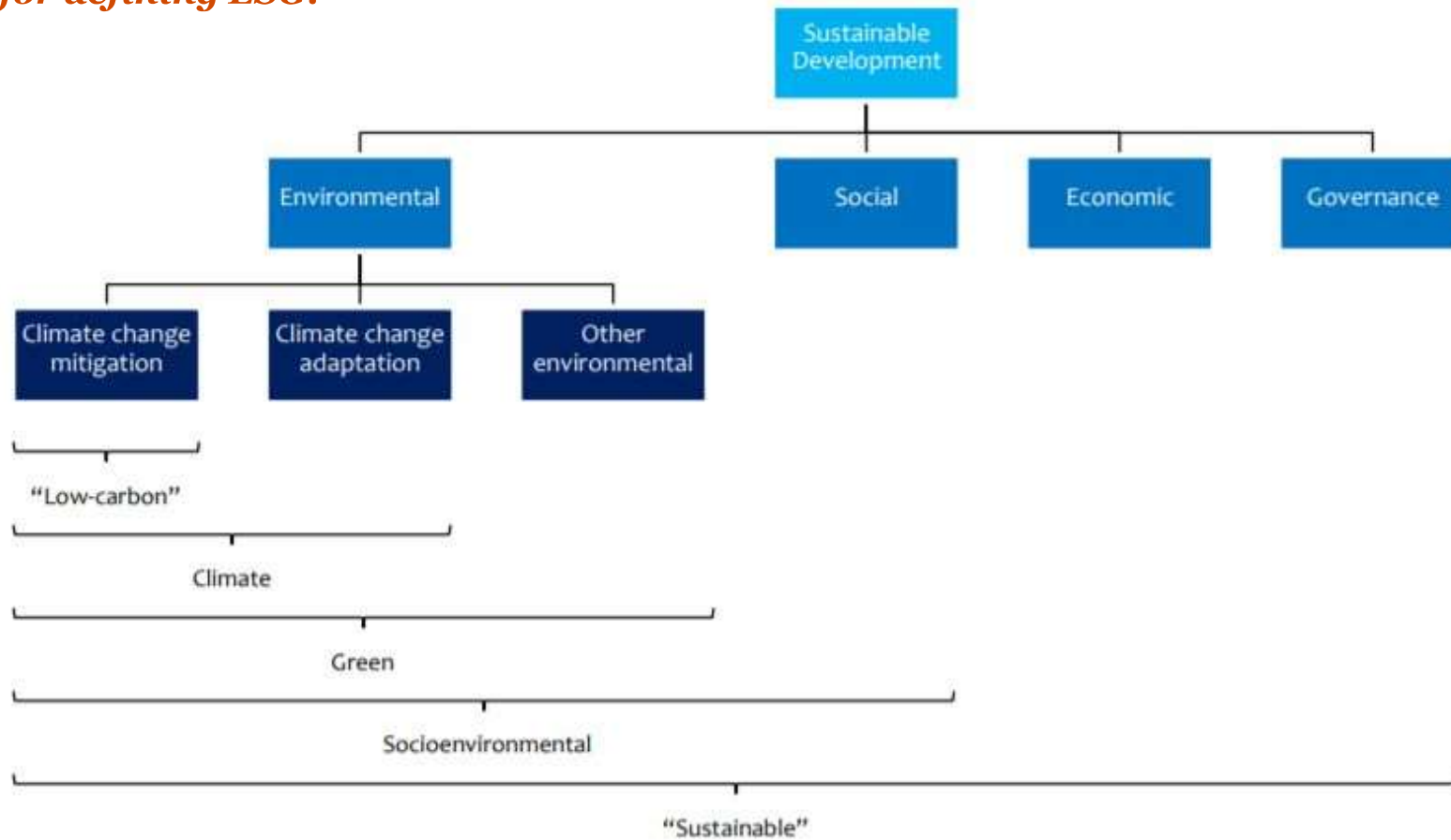
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What is ESG?



Broad terms of ESG

Schema for defining ESG:



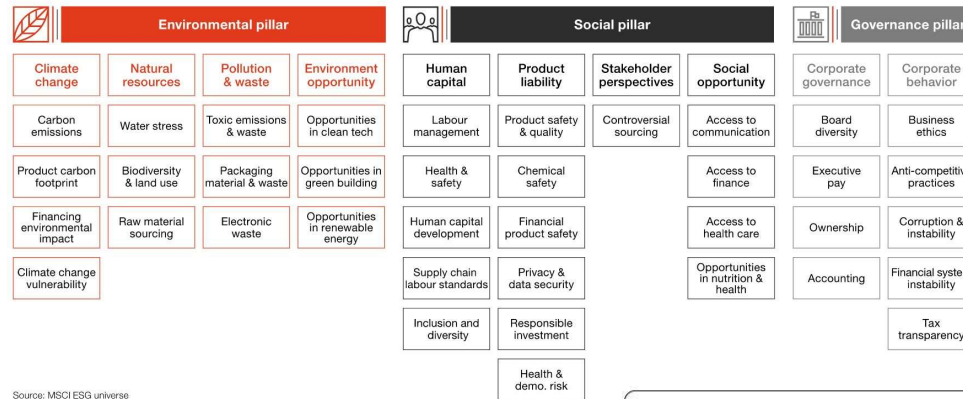
Source: UNEP Definitions and Concepts Background note

Overview of ESG topics

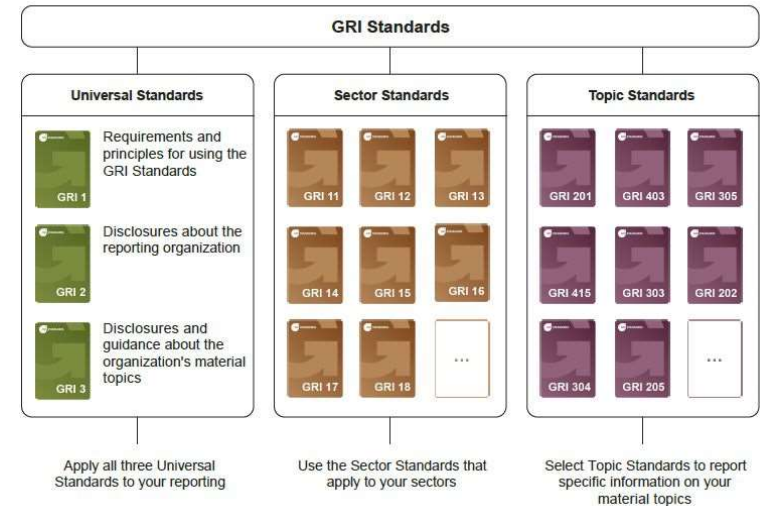
- As sustainability spans across all industries, there is no exhaustive list of ESG topics
- ESG guidance from standards/frameworks list various issues and related metrics



Dimension	General Issue Category
Environment	GHG Emissions
	Air Quality
	Energy Management
	Water & Wastewater Management
	Waste & Hazardous Materials Management
	Ecological Impacts
Social Capital	Human Rights & Community Relations
	Customer Privacy
	Data Security
	Access & Affordability
	Product Quality & Safety
	Customer Welfare
	Selling Practices & Product Labeling
Human Capital	Labor Practices
	Employee Health & Safety
	Employee Engagement, Diversity & Inclusion
Business Model & Innovation	Product Design & Lifecycle Management
	Business Model Resilience
	Supply Chain Management
	Materials Sourcing & Efficiency
Leadership & Governance	Physical Impacts of Climate Change
	Business Ethics
	Competitive Behavior
	Management of the Legal & Regulatory Environment
	Critical Incident Risk Management
Systemic Risk Management	

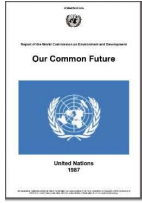


Source: MSCI ESG universe



Timeline of ESG developments

Sustainability Milestones



“Our Common Future” Report (Brundtland Report)

1987



United Nations Global Compact

2000



UNGC report “Who Cares Wins - Connecting Financial Markets to a Changing World”

2005



UNITED NATIONS SUSTAINABLE DEVELOPMENT SUMMIT 2015 25-27 SEPTEMBER

2015 UN General Assembly COP21 UNFCCC Summit

2015



United Nations Climate Change Conference COP 27

2022

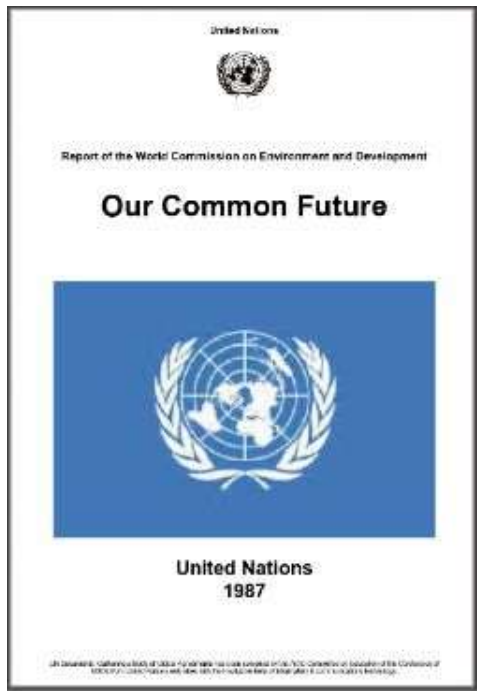
ESG Developments

Term “Sustainable Development” coined

Term “ESG” coined

*Sustainable Development Goals launched
Paris Agreement signed*

The rise of Sustainable Development



“Humanity has the ability to make development sustainable to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs.”

“Our Common Future” Report 1987

- **1983** - Establishment of the United Nations’ World Commission on Environment and Development
- **1987** - Publication of report “Our Common Future”, also known as the Brundtland report - coining the term “Sustainable Development”

Report suggestion for corporations :

To be more proactive in balancing the drive for *economic growth* with *social equity* and *environmental protection* due to their access to resources

The evolution of ESG



- **2000** - Creation of the **UN Global Compact**
- **2005** - UNGC releases report “Who Cares Wins - Connecting Financial Markets to a Changing World”
- Emergence of the term “ESG”
- Report includes guidelines and recommendations on how to better integrate ESG issues in asset management, securities brokerage services and associated research functions



The report was publicly endorsed by 20 financial institutions with combined assets under management of over US\$6 trillion

Global ESG-related goals - Sustainable Development Goals

“A shared blueprint for peace and prosperity for people and the planet, now and into the future”


- Created by the United Nations General Assembly in 2015
- Consists of 17 interlinked global goals, 169 targets, 247 indicators
- Adopted by 193 countries
- Intended to be achieved by 2030



What does it mean for Businesses?

- Companies can join the **United Nations Global Compact** - a voluntary initiative based on CEO commitments to implement universal sustainability principles and take steps to support UN goals
- Companies can also identify **goals** based on the SDGs and use it to **guide reporting**


Sustainable Development Goals - Targets and indicators



Target
1.1
By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day

Indicators ▾

1.1.1
Proportion of the population living below the international poverty line by sex, age, employment status and geographical location (urban/rural)



Target
2.2
By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons

Indicators ▾

2.2.1
Prevalence of stunting (height for age <-2 standard deviation from the median of the World Health Organization (WHO) Child Growth Standards) among children under 5 years of age

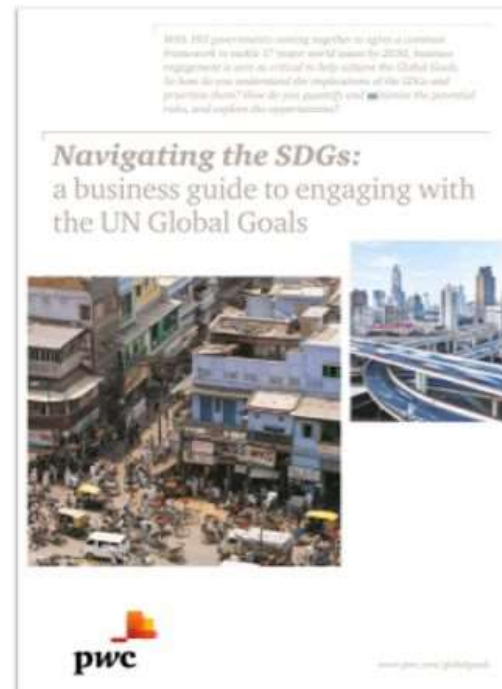
2.2.2
Prevalence of malnutrition (weight for height $>+2$ or <-2 standard deviation from the median of the WHO Child Growth Standards) among children under 5 years of age, by type (wasting and overweight)

2.2.3
Prevalence of anaemia in women aged 15 to 49 years, by pregnancy status (percentage)

- Each goal has specific **targets**
- Each target has **indicators** to track and monitor progress
- When aligning with the SDGs, companies have to note what indicators they intend to contribute to

Integrating SDGs into businesses

- Engaging with the SDGs requires an understanding of the associated **goals, targets and indicators**
- It is important to select goals that are **material** to the business
- By doing so, businesses can explore **related opportunities** which maximise their reach and impact



[Navigating the SDGs: a business guide to engaging with the UN Global Goals](http://www.pwc.com/globalgoals)

1 NO POVERTY

Why does it matter for business? And what can business do?

Poverty is both a risk and an opportunity for business

- ▶ Businesses that pay their staff wages that are below a living wage are at risk of **reputational damage**. Often it is staff employed indirectly via **contractors** who get the lowest pay. Increasingly, consumers expect companies to meet basic, minimum standards on pay, including for staff hired through contractors, and some are prepared to **vote with their feet** if they become aware of companies that do not. The pervasiveness of **social media** makes the exposure of issues more likely and the ensuing reputation damage potentially more devastating. On the upside, there is also evidence that higher wages can lead to **increased productivity**.¹⁴
- ▶ Businesses are increasingly also considering fair pay in the context of their **supply chains**, both to manage potential reputational risk and as a **positive lever** for lifting people out of poverty.

Do you pay all your staff a fair or living wage in all countries of operation? Do you require the same of contractors? Have you identified and addressed any potential risks relating to low pay in your operations? Do you track pay rates against productivity?

Do you include a living wage approach to fair compensation in your supply chain policy? Does this apply across the whole of your supply base? Have you assessed the reputational risk of not having such an approach?

In recent years, an increasing number of companies are exploring **inclusive business** opportunities that bring benefits to their businesses as well as to the poor. Inclusive business models' are **commercially viable** and benefit businesses through **new markets, higher revenue, innovation and strengthened supply and distribution chains**. And they serve the poor by providing them with **access to products and services** as consumers, or by including them in the value chain as employees, suppliers or distributors, and empowering them through **skills development and earnings**.¹⁵ Often these business models incorporate an element of **microfinance or microcredit** as a key enabler for the poor to participate.

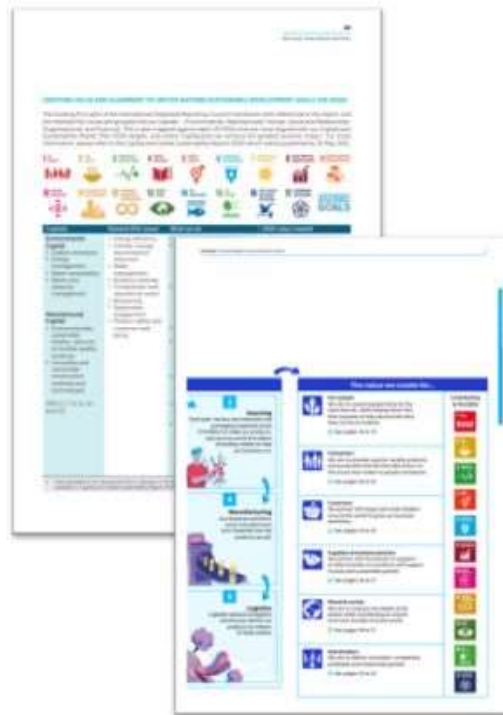
What approaches are you using to support the poor to access your products or services? Would an inclusive business model help your company access new markets in developing countries? Have you considered how to include people from poorer communities in your supply chain or distribution channels and what business and social benefit this could deliver? What partnerships might help you do this?

You could also think about:

- ▶ Using **community investment** to help meet the needs of the poor, shaping your programmes so that they can be sustained when your support comes to an end and measuring the **social return on investment** to help you target your efforts for maximum impact.
- ▶ **Impact investment**¹⁶, i.e. investing corporate funds into projects that align with your company's **strategic objectives**, deliver **benefits to the poor**, and generate a **financial return** or, as a minimum, a return of capital.

Using SDGs for reporting

- Many companies include the SDGs in their **annual reports** to track and communicate their impact in a standardised format
- By aligning their activities to the SDGs, companies can demonstrate how their efforts have both a **local and global impact**



Global ESG-related goals - The Paris Agreement

***“A legally binding international treaty on climate change...”
“...brings all nations into a common cause to undertake
ambitious efforts to combat climate change and
adapt to its effects.”***

- Adopted by 196 Parties at COP 21 in Paris in 2015, ratified in 2016
- **Goal - To limit global warming to well below 2, preferably to 1.5 degrees celsius, compared to pre-industrial levels**
- Countries have to state their Nationally Determined Contributions (NDCs)



What does it mean for Businesses?

- The Paris Agreement has become the international standard for business action
- Businesses are reducing emissions and building climate resilience based on the goals set

PARIS CLIMATE AGREEMENT



Source: [EnergyTracker](#)

The Paris Agreement - Implications for Singapore

Singapore Context

- In 2021, Singapore launched the “SG Green Plan 2030” to advance the national agenda on sustainable development
- In the national Budget released in February 2022, Singapore announced that the country set a target of reaching **net-zero “by or around mid-century”**
- In November 2022, the National Climate Change Secretariat announced that Singapore was committed to achieving **net zero emissions by 2050**

SG Green Plan 2030

Launched February 2021



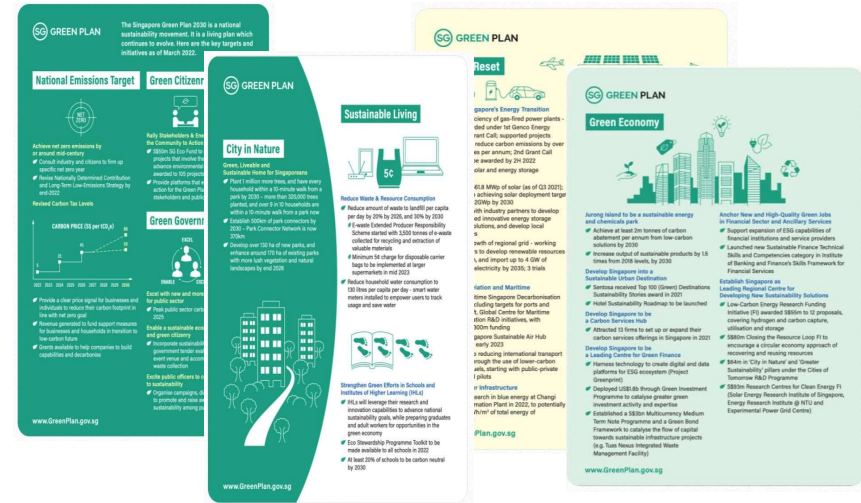
2050 Net Zero Ambition

Announced October 2022

Singapore Green Plan 2030



- A whole-of-nation movement to advance Singapore's **national agenda** on sustainable development
- Backed by the Ministries of Education, National Development, Sustainability and the Environment, Trade and Industry, and Transport
- Aims to strengthen Singapore's commitments to UN's Sustainable Development Goals and Paris Agreement
- As a living plan, the plan continues to evolve



Pillars

- National Emissions Target
- Green Citizenry
- Green Government
- City in Nature
- Sustainable Living
- Energy Reset
- Green Economy
- Resilient Future

Key Targets

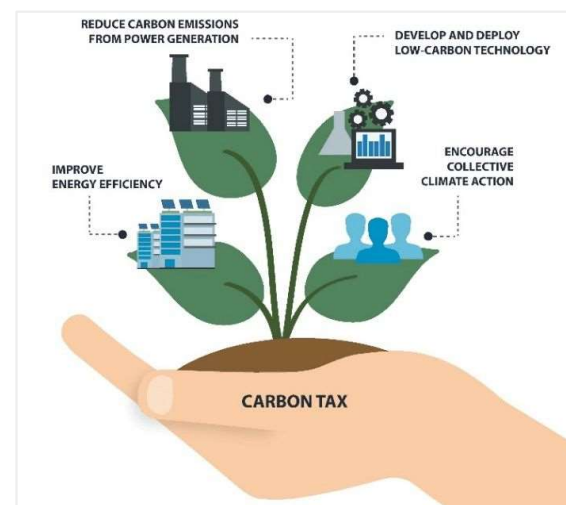
- Plant 1 million more trees
- Quadruple solar energy deployment by 2025
- Reduce the waste sent to landfill by 30% by 2030
- At least 20% of schools to be carbon neutral by 2030
- All newly registered cars to be cleaner-energy models from 2030

Other local sustainability trends

[To be covered in detail in “Regulatory Frameworks”]



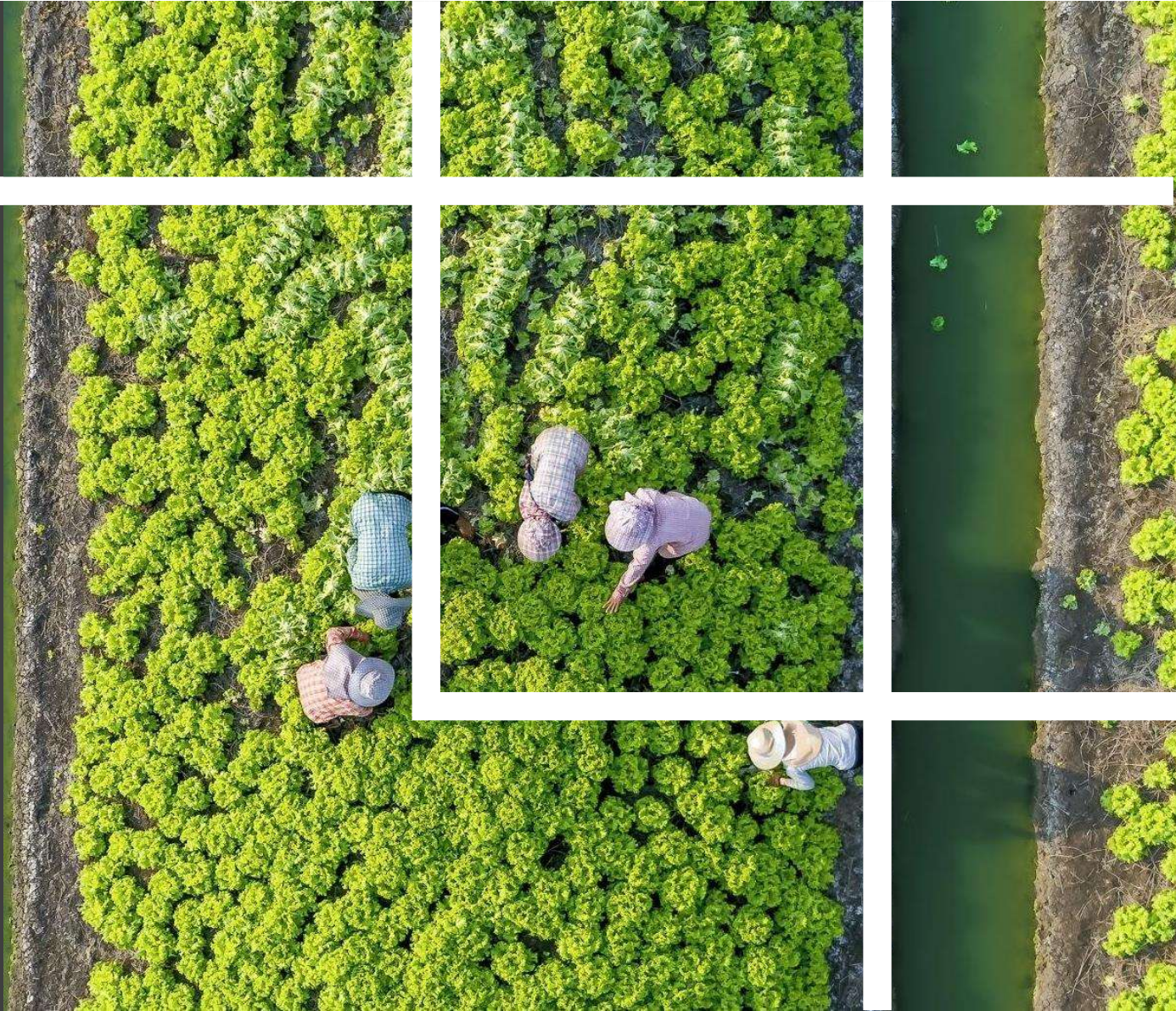
**Sustainability reporting for
listed companies**



Singapore's Carbon Tax

2

Why Companies Should Integrate ESG



Why companies should integrate ESG

Risk Mitigation and Opportunity Creation



Risks

- **Compliance Risk**
 - Emerging ESG-related legislation (SGX reporting, increasing carbon tax, etc)
- **Reputational Risk**
 - Stakeholder backlash to unethical or environmentally harmful activities
- **Physical and Transition Climate Risk**
 - Impact of extreme nature events on physical assets and costs to the business from countries shifting to a low carbon economy



Opportunities

- **Operational Efficiency**
 - Increasing energy efficiency and renewable energy usage
- **Security of Supply**
 - Increasing supply chain transparency
 - Diversified supply chains are less likely to be affected by global shocks
- **New markets and product innovation**
 - Increasing preference for environmentally conscious goods and services

ESG is commanding more attention at the board level

Greater oversight

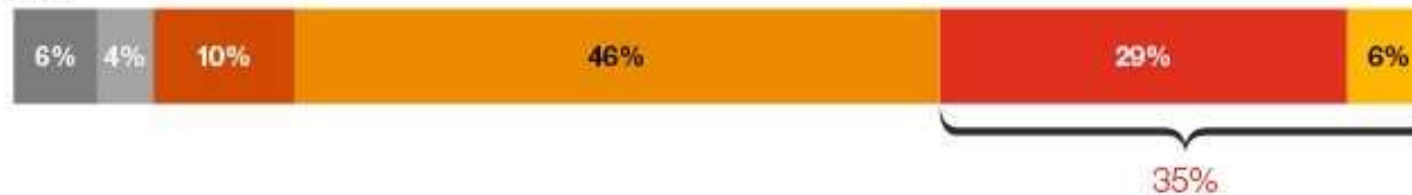
ESG appears on the board agenda more frequently now than even two years ago

% of respondents

2021



2019

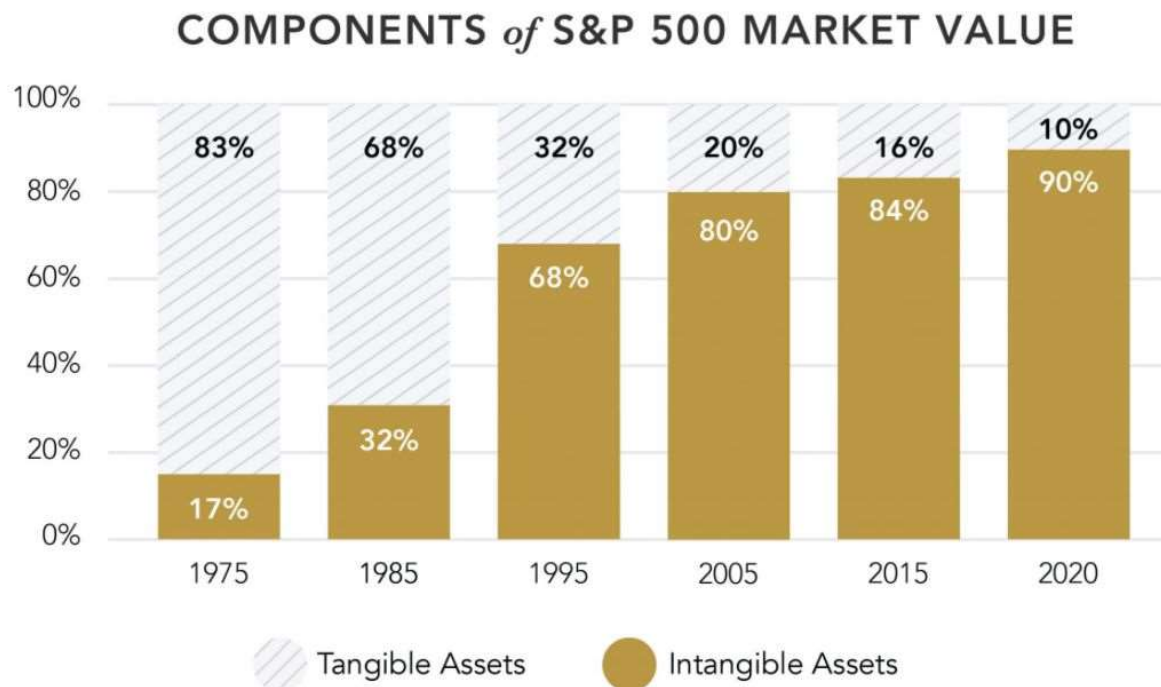


■ Not applicable ■ Never ■ Less than once a year ■ Once a year ■ More than once a year ■ All board meetings

Source: PwC Private Equity Responsible Investment Survey 2021 and 2019

Base: 2021: 180 (excluding Venture Capital-only respondents); 2019: 162

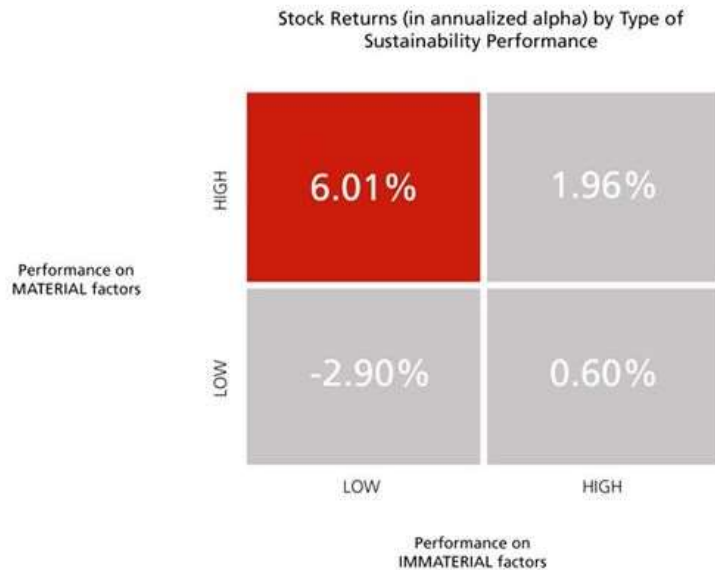
The growing importance of ESG coincides with a shift in market value, recognising the importance of intangible assets



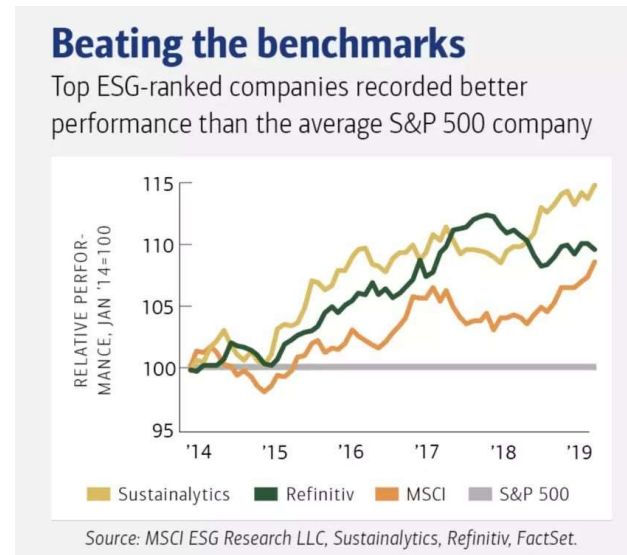
Intangible assets:

- Brand value
- Reputation
- R&D pipelines
- Customer satisfaction
- Health & safety
- Environmental performance
- Social license to operate
- Governance
- Employee engagement

ESG is correlated to improved financial performance



- Researchers at Harvard Business School found that companies with **strong ratings on material ESG issues** perform **6% better** than their counterparts with poor performance on material ESG topics



- Research by the Bank of America showed that top ESG ranked companies recorded **better performance** than the average S&P 500 company

Investor expectations of ESG

87%



of investors say their firm has changed its voting and/or engagement policy to be more attentive to ESG risks

(Edelman trust barometer, 2019)

88%



of S&P 500 bankruptcies between 2005 - 2015 were companies with low environmental and social scores

(BofA Merrill Lynch, 2019)

US\$35tn



Balance of ESG & RI investment globally in 2020, 15% increase from 2018

(Global Sustainable Investment Alliance, 2020)

20%



of all ETF's will be tied to ESG ratings by 2028

(BlackRock forecasts)

53



of companies in 2020 that BlackRock took voting action against for lagging in action and disclosure on ESG issues

(Blackrock Stewardship Report, 2020)

67



S&P 100 Companies who Issued supportive statements on Racial Equality asked to disclose D&I information by NYC comptroller

(NYC Comptroller, 2020)

88%

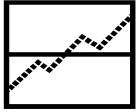
of investors believe companies that prioritize ESG initiatives represent better opportunities for long-term returns than companies that do not



Source: Edelman Trust Barometer Special Report: Institutional Investors

- Investors want consistent, high-quality information that outlines a strategic plan for long-term value creation.
- Other stakeholders, including customers, regulators, and NGOs, are also demanding more transparency

ESG enables value enhancement



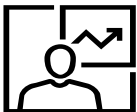
Enabling Top Line Growth

- Attracting customers with more sustainable products and service offerings
- Greater resilience to shocks with more diversified supply chains and clearly enforced ESG policies
- Achieving better access to resources through stronger community and government relations



Creating Cost reduction

- Lower energy consumption through increased energy efficiency and renewable alternatives
- Reduced water intake through water conservation methods in production and operations



Increasing Productivity

- Increasing employee motivation through engagement on ESG issues and improvements to workplace sustainability-related activities
- Attracting talent through greater social credibility

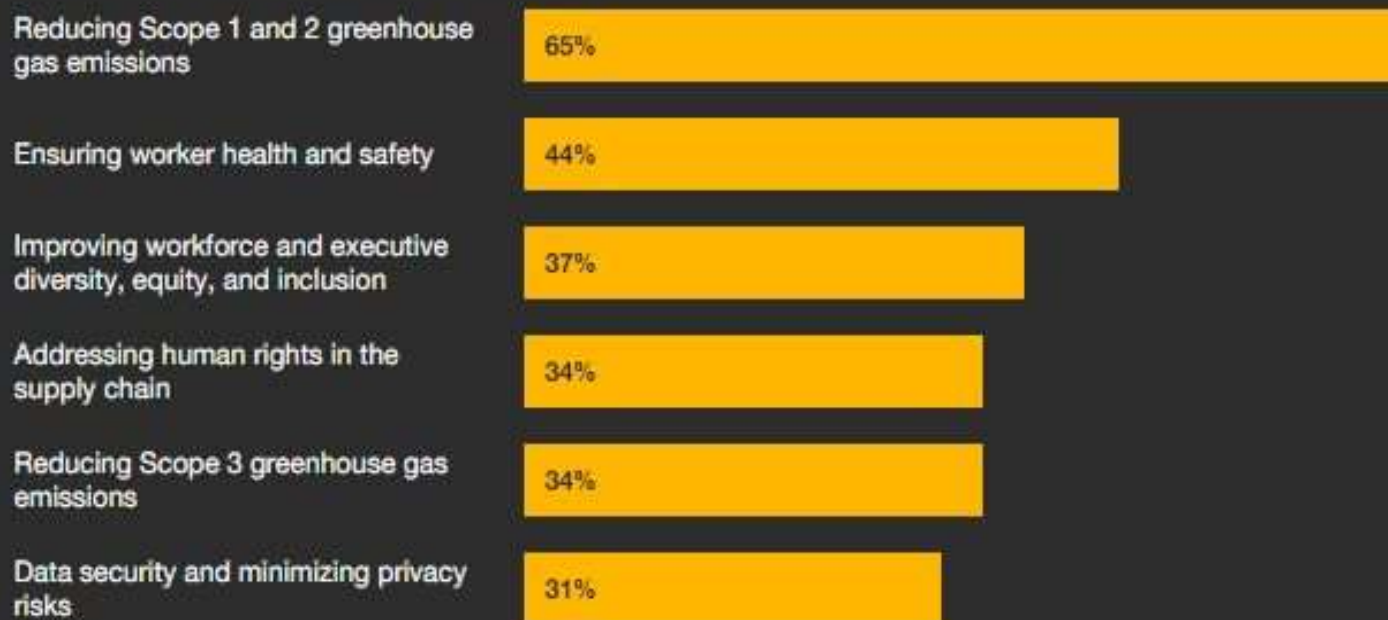


Decreasing Regulatory and legal interventions

- Earning subsidies and government support for ESG initiatives
- Reduced emissions and carbon-related tax

Where can companies begin - Top ESG issues

Top-cited ESG issues,¹ % of respondents

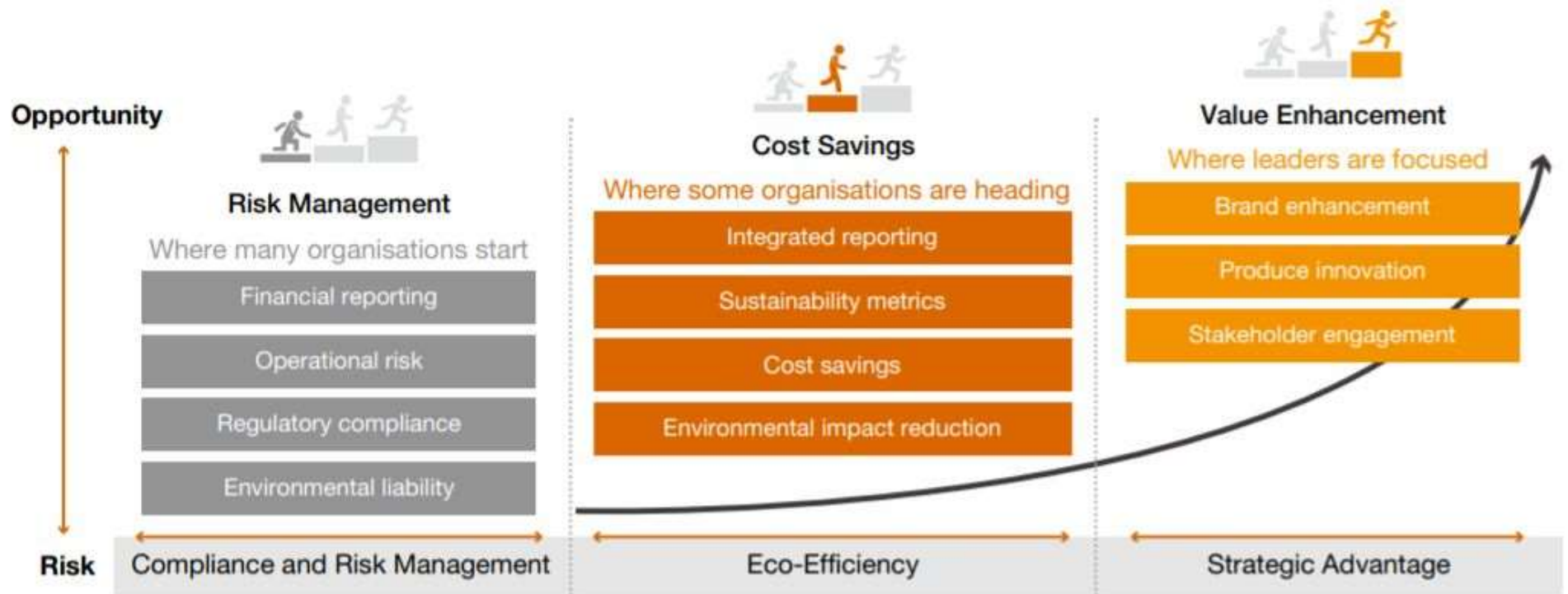


¹ Respondents were asked to select up to 5 issues from a list of 14 for companies in the main industry the respondent covers.

Source: PwC 2021 Global Investor Survey

What your ESG journey could look like

Shifting from Risk Management to Value Enhancement



Thank you

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