ESG -An Ecological Commitment

That Goes Beyond Pure Math

It is true that investors look to create wealth from their investments, and in the recent past, companies that created value for shareholders at any cost, in terms of share prices and dividends, were in prominence.

However, the trend is slowly changing and investors have started to look at companies that do well on the environmental, social, and governance (ESG) criteria. Companies that are environmentally benign, create social value, and are backed by robust governance mechanisms are in demand. Investors are now envisaging a future where ESG criteria play a major role.

The predominant narrative put forward by those championing the ESG cause is that a company that is not creating social value is not performing responsibly on the environmental front. It does not have robust governance and is a high-risk investment. Investing in a company that adheres to ESG criteria is a prudent move as it reduces compliance risk, creates brand value, and perpetuates strong business performance.

It is also argued by some promoting the ESG agenda that companies, especially entities listed on the stock market, owe it to themselves to focus more on ESG criteria as it is in their self-interest to do so. Doing well on ESG parameters could help enterprises transition to model corporates, increase goodwill about their operations among key stakeholders, including regulators, and ensure sustainability in a post-pandemic world marked by volatility, uncertainty, complexity, and ambiguity.

Several proponents of the idea that companies concentrate more on the ESG aspect have also pointed out that measurable gains for enterprises that have a heightened ESG focus could come in the form of commercial banks, financial institutions, private equity firms, and venture capital funds being more willing to offer financial assistance; prospective investors taking a greater interest in companies; and share prices showing an upward curve. They bolster their argument by pointing out to some of the biggest names in the corporate arena worldwide that are now heavily focused on ESG criteria.

This, in turn, has raised certain questions.

Companies with regular investments might get better returns in a few years than companies with ESG investments, but does that mean ESG investments are not financially prudent? Does that mean investors are losing wealth because they are more interested in companies' social and environmental performance? These questions have been hotly debated, and there are strong arguments to be made on both sides.

SOLUTIONS FOR A GREENER PLANET

At the Center for Study of Science, Technology and Policy (CSTEP), we work with governments and institutions to develop solutions using science and technology. CSTEP's work in the power and energy sector, and elsewhere, identifies potential or current problems that are not conducive to just and inclusive green growth.

We have developed models that identify bottlenecks in the power sector's transition from a fossil fuel–based sector to a renewables-based sector, focusing not only on the supply and transmission of electricity produced from renewables but also on how the benefits of electrification can be enjoyed by society at large.

When we make a recommendation to an electricity generation company to increase its share of generation through renewables, we are preparing it for the future. Because long before we run out of coal and other fossil fuels, we might perhaps lose the appetite for them - with the climate and pollution risks involved. When we prepare a model for renewable energy companies to invest in locations that could result in minimal environmental and social infringement, we are helping investors to assess and minimise risks while directly addressing social and environmental concerns.

When we point out that there are bottlenecks in the transmission infrastructure for evacuation of new renewable power in southern India, we also point out, via other studies, where best to site the new RE plants to evacuate power and give a return on investment. It would be prudent for investors to heed such studies. Though we are not into investment advice, we do work towards broadening knowledge and offering solutions that will help the country build a superior, people- and environment-friendly infrastructure.

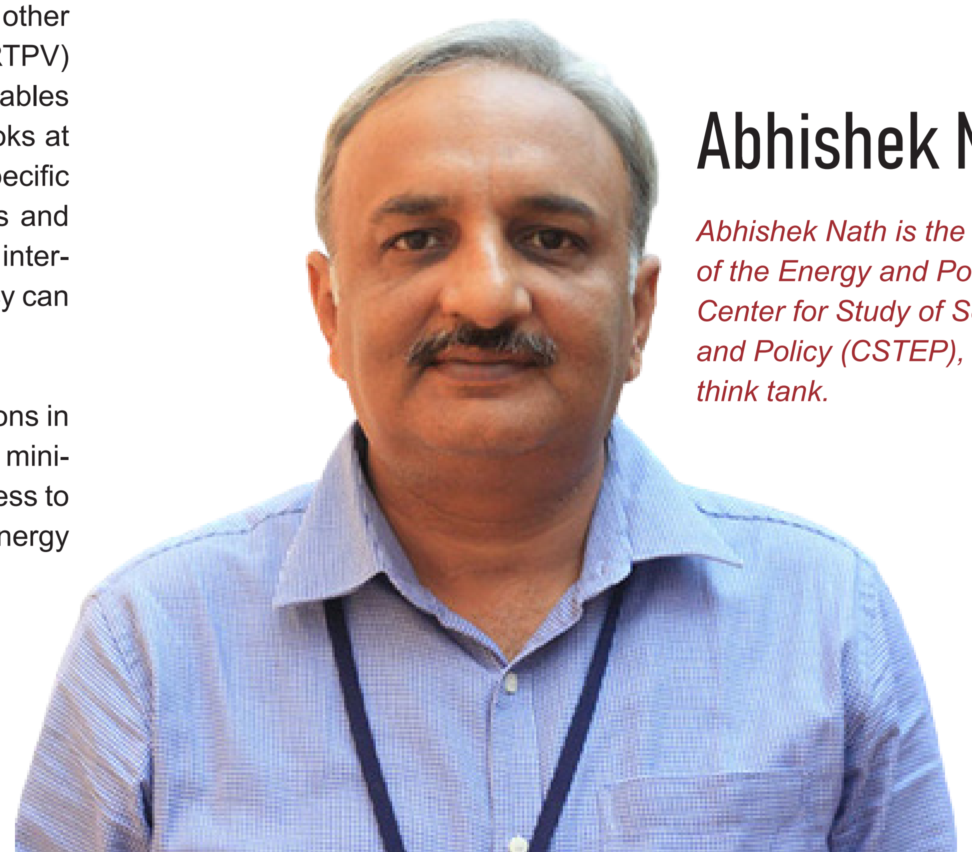
We are in the process of developing or have just recently developed other solutions. One of those is the integration of rooftop photovoltaic (RTPV) systems in the grid, where you can generate electricity through renewables while supplying the remaining power to the grid. Another solution looks at the storage of electricity, both pumped hydro and battery, with the specific intention of making intermittent renewable resources work 24 hours and not create overcapacity. We are also working on exploring stronger inter-regional transmission as well as how the next level of energy efficiency can be achieved.

While our work on social issues is not direct, we have provided solutions in three areas: greater energy access through the grid, demonstrating mini-grid renewables-based electricity supply for communities with no access to the grid, and the development of a tool for the siting of renewable energy plants.

INVESTING IN A BETTER TOMORROW

ESG investments are difficult to assess. While shareholder values, profits, and dividends are all numbers that can be comprehended easily, putting an easily comprehensible number on ESG performance is not possible. This demands the time of investors not only to assess the current situation but also to monitor it closely, without the benefit of specific numbers.

ESG investors should be more involved in their investments, treating them as an exercise that goes beyond money. However, is it a new demand? Possibly no. If we look at serious investor and informed shareholder opinions, markets have always been swayed by what plays out in the media. Most of the recent news has been on ESG compliance issues, simple demand and supply, and future business plans and competition. It is high time we shift the focus from the negatives to the positives in an ecologically-fragile world. Each positive step taken to protect our environment takes us one step closer to shaping a better future for the next generation.



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