

# ESG and Sustainable Finance

## What is ESG?

Environmental, social and governance (ESG) is a term used to measure the day to day impact a business and its operations will have on the environment and society. ESG looks at how well a business is run and how transparent and accountable its governance is. Companies will put in place an ESG strategy to mitigate the negative impact to people and planet of their business activities.

A company embarking on a sustainability strategy will set a series of ESG goals or metrics and benchmark their success by reference to standards such as IFRS S1 and S2 (the first two globally applicable sustainability standards published by the International Sustainability Standards Board in 2023).

### Environmental

If a company wishes to mitigate any risk to the environment from its business activities, it may look at setting environmental metrics focused on reducing its carbon footprint and transitioning to net zero.

In the housing sector, for example, we know that the built environment is hugely damaging to the environment. The UK Green Building Council has stated that the built environment is directly responsible for 25% of the UK's carbon emissions. So a property developer looking to set environmental metrics may employ green building techniques to improve the energy efficiency of its buildings, source sustainable building materials and put in place measures to reduce the embodied carbon in its developments, as well as looking at renewable and alternative sources of heat such as heat pumps to heat their buildings.

### Social

Social metrics look at the effect a business has on society. A company looking to improve its social metrics will focus on activities which will have a positive impact on society such as building affordable housing, access to work programmes, social mobility schemes, putting in place measures to improve employee health and wellbeing and ensuring that they have a strong education, diversity and inclusivity programme.

### Governance

Governance metrics look at the operations of a company and whether it is well run. Does the company have a diverse board? How does it deal with conflicts of interest? Does the board have a broad range of skills appropriate for the area of business the

company operates in? Is there true inclusivity of voice with junior staff members having the ability to make their voices heard?

## WHY DO INVESTORS CARE ABOUT ESG?

Investors are under huge pressure to articulate their ESG credentials to their stakeholders. This means that they need the people they invest in to have a credible sustainability strategy and to produce an ESG/Sustainability Report on an annual basis benchmarking their ESG goals against an agreed framework.

ESG is top priority for investors especially with the Sustainability Disclosure Regulations (SDR) coming into force in 2024. SDR includes anti green-washing rules which are set to come into force in May 2024 which, among other measures, will require investors to apply a sustainability label to their financial products making a sustainability claim. Investors will be very concerned about falling afoul of the new legislation and as such it is likely that they will ask their borrowers for much more detailed ESG information going forward. Investors need clear, comparable, benchmarkable ESG data.

There is also a huge market for sustainable finance. ESG related financial products have weathered the economic downturn. S&P Global Ratings recently reported that they anticipate that the increasing urgency around decarbonizing the economy could take the global green, social, sustainability, and sustainability linked bond (GSSSB) market closer to the \$1 trillion mark.

## HOW CAPSTICKS CAN HELP

Capsticks are green, social and sustainable finance specialists. Whether you're an ESG expert or starting your sustainability journey we can help. We can advise on green and social loans or bonds, green private placements and sustainability linked loans. We can provide bespoke training on various aspects of ESG. Additionally, our teams can support you with putting in place a sustainability strategy, sustainable frameworks, ESG policies and advise on net zero transition plans and ESG/impact reporting.

To learn more about ESG Sustainability Frameworks and what kind of sustainable finance is available, see our resource [here](#).



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