GOVERNANCE FOR SUSTAINABILITY

SUSTAINABLE DEVELOPMENT ON THE BOARD OF DIRECTORS AGENDA

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Corporate Governance Officer

IFC | International Finance Corporation
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Creating Markets, Creating Opportunities

Integrated ESG
Driving Sustainable Investment

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State Secretariat for Economic Affairs SECO

WHAT IS CORPORATE GOVERNANCE?

"Corporate Governance is the system by which companies are directed and controlled."

"If management is about running business, governance is about seeing that it is run properly. All companies need governing as well as managing."

Prof. Bob Tricker, 1984

Shareholders provide funding

Management runs the company's daily operations

Board of Directors approves strategy and oversees management

EVOLUTION OF CORPORATE GOVERNANCE

2019 Global & Regional Trends in Corporate Governance, Harvard Law School Forum on Corporate Governance and Financial Regulation

Recent Trends in Corporate Governance

BOARDS HAVE A PRIME RESPONSIBILITY TO MAKE THE ECONOMY SUSTAINABLE

1. RECOGNISE THEIR PUBLIC INTEREST RESPONSIBILITY TO MAKE BUSINESS SUSTAINABLE

All boards must put their businesses on an accelerated path toward sustainability and a circular economy. This means addressing matters such as, access to raw materials, energy efficiency, supply chain resilience, reputational risk and contingency planning.

2. TRANSFORM THE BUSINESS MODEL

The centrality of business model transformation must be reflected on the board's agenda as a number one priority. Monitoring progress on this transformation roadmap should be a standing agenda item.

3. MAKE BOARD COMPOSITION FIT FOR (RENEWED) PURPOSE

It is in boards' interest to reorganise themselves and review their roles, duties, competences, business purpose, processes and collective skill set. Increased diversity and new roles are necessary, such as a Chief Value Officer to recognise that value creation encompasses more than financial gain.

4. REGULARLY (RE)ASSESS FUNCTIONING AND PROCESSES

The board's functioning and effectiveness in delivering transformation needs to be assessed on an ongoing basis. Boards need to improve: objective director selection procedures; development programmes; sustainable reward policies; full board assessments.

5. THINK IN AN INTEGRATED WAY

Boards need to consider the full range of factors used in the value creation process with a holistic perspective. This means putting sustainability at the heart of all processes at all levels of the business.

6. TRANSCEND THE BUSINESS' BOUNDARIES

The board needs to comprehend the entire supply chain, stakeholders and ecosystems of the business, to manage reputational risk, business performance, effective sustainability and resilience.

7. RETHINK THE ROLE OF REGULATORS

It is critical that regulators closely monitor and understand market developments and the emergence of best practices. Regulators need to focus on outcomes and effective enforcement of better and simpler rules to produce results, not more regulation.

8. MOVE FROM SHAREHOLDER PROTECTION TO STAKEHOLDER PROTECTION

Regulators should now support the shift in focus to the protection of broader stakeholder interest and not only of the financial interest of investors.

9. CREATE A EUROPEAN REGULATORY FRAMEWORK FOR CORPORATE GOVERNANCE IN THE SINGLE MARKET

Corporate governance in Europe suffers from inconsistency. The time has come for consolidation. An EU corporate governance framework would better match the reality of a single market and bring coherence, legal certainty and more effective outcomes.

10. ENSURE CONSISTENT AND EFFECTIVE ENFORCEMENT

Legislation can only work as long as it is properly monitored and enforced. The Comply or Explain model could be more effective if explanations are effectively monitored and followed up. Nobody likes sanctions, but they remain indispensable and should be leveraged to ensure proper enforcement and a level playing field in business.

Corporate Governance is becoming more and more stakeholder-oriented

Corporate Governance – 10 Ideas Towards a Sustainable Economy, Cogito, 2019

BOARD OF DIRECTORS/SUPERVISORY BOARD

Oversight & Control

- Elect, evaluate and dismiss senior management; decide on its remuneration
- Review and approve company's capital allocations; review operational results against set goals
- Review and approve company's most important policies and standards
- Oversee efficiency of internal controls and risk management, including E&S
- Review and streamline its own performance and composition

Strategic Guidance & Lead

- Set vision and mission, approve corporate values and long-term goals of company
- Approve and review corporate strategy
- Ensure sound ethical culture at all levels of company and its operations
- Ensure that management succession planning is arranged and effectively implemented
- Ensure that organizational strength and resources meet requirements of long-term goals

Based on: Monks and Minow - Corporate Governance, 2004

WHAT IS GOVERNANCE FOR SUSTAINABILITY?

INTEGRATION OF E&S INTO GOVERNANCE METHODOLOGY

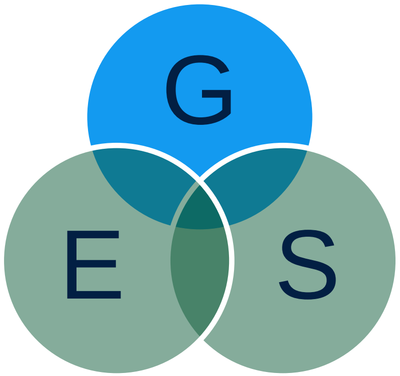
Emerging consensus that firms have a duty to stakeholders and society, not only to shareholders

We learnt from our investment portfolio:

- Good Environmental & Social Performance and Corporate Governance (ESG) practices are mutually reinforcing, that together enable sustainable, transparent and inclusive firm growth.
- Strong governance and control systems help ensure that the firm adequately manages its E&S risks and opportunities.
- Better ESG practices are positively correlated with client performance.
- Poor governance often contributes to client eventual default and equity losses

We conducted wide consultation and peer review:

- Standard setters > UN PRI, ICGN, WFE, UN SSE, IOSCO, OECD, EU, US SEC, TCFD
- Reporting & Disclosure > GRI, IIRC, SASB, Asset4
- Institutional Investors / Asset Managers > Aviva Investors, Cartica Capital, Bank of Montreal, Triodos
- Various Standards and Codes (S.A., Brazil, H.K., etc.) incorporated E&S/Sustainability
- Data providers > Bloomberg, ISS, MSCI and Sustainalytics
- Rating agencies > S&P, Moodys



A well functioning CG framework is essential for implementation of E&S: it ensures that sustainability is engrained in the corporate DNA

IFC Updated CG Methodology to Include ESG Considerations

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UPDATED IFC CORPORATE GOVERNANCE METHODOLOGY

2018 IFC Corporate Governance Methodology Update and Expansion

The new update to the IFC CG Methodology updates the IFC Corporate Governance Matrix to include key corporate governance considerations following the financial crisis and integrates environmental and social issues consistent with IFC's Policy on Environmental and Social Sustainability.

This includes an expanded definition of stakeholders to include affected communities, contracted workers, primary-supply-chain workers, suppliers and contractors, local and international nongovernmental organizations, and civil society organizations.

IFC CG Methodology Parameters

The development of the updated Methodology includes the assessment of six key CG parameters:

1. **Commitment to Environmental, Social, and Governance** (Leadership and Culture): The company and its shareholders have demonstrated a commitment to implementing high-quality corporate governance, including the governance of key environmental and social policies and procedures.

2. **Structure and Functioning of the Board of Directors**: The board of directors is qualified and adequately structured to oversee the strategy, management, and performance of the company.

3. **Control Environment**: The company's internal control system, internal audit function, risk management system (including an environmental and social management system), and compliance function are sufficient to ensure sound stewardship of the company's assets, effectiveness of operations, accuracy in reporting, and compliance with policies, procedures, laws, and regulations.

4. **Disclosure and Transparency**: The company's financial and nonfinancial disclosures are a relevant, faithful, and timely representation of material events to shareholders and other stakeholders.

5. **Treatment of Minority Shareholders**: The company's minority shareholders' rights are adequate and not abused, and other stakeholders are treated equitably.

6. **Governance of Stakeholder Engagement**: The company's governance of stakeholder engagement is adequate, particularly oversight over stakeholder mapping, stakeholder engagement policy and grievance mechanisms.

HIGHLIGHTS OF CHANGES:
ESG COMPONENTS

G E S

Commitment to [ESG (Leadership and Culture)]	• ESG integration and Stakeholder Engagement • Oversight of ESG at the Board level / Board level committee to review ESG issues • National / Global Leader in ESG
Structure and Functioning of the Board of Directors	• Board approves sustainability strategy and E&S policies • Board verifies ESMS in place and audited • ESG issues are a recurring Board agenda item • Board member with understanding of E&S risks, and if sensitive industries, then at least one E&S Expert
Control Environment	• ESMS integrated into the corporate Risk Management framework • Head of E&S/ Sustainability has unfettered access to the Board and reports to the Risk Management Committee of the Board
Transparency and Disclosure	• Annual Report includes ESG reporting • Annual Report uses IIRC, GRI, SASB and/or other acceptable framework • ESG data is subject to independent assurance
Treatment of Minority Shareholders	• Addition of Sixth Parameter – Governance of Stakeholder Engagement

WHY BOARD SHOULD DEAL WITH ESG

- ESG relates to directors' **core responsibilities**, such as approval of the corporate strategy, risk management, and ensuring effective internal controls.
- ESG issues are **disruptive forces** that create risks (both threats and opportunities) for companies.
- Board needs to help the company capitalize on market opportunities created by sustainability challenges.
- ESG challenge board's **fiduciary duties** to ensure long-term shareholder success and overall value creation.
- Board should be able to determine which ESG risks are the most material to the company they lead, so to consider those risks in decision-making.

BAD EXAMPLES SPEAK-VW EMISSION SCANDAL

A key weakness at VW was the **lack of diversity of opinion and expertise** on the company's supervisory board. Only one truly independent voice — Annika Falkengren, CEO of Swedish bank SEB.

Many of the board members were representatives of the three largest shareholders (the Porsche and Piëch families, the State of Lower Saxony and Qatar). **Ursula Piëch, a former kindergarten teacher and the wife of Mr. Piëch (Chairman) is one of them.**

Board members: Stephan Weil, Babette Fröhlich and Olaf Lies, said they had learnt about the scandal from media and internet. The board's executive committee recommended to **the supervisory board to extend Mr. Winterkorn's (CEO) contract the day before VW officials told the EPA about the emissions cheating.**

VW suffered USD 25 bln losses, the CEO and majority of the supervisory board members resigned. **The old, unquestioning, culture was diagnosed as a key factor in the VW emissions scandal.**

BAD EXAMPLES SPEAK- WELLS FARGO BANK

Wells Fargo - a bank that survived the 2008 financial crisis was fined $ 185 million by a regulator in 2015-16;

Main reasons:

- a business model based on cross-selling that has prompted an unhealthy culture and fraudulent actions by employees, including fraud;
- a weak role of the board of directors and lack of control over corporate culture.

As a result - 3,500 layoffs, falling stock prices and multimillion-dollar losses, severed business relationships with large clients, and bans on providing services to the state.

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TO PREVENT ESG FAILURES

- Board needs to demonstrate that the company approaches EGS as a core business and operations issue, not a PR exercise.

- Ensure that the board is objective in its judgement and constructively criticizes senior management.

- Establish sustainability goals and respective KPIs for senior management, and rewards to promote ESG-related innovations.
- Ensure the board cumulatively has enough capacity to handle ESG issues, including necessary in-depth knowledge of relevant ESG risks.
- Assign at least one board member to formally to oversee company’s ESG strategy, its long-term ESG performance and exposure to ESG risks. Periodic reports should be made to the entire board for discussion.
- Integrate ESG considerations into the work of board committees (risk, strategy or sustainability).

EXPERTISE, INDEPENDENCE AND DIVERSITY OF DIRECTORS (BOARD MEMBERS) MATTER

Skills and Attributes

All Directors	Some Directors
• Integrity, courage • Commitment to good governance • Sound business judgment • Strategic thinking • Analytical skills • Financial literacy • Leadership attributes, including emotional intelligence	• Chairperson skills, attributes • Senior management experience • Audit & control processes • Risk management, including ESG • Accounting & taxation • Industry knowledge • International & local expertise

INDEPENDENT DIRECTORS (BOARD MEMBERS)

- No business and family ties with the company, owner, board, executives

- No factor which could influence objective independent decision-making

✓ Not recent employee; no recent remuneration from company
✓ No material business relationship with company
✓ No cross directorships/significant links with other directors
✓ Not significant shareholder nor long-term board member (5-9 years)

- Council of Institutional Investors "*Stated most simply, an independent director is a person whose directorship is his or her only connection to the corporation*"

- Critical factor for investors

- **Equal Board members - neither advisors nor consultants**

- Openness/transparency on financial, business position and strategic direction

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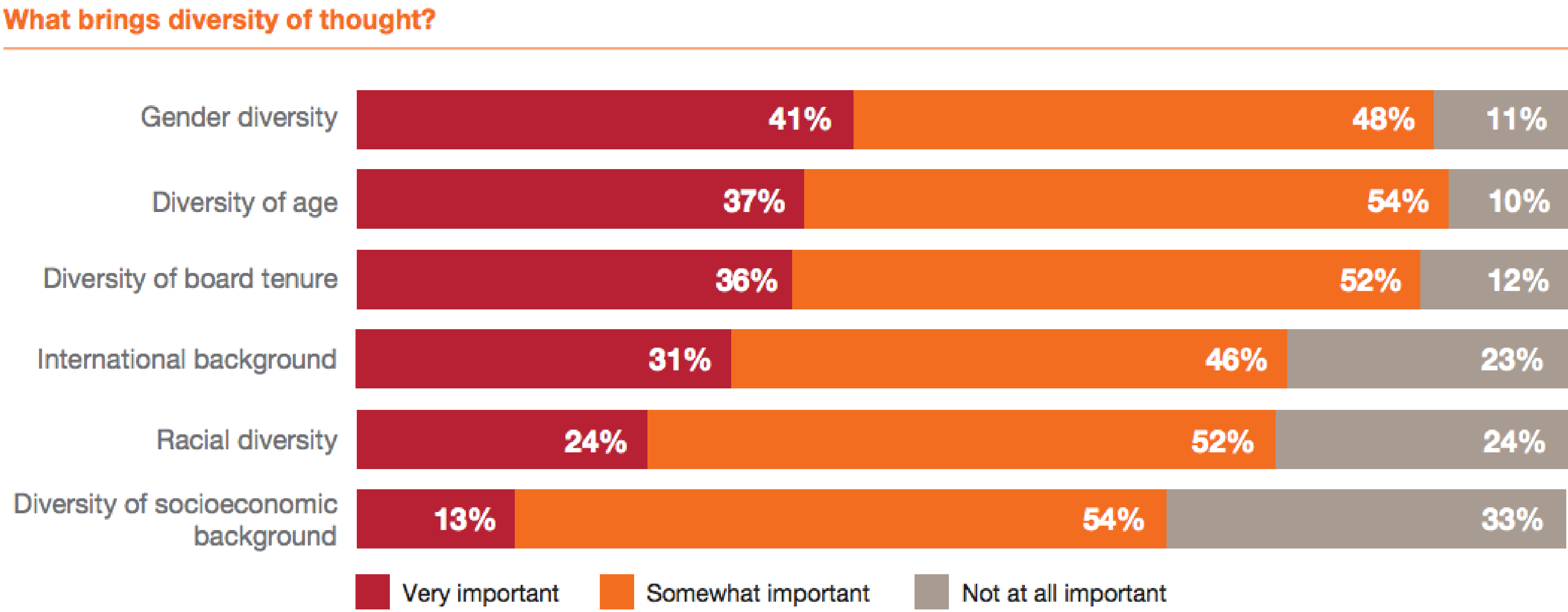
BOARD DIVERSITY



Source: PwC, 2021 Annual Corporate Directors' Survey

FUNDAMENTALS OF BOARD COMMITTEES

General principles	Key benefits
• Aid to the board, not substitution • Chaired by respected independent director • Only board directors on committees (maximum of two committees) • Focus on specialized areas of responsibilities, with clear agenda • Generally no executive powers • Clarify the committee mandate (terms of reference, limitations) in charter	• Delegation of functions and responsibilities to experts on the board • Focuses the board on the "big picture" • Efficiency gains for the work of the board as a whole • Quicker reaction and actions through ad-hoc meetings in committees (and not as full board)

FINDING PLACE FOR E&S IN THE BOARD

Board

Board committees	Audit committee	Risk Committee	Strategy Committee	Sustainability committee	Other committees, IT
Type of information	Financial reporting and related risk management and internal control information	Other risk management and internal control information **Material ESG issues and performance**	Strategy implementation and related risk management and internal control information **Material ESG issues and performance**	**Material ESG / Sustainability issues and performance**	IT risk management and internal control information
Company officers	Chief Internal Auditor	Chief Risk Officer	Chief Strategy Officer	Chief Sustainability Officer	Chief Information Officer
		Option 1	**Option 2**	**Option 3**	

Adapted from Sustainability Guide for Boards, Singapore Institute of Directors & KPMG, 2016

GOVERNANCE OF ESG RISKS

1. GOVERNANCE & CULTURE FOR ESG-RELATED RISKS
2. STRATEGY & OBJECTIVE-SETTING FOR ESG-RELATED RISKS
3. PERFORMANCE FOR ESG-RELATED RISKS
   a. IDENTIFIES RISK
   b. ASSESSES & PRIORITIZES RISKS
   c. IMPLEMENTS RISK RESPONSES
4. REVIEW & REVISION FOR ESG-RELATED RISKS
5. INFORMATION, COMMUNICATION & REPORTING FOR ESG-RELATED RISKS

Source: COSO Enterprise risk management, 2018

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT (ESRM)

Board oversees efficiency of ESRM implementation by senior management to ensure:

- A sound risk management framework is in place for the identification, assessment and mitigation of E&S risks, along with other business risks.
- ESRM roles and responsibilities are clearly defined.
- E&S policies and procedures are documented, with proper safeguards and controls defined.
- ESRM procedures are executed properly.
- There are structured means to monitor E&S risks, along with other risks, including standard indicators and reporting.
- There is compliance/audit against E&S policies/procedures, including external audit, as well as compliance reporting to the board.

WHAT CAN THE BOARD DO TO EMBED STAKEHOLDER ENGAGEMENT IN THE COMPANY'S GOVERNANCE

- Define stakeholder engagement as a core value;
- Identify, discuss and prioritize key risks associated with changing of stakeholders' expectations;
- Determine the board's financial and nonfinancial information needs for decision-making, management oversight, and monitoring key stakeholder relationships associated with generating value and wealth;
- Discuss and approve key performance indicators for social, environmental, and financial performance;
- Approve a policy for external reporting;
- Integrate stakeholder issues into annual general meetings of shareholders;
- Discuss the risks and impacts of projects and operations and provide transparent disclosure information to shareholders and the key stakeholder groups.

DOES ESG (SUSTAINABILITY) PAYS OFF?

"It takes 20 year to build a reputation and 5 minutes to ruin it. If you think about this you will do things differently"
Warren Buffet

- 90% of studies looking at the cost of capital indicated that sound sustainability standards reduced companies cost of capital
- 88% of studies found that robust ESG practices boosted firms' operational performance
- 80% of the studies indicated that "good" sustainability practices had a positive impact on the performance on companies stock prices
- Active ownership creates value for companies and investors

Source: University of Oxford and Arabesque Partners 2015. From the stockholder to stakeholder: How sustainability can drive financial outperformance

COVID-19 – EVEN MORE IMPETUS ON ESG

ESG OUTPERFORMANCE DURING THE COVID-19 SELLOFF

From January through March 2020, here's how ESG leaders performed relative to their respective index and ESG laggards:

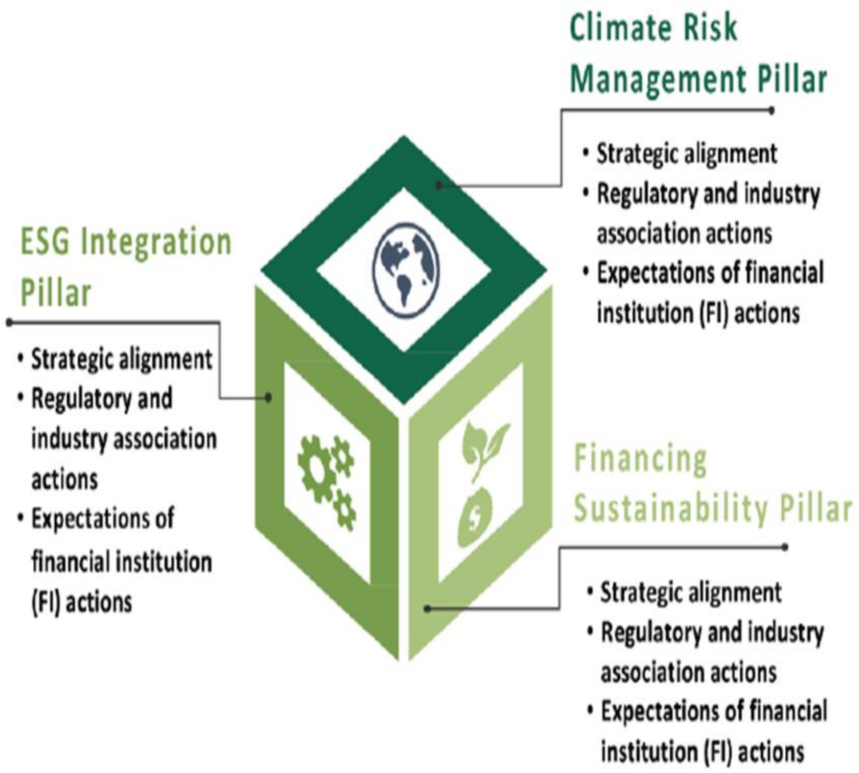
	ESG Leaders	Index	ESG Laggards
MSCI ACWI Global Equity	-15.6%	-21.3%	-22.1%
S&P 500 U.S. Equity	-10.8%	-19.6%	-22.2%

Bloomberg, MSCI, S&P and ALLIANCEBERNSTEIN (April 2020)

ESG – INDISPENSABLE COMPONENT OF SUSTAINABLE FINANCE

Sustainable Banking and Finance Network (SBFN): In **2012** IFC helped bringing together financial regulators and banking associations from **10** countries to develop green and sustainable finance policies and principles, share knowledge, and build capacity.

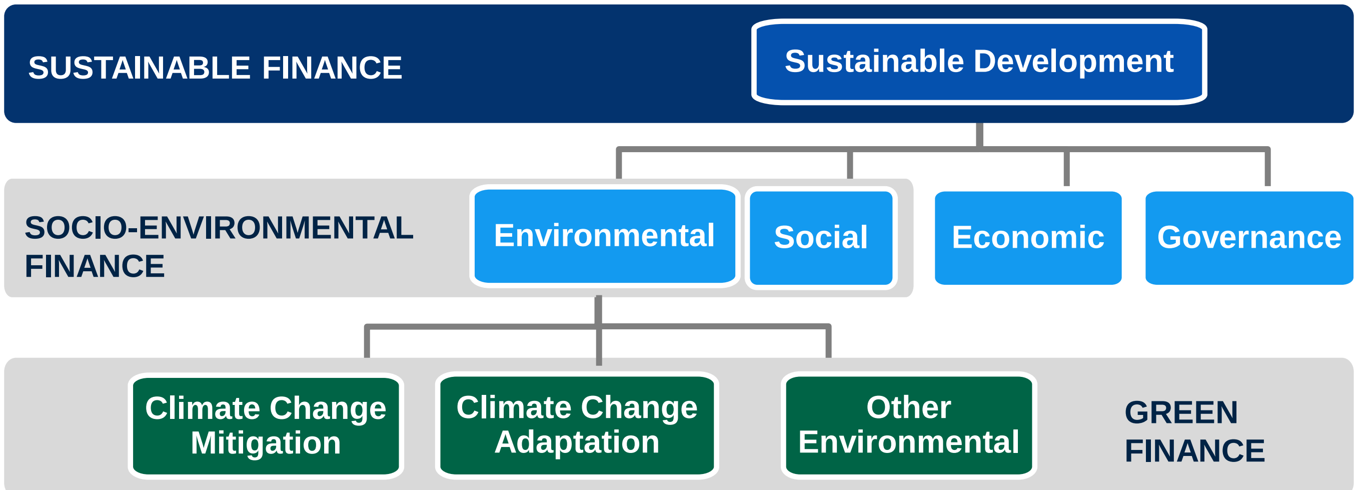
With **47** members from emerging market **70** countries representing **$43 trillion banking assets** today, SBN is the major force in transforming the financial systems toward sustainability, **contributing to the SDGs and Climate Goals.**



WHAT IS SUSTAINABLE FINANCE?

European Commission

Sustainable finance is the provision of finance to investments considering environmental, social and governance considerations



Source: UNEP Inquiry 2016a

Sustainable **Finance covers the four pillars of sustainable development mobilizing the financial sector to use finance as a means to achieve social goals, diverting the planet and its economy from its current path to a sustainable world.**

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CLIMATE CONTEXT: SO WHERE ARE WE HEADED?

No country today is immune from the impacts of climate change

- Climate change may push over 130 million into poverty by 2030 and cause over 200 million people to migrate by 2050
- Climate change will disproportionately affect the **poorest and most vulnerable populations**, especially in low- and middle-income countries
- Climate-related disasters such as severe floods, droughts, and storms will affect food prices and food security, health, and labor productivity
- Natural disasters cost about $18 billion a year in low- and middle-income countries through damage to power generation and transport infrastructure alone, in addition to triggering wider disruptions for households and firms costing at least $390 billion a year

Source: The World Bank Group

> “**We** can't **self-isolate from climate** change. So, **we** all have to **ACT**.”
>
> *Mark Carney,*
>
> *former Governor of the Bank of England*

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FINANCE - FUEL FOR THE SUSTAINABILITY CHANGE

The UN estimates that up to **$2,5-3 trillion** in investment in developing countries is needed each year to achieve the Sustainable Development Goals (SDGs) by 2030. **Source: https://www.un.org/sustainabledevelopment/wp-content/uploads/2019/07/UN-SG-Roadmap-Financing-the-SDGs-July-2019.pdf**

The OECD estimates **$2.5 trillion** in financing needs in developing countries to achieve the **SDGs by 2030,** with an additional projected shortfall of **$1.7 trillion** as a result of COVID-19 pandemic. **Source: https://www.oecd.org/newsroom/covid-19-crisis-threatens-sustainable-development-goals-financing.htm**

IFC estimates there are **US$23 trillion climate i**nvestment opportunities in 21 emerging market countries until 2030. Banks need to increase the share of climate lending from 7% today to 30% in 2030 to mobilize the necessary financing for investment opportunities presented by the NDCs in those 21 countries. **Source: https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES&CVID=lBLd6Xq**

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THE PARIS AGREEMENT AND THE WBG CLIMATE CHANGE ACTION PLAN

The global temperature is anticipated to grow by 4º C, but with decisive mitigation action it can be held within the 1.5-2º C threshold.

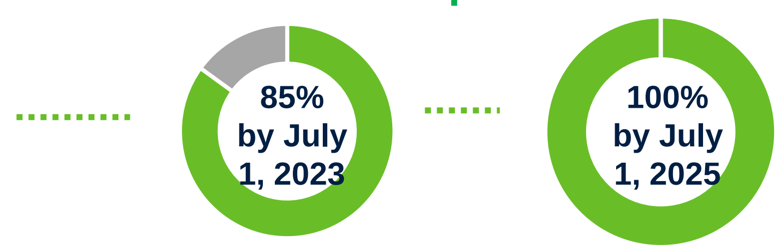
What are the key elements of the Paris Agreement?

- The Paris Agreement pledged to keep global temperatures "well below" 2.0C above pre-industrial times and preferably to 1.5C
- Each country sets its own emission-reduction targets, known as national determined contributions (NDCs), which are reviewed every 5 years to raise ambition
- Rich countries to help poorer nations **in their climate mitigation and adaptation efforts**

The WBG Climate Change Action Plan foresees for the World Bank to align all new operations with the Paris Agreement by July 1, 2023

PARIS CLIMATE AGREEMENT

IFC's Operations



MDB Commitments

The Paris Agreement is being mainstreamed across multilateral institutions

EIB

European Investment Bank

- From the start of **2021**, all new EIB Group operations will be Paris-Aligned
- EIB is the first MDB to align all new projects and commit to Paris alignment of its beneficiaries
- Committed to dedicate more than **50%** of lending towards green investment by **2025**

EBRD

European Bank for Reconstruction and Development

- Committed to fully align all activities with the Paris Agreement by the start of **2023**
- Committed to increasing green financing to over 50% by 2025
- Aims to achieve cumulative net GHG emissions reductions of 25-40 million tons per year

ADB

ADB
ASIAN DEVELOPMENT BANK

- Aims to fully align sovereign operations by July 2023; 85% align non-sovereign operations by July 2023; 100% by **July 2025**
- Targets peak portfolio-wide GHG emissions by 2030, at the latest
- Aims for $100 billion climate financing for developing countries 2019–2030

IDB

IDB Inter-American Development Bank

- Commits to align 100% of its operations with Paris Agreement by **2023**
- Targets to provide $24 billion for climate and green finance over the next four years.

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COP 26: CHANGING THE PLUMBING OF THE FINANCIAL SYSTEM

The Glasgow Financial Alliance for Net Zero — an umbrella group that includes all major Western banks as well as insurers and asset managers — announced that firms responsible for managing $130 trillion in capital, equivalent to 40 per cent of the world's financial assets, had signed up to 2050 net-zero goals including limiting global warming to 1.5C.

This means that the giant laser beam of global finance will be fired towards technologies that lower and eradicate carbon emissions, and away from "brown holdings" of investments in coal, oil and gas.

The aim of the initiative chaired by former Bank of England Governor Mark Carney is to change the plumbing of the whole financial system forever. *Source: BBC News*
https://www.bbc.com/news/business-59143027

Notable Signatories

Bank of America	Santander	BNP Paribas	Citi
HSBC	Morgan Stanley	Standard Chartered	Wells Fargo
TD Bank Group	Goldman Sachs	J.P. Morgan	Credit Suisse

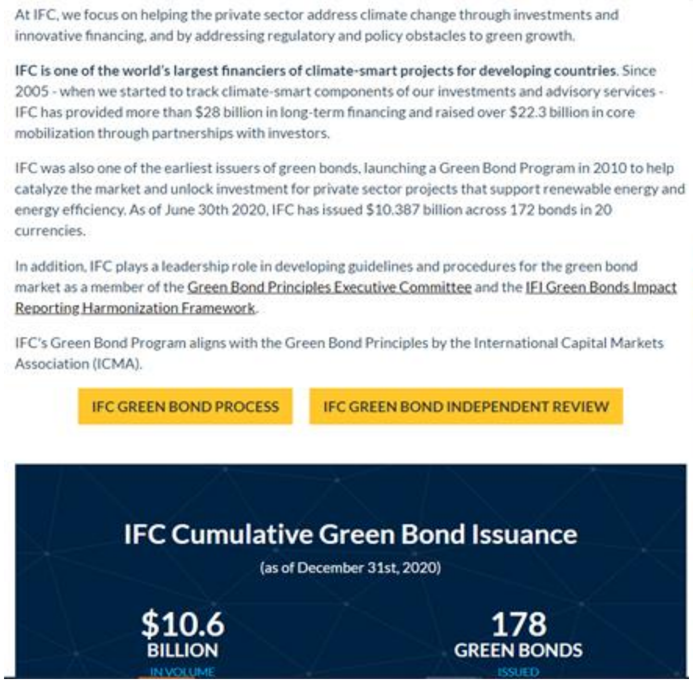
ESG AND SUSTAINABLE FINANCE – DRIVERS OF THE FUTURE

US rejoins Paris accord: Biden's first act sets tone for ambitious approach

By Matt McGrath
Environment correspondent

19 February

COP26



At IFC, we focus on helping the private sector address climate change through investments and innovative financing, and by addressing regulatory and policy obstacles to green growth.

IFC is one of the world's largest financiers of climate-smart projects for developing countries. Since 2005 - when we started to track climate-smart components of our investments and advisory services - IFC has provided more than $28 billion in long-term financing and raised over $22.3 billion in core mobilization through partnerships with investors.

IFC was also one of the earliest issuers of green bonds, launching a Green Bond Program in 2010 to help catalyze the market and unlock investment for private sector projects that support renewable energy and energy efficiency. As of June 30th 2020, IFC has issued $10.387 billion across 172 bonds in 20 currencies.

In addition, IFC plays a leadership role in developing guidelines and procedures for the green bond market as a member of the Green Bond Principles Executive Committee and the IFI Green Bonds Impact Reporting Harmonization Framework.

IFC's Green Bond Program aligns with the Green Bond Principles by the International Capital Markets Association (ICMA).

IFC GREEN BOND PROCESS | IFC GREEN BOND INDEPENDENT REVIEW

IFC Cumulative Green Bond Issuance
(as of December 31st, 2020)

$10.6 BILLION IN VOLUME | 178 GREEN BONDS ISSUED

EBRD to aim for a majority of green investments by 2025

By Vanora Bennett

07 Oct 2020

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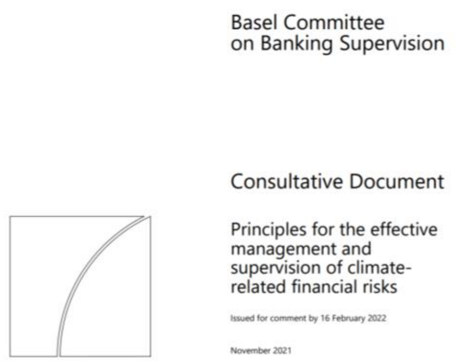
Benban solar park, Egypt.

Increasing demand in e-vehicles also requires corresponding number of electric chargers that represents good investment opportunity as the EU countries and China heavily invest in charging infrastructure (source: McKinsey, 2018).

GOING FORWARD: MORE IMPETUS ON CLIMATE RISK


Basel Committee
on Banking Supervision

Consultative Document

Principles for the effective management and supervision of climate-related financial risks

Issued for comment by 16 February 2022

November 2021

Climate risk refers to both the effects of *direct and indirect* physical impacts of climate change (**physical risks**), and to the *direct and indirect* effects of changes in policy, legislation, regulation and technology related to GHG emissions (**transition risks**)

Top Global Risks by Likelihood

	1st	2nd	3rd
2021	Extreme weather	Climate action failure	Human environmental damage
	1st	2nd	3rd
2020	Extreme weather	Climate action failure	Natural disasters
2019	Extreme weather	Climate action failure	Natural disasters
2018	Extreme weather	Natural disasters	Cyberattacks

Source: WEF Global Risks Report 2021

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Global baseline sustainability reporting standards

03 November 2021

IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements

As world leaders meet in Glasgow for COP26, the UN global summit to address the critical and urgent issue of climate change, the IFRS Foundation Trustees (Trustees) announce three significant developments to provide the global financial markets with high-quality disclosures on climate and other sustainability issues:

- The formation of a new International Sustainability Standards Board (ISSB) to develop—in the public interest—a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs;

GENERAL FEATURES
- GOVERNANCE
- STRATEGY
- RISK MANAGEMENT
- METRICS AND TARGETS

The IFRS Foundation has formed a working group tasked with setting up an International Sustainability Standards Board (ISSB) with the following strategic direction:

- An investor focus on **enterprise value**
- Prioritising **climate** (as part of a broader sustainability scope)
- Build on **existing frameworks** and collaborating with standard-setters in key jurisdictions

AS A CONCLUSION

ESG and the SF agenda is not an option anymore

The COVID-19 crisis accelerated transition to low-emissions economy

Commitment of MDBs and the global financial players brings in challenges and opportunities for the financial institutions and businesses operating in the developing countries

It is better to start early and introduce gradual changes than to be late and face significant costs caused by the new regulatory environment and the industry shifts

SECO-Funded Project FY20-24: Promoting Investment Through Integrated ESG

Challenge: poor ESG practices of firms reduce investment attractiveness, increase risk and cause harm to stakeholders and the environment. Ineffectual regulatory incentives and weak market infrastructure delay improvements.

Aim: create market opportunities through improved ESG practices, with long-term impact from better market infrastructure for sustainability.

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IFC ESG Advisory:

Investors & FIs: support financial intermediaries (banks, private equity funds, bilateral investors) to identify and manage ESG risk in their investees.

Regulation: strengthen the regulatory environment for ESG: update CG codes for oversight of E&S risks; sustainable finance regulation.

Market Capacity: build capacity of local intermediaries to promote, train and advise on ESG Standards: focus on governance for sustainability.

Awareness: promote the adoption and implementation of ESG standards, and demonstrate the business case for sustainability to build demand.

Firms: provide ESG assessments and support to firms to implement better governance for sustainability. This includes oversight of Environmental and Social risks, and improved reporting and disclosure of ESG issues.

MOBILIZE INVESTORS

Able to apply ESG standards into investment operations and manage ESG in portfolio.

BETTER REGULATION

Enhanced capacity to set and enforce ESG standards for private sector, levelling the playing field.

STRENGTHEN MARKET INTERMEDIARIES

Enhanced capacity to raise awareness, train and support adoption of ESG standards.

MORE SUSTAINABLE FIRMS

Adopt robust ESG practices, centered around Governance for Sustainability, demonstrating ESG Leadership in the market.

SUSTAINABLE PRIVATE SECTOR

Enhanced ability to identify and address ESG risks.

Enhanced ESG Management capacity.

Enhanced ability to meet ESG Standards.

$5 million for 5 years (FY20-24)

7 priority target countries:

1. Bosnia and Herzegovina
2. Georgia
3. Kosovo
4. Kyrgyz Republic
5. Serbia
6. Tajikistan
7. Ukraine

POTENTIAL IMPACT

Enhanced transparency, integrity and reputation.

Improved, safer working conditions.

Reduced emissions.

Enhanced natural resource and land use.

Improved engagement with communities and other key stakeholders.

Enhanced access to global markets and investment.

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO

THANK YOU!

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