THE ENVIRONMENTAL AND SOCIAL COMMITMENT INCREASINGLY CONDITIONS THE ACCESS OF COMPANIES TO FINANCING

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It is undeniable the growing social concern around the negative externalities that business activity often generates and, in particular, the impacts from both an environmental and social point of view.

The fabric
business has gradually begun to feel directly alluded to,
pushed many times by questions of the image that projects to society and
also due to the growing regulation in these areas. However, it has now
a new element has entered the equation that seems, this time, to have made
jump some more alarm bells in companies: the incorporation of criteria
social and environmental factors in access to business financing. are what
is known as **ESG criteria** (or ESG, in its
acronym in English): criteria **Environmental,**
Social and Corporate Governance, which already
they have a significant presence in guiding investments.

The ESG criteria refer to the consideration of environmental, social and corporate governance aspects when investing in a company. Despite not being a completely new concept, since it has some history, in recent years **they have become the benchmark for socially responsible investment (SRI)** . The ESG criteria have three complementary dimensions:

The **environmental dimension** reflects the direct or indirect impact that the activity of companies has on the environment, such as CO2 emissions (climate change) or the use of resources and materials.

The **social dimension** refers to the impact that business activity has on society. In other words, impacts on diversity, human rights, the inclusion of different groups or working conditions, among others, are measured.

The **governance dimension** refers to the corporate governance of companies. In this case, aspects related to practices, control environments and procedures of companies to make decisions, comply with regulations or meet the needs of stakeholders, among others, are analyzed.

The truth is
that there is some ambiguity about what is considered a sustainable investment or
that has taken ESG criteria into account. This makes what is more than necessary
calls a harmonized “taxonomy” that helps to have homogeneous criteria
and a common language when talking about sustainable investments or criteria
ASG. In this sense, initiatives such as the commission
Union or the Task ForceonClimate- relatedFinancialDisclosure< /a>are required
key to avoid falling into the dreaded *green washing* and above all
so that investors and society in general can count on criteria
clear and comparable when making decisions.

The
negative externalities that economic activity generates for the moment are not are reflected in the valuations of the companies, unless there is any regulation in this regard that translates into costs or impacts on the account of results. To begin with, this type of externalities, and especially those related to the social sphere and the governance of companies are not being measuring. Assuming that standardized methodologies were available, international and comparable for the valorization of natural capital and social, the value of companies as we know it today would change significantly.

This factor does not
has, however, been an obstacle for regulators and growing demands among investors to report and take into account ESG factors in the decision-making of the companies, have made the impacts on the market are already a reality.

At an international level, Europe has the longest track record in incorporating ESG criteria when allocating capital, counting in 2018 with 48.8% of sustainable investments out of the total assets managed.

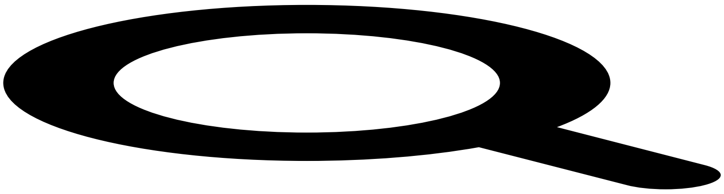

Figure 1. Proportion of sustainable investments in relation to total assets under management. Source: GSIA.

Although in relative terms this figure has been reduced compared to 2014 (58.8%), the total funds managed with ESG criteria have continued to grow at a notable rate (11% growth for the period 2016-2018).

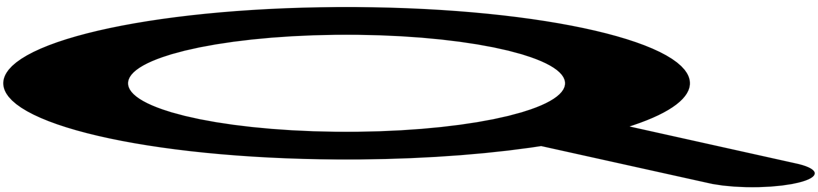

Figure 2. Evolution of assets managed with ESG criteria a global scale. Source: GSIA.

In economic powerhouses such as Canada and Australia/New Zealand it also seems that the number of conscientious investors who analyze factors beyond economic-financial aspects has gained presence. In fact, in 2018 the percentage of sustainable investments out of the total assets managed already exceeded the European figures.

There are more and more studies that suggest that investment with ESG criteria reports some higher returns, that is, companies that introduce ESG criteria in their day-to-day activities show better performance in the long term. According to the company McKinsey & Company, there are five key aspects with which companies improve their competitiveness when integrating ESG criteria:

1.**Opportunities for growth:** Access to resources after improving relations with the community and institutional relations.

2.**Cost reduction:** Less use of resources such as energy or water.

3.**Regulation:** Greater strategic freedom due to being well positioned in the face of new environmental and social regulations.

4.**Productivity improvement:** Improvement of employee productivity and motivation. In addition, this will translate into less worker turnover, taking advantage of the investment in training for a longer time.

5.**Investment and asset optimization:** improved returns on investment by better allocating capital over the long term. For example, more sustainable and durable production plants and work equipment.

Maybe it's
too early to scientifically endorse this whole set of assumptions and
statements and it will be necessary to strengthen this line of research but more
beyond the support or evidence in the scientific literature, the greater awareness
by investors and regulators is already a reality and this has
market effects that translate into pressures
by conscientious shareholders or rules to comply
with the Paris agreements.

What is
It is clear that a large part of investors and financial institutions see value
in the long term in companies that contribute positively to society.

All this
trend may seem to only concern large companies which have
with external investors. But the truth is that the background behind **ESG criteria** is much more wide, and **is marking the financial and regulatory market for
any type of company**.

Going back to the
situation in Europe, the European financial system revolves around its extensive
bank network. The *European Central Bank* (ECB),
in charge of ensuring the security of the banks it supervises, presses each time with greater insistence
that are clearer and more precise when measuring their exposure to change
climate. This to the
will undoubtedly affect its capital requirements, favoring a
changing their financing strategies to companies.

A change in strategy that will tend to reward less polluting companies. **Those that do not ride the wave of the climate and socially just transition will end up paying higher interest rates for access to financing. That is if they are even allowed to access financing.**

Therefore, the **incorporation of ESG criteria refers to all types of companies**, regardless of their sector or size. Those who want to position themselves in time and begin to integrate ESG criteria into their policies and daily activity should take several points into account:

Will to decarbonise. Europe seeks to be carbon neutral by 2050. Without a doubt, this objective concerns any type of company and will imply changes ranging from the energy model to the organizational model.

Diagnose. In addition to the desire to decarbonise, it is necessary to know the situation of those environmental, social and corporate governance aspects that may be more material. The SDGs provide a good framework for including these aspects.

Establish short, medium and long-term goals. For example, many of the environmental objectives established by European organizations cover a very broad time horizon. Establish roadmaps or set actions that cover a closer time horizon and contribute to progress.

Increase the presence of ESG criteria in the governance of the company. That is, that it has a presence when making decisions in the different government bodies and that growth plans, investments or decisions

Measure and report on a recurring basis the progress made.

Communicate, both externally and internally, the work being done. This will help increase the involvement of the people who are part of the company.

Of course,
the level of ambition of these activities will vary according to the capacities
of each company and its commitment to society but not having started to
working in terms of ecological, social and governance transition already has direct impacts on the competitiveness of some companies that see limited or directly closed the
access to sources of financing for their activity and investments.

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There are no comments yet.