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ESG in International Markets: Evolution, Challenges, and Innovation

Thought pieces from UK and international practice

Guest Editor
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ESG is a term that has become increasingly more mainstream in recent years. It has its origins in sustainable development which is itself a term that can be traced back at least to 1987 and the Brundtland Commission (Our Common Future) Report.

ESG is a term typically used in the finance profession, although it may also be used elsewhere, and interchangeably with other terms such as sustainability or responsible investment. In some organisations, reference to and responsibility for ESG reflects a broad remit of Environmental, Social and Governance. In this construct, the reference to governance relates to corporate matters including compliance, anti-bribery and corruption, internal risk management, etc.

In other organisations, governance relates only to the arrangements and processes in place for managing environmental and social (including health and safety) matters. The positioning of the word ‘and’ is therefore extremely important. In all cases, health and safety is also a core discipline, even though not explicitly mentioned. In this Journal, we focus on environmental and social (including health and safety) governance.

In the financial sector, environmental and social risks are now routinely assessed and quantified alongside any other business risk. Increasingly, the sustainability credentials of financial (and other) products and services are being used as a differentiator in the market. As a result, there is rising concern around so-called ‘greenwashing’. Recently introduced legislation in the UK and Europe is partly a response to this trend, and will help to standardise and improve the transparency of the sustainability credentials of financial products.

Navigating the complexities of ESG and ensuring sound practice requires a multi-disciplined understanding of, and approach to, the effective management of environmental and social risks and impacts. Key to success as a practitioner is the ability to adopt an integrated and risk-focused perspective to their management.

With the increased focus on ESG in the marketplace, those with the skills and the experience to evaluate environmental and social risks and help companies navigate ESG issues are in huge demand. Whether you are a seasoned ESG practitioner, or someone starting out in their career, now is an exciting time in the profession.

In his introductory article, Nik Stone provides an overview of how the term ‘ESG’ evolved, the essential principles of commitment, capacity and professional practice that are required for success in any business setting, and the plethora of tools available to the ESG practitioner.
In their article, Colette Curran, Elshan Rustamov and Pete Gabriel examine the need for an integrated approach to the assessment and management of environmental and social impacts and risks within an international context. Using examples from an international perspective, they demonstrate why environmental and social professionals need to work collaboratively to holistically address the complex web of interrelationships between ‘environment’ and ‘people’ to deliver sustainable outcomes.

Neal Barker and Robert Adamczyk present insights into concepts that reflect the evolution of the ESG discipline, from environmental and social safeguarding, to conditionality and then to additionality. With this evolution, and the need for integrity and transparency, they provide an overview of some of the recent regulations that require financial sector organisations to publicly disclose their environmental and social performance.

From here, we delve into examples of safeguarding in practice. Tom Streather examines the evolving regulation and innovative ESG guidance and practices for managing human rights risks in supply chains, with a focus on the renewable energy (solar) sector. Adrian Barnes provides a perspective on financial markets, with an examination of ESG integration, management and monitoring activities in infrastructure investing.

Finally, Shana Westfall in her article offers advice for people starting out in their career or looking to move into a more ESG-focused role. ESG is multifaceted, meaning that people from a wide range of academic backgrounds can play a role.

The articles in this Journal have been written by members of the IEMA Global Environmental and Social Assessment (GESA) Group and I would like to end by congratulating the authors for creating compelling and informative content that really does serve to ‘demystify’ ESG. I hope the articles provide inspiration for all who read them to want to remain part of, or become involved in, what is undoubtedly a fulfilling profession at a most exciting time in its evolution.
What is ‘ESG’, Where Has it Come From, and What is the Role of the Practitioner?

Introduction

If one were to read the multiple articles and blogs on Environmental and Social Governance, or ‘ESG’, you would come away with a complex patchwork of definitions and approaches depending on the priorities of the institution that happens to be framing the conversation at the time.

Whilst “ESG” may feel like a new discipline, it did not appear overnight; the concept has been over 20 years in the making. In the current scramble to adopt the latest thinking, it is worth reflecting on the crucial role of the E&S practitioner, and why a thoughtful approach to ESG matters.

It is important to note that complementing the overall approach with aspects of business integrity, transparency and avoiding conflicts of interest (essentially the third pillar of ‘Governance’) is equally important, but is not the focus of this article.

How did we get here?

The concept of sustainability first came to prominence in the late 1980s, and over the course of the 1990s started to gain significant traction beyond the academic sphere and into the business and investor community. The International Finance Corporation (IFC) adopted its original Environmental and Social Safeguard Policies in 1998, and in doing so, started to formulate the notion that a commitment to sustainable development was an integral part of a broader risk management approach. The Equator Principles were launched in 2003 similarly to guide private-sector financial institutions.

The United Nations Global Compact Summit of 2004 was a landmark moment. One of the major outcomes was a commitment from some of the world’s largest investors to integrate environmental, social and governance issues into investment analysis and decision-making. It was one of the first instances in the international arena where environmental and social issues were explicitly linked to corporate governance and made the point that this was a matter of fiduciary duty.

One year later in 2005, the then UN Secretary-General, Kofi Annan, invited a group of the world’s largest institutional investors to participate in a process to develop the Principles for Responsible Investment (UN PRI). In 2006, the IFC released the first edition of the Performance Standards, which were to go on to become the de-facto environmental and social framework for emerging market investors and their clients. This framework was superseded in 2012 with a more granular...
treatment on the requirements which should apply in their target markets, and the rationale for doing so.

By 2016, the UN Sustainable Development Goals emerged, and the Paris Agreement had been ratified by 196 countries, ‘ESG’ as a concept started to become more mainstream and the number of ‘ESG frameworks’ grew rapidly, creating varying degrees of overlapping characteristics. Today we have multiple different frameworks and data platforms, as well as emerging legislation such as the EU Sustainable Financial Disclosure Regulation and the SDR. The degree of sophistication is unrecognisable from 20 years ago, but there remains some way to go in achieving a level of consistency in lexicon and methodologies.

Finally, it’s worth bringing this back to where it all started, and that’s ‘sustainability’. Often sustainability will be used interchangeably with ESG and vice-versa, but the two concepts are different. What is emerging is that ESG essentially just provides a more holistic way of making business decisions, by respecting planetary limits and social values, and in doing so charts a course towards achieving sustainability. If sustainability is the ultimate goal, ESG could provide the mechanism which gets us there.

**Putting theory into practice**

An approach to ESG which genuinely adds value to a business, or investor, needs to be anchored in three core principles of commitment, capacity, and professional practice.

Commitment is naturally crucial. Having an investor base, a board, and an executive management team, working in harmony and who appreciate the linkages between environmental, social and governance factors, and the ability of those aspects to either create or erode business value, is essential. At the fundamental level, a successful ESG strategy requires a business to have a functioning system of objective and data-driven decision-making processes which can analyse business-relevant environmental and social aspects and feed this into the overall strategic thinking and direction.

But what fuels this model of good corporate governance? This is where appropriate capacity and professional practice come in and Figure 1 demonstrates the linkages. Many of the tools which we need to drive the ESG agenda in a meaningful manner are those which are already at our disposal, and are well established. Similarly, many of the skill sets needed have been honed by seasoned professionals over many years, and who have positioned their roles at the heart of the action. This is further explored in Shana Westfall’s article in this journal. Plus, there are new tools becoming increasingly relevant, and which require skilled practitioners leading the charge, particularly around human rights risk assessment (see for example Tom Streather’s article), gender and safeguarding and climate (both mitigation and adaptation).
Final Thoughts

ESG is here to stay, and given the role that the business community needs to play in solving some of society’s biggest emerging issues, that can only be a good thing. The future direction is clearly one of increasing and not decreasing focus, with ever more scrutiny being placed on shareholders and financial flows to be part of the solution. However, if the change is to be a meaningful and credible one, built to achieve long-term positive outcomes, and founded upon sound scientific analysis, then the role of the E&S practitioner needs to be central, its importance fully recognised, both for managing investor risk, and for delivering impact. This is explored further in the article by Neal Barker and Robert Adamczyk in this Journal.
In an international context, financial institutions require an integrated approach to the assessment and management of environmental and social impacts and risks. This is achieved through the application of policies and standards to the projects in which they invest. This is intentional, to purposefully reflect the close interrelationships between ‘environment’ and ‘social’. These policies and standards are often applied to supplement and complement the legal and regulatory framework.

Obvious examples of this integrated approach include the explicit requirement in lenders’ policies for integrated assessments (e.g. ESIAs), and management systems for environmental and social impacts, risks and opportunities (referred to as ESMS); effective community engagement on matters that directly affect them; and consideration of ecosystem services, amongst others.

Why do International Environmental and Social Specialists Need to Collaborate?

Society sits within the biosphere and is connected to a subsystem of other complex interrelated systems (e.g. the economy). However, regulatory and governance regimes often consider environmental and social (E&S) topics as separate and unconnected, for example, in the case of environmental consenting, land expropriation and community health and safety. In this article, we illustrate, through examples from an international perspective, how environmental and social professionals need to work collaboratively to holistically address the complex web of interrelationships between ‘environment’ and ‘people’ to deliver sustainable outcomes.

“Environmental and social professionals need to work collaboratively to deliver sustainable outcomes.”

1 Examples include the International Finance Corporation’s Environmental and Social Performance Standards (2012).
The Social Challenge

The social (‘S’) pillar of ESG has historically been less integrated or comprehensively considered in the ESG framework compared to the environmental (‘E’) pillar. Practitioners and researchers cite several reasons for this, including:

- **Vague and inconsistent definitions, terminology, scope, goals and implementation for ‘social’**: typical categories addressed by the ‘S’ element of ESG include human rights; labour requirements/relations; diversity; racial justice; data security; health, safety and wellbeing; social impacts, etc. However, there is limited consistency on terminology, scope or the goals and implementation of the ‘S’ pillar.

- **Impacts and outcomes are often difficult to identify and quantify**: the scope of impacts addressed under the ‘E’ pillar lends itself to more science-based, quantitative analyses and targets (e.g. for air quality). Meanwhile, defining objective measures for social impacts and risks has lagged behind, with the lack of reliable and quantifiable standards, making it more difficult to identify, measure and address social impacts.

- **Insufficient incentives for business**: public policies and legislation in the ‘S’ scope are not yet mature enough in many countries to encourage voluntary efforts. In contrast, environmental regulations, penalties for their violation and even incentives for the application of environmentally friendly solutions are more defined and engrained in national and international law.

E&S Integration in Practice

When an integrated approach is adopted in the E&S assessment process, social experts (e.g. anthropologists, social development specialists, gender and human rights specialists, etc.) will find themselves working alongside their environmental counterparts (e.g. environmental scientists, ecologists, geologists, chemists, etc.). This facilitates a multi-disciplined approach which is essential to fully understand, address, communicate and monitor E&S impacts and risks.

The integration of ‘E’ and ‘S’ considerations is also critical for success at the project level. For example, in a project in East Africa, ecologists and social scientists are working collaboratively to ensure that the restoration of woodlands delivers against biodiversity ‘net gain’ objectives whilst also reflecting and complementing the needs of local communities. One would not be successful without the other. Meanwhile, social scientists delivering a livelihood restoration-focused ‘pasture improvement’ programme for a road project in Turkey have involved biodiversity specialists to ensure complementary pollinator ecosystem service benefits are also delivered.

Knowledge and understanding of the integrated nature of the ‘E’ and ‘S’ aspects of the project is also vital when working in the community (for example to conduct fieldwork, and during project implementation). In such cases, the environmental as well as the social professional needs to be able to effectively communicate with the host community and this requires a high-level understanding of both the environmental and social dynamics of the project as a minimum. For example, building a road or blasting rock will have both environmental and social consequences and it is important to be conversant with both.

Finally, gaining a ‘social’ licence for the project also often means having to mediate between perceived risks and objective, albeit incomplete, science. A memorable example relates to a hydropower project and the need to address the perception among the community that the project would pose a risk to the vintage of vines used in winemaking due to micro-climatic changes caused by a new dam and reservoir. As highlighted, social impacts and risks are not necessarily straightforward to predict, measure, communicate or resolve!
Final Thoughts

The interrelationships illustrated here are by no means novel and arise regardless of geography. Nevertheless, they serve to highlight that a key skill of E&S professionals is to be able to identify, understand, balance and communicate the interrelationships between these (and multiple other) disciplines. It is also this multidisciplinary approach and understanding which is vital to the success of an ESG practitioner working in an international context. Shana Westfall explores this further in her article included in this Journal.
Environmental and Social Assessments

For many years now, assessments of environmental and social risks and impacts have been undertaken in support of international transactions; for specific projects (e.g. linked to project finance), investment portfolios, or the provision of corporate-level financing. The need for such assessments has been driven by multilateral development banks as well as the private sector which focused on environmental, social and health-related risks and liabilities. Such assessments range from Environmental and Social (E&S) audits (e.g. for due diligence and for ongoing performance monitoring) through to full Environmental and Social Impact Assessments (ESIAs), in line with international guidelines and lenders/investors’ standards.

These assessments have provided coverage, to varying degrees, of a range of environmental and social topics. Historically such assessments considered the more traditional areas of focus such as soil and groundwater contamination; emissions to air; waste management; and occupational health and safety. Today, E&S assessments will also consider aspects such as climate change mitigation and adaptation; community health, safety and security; labour standards and working conditions; land acquisition; and physical and/or economic displacement. Such assessments may also cover policies and management processes covering areas such as equality and diversity (including gender aspects), direct and indirect forced and child labour, human rights and engagement to ensure positive social impacts of investments.

A Solid Foundation in Safeguarding

The range of Guidelines that need to be considered in the context of ESG safeguarding is significant, and includes country-level regulatory requirements that have to be followed, alongside many international guidelines, investor and financer specific policy commitments (often voluntary) and sectoral good practice. This safeguarding component is key to ensuring that laws will be complied with and key investment risks are mitigated. This aims to reduce financial and reputational risks at the same time that key KPIs are attained. Achieving positive ESG outcomes of investments is becoming more and more important to all stakeholders.

A key foundation for any E&S assessment is to ensure that the stated E&S commitments of investors (of equity financing) and lenders (of debt) will be met. The E&S assessor will be required to review alignment with the wide range of ESG guidelines noted above. Therefore, an E&S assessment has always had a core foundation in safeguarding (i.e. in ensuring that good international standards across a range of ESG criteria will be implemented).
These investment-level E&S assessments also can provide valuable information for many corporate ESG programmes where dossiers of evidence are needed to demonstrate that minimum standards are rigorously applied, and that policies and processes are in place to ensure that risks in operations and supply chains are well managed. Overall, whether related to corporate or project level ESG management, effective safeguarding measures are required, and in relation to financing arrangements, these often take the form of specific commitments, or ‘conditionality’.

**Conditionality**

Conditionality is the process of agreeing a programme of detailed interventions in order to implement the required standards, controls and risk management criteria as part of the investment or financing agreement. For International Financial Institutions (IFIs) such as the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC) or Equator Principals signatory commercial banks, this programme usually takes the form of a written Environmental and Social Action Plan (ESAP). Compliance with the ESAP will often become a key consideration in ongoing monitoring assessments, post the original transaction. Investments can be delivered in line with good practice minimum standards. However, effective conditionality should not be just about safeguarding but also about outlining the goals for achieving a net positive impact. A well-structured investment can deliver improvement as well as maintaining the current situation.

**A Focus on Additionality**

In many ways the financial sector is only at the start of its focus on ‘sustainable investments’, though with global carbon emissions reductions requirements, net zero and climate risk management programmes all requiring investment, the drivers are now very clear and the opportunities substantial. With the move towards net zero societies and a need to provide solutions to current and future climate risks, a much more robust justification is required of investments and financial provision based on the positive (and quantified) sustainable impact of the investment. With safeguarding still essential, but with an increasing need to demonstrate the additional positive ‘green impact’ of the project, there have been numerous developments focused on establishing a robust approach in this area. Greenwashing is often visible, risky and is to be avoided, and in the EU and UK this is now a focus of regulation.

In line with the rise in the provision of finances for ‘green purposes’, there is an increasing focus on ensuring marketing and fundraising for green financial products are guided by alignment with technical criteria. Investor-level criteria have also been developed. For instance, in the past few years the European Bank for Reconstruction and Development (EBRD) has focused on the Green Economy Transition (GET), with published GET criteria used to ensure that the use of proceeds associated with its investments will yield tangible sustainability outcomes.

Impact additionality is also progressing into a regulated space, with the EU issuing its taxonomy of sustainable activities (through the EU Taxonomy Regulation of 2020 and associated Delegated Acts). This comprehensive collection of listed sectors and economic activities includes detailed (and challenging) criteria stating the design and performance requirements needed to qualify an activity as making a substantial environmental contribution. Alongside ‘Substantial Contribution’ targets which need to be met, there is a long list of ‘Do No Significant Harm (DNSH)’ criteria which also need to be met, thus providing further ‘safeguards’. Together, these criteria often align well with the subject matter considered in the E&S assessments discussed at the start of this article, and are ultimately designed to ensure consistency, and reduce the risk of greenwashing.

“Achieving positive ESG outcomes of investments is becoming more and more important to all stakeholders.”
The use of the taxonomy is mandated now in the EU, along with the Sustainable Finance Disclosure Regulation (and further benchmarking Regulations) which guides mandatory reporting and performance assessment in relation to declared sustainable funds, investments and finance provision. In parallel with progression in the EU, the UK government’s Financial Conduct Authority (FCA) has already committed to launching a UK taxonomy, to be largely aligned with the EU Taxonomy, but with some additional components driven by the ‘UK’s Net Zero Programme’.

**Final Thoughts**

Safeguarding provides a foundation to assist in achieving legal compliance, and in mitigating a range of investment ESG risks. Conditionality establishes the minimum safeguarding requirements in an investment. When effective, conditionality should also outline the goals for achieving specific areas of a net positive impact (additionality). Developments within the Sustainable Finance area, whether funding criteria for climate finance stimulated interventions, or systems such as the EU Taxonomy, now mean there are significant new drivers for the ‘additionality’ component. Environmental and Social assessments will need to increasingly focus to deliver these components, as one of their critical objectives.
ESG Solutions to Uphold Human Rights in Renewable Energy Supply Chains

Introduction

NGOs and press reports have highlighted the human rights risks associated with renewable energy supply chains. This has become central to debate over how to achieve a ‘just transition’ to decarbonised energy supplies and the important role that responsible investment and environmental and social governance (ESG) requirements and innovations can play in this.

Renewable Energy Supply Chain Risk Management: A Journey

Development financiers, ESG practitioners and regulators have been trying to tackle the challenge of supply chain management to uphold human rights for over 20 years, as shown in Figure 1.

Figure 1: The renewable energy supply chain management journey

Notes: Key milestones in grape
Source: Tom Streather, Mott MacDonald Ltd.
In 2006 the International Finance Corporation (IFC) introduced supply chain management requirements via the Performance Standards (PS) on Environmental and Social Sustainability. Around the same time, the renewables sector – particularly wind at that time – began to face criticism over human rights abuses in supply chains. This is primarily related to emerging economy mining and manufacturing sectors associated with the rare earth minerals and cobalt used in wind turbines, and the polysilicon in solar PV panels.

In response, the Responsible Minerals Initiative (RMI) was founded by industry in 2008 to promote better management of metals supply chains. Then the landmark ESG human rights standard arrived in 2011 in the form of the UN Guiding Principles (UNGP) on Business and Human Rights. This stated that businesses must act with due diligence to avoid infringing human rights throughout their own operations and those of their supply chains.

In 2016 the Organisation of Economic Cooperation and Development (OECD) published good practice guidance on due diligence of mineral supply chains. The following year the European Union (EU) reinforced and formalised this approach by releasing Regulation 2017/821 which entered into force in January 2021. This requires supply chain due diligence obligations for importers of rare earth metals originating from conflict-affected and high-risk areas. Further practical guidance arrived in 2018 with the RMI Conflict-Free Sourcing Toolkit.

Despite the evolving regulation and innovative ESG guidance, reports of human rights abuses persisted. In 2019 the Business and Human Rights Resource Centre reported that 23 of the largest companies mining key minerals essential to renewable energy had faced allegations of violence and death, and responsible investors continued to be nervous.

Solar Energy and Forced Labour: The Just Transition Challenge

Recently the spotlight has focused on the solar sector with claims in 2020 that up to 40% of UK solar projects have used panels linked to forced labour in China. Specifically, in 2022 an academic study has found that 75% of the global polysilicon supply chains are associated with the alleged internship of more than one million people from the Muslim Uygur community in the Xinjiang province. Also, that nine of the top ten PV module manufacturers in the world have operations within China and are therefore considered to have some degree of forced labour risk.

Perhaps of most concern for the future is the finding that whilst some suppliers do not use polysilicon at all and many others are moving their operations outside of China, there is not enough ‘clean’ polysilicon to meet current demand. The aforementioned study argues significant changes to industry operations are needed before the sector can be considered risk free.

The introduction of human rights impact assessment (HRIA) requirements into the Equator Principles IV (a project finance standard which most commercial renewables lenders are signatories to) in 2020 will hopefully raise the standard of human rights risk mitigation. Key to making HRIA commitments effective...
will be the use of responsible procurement. For example, via the World Bank’s 2022 solar procurement bidder declaration requirements,⁸ which commit borrowers to contractually pass down supply chain management requirements to subsequent supply chain tiers. This is an evolution from the traditional approaches (e.g. the 2012 IFC PS) which are typically understood as being focused on the first tier of the supply chain.

2022 has also seen the release of the long-awaited EU draft regulation on human rights and environmental due diligence which is applicable to supply chains also. This reflects the direction of travel whereby effective human rights and supply chain risk mitigation and management is increasingly becoming mandatory through regulation, as well as via development finance requirements.

Going forward, it is expected that full traceability will be required from raw material extraction through to processing and renewable component manufacturing, distribution and installation. Projects and investors will increasingly be required to ‘know and show’ the impacts of their supply chains and business operations. Eliminating risk cannot happen overnight, but as a minimum, suppliers should be expected to make timebound commitments to eradicate forced labour risks from their operations, demonstrating efforts to clean up the industry through working with their supply chains to promote good practice and, where appropriate, build capacity in supply chain management.

**Final Thoughts**

In conclusion, despite industry pledges⁹ to tackle the issue and the good practice described above, human rights risks will persist in the immediate future, particularly in the solar sector. If we are to achieve a just transition from carbonised energy, strategic government action will be needed on an international scale to increase the supply of polysilicon and other minerals that is not tainted with the stain of human rights abuses.

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Introduction

As you will have read from the other articles in this Journal, ‘ESG’ covers a range of typically (but not entirely) non-financial issues associated with economic activity. Society is placing ever greater importance on sustainable management of ESG issues (as discussed in Nik Stone’s article), which has increased the pressure on investors to ensure that their management of ESG issues is underpinned by robust processes, information, resources and expertise.

“Investors are expected to demonstrate their credibility in responsible management of ESG issues like never before.”

Responsible Versus Sustainable Investment

A commitment to responsible investment is now a minimum expectation of any significant investor, and investors are expected to demonstrate their credibility regarding responsible management of ESG issues like never before. More recently, the concept of sustainable investment has taken hold in the last ten years or so, creating a new opportunity for investors to differentiate themselves regarding their approach to ESG issues.

Although the terms ‘Responsible Investment’ and ‘Sustainable Investment’ are often used interchangeably, they do have slightly different meanings:

- **Responsible investment** involves comprehensive and prudent management of ESG considerations to deliver long-term sustainable economic returns, minimising harm to ESG stakeholders/receptors and transparently disclosing impact and outcomes.

- **Sustainable investment** includes all of the above, but goes further by pursuing specific sustainability goals, investing to actively drive the transition to long-term ESG sustainability.

For more information on the difference in approaches between responsible and sustainable investment management, refer to the BSI Publicly Available Specification (PAS) 7341 Responsible and sustainable investment management.10
ESG in Infrastructure Investments

This article gives an overview on how investors in a specific set of financial markets – private equity and debt, specifically focusing on infrastructure – evaluate and manage ESG issues. Other financial markets, such as public equity (e.g. listed stocks and shares, commodities, or insurance) have their own ESG challenges and opportunities, each of which could justify an entire article.

In infrastructure investment, the way in which ESG issues are approached at the various stages in the life of a project and an investment is affected by the position of investors in relation to the project, their respective rights and risk appetite.

Table 1 provides an overview of the life of an infrastructure project, and examples of ESG assessment and management processes at each phase. It should be emphasised that ESG assessment and management will always need to be specific to the project asset type, location, counterparts and other factors, and so the ESG factors listed are non-exhaustive, illustrative examples only.

Tools for Monitoring and Managing ESG

Table 2 provides an overview of the different stages of an equity or debt project finance transaction associated with a project, and the various tools used by equity investors or lenders at each stage to monitor and manage ESG issues.

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**Table 1. ESG management and assessment through an infrastructure project’s life**

<table>
<thead>
<tr>
<th>Milestones</th>
<th>Project phase</th>
<th>Early development</th>
<th>Late development</th>
<th>Construction</th>
<th>Operation</th>
<th>Life extension</th>
<th>Decommissioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment requirement</td>
<td>Development expenditure (Devex)</td>
<td>Devex</td>
<td>Capital expenditure (Capex)</td>
<td>Operational expenditure (Opex)</td>
<td>Capex</td>
<td>Decommissioning expenditure</td>
<td></td>
</tr>
</tbody>
</table>

**Example ESG processes – not an exhaustive list!**

**Environmental**
- Site screening
- Environmental Impact Assessment (EIA)
- Greenhouse gas (GHG) assessment & net zero plan
- Climate Change Risk Assessment (CCRA)
- Supplier circular economy alignment
- Construction Environmental Management Plans (CEMP) – cover various environmental construction risks, e.g. waste management, pollution prevention
- Environmental Management Systems
- GHG monitoring & reporting
- Net zero carbon transition

**Social**
- Stakeholder identification
- Community engagement
- Procurement & contracting – worker rights, Workplace Health & Safety (WHS) planning, modern slavery
- Worker rights, WHS, modern slavery
- Worker rights, WHS, modern slavery
- Community updates, grievance process
- Same processes apply as for late dev./construction

**Governance**
- Counterparty checks, e.g. Anti-Bribery & Corruption, Sanctions, Conflicts of Interest, Politically Exposed Persons
- Procurement & contracting counterparty checks
- Consenting & regulatory legal checks
- Supply chain monitoring & construction legal compliance monitoring
- Ongoing corporate governance
- Regulatory disclosures
- Audit/ assurance
- Cyber security
- Same processes apply as for late dev./construction
The difference in control over project ESG issues between equity investors and lenders is also important to note.

Equity investors, as owners of the project with full risk exposure, have control over ESG issues dependent on their stake. Whilst conducting detailed DD prior to a transaction is important for identifying issues, their ongoing control of the project following acquisition gives them the ability to seek ESG information (e.g. monthly reporting) and direct the project (e.g. via board resolutions) to address issues. Minority equity owners may be limited in their control unless they can secure the support of other equity sponsors.

Lenders – who provide project finance debt that is repaid to a fixed schedule, much like a home mortgage – on the other hand, must ensure that all their ESG requirements are incorporated as covenants into the Loan Facility Agreement, generally through conditions that limit certain borrower activities. Therefore, conducting thorough ESG DD prior to Financial Close is of paramount importance. Many infrastructure lenders are signatories to the Equator Principles, which provide a framework for international best practice in ESG assessment and management.11

Final Thoughts

The range and complexity of ESG subjects that both equity investors and lenders have to address is increasing as a result of higher ESG expectations from their own sources of capital (e.g. shareholders, pension fund beneficiaries, or bank depositors), more demanding regulation (e.g. the EU’s Sustainable Finance Disclosure Regulations), and society at large. This means the need for support in the finance sector from credible sustainability professionals can only increase.
Building a Career in ESG

Background

With all of the changes happening in the world of investment related to ESG, as described elsewhere in this Journal, many investment firms and project developers are hiring in-house ESG managers or increasing the size of current ESG departments. Consultancies are also responding to this increased market demand by expanding their ESG offerings and teams. This all means that it is a very good time to be an ESG professional when it comes to job security, availability, diversity and salary.

Before discussing the skills and experience needed for a career in ESG, it is important to clarify what is meant by ESG for the purposes of this article. As highlighted in Nik Stone’s article, the concept of ESG has developed over time and means different things to different people. Because a broad interpretation of the definition of ESG would capture a wide range of roles and disciplines, this article is focused on ESG related to investment. It is this area that has experienced the most change in recent years and that represents the greatest growth opportunity.

If You Are Working in a Related Field

If you already have a career in a related environmental or social field and are looking to transition into ESG services, how you should best do this will depend on a number of factors, including your technical background, your current employer and the type(s) of ESG services you wish to pursue.

The first step is an introspective one; what specific ESG service(s) or aspects do you want to focus on? Even if you prefer to consider yourself a generalist, it will help if you can identify a specific entry point to target.

Generally speaking, it is easiest to move into ESG services that complement skills you may already have.

For example, a consultant involved in developing management systems may find it easiest to focus on building experience in E&S safeguards to manage risks and impacts, whilst a climate change specialist may want to target gaining experience in Taskforce on Climate-related Financial Disclosures (TCFD). Note that climate risk and resilience is a growing area of ESG focus, as highlighted in the article by Neal Barker and Robert Adamczyk.

If you are not sure of the various ESG services out there, talk to colleagues, attend webinars and read technical journal articles to gain inspiration. Once you have focused on a particular ESG service, talk to any colleagues or contacts you have who are already working in this area to see (1) how they got into the field and (2) if they have any recommendations for how you could gain exposure to this service area. It helps if you are working for an organisation that is already providing ESG services like a consultancy because then you can try to shadow a colleague to learn on-the-job. It is important to note that most ESG professionals spend at least some of their careers as consultants, including those now working at financial institutions.

In his article, Adrian Barnes highlighted the importance of ESG in the financial sector, in particular in the context of private equity and debt financing of international...
infrastructure projects. As a consultant, obtaining exposure to such projects provides a good opportunity to build up an understanding of how the financial sector works if this is not something with which you are already familiar. In addition, it will help you to frame environmental and social issues in the context of business and financial risk. Finally, as discussed by Collette Curran et al in their article, such experience will help you build the skills required to identify, understand, balance and communicate the interrelationships between the environmental and social disciplines.

If You Are In/Entering University

There are many academic roads that can lead to a career in ESG; however, the most common degrees for ESG professionals are in fields such as geography, environmental engineering and environmental and social sciences. These types of degrees can give you a strong foundation in sustainability principles, but what they will not provide is an understanding of the world of financial investment.

As ESG professionals work very closely with, or at, financial institutions, knowledge of the financial sector can be equally important for success. Most ESG professionals develop this knowledge by shadowing colleagues but if you are looking for a way to stand out from the crowd as a new graduate entering the job market, consider how you can get some of this exposure whilst at university, e.g. taking additional courses, a complementary degree, or an internship.

Final Thoughts

In addition to academic studies, work experience and on-the-job learning, there are also many external resources available to help people expand their knowledge of ESG services. ESG topics are regularly covered in live webinars by various organisations, and these are often recorded and available online. For example, see the webinar that IEMA sponsored on the European Union’s disclosure and taxonomy regulations.12 Other options to consider are online courses and/or ESG certification programmes. There are many providers of these types of classes and programmes, and no single certification programme is recognised as the industry standard, so if this is of interest, look at the specific course syllabus to decide which makes the most sense for you given your background and desired ESG career.

12 https://www.iema.net/resources/event-reports/2020/08/18/eu-esg-disclosure-regulation-and-eu-taxonomy-regulation-how-will-they-affect-you-and-what-do-you-need-to-do-now?_cldee=c3d8c3fmYWxiQHNscmNxbnN1bHRpbnmuR29i&recipientid=contact-972fcb4d587e711811d70106faa7c1-524230fd5c614ab8b2c87c420366b152besid=bb9af94-bbe3-ea11-a813-000d3a2287a4
Environmental and Social Governance (ESG) is an increasingly common term that is used to refer to the integrated management and governance of environmental and social (including health and safety) risks. Although the term ‘ESG’ is relatively new, it has its origins in sustainable development which is itself a term that can be traced back at least to 1987 and the Brundtland Commission (Our Common Future) Report.

The principle of an integrated approach is at the heart of international standards for project financing including the Equator Principles, the IFC Performance Standards, and the safeguarding frameworks established by many development finance institutions. The need for an integrated approach speaks to the fact that it is not possible to sustainably develop, operate (and later decommission) projects if the interconnectedness of environmental, health, safety and social factors is inadequately understood or overlooked. Embedding sustainability principles into business processes is now a much more mainstream practice. However, although a claim to sustainability can be a differentiator, the term is vulnerable to misuse, with companies being accused of ‘greenwashing’. Regulation is moving financial sector participants into a new era of transparency, integrity and disclosure. With this comes the need for capacity and professional practice, and for skilled and expert practitioners to continue to pave the way forward.

The first three articles in this Journal provided an overview of the evolution of the concept of ‘ESG’; the need for an integrated approach; the concepts of safeguarding, conditionality and additionality in the context of investments; and the regulatory environment. From here, we explored examples of safeguarding and risk management through the lens of human rights risk management in supply chains, and infrastructure investing. In the final article we turned our attention to the skills and experiences of ESG practitioners, with practical tips on how to build a career in ESG practice.

As a member of IEMA and as an ESG practitioner in the field of climate finance, I personally can speak of the rewarding and exciting opportunities this profession can offer. If you would like to become part of the GESA steering group, look out for calls for applicants that are advertised by IEMA annually around November/December. Finally, please check the IEMA website (https://www.iema.net/events) for future events that will be linked to the themes explored in this journal.
Do you make effective use of ALL of IEMA’s IA member resources?

IEMA’s website contains a treasure trove of IA related content, as well as information about IEMA’s volunteer network groups, blogs, webinars and policy. But not everyone makes the most of this free member content, including:

- Future events and webinars.
- Recordings of past webinars, with over 24 hours’ worth of IA content.
- IA guidance & advice: such as the recent guides on Land and Soils, and GHG in EIA.
- The Proportionate EIA Strategy.
- Over 400 EIA articles and 200 case studies related to EIA, developed by Q Mark registrants in recent years.
- Individual and organisational recognition specific to EIA, through the EIA Register and EIA Quality Mark schemes respectively.

- Contact details to engage with the steering group members for the:
  - IA Network.
  - GLVIA Panel.
  - GESA Group (Global Environmental & Social Assessment).
  - Geographic/Regional Groups.

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Claire Cummins, Head of ESG at Climate Fund Managers B.V., has acted as the guest editor for this edition of the new IA Outlook Journal. We recognise and appreciate her contribution.

We also offer thanks to the IA Outlook Journal series commissioning editor Rufus Howard (IEMA). We would like to thank the authors of the articles in this fourteenth edition of the IA Outlook Journal:

Nik Stone
Colette Curran
Elshan Rustamov
Pete Gabriel
Neal Barker
Robert Adamczyk
Tom Streather
Adrian Barnes
Shana Westfall

IEMA’s EIA Quality Mark – a scheme operated by the Institute allowing organisations (both developers and consultancies) that lead the co-ordination of statutory EIAs in the UK to make a commitment to excellence in their EIA activities and have this commitment independently reviewed. The EIA Quality Mark is a voluntary scheme, with organisations free to choose whether they are ready to operate to its seven EIA Commitments: EIA Management; EIA Team Capabilities; EIA Regulatory Compliance; EIA Context & Influence; EIA Content; EIA Presentation; and Improving EIA practice. In April 2021, IEMA celebrated the 10-year anniversary of the EIA Quality Mark.
IEMA Global Environmental and Social Assessment (GESA) Group

The GESA steering group is made up of leading international practitioners who guide IEMA’s international IA activities through horizon scanning, policy leadership, and quality review. The GESA Group considers the role of environmental and social impact assessment in the context of international ESG, sustainable and responsible finance, environmental and social impact assessment and environmental and social due diligence. The GESA Group seeks to elect new members each year, with each member serving for 3-year terms.

ESG in International Markets

This fourteenth edition of the IEMA Outlook Journal provides a series of thought pieces on ESG in international markets. In this edition, the Guest Editor (Claire Cummins) has drawn together six articles produced by members of the Global Environmental and Social Assessment Steering Group (GESA). The result provides insights into the background and evolution of ESG as a discipline, along with some of the key concepts, trends, tools and practices.

About the Guest Editor: Claire Cummins, BSc, MSc, PGDip, CMIOSH

Head of ESG, Climate Fund Managers B.V. (CFM)

CFM is a Dutch investment manager contributing to climate change mitigation and adaptation using blended finance to invest in emerging economies in Africa, Asia and Latin America. In her role as Head of ESG, Claire has a global responsibility for defining and driving the strategy and standards for sustainable investment in order to deliver meaningful and positive impact at the same time as minimising and mitigating risks in accordance with international standards.
About IEMA

IEMA is the professional body for everyone working in environment and sustainability. We’re committed to supporting, encouraging and improving the confidence and performance, profile and recognition of all these professionals. We do this by providing resources and tools, research and knowledge sharing along with high-quality formal training and qualifications to meet the real-world needs of members from their first steps on the career ladder, right to the very top. We believe that together we can change perceptions and attitudes about the relevance and vital importance of sustainability as a progressive force for good. Together we’re transforming the world to sustainability.

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