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Future trends in ESG Policy

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- What will ESG policy look like 25 years from now?
- Four inter-related trends related to the public markets:
 - Equity market anxiety
 - Stakeholder governance
 - Lack of confidence in self-regulation
 - Voluntary → mandatory

Equity market anxiety

- Equity markets are not growing (or are shrinking) in most markets around the world.
 - Big exceptions in Asia (India, China)
- Biggest challenge is in the smallest markets.
- Many possible explanations but none very conclusive.
- Implication of trend: appears like trend is here to stay, not clear if the public markets will be as useful in the future to influence ESG

Stakeholder models of governance

- General movement to include a duty to “stakeholders” in company law
- For example: UK Companies Act (2006) Section 172:

“A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to—

 - (a) the likely consequences of any decision in the long term,
 - (b) the interests of the company's employees,**
 - (c) the need to foster the company's business relationships with suppliers, customers and others,**
 - (d) the impact of the company's operations on the community and the environment,**
 - (e) the desirability of the company maintaining a reputation for high standards of business conduct, and
 - (f) the need to act fairly as between members of the company.
- Big fight in US and UK
- Gradual adoption in some (not all) emerging market company laws.
- Implication of trend: big push to those who want to see more ESG thinking in the boardroom.

Lack of confidence in self-regulation

- In many countries the regulation of disclosure and governance was typically carried out by the stock exchange.
- For many years this model has been gradually giving way to a regulatory model, driven by a securities regulator:
 - Competition among exchanges
 - Lack of enforcement powers
 - Uncertain results
- Implication of trend: ES style regulation will join G and move from a stock exchange-based approach to a law / regulation approach, over time.

Voluntary → mandatory

- One lesson of the corporate governance reform movement over the past 25 years is that there is a gradual move from “guidelines” and other voluntary forms of encouragement, to more mandatory approaches.
- As controversial provisions gain acceptance (and a consensus is reached), they are often adopted into mandatory law or regulation.
- As international standards are clarified and become the norm, competition drives countries to show their seriousness by moving their implementation to more voluntary standards (including “comply or explain”). Especially true for disclosure.
- Implication of trend: in 25 years we will see many fewer “guidelines” and more succinct regulation.

Bonus: ESG and SOEs

For SOEs...

- By their nature: SOEs should be at forefront of ESG discussion.
 - Key delivery of social services
 - Important to COVID response
- But momentum is less in most countries (SOEs not listed, insulated from investor discussions and regulatory pressure).
- Many SOEs still working to achieve high levels of transparency and governance, are more attuned to government shareholders, or are distracted by too many other problems.

So in 25 years...

- More stakeholder governance ...
- Fewer opportunities to leverage local securities markets ...
- Stronger regulation ...
- Much better integration of the G and the ES regulation
- And SOEs will still be behind the curve in terms of E, S, and G.

Thank you
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