GREEN FINANCE: WHY TELCOS SHOULD NOT COUNT ON AN EASY RIDE

Green finance investors following ESG (Environmental, Social and Governance) principles have tended to spurn certain sectors (fossil fuels, tobacco, defence, aviation, steel) and favour others. Telecoms has done well from this. Analysis by MSCI[1] of the 20 largest ESG funds shows that telco stocks make up 5-13% of non-sector specific ESG funds.

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[1] The Top 20 Largest ESG Funds – Under the Hood: Rumi Mahmood, MSCI ESG Research April 2021

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What is green finance and why is it important for telcos?

Green finance is investment activity designed to deliver improved environmental activities. Telecom operators have benefited from the sector's benign credentials and from the general perception that access to communications and the internet is a force for good. Some operators have also embraced ESG objectives as an intrinsic part of their mission, for example through net-zero emission commitments. This has further bolstered their ESG credentials.

Although it is hard to estimate how much telecoms operators have benefitted from their relative appeal for ESG funds, this still represents a (modest) reduction in cost of capital, particularly when compared with the sectors that have been spurned. An indicator of 'greenium' that sustainable investments command is provided by analysis of German Bund market.

German Bund 'greenium'

Source: Financial Times

Why green financing should not be taken for granted

However, three sets of developments mean that operators should not underestimate these benefits in the future or take them for granted.

- Firstly, ESG investment are no longer niche. Global ESG funds have risen to over $1 trillion. In 2021 sustainability-linked bonds issuance also reached the $1 trillion mark. Meanwhile, wider finance is undergoing green-ification. What were previously considered not particularly ESG investments are becoming… well… more ESG-ish.
  - For example the Glasgow Financial Alliance for Net Zero (GFANZ) is a global coalition of leading financial institutions committed to accelerating the decarbonisation of the economy. Its members currently include more than 250 financial firms responsible for assets in excess of $88 trillion.
  - Secondly, investors are getting smarter, more discerning and increasingly active. The message is clear: greenwash will not wash.
- For example, we are seeing the emergence of Active ESG (or AESG) investors, who engage with portfolio companies to induce change, often by securing a seat on the board. Some target companies that are ESG laggards rather than leaders.
  - Investors are increasingly focusing on Real-Zero as opposed to Net-Zero commitments. Real-Zero (originally a Greenpeace campaign) is Net-Zero without offsetting. The well-established UN-backed SBTi (science-based targets initiative) does not allow inclusion of offsetting to meet emissions commitments.
- Thirdly, ESG funds are becoming more regulated. The days when a fund could define its own interpretation of ESG are over. European and US reporting is tightening and setting the pace for investments globally.

Implications for Telecoms CFOs

1. Ensure the entire C-suite is sustainability literate and incentivised
2. Push for your own LTIP to be linked to your stock's inclusion in ESG funds
3. If you haven't yet, sort out disclosure on all emissions, i.e. Scope 1, 2 and 3
4. Get committed, ideally through globally recognised initiatives such as CDP/SBTi
5. Drive sustainable objectives and align incentives throughout the organisation
6. Issue green bonds, which takes work but provides a route to cheaper capital

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