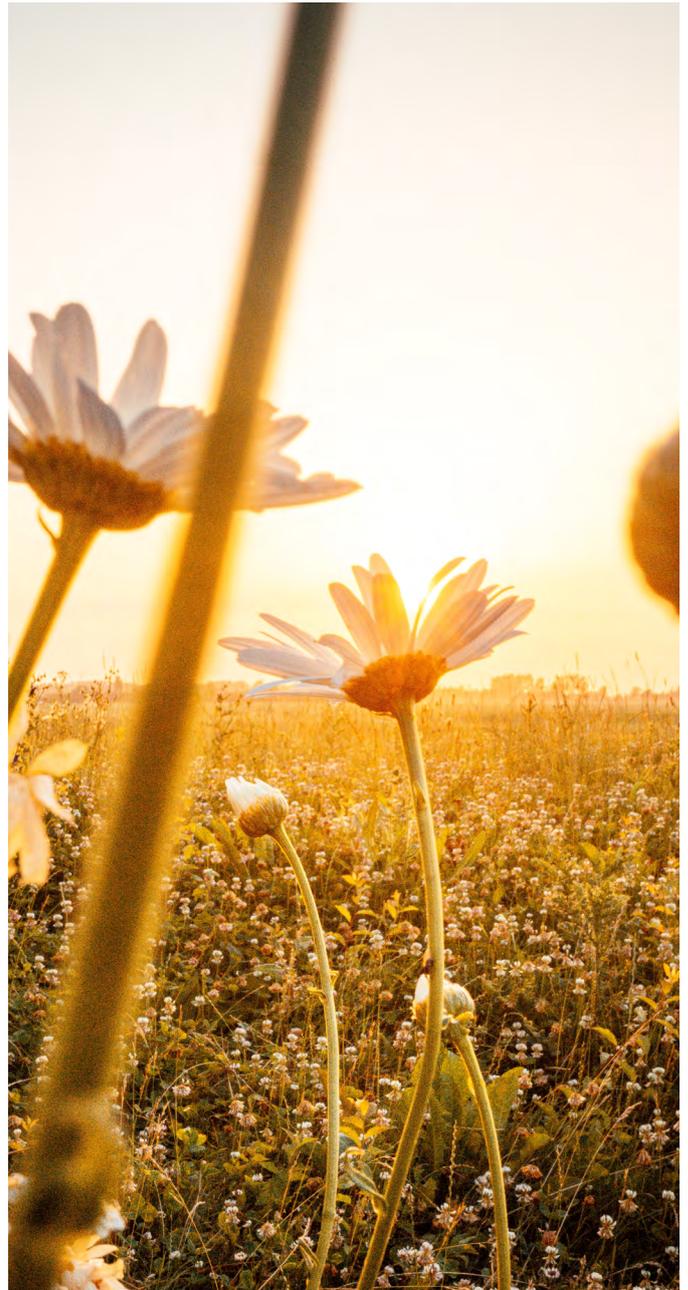


# COVID-19 & ESG: Blessing for the E, Eye Opener for the S, & Heavy Duties for the G

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When Abraham Maslow introduced his “Theory of Human Motivation”, back in 1943, he implicitly combined both Environmental and Social aspects at the base of his “Hierarchy of Needs” pyramid. To him, physiological needs included homeostasis and appetites which are “a fairly efficient indication of actual needs or lacks in the body”. In simple words; to maintain a normal state of blood stream in a human body, proper breathing, food, water, shelter and warmth were necessities for survival of mankind. Despite this equilibrium between environmental and social necessities, several articles highlighted the fact of the missing “S”, while the “E” factor has been leading the priority of the Responsible Investment market. Climate change and related environment topics topped most of the news headlines and conferences’ agendas. COVID-19 came as a blessing in disguise to adjust the scale and re-shuffle the priorities of the market, giving more attention towards the “Social” aspects and loading the “Governance” with heavier burdens. In this articles’ series, IdealRatings, Inc. will be highlighting the effect COVID-19 has placed on the ESG market through separate articles per pillar.



## Blessing for the ‘E’

Following the declaration of the World Health Organization (WHO) of COVID-19 outbreak as a pandemic on March 11, Environment related topics still made their way in various news headlines. With lockdowns around the world, many factories decreased or even halted its operations. Commuting and transportation means have massively declined with employees either working from home or sent to home losing their jobs. Based on [IPCC’s special report](#), on the impact of global warming of 1.5°C, the industry

sector, transportation, and buildings are responsible for more than half of the world’s energy-related CO2 emissions; 25%, 23% and 8% respectively. Moreover, the industry sector and agriculture are considered responsible for the majority of water contamination, with almost 8% of municipal wastewater being discharged into water bodies untreated, as per a [report issued by the FAO](#). Accordingly, with the current situation, global air emissions and water contamination are witnessing downwards curves. Recent Satellite images issued by [NASA](#)

have shown a drop in air pollution in various countries. For example, their measurements indicated a drop of 30% in air pollution over the northeast USA, also a decrease in nitrogen dioxide (NO<sub>2</sub>), as a proxy for human activity, in northern Italy and China. Earthar has also created a [global interactive map](#) showing snapshots from December 2019 till March 2020 tracking data of nitrogen dioxide which again confirmed NASA results. Social media was full of pictures showing cleaner beaches and restored animals’ wildlife. It could be said that COVID-19 has given

planet earth an opportunity to refresh and properly breathe, while its ill inhabitants are barely breathing in their fight against the virus.

Moving to the professional world, news was flooding everywhere that ESG-oriented funds have outpaced its conventional counterparts. Despite the term ‘outperform’ being a bit of an exaggeration, given the fact that still ESG funds are facing negative prices, it still managed to show ‘smaller’ negative prices. The reason behind this better performance is buoyed by two main reasons; (1) ESG funds by nature shies away from investments in fossil fuel sectors which were remarkably hit due to the current setback in the practical life, in addition to the sharp decrease in oil prices given the price war between Saudi Arabia and Russia, (2) the surge in the tech sector<sup>1</sup> which already dominates a large share of ESG funds. This sector was quite a focal point of the ESG funds as a mean of reaching alternatives to a better and cleaner world. With the current situation and the surge of virtual meetings, this sector has been facing a positive boom. Some changes are expected to take place in investors’ perspectives and ESG funds investment plans.

Despite the fact that the renewable energy sector might face downward pressure as an effect of the tumbling oil prices, this pressure is anticipated to be short-termed. This is supported by various reasons including: higher environmental consciousness, especially after COVID-19’s kiss of life to planet earth, public pressure on governments to re-orient their strategies towards climate change actions, better renewables competitiveness compared to few years ago as supported by [Deloitte’s recent report](#) about

renewable energy industry outlook. The transformation will definitely not take place overnight, but there will be an affirmative boost for this sector. It is worth noting that in an unprecedented act, the [Environmental Protection Agency \(EPA\)](#), in the USA, announced in March 26<sup>th</sup> temporary relaxed fuel economy standards. For example, “EPA does not expect to seek penalties for noncompliance with routine monitoring and reporting obligations that are the result of the COVID-19 pandemic”.



We believe this step could be a green light for lots of violations by companies, taking advantage of the current situation and non-stringent regulations. As for the tech sector, it is expected that it will remain dominating ESG investments given its nature as a backbone for various industries. The tech industry will be of great support for the above-mentioned

greener objectives, necessity for innovation in needed medical equipment, and vital for working from home employees with increased dependence on various applications to support remote access to servers and virtual meetings. The nature of market players itself will be the point of variation, with such high demand and the unforeseen end of this virus, new applications, start-ups and companies are starting to introduce their ideas and increase their offerings. Thus, the share of the tech giants such as Facebook, twitter, etc. could face a decrease. Also, relating to the rising trend of staying at home, higher bandwidth usage and demand are witnessing a surge to cater for people’s needs, be it for work or for leisure. An increase in investments in the telecommunications sector is projected. The main challenge facing this sector will be the quality of the provided services.

Analyzing the environmental pillar in this context, and as ESG funds are proving themselves right with their resilience amidst this crisis, it can be said the above is giving indications that investments in the coming period will be oriented towards greener sectors, mainly the renewable energy, tech, and telecommunications sectors. With ESG investments attracting more investors, companies thriving to sustain their positions in the market are expected to be working on their sustainability reporting which is projected to witness an increase on the short run.

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<sup>1</sup> This refers to software and IT Services

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