KEY TRENDS DRIVING THE ESG AGENDA

Anticipating the changing landscapes of impact and finance

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THE ROAD TO ESG

The concepts that underpin ESG have undergone significant changes over the years, reflecting a growing awareness of the importance of sustainability and social responsibility in business practices

Corporate Social Responsibility (CSR)
Making voluntary, positive contributions to society and the environment. Typically viewed as a public relations strategy to enhance reputation

Less bad

Circularity
Over time, stakeholders increasingly sought out companies that create closed-loop systems that minimise waste and maximise resource efficiency

Transformationally good

Regenerative Models
As concerns over climate change continue to grow, organisations now move toward models that aim not just to minimise harm, but actively restore natural systems

Without CSR, Circularity, and Regenerative Models, there would be no ESG - but they are not interchangeable concepts.

While CSR aims to make a business accountable, ESG criteria make its efforts measurable.

With demands for transparency and conscious action coming from a broad base of stakeholders, corporate sustainability has had to evolve.

It has travelled via corporate social responsibility into ESG policy. In doing so, it has evolved from a nice to have and a risk to be mitigated to a must-have source of competitive differentiation and opportunity.

DEFINING ESG BEYOND ITS BUZZ

A framework along the dimensions of Environment, Social, and Governance designed to be embedded into an organization's strategy in order to consider the needs and ways in which to generate value for all organizational stakeholders and society in general.

- Environmental aspect: Data is reported on climate change, greenhouse gas emissions, biodiversity loss, deforestation/reforestation, pollution mitigation, energy efficiency and water management.
- Social aspect: Data is reported on employee safety and health, working conditions, diversity, equity, and inclusion, and conflicts and humanitarian crises, and is relevant in risk and return assessments directly through results in enhancing (or destroying) customer satisfaction and employee engagement.
- Governance aspect: Data is reported on corporate governance such as preventing bribery, corruption, Diversity of Board of Directors, executive compensation, cybersecurity and privacy practices, and management structure.

WHAT IS CHANGING?

GLOBAL MARKET FORCES

1. Global macroeconomic challenges reflected in changing economic policies, indirectly impacting on volatile consumers and business confidence

2. Fluctuation in commodity prices due to increasing cost of extraction & production, giving certain exporting countries incredible global political and economic leverage

3. Political instability and conflict leading to exacerbated global inequality and lower natural resources availability

4. Previously unimaginable pace of technological advancements changing the way we build businesses, provide services to learn, access financial markets etc.

STAKEHOLDER EXPECTATIONS

The biggest wealth transfer is set to see over $70 trillion passed down from baby boomers to their successors in the next 30 years - a newer generation that is more vocal about how and where they want to spend their money, but one that often find themselves navigating saturated markets that provide little differentiation.

- **64%** of Gen Zs are willing to pay more for sustainable products (Deloitte)
- Products that claim to be environmentally and socially responsible have seen **28%** cumulative growth in sales over the past five years (McKinsey, NielsenIQ)
- **76%** consumers will discontinue their relationship with companies that treat the environment, employees, or the community in which they operate poorly (PwC)
- **83%** consumers think companies should be actively shaping ESG best practices (PwC)
- **50%** consumers rank sustainability as a top 5 value driver (Simon-Kucher and Partners)

GRANDER SOCIETAL CONTEXT

Organisations globally citing ESG concerns as a top risk, with **72%** of boards aligning risk, strategy, and performance to drive business resilience [Gartner]

Environment and social sustainability concerns at the forefront of global agenda as ESG permeates regulatory regimes, becoming increasingly multi-jurisdictional and complex to curb impact washing on all fronts (*See EU Corporate Sustainability Reporting Directive [CSRD]*)

Institutional investors placing **social inequality & climate risk** as critical to new strategies [Nuveen]

Increased focus on materiality leading to more specialised ESG metrics that open door for **sustainability indexing, data-backed target setting** etc. & impact investing

Demand for consistent financial & sustainability data that facilitate investment decision needed for large-scale systems change through policy

A need for organisations to be well-versed in technology to source strategy and ops intelligence

WHERE IS IT HEADING?

KEY TRENDS IN ESG

1. Metric Harmonization
2. Precision Benchmarking and Indexing
3. Causational Evaluation and Unintended Consequences Mitigation
4. Interconnected Financial and Impact Outcomes Data
5. The Meteoric Rise of Impact Audits
6. Performance-Based Investment and the Financialisation of Impact
7. Strategically Embedded Impact
8. Regulatory Domino Effect
9. A New Era of Impact Storytelling
10. The Tech Enablers of ESG

AN EXAMPLE OF THE FUTURE OF ESG: DEBT - NATURE - DEBT

Sovereign debt has had a negative impact on political stability, macroeconomic resilience, domestic economic opportunities, and human rights obligations. This double burden is particularly felt by countries most vulnerable to the impacts of climate change, resulting in deepened poverty and increased climate vulnerability. As a result, governments and businesses alike are facing significant pressure.

These countries are also often home to some of the world's most essential natural ecosystems - environmental assets that are not factored in against their national economic liabilities. In recent years, collective commitments to mitigate climate change have added further burdens to these nations, which sometimes leads to them taking on even more debt to comply with international agreements or avoid penalties. As a result, regardless of sector, organisations must navigate this complex context and consider the potential impacts on their operations and stakeholders.

OTHER EXAMPLES OF ESG IN ACTION

- Environmental Asset Markets
- Proof-of-Impact-Engagement
- ESG Intelligence Solutions
- Publicly Available Compensation Data
- Economic Activism
- New ESG Disclosure Requirements
- Beyond the E, toward the S and the G
- Energetically Efficient Digitalisation

WHERE ESG FALLS SHORT

1. **Lack of Long-Term Focus**: Currently largely focus on short-term goals & metrics, rather than long-term sustainability & impact. A result is superficial, quick fixes (eg. purchasing carbon credits) that do not address deeper systemic issues

2. **Failure to Address Interconnectedness**:
   a. Evaluating organisations in isolation without considering relationship between issues & stakeholders
   b. Reporting systems largely focussing on "E" and "S" rather than "G", and difficulties of reconciling the three in a unified manner

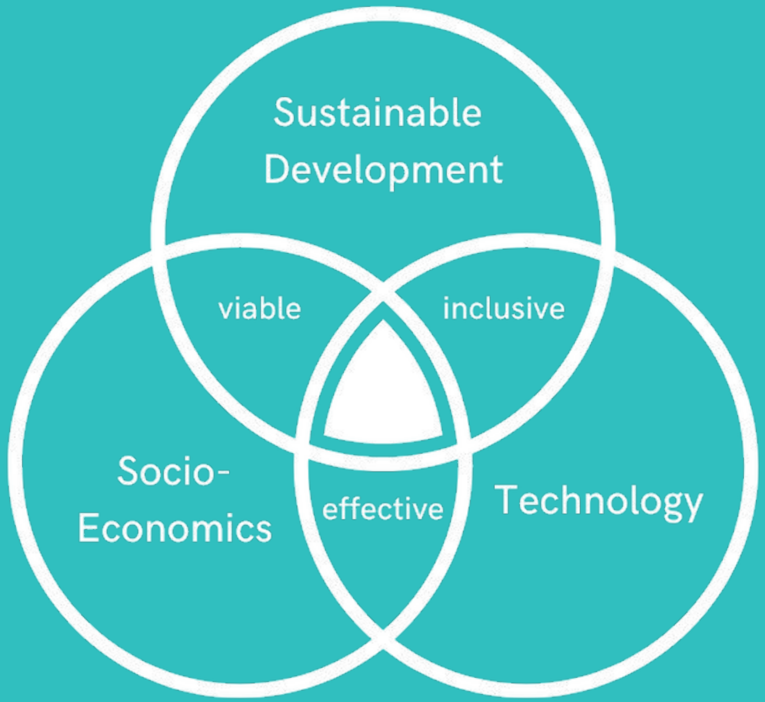
3. **Impact Washing**: Exaggerating or manipulating metrics to falsely promote positive "impact" whilst not providing proof and/ or downplaying negative impacts

4. **Lack of Standardisation & Clarity**: No consensus on how to track ESG-related effects

5. **Unintended Consequences**: ESG strategies are identified as some of the biggest barriers to capital flows into developing countries due to an emphasis on avoiding reputational risk derived from social and governance flaws, or a simple lack of data

WHERE DO YOU START?

THINK REGENERATIVE: RESTORE, RENEW, GROW



ESG: A COMPETITIVE DIFFERENTIATOR FOR CREDIT UNIONS

The values related to ESG already align with a credit union's mission of service. For example, When natural disasters and weather events hit, you are often among the first responders for members, staff, and communities. Credit unions have been taking these environmental issues into account since their early formation, making loans to farmers and ranchers, as well as small businesses in need of relief.

But more can be done. Proactively managing these risks and doing more to take advantage of opportunities to expand your portfolios of green lending products, supporting affordable and sustainable green and clean solutions to environmental and climate challenges, and proactively designing financial instruments to support financially vulnerable members who are one emergency away from chaos are just a few examples.

UNSCRIPTING INNOVATION

Unscript innovation from frameworks by challenging unquestioned assumptions and uncovering unintended consequences.

We need to think playfully, ideate empathetically, and innovate collectively, in the face of any challenge.

Frameworks and methodologies in the name of easy scalability are the antithesis of truly disruptive innovation and often erase nuance across the lived experiences of users that stand to benefit the most from technological adoption.

ESG is not a box-ticking exercise. We must move beyond the limited scope of carbon offsets, towards a comprehensive and monetisable impact strategy. When done well and thoughtfully, this becomes a competitive edge that is future-proofed and resilient to the changing landscape.

THANK YOU!

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