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# Information Memorandum

## ESG and Sustainable Finance Report

STRONGHOLD
GLOBAL FINANCE

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# 1 Executive Summary

The report covers a wide range of topics, including COP28, carbon credit markets, latest ESG transactions & trends, sustainable financing, and infrastructure designed to have less environmental impact. As the 2023 United Nations Climate Change Conference (UNFCCC) or the 28th Conference of the Parties (COP28) draws closer, a fundamental revolution is taking place in the dynamic fields of ESG and Sustainable Finance. The Carbon credit markets is a prevalent theme in the COP28 mandate which speaks volumes about the commitment to reducing emissions. The 'Regulatory' and 'Voluntary' carbon markets are the two main types of carbon credit markets. ESG infrastructure projects are becoming instrumental in merging economic growth with environmental preservation through Green Building Rating Systems, certifications, and incorporation of circularity among various other initiatives. The report also examines the current significant ESG and Sustainable Finance trends, which will influence the decision-making capacity of firms and investors. Across EMEA, Africa, and the EU, recent transactions are paving the way for a more sustainable future. This convergence of finance and sustainability is not a mere trend; it's a powerful narrative of innovation and progress. The next question is, where does this journey take us? In this report, we explore these themes, elucidate the latest transactions, and envision the future of ESG and Sustainable Finance.

### COP28: The Pivotal Climate Summit

The Conference of the Parties to the UNFCCC, also known as COP28 or the 2023 United Nations Climate Change Conference, will be the 28th such conference. The priorities of COP28 include attempts to reform land use, change the food system, and expedite carbon reductions through a practical energy transition, with a special emphasis on mobilization of climate finance. COP28, hosted in Dubai, carries the weight of pivotal decisions to protect our planet's habitability. The United Nations will release the first "global stocktake", or assessment of global progress over the last two years, just before the start of COP28. With the clock ticking, closing the ambition gap in climate action is paramount, considering the severe global impact of climate change.

### Carbon Credit Market: Trading for Sustainability

The carbon credit market evolves as companies adapt to emissions caps. Trading carbon credits, a core mechanism, is a financial incentive for emission reduction, but its market size varies. Voluntary and regulatory (or compliance) markets are the two main types of carbon credit markets which shape the future. While voluntary carbon markets are operated on a voluntary basis, regulatory carbon markets operate on a mandated basis.

### Current Trends in ESG Infrastructure Projects

Growing urbanization and climate change propel the need for sustainable infrastructure. Built environment contributes significantly to greenhouse gas emissions. Trends like green buildings, circular infrastructure, and equity investments redefine the landscape for ESG infrastructure projects. According to the data derived from the 2019 OECD Survey of Large Pension Funds (LPFS) and Public Pension Reserve Funds (PPRFs), infrastructure equity investment patterns reveal that energy stands as the dominant sector among the surveyed funds, with an average allocation of 26.5%. This exhibits a clear focus on renewable energy.

## Latest ESG Transactions in the EMEA and UK Regions

Recent ESG transactions in Africa, the Middle East, and Europe highlight notable developments. The Bezos Earth Fund committed $22.8 million to support locally driven restoration initiatives in Africa. Kenya's Safaricom (a communications company) secured a $103 million loan for sustainable projects, while Morocco's State-owned Phosphates and Fertilizer Producer (OCP) received a $106 million (International Finance Corporation (IFC) loan for the construction of two solar power plants. In the Middle East, the Organization of the Petroleum Exporting Countries (OPEC) Fund allocated $10 million to bolster food security in Egypt, and Abu Dhabi's Mubadala Investment Company initiated the establishment of a Green Finance Framework. In Europe, the UK's Severn Trent is set to raise £1 billion for river cleanup initiatives, and the European Union (EU) approved what's touted as the "World's First" Green Bond Standards, marking significant progress in the region's green finance landscape.

## Current Trends in ESG and Sustainable Finance

In the coming year, ESG and Sustainable Finance are poised to undergo transformative changes in various paths. Some of them include businesses and investors increasingly adopt data-driven strategies to evaluate and manage their ESG performance. Impact investing is gaining momentum, fueled by a growing demand for ethical investments. A holistic approach to achieving net-zero emissions will be vital, encompassing renewable energy, supply chain decarbonization, carbon pricing, and circular economy principles. Global regulatory focus on Sustainable Finance is intensifying, especially in ESG reporting. Developed economies are adapting to dynamic climate strategies. Investments in adaptation and resilience are crucial as natural disasters are increasing due to climate change. These trends highlight the growing importance of ESG criteria and the collective movement toward sustainability, shaping responsible and impactful investment decisions. As ESG practices gain prominence, companies and investors must adapt and collaborate with ESG consultants for a more sustainable future.

## Navigating the Future of Sustainable Finance and ESG

In the realm of ESG and Sustainable Finance, we foresee key developments as its growing demand will diversify sustainable investment strategies. The push for renewable energy and electric vehicles will intensify the need for sustainable mining of minerals and metals. Increasing global ESG regulations, including the European Union's Corporate Sustainability Reporting Directive (EU CSRD), will mold corporate strategies, while the landscape becomes more complex, necessitating improved ESG data driven by AI. There is an expected increase in sustainability hires by 17% underscoring the rising demand for talent in this sector. Investment opportunities will expand beyond public markets into private equity and other domains, with growing interest in diverse ESG themes. Achieving a sustainable global economy calls for extensive collaboration among stakeholders.

# 2 COP28: The Pivotal Climate Summit

## 2.1 Overview

The COP28 will take place in Dubai, United Arab Emirates (UAE), from November 30 to December 12, 2023. H.E Dr. Sultan Ahmed Al Jaber, a UAE Special Envoy for Climate Change and Minister of Industry and Advanced Technology, has been appointed as the COP28 President-Designate, according to the UNFCCC Secretariat. It will include:

1. The Conference of the Parties' (COP28) 28th meeting
2. The Fifth Conference of the Parties (COP5) acting as Meeting of the Parties to the Paris Agreement
3. The Kyoto Protocol Meeting of the Parties 18 (CMP 18), which is the 18th COP meeting.
4. The Subsidiary Body for Implementation's 59th meeting (SBI 59)
5. The Subsidiary Body for Scientific and Technological Advice's 59th meeting (SBSTA 59)

The World Meteorological Organization and the Intergovernmental Panel on Climate Change (IPCC) Synthesis Report both note that COP28 is a crucial time to decide how the world can protect the planet's habitability and change direction on global climate action.

**Why COP28 matters:**

The COP28 offers parties and non-state entities a critical - and possibly final - opportunity to step up the implementation of the Paris Agreement. The IPCC made it quite evident that "choices and actions implemented in this decade will have impacts for thousands of years."

The conference is taking place in the context of insufficient action taken at previous COPs, which were to close the "ambition gap" between (1) what is proposed in Nationally Determined Contributions (NDCs) and (2) what is executed through current policies and strategies to keep global warming below 1.5 degrees. Meanwhile, the growing effects of climate change, like storms, heatwaves, and droughts, are already having a significant negative impact on people's lives, economies, and way of life throughout the world.

Strong public and private sector leadership and collaboration are necessary to achieve the transition to economies that are net zero and climate resilient. At COP28, through mobilization of climate finance, the financial industry will play a crucial role by taking genuine steps to reach net zero emissions and pushing for ambitious legislative changes that will support the objectives of the Paris Agreement.

**Updates regarding COP28:**

Middle East and North Africa Climate Week (MENACW) convened in Riyadh, Saudi Arabia, from October 8–12, 2023. MENACW was one of the four Regional Climate Weeks taking place prior to the 28th session of the Conference of the Parties to the UNFCCC (COP28). Discussions were held during MENACAW to contribute to the Global Stocktake (GST), which attempts to create the roadmap to achieve the major objectives of Paris Agreement. These programs also aim to cover a variety of topics, including energy systems, industry, cities, infrastructure, and transportation, as well as land, ocean, food, and water. It also includes discussions regarding societies, health, livelihoods, and economics.

## 2.2 Mobilization of Climate Finance

A new climate financing target that adequately meets the needs of poor nations will be established via the New Collective Quantified Goal (NCQG). The pledge made in 2009 to mobilize $100 billion annually (which has not been met and expires in 2025) will be replaced by this new objective. The objective emphasizes the availability of financial resources as well as their amount, mobilization, and provision.

Article 2.1(c) of the Paris Agreement, sometimes known as the "apex goal" of climate finance, is closely related to the NCQG and calls for financial flows to be aligned with a path towards low greenhouse gas emissions and climate-resilient development. Since the capital needed to address today's interlinked crises is beyond the capacity of either the public or private sector alone, achieving Article 2.1(c) will necessitate a major transformation of the global financial architecture (more on this below). This makes this a highly significant topic for responsible investors.

## 2.3 Partnerships and Sponsorships

# 3 Carbon Credit Market: Trading for Sustainability

Permits that allow the owner to emit a specific amount of carbon dioxide or other greenhouse gases are known as carbon credits, commonly referred to as carbon offsets. Companies who pollute are given credits that allow them to do so up to a limit. This limit is being decreased periodically.

Carbon credit markets are trading platforms where carbon credits are offered for sale and purchase. Thus, private businesses have two incentives to lower greenhouse gas emissions. First, if their emissions exceed the cap, they must first pay extra for credits. Second, cutting their emissions and reselling their extra allowances to generate income.

One tonne of carbon dioxide or the equivalent amount of another greenhouse gas reduced, sequestered, or avoided is equal to one trading carbon credit. A carbon credit becomes non tradable when it is applied to the reduction, sequestration, or avoidance of emissions.

Due to the various restrictions in each market and other regional differences, estimates of the size of the carbon credit market vary greatly. According to some estimates, the voluntary carbon market, which is primarily made up of businesses that purchase carbon offsets for corporate social responsibility (CSR) purposes, was worth $1 billion in 2021. For 2020, the regulatory carbon credit market was predicted to be worth $272 billion.

## 3.1 Types of Carbon Markets

Broadly, there are two main types of carbon credit markets, and they are:

**VOLUNTARY:**

The issuing, purchase, and sale of carbon credits can be carried out at national and international levels on a voluntary basis. This is referred to as voluntary carbon markets.

Businesses create carbon projects and governments formulate policies approved by carbon standards. The supply of voluntary carbon credits mostly originates from these sources.

Demand is generated by businesses with sustainability goals, private individuals looking to offset their carbon footprints, and other parties looking to profit by trading credits for a higher price.


**REGULATORY:**

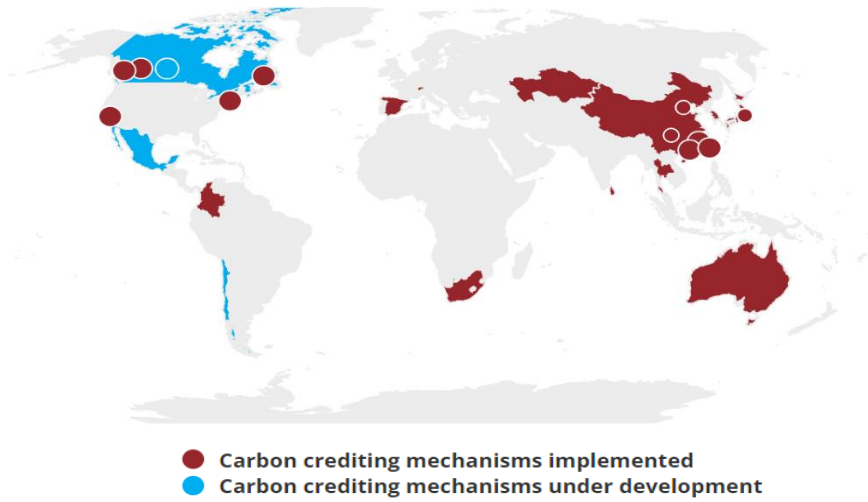
Companies and governments which are required by law to account for their GHG emissions use the compliance market. Mandatory national, regional, or global carbon reduction regimes govern it.

In the regulatory market, the Clean Development Mechanism (CDM), Joint Implementation (JI), and EU Trading System (ETS) are the three Kyoto Protocol mechanisms that are of utmost significance.

Some nations have other legally obligatory state and regional GHG reduction plans but have not formally ratified the Kyoto Protocol. Adopted in Japan in 1997, it was the first worldwide agreement to set legally binding targets to reduce greenhouse gas emissions.

## 3.2 Global-level Status of Carbon Crediting Mechanisms

Following is an updated summary map of regional, national, and subnational carbon crediting mechanisms from World Bank's Carbon Pricing Dashboard. Here the map includes the mechanisms at the regional, national, and subnational levels that have produced carbon credits usable under the mandatory or regulatory carbon pricing initiative.




It has been stated that currently, there have been 27 carbon crediting mechanisms implemented in 2023 and 5 carbon crediting mechanisms are under development. Carbon crediting mechanisms are market-based systems. Organizations use them to purchase carbon credits from low-cost emitters. These credits fulfill emission reduction commitments, whether mandatory or voluntary and can also be used for commercial purposes.

# 4 Current Trends in ESG Infrastructure Projects

Infrastructure delivery faces two significant challenges worldwide, both in developed and developing nations: urbanization and climate change. Both have a direct bearing on the global problem of sustainability and are probably going to affect emerging economies disproportionately. Globally, the built environment is to blame for at least 75% of GHG emissions, with the building industry alone responsible for 37% of those emissions. The building industry, one of the biggest consumers of natural resources in India, accounts for around 22% of all emissions.

Urbanization is the first important trend. It is estimated that the current worldwide urban population of 3.9 billion people will increase to approximately 6.3 billion by 2050. This would account for 70% of the anticipated total global population. India, China, and Nigeria are a few of the rising markets and developing economies where the urban population will rise at the quickest rate between 2018 and 2050, accounting for more than 35% of the total increase.

The second challenge stems from climate change, which is made worse by cities. Cities use 78% of the world's energy and generate more than 60% of the greenhouse gas emissions, according to UN Habitat. Power plants, buildings, and transportation all play a significant role in the creation and usage of infrastructure. A further factor that makes metropolitan areas particularly vulnerable to the anticipated rise in sea levels is that 90% of them are located along the coastlines. Cities in developing nations are especially at risk because they frequently feature rapidly growing informal settlements lacking in basic infrastructure and services, exposing their residents to the worst effects of a changing climate, such as extreme weather events and flooding.

This has caused a change in organizational procedures and practices such that environmental protection is now on the agenda of board meetings.

## 4.1 Green Building

Adopting Green Building Rating Systems (GBRSs) or Indian Green Building Council (IGBC) Rating System are some of the widely recognized methods for incorporating environmentally friendly, low-impact, green measures into the built environment sector. They offer a clear framework for the integration of green practices and effect evaluation. The Green Rating as well as Leadership in Energy and Environmental Design, also known as LEED (created by GBRS) serve as tools for implementation and for their performance evaluation.

**Partnership Between IFC and Absa to Increase Financing for Green Buildings in South Africa:**

As of July 2023, IFC will support Absa's aim to grow its green building finance portfolio by offering a loan of up to 4.5 billion South African rand (about $236 million), which will include new certified green buildings and mortgages.

## 4.2 Circular economy and infrastructure: Circular Infrastructure

Circular Infrastructure is required to advance the decarbonization agenda. More than 79% of the world's greenhouse emissions are caused by infrastructure, which also uses 60% of the resources available. When it comes to the transition to sustainability and decarbonization, infrastructure is crucial. Circular infrastructure:

- Supports activities related to the circular economy (such as enabling waste reuse, recycling, or recovery); and/or
- Reduces the quantity of material used throughout the lifecycle or value chain of the infrastructure.

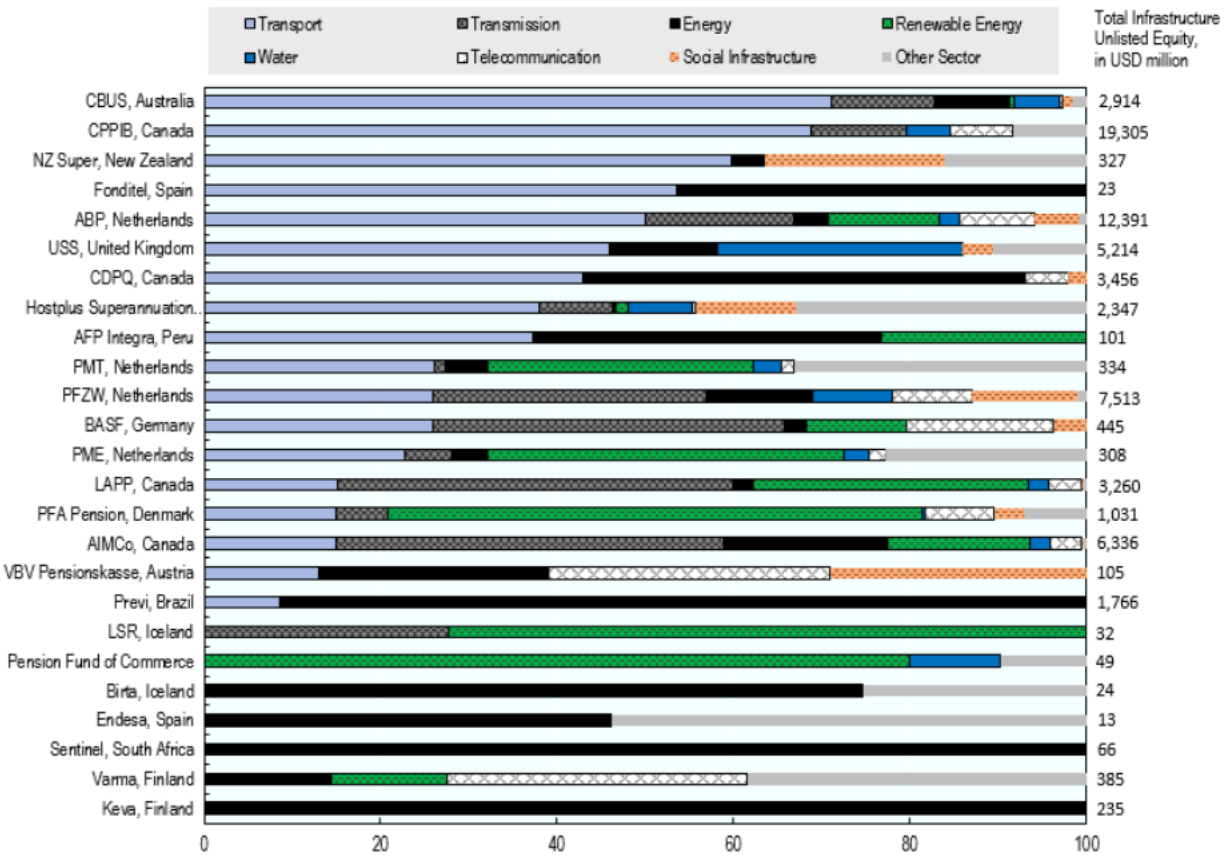
**1 Billion Dollars Invested by US Companies in Circular Infrastructure Company:**

Global Corporations and Brookfield Renewable invested over $1 billion in Circular Services, the provider of circular economy infrastructure and the operating company of Closed Loop Partners. In the US, Circular Services is a pioneer in the development of infrastructure for the circular economy and recycling. Microsoft, Nestlé, PepsiCo, SK Group, Starbucks, and Unilever are joining Brookfield to invest in developing circular economy infrastructure and services, according to a March 2023 announcement from Closed Loop Partners.

## 4.3 Infrastructure Equity Investments

Based on responses to the 2019 Organization for Economic Co-operation and Development (OECD) Survey of Large Pension Funds or LPFs and Public Pension Reserve Funds or PPRFs, the OECD had done estimations with respect to infrastructure equity investment. Energy was the greatest component among funds that reported allocations to unlisted infrastructure equities portfolios, with the average fund investing of 26.5%, followed by transport with an average investment of 25.4%, and renewable energy with an average investment of 15.7%. Although most funds were diversified, the survey's findings demonstrate that pension funds' investments in various sectors range substantially. According to the data, pension funds make considerable investments in renewable energy.

The graph that follows shows the proportion of all unlisted infrastructure equity investment:



# 5 Latest ESG Transactions in the EMEA and UK Regions

## 5.1 ESG Transactions in Africa

ESG Transaction 1 | ESG Transaction 2 | ESG Transaction 3

### Bezos Earth Fund Announces $22.8 Million for Locally Led Restoration in Africa

- The Bezos Earth Fund, led by Andrew Steer, is allocating $22.8 million to support the restoration of two key African regions: the Greater Rift Valley in Kenya and the Lake Kivu and Busizi River Basin in the Democratic Republic of Congo, Rwanda, and Burundi.
- The funding is presented at the Africa Climate Summit, with Her Excellency Mrs. Rachel Ruto, First Lady of Kenya, and Her Excellency Pastor Dr. Dorcas Bigatti, Second Lady of Kenya, emphasizing the pivotal role of restoration in empowering vulnerable populations and improving landscapes and livelihoods.
- This funding contributes to the Earth Fund's global commitment of $1 billion for landscape restoration and complements previous grants of $42.2 million to boost Africa's restoration initiative, AFR100.
- The grants are intended to restore 600,000 hectares of degraded land in the Greater Rift Valley and Lake Kivu and Rusizi River Basin, helping sequester 42 million metric tons of carbon dioxide equivalent by 2050.
- The grants will offer technical support to community groups, organizational development for African restoration entities, improved value chains for restoration products and services, enhanced supply of high-quality tree seeds, and the monitoring of land cover changes and restoration impacts.
- These locally led restoration efforts are vital for long-term success, delivering climate and biodiversity benefits and economic prosperity.

ESG Transaction 1 | ESG Transaction 2 | ESG Transaction 3

### Kenya's Safaricom Secures $103M Loan for Sustainable Projects

- Safaricom, a Kenyan telecommunications firm, has secured a $102.95 million loan from a consortium of domestic banks, including Standard Chartered Bank Kenya, Stanbic Bank, ABSA Bank Kenya, and KCB Bank.
- The funds will be directed towards environmentally sustainable initiatives, including renewable energy, energy efficiency, and water conservation.
- The loan marks a significant step for Safaricom's sustainability goals and supports their commitment to becoming carbon neutral by 2030.
- Safaricom's ambitious environmental targets aim to reduce its carbon footprint and contribute to addressing climate change.
- This loan demonstrates confidence in Safaricom's sustainability efforts and will assist them in investing in renewable energy and other sustainable projects.

ESG Transaction 1 | ESG Transaction 2 | ESG Transaction 3

### IFC Loans Morocco's OCP $106 Million to Build Two Solar Power Plants

- OCP, Morocco's state-owned phosphates and fertiliser producer, has secured a €100 million ($106 million) loan from the International Finance Corporation (IFC) to construct two solar power plants.
- These plants, with a combined capacity of 400 megawatts and storage of up to 100 megawatt-hours, are aimed at increasing the production of low-carbon fertilizers.
- The IFC's loan builds upon a prior €100 million loan granted to OCP for the construction of four solar plants with a capacity of 202 megawatts.
- OCP has outlined a significant investment plan worth $13 billion to rely entirely on renewable energies for its fertiliser production by 2027.
- In addition, OCP intends to invest $7 billion in an ammonia plant fueled by green hydrogen produced from renewable sources, further showcasing their commitment to sustainability and responsible practices.

## 5.2 ESG Transactions in the Middle East

**ESG Transaction 1** | **ESG Transaction 2**

### OPEC Fund Provides US$10 Million to Support Food Security in Egypt

- The OPEC Fund for International Development (the OPEC Fund) is contributing US$10 million to a syndicated trade finance facility valued at US$200 million, in collaboration with the International Islamic Trade Finance Corporation (ITFC), to bolster food security in Egypt.
- This facility aims to streamline the import of essential food and agricultural commodities. Egypt, as the world's largest wheat importer, relies significantly on global trade for essential goods like grains, vegetable oil, and animal proteins to meet domestic demands.
- In light of the global impact of the Ukraine conflict and rising commodity and food prices, Egypt has emphasized securing grain supplies and ensuring food security as a top priority.
- The OPEC Fund Director-General, Abdulhamid Alkhalifa, expressed the organization's commitment to addressing food security challenges through its participation in this critical trade finance facility.
- Egypt has adopted a comprehensive food security strategy that combines domestic production support with import diversification and sustainable agricultural practices enhancement.
- The OPEC Fund's contribution aligns with Egypt's approach to ensuring food security, the Zero Hunger Sustainable Development Goal, and the OPEC Fund's own US$1 billion Food Security Action Plan.

**ESG Transaction 1** | **ESG Transaction 2**

### Abu Dhabi's Mubadala Hires Banks to Present Green Finance Framework

- Abu Dhabi sovereign wealth fund Mubadala Investment Company, through its unit Mamoura Diversified Global Holding, has engaged the services of Abu Dhabi Commercial Bank, First Abu Dhabi Bank, HSBC, and ING to organize investor meetings.
- These meetings are set to introduce Mubadala's newly established Green Finance Framework to potential investors.
- Scheduled from October 4 to October 6, the investor meetings aim to present the green finance framework, signaling Mubadala's commitment to environmentally responsible finance and sustainable investments.

## 5.3 ESG Transactions in Europe

**ESG Transaction 1** | **ESG Transaction 2**

### UK's Severn Trent to Raise £1 Billion to Fund River Cleanup

- British water company Severn Trent is launching a £1 billion equity increase to support its investment drive aimed at reducing untreated sewage release into rivers and mitigating pipeline leaks.
- Concerns about the performance of UK water companies have arisen, with criticism from customers and the government about their debt accumulation and the profits of shareholders and executives at the expense of the environment.
- Severn Trent plans to spend £12.9 billion over the next five years, ending in 2030, an initiative expected to generate 7,000 jobs.
- The company is also focused on reducing spills and pollution, emphasizing its commitment to a sustainable future, healthier rivers, job creation, fewer leaks, and climate change and population growth resilience.
- The company predicts a rise of approximately 37% in the average annual household bill to £518 by 2029/30.
- Aging infrastructure improvement, preparation for population growth, and the impact of climate change necessitate substantial investments by the UK's water companies.
- Several other water companies, including Thames Water, Southern Water, and Yorkshire Water, have recently raised funds from shareholders.
- Severn Trent's equity increase, including raising £500 million from Qatar's sovereign wealth fund, is expected to constitute around 19% of the company's issued share capital.
- Qatar currently stands as the third-largest shareholder in Severn Trent with a 4.6% stake.
- Analysts at JP Morgan indicated the announcement might negatively influence estimates for rivals United Utilities and Pennon. The market is expected to foresee equity increases from them due to investment needs.

**ESG Transaction 1** | **ESG Transaction 2**

### EU Approves "World's First" Green Bond Standards

- European Union lawmakers have endorsed novel standards for "green" bond issuers, intended to assist investors in identifying environmentally responsible companies and prevent misleading claims.
- The European Parliament's vote in favor of this voluntary "European Green Bond" label is considered the world's first of its kind.
- Europe leads global green bond issuance, accounting for over 50% in 2021, even though it constitutes only 3% to 3.5% of the total bond market.
- Companies desiring a "green" label for their bonds in the EU must reveal how bond proceeds will be utilized.
- A minimum of 85% of funds raised must be allocated to activities consistent with the EU's "taxonomy" of sustainable endeavors.
- Firms are also required to demonstrate how these investments support their transition to a net-zero carbon emissions economy.
- The new standards introduce a registration system and supervisory framework for external reviewers of European green bonds.
- EU member states, who jointly govern these standards, approved them earlier in the year.

# 6 Current Trends in ESG and Sustainable Finance

In the upcoming year, significant ESG and Sustainable Finance trends are set to shape the decision-making landscape for businesses and investors, highlighting the movement towards a more sustainable and responsible approach.

**Embracing Data-Driven ESG Strategies:**

The use of data-driven strategies is on the rise as companies and investors aim to evaluate and manage their ESG performance. Throughout 2023, this trend is expected to persist, underlining the pivotal role of data in decision-making across various industries. Key drivers of this trend include the pressing need for more accurate and reliable ESG data, technological advancements that simplify the collection and analysis of ESG data, mounting stakeholder and regulatory pressures, and the potential for enhancing ESG performance and risk management through data driven ESG approaches.

**Rising Impact Investing Momentum:**

Impact investing, which involves investments in businesses, nonprofits, and funds to achieve measurable social or environmental impacts, has gained prominence in response to the heightened awareness of pressing global environmental and social issues. The year 2023 is anticipated to witness a strong push for impact investing across various industries and asset classes. This trend is driven by four main factors: (1) the increasing demand for ethical and sustainable investment options, (2) a better understanding of global social and environmental challenges, (3) increasing availability of impact investment options, and (4) the potential for achieving substantial financial gains.

**A Holistic Approach to Achieving Net-Zero:**

The complex challenge of decarbonization, as governments and businesses commit to achieving net-zero emissions, calls for a holistic approach. This strategy involves considering the social, economic, and environmental consequences of initiatives aimed at reducing emissions, from production to end-of-life disposal. The multifaceted components of this trend encompass switching to renewable energy sources, decarbonizing supply chains, implementing carbon trading and pricing mechanisms, promoting the principles of a circular economy, and investing in carbon removal technologies.

**Global Regulatory Focus on Sustainable Finance:**

Regulators worldwide are directing their attention to Sustainable Finance. New reporting mandates are being introduced to enhance sustainability and transparency in corporate reporting. This includes a notable emphasis on ESG reporting structures like the EU's Taxonomy Regulation Framework, Non-Financial Reporting Directive (NFRD), Corporate Sustainable Reporting Directive (CSRD) and Sustainable Finance Disclosure Regulation (SFDR).

**Dynamic Climate Strategies in Developed Economies:**

Companies, particularly in developed economies, are adapting to dynamic climate strategies. These strategies aim to balance energy security while aligning with new laws that incentivize decarbonization. Notably, shareholder and investor-funded energy generation projects are expected to play a pivotal role in this transition.

**Investments in Adaptation and Resilience:**

The increasing occurrence of natural disasters, particularly in developing nations, due to climate change necessitates dedicated finance for adaptation and resilience. Innovative financial instruments such as debt-for-climate swaps, concessional loans, equity, and grants will be instrumental in supporting resilience projects.

The landscape of both Sustainable Finance and ESG trends is at a crucial juncture, with robust trends shaping responsible and impactful investment decisions. These trends underscore the increasing significance of ESG criteria, emphasizing the collective push towards more sustainable and responsible approaches across industries. As industry leaders set the standards in both Sustainable Finance and ESG adoption, the widespread recognition of ESG practices is expected to gain prominence, ultimately advancing the cause of Sustainable Finance, global prosperity, and a resilient global ecosystem. Companies and investors must adapt to these emerging ESG trends and collaborate with experienced ESG consultants to navigate opportunities and risks effectively in our journey towards a more sustainable future.

# 7 Navigating the Future of Sustainable Finance and ESG

## 7.1 Expanding Diverse Investment Strategies and Talent

**Increasing Interest in Diverse ESG Themes:**

Investors should prepare for growing interest in ESG themes beyond climate action. These encompass issues related to nature and biodiversity. Transition finance aids companies in achieving net-zero status. Inclusive finance extends financial support to underrepresented people and communities. Social issues are expected to gain prominence in investor agendas, covering a range of concerns, from privacy and ethical implications of artificial intelligence to issues related to health, gender, LGBTQ+ rights, access to affordable housing, humanitarian assistance, and education. This expanded focus signifies a broader commitment to ESG principles across various domains.

**Growing Demand for Minerals and Metals:**

As the demand for renewable energy surges and electric vehicle production accelerates, there's an impending surge in the demand for minerals and metals, including copper, lithium, nickel, cobalt, graphite, zinc, and rare earth metals. Electric vehicles require a significantly higher volume of mineral resources compared to conventional vehicles. Estimates project a two-to-fifty-fold increase in demand for these minerals by 2040, emphasizing the importance of investments in mining exploration and production. Ensuring that these resources are mined sustainably, and adhering to appropriate environmental and social standards, it is imperative to mitigate adverse impacts on the environment and local communities.

**The Call for Sustainability-Focused Talent**

The evolution of ESG and Sustainable Finance is propelling a rising demand for professionals with sustainability-focused expertise. This demand has already seen a notable 17% increase in sustainability-related hires between 2021 and 2022 in the US and EU. The talent gap remains a challenge, with some companies offering premium salaries for individuals possessing ESG and sustainability skills.

## 7.2 Embracing Diverse ESG Themes and Collaborative Action

**Broadening the Scope of Sustainable Investment:**

In the coming decade, sustainable investment opportunities are not confined to public markets. They are poised to expand into other domains, such as private equity. The younger generation of retail investors tend to prefer investing in ethical and sustainable brands. This results in a growing emphasis on sustainability, thus motivating private equity investors to seek opportunities with sustainable brands and ethical investment options. This expansion also aligns with the overarching trend of Sustainable Finance which focuses on ESG integration into the financial decision-making process. Additionally, companies are exploring avenues to enhance their efficiency in energy use and materials while contemplating potential acquisitions of sustainability-oriented businesses. This in turn contributes to both Sustainable Finance and impact investing, aiming to generate positive social and environmental impacts.

**Collaborative Action Towards Sustainability**

As we embark on the journey towards a more sustainable and inclusive global economy in the next decade, one thing is clear: it won't be an easy path. All stakeholders, including investors, companies, and governments, must collaborate to find appropriate ways to finance the transition. This will require considering the complex interdependencies of numerous environmental and social issues. It's a collective effort to make the world more sustainable and economically sound.

## 7.3 Conclusion

In conclusion, the future of Sustainable Finance and ESG is brimming with transformative potential. Investors, companies, and governments will need to embrace diversity in sustainable investment strategies, adapt to net-zero imperatives, navigate an evolving landscape of regulations, and address the pressing issues of our time. The journey towards a more sustainable future promises both challenges and opportunities, but with concerted effort, the financial world can steer toward a greener, more inclusive, and more resilient future.

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