BECEPTUM

BUSINESS ENGINEERING
BEYOND INCEPTION

MONITORING ESG

Trends for 2023

2023/16

» As new sustainability disclosure standards come into effect around the globe, stakeholders will have to grapple with the complexity and potential challenges regarding alignment of these initiatives. The increasing risk of environmental, social and governance (ESG)-related litigation, including over sustainability disclosure, will be another challenge for companies and investors to navigate.«

S&P Global Link

ESG TRENDS 2023

ESG Trends to expect for 2023

ESG (Environmental, Social and Governance) investing is expected to continue its growth in 2023 as investors increasingly consider sustainability factors in their investment decisions.

Based on what we saw in 2022 and some current developments – in addition to the macroeconomic trends that will certainly impact the world of ESG – we have compiled a list of seven ESG trend predictions for the year 2023:

1. Changing governance,
2. Responses to regulation,
3. Innovations in the supply chain,
4. Work life,
5. Turning points,
6. New frontiers in measurement and transparency,
7. New investments.

These predictions can have an influence in particular on these seven different sectors: Climate, Governance, Workforce, Investment, Regulation, Biodiversity and Supply chain.

Governance changes

Investors voted more frequently against corporate climate strategies in 2022 compared to the previous year, particularly when a company's emissions trajectory did not align with global temperature targets. While most investors approved management-sponsored climate plans, the average proportion of votes against them increased from 3.1% in 2021 to 9.6% in 2022. The opposition to corporate climate strategies in 2023 may continue to grow, or investors may give companies the benefit of the doubt in challenging market conditions. The boards that focus on environmental or sustainability issues and include directors with climate experience could help firms align with global temperature targets and address climate transition risks. U.K.-listed companies with better governance practices tended to achieve higher carbon-emissions reduction compared to historic levels and industry peers. These changes will have an impact on sectors such as Governance, Climate and Workforce.

Defining moments

Although the supply of green bonds has only decreased by 1% in the first half of 2022 compared to the second half of 2021, the green bond market has experienced rapid growth in recent years. However, there are worries that the sector may be losing popularity due to rising interest rates, declining spread premiums, and growing concerns about greenwashing. One out of every five green bonds does not satisfy the Bloomberg MSCI Green Bond Index requirements, which may result in lower returns and an impression of dubious practices. The worldwide transition to clean energy has also been disrupted as a result of the economic sanctions against Russia, with some countries turning to the importation of coal and gas rather than investing in green energy. With all these developments areas as Climate, Investment and Regulation will be approached and transformed in 2023.

Changes in work culture

Strikes, layoffs, reduced compensation, and inflationary constraints all caused disruptions in the rail sector in 2022. Low employee survey frequency recorded by train firms raises the possibility that attempts to track employee morale may be falling short. Since there are many unions in the sector, finding better methods to keep an eye on employee satisfaction could help resolve the growing unhappiness. In order to handle these problems, train firms need to improve communication with their workforce. The number of labor strikes may continue to rise in 2023. Additionally, air pollution poses a serious threat to the environment's health. Companies that produce little pollution may experience problems keeping qualified employees in polluted areas or with employee health as a result. These incidents have a big impact on the Workforce and Climate goals.

Adaptations to regulation

The evolving legal environment is a challenge for ESG-focused funds. For ESG funds and climate goals, uniform and similar reporting standards are required. Other significant market authorities are following the EU's Sustainable Finance Disclosure Regulation (SFDR), which is setting the standard for transparent reporting standards for ESG funds. Investors face a challenge as a result of the rise of disjointed regional standards for ESG-fund classifications because they need comparable, reliable information to make choices. The growing number of governments around the globe that demand financial institutions perform climate-risk stress assessments is another factor driving this trend. To comply with legal requirements, banks must measure the vulnerability of their balance sheets to climate-related risks. Climate-risk data and modeling capabilities are essential for this.

The challenge of this trend is the increase of regulatory pressure on companies without consistent and comparable reporting standards. Which will be playing into the sectors of Regulation, Investment and Climate.

ESG TRENDS 2023

New capabilities in measurement and transparency

Estimating and reporting greenhouse gas (GHG) emissions related to bank lending is becoming increasingly important because it is essential for assessing the risk of a climate shift. Although banks in emerging markets like China may be some of the biggest financiers of new emissions globally, banks in established markets have begun to partly disclose GHG emissions linked with their lending books. All interested parties might benefit from more thorough bank-provided feedback in order to have a better understanding of the ensuing risk exposure and financed climate change efforts.

The Partnership for Carbon Accounting Financials (PCAF) and the Net-Zero Insurance Alliance (NZIA) have teamed up to create the first worldwide standard for tracking emissions related to the insurance industry (IAEs). The ultimate recommendations were published in November 2022.

Emerging investment opportunities

Lab-grown products like diamonds, cotton, leather, and fur are drawing notice as possible game-changers for businesses under fire for their effects on the environment and human rights. Furthermore, the steel business is dedicated to achieving net-zero or carbon neutrality by 2050 or sooner, despite technological and fiscal challenges. In addition, investors are adding industrial assets to their portfolios, the COVID-19 e-commerce boom has brought industrial real estate into focus. For this purpose, new measuring tools and green construction initiatives tailored specifically for the industrial sector, along with financial rewards for renewable energy and brownfield redevelopment, could help raise awareness of the advantages of green accreditation in this market.

Effective adaptation tactics might include risk-transfer plans, natural remedies, and institutional measures. A measure of the strictness and effectiveness of climate measures might be carbon-credit funds.

All of these new realities are impacting areas such as the Supply chain, Climate and Investment.

Innovations within the supply chain

The trends in 2023 also include new innovations in the supply chain such as “Mining old electronics to fuel new energy tech”. In addition, “GMO regulatory resistance may be softening” and the development of alternative sources of sustainable fiber such as lab-grown cotton and recycled post-consumer textile waste can be changing cross-sectoral fields as Regulation, Climate, Biodiversity and Supply chain.

There are some pilot projects trying to make the supply chain more transparent and traceable with blockchains. If they deliver new insights, this could lead in the future to a major transformation of supply chain management.

What will you be watching in 2023?

As indicated by the ESG trend predictions for 2023 regulation is increasingly important in the EU and APAC markets, with requirements for financial institutions to conduct climate stress tests, deforestation-free market-access rules, investors getting ahead of potentially mandatory requirements, and supply chain issues affecting everyday lives.

ESG and climate factors are becoming increasingly important due to increased regulation, transparency, and standards. Understanding them is key to assessing their potential impact on investment portfolios.

The above-mentioned trends identify the financial aspects of environmental and social risks and how the company board should address them, as well as how to manage and disclose accurate data to meet regulatory reporting requirements, as well as the demands of investors and society. These trends include the risk presented by global warming and the shift to a net-zero economy.

Sources:

2023 – MSCI Report	Link
2023 – boldergroup	Link
8. February 2023 – knowesg	Link

Our lighthouse ESG offering headed by our MD: Capital market driven ESG Assessment

Marc Zinkel regularly performs ESG assessments with a particular focus on financing/ refinancing, incl. taxonomy, regulatory and rating scenarios, maturity assessment and ESG target picture as well as measures roadmap.
Contact Marc

Our very own expert for Sustainability and Climate Risk (SCR®)

Our Program Manager Julia Grote is a certified Financial Risk Manager (FRM®), expert for Sustainability and Climate Risk (SCR®).
Contact Julia

Contact

Szabina Altsach
Senior Manager & Head of Office Berlin

szabina.altsach@beceptum.com

Mirjam Vogl
Project Manager

mirjam.vogl@beceptum.com

Zoe Solari-Wasmuht
Business Analyst

zoe.wasmuht@beceptum.com

Imprint

Beceptum International GmbH

Office Berlin
Krausnickstr. 16
10115 Berlin, Germany

Office Munich
Trautenwolfstr. 5
80802 Munich, Germany

W www.beceptum.com
E info@beceptum.com