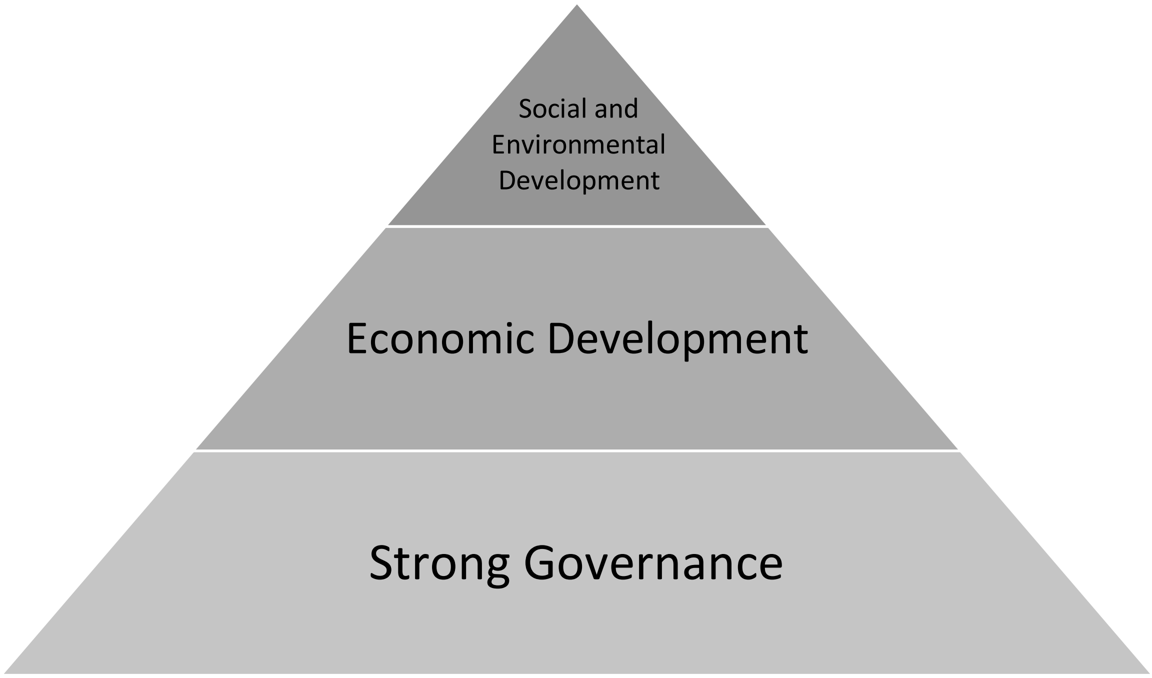
Transitioning from ESG to Sustainable Development

The time has come to accelerate the transition from the mere use of ESG terminology towards the creation of an actual sustainable development plan. ESG has become a buzzword within the financial industry, and whilst this has helped to place the spotlight on the issues and challenges around this enormous subject there is plenty of evidence that many firms continue to see it as a marketing tool, so undermining the very mission it sets out to achieve. The lack of clarity, subjectivity and consistency of the metrics and measurements of different rating and data providers has created an arbitrage where greenwashing can flourish. The lack of standardisation amongst providers is leading to confusion amongst investors and obfuscation by some companies who pick and choose how they want to report and operate. As a result of this behaviour, at Haven Green we have sought to address this challenge by focusing on Sustainable Development, adopting the use of our proprietary TASC (Triple A Sustainable Change) process in order to assess our partner managers on a standardised scale.

'So, what is the difference between ESG and Sustainable Development?' we hear you ask. Put simply, the definition of sustainability is "the ability to be maintained at a certain rate or level." Addressing the issues and metrics ESG highlights with this mindset leads to a shift in perspective from ESG to looking at ESE (Economic Development, Social Development and Environmental Protection). We believe that looking at Sustainable Development through the ESE lens significantly enhances the ability to identify a rate of growth that can be sustained over time and lead to a genuine long-term impact.

This pyramid represents the ESE Hierarchy:



Governance stands at the base of ESE because when it forms the foundation that creates accountability and helps to maintain a focus on the impact and development targets set out. Employing good governance drives success amongst the ESE hierarchy as it develops an inherent trust that the product/ project is of high quality and is expected to make a significant financial return along with creating a strong sustainable positive impact on the issues outlined in the investment philosophy.

Economic Development should aim to develop the economy on a local level and in turn developing the global economy, allowing projects and investments to become competitive for the long run, rather than having a shorter-term lifecycle that can result in some initiatives shutting after an initial start-up period. Impact as a result of Economic Development can help to improve long-term returns of an investment, which is a critical characteristic as the duration of the return profile will undoubtedly change over time. Renewable infrastructure is a very good example of this, when developing a project, one expects the early years to be less remunerative while the long-term returns become repeatable and consistent, but failure to adopt this mindset as an asset owner will slow down the required transition which in turn risks compounding the scale and frequency of negative climatic events.

Social development is essential to create a sustainable community from all aspects, and hence must not come at the expense of the local environment, but rather it should be used to grow initiatives and demonstrate how to prevent damage to the environment.

In summary, how do you identify your goals and measure your ongoing alignment with them? Adopting specific goals, such as those laid out in the United Nations Sustainable Development Goals 2030, helps to design and construct a clear and concise approach as to how to achieve them. Alignment is a key step in articulating the Sustainable Development targets and how these contribute to value to achieving the investment objectives.

Making this transition from ESG to ESE will create a Sustained Impact from each of the aspects of ESE, allowing for financial returns on top of the many positive benefits for the economy, society and environment that can be maintained, measured, and allow for more sustainable projects to prosper.

This paper will be the first of a series of thought leadership pieces diving into Sustainable Development and how it can be integrated into the financial industry to create genuine, long-term sustainable impact alongside compelling financial returns.