

THOUGHT
LEADERSHIP



ESG Policy at a Glance

How ESG Collective can support your ESG needs: We develop individualized ESG policies and strategies for public, private, and development sector clients. We also specialize in stand-alone social and environmental policies, strategy, research, and initiative creation.

ESG Collective works with clients to identify key policy priorities for their organizational or governmental mandate(s). We create actionable policies, strategies, and implementation plans that can support and guide operations for individual organizations, government, and public sector clients. We work with an international network of experts to map, benchmark, and localize recommendations along with making social and environmental policy, regulation, and legislation recommendations. This includes developing new policy, conducting gap analysis, and drawing on emerging global practice.

ESG Collective identifies the **Environmental, Social and Governance** (ESG) opportunities that transcend conventional financial ESG. We support clients in setting institutional purpose through policy and strategy to **protect the planet, serve people** and ideally also improve **profits**. By drawing on a range of practices, initiatives, and social trends, we can address today's pressing environmental and social challenges in a more collective, sustainable, and measurable way.



The Pillars of ESG

The three pillars of ESG are built upon the standards of the socially responsible investing movement and are expanded to encompass social and governance issues. As ESG models began to demonstrate their efficacy in the financial sector, there was increasing interest in applying the frameworks, as outlined below, broadly across public, private, and development sectors.



Environmental

The environmental pillar of ESG covers how organizations can reduce carbon footprints, minimize harm, and improve local and global environments. Environmentally focused ESG initiatives can promote the use of renewable and energy-efficient products, foster sustainable resource use, reduce waste, increase sustainability and efficiency of logistics, protect biodiversity, and promote green investing. Given the increasing severity of the climate crisis, environmentally focused programs are essential to an organization's purpose, public standing, and economic security. Policy based around the environmental pillar can:

- ▶ Motivate entities to meet or exceed standards on net zero emissions, circularity, waste reduction, climate resilience, and green investing
- ▶ Define common environmental regulation standards for national, business and consumer practices
- ▶ Incentivize and enforce environmental protections
- ▶ Support innovations and environmental education across entire regions or industries
- ▶ Strengthen existing policy, reporting, and regulatory standards by drawing on comparable benchmarks and emerging practices worldwide
- ▶ Steer organizations through compliance, best practices, and cutting-edge commitments



Social

The social pillar of ESG addresses a wide range of issues relating to community and individual wellbeing. At present, the social aspects of ESG are less explicitly defined compared to the other pillars, and it offer expansive possibilities for program and policy development (read our [POV](#)). Social initiatives within an organization can encompass internal operations as well as broader social impacts.

Internally, social projects tend to focus on how an organization can promote positive, safe, and inclusive work environments. These types of ESG projects increase employee satisfaction and attract and create access for diverse workforces. Externally, social initiatives can range from participating in community volunteering to promoting human rights and ethical practices. External programs promote a positive public image, create meaningful change, and increase consumer/stakeholder loyalty. At the highest levels, externally focused ESG projects also play a role in shaping social and labor practices.

These initiatives, and their efficacy, strongly impact how an organization is perceived in terms of its commitments to social development and values. In some geographies, how businesses operate influences governmental practice. In other places, social policies are developed through governmental systems and cascaded to provide entities guidance and regulation. Effectively engaging with socially focused ESG projects can:

- ▶ Inform effective policy for social sector programs
- ▶ Drive public discourse on key social themes and subsequent legislative and best practices around labor and equity
- ▶ Increase equity, diversity, and representation within an organization
- ▶ Develop positive relationships with communities
- ▶ Build trust among teams and improve workplace culture

Some examples of socially focused ESG initiatives include:

- ▶ Employee development programs
- ▶ Pay parity and anti-discrimination policies
- ▶ Projects to ensure worker safety
- ▶ Proactively monitoring consumer safety
- ▶ Assessing healthcare benefits and access to care
- ▶ Evaluating supply chains to ensure proper environmental and labor conditions
- ▶ Developing public health initiatives
- ▶ Reviewing zoning laws and housing policy
- ▶ Youth outreach programs
- ▶ Mentorship and labor market inclusion



Governance

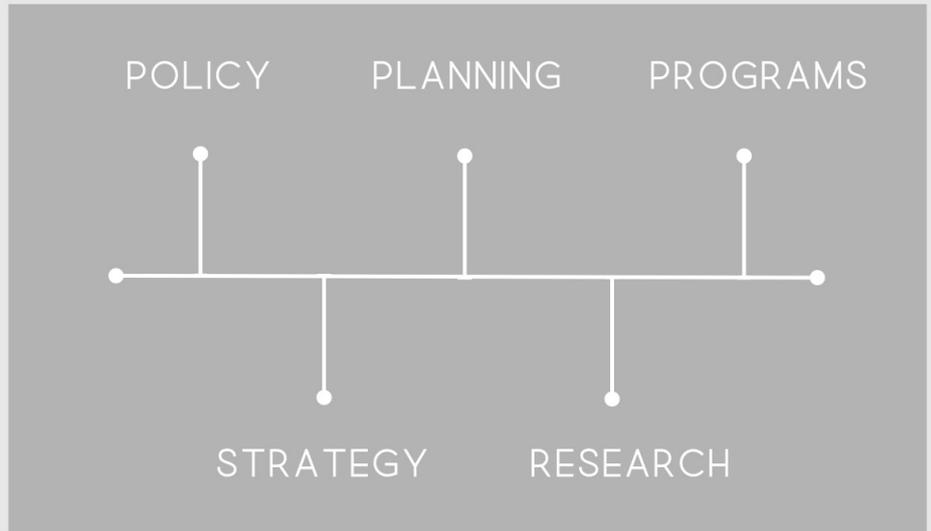
Governance initiatives address existing and developing governance structures to ensure accountability, effective data collection, and clear reporting on ESG factors. Priorities within the governance pillar focus around:

- ▶ Ensuring ethical practices
- ▶ Employing ESG conscious -investing to increase financial security
- ▶ Articulating measurable commitments positive change
- ▶ Transparent and ethical reporting

Traditional governance projects address:

- ▶ Increasing diverse representation in positions of organizational power
- ▶ Defining executive compensation policy
- ▶ Developing programs for stakeholder input
- ▶ Clarifying internal policies for decision making, compliance, and reporting on ESG commitments.

While governance-based projects have often been geared towards corporate structures, the principles are equally valuable in the public and development sectors. Across all sectors, governance programs can provide increased returns on investments, organizational stability, transparency, and foster increases in public approval.



ESG Matters

Traditionally, ESG has been associated with financial regulation. Conventional ESG assessments help investors avoid companies that might pose a greater financial risk due to their environmental or social practices and reputation. Today, ESG is evolving to evaluate how organizations commit, report, and deliver on select environmental and social factors. ESG frameworks are increasingly being recognized for their vast potential to act as a positive guiding force across public, private, and development sectors.

Through policy guidance, shared target setting, and joint efforts across sectors, ESG initiatives can be powerful vehicles for positive change. Programs can, and should, be tailored to the specific sector, industry, and region of operation. Currently, ESG principles can be guided by legislation, regulation, and reporting requirements and be more individualized at an organizational level. In addition, ESG in the Middle East and other parts of Asia stands to play a critical role in helping drive governments' national strategies and environmental and social targets including the Kingdom of Saudi Arabia's Vision 2030, and the United Arab Emirates and Singapore's national ambitions.

Increasingly, citizens and consumers are interested in companies and organizations that project strong social and environmental values. This means well-articulated, sincere, and actionable policies that demonstrate realistic and meaningful progress across key E, S and G aspects. ESG should be considered as a framework to expand on the existing efforts for implementing change, building shared targets, and evaluating their efficacy.



Emerging ESG practices

While conventional ESG practices are largely based on investment management and financial reporting, the field has rapidly expanded to inform all sectors at every level of management. The tools offered by ESG, applied correctly, are powerful drivers of positive change in any context. In the public sector, ESG factors are increasingly required to be considered in policy proposals and legislation. In the private sector, ESG initiatives are being used to inform governance systems, improve organization's public image, and create positive work environments that attract talent. In the development sector, ESG frameworks provide effective data collection, insight, and reporting tools to increase access to funding, improve program efficacy, and measure impact.

Globally, ESG trends are informed by consumer demand and, increasingly, public policy. In the US, UK and France, for example, government policy requires ESG reporting in the investment sphere. In GCC countries, ESG is based on both consumer demand and elements featured into the country's vision. Alternatively, in countries such as the Netherlands, increased ESG integration is a result of domestic consumer demand. Because ESG can be put into practice at different scales and through different methods, its tools can be effectively applied in any context.



GOVERNMENT
& PUBLIC SECTOR

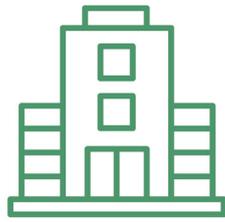
What ESG looks like across sectors

Public Sector

Government and public sector entities have the power to guide environmental, social and development priorities at the highest level. ESG frameworks, when applied to public sector environmental and social programs, can reveal how the pillars of ESG interact within a given issue. This insight allows public actors to develop innovative solutions that increase the public benefit of a project or policy. ESG opportunities in the public sector include:

- ▶ Guiding policy
- ▶ Direction setting
- ▶ Regulation and mandates
- ▶ Internal governance
- ▶ Reporting standards
- ▶ Running programming
- ▶ Data collection and dissemination

Public sector programs can drive widespread industry change through regulation and provide a model for how programs could operate in other sectors. Sustainability and resilience programs that focus on green energy, infrastructure, waste management, and public planning can offer increased climate security in a region. This in turn creates an appealing environment for businesses that can strengthen the economy and generate employment. Internally, governmental entities benefit from internal ESG standards and strategy that support operational excellence.



PRIVATE SECTOR
& STARTUPS

What ESG looks like across sectors

Private Sector

Since the private sector can move quickly and efficiently, private sector ESG programs can be remarkably effective. Within companies, the benefits of ESG programs will be realized sooner. Private sector initiatives confer widespread advantages:

- ▶ By implementing strong ESG practices at every level, businesses can drive change in their industries and communities and meet stakeholder demand.
- ▶ Internally, employees at companies with a strong ESG program report higher job satisfaction and motivation. These same companies are better able to attract talent and many potential employees are willing to accept lower compensation to be affiliated with a prosocial organization.
- ▶ Environmental programs that focus on increasing efficiency and decreasing waste can lower their production costs and environmental impact which increases profits and consumer interest in their products.
- ▶ At the financial level, companies can work with ESG investment portfolios which tend to offer higher returns on investment and lower risk.
- ▶ ESG programs can allow a business to access tax exemptions, subsidies, and government funding in certain geographies.
- ▶ Corporations with strong ESG programs, particularly in the governance pillar, see improved credit ratings and can access capital at lower costs in certain countries.



DEVELOPMENT
& NON-PROFITS

What ESG looks like across sectors

Development Sector

ESG programs (sometimes referred to by different terms) foster an intersectional approach to any project. By accounting for the environmental, social, and governance elements involved in an initiative, programs will be more impactful and less likely to overlook key components in project implementation. A well-articulated ESG framework can be a powerful tool in development work:

- ▶ An ESG conscious mission is appealing to donors, attracts new investors, and increases access to public funding.
- ▶ The benchmarking, data collection, and reporting tools of ESG can help organizations assess program efficacy and increase their credibility within the sector.
- ▶ ESG can also inform investment decisions for endowments. ESG-conscious portfolios offer higher returns on investment and less risk thus increasing available project funding.

Challenges in ESG programs

ESG frameworks can be incredibly powerful tools promoting positive social change. While these tools provide an important opportunity, they also present serious risks. In order to maximize the positive impacts of an ESG initiative it is essential that programs are relevant, data driven, and transparently reported. Key risks include:

Knowledge

- ▶ Lack of knowledge, data, and guidance on ESG overall, the relevant regulation, what aspects an organization should include, and how it can deliver most effectively
- ▶ Knowledge on how to embed ESG activity into current practices and operations without disrupting the organization
- ▶ Access or information on the stakeholders, advisors, and technical experts necessary to support and validate ESG policy and delivery

Sincerity

- ▶ Consumers are sensitive to tactics such as greenwashing and will move away from organizations they perceive as not committed to real change or offsetting harm by focusing on positive impact in another area.
- ▶ If an ESG initiative is out of step with an organization's policies and practices, it can project an image of hypocrisy. This perception can negatively impact public approval.
- ▶ To mitigate these risks, ESG programs must have effective, transparent mechanisms for reporting progress and should focus on issues specific to their organizational purpose, industry, region, or consumer base.

Cost

- ▶ While some ESG decisions can improve cost efficiency and result in increased profits, the investment in developing ESG policies and strategies and implementing reform is an added cost. This can result in organizations either delaying or looking to only meet the minimum standards around ESG.



Challenges in ESG programs

Saliency

- ▶ The challenges of saliency are particularly evident in the social pillar of ESG.
- ▶ Because public conversations about social issues can develop and recede quickly, social initiatives must be especially nimble for an organization to appear “in step” with the times but not disingenuous or fickle.
- ▶ Rapid changes in prominence of social issues make it difficult to collect the data needed to gain long term insights into the efficacy of a socially based ESG initiative.



Transparency

- ▶ Transparency in ESG initiatives is essential if an organization wants to appear sincere and relevant.
- ▶ Transparent reporting on ESG initiatives will allow a group to demonstrate progress and will also reveal areas for further improvement.
- ▶ Developing a careful strategy for transparent reporting that accurately describes the current situation on the ground while engendering public good will is essential when implementing an ESG program within an organization.

Data Collection

- ▶ ESG frameworks have quickly expanded in the scope of their application. As a result, it is a challenge to collect the data that is essential to developing ESG initiatives.
- ▶ Much of the available data for an initiative may be insufficient or too general to inform project priorities and assess their efficacy.
- ▶ This risk can be addressed through basing new projects on areas where data and benchmarks are available, and by implementing a long-term ESG strategy that starts with an extensive and organized data collection process.

PRIORITIES

Challenges in ESG programs

Reporting

- ▶ Standards for reporting ESG outcomes vary widely between industries and countries. This can make it difficult to establish benchmarks and compare outcomes across a specific focus area.
- ▶ Because ESG is a rapidly evolving field, governmental and industry standard reporting requirements are subject to change.
- ▶ A well-defined reporting strategy, combined with a commitment to data collection and transparency can position an organization as “ahead of the curve” and provide a template for industry standards and government regulation within the field.

Regulation

- ▶ Regulatory standards vary widely between industries and regions. As ESG frameworks become more prominent, these standards will evolve.
- ▶ ESG regulation is still nascent with inconsistent application and definition, particularly across the environmental and social pillars.
- ▶ Early action to develop a strong, data driven ESG program within an organization will ensure that an entity is well prepared to meet future regulatory standards.

**WORKING
TOGETHER**



Email: olivia@esg-collective.com

LinkedIn: [ESG Collective Consulting](#)

Website: www.esg-collective.com