ESG4.0 - Complex Converging Systemic Risk in an autocratic world

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I have no compunction in saying that my young and vibrant Geneva-based United Nations Environment Programme Finance Initiative (UNEP FI) team of the early 2000s was renegade, off reservation, and worked on the unusual UN basis of asking for "forgiveness not permission." In short, we flew below the radar of the normal UN system and that's why we got things done, ultimately and unimaginably, given our wafer-thin resources, to influence the financial system and the, for now, all-powerful institutions which populate it.

Amongst other work, we created ESG in 2004, commissioned the 2005 Freshfields Report challenging the investment status quo, delivered the UN Principles for Responsible Investment (UNPRI) in 2006, and trained thousands of bankers in what would become ESG. Essentially, as a guerrilla operation, we pulled off a "sleight of hand" that still resonates in the global financial system today.

Is ESG perfect? Absolutely not. Is ESG equivalent to sustainability? Absolutely not. Is the UNPRI a magic game-changer? Absolutely not.

Collectively, however, these developments create a powerful signal to the investment chain from end beneficiaries (the pensioners depending on asset owners) through to investee corporations across public and private markets and all the complex intermediaries in between.

The signal?

The nature of risk is changing, metastasizing, morphing, converging in a manner that undermines the investment world's previous risk calculations and opens investment and commercial opportunities through the new markets needed to address critically needed change in the global

political economy. At The Blended Capital Group we have called the changing nature of risk Complex Converging Systemic Risks (CCSR) for close to a decade.

Credit Rating Agencies (CRAs), at times increasingly controversial, are pivotal in the global financial system in terms of providing risk signals to both corporates, investors and financial institutions. Why are the large, mainstream, as well as the growing band of nascent specialist CRAs, finding ESG and CCSR so challenging?

A view from the edge of space: we are in the eye of the gathering storm - striving to transition from 250 years of extractive capitalism to a, yet, elusive regenerative model. There should be no surprise that a critical signalling function provided by CRAs, deeply embedded in present-day globalised, financialized, seemingly, seamless markets is so challenging with great change gathering speed.

There's no guarantee we will make it to a re-booted, regenerative model of capitalism as systemic risk becomes manifest through fires, drought, floods, ecosystems destruction and deep inequality worldwide. There's good and bad, some say very bad, news unfolding. The good news is that a changing global zeitgeist means communities worldwide, from the wealthiest (LA fires) to the most vulnerable, poverty-stricken ones (farmers in the Sahel), are "feeling change and demanding change." The time for sustainable development is upon us although the hurdles, political, economic, social and technical, are formidable against an unforgiving planetary clock.

The bad, yes very bad, news is that sustainability, climate, ESG, and inequality in all its forms, has become deeply politicized in recent years. Now, with Trump II, that politicization is on steroids. The purpose of this paper is not to analyse the political context, notably the rise of the right and a global network of autocratic brotherhood, in which sustainability risk is simply fake for the USA, the world's most powerful administration. However, we must acknowledge at the outset that the race to the right and the rollback of democratic norms is part of CCSR. An ESG lens views Trump's **"Drill baby, drill…"** approach as a material financial risk with fiduciary implications not just because of climate change but also in terms of the geo-political instability and the global macro-economic challenges it throws up.

Twenty-one years after it was coined, how did ESG come to sit in a maelstrom of fierce political jousting in the USA, and other countries, as to whether it represented a Woke Capitalist brake on free markets and business dynamism or legitimate thinking on new risk-reward dynamics underpinning capitalism? This is a complex tale I can only touch upon here.

In an utterly tabloid sense, I believe we are just coming out of the Klondike Gold Rush phase of ESG (2017-2023) where the spade sellers, rope brokers, bar owners, brothel owners, and coffin makers were coining money out of the acronym rather than the true sustainability and impact miners themselves – those investors, entrepreneurs, and smart communities delivering value. If the Gold Rush metaphor holds, my sense is that, despite the autocratic headwinds, authenticity and actual

ESG delivery will dominate the next decade. From rating agencies, through private equity investors and on to large asset owners, the embedding of ESG thinking into prudential oversight bodies and into both regional and national capital market disciplines will drive authenticity. The acronym may change - this does not really matter – but the risk and rewards of a new political economy in formation will remain. Illusory if viewed through a Trumpian lens? Possibly but I do not think so: it will take some time for the rest of the G7/G20 and OECD to settle to Trump's transactional ways, attack on democracy and the rule of law, but those countries still with democratic ligaments will not stay in stasis for long.

This short paper is an update on a foreword I drafted for a book by Daniel Cash in 2023. His timely book pivots around the importance of Signalling Theory to the nascent and evolving field of ESG ratings. From the humblest of beginnings, ESG could be framed as "hit or miss" signalling theory to the complex global investment chain. In 2004, we had zero idea where ESG would end up, but we were determined to change the investment conversation so that evolving systemic risks – climate, ecosystems destruction, extreme global inequality, social injustice – were seen as material and relevant to fiduciary duty, as well as investment policy and investment decision-making.

Nor was ESG just about risk: from the outset our thinking was that if you understand new, evolving, converging risks well, then the investment and business worlds would have a better understanding of the multi-trillion-dollar sustainability markets emerging from clean energy, through regenerative agriculture and on to resilient infrastructure and so much more besides. ESG was and always has been both sides of the risk-reward coin.

The ESG conception and delivery story is worthy of a feature film as a small, forward-looking group of asset managers, supported by an under-resourced team of UN officials, consultants and interns, tipped their cap at global finance and investment and said "OK – let's change the conversation." I believe we succeeded.

From November 2000 on in UNEP FI, the seed of an idea germinated and that stemmed from a belief that no matter how noble and well-intentioned ethical investing, socially responsible investment and corporate social responsibility were, they would never mobilize the $ multi-trillions to materially impact the broad sustainability agenda. This complex agenda, linking development, economics and environment, emerged after the 1972 UN Stockholm Conference on Human Development and was then formally christened as sustainable development by the 1987 UN Brundtland Commission, named after the true force of nature, Gro Harlem Brundtland, a former Norwegian Prime Minister. Sustainable Development remains a fast-evolving agenda, perhaps poorly understood by the broader population, with complex converging systemic risks (CCSR) on one side and the prospect of new industries underpinning a shift to regenerative capitalism on the reward side.

To gain traction the UNEP FI team needed to use the thinking, language, and creativity of mainstream investment and finance to even start the conversation with an often impenetrable community. Our fundamental question was why is responsible investment financially material and aligned with evolving fiduciary duty in a changing, complex world?

As we moved into 2002-2003, my UNEP FI core team's thinking – Yuki Yasui, Ken Maguire, Gordon Haggart, James Gifford, Jacob Malthouse, Trevor Bowden, and Philip Walker - settled on the fact that the vision, goals and objectives of the UN itself were strongly aligned with those of the largest, long-term asset owners, the pensions funds, insurance reserves and sovereign funds. In short, those elements at the very heart of the UN mission, security, development, environment, and humanitarian response, defined what long-term asset owners with a duty to protect, and ideally grow, capital for their beneficiaries needed. If the world is "going to hell in a hand basket" it's hard for markets to work and for investors to make that mid to long-term return to protect pools of retirement capital and insurance reserves.

There were three anchoring elements that were needed to allow ESG and then the PRI to take flight in the mid 2000s and they included:

- In 2002-3, UNEP FI persuaded some of the world's largest asset managers to provide free, investment analyst quality research, exploring how Occupational Health Safety & Environment (OHSE) issues affected equity pricing across multiple business and industry sectors. To our surprise, just by asking as the UN, we received at UNEP FI 1100 pages of research from multiple asset managers. By May 2004, OHSE had morphed into ESG in a development described below.
- In 2004-5, we initiated a discussion with the late and great Professor Paul Q. Watchman and his team at Magic Circle legal firm Freshfields Bruckhaus Deringer exploring ESG in the context of fiduciary law in the nine major capital markets. By October 2005, this yielded a 150-page legal interpretation, known universally as The Freshfield's Report, which became a critical anchor providing legal legitimacy for the financial materiality and fiduciary relevance of ESG issues in the world's largest capital markets.
- At the time, Watchman and I postulated that Freshfield's was like "rolling a metaphorical hand grenade" into those who held onto the investment belief and status quo in terms of fiduciary duty being premised purely on profit maximisation. The intense debate continues today and in recent years has simply been closed down in the USA. The UK Law Commission validated Watchman's interpretation in 2011.
- Through 2005-6, working with the UN Global Compact, we engaged with United Nations Secretary General (UNSG) Kofi Annan's team which resulted in the magisterial diplomat launching the UNPRI as he opened the US capital markets on April 27, 2006, in the iconic Opening Bell Ceremony at the New York Stock Exchange. On that day, 53 institutional investors, representing $4 trillion in assets, signed the six principles and 39 advocated

actions making up the UN PRI. The institutions backing the PRI in 2025 are 100 times that and the assets have multiplied by more than 30 times.

In short, by 2005 we had the investment research, the solid legal basis, and in 2006 we had the glorious theatre of a UNSG opening the US capital markets, to launch a novel collaborative partnership that 17 years on is backed by more than 5500 institutional investors representing some $121 trillion in assets. At the simplest level, that $121 trillion is the signal to the markets that ESG is relevant, material, timely, and a powerful lens with which to view risk and reward in a changing, challenging, complex world.

From all the work towards ESG and the PRI, two footnotes of colour continue to resonate with me from a dynamic period some 20 years ago.

It was May 2004 in my fifth floor UN office in Environment House, Geneva, and it was decision time. Five of us knocked backwards and forwards whether the "acronym" should be GES, SGE, GSE, or whatever combination of those three letters which might work. Governance – the G – is obviously key as a company or investor gets that wrong and the environmental and social elements will never settle effectively in the organization. The discussion roamed backwards and forwards that day. It was a robust conversation amongst the core team which had relentlessly driven forward for two years, with barely any resources, the project to link materiality, fiduciary duty and the evolving concept of responsible investment.

My instincts as a UK tabloid journalist from the 1980s kicked in: start with Governance and you lose people out of the gate, too technocratic, too elitist; Environment is sexier, touchable, more directly meaningful for a broader range of people and some embryonic metrics were already evolving; and Social is by far and wide the most difficult for investors and business to deal with, Critically, Social – the S - is most likely to be flicked off the end of any acronym by Milton Friedmanesque lobbyists. The S needed ultimate protection.

So, place E upfront, weld S in the middle and the all-important G to anchor and lock everything in. ESG was born. A personal reason, not often voiced but true, nevertheless, is that my two young sons were then at the Geneva English School (GES) where I was on the Board, so GES could not be considered no matter how obvious it was. So, there was no science behind the final coining of ESG but rather journalistic instinct of how important the ordering of words and the sound created are. ESG as easy as 1,2,3 or A,B,C.

Perhaps the most important foundation stone in the evolution of ESG and the UNPRI was set in place on 7 July, 2005. Following up on immaculate work by the UNEP FI team, I had flown to London from Geneva on the earliest morning flight to meet for the first time with the late and great Professor Paul Q. Watchman, an academic and corporate lawyer of great vision based on a profound sense of social and environmental justice, joined by London-based team member Trevor Bowden.

As we sat, early morning, in Paul's Fleet Street office at law firm Freshfields Bruckhaus Deringer, discussing what would become his defining legal interpretation of ESG and fiduciary law in the nine major capital markets, unbeknownst to us was that as we spoke, tragically 56 people were to lose their lives on that day or subsequently as four suicide bombers desecrated the city. This was a day never to be forgotten for all the very worst of reasons. Paul Watchman's lifetime of work will never be forgotten for all the right reasons as we strive to transform 250 years of extractive capitalism into a regenerative model yielding the sustainable world this great man believed in.

So, where does almost 21 years of ESG and 19 years for the UNPRI leave us?

I have argued that ESG is at its most effective when deployed by investment institutions, companies, and public agencies, at four levels highlighted below. At TBCG we call this ESG4.0 and deploying this approach will help unlock both greater resilience and more hidden sustainability value.

1. Systemic (understanding how Converging Complex Systemic Risks impact your sector/organization);
2. Strategic (how you compare and position on ESG with peers in your broad sector); and
3. Operational (how you assess, prioritize, and enact ESG house cleaning to avoid greenwashing and actually "walk the talk").
4. Executive (whether your institution's board vision for benefiting from sustainability, ESG as a tool, and CCSR thinking, is aligned with the entire team. Do you have aligned purpose throughout the organization?).

Now, that four-layered approach drives benefit as it builds a culture influencing organizational resilience and receptiveness to change and recognising new investment and commercial opportunities in a volatile, changing, uncertain world are, essentially, the purpose of ESG. It's about culture change for organisations based on refreshed, forward-looking governance exploring the future world we are moving into not the navel gazing retrospective approach examining the risk data sets that defined the 20th Century.

So, let's have a look at some of the systemic challenges such a deep ESG assessment would reveal for investors, companies and public agencies serious about sustainability impact to reduce risk while delivering positive impact coupled with return on critical global goals.

Significant changes are needed for the delivery of a fair and affordable transition to sustainability in the 21st Century. At current rates, the UN's 17 Sustainable Development Goals (SDGs) scheduled as a serious framework for delivery between 2016-2030 will not be delivered until 2082[1]. Post Covid-19 some predict SDG delivery will shift to the early 2090s, perhaps 2100. The annual gap for financing required to deliver the goals has jumped from $2.5 trillion (pre-Covid 19) to $3.7 trillion[2]. The risk of

[1] Social Progress Imperative, "2020 Social Progress Index," Social Progress Imperative, Washington DC,

[2] OECD (2020), Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet, OECD Publishing, Paris, https://dx.doi. org/10.1787/e3c30a9aen

not addressing sustainable development issues is an enormous constraint on economic development, which could threaten system stability, and have profoundly negative consequences for governments, communities, businesses, and investors.

The sustainability financing challenge accelerated after the global Covid-19 Pandemic exposed the depth of inequality with socio-economic dislocation for the most vulnerable communities. The links between key drivers of social deprivation with those of environmental destruction[3] have been further highlighted notably in the 46 least developed countries (LDCs) as well as within deep pockets of poverty, which are often located in communities dependent on agricultural value chains. The Financing for Development Initiative (FfDI) is an important multilateral policy response which recognised the Pandemic exacerbated challenges and advocates for early action to safeguard against the most extreme impacts on those left furthest behind.

Concerns about climate change and how these manifest challenges may translate in policy terms to environmental restrictions to trade unduly impacting the most vulnerable communities in the Least Developed Countries (LDCs) and middle- income economies are growing. In this regard, there is growing attention on how countries, notably LDCs, can protect the inherent, financial, and nutritional value, embedded in their territorial supply chains for the benefit of vulnerable communities[4].

Efforts to align investments with climate goals and social good have been building for a decade but took off in 2018 with a range of predictions. In February 2025, despite the unfolding political developments and a fierce ESG backlash in the USA, **Bloomberg Intelligence** suggested ESG funds would reach $30 trillion by 2030. Now, this is a back slide on earlier predictions but hints at ESG and responsible investment resilience. According to data from Morningstar, assets in sustainable funds grew 53 per cent year-on-year to $2.74tn in 2021.[5]

ESG-linked debt issuance more than tripled in 2021 to $190 billion. Sustainability-related equity fund flows also rose to $25 billion, bringing total assets under management to nearly $150 billion. In 2023, ESG investments made up almost 18 percent of foreign financing for emerging markets excluding China, quadruple the average for recent years.[6] The period of deepening ESG “political contention” (2022-25) have seen the speed and growth of ESG uptake by the investment community drop off while it remains a critical nascent block of deepening capital as Bloomberg’s 2025 assessment confirms. $30 trillion still has the power to make the investment world sit up and think.

[3] https://www.un.org/sustainabledevelopment/blog/2016/05/rate-of-environmental-damage-increasing-across-planet-but-still-time-to-reverse-worst-impacts/
[4] https://www.nepad.org/event/un-food-systems-summit-territorial-governance-sustainable-food-systems
[5] https://on.ft.com/3Jv24KT
[6] https://blogs.imf.org/2022/03/01/sustainable-finance-in-emerging-markets-is-enjoying-rapid-growth-but-may-bring-risks/

However, there is great disparity across our global capital markets in terms of their depth, liquidity, and the flow of investment into those markets outside a very concentrated set of OECD countries, principally those with just 10% of the total number of exchanges control 80% of assets in exchanges. Unpeeling the statistics further reveals both the opportunities and challenges for effective flows of finance to deliver the SDGs to countries outside of the developed economies of the G7/G20. Before the COVID-19 pandemic, the annual SDG finance gap reached $2.5 trillion.

The pandemic widened the gap to between $3.7 to $4.2 trillion annually, as estimates show that developing countries witnessed a $700 billion drop in external private finance along with a gap of $1 trillion in public spending on COVID-19 recovery measures compared to advanced economies. The Pandemic exposed the fragility of our global system to profound shocks with the severest impacts falling on the most vulnerable communities. With world gross product falling by 4.3 % in 2020 it was estimated that upward of 120 million people fell into extreme poverty with an additional 270 million people facing acute food shortages by the year's end[7]. These developments saw significant backsliding in SDG1 (No Poverty) and SDG2 (Zero Hunger).

While the dual climate-biodiversity crisis has captured global policy attention, the renewed focus on social challenges catalysed by the Initiative on Financing for Development in the Era of Covid-19 and Beyond (FfDI), has captured the severity of financial impacts on communities worldwide and the urgent need for debt relief triggered by the Pandemic. It also started to reframe our understanding of converging systemic risks with clear strengthening of links between climate, ecosystems stress, and both social and economic dislocation.

In today's financialized global economy, markets are the principal means through which financial systems allocate capital. The building blocks of our current global market system, which have spurred rapid development for some while leaving many communities behind, need re-engineering to deliver positive impact at a global scale, contribute to the foundations for a regenerative political economy and reflect rapidly changing contexts. The change can be captured in some overarching trends such as the demographics megatrend where the global population is set to reach 10.9 billion by 2100 while the demographics are shifting towards aging.[8]

In addition to demographic trends, the labour market is also seeing rising levels of automation which could be directed to have net positive impact. The climate crisis will also have economic and social impacts on forced migration and strains on food global value chains. Another trend is the increasing poverty and income inequality within and between countries which was exacerbated by the pandemic. The right wing and autocratic preference for "othering" and demonising migrants and migration will intensify the CCSR that our changing demographics in a time of climate change, food security stress, and heightened conflict, will bring,

[7] https://www.un.org/zh/node/81536
[8] https://www.un.org/development/desa/en/news/population/world-population-prospects-2019.html

As our goals and the challenges facing the global community are interconnected, the time has come to fully integrate the SDGs into the global financial system to effectively deliver country level sustainability benefits. The SDGs offer an holistic approach to development that considers the interdependence of human and natural systems. The integrated development system established by the UN SDGs would require adjusting incentives and penalties for the markets and ensure adequate supervision and compliance are essential to fully integrate the SDGs.

To open a flow of finance for sustainable development, the world needs supportive investment platforms based on the financial systemisation of the SDG framework, speeding optimised allocation of capital to sustainability, thereby maximising the delivery of the goals and rewarding key stakeholders. Equally, the need at country level to enhance capacity and expertise, as well as supportive policy environments, to create investable ecosystems yielding bankable sustainable investment projects is fundamental. Despite global politics turning against collaboration and partnership, in favour of division and a transactional geopolitics, the threats do not disappear, they simply intensify.

The diverse global business community and the supply and value chains which interconnect the largest firms with the smallest, needs access to a standardized and systemized sustainable financial system anchored by the SDGs. Incompleteness and inconsistency in sustainability-related disclosures pose a major challenge to market fairness, efficiency, transparency and integrity. Without the requisite information, firms may be unable to verify that they are pursuing genuinely sustainable investment strategies. They may also be unable to demonstrate to consumers the sustainability-related characteristics of their products and performance against their stated objectives. Securities regulators and capital market authorities' objectives include protecting investors, maintaining fair, efficient and transparent markets and seeking to address systemic risks, as well as supporting market integrity by requiring transparency and disclosure of information that is material to investment decisions.

However, frequently, sustainability reporting is not integrated into issuers' periodic reporting structure but is instead treated as a separate and often siloed reporting activity within companies. In the US under Trump II, the powerful **Securities and Exchange Commission (SEC)**, has moved quickly in 2025 to roll back a range of sustainability – notably climate – reporting and disclosure requirements. However, in a contrarian move in February 2025 financial powerhouse J.P. Morgan published a briefing confirming climate financial materiality and focusing the market on the widening gap between US government action and the science-backed risk signals.

A United Nations report[9] from 2011 noted that: "fundamental aspects of international accounting systems and capital market disciplines, as well as our understanding of fiduciary responsibility in investment policymaking and investment decision-making, will need to evolve to fully integrate a

[9] United Nations Environment Program, Towards a Green Economy, UNEP 2011, https://sustainabledevelopment.un.org/content/documents/126GER_synthesis_en.pdf

broader range of environmental, social and governance (ESG) factors than takes place at present. Without these changes, the pricing signals and incentives that would support the transition to a green economy will remain weak." Increasingly, global investors[10], including the largest asset owners which are considered as universal investors[11], are aligning with the sentiments in the decade old UN paper and the most recent J.P. Morgan climate materiality paper. Evolving standards and regulatory changes underway at global, regional, and national levels, mean investors are obligated to understand, report on, and disclose better the impacts and consequences of their allocations to the real economy, as well as the societal and environmental context which supports these allocations.

Decades of research demonstrate that sustainability thinking at all levels of governance can catalyse the flow of finance at scale while helping to manage and mitigate negative policy trade-offs across the developmental, economic, and environmental aspects of our evolving political economies. The July 2015 Addis Ababa Action Agenda created "a strong foundation to support the implementation of the UN's 2030 Agenda for Sustainable Development[12]" by aligning financing flows and policies with economic, social, and environmental priorities. Research in 2021 highlighted that "environment-human linkages affect the outcome of the vast majority of SDGs[13]."

Accelerating the alignment of investment and management decision-making across the policymaking, capital markets and business worlds with deep sustainability thinking focused on positive global impact will be transformational. The ability to catalyse clean global financial flows, while de-risking and freeing pools of domestic capital in the developing and least developed economies, will empower the implementation of the SDGs[14]. Well-resourced and targeted sustainability action will translate into localisation and delivery of the SDGs for each country worldwide in a manner that will define the success of the 2030 Agenda[15]. The world's largest multinational corporations are often the subject of intense focus with respect to sustainability and impact. However, the critical sustainability role of Micro, Small and Medium-Sized Enterprises (MSME), making up 90% of all firms and accounting, on average, for 70% of total employment and 50% of gross domestic product (GDP)[16], cannot be overestimated.

The 2016 UNSDGs continue to provide a blueprint to understand the opportunities associated with the emergence of new industries, businesses, and new methods of financing a sustainable economy. The SDGs create a pathway for a new sustainability supporting approaches to government and broader public sector procurement practises, as well as targeted policy interventions to incentivise and accelerate the uptake of sustainable finance and responsible investment approaches

[10] See United Nations supported Principles for Responsible Investment, www.unpri.org
[11] United Nations supported Principles for Responsible Investment, Macro risks: Universal ownership, 13 October 2017, https://www.unpri.org/sustainable-development-goals/the-sdgs-are-an-unavoidable-consideration-for-universal-owners/306.article
[12] Ibid.
[13] "Towards understanding interactions between sustainable development goals: the role of environment-human linkages," 1 April, 2020, https://link.springer.com/article/10.1007/s11625-020-00799-6
[14] See United Nations Development Programme, SDGs in Action, https://www.undp.org/sustainable-development-goals
[15] See United Nations, Department of Economic and Social Affairs, Sustainable Development, Transforming our world: the 2030 Agenda for Sustainable Development, https://sdgs.un.org/2030agenda
[16] https://www.un.org/en/observances/micro-small-medium-businesses-day

by mainstream investment and business. As the Business Commission on Sustainable Development argues “Contributing to and achieving the SDGs offer a compelling growth strategy for businesses and the world economy as a whole”[17]. If the SDGs were pursued in “food and agriculture, cities, energy and materials, and health and well-being”[18] alone it could increase the global economy by 26%[19] unlocking a $12 trillion annual business opportunity. The potential and scaling of sustainability aligned fixed income products, at the sovereign, municipal and corporate levels, will play an increasingly important role in financing a just transition as illustrated by the exponential growth of the global climate bond markets[20] in recent years.

The challenges to ensure flows of clean capital at scale and a rapid transformation in the market and corporate decision-making are manifold and exacerbated by Trump II and other right leaning governments, regimes and autocracies. These challenges, in part, stem from a global financial system which is clearly sub-optimal for true sustainability and undermines the evidence-based scientific boundaries for planetary and societal health, which are increasingly coming into a sharper focus. We know that increased capital or finance alone will not automatically yield a positive global impact, nor address the consequences of unfettered development through growth at any cost. There remains a wide gap between the current system’s focus on financial materiality and the true needs of sustainability where public interest materiality would benefit from an equal footing. There needs to be a much clearer and more readily understood common global narrative for the concept of double materiality[21].

It is crucial for the global financial system to address a cascading torrent of complex converging systemic risks (CCSR), covering manmade and natural systems, while also “achieving sustainable growth, environmental protection and poverty reduction[22].” The UN SDGs help us understand the complex, interconnected, and accelerating nature of converging global systemic risks, including but not limited to climate volatility, ecosystem destruction, social dislocation, food insecurity, conflict, and inequality, which deepens environmental and societal fragility. Consequences are always felt most directly at the local level in an already unfolding disturbing dystopian tapestry impacting the marginalized and those left furthest behind. Critical sustainability questions, in part answered by the G20 Sustainable Finance Roadmap (SFR), should continue to be addressed with coordinated responses by international organisations working with national agencies on a prioritised basis.

Strong indicators across governments, markets, industrial and business sectors, as well as within the investment and financial communities, suggest positive sustainability change has never been more conceivable. There is a need to see a refinement of accounting, reporting and disclosure

[17] “Better Business Better World” report by the Business Commission on Sustainable Development’s (BCSD)
[18] Business and Sustainable Development Commission, http://businesscommission.org/
[19] Council on Financial Relations, https://www.cfr.org/womens-participation-in-global-economy/
[20] https://www.climatebonds.net/2021/08/climate-bonds-updates-2021-green-forecast-half-trillion-latest-h1-figures-signal-new-surge
[21] https://www.lse.ac.uk/granthaminstitute/news/double-materiality-what-is-it-and-why-does-it-matter/
[22] Achieving Sustainable Growth, Wealth Creation and Poverty Reduction, presentation to the UN Secretary General’s High Level Panel on Sustainability by Rt Hon Gordon Brown MP, Sunday 18th September 2011

mechanisms to adjust incentives to more directly align with sustainability to drive change in financing, investment, businesses, and capital markets, as well as better re-engineering of other public and private practices to embed regenerative characteristics. The utilization of decision-relevant information and the data governance architecture facilitating effective use will be important in this transition.

Therefore, to deliver the SDGs it is critical to connect data sources across the system (including administrative data) and at different levels of the international system. Aggregation of data to understand system wide effects, with governments being able to include private sector contributions, will enhance understanding and decision-making. At the same time, the challenges around effective disaggregation of data to ensure an adequate focus on the last mile and the needs of the most vulnerable communities is required to identify gaps in SDG delivery.

There is a need for a balance between a systemic shift through cohesive global action while accelerating national adoption to ensure that the financial system, in the mid to long-term, can support a form of sustainable growth which respects environmental and societal boundaries. Let's assume the USA are out of play for at least four years and perhaps decades – we just do not know. The great unspoken risk to the USA is that the hope and potential of the Inflation Reduction Act (IRA), which was triggering a rush to an industrial scale green energy transition at a national level, has been replaced by an ossified Trumpian belief in 19-20th century energy systems. The USA, for once, will be going backwards as the other major powers European Union, UK, China and others propel forward into the era of regenerative capitalism.

For greater sustainability-aligned public accountability, policymakers, regulators, and standard setters need to weave a robust, while transparent, thread between both public and private internal management accounting and decision-making strategies with external reporting and disclosure. These three important disciplines of market and public interest, refocused and well calibrated for positive impact, will help achieve sustainable growth through improved/innovative collaboration, while creating a path to decision making aligned with sustainability as a norm in business and investment. It will also create a culture and marketplace where reporting and disclosure is normalised across countries.

An ESG lens applied at the systemic, sectoral, operational and executive level – TBCG calls it ESG4.0 - speeds an organisation, whether public, private, governmental or civil society, to the protection and resilience of a much deeper understanding of CCSR, as well as a forward-looking appreciation of new sustainability opportunities to unlock hidden treasure.

TBCG calls this more thorough understanding of risk-reward in a volatile era of change and uncertainty as ESG Inside. Such an approach will also open your organisation to the creation of Powerful Impact Partnerships to drive real change towards a future-fit world.