Sustainability Investments Are Not Trade-off, But Trade-on!

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"In a world of changing climate, climate risks affect macroeconomic and financial stability, and by that same token climate action creates opportunities for growth and employment" Kristalina Georgieva, Managing Director International Monetary Fund (IMF), at Annual Meetings of World Bank Group & IMF

Within all the global geopolitical tensions and significant transformations ongoing in all sections of life – be it business, social, political related; there is one significant issue that all responsible governments, international financial institutions and corporations keep emphasizing to draw the attention and utmost care of all parties; that is **"sustainability investment".** While global economy is showing signs of improvement, expected upturn remains weak among significant risks such as: **a)** political turmoil especially related to Russia & Ukraine and Israel & Gazza ongoing war status; **b)** economic volatility including global high inflation and high interest rates besides too high global debt level (having reached a record of $300 trillion, namely 350% leverage on gross domestic product as of end of 2022, as reported by S&P); **c)** climate change & sustainability; **d)** digital transformation & disruptive technologies; **e)** labor, skills shortages & demographic shifts; **f)** trade & globalization.

There is an ironic Chinese proverb: *"May you live in interesting times"*. It is for sure that we live interesting times, through which pace of development and change is faster than ever in world history. In an environment where social, economic and political issues dominate our agenda to this extent, we all try to put the effort not to miss these changes and transformations. When we look at the last 10 years of the business world, we see that the rules have changed and the playground has been reshaped. We are in a brand new "multi-dimensional" world dominated by a paradigm change.

Multiple poles, multiple competitors and multiple crises represent a world we are not used to. It is important to carefully read and analyze this paradigm shift in order to shape the future where opportunities and threats coexist. While struggling with destruction / disruption that manifests itself in almost in every field, institutions need to highlight their strengths by going into detailed discussions, on the transformation of the business world on different verticals, with experts from critical areas as leadership, technology & innovation, customer experience, human resources and **sustainability**.

Within this context, **almost all of major sovereign wealth funds and private equity funds, as well as corporations, make disclosures that they are deploying their capital as to incentivize sustainable and inclusive growth so that current and future generations prosper.** They also announce partnerships among each other as their joint core pillars of **impact investing strategies** and highlight their belief in the potential of impact investing to unlock capital that can help address critical social and environmental challenges especially in emerging markets. They all provide their substantial commitment to deepen their investments to environmental, social, governance (ESG) related projects and corporate responsibility so that, by partnering, they believe in accelerating overall impact investing consequences by sharing knowledge base to enhance their internal investing frameworks and to sharpen their focus on sustainability.

With all these prospective collaborative efforts, the vision of **"reimagining the future"** is to be enhanced to the benefit of the overall global ecosystem so that both private and public sector growths can be achieved by further accelerating financial inclusion across multiple populations and by demonstrating the attractiveness of investing in businesses that help solve large social problems. **By deepening commitments to ESG and corporate responsibility**, as well as building a shared knowledge base to enhance internal investing frameworks, the aim is the focus on sustainability and achieving the United Nations' mutually agreed standards.

Within the context of sustainability related responsibilities and investment requirements, financing is a crucial point in terms of availability and reasonable terms. As highlighted by OECD in its "Scaling up Green, Social, Sustainability and Sustainability-linked (GSSS) Bond Issuances in Developing Countries" report (2022)[1]; the need for risk mitigation strategies and addressing supply constraints, including recommendations for policy makers, are covered within the context of the potential to scale up the GSSS Bonds market by supporting issuances from sovereign and corporate issuers. **Innovative financing instruments for sustainable development are important contributions to bridge the financing gap.** Hence by giving priority to establishing the "green mindset", besides developing green technology and green financing related regulations, GSSS Bonds do represent the potential as a new asset class to gain traction and to fill in sustainability-related financing gap.

The funding support needed for private sector growth, especially in Africa and Asia, is also crucial for bridging the investment gap in healthcare in emerging markets and further to accelerate financial inclusion across multiple populations. Such funding is also critical to boost the competitiveness in related businesses and to demonstrate the attractiveness of investing in businesses that help solve large social problems. Within this context, I find it highly relevant to mention and attract special attention to Sustainable Investment Summit 2023, which was co-organized by TUYID and SustainFinance, that undertakes the coordination and contribution of all activities aiming to increase awareness, knowledge and practice on sustainability in our capital markets while also monitoring the issues related with sustainability index and sustainability platform. Within the panels of this Summit, "Sustainability Finance" panel speakers[2] underlined the sharp change in the financial landscape and challenging macroeconomic climate such that increasing focus on investments related to ESG factors is expected to lead to global ESG-focused assets size to reach at $34 trillion in 2026, making 21.5% of assets under management (PwC's Asset and Wealth Management Revolution 2022 report)[3].

2023 Annual Meetings of International Monetary Fund (IMF) & World Bank Group:

IMF & World Bank annual meetings were held in Marrakech, Morocco between October 9-15. World Bank new president Ajay Banga delivered a landmark address on the Bank's new vision and mission where his remark on "financing a different world" was to be underlined. He indicated that it is **the priority task to find a way to finance a different world where the climate is protected,** pandemics are manageable – *if not preventable* – food is abundant, and fragility and poverty are defeated so that the world is equipped for any perfect storm. That is why multilateral development banks work together to coordinate global action, catalyze change, and multiply impact with innovative plans to create a better life for our children and grandchildren in all corners of the globe.

It was also indicated all through the IMF meetings that **energy transition** is one of the hottest topics with its global effect on industry and businesses. Hence **having sustainable, affordable, and reliable energy** is critical; at this point role of M&A in transitioning businesses into energy efficiency is becoming increasingly important (*as mentioned by Marino Marchi, Managing Director In Italy and Co-Head Clairfield's Energy, Cleantech & Resources Group, in article "Expert insights: energy transition's long-term influence on M&A)*[4].

[1] https://www.oecd.org/dac/green-social-sustainability-and-sustainability-linked-bonds.pdf
[2] https://www.youtube.com/watch?v=jf4LsJbsUZI&t=2s
[3] https://www.pwc.com.tr/asset-and-wealth-management-revolution-2022-exponential-expectations-for-esg
[4] https://www.clairfield.com/wp-content/uploads/2023/10/Clairfield-expert-insights-on-energy-transitions-long-term-influence-on-MA.pdf

Marino highlights the major trends in energy (below chart) as consolidation in wind and photovoltaic sectors, Biogas biomethane growth, ESG-driven end-of-waste sector, digitalization of energy and infrastructure.

Megatrends in Global Economy:

In the report, by Fitch Solutions company BMI, "Towards 2050: Megatrends in Industry, Politics and The Global Economy 2023 Edition"; **Digital Transformation, Climate Change, Sustainability and ESG, Geopolitical Risk and Demographic Shifts** have been cited as the macroeconomic megatrends that will shape this century. These trends are such global forces that have significant effects on economies and societies and will continue to do so for the next few decades. It is further crucial to identify how these megatrends will become visible at industry levels and how the future of sectors, such as pharmaceuticals, energy, automotives and agribusiness, will be shaped. Industry-specific megatrends are critical to be identified and analyzed by industry leaders and senior decision-makers since such trends will have concrete impacts on businesses, societies. Hence related actions need to be taken for the following forces, which will most likely have highest impacts while approaching 2050:

- **Sustainability and ESG (SESG):** For most industries **SESG will drive the greatest change over the coming decades**, with rising social and governance factors influencing consumer and business decisions. Nature-related risks & opportunities need to be incorporated into strategic planning, risk management & asset allocation decisions. Reduced flow of ecosystems, services and various stakeholders' **increased inspection expose both businesses & banks to an increasing level of nature-related risks due to both their dependencies & impacts on nature.**

- **Climate Change Mitigation and Adaptation:** Efforts to mitigate and adapt to climate change, in particular the transition to a low carbon energy system, is one of top priorities of governments and business leaders.

Within this context, green hydrogen is a new revolution and needs strong commitment to further develop industrial renewable hydrogen ecosystem. Hydrogen is one of the most talked about technologies as a potential driver to decarbonize the energy system. Its end uses are multiple and include applications in the industrial, transport, heating and power sectors.

The development of hydrogen production capacity, storage and transportation markets will be important if large-scale, international hydrogen value-chains are to emerge. Recent regulations in the EU and developments in Turkey also create a stronger need for Turkish businesses to learn more about hydrogen energy in a pragmatic manner. Use of hydrogen in the context of decarbonization, the global hydrogen economy and the opportunities that exist in Turkey and emerging markets are to be closely monitored.

- **Digital Transformation and Disruptive Technologies:** BMI analysts deep dive into the advancements in technology that will disrupt industries (including those that are currently relatively emerging), shape economies, and be a force in geopolitics. Especially younger professionals of corporations are very much interested in using technology to transform the way they work. As example of huge investments by corporates within this perspective; KPMG has announced (*in July 2023*) the plan for 2 billion investments in Microsoft Cloud and AI services over next 5 years so that KPMG professionals will be able to access to generative AI tools and to organize their work schedules in a faster, more efficient way so that "digital for each and every one" can be achieved.

Taking into consideration several complex financial, legislative and regulatory changes that chief financial, legal and compliance officers as well as the CEOs themselves will be facing in the upcoming business environment, digital transformation and utilization of disruptive technologies is crucial. As indicated in "Activate Technology & Media Outlook 2024" report[5] about "Generative AI"; today, over 10mn U.S. adults begin their web search with generative AI and Activate expects this to grow to 90mn by 2027, while reshaping the largest technology businesses.

[5] https://www.activate.com/insights-archive/Activate-Technology-and-Media-Outlook-2024.pdf

Generative AI is claimed to be supercharging the productivity of consumers who use it across media, work, and other daily habits, bringing paradigm shifts across content creation, enterprise, and search.

- **Labour, Skills Shortages & Demographic Shifts**: The evolution of labour and skills shortages as a key megatrend has been accelerated post Covid-19. Ageing populations, shifting generational priorities, and increased social awareness will determine the skill and labour availability across industries to 2050. Digital transformation and innovation are two interdependent concepts that a company, in fact, should prioritize within its value chain and investment plans in order to improve both the collaborative productivity and also their company commitment by enabling further synergies and promoting communication among employees.

- **Trade and Globalisation:** Major shocks to global trade have prompted responses from companies and governments to increase resilience in their supply chains, creating permanent shifts in global trade patterns and the need to seek more strategic trade partnerships.

- **Political and Economic Volatility:** The scale of change expected in technology, climate, demographics and trade will create instability as economies and governments deal with an evolving global environment, with global and domestic political risks set to increase over the coming decades.