Botswana Pension Society

Integration of ESG factors for sustainable growth

Introduction : The case of ESG Integration

The world is undergoing significant changes driven by climate-related risks, social inequalities, and shifting expectations from stakeholders. Integrating ESG factors into investment decisions is not only a responsible approach but also a smart business strategy. Numerous studies have shown that companies with strong ESG performance tend to outperform their peers in terms of financial returns, lower volatility, and better risk management

Environmental	Social	Governance
• Climate change and carbon emissions • Air and water pollution • Deforestation • Energy efficiency • Waste management • Water scarcity • The circular economy	• Inequality • Diversity and inclusion • Labour relations and hiring practices • Investment in human capital • Community relations • Human rights • Consumer protection	• Board composition • Management structure • Bribery and corruption • Executive compensation • Political contributions • Whistle-blower schemes • Lobbying • Employee relations

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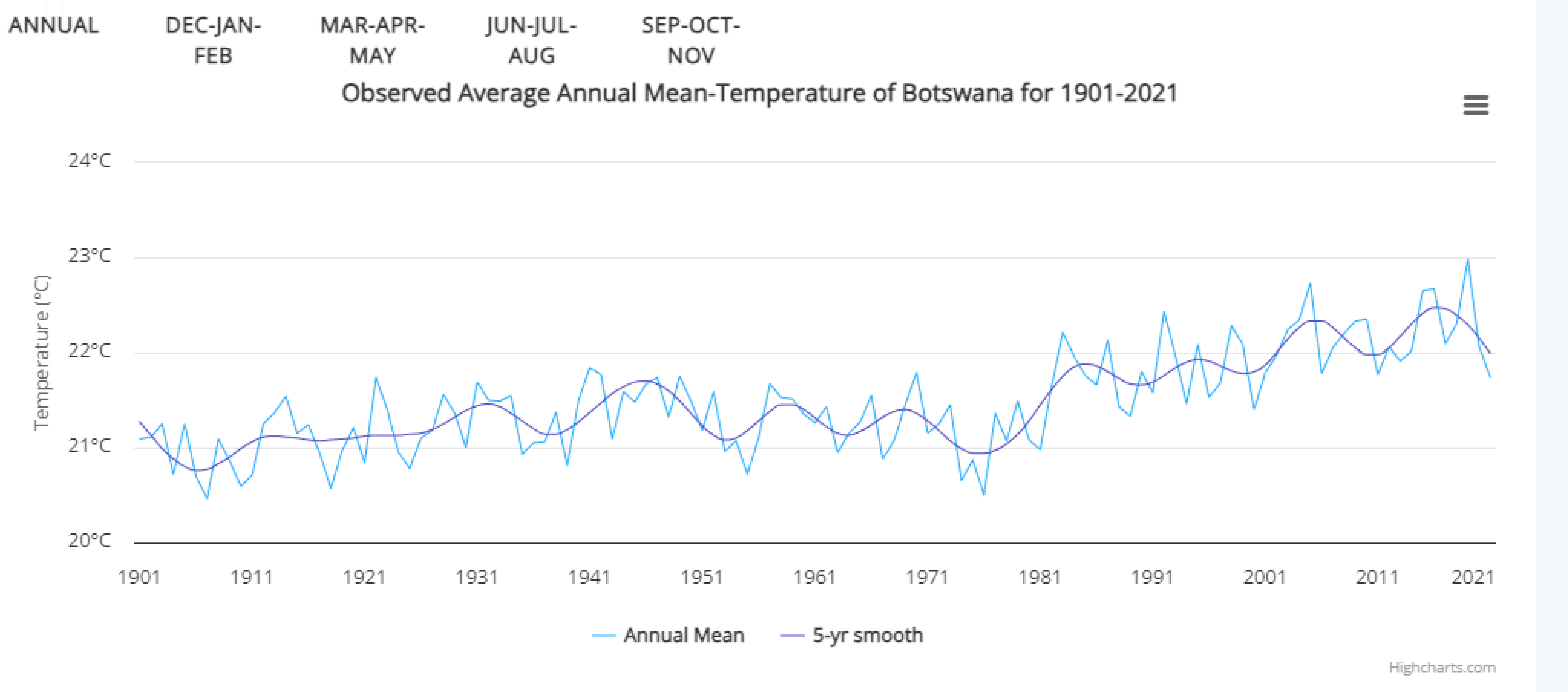
Top 5 global risks – By severity over long-term

	2020	2021	2022	2023
1	Climate action failure	Weapons of mass destruction	Climate action failure	**Failure to mitigate climate change**
2	Extreme weather	State collapse	Extreme weather	**Failure of climate change adaptation**
3	Biodiversity loss	Biodiversity loss	Biodiversity loss	**Natural disasters and extreme weather events**
4	Natural disaster	Adverse tech advances	Social cohesion erosion	**Biodiversity loss and ecosystem collapse**
5	Human-made environmental disasters	Natural resource crises	Livelihood crises	**Large-scale involuntary migration**

Source: WEF

Elements of E and S added to G = Path to sustainable growth with risks mitigated

Botswana Climate Change 1901 to 2021



Botswana Vision 2036

Botswana Vision 2036 Pillars								
BOTSWANA VISION 2036 Achieving Prosperity For All	1	Sustainable Economic Development	2	Human and Social Development	3	Sustainable Environment	4	Governance, Peace and Security
UN Sustainable Development Goals linked to Vision 2036 Pillars								
SUSTAINABLE DEVELOPMENT GOALS	7	Affordable and Clean energy	1	No Poverty	6	Clean Water and Sanitation	16	Peace, Justice and Strong Institution
	8	Decent work and Economic Growth	2	Zero Hunger	12	Responsible Consumption and production	17	Partnerships for the goals
	9	Industry, Innovation and Infrastructure	3	Good health and Wellbeing	13	Climate Action		
	10	Reduced Inequalities	4	Quality Education	14	Life below water		
	11	Sustainable Cities and Communities	5	Gender Equality	15	Life on Land		
UN Sustainable Development Goals linked to Vision 2036 Pillars (With detailed Indicators)								

Botswana: Select domesticated SDGs

Goal #2

End hunger, achieve food security and improved nutrition and promote sustainable agriculture

Increase investment, through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity

Post 2016, contribution of Agriculture sector to Botswana's GDP has not touched 2%. Population experiencing moderate and severe food insecurity has increased from 50.8% to 53.29% in last three years

Goal #3

Ensure healthy lives and promote well-being for all at all ages

Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable medicines and vaccines for all

National average of 2.06 beds per 1000 population as of 2009 with marked inequality in distribution of beds by geographical areas. 3 public referral hospitals with rest smaller hospitals and clinics. 12 registered private hospitals/ facilities mainly located in Gaborone and Francistown

Goal #7

Ensure access to affordable, reliable, sustainable and modern energy for all

By 2030, ensure universal access to affordable, reliable and modern energy services. Increase substantially the share of renewable in the global energy mix

Downward trend in physical volume of imported electricity since 2Q 2022 with imported electricity as % of distribution in 2022 being 26% versus 40-45% in previous years. Contribution of renewable energy targeted to increase to 30% by 2030.

Goal #9

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

Promote inclusive and sustainable industrialisation and, by 2030, significantly raise industry's share of employment and GDP, in line with national circumstances

Post high of 7.6% in 2012, contribution of Manufacturing sector to Botswana's GDP has steadily fallen achieving contribution of 5.4% in 2022.

Key concepts

2030 Agenda and the SDGs

5	**17**	**169**	**231**
DIMENSIONS	GOALS	TARGETS	INDICATORS

People, Planet, Prosperity, Peace and Partnership

Source: Price Waterhouse Coopers (2019), "Creating a strategy for a better world“, https://www.pwc.com/gx/en/sustainability/SDG/sdg-2019.pdf

> “The next 10 years will be critical for action. Those organizations that show **leadership on the SDGs** will be the most likely to **win the support of their stakeholders**, including investors, regulators, consumers, collaborators and society at large.”

What is sustainability?

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

UN World Commission on Environment and Development

SDG Impact

What is ESG?

Environmental, Social, and Governance (ESG)

What is ESG?

A risk management approach focused on enterprise / portfolio value

- What are the ESG factors that could affect the financial valuation of the enterprise or investment?
- How does the world impact the enterprise or investment?

ESG investing is "an investment approach that seeks to incorporate greater and more consistent information regarding material environmental, social, and governance developments, risks and opportunities, into asset allocation and risk management decisions, so as to generate sustainable, long-term financial returns."

Source: https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf

The explicit and systematic inclusion of material environmental, social and governance (ESG) factors in investment analysis and investment decisions that are material to investment performance, i.e. with a view to lowering risk and/or generating (financial) returns.

Sources: Adapted from PRI and IFC, https://ifc-org.medium.com/the-difference-betweenesg-and-impact-investing-and-why-it-matters-8bf459b3ccb6

SDG Impact

Long term value Creation

ESG/SDG integration allows pension funds to identify companies that are better prepared for the future. By considering a company's environmental impact, social practices, and corporate governance, investors gain insights into its resilience, innovation capabilities, and ability to adapt to changing regulations. These factors ultimately contribute to long-term value creation and sustainable growth

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Risk Mitigation

ESG/SDG factors help assess both traditional and non-traditional risks. For instance, environmental risks, such as climate change, can have significant financial implications for companies. By integrating ESG, pension funds can identify potential risks related to supply chain disruptions, reputational damage, or regulatory fines, helping mitigate these risks and protect the portfolio against unexpected downturns

Assessing new opportunities

ESG integration also opens doors to new investment opportunities. As the world shifts towards a low-carbon economy, investments in renewable energy, energy efficiency, and sustainable technologies are gaining momentum. By incorporating ESG considerations, pension funds can identify companies at the forefront of these transitions, positioning themselves to benefit from emerging trends and innovations.

Sustainable Partnerships

Sustainability partnerships are basically **partnerships that involve 2 or more businesses teaming up for mutual benefits related to sustainability goals.** It could be for positive environmental impact or social impact

Meeting stakeholder expectations

ESG integration aligns investments with the values and expectations of beneficiaries, policymakers, and the broader society. Pension funds have a fiduciary duty to act in the best interest of their beneficiaries, and today, many beneficiaries are increasingly concerned about the impact of their investments on the environment and society. By integrating ESG, pension funds can fulfill their fiduciary duty while also contributing to a more sustainable future.

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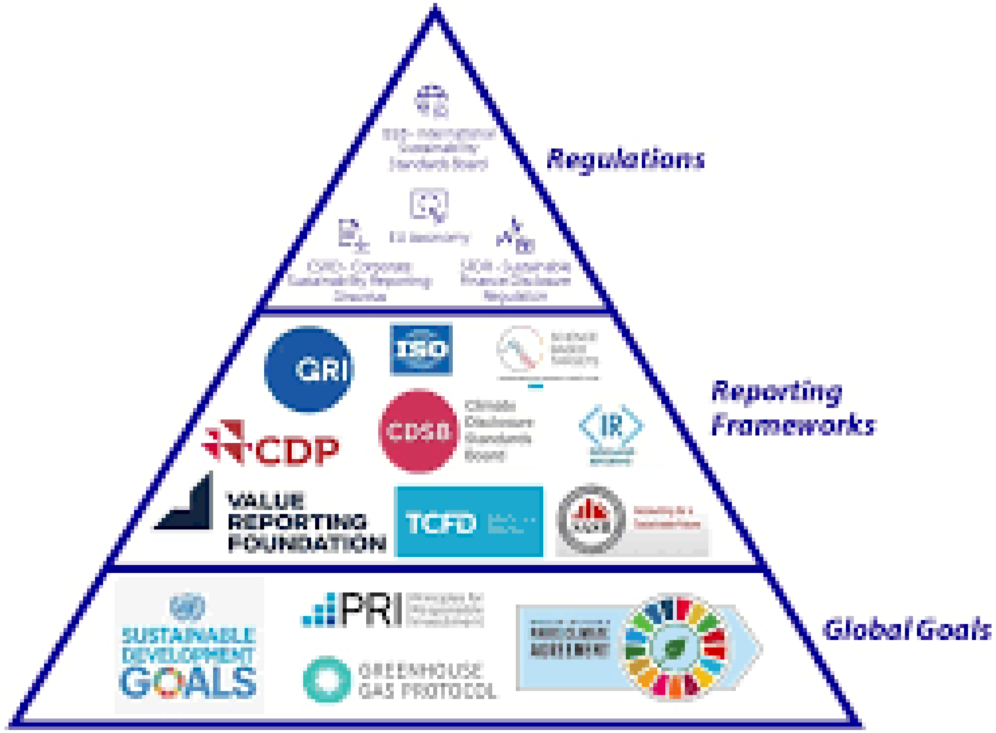
Regulatory and Reporting Landscape

Regulatory bodies are increasingly recognizing the importance of ESG integration. Governments worldwide are implementing policies and regulations aimed at addressing sustainability challenges. Pension funds need to stay ahead of these changes to ensure compliance and avoid potential legal risks. Moreover, investors are demanding more transparency and disclosure on ESG matters, and integrating ESG factors will facilitate accurate reporting to meet these demands.



Challenges

1. Lack of Standardization: There is a lack of standardization in ESG metrics, making comparisons difficult.
2. Short-term Pressures: The market's focus on short-term returns can sometimes clash with the long-term nature of ESG investing.
3. Integration Complexity: Integrating ESG factors into an existing portfolio can be a complex and resource-intensive process.
4. Greenwashing: The absence of strict regulation can lead to greenwashing, where companies give a false impression of their sustainability efforts.

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Overcoming Challenges

1.Advocacy for Standards: Pension funds can advocate for standardization in ESG reporting.

2.Education: Educating stakeholders on the long-term benefits of ESG investing.

3.Collaboration: Engaging with other investors and pooling resources can alleviate the burden of integration.

4.Vigilance and due diligence to combat greenwashing

In conclusion

In conclusion, integrating ESG factors into investment decisions is not just a moral imperative but also a strategic advantage. It allows pension funds to create long-term value, manage risks effectively, access new opportunities, and meet the expectations of stakeholders. By embracing ESG integration, pension funds can play a significant role in driving sustainable growth while delivering positive financial returns to their beneficiaries.

Questions

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