

Sustainable Green Growth: For Youth

Educational information package



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SB Bridge – Building Bridges for Green Technology Future

What is the project changing?

The SB Bridge project aims to reduce the mismatch between higher education and its graduates and the green and blue labour market, improving the motivation of young people to study and work in the green and blue sector.

What is the project creating?

The project aims to build a bridge between education and the demands of engaging SMEs by developing a new approach based on the German concept of *"TechnOlympics"*. It is based on a concept in which cross-border events with a competitive nature are designed to stimulate students' interest in technology and innovation.

The purpose is an innovative approach to raise motivation and develop matchmaking between skilled pupils and graduates and SMEs within the SB region. The intended project will develop this concept towards blue and green industries and required skills to the whole SBP Region by involving more partners: APs, SMEs and other interested groups. Project will cover several WPs, related to informal education with strong focus on green technologies, cross border thematic camping in all PPs countries, also skills development sustainability activities.

Which economic sub-sectors are covered by the project?

- ✓ Renewable energy
- ✓ Green building
- Clean transportation
- ✓ Waste management
- ✓ Water management



Project duration: From July, 2018 to December, 2021.

Project website: Please, find the SB Bridge Project official website: <u>https://sbbridge.eu/</u>



SB Bridge – Project Partners

The project involves 6 partners from 5 countries: Lithuania (2), Poland (1), Sweden (1), Germany (1), Denmark (1). The lead partner of the project is Klaipeda University. Moreover, there are 15 associated partners in the project.



Klaipeda University (KU) has experience in international project activities and skilled staff in formal and informal education also participates actively in professional networks and developing platforms, initiates tie with SMEs willing to be more "green" and "blue", supports SMEs with consultation on business development solutions, promotes blue and green growth. KU actively participates in international innovation events, takes a leading role in R&D activities in the Western part of Lithuania, has strong linkages with international networks innovations-oriented, forwards more provides master degree in Innovation management and Marine technologies natural sciences studies, related to the green and blue labour force.



Klaipeda Economic Development Agency (KEDA) has appropriate experience in implementing international European projects, the staff has great project management skills. While implementing previous projects, the staff gained abilities to coordinate, manage the projects, implement activities, disseminate the project properly. KEDA team has various certificates which prove that the team can implement various international projects.

The Culture Factory is an incubator of contemporary performing arts and businesses which aims creative to promote the entrepreneurship of young people in Klaipeda and the competitiveness of small and mediumsized enterprises as well as to contribute to the development of creative industries.



Gdańsk Entrepreneurship Foundation (GEF) is an NGO founded by the City of Gdansk (2005). Since 2011 GEF runs a Gdansk Business Incubator STARTER focusing on IT, creative industry, maritime and logistic start-ups, presently implements several projects for start-ups, SME and children, youth, and students (entrepreneurial education) from different sources (EU, e.g. INTERREG - Central



The County Administrative Board of Skåne, in the very south of Sweden, is a regional management and development authority working directly under the Swedish government. The County Administrative Board of Skåne dates its history back to the year 1634 and has a broad area of responsibility. The Board works on issues environment, urban concerning the development, the labour market.



Europe, BSR; regional EU operational programs; municipal grants; private sources).



ATI brings in experiences from many national and international projects. Related projects to European for education and youth, mainly Interreg, ATI will work closely together with schools and SMEs to enhance the specialized skill in educational sciences with the regional skills of marketing, project management, and services in the organization of international workshops. The ATI's mission is achieved in particular through the implementation of scientific events, training programs, and general project strategy development.

competence sourcing, the business community, social development, gender equality, human rights, integration and migration, transport, infrastructure, housing, and spatial planning.



Holbaek Municipality is a local municipality with approximately 70.000 inhabitants placed on the border of Isefjorden in Zealand, Denmark. Holbaek Municipality has recently opened an experience centre (Brorfelde Observatorium) to make science interesting for the citizens.

Introduction

August 22, 2020 marks the *Global Overshoot Day*: on this date, humanity has spent all the resources that the Earth can generate in one year. From that day on, we will have felled more trees, caught more fish and cultivated more land than nature can provide us with in a year. We will also have produced more greenhouse gases than our forests and oceans can absorb. In the face of the climate emergency, it is necessary to review our consumption and production patterns and adopt more environmentally friendly behaviour, as our economic growth is unsustainable for the planet. Can we use resources reasonably without curbing economic growth? It is entirely possible: green growth makes it possible to implement economic development that is sustainable in the long term while remaining within a *sustainable development approach*.

Sustained economic growth has been the major driver of poverty reduction and human development. However, sustaining economic growth under the existing model has become a serious concern for future well-being. Growth has come at the expense of the unsustainable use of resources and substantial negative impacts on the environment. The progress made in tackling global poverty and development is now threatened by the consequences of negative environmental impacts. Climate change, biodiversity loss, the unsustainable management of water resources, and the health impacts of pollution and hazardous chemicals, are among the most urgent challenges. Population growth and demands for increases in global socioeconomic statuses have heightened the need for a rapid transition to greener and more sustainable models of growth.

After the first Rio Summit, the world continues to face a twin challenge: expanding economic opportunities for all in the context of a growing global population; and addressing environmental pressures that could undermine ability to seize these opportunities. Green growth is where these two challenges meet, and it is about exploiting the opportunities to realize the two together. Most of the environmental challenges are global in terms of drivers, impacts and prevalence. They are also long-term and structural, and pose a serious risk of irreversible damage to the natural capital base on which future prosperity and well-being of all generations depend. Action is needed to catalyse a systemic and deep transformation in the ways we produce, consume and behave in order to "build back better," i.e. not only getting economies and livelihoods back on their feet, but also safeguarding prosperity for the longer term.

The green transition, and the deep transformation that this entails for our economic systems and societies, can also alleviate existing inequalities in well-being outcomes. With 2030 on the horizon, countries need to quickly develop more holistic policies that concurrently address environmental and socioeconomic well-being.

It should be emphasized that Small and Medium-sized Enterprises (SMEs) are important stakeholders seeking to achieve environmental objectives and simultaneously deliver economic growth that is inclusive and widely-shared. There is a need of SMEs contribution to global economic activity, social well-being, and environmental footprint. SMEs operate and create opportunities across a wide array of geographic areas and sectors; they employ different labour force segments, including low-skilled workers, and provide skill development opportunities. However, SMEs, on aggregate, have a high environmental footprint. It is estimated that SMEs contribute 60-70% of industrial pollution in Europe (OECD, 2018) and are important drivers of inclusive and green growth.



Concept of Green Growth and Sustainable Development

According to OECD (2011), green growth means fostering economic growth and development, while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies. To do this it must catalyse investment and innovation which will underpin sustained growth and give rise to new economic opportunities.

Green growth can be understood us a growth that is efficient in its use of natural resources, clean in that it minimizes pollution and environmental impacts, and resilient in that it accounts for natural hazards and the role of environmental management and natural capital in preventing physical disasters (World Bank, 2012). Meanwhile, Global Green Growth Institute (GGKI, 2011) emphasize that green growth is a development approach that seeks to deliver economic growth that is both *environmentally sustainable and socially inclusive*. It considers that issues are interrelated, and that development is culturally and contextually specific. Therefore, key aspects of a green growth agenda are founded in an integrated approach with long-term objectives and local solutions that take into account global issues.

Green growth strives to (GGGI, 2020):

- 1. Increase the quantity and quality of natural capital and environmental services, as these factors affect productivity, and their availability is critical for sustainable economic growth.
- 2. Increase the productivity of resources that allow for higher growth with the consumption of fewer resources.
- 3. Develop new green technologies, or promote the innovative application of existing green technologies, as innovation is a key driver of economic growth.
- 4. Focus on the removal of market failures as barriers to achieving environmental, social, and economic goals; therefore, contributing to more efficient resource allocation.
- 5. Pursue an inclusive and participatory approach that benefits those that rely heavily on natural resources and are the most vulnerable to the impacts of climate.

Green growth is not a replacement for sustainable development. Rather, it provides a practical and flexible approach for achieving concrete, measurable progress across its economic and environmental pillars, while taking full account of the social consequences of greening the growth dynamic of economies. The focus of green growth strategies is ensuring that natural assets can deliver their full economic potential on a sustainable basis. That potential includes the provision of critical life support services – clean air and water, and the resilient biodiversity needed to support food production and human health. Natural assets are not infinitely substitutable and green growth policies take account of that.

In May 2011, the OECD delivered its Green Growth Strategy, which is seen as a useful tool for expanding economic growth and job creation through more sustainable use of natural resources, efficiencies in the use of energy, and valuation of ecosystem services. Countries, who signed The Green Growth Declaration, are committed to strengthen their efforts to pursue green growth strategies.

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GIZ (2021) emphasize that green growth does not always intrinsically lead to better social outcomes, and, despite the synergies that exist between the two, there can be certain trade-offs as well (GIZ, 2015). To minimize these trade-offs, green growth should be rigorously accessed with a systematic approach that examines both process (how people participate in growth) and outcome (the distribution of growth) dimensions. More specifically, a number of questions can be asked, such as how green growth affects specific regions and income distribution or how access to goods and services is changed (GIZ, 2015). These types of questions are very consistent with the notion of what a just transition looks to achieve. A comprehensive approach to measuring impacts not only accounts for opportunities in new and emerging "green" sectors but also losses in employment that may be found in "brown" sectors, and how to address this issue. There can be economy-wide or sector-specific approaches to a green economy, green growth (GIZ, 2021).

Green growth aims to respect biodiversity, natural resources and working conditions. The green economy also means limiting greenhouse gas emissions by removing fossil fuels from our consumption. Green growth is a sensitive subject, at the heart of many ecological, political and economic debates. Greenwashing, for example, is a dubious practice: many national and multinational companies brand green growth only to restore or maintain their brand image, without taking any real action for the environment.

Some do not believe in green growth, particularly in view of exponential population growth, and prefer growth reduction strategies aimed at maintaining GDP growth below 1% per year, given that resources are not infinite. Scientists, on the other hand, argue that growth is possible even without resources and decouple resource consumption from growth, making green growth possible.

There is a need to understand that green growth places ecology and sustainable development as new growth drivers. Thanks to an increase in the efficiency of our economic system, we could, according to this theory, reduce our consumption of raw materials while continuing our economic growth.

Concept of Environmental Sustainability

For businesses, sustainability means running a business through sustainable practices and securing future growth potential without causing too much damage to the environment.

According to the UN Environment Programme¹, environmental sustainability involves making life choices that ensure an equal, if not better, way of life for future generations. Environmental sustainability aims to improve the quality of human life without putting unnecessary strain on the earth's supporting ecosystems. It's about creating an equilibrium between consumerist human culture and the living world. It should be noted that environmental sustainability is very important as rapid population growth has resulted in increased farming and manufacturing, leading to more greenhouse gas emissions, unsustainable energy use, and deforestation. Society needs more energy and materials than ever before. Despite this, our planet can only provide so many resources before they begin to deplete. For this reason, businesses must step in and do their part. They have more power than

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¹ For more information: https://www.unep.org/about-un-environment/sustainability

any group of individuals, and they can help secure a liveable future by investing in sustainable and responsible practices like reducing waste, using clean energy, and paying fair wages.

Aside from benefiting the planet and its inhabitants, environmental sustainability can offer plenty of benefits. The *three pillars of sustainability* involve economic, social and environmental development:

- 1. <u>Economic sustainability</u> is the responsibility of businesses and communities. Here, they are encouraged to use their resources responsibly and efficiently. Economic sustainability is designed to support long-term economic growth without harming environmental, social and cultural aspects of our global community.
- 2. <u>Social sustainability</u> benefits people. Living sustainably as individuals, families, communities and countries means healthier air and less money needlessly spent on healthcare. Using renewable energy sources can reduce droughts as they require less water and energy to maintain. The eventual goal is that sustainable development will also reduce hunger, poverty and generally provide a better global quality of life, promoting fairly distributed education and healthcare.
- 3. <u>Environmental sustainability</u> focuses on the state of the planet we leave it in. It encourages individuals to live in a way that creates minimal waste and even regenerates some of the resources we use every day.

While environmental sustainability offers clear benefits in terms of global human and animal health, there are some *barriers* we may face when working to achieve it:

- Exponential population growth, unsustainable consumption and production patterns among the rich are the primary social challenges to achieving global sustainable development. Unless we see a significant change in global human behaviour, sustainability will not be possible. Other social hurdles include limited awareness and education about sustainability, insufficient interaction between civil society and the government and inadequate incentives for the private sector to encourage sustainable development.
- ✓ Economists have observed that sustainable development focuses on economic growth rather than people's health or rights. For environmental sustainability to work globally, our worldview must shift as we currently treat the environment as part of the economy rather than the other way around. This change means the economy must be adapted so that environmental services are maintained. This process is easier said than done and will likely take decades for a shift to begin taking place.

It should be noted that standards for environmental sustainability vary greatly, based on local economic, social and environmental conditions. We may face some obstacles in our efforts to achieve environmental sustainability, but that does not mean we shouldn't do our best. One way to take care more about environmental sustainability is to start calculating overall environmental footprint of business² and adopt emission reduction strategies. *Environmental footprint* is a multi-criteria measure to calculate the environmental performance of a product, service or organization based on a life cycle approach.

An environmental footprint (also known as ecological footprint) takes into account the entirety of supply and demand of goods and services for the planet. In doing so, it is

² For more information: https://www.greeningtheblue.org/methodology



assumed that the entire population follows a certain lifestyle characterized by a known person or a group of people.

The estimation of the environmental footprint starts with the calculation of the land, water or sea required to supply the food, housing, mobility, and goods and services of a person in a certain region. The estimation is dependent on the area that the person resides. The reason is that ecosystems differ in their capacity to produce biological materials and to absorb CO₂. This is known as "biocapacity".

The results of the environmental footprint are given in the number of "Planet Earths" it would take to support humanity if everyone follows the estimated lifestyle. The carbon footprint is the fastest growing part of humanity's overall environmental footprint – it accounts for 54% of the overall environmental footprint.

A carbon footprint (CF) – also named carbon profile – is the overall amount of carbon dioxide (CO₂) and other greenhouse gas (GHG) emissions (e.g. methane, laughing gas, etc.) associated with a product. A carbon footprint comprises the entire supply chain, sometimes including the use and recycling or the disposal of the product. A carbon footprint is quantified using indicators such as the Global Warming Potential (GWP). A GWP is an indicator that reflects the relative effect of a greenhouse gas in terms of climate change considering a fixed time period, such as 100 years (GWP100). The GWPs for different emissions can then be added together to deliver one single indicator that expresses the overall contribution to climate change of these emissions.

A carbon footprint is a sub-set of the data covered by a more complete Life Cycle Assessment (LCA)³. LCA is an internationally standardized method (ISO 14040, ISO 14044) for the evaluation of the environmental burdens and resources consumed along the life cycle of products: from the extraction of raw materials, the manufacturing of goods, their use by consumers or the provision of a service, recycling, energy recovery and ultimate disposal.

Companies clearly have a responsibility to society to implement environmentally sustainable practices, but these practices do not have to be at odds with business goals. In fact, environmental sustainability done right should align profits with people and the planet. It should be noted that green growth or environmental sustainability is central to achieving *the Sustainable development goals (SDGs), particularly Goal 8. SDGs will be present in later chapter.*

Sustainable Development Goals

The *2030 Agenda for Sustainable Development*, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests. SDGs are related to thematic issues, including water, energy, climate, oceans, urbanization, transport, science and technology and etc.

³ For more information: https://sphera.com/glossary/what-is-a-life-cycle-assessment-lca/



Picture: Sustainable development goals Source: <u>Carr, J.A., et al. (2021)</u>



*Sustainable Development Goals*⁴ are:

- ✓ <u>Goal 1.</u> End poverty in all its forms everywhere.
- ✓ <u>Goal 2.</u> End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
- ✓ <u>Goal 3.</u> Ensure healthy lives and promote well-being for all at all ages.
- ✓ <u>Goal 4.</u> Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
- ✓ <u>Goal 5.</u> Achieve gender equality and empower all women and girls.
- ✓ <u>Goal 6.</u> Ensure availability and sustainable management of water and sanitation for all.
- ✓ <u>Goal 7.</u> Ensure access to affordable, reliable, sustainable and modern energy for all.
- ✓ <u>Goal 8.</u> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- ✓ <u>Goal 9.</u> Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
- ✓ <u>Goal 10.</u> Reduce inequality within and among countries.
- ✓ <u>Goal 11.</u> Make cities and human settlements inclusive, safe, resilient and sustainable.

⁴ For more information: https://www.unep.org/explore-topics/sustainable-development-goals

- ✓ <u>Goal 12.</u> Ensure sustainable consumption and production patterns.
- ✓ <u>Goal 13.</u> Take urgent action to combat climate change and its impacts.
- ✓ <u>Goal 14.</u> Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
- ✓ <u>Goal 15.</u> Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
- ✓ <u>Goal 16.</u> Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
- ✓ <u>Goal 17.</u> Strengthen the means of implementation and revitalize the global partnership for sustainable development.

As green growth is central to achieving particularly the SDG Goal 8, this goal is related with preserving the environment is key to support sustainable economic growth as the natural environment plays an important role in supporting economic activities. It contributes directly, by providing resources and raw materials such as water, timber and minerals that are required as inputs for the production of goods and services; and indirectly, through services provided by ecosystems including carbon sequestration, water purification, managing flood risks, and nutrient cycling.

"Natural" disasters directly affect economic activities leading to very high economic losses throwing many households into poverty. Maintaining ecosystems and mitigating climate change can therefore have a great positive impact on countries` economic and employment sectors.

Sustained and inclusive economic growth is a prerequisite for sustainable development, which can contribute to improved livelihoods for people around the world. Economic growth can lead to new and better employment opportunities and provide greater economic security for all. Moreover, rapid growth, especially among the least developed and developing countries, can help them reduce the wage gap relative to developed countries, thereby diminishing glaring inequalities between the rich and poor.

SDG 8 parts:



8.1 Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries.

8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.

8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programs on sustainable

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consumption and production, with developed countries taking the lead.

8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training.

8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.

8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

8.9 By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products.

8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

Ways to Contribute to the Sustainable Development Goals

As indicated above, *17 sustainable development goals* are a collection of independent, but interconnected goals carefully designed to give all of us on our planet a better future, with hundreds of targets and measurement indicators geared toward a date of 2030. The goals were created with businesses in mind, providing a path – what some people refer to as a "Pathway for Humanity" — for any business to harness their power by directing their efforts toward specific global objectives. Businesses can support these goals through different initiatives.

There are *11 ways how businesses can support SDGs* through energizing and inspiring activities, these flexible activities can be a part of human's lifestyle, business practices or projects:

- Implement the W.A.S.H.⁵ (water, sanitation, and hygiene) at the workplace. Businesses can be some of the biggest offenders in the wastage of water, so when they take the lead in water conservation, they can make a huge impact on awareness in their communities. Businesses can support <u>SDG6 – Clean Water and Sanitation</u> by committing to a W.A.S.H. pledge.
- 2. Provide a healthy workplace. Most people spend about one-third of their adult lives in a workplace environment. It is essential to ensure that people have a workplace

Nature/Water/Resources/WASH-Pledge-Guiding-Principles-for-implementation



⁵ For more information: https://www.wbcsd.org/Programs/Food-and-

conducive to maintaining good health. Businesses are thus the key drivers for <u>SDG</u> <u>3 – Good Health and Well-Being</u> and <u>SDG 8 – Decent Work and Economic Growth</u>. Initiatives good be related with emphasis of safe practices in the workplace through frequent training and refreshers, implementation of health programs for employees, careful selection of supplies and other B2B partners based on how they regard the health of their own employees.

- 3. Supply chain revision and implementation of sustainable practice. Businesses are often the endpoint in a long supply chain that begins with basic materials and supplies taken from the very land on which we live. Businesses should review supply chain from top to bottom to make sure that all of the stages uphold human and labour rights, promote and adopt sustainable environmental practices and work against corruption in all its forms. For this purpose, check out human rights guide from UN⁶.
- 4. Give to projects that support the SDGs. Businesses should expand the reach of their impact by giving to projects that support the SDGs. Businesses can choose to give to multiple projects or focus on one that's entirely up to the needs. Some projects may support multiple SDGs at the same time. Businesses can explore how they can connect the SDGs by filling a short questionnaire proposed by Business for good⁷ or by searching projects implemented in practice⁸.
- 5. Invest in renewable energy. More and more people are packing into urban areas each year. The sustainability of cities is vital to the future of humanity, but they are eating up our consumable natural resources. Being big consumers of energy, businesses can help by taking the lead on <u>SDG 11 Sustainable Cities and Communities</u>. Businesses can invest in renewable energy resources such as solar, wind, and biofuel. Joining initiatives such as the UN Global Compact⁹, also can be good practice of businesses to lead the charge toward a more sustainable future.
- 6. Encourage "Reduce, reuse, recycle". The usage of single-use plastic bags, plastic bottles, and other containers puts great pressure on our Earth. Businesses can easily support <u>SDG 13 Life on Land</u> and <u>SDG 14 Life Below Water</u> by reducing the amount of plastic waste produced by their activities. Small initiatives what could make a huge impact could be: switching to polypropylene bags (green reusable bags) or having a water fountain or cooler instead of a vending machine that distributes plastic drink bottles in office.
- 7. Support education of the future generation locally or globally. Education is the pathway out of poverty and the foundation for a better future. There is no dispute on that. Businesses can sponsor local school scholarships or give to causes that build schools, supply books and train teachers in remote areas of the world. By helping remove some of the barriers to education, company's not just enriching their individual lives and levelling the playing field you're also adding talent to the workforce.
- 8. Give paid volunteer days. We can all agree that nobody should go hungry in such an affluent world, but our own communities are where we can actually do something



⁶ For more information: https://www.un.org/en/about-us/universal-declaration-of-human-rights ⁷ For more information: https://b1g1.typeform.com/to/vX0g5I?utm_source=%08SDGs&typeformsource=b1g1.com

⁸ For more information: https://account.b1g1.com/view-all-projects

⁹ For more information: https://www.unglobalcompact.org/

about it. <u>SDG 2 – Zero Hunger</u> shows us a pathway to change the world by feeding our needy neighbours. Businesses can make a big impact by providing paid days off for employees to volunteer in hunger-related activities. Soup kitchens, food banks, and home food delivery programs for the needy and elderly are always in need of eager volunteers. There's typically a greater need during the holiday season.

- 9. Reward responsible behaviours. "Employee of the Month" recognitions are typically reserved for workers with the most sales or best productivity the ones bringing the most money for the company. But what if employees were recognized for moving the company toward better environmental practices? To support <u>SDG 12 Responsible Consumption and Production</u>, businesses could consider offering bonuses or award luncheons for more environmentally conscious team members especially those who move business activities closer to more responsible practices.
- 10. The \$2-a-day challenge. Could you survive on \$2 a day? It's an interesting hypothetical for some, but a cold reality for too many others. Sometimes it takes putting ourselves in someone else's shoes to catalyse our empathy and energize us to do good. In support of <u>SDG 1 No Poverty</u>, try living on just \$2 by having "\$2 days". Encouragement of employees, partners, clients, even friends and family to live having just \$2, could show what trade-offs should be done or what things could be given up. Knowing that millions live on this much or less is an eye-opener and a potent motivator.
- 11. Take it to the next level through partnerships with other businesses. <u>SDG 17 –</u> <u>Partnerships for the Goals</u> encourages businesses to become part of partnerships for responsible action in pursuit of any and all of the global goals. By combining their enthusiasm for certain goals, partnerships become greater than the sum of their parts. Network with like-minded business leaders could encourage to involve in other sustainable initiatives.

Businesses should start sustainable initiatives by choosing to give to causes that the care about the most or that are the closest to their hearts, be it education, environment, health or human rights. In this case, simply start with the SDG that company feels most strongly about and give towards causes that support it.

The Challenges of Green Growth for Businesses

Being part of a *green growth approach* is becoming a necessity for companies and meets a number of challenges:

- ✓ A better brand image.
- ✓ More economic opportunities.
- ✓ A reasoned use of resources due to the increase in their price (such as gas, oil, paper, etc.).
- ✓ Energy sovereignty.
- ✓ Minimal costs and investments compared to those that will have to be made if climate change persists.



The growing importance of global environmental challenges such as climate change in combination with globalization and more international trade in consumer products, adds to this challenge. Managing these issues often requires international negotiations and burdensharing, which in itself have proved difficult. Difficulties are related with:

- ✓ Diffuse emissions are typically difficult to monitor and therefore also to regulate.
- Plastic waste is an apt example; it stems from millions of consumer products, is carried around the world by the currents and winds, and builds up microplastics, particularly in the sea.
- Many dangerous substances, including chemicals such as solvents and phthalates, are embedded in consumer products, out of which many are imported.
- ✓ Monitoring the potential spread of these substances to humans and the natural environment remains difficult.

In order to address these diffuse environmental impacts, society has to find alternative – yet more indirect – ways of monitoring and regulating them. This could translate into attempts to close material cycles and promote a *circular economy*¹⁰, i.e., an economy in which the value of products, materials and resources are maintained as long as possible. In practice, this implies an increased focus on reduction, recycling and re-use of virgin materials, material and energy efficiency, as well as sharing of resources. In other words, rather than regulating emissions as close to damage done as possible, the authorities may instead support specific activities (e.g., material recycling) and/or technologies (e.g., low-carbon production processes) that can be assumed to correlate with reduced environmental load.

One important way of encouraging recycling and reuse of products is to support product designs that factor in the reparability and reusability of products. Improved recyclability can also benefit from a modular product structure.

Incremental innovations, e.g., increased material and energy efficiency in existing production processes, are key elements for the transition to a green economy. But a number of factors that will make radical innovation inherently difficult exist, such as:

- ✓ Companies that invest in technological development (e.g., basic R&D, pilot tests etc.) faces with the risk.
- ✓ Private investors may often have weak incentives to pursue investments in long-term technological development.
- \checkmark New green technologies often face unfair competition with incumbent technologies¹¹.

¹¹ For more information: https://sustainableearth.biomedcentral.com/articles/10.1186/s42055-020-00029-y



¹⁰ For more information:

https://www.europarl.europa.eu/news/en/headlines/economy/20151201STO05603/circular-economy-definition-importance-and-benefits

Global Opportunities for Sustainable Development Goals

UNEP and the Federal Ministry of Environment, Nature Conservation and Nuclear Safety (BMU) launched *Global Opportunities for Sustainable Development Goals* (GO4SDGs) at the SDGs Summit in New York, on September, 2019¹².

The new initiative aims to boost the necessary efforts and solutions for the Sustainable Development Goals. It will look to target three change-agent groups: *policy makers, small to medium size enterprises and youth.* The broad demographic-range aims to raise ambition for building inclusive and sustainable economies at all levels. The initiative will also highlight:

- ✓ Exemplary approaches from countries and strengthen capacity for replication across regions.
- ✓ Serve as a platform to facilitate dialogue and knowledge sharing for inclusive green economies.
- ✓ Interweave with existing UNEP initiatives and One Planet Network programmes.
- ✓ Foster exchange on innovative and successful practices through newly designed regional sustainability hubs.

During the summit, Svenja Schulze, Federal Minister for the Environment, Nature Conservation and Nuclear Safety of Germany, reminded participants that only ten years remain to implement the SDGs, noting that despite progress in some areas, more action is needed, especially on climate, water and inequality. Highlighting that many effective tools, methods and approaches already exist, she explained that the GO for SDGs initiative will focus on scaling up their use and enabling their adaptation to specific national circumstances. She announced Germany's contribution of €7.5 million to the initiative, expressing hope that other partners will join. She called for greater efforts to promote green innovation and sustainable business models and, outlining several successful examples, expressed confidence that GO for SDGs will be fruitful.

GO for SDGs will seek to build on UNEP's leading knowledge and disseminate it through existing partnerships and programmes such as the One Planet Network, the Partnership for Action on Green economy (PAGe), the Green Growth Knowledge Partnership (GGKP), ITUC's Just Transition Center, and the UNEP Finance Initiative ensuring a tailor-made and regional approach in addressing the differing needs in each global region. The initiative will also develop partnerships with organisations that work directly with businesses and the private sector to accelerate action, including the World Economic Forum.

¹² For more information: https://www.unep.org/explore-topics/sustainable-development-goals/what-we-do/global-opportunities-sustainable



Sustainable Development Paths for Green Growth

Concepts related with *green growth* are:

- 1. <u>A circular economy</u>: this economic model consists of producing services and goods in a sustainable way, limiting waste and the production of waste. This implies, for example, using sustainable materials, collected in a more environmentally friendly way, and limiting the use of disposable objects.
- <u>Green economy:</u> economy that provides prosperity for all within the ecological limits of the planet. It follows five key principles, each of which draws on important precedents in international policy, and which together can guide economic reform in diverse contexts. These 5 principles¹³ are: the wellbeing principle; the justice principle; the planetary boundaries principle; the efficiency and sufficiency principle; the good governance practice.
- 3. <u>Recycling and zero waste</u>: this involves selecting recyclable materials and limiting the production of polluting waste. These practices exclude the use of disposable products, which are not reusable, and over-packaging.
- 4. <u>Thermal renovation:</u> our homes and premises must be insulated and renovated in order to limit heat loss. This limits energy consumption and environmental impact.
- 5. <u>Energy efficiency</u>: this makes it possible to minimise energy consumption for the same service provided.
- 6. <u>Eco-production</u>: producing in an ecological way is entirely possible. It is a question of banking on a sober economy, while improving competitiveness. It is based on several principles: optimization of flows (waste, water, energy), processes and products, strategy and governance, and buildings.

It should be noted that green growth makes it possible to maintain economic growth in the world, within companies, while taking into account global warming and environmental constraints. It allows for the protection of the environment while maintaining our energy performance and our economy: it is the transition towards a more climate and ecologically sound economy and management of resources.

The main challenge is to improve *resource efficiency and productivity* and ensure that materials are used efficiently at *all stages of their lifecycle (extraction, transport, manufacturing, consumption, recovery and disposal)* and throughout the supply chain. This requires:

- ✓ A broadening of the scope of waste management policies in line with the waste hierarchy, which ranks waste prevention as the most preferred option that can be encouraged through eco-design, reuse, repair, refurbishment, re-manufacturing, and extended producer responsibility schemes (see figure).
- ✓ Integration of policies on materials, product and chemicals management, and use of lifecycle oriented waste and materials and product management and related policies.

¹³ For more information: https://www.greeneconomycoalition.org/news-and-resources/the-5-principles-of-green-economy



Examples include *3R policies* (reduce, reuse, recycle), sustainable materials management, sustainable manufacturing, resource efficiency and circular economy policies. Waste prevention can be encouraged through eco-design, reuse, repair, refurbishment, remanufacturing, and extended producer responsibility (EPR) schemes.



Moving towards a resource efficient and circular economy is critical from both supply security and environmental perspectives and provides the basis for a sustainable and competitive economy. It is the way to ensure adequate supplies of materials; to manage the environmental impacts associated with their lifecycle and supply chain; and to make sure that natural resources are not degraded and remain available for future generations. Establishing a circular economy with improved waste and materials management further helps addressing the issue of microplastics in the environment and marine litter. Recovering materials from waste streams for recycling or reuse, using products longer and increasing the use intensity of goods through sharing economy approaches like car-sharing are some of the areas in which circular business models are operating.

A circular economy seeks to:

Picture: The waste hierarchy

- ✓ Maximise the value of the materials that circulate within the economy.
- ✓ Minimise material consumption, paying particular attention to virgin materials, hazardous substances, and waste streams that raise specific concerns (such as plastics, food, electric and electronic goods).
- ✓ Prevent waste from being generated.
- ✓ Reduce hazardous components in waste and products.



Aims of Green Growth Strategy

Green growth policies are an integral part of the structural reforms needed to foster strong, more sustainable and inclusive growth. They can unlock new growth engines by:

- <u>Enhancing productivity</u> by creating incentives for greater efficiency in the use of natural resources, reducing waste and energy consumption, unlocking opportunities for innovation and value creation, and allocating resources to the highest value use.
- ✓ <u>Boosting investor confidence</u> through greater predictability in how governments deal with major environmental issues.
- ✓ <u>Opening up new markets</u> by stimulating demand for green goods, services and technologies.
- ✓ <u>Contributing to fiscal consolidation</u> by mobilizing revenues through green taxes and through the elimination of environmentally harmful subsidies.
- ✓ <u>Reducing risks of negative shocks to growth</u> due to resource bottlenecks, as well as damaging and potentially irreversible environmental impacts.

Strategies for greener growth need to be tailored to fit specific country circumstances, they will need to carefully consider how to manage any potential trade-offs and best exploit the synergies between green growth and poverty reduction. The latter include, for example, bringing more efficient infrastructure to people (e.g. in energy, water and transport), tackling poor health associated with environmental degradation and introducing efficient technologies that can reduce costs and increase productivity, while easing environmental pressure. Given the centrality of natural assets in low-income countries, green growth policies can reduce vulnerability to environmental risks and increase the livelihood security of the poor.

Green growth strategies also recognize that focusing on GDP as the main measure of economic progress generally overlooks the contribution of natural assets to wealth, health and well-being. They therefore need to rely on a broader range of measures of progress, encompassing the quality and composition of growth, and how this affects people's wealth and welfare.

There is no "one-size-fits-all" prescription for fostering greener growth. Greening the growth path of an economy depends on policy and institutional settings, level of development, social structures, resource endowments and particular environmental pressure points. Advanced, emerging, and developing countries will face different challenges and opportunities. While national plans will differ, in all cases green growth strategies need to go hand-in-hand with the main pillars of action to promote social equity: more intensive human capital investment, inclusive employment promotion, and well-designed tax/transfer redistribution policies.

Green growth is relevant to sectors across the economy. Governments and businesses are embracing green growth as an opportunity, but challenges to large-scale adoption of green growth policies still remain. There is a need to meet some requirements:

- \checkmark Broad collaboration and coordination among the world's leading institutions and experts.
- ✓ Access to the latest knowledge and data to inform policy choices.
- ✓ A committed and motivated community.



The Europe Strategy for Green Growth

The European Commission adopted the new circular economy action plan (CEAP)¹⁴ in March 2020. It is one of the main building blocks of the *European Green Deal*¹⁵, Europe's new agenda for sustainable growth. The EU's transition to a circular economy will reduce pressure on natural resources and will create sustainable growth and jobs. It is also a prerequisite to achieve the EU's 2050 climate neutrality target and to halt biodiversity loss.

The new action plan announces initiatives along the entire life cycle of products. It targets how products are designed, promotes circular economy processes, encourages sustainable consumption, and aims to ensure that waste is prevented and the resources used are kept in the EU economy for as long as possible.

It introduces legislative and non-legislative measures targeting areas where action at the EU level brings real added value.

The Europe 2020 Strategy is the Commission's strategy for smart, inclusive and sustainable growth. The Commission actively supports businesses, administrations and consumers so that *the Union will turn into a resource-efficient, green, and competitive low-carbon economy.* This is one of the three objectives of the 7th Environment Action programme¹⁶. To get growing again and create new jobs, while contributing to the global Sustainable Development Goals, Europe cannot afford to waste this opportunity.

Picture: Green growth for circular economy Source: European Commission



¹⁴ For more information: https://eur-lex.europa.eu/legal-

¹⁶ For more information: https://ec.europa.eu/environment/action-programme/index.htm



content/EN/TXT/?qid=1583933814386&uri=COM:2020:98:FIN

¹⁵ For more information: https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

The circular economy package can help to achieve green growth for Europe¹⁷. Measures that will be introduced under the new action plan aim to:

- ✓ Make sustainable products the norm in the EU.
- ✓ Empower consumers and public buyers.
- ✓ Focus on the sectors that use most resources and where the potential for circularity is high such as: electronics and ICT, batteries and vehicles, packaging, plastics, textiles, construction and buildings, food, water and nutrients.
- ✓ Ensure less waste.
- ✓ Make circularity work for people, regions and cities.
- ✓ Lead global efforts on circular economy.

Picture: Green growth for circular economy. Getting priorities in order Source: <u>European Commission</u>



Priority sectors in circular economy:

- ✓ Plastics.
- ✓ Food waste.
- ✓ Biomass and bio-based products.
- ✓ Construction and demolition.
- ✓ Critical raw material.

¹⁷ For more information: https://ec.europa.eu/environment/green-growth/index_en.htm



Picture: Green growth for circular economy. A circular economy story Source: <u>European Commission</u>



The benefits of circular economy:

- ✓ Saves and values scarce resources.
- ✓ Cuts greenhouse gas emissions and environmental impacts.
- $\checkmark~$ Breaks down silo thinking and promotes cross-policy action.
- ✓ Makes the economy more competitive, sustainable, fair.
- ✓ Creates new business opportunities, jobs and growth.

Eco-design, eco-innovation, waste prevention and the reuse of raw materials can bring net savings for EU businesses of up to EUR 600 billion. Additional measures to increase resource productivity by 30 % by 2030 could boost GDP by nearly 1 %, while creating 2 million additional jobs. It also benefits the environment and reduces Europe's greenhouse gas emissions.

SMEs and Growth

SMEs – or any other enterprise class – can contribute to inclusive growth by adopting explicitly inclusive business models (sometimes equivalent to social enterprise). These firms focus on integrating the different population segments into their business practices. For example, SMEs operating in the development space focus on integrating the four billion poor people living at the economic base of the pyramid ("BoP") – a market that is valued at roughly



\$5 trillion globally. They can integrate the BoP on the demand-side as well as the supply side (OECD, 2019)¹⁸:

- 1. <u>Demand side:</u> Integrate the BoP as customers by providing them access to essential goods and services (access to health, finance, water, etc.) and addressing unmet needs.
- 2. <u>Supply side:</u> Integrate the BoP as suppliers, distributors, or employees and in doing so, generate income and job opportunities, through targeted measures.

This applies to other underserved and neglected demographic groups as well. It is worth noting that SMEs can contribute to inclusive growth through other channels. For example, regardless of their business models, since SMEs operate in more local markets and areas often neglected by larger companies, they are well-suited to tackle unmet needs.

Green SMEs contribute to the protection of the climate, environment, and biodiversity through their products, services, and business practices. But, they do so in different way; some SMEs focus on reducing the environmental footprint of their production process (e.g. resource-efficient processes) while others focus on green outputs and offer green products and services (e.g. renewable energy products) (GIZ, 2017). Framed differently, green SMEs can either be green performers - conventional SMEs for whom greening entails incorporating green practices and improving their sustainability performance – or green innovators – SMEs whose core business model focuses on the sale of sustainability-related goods and services.

OECD (2019) uses *three types of green SMEs typology*.

- 1. Eco-innovators. These SMEs engage in eco-innovation, defined as "the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations" that reduce environmental impact, with or without intent. Ecoinnovation, distinctly, can also include changes in social and institutional structures (i.e. value patterns, behavioural models, social structures and interactions). This means that the environmental benefits of eco-innovation are not restricted to firms; instead, ecoinnovation has the potential to deliver society-wide environmental benefits by changing social norms, cultural values, and institutional structures. Concretely, eco-innovation, whether technological or non-technological, can be incremental (modifying the existing paradigm without changing the underlying core), disruptive (altering how specific technological functions are fulfilled without changing the underlying regime), and radical (creating entirely new solutions and full-scale shifts). Eco-innovating SMEs have a clear role in leading incremental as well as disruptive and radical innovations. In particular, smaller firms, being new entrants to the market, are more likely to pioneer radical and disruptive innovations by exploiting the market opportunities neglected by larger firms.
- 2. <u>Eco-entrepreneurs.</u> They share similarities with traditional entrepreneurs in that they seek new opportunities caused by a shift in values or preferences, regulations, or problems and subsequently develop and commercialize a solution to the identified opportunity. But, they are different in their strategic objectives and motivations and tend to see greater sustainability as one of the goals of their entrepreneurship. Eco-entrepreneurs are not a uniform group of actors. Eco-entrepreneurs are also not a static

¹⁸ For more information: https://www.oecd-ilibrary.org/docserver/8a51fc0cen.pdf?expires=1639604474&id=id&accname=guest&checksum=1823A22BD2BCC13B8805707F 59A465AF



group; that is, there is some evidence that they move between "green" business models and "conventional" business models. This may be because some entrepreneurs find it difficult to maintain "green-ness" and thus, may compromise by pursuing conventional projects.

3. Adopters of ecologically-friendly practices ("Eco-Adopters"). This group - likely to represent a vast majority of SMEs - resemble the aforementioned "green performers". For them, greening entails the uptake of environmental technologies and sustainable business practices. Unlike eco-innovators and eco-entrepreneurs, sustainability is unlikely to be a part of the core business model. Greening for many eco-adopters consists of being compliant with environmental regulations, thus a major consideration for this group of SMEs is how to incentivize them to go beyond compliance in their sustainability practices and illustrate the business case for being more efficient with inputs and energy. Moreover, for eco-adopters, the benefits of greening are sectorspecific and the different sector-level and firm-level barriers explain the varying levels of diffusion of green practices. An important point about eco-adoption is that SMEs rarely implement holistic approaches and integrated management practices to reduce environmental impact. Instead, they adopt green practices in a piecemeal manner as a response to immediate cost pressures. Put it differently, SMEs are more likely to adopt "end-of-pipe technologies" - which allow them to reduce their environmental impact ex post without changing the processes that generate the impact (e.g. energy-efficient light bulbs) - rather than "clean technologies" - which eliminate the environmental impact of the production process itself.

SMEs can benefit from green growth in *two ways:*

- Increased market share and new markets. The commercial benefits of greening stem from the potential to increase market share and capture new markets from ecoinnovation, eco-entrepreneurship, and eco-adoption among SMEs. "Green" products, niches, and practices represent previously untapped business opportunities that SMEs are uniquely suited to tackle, especially because of their small size and flexibility. Capturing green markets is an important motive for eco-innovation and ecoentrepreneurship. Both eco-entrepreneurs and eco-innovators also stand to reap commercial benefits by securing intellectual property rights on green products and consequently, a competitive advantage in the green marketplace.
- 2. <u>Cost reduction.</u> Greening-related cost reductions for SMEs generally arise from efficiency gains since less inputs are required to produce the same output. These cost reductions are realized through the following channels: process efficiency (by optimizing current processes or introducing new more efficient ones, SMEs minimize the required inputs and waste production), product design (SMEs can re-design their products to reduce the required inputs without sacrificing the product's utility), waste disposal (in addition to reducing waste by improving process efficiency, SMEs can reuse already-generate waste or pass it along to other companies. This reduces cost of waste disposal), source of raw material (SMEs can reduce cost of raw materials by switching to re-cycled materials), infrastructure efficiency (SMEs can generate savings associated with energy efficiency lighting, building insulation, and heating systems efficiency), packaging and transport (by reducing the volume of packaging and switching to local suppliers to decreasing shipping distances, SMEs can further reduce costs).



It should be noted that the trade-offs between greening and SME business performance arises because of the uncertainty of greening measures and the burden on the SMEs' limited resources that greening may pose. The dual effect of the high resource burden (both financial and human) of greening and the limited resources of SMEs poses a challenge for SMEs in balancing business performance with environmental objectives. Greening often entails investment in infrastructure and technology, compliance activities, and innovation, which poses a financial burden for SMEs that generally face financial constraints. In addition to the financial burden of greening, greening initiatives impose a drain on the constrained human capital resources of SMEs. For example, eco-innovation and eco-adoption in SMEs requires a certain degree of managerial skills, technological understanding, learning ability and absorptive capability to make use of external technology.

Moreover, eco-entrepreneurs operate in highly specialized and technical industries, and thus, they are in need of equally specialized and technical skills, which tend to be in short supply. Simultaneously, the eco-entrepreneurs themselves may be limited in their skills. It's important to note that both financial and human capital constraints do not operate in isolation. In fact, they reinforce one another. Collectively, these burdens prevent SMEs from implementing measures that generate the greatest improvements in sustainability.

It should be noted that the not green growth initiatives are demanded but also demand for transparency on sustainable and socially responsible practices is on the rise. The terms "ESG" (Environmental, Social and Governance) and "sustainability" are used interchangeably, especially when it comes to benchmarking and disclosing data.

Sustainability is an umbrella term for many green concepts and corporate responsibility, while ESG has become the preferred term for investors and the capital markets. The industry may have started with sustainability efforts, but it has evolved to include ESG practices, performance, reporting and relevance to capital opportunities.

The Importance of Environmental, Social and Governance (ESG) Reporting

The terms "ESG" and "sustainability" are used interchangeably, especially when it comes to benchmarking and disclosing data. Sustainability is an umbrella term for many green concepts and corporate responsibility, while ESG has become the preferred term for investors and the capital markets. ESG data helps identify risk-adjusted returns.

Companies are accountable to their various stakeholders like investors, customers, employees, and nongovernmental organizations (NGOs) that want to evaluate a company's impact on the world.

Environmental, Social and Governance (ESG) analysis and reporting can provide valuable insights and help create long-term value for stakeholders. It can significantly impact the financial metrics of a company and better inform investment decisions.

ESG reporting refers to the disclosure of data covering the company's operations in *three areas: environmental, social and corporate governance.* It provides a snapshot of the business's impact in these three areas for investors.

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Picture: Key elements for ESG Source: <u>PWC</u>

	Environmental pillar				
	Climate change	Natural resources	Pollution & waste	Environment opportunity	
	Carbon emissions	Water stress	Toxic emissions & waste	Q Oportunities in clean tech	
	Product carbon footprint	Biodiversity & land use	l Packaging materia & waste	al Oportunities in green building	
	Financing environmental Impact	Raw material sourcing	Electronic waste	Oportunities in renewable enerç	ју
	Climate change vulnerability				
Social pillar Governa pillar					vernance ar
Human capital	Product liability	Stakeholder opposition	Social opportunity	Corporate governance	Corporate behavior
Labor management	Product safety & quality	Controversial sourc- ing	Access to communication	Board divesity	Business ethics
Health & safety	Chemical safety		Access to finance	Executive pay	Anti-competitive practices
Human capital development	Financial product safety		Access to health care	Ownership	Corruption & instability
Supply chain labor standards	Privacy & and data security		Oportunities in nutrition & health		
	Responsible investment			Accounting	Financial system Instability
	Health & demo. risk				Tax Transparency



The analysis of performance across these ESG factors summarizes quantitative and qualitative disclosures and helps screen investments. ESG reporting helps investors avoid companies that might pose a greater financial risk due to their environmental performance or other social or governmental practices.

ESG reporting encompasses both *qualitative disclosures* of topics as well as *quantitative metrics* used to measure a company's performance against ESG risks, opportunities, and related strategies.

ESG reporting is an ideal and effective means of enabling companies to answer in a single document a wide variety of questions that stakeholders may raise.

However, creating an ESG report can be challenging, as it must meet the requirements of the reporting methodology and have the right balance of information from the individual agendas. Moreover, the companies need to determine *how* to communicate relevant information and *what* ESG information and indicators to report.

The ESG contains *three main pillars*¹⁹:

- 1. <u>Environmental.</u> The environmental criterion considers how companies use energy and manage their environmental impact as stewards of the planet. The "E" considers how a company uses resources across the board Scope 1 to Scope 3²⁰. Factors considered are energy efficiency, climate change, carbon emissions, biodiversity, air and water quality, deforestation, and waste management. Companies that do not consider these environmental risks may face unforeseen financial risks and investor scrutiny.
- 2. <u>Social.</u> The social criterion examines how a company fosters its people and culture, and how that has ripple effects on the broader community. Factors considered are inclusivity, gender and diversity, employee engagement, customer satisfaction, data protection, privacy, community relations, human rights, labour standards.
- 3. <u>Governance.</u> Governance considers a company's internal system of controls, practices, and procedures, how an organization stays ahead of violations. It ensures transparency and industry best practices and includes dialogue with regulators. Factors considered are the company's leadership, board composition, executive compensation, audit committee structure, internal controls, and shareholder rights, bribery and corruption, lobbying, political contributions, and whistle-blower programs.

ESG reporting is still voluntarily for most countries, but there are increasing global regulations regarding corporate ESG data reporting.

Proactive and future-focused companies understand the importance of communicating ESG criteria in their business strategy and purpose. They are voluntarily providing their ESG data in their annual reporting. It should be noted that companies with strong ESG performance have demonstrated higher returns on their investments, lower risks and better resiliency during a crisis. Investors are increasingly considering ESG issues to help manage investment risks. The Deloitte Center for Financial Services expects ESG-mandated assets in the United States to comprise 50% of all professionally managed investments by 2025. ESG performance improvements and reports show investors how a company mitigates risks and generates sustainable long-term financial returns. ESG performance improvements and reports show investors how a company mitigates risks and generates sustainable long-term financial returns.

²⁰ For more information: https://sphera.com/glossary/what-is-scope-3-emissions-accounting/



¹⁹ For more information: https://www.pwc.com/sk/en/environmental-social-and-corporate-governance-esg/esg-reporting.html

On the other hand, companies that do not provide these reports show a lack of transparency and concerned investors may overlook them as potential investments.

While the demand and practice of ESG reporting have increased, there still lies a considerable knowledge gap between ESG information and supply. This gap is driven by several factors like varying ESG reporting standards and frameworks, nonmandatory reporting regimes, and steep costs to collect and report data. These can hamper the efforts to offer higher-quality data to investors to inform their decisions. Fortunately, companies can work with experts to develop and incorporate ESG balanced strategies into their overall performance.

Checklist for ESG reporting²¹:

- Build an internal team to create a reporting framework that includes ESG issues, targets and initiatives, performance metrics, internal and external reporting standards.
- ✓ Conduct materiality assessment and gauge the relative importance of sustainability issues for various stakeholders.
- ✓ Work with ESG solutions experts who can provide real-time data to map your ESG needs and provide the resources and insights to meet reporting needs that comply with stakeholders, industry and even non-profit standards.
- ✓ Create an effective communication strategy to showcase your ESG management framework and reporting for external and internal stakeholders.
- ✓ Report your ESG performance and show how it aligns with your business strategy.
- ✓ Continually work on and improve upon your ESG performance by engaging with stakeholders and understanding emerging sustainability issues affecting your business.

It should be noted that ESG reporting and disclosures help companies get access to capital markets and secure their license to operate. Strong ESG performance leads to preferential treatment from investors compared to companies whose environmental or other practices may pose a greater financial risk. Robust sustainability and ESG strategies increase business resilience and help improve overall company performance.

Green Growth and Capital Connection

In order to achieve growth, different sources of capital are needed. The Four-Capital Model of Wealth Creation was first developed by Ekins (1992) and includes *four capital stocks:*

- 1. <u>Ecological (natural) capital</u>, which provides three types of environmental functions: the provision of resources for production, such as raw materials; the absorption of wastes that come from the production process and the disposal of consumptive materials; and most importantly, basic environmental services, which include 'survival services' such as climate and ecosystem stability, and 'amenities services' such as the beauty of natural landscapes.
- 2. <u>Human capital</u> relates to the individual's capacity for work, such as knowledge, skills, and health.

²¹ For more information: https://sphera.com/glossary/what-is-esg-reporting-and-why-is-it-important/



- 3. <u>Social and organizational capital</u> refers to shared norms and values, networks and organizations that enable the coordination and mobilization of individuals' contributions.
- 4. <u>Manufactured capital</u>, which to material goods, such as tools or buildings that contribute to the production process and are utilized for a long period of time, typically more than a year.

All of these capital stocks produce a flow of services that become valuable inputs to the productive process. Benefits of capital stocks, although difficult to assign a monetary value, can be improved through investments, which translate into an addition or improvement in capital stocks (GGKP, 2020).

Following the goal of green growth and the four capitals that frame the key elements that ensure quality of life and material conditions, green growth at the landscape level aims to bring together natural, social, human, and economic capital benefits in order to support and shape current, and future, well-being. For this, green growth landscape interventions can be interpreted as a simultaneous increase in the stock of capitals in order to improve the benefits which they give rise to.

The GGGI (2020) proposed *3 Returns Framework* which builds on the consideration of landscape interventions as:

- 1. <u>Investment in Natural Capital:</u> resources allocated to increase the stocks of natural assets.
- 2. <u>Investment in Social & Human Capital:</u> resources allocated to increase cooperation within and among groups, individual and collective knowledge, skills, and competencies; while building/ strengthening institutions for resource management, decision making, and social integration.
- 3. <u>Investment in Financial Capital:</u> resources allocated to acquire or increase the assets needed in order to provide goods or services. The financial capital is part of the economic capital.

Building the fundamentals of the 3 Returns Framework²², green growth interventions for landscapes would imply investing in natural, social & human, and financial capital, which in turn will result in an increase in benefits, while simultaneously leading to the preservation of the resources required for current and future well-being (economic, natural, social, and human capital stocks). It is important to highlight that the monetizable benefits from interventions support the computation of profitable (NPV) and efficiency (ROI) measures, while non-monetizable benefits, which are difficult or impossible to give a monetary value, reflect the changes in important aspects that allow for the support of green growth interventions.

 $^{^{22}}$ For more information: https://www.greengrowthknowledge.org/blog/three-price-one-innovative-approach-landscape-assessment



Financing Solutions for Green Growth

A paradigm shift is under way in the private sector, with sustainability becoming a decisive factor in financing and an imperative for businesses to access third-party financing (debt or equity). Companies with sustainable projects and those transitioning to sustainable business models stand to gain from increased access to financial products and services that favour environmentally sustainable projects, strategies and performance. The range of financing products and services that financial institutions can deploy to drive the transition to an environmentally sustainable economy and implement targets is wide and varied, and includes short-term working capital and trade finance, risk management products such as insurance, guarantees and hedging instruments, and longer-term financing such as equity and debt. Approaches to providing this finance also vary, including project finance, syndication, collateralized obligations and private placements, with certain financial institutions choosing to provide a wide range of financing products and becoming so-called "universal banks".

Financial institutions are starting to deploy financial products and service offerings to clients to transform companies in areas such as decarbonizing energy systems; resource-efficient circular economy business models; nature-positive, regenerative food and agricultural production; and green infrastructure.

Developing innovative financial instruments and realigning existing financial instruments are key to supporting sectoral transformations.

Financial products that aim to catalyse change include:

- ✓ Environmental, social and governance (ESG) funds²³. Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.
- ✓ <u>Green mortgages</u>²⁴. A green mortgage is a product that can be offered by a lender if the buyer is able to establish that the property they wish to purchase meets particular environmental standards. The most straight-forward way lenders can establish that is with EPC ratings, and lenders often require an A or B rating (although some will take C ratings) to offer a green mortgage.
- ✓ <u>Sustainability-linked loans</u>²⁵. Sustainability linked loans are any types of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) which incentivise the borrower's achievement of ambitious, predetermined sustainability performance objectives. The borrower's sustainability performance is measured using predefined sustainability performance targets (SPTs), as measured by

²⁵ For more information:

https://www.lma.eu.com/application/files/8416/2210/4806/Sustainability_Linked_Loan_Principles.pdf



²³ For more information: https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp

²⁴ For more information: https://www.foxtons.co.uk/discover/2021/10/what-are-green-mortgages.html.

predefined key performance indicators (KPIs), which may comprise or include external ratings and/or equivalent metrics, and which measure improvements in the borrower's sustainability profile.

- ✓ <u>Sustainability-, green-, social impact-, gender and transition bonds</u>²⁶²⁷. Sustainable bonds, which include green, social, sustainability and sustainability-linked bonds, can offer a range of potential benefits including: mitigating physical, transition, and long-term sustainability risk and seizing potential opportunities; meeting investor demand; a aligning with sustainability goals.
- ✓ <u>Nature-based financial solutions²⁸</u>. Investment flows into nature-based solutions and solutions for future investments needed to meet the biodiversity, climate and land restoration targets.

Picture: The impact imperative for sustainable development. Four action areas Source: <u>OECD</u>



²⁶ For more information: https://global.pimco.com/en-gbl/resources/education/understanding-green-social-and-sustainability-bonds

²⁷ For more information:

²⁸ For more information: https://www.eib.org/attachments/pj/ncff-invest-nature-report-en.pdf



https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD(2021)20 & docLanguage=En

 \checkmark Impact investments²⁹³⁰³¹. Impact investing is an investment strategy that aims to generate specific beneficial social or environmental effects in addition to financial gains. Impact investments may take the form of numerous asset classes and may result in many specific outcomes. The point of impact investing is to use money and investment capital for positive social results.

Issuance of green, social, sustainability and sustainability-linked bonds is set to reach USD 1 trillion in 2021. Banks can also directly influence environmental performance through covenants and conditions that are in place for the duration of the loan.

Financial institutions can provide incentives for companies to invest in business opportunities for transformative innovation. Linking financial product features to environmental and social performance is an emerging practice which enables financial institutions to directly influence the behaviours and performance targets of companies and individuals. For example, sustainability-linked loans offered by banks to companies may vary the interest rate based on sustainability performance measured by ratings agencies, certifying bodies or audited environmental /social performance indicators, including those on gender equality. To support emerging business models, banks may reconsider what they can accept as collateral - for example in valuing what might be previously considered as 'waste' streams, instead as considered as 'feedstock' in circular business models, or using future income streams from carbon credits in project finance transactions.

As intermediaries, financial institutions must often consider multiple client groups. Green mortgages can incentivize property owners by linking interest rates and amounts that may be borrowed to energy performance labels and commitments on energy retrofits. Financial institutions can structure environmentally and socially focused financial products for retail customers, or green bonds for institutional investors. Advantageous pricing can incentivize clients to improve environmental or social performance. These differences in pricing are already showing up in bond issuance.

Meaningful engagement with companies by investors and banks can take to drive positive environmental and social impacts across portfolios. Financial institutions have influence through channelling finance to corporations that sit at the top of value chains that can foster environmentally sustainable production through their supply chains and environmentally sustainable consumption across consumers.

Insurers are integrating ESG metrics into underwriting practices and developing insurance solutions to enhance environmental, social and governance performance across the system, leading to greater resilience. As risk managers, insurers and investors, the insurance industry plays an important role in promoting environmental sustainability and tackling risks, including climate change, biodiversity loss and pollution. Insurance products are likely to play an important role in providing collateral to open up new environmental markets, while providing opportunities for innovative ways to close the gender gap by targeting their products to women. Initiatives such as the *insurance Sustainable Development Goals* (iSDGs) aim to develop approaches that utilize insurance products and solutions to support the SDGs.

For businesses, compliance is the minimum expectation for a social license to operate. Financial institutions need to consider management of positive environmental impacts

³¹ For more information: https://thegiin.org/impact-investing/need-to-know/



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²⁹ For more information: https://www.investopedia.com/terms/i/impact-investing.asp

³⁰ For more information: https://www.oecd.org/investment/social-impact-investment.htm

alongside integration of ESG factors within their overall risk management. Across a healthy future-oriented portfolio, financial institutions may have to consider a balance between investments and loans that are either:

- <u>"Compliant"</u> –subject to ESG risk assessments and from a sustainability point of view are seen to 'do no harm';
- <u>"Incremental"</u> contributing to the transition but still part of today's mature business-asusual economy;
- <u>"Transformative"</u> catalysing business models and technologies that are capable of propelling us towards a regenerative and circular economy in the decades ahead. Not only are these the areas where most financing gaps presently exist, they arguably represent the most fertile area to develop the industries of the future.

Financial institutions may need to co-innovate with standard setters to advance common taxonomies for sustainable economic activities and standards for comparability and transparency in sustainable finance product development. Common classification systems for sustainable economic activities can enable different types of financing to be shifted towards new catalytic companies that seek to deliver positive impacts or shifted towards existing transitioning companies that are moving towards environmentally sustainable business models.

Before the 2020 COVID-19 crisis, efforts to ensure adequate financing levels for the 2030 Agenda were insufficient, with a persistent annual financing gap for the SDGs of US\$2.5 trillion. Since the crisis, this financing gap has increased to US\$4.2 trillion in developing countries. Yet, this still means that shifting just 1.1 per cent of the total assets held by banks, institutional investors or asset managers would be sufficient to fill this gap in SDG financing.



Picture: SDG financing gap is only about 1% of global assets Source: <u>United Nations, Environment Programme</u>



Around US\$1.9 trillion of some US\$3.5 trillion per year in SDG financial flows on average come from private sources, however, financial systems vary from country to country, resulting in varying degrees of financial sector development and therefore varying "gaps" in the provision of financing products and approaches. The lowest-income countries tend to have the largest SDG financing gaps. Regionally there is a particularly large financing gap for Africa of US\$1.3 trillion per year.

The gap in developing countries may be due to inherent country-risk which is not being sufficiently de-risked through public or philanthropic sub-commercial investment. It can also be a function of the lack of experience and familiarity with investing in emerging and frontier markets, leading to a lack of risk appetite to make investments to adapt to climate change or address biodiversity loss or pollution and/or increase resilience to these impacts. There may also be a lack of understanding of the opportunities to deliver multiple benefits, such as decentralized renewable energy.

To help solve some of these challenges, public support can be directed through flows of funds from governments, multilateral development banks (MDBs) or other public agencies that help to de-risk investments. This can lead to product innovation within private financial institutions to create 'blended finance products' that provide complementary finance. This process could provide huge potential for financial institutions in the future. However, many of these instruments will require greater liquidity volumes (i.e. more cash) to increase uptake.

Regional investors in emerging markets are also raising ambition in developing countries for environmentally sustainable and inclusive growth and can play a pivotal role in tackling climate change and other global environmental challenges such as biodiversity loss and pollution. Multilateral and bilateral finance institutions are well placed to provide finance for achieving the SDGs while unlocking private finance. Having often compartmentalized support to the financial sector in the past in their private sector financing arms, development finance institutions (DFIs) are increasingly developing new strategies to enable collaboration and coinvestment between public and private sectors, thereby creating a stronger foundation for leveraging private sector finance towards a number of critical SDG areas. This is being achieved through both mainstreaming environmental and social sustainability in financing of large industry sectors and facilitating private sector engagement in specific areas such as climate adaptation, disaster risk financing, and biodiversity loss.

Another link between private sector investors and multilaterals that could be exploited is capital mobilization via treasury operations, e.g. issuance of green and - more recently - SDG bonds, by multilateral financial institutions that benefit from the fact that the entirety of multilaterals' portfolios can be classified as "environmental and socially sustainable finance". A variation on this is assistance provided to governments to structure sovereign sustainable development bonds for various targeted thematic areas (e.g. "blue infrastructure") where there is potential for investors to take part. Fiscal measures can provide additional support for environmentally and socially sustainable investment - for example by providing tax advantages for certain types of sustainability investments or removing fiscal support for polluting fuels.

The ability of multilateral financial institutions to leverage their long-standing strength in mainstreaming and deeply integrating environmental and social issues across their entire portfolios - combined with their ability to provide technical support on the ground - can attract private sector investors to place capital in emerging markets and developing countries with challenging conditions, where lack of regulatory oversight on environmental and social issues would normally be a factor for sustainability-minded financial institutions. Support from DFIs to enable the financial sector to contribute to achieving the SDGs can include making project



financing more commercially viable, and growing their internal technical capacity to support operational commitments.

*Sustainable Finance Roadmap*³² released in 2021 sets out actions to enhance the role of international financial institutions, including multilateral development banks, and public policy incentives for mobilizing private investment to support the implementation of the Paris Agreement and the 2030 Agenda. Multilateral banks, in their effort to maximize finance for development in the environmental and social sustainability space, are now scaling up capital flows for the commercial financial sector in developing countries through many avenues and strategies, such as:

- Creating markets and enabling environments (regulatory & policy reforms, supporting industries/ services).
- ✓ Developing platforms and business models that can be scaled across regions and sectors.
- ✓ Developing early-stage projects and ventures.
- ✓ Supporting country-level PPP programs.
- ✓ Providing public and concessional resources for risk instruments and credit enhancements.
- ✓ Providing concessional financing (also known as "blended" financing).

*Blended finance*³³ has emerged as a tool to address risks and facilitate private financing that can contribute toward the SDGs. Blended finance combines concessional financing—loans that are extended on more generous terms than market loans— and commercial funding. In these arrangements, relatively small amounts of concessional donor funds mitigate specific investment risks and help rebalance risk-reward profiles of pioneering investments that may not be able to proceed on strictly commercial terms.

In this process, both public and private capital flows toward supporting environmentally sustainable and inclusive global growth in line with the SDGs. This means that financial institutions need to be mindful that investment to support the achievement of SDGs does not automatically equal meeting their commitments to integrating ESG and environmentally and socially sustainable finance into their operations.

European Union Taxonomy for Sustainable Development

European Union proposed renewed sustainable finance strategy and implementation of the action plan³⁴ on financing sustainable growth. The action plan set out a comprehensive

³⁴ For more information: https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_lt



³² For more information: https://www.greengrowthknowledge.org/research/roadmap-sustainable-financial-system.

³³ For more information:

https://wedocs.unep.org/bitstream/handle/20.500.11822/37567/GFB6.pdf

strategy to further connect finance with sustainability. *It included ten key actions that can be divided into three categories:*

I. REORIENTING CAPITAL FLOWS TOWARDS A MORE SUSTAINABLE ECONOMY

- 1. <u>Establishing a clear and detailed EU taxonomy, a classification system for sustainable activities</u>³⁵. The Commission is now preparing the delegated act on climate change objectives for the end of 2020, which will enter into force one year later. The delegated act concerning the other six environmental objectives (sustainable use and protection of water and marine resources, circular economy, pollution prevention and control and protection and restoration of biodiversity and ecosystems) is planned to be adopted by the end of 2021.
- 2. <u>Creating an EU Green Bond Standard and labels for green financial products</u>³⁶. Based on the final report and usability guide of the Technical Expert Group (TEG), the Commission is exploring the development of a voluntary EU Green Bond Standard.
- 3. <u>Fostering investment in sustainable projects</u>. To increase investments in sustainable projects, the Commission connects sustainable finance frameworks and tools with the Sustainable Europe Investment Plan³⁷, Invest EU³⁸and other relevant EU funds.
- 4. <u>Incorporating sustainability in financial advice</u>. In January 2019, the Commission published draft rules on how investment advisers and insurance distributors should take sustainability factors into account when providing advice to their clients³⁹.
- 5. <u>Developing sustainability benchmarks</u>⁴⁰. In May 2018, the Commission made a proposal for a regulation amending the benchmark regulation.

II. MAINSTREAMING SUSTAINABILITY INTO RISK MANAGEMENT

- 6. <u>Better integrating sustainability in ratings and market research</u>. To strengthen disclosure on how ESG factors are being considered, ESMA updated its Guidelines on disclosure requirements for credit ratings⁴¹ in July 2019 and has started checking how credit rating agencies apply these new guidelines in April 2020.
- <u>Clarifying asset managers' and institutional investors' duties regarding sustainability</u>. On 9 December 2019, the <u>Regulation on sustainability-related disclosures in the financial</u> <u>services sector</u>⁴² was published in the Official Journal. Commission services are now working on implementing legislation, clarifying investor duties across key pieces of the EU financial services acquis.

⁴¹ For more information: https://ec.europa.eu/info/business-economy-euro/banking-andfinance/sustainable-finance/eu-climate-benchmarks-and-benchmarks-esg-disclosures_lt ⁴² For more information: https://eur-lex.europa.eu/legalcontent/EN/TXT/?uri=CELEX:32019R2088

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³⁵ For more information: https://eur-lex.europa.eu/legal-

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³⁶ For more information: https://ec.europa.eu/info/consultations/finance-2020-eu-green-bond-standard_lt

 ³⁷ For more information: https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24
³⁸ For more information: https://ec.europa.eu/commission/priorities/jobs-growth-and-

investment/investment-plan-europe-juncker-plan/whats-next-investeu-programme-2021-2027_en

³⁹ For more information: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12068-Sustainable-finance-obligation-for-investment-firms-to-advise-clients-on-social-and-environmental-aspects-of-financial-products_en

⁴⁰ For more information: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-climate-benchmarks-and-benchmarks-esg-disclosures_lt ⁴¹ For more information: https://ec.europa.eu/info/business-economy-euro/banking-and-

8. <u>Introducing a "green supporting factor" in the EU prudential rules for banks and insurance companies</u>.

III. FOSTERING TRANSPARENCY AND LONG-TERMISM

- 9. <u>Strengthening sustainability disclosure and accounting rule-making</u>. In June 2019, the Commission published guidelines on reporting climate-related information⁴³, which consist of a supplement to the existing guidelines on non-financial reporting.
- 10. <u>Fostering sustainable corporate governance and attenuating short-termism in capital</u> <u>markets</u>. On 1 February 2019 the Commission requested advice from ESMA, EBA and EIOPA on undue short-term pressure from the financial sector on corporations⁴⁴.

The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities. It could play an important role helping the EU scale up sustainable investment and implement the European green deal. The EU taxonomy would provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In this way, it should create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed.

⁴⁴ For more information: https://ec.europa.eu/info/publications/190201-call-for-advice-to-esasshort-term-pressure_lt



⁴³ For more information: https://ec.europa.eu/info/publications/non-financial-reporting-guidelines_lt#climate

Control Questions

- 1. What purposes does green growth strive for?
- 2. What does greenwashing mean?
- 3. What aspects does environmental sustainability involve?
- 4. What are the main pillars of environmental sustainability?
- 5. How could businesses contribute to the achieving of sustainable development goals?
- 6. How could businesses calculate overall environmental footprint?
- 7. What is a life-cycle assessment (LCA)?
- 8. How could businesses reduce carbon footprint?
- 9. What are the main challenges of green growth for businesses?
- 10. Why do we need to switch to a circular economy?
- 11. What aspects does initiative Global Opportunities for Sustainable Development Goals highlight?
- **12.** Can businesses adopt one fit all strategy for green growth? Why not? What aims could be associated with green growth strategies?
- **13.** What are the European strategies related with green growth? What are the priority sectors in EU?
- 14. What are the benefits of green growth for SMEs?
- 15. What are the types of green SMEs?
- 16. How green SMEs could contribute to implementation of green growth?
- 17. Why ESG reporting is important for businesses?
- 18. What are the main elements of ESG reports? What could be the topics of ESG reports?
- **19**. What are the financing solutions for green growth? How does European Union plan to connect finance with sustainability?
- 20. What aspects does the 3 Returns Framework encompass?

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