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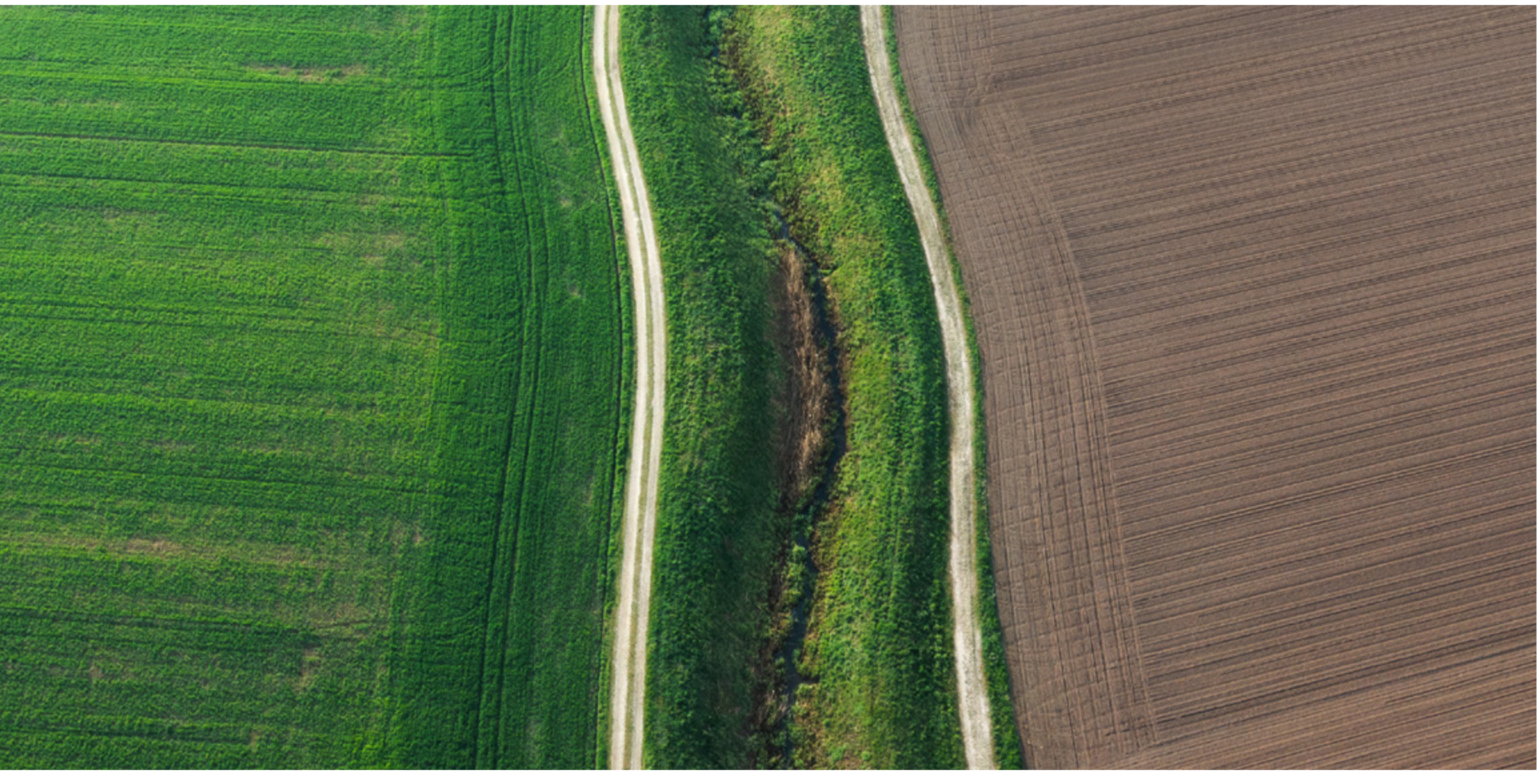
# Key 2024 sustainability trends driving the year ahead



**Lead authors:**
**Lai Ly**
Global Head of Sustainability Research
S&P Global Ratings

**Lindsey Hall**
Head of Thought Leadership
S&P Global Sustainable1

**Co-authors:**
**Bruno Bastit, Corinne Bendersky, Terry Ellis, Paul Munday, Bruce Thomson**
S&P Global Ratings

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### Highlights

As the physical risks from climate change increase, we expect 2024 to bring a heightened focus on adaptation and resilience planning alongside rising understanding of the impacts of climate change — including on human health.

In the year ahead we expect companies will take steps to measure and manage material sustainability issues, such as plastic, throughout their value chains under some countries' mandatory disclosure standards. Assessing value chain impacts is complex, highlighting the need for high-quality data and transparent methodology.

As reliance on newer technologies such as artificial intelligence grows, we expect increasing pressure to ensure more robust governance to manage the risks and opportunities AI presents.

Lastly, we anticipate that the increasing urgency around decarbonizing the economy could take the global green, social, sustainability, and sustainability-linked bond (GSSSB) market closer to the $1 trillion mark.

Over the past several years, many companies globally have taken a voluntary approach to sustainability goals, decisions and strategies. Throughout 2023, a common refrain was that progress toward sustainability goals will be private sector-led and government-enabled.

As 2024 begins, however, many stakeholders are sitting on the sidelines as they wait to see what policies and regulations unfold. This wait-and-see approach is further influenced by the geopolitical environment, evolving attitudes toward the concept of environmental, social and governance or ESG, and continued fear of potential litigation.

This collective breath-holding stands at odds with growing understanding of the risks and opportunities that sustainability issues pose. Stakeholders at the forefront of sustainability discussions continue pushing for action to address climate change — and increasingly, the interlinked crisis of biodiversity loss — in a just and equitable manner.

This tension between urgency and inaction will continue to influence sustainability discussions throughout 2024, as reflected in the trends below.

These trends are expected to impact a wide range of stakeholders, from companies, investors and workers to communities, regulators and policymakers. This list builds on many of the trends we identified last year, several of which we believe will remain relevant in 2024.

This report draws on the contributions of researchers and analysts across S&P Global's divisions.

# A heightened focus on adaptation and resilience plans — or the lack thereof

The impacts from climate hazards are worsening and will be heterogeneous. Our research finds that up to 4.4% of the world's GDP could be lost annually in the absence of adaptation, with developing economies disproportionately affected. Impacts will also vary for companies. The interdependencies between companies' value chains and the local specificities of adaptation mean that the financial impacts of physical climate risks on companies will affect almost all stakeholders to some degree. In the last few years, many companies have been focused on responding to and managing climate transition risks. Fewer companies have disclosed how worsening climate hazards may affect their operations and value chains.

Amid rising awareness of physical climate risks among financial market participants and growing insured losses, we expect new disclosure standards to accelerate the progress of companies in understanding, responding to and disclosing climate-related impacts, financial implications and planned responses. At the same time, financing rising adaptation costs may become more difficult with higher-for-longer interest rates and slower economic growth. This is adding another hurdle to companies' progress on adaptation, particularly in developing countries.

# Climate's impact on human health will come into greater focus

In 2024, we expect that the economic and financial costs of adverse health impacts from climate change will attract greater attention from governments and companies as the observed impacts of climate change increase. This issue has long been at the heart of concerns over climate change and was placed formally on the global agenda at the UN's COP28 climate change conference in December 2023 when global leaders endorsed a "Health and Climate Change Declaration."

Beyond commitments to build climate-resilient health systems and enhance research, the agreement was accompanied by an initial $1 billion in cumulative financial commitments from governments, multilateral development banks and private philanthropies.

Risks related to the spread of infectious and vector-borne disease, access to sufficient high-quality water and food, and the direct health impacts of extreme weather events are all heightened as temperatures rise. Absent adaptation, research shows the effects of climate change are likely to disproportionately impact the health of those communities that are already most vulnerable, including, those living in poverty, exposed to physical climate risks, with already limited access to quality health systems, and the elderly. There are also direct economic impacts, such as fiscal and financial strains on health systems, productivity loss from working in hotter environments, and the disruptive effects of epidemics.

# 2024 could be a make-or-break year for the voluntary carbon market

The voluntary carbon market (VCM) is at a crossroads. With new integrity guidelines in place in 2024, we will be watching how VCM project developers respond and how buyers drive demand for higher-quality carbon credits, both of which will be critical to the market's viability.

A tumultuous 2023 saw the quality of numerous VCM projects — and the corporate buyers that purchase them — heavily criticized over whether they reduced emissions according to stated plans.

Some prominent buyers said they would no longer use carbon credits, with prices falling throughout the year. Yet, we saw progress made with new initiatives such as the Integrity Council for Voluntary Carbon Markets publishing new integrity guidelines for carbon credit-producing projects that aim to address market concerns on quality and transparency.

Policymaker and regulator interest also increased, with the European governments and Monetary Authority of Singapore all signaling interest in a commoditized and liquid carbon credit market.

COP28 did not result in agreement on rules for a new UN-backed carbon market, which could have led to regulated carbon markets. Nonetheless, the VCM remains the main route for companies looking to use carbon credits as part of their decarbonization plans. It also remains a source of finance for developers of climate mitigation projects that might otherwise not be possible, especially in emerging markets.

# Reporting on material sustainability issues in the value chain will be highly challenging

The sustainability impacts of companies can often be attributable to their upstream or downstream activities in addition to their direct operations. Now, with the EU Corporate Sustainability Reporting Directive (CSRD) coming into force in 2024; release of the first standards from the International Sustainability Standards Board — known as IFRS S1 and S2; and the recent approval of the Corporate Sustainability Due Diligence Directive (CSDDD), it is clearer the extent to which companies in Europe and beyond will be required to measure, manage and report on their value chain impacts. The CSRD and CSDDD, for instance, apply also to non-European companies with significant activities in the EU.

Starting in 2024, companies will face the practical challenges of meeting these requirements. Visibility into and data on value chain activities is complex, and many companies do not yet have the capabilities or methods to properly assess and report on their full value chain exposure. This is particularly true for entities with complex supply chains upstream and a large variety of products and services downstream in markets with less-advanced reporting standards.

# Potential global plastic ban could trigger further actions to transition to a plastic circular economy

A global treaty to end plastic pollution is set to be finalized by the end of 2024 with implications for the full life cycle of plastics, including production, design and disposal. Past initiatives, such as the New Plastics Economy Global Commitment, have attempted to rein in plastic pollution. But the treaty, if ratified, would mark the first legally binding international effort.

We anticipate this development could spur greater investments in a circular economy for plastics, where products and materials are designed for reuse and recycling, to meet the estimated $65 billion per year required through 2040. We view the consumer products, petrochemical and municipal waste sectors as likely to drive these efforts, given their important role in the plastics value chain. Notably, there is still a long way to go before the plastic circular economy becomes scalable.

Researchers estimate marine plastic pollution drives 1% to 5% reductions in ecosystem services, equating to up to $2.5 trillion in annual losses globally. Several rules have been introduced to stem the mounting issue. In 2023 alone, the EU agreed to restricted use of single-use plastics and reached a provisional agreement enhancing eco-design requirements. The Philippines began enforcing its Extended Producer Responsibility law. In the US, legislators reintroduced a federal plastics pollution act, and numerous states proposed legislation around extended producer responsibility packaging.

# The global sustainable bond market will likely see modest growth in 2024

We anticipate that issuance of global green, social, sustainability, and sustainability-linked bonds (GSSSB) will continue to grow modestly in 2024, driven in large part by green bond issuance. The GSSSB market returned to growth in 2023 against a backdrop of stagnating global bond issuance. While we expect 2024 to be a tough year for borrowers across all asset classes as tighter financing conditions continue and amid softer economic conditions, the increasing urgency around decarbonizing the economy could take the GSSSB market closer to the $1 trillion mark.

Ongoing questions about the credibility and effectiveness of some types of labeled debt will likely remain a key focus for investors who have become more discerning in scrutinizing sustainability-labeled offerings. This is particularly true for sustainability-linked issuance, which has declined markedly since 2021, in line with our expectations. We also expect that transition finance, which focuses on decarbonizing harder-to-abate sectors such as steel or cement, will start to gain momentum but will likely remain contentious without a clear definition for the types of projects and strategies that qualify. We also see a large potential for growth in issuance by emerging markets, but this will be highly dependent on macroeconomic conditions.

# Increased pressure for better governance around AI

The role of data and technology underpins many of the trends we are watching in 2024. As reliance grows on newer technologies such as artificial intelligence, companies and governments may face increased pressure to ensure robust AI governance to manage the risks and opportunities provided by the technology. The use of AI technology could help support some sustainability goals and lead to new operational efficiencies.

For example, it could unlock new ways of tracking and understanding environmental and social issues, based largely on the technology's ability to process large amounts of data, and it could lower the cost hurdle for companies tracking and reporting sustainability issues.

However, in recent years the rapid adoption of AI laid bare the associated risks, such as labor disruptions, privacy breaches or copyright infringements. To manage these risks, ensuring effective governance and ethical practices is crucial. Several regulations around AI governance are emerging around the world, such as the milestone 2023 EU AI Act — the world's first comprehensive AI legislation that provides a risk-based and human-centered approach. We think that 2024 could bring several more regulations and guidelines globally.

*This report neither addresses views about credit ratings on individual entities nor constitutes a rating action.*

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