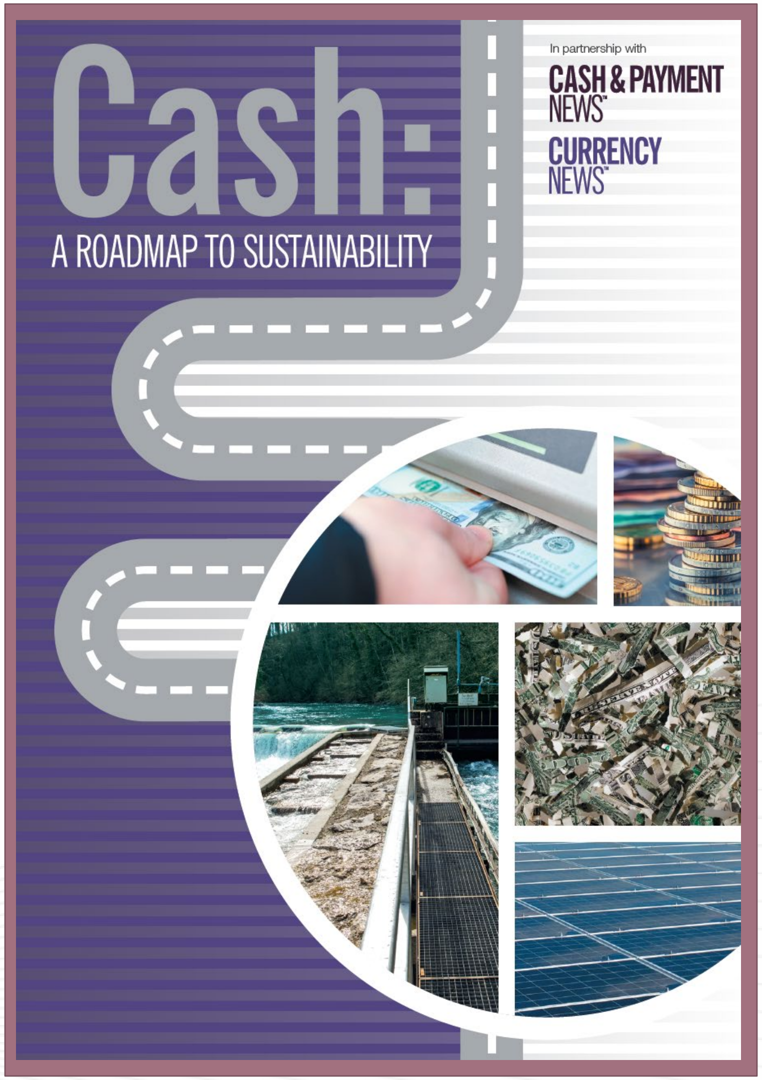
Beyond Greenwashing to Save the Planet

John Winchcombe

Cash : a Roadmap to Sustainability



https://estore.reconnaissance.net/cn-cash-roadmap-sustainability/

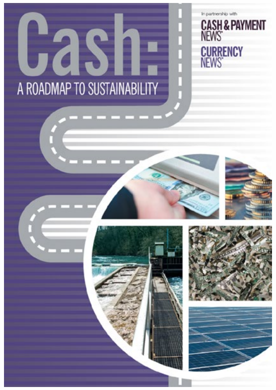
Cash & Payments Sustainability Forum™

Repurposing unfit cotton banknotes

https://cashandpaymentsustainabilityforum.com/wp-content/uploads/2022/11/Re-purposing-banknotes.pdf

Today's talk

1. What and how to measure environmental impacts
2. The power of procurement
3. Improving the cash cycle
4. Re-purposing unfit banknotes



Greenwashing

The Economist special report on ESG, 23 July 2022.

ESG has had a ‘**negligible impact on carbon emissions**’.

CASH & PAYMENT NEWS™

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New Report on The Importance of Cash in a Crisis

Professors Gerhard Rösl and Franz Seitz have written a paper in which they compare the handling of the 1929 depression, the 2008/9 recession, India’s demonetisation exercise and Greece’s experience in their sovereign debt crisis and financial challenges starting 2009 until today[1]. While the study is primarily about the provision of liquidity into the financial system, it also provides useful insights into the role and importance of cash.

The stock of money in an economy is made up for public money, cash and reserves, and private money, commercial bank money. Over the last few years there has been a focus on the effect of restricting cash use, how cash creates a bottom limit on negative interest rates, what happens to cash in a crisis and the cash paradox when there are fewer cash transactions but rising levels of cash in circulation.

Sadly, the range of crises to study is long – the 2008/9 global financial crisis, India’s demonetisation, the coup in Myanmar, the pandemic, and a series of wars in Iraq, Syria, Afghanistan and Ukraine.

All of these discussions come back to the role of money, which is ultimately underpinned by faith in the stable monetary value of whatever is being used as money. While commercial bank money has been increasing rapidly, so has cash. In most developed countries, apart from Sweden, cash increased at a faster rate than GDP between 1991 and 2021.

Cash usage is often attributed to the wish of people to avoid paying tax and for criminal activity. The data from 2020 during the pandemic questions this assumption. Cash increased but criminal activity sharply decreased. Additionally, the growth in high denomination banknotes in circulation rose more and faster than low denomination banknotes in major currency areas.

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1 On the stabilising role of cash for societies. Gerhard Rösel, Franz Seitz. Institute for Monetary and Financial Stability. Working Paper series 167 (2022).

ESG: In Need of a Clean Up

The Economist magazine issued a special report on Environment, Society and Governance (ESG) in its 23 July 2022 edition. It describes ESG as having had a ‘negligible impact on carbon emissions’. Social issues, such as workplace diversity, are hard to measure and in terms of governance ‘the ESG industry does a lousy job of holding itself to account, let alone the companies it is supposed to be stewarding.’

The article, though, argues for reform, starting with the measurements used. Six ESG ratings agencies, for example, use 709 different metrics across 64 categories. Ten of those 64 appeared in every ratings agency categories. Green house gas (GHG) emissions weren’t in all of them.

ESG partly measures and discloses things that firms, and their customers, turn a blind eye to – their impact on the atmosphere, oceans, air, water and biodiversity. ESG is a way of assessing the regulatory or reputational risks that come from ‘negative externalities’. To be useful, the measurements need to be standardised and trustworthy. While measuring scope one (direct emissions of the organisation) and scope two (eg. bought in electricity) is relatively straightforward, an index provider, MSCI, is quoted as saying that less than 40% of almost 10,000 firms in its world index reported scope one and two emissions.

Scope three emissions, those of third-party suppliers, is complex and hard. Less than a quarter of organisations in MSCI’s index measure scope three emissions. The quality of what is reported is poor.

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Greenwashing: ESG

McKinsey have written about whether companies really care about ESG. Four objections to ESG.

- ESG is not desirable, because it is a distraction.
- ESG is not feasible because it is intrinsically too difficult.
- ESG is not measurable, at least to any practicable degree.
- Even when ESG can be measured, there is no meaningful relationship with financial performance

The Challenge of Greenwashing

Danmarks Nationalbank has issued a paper 'Corporate CO2 communication is Not Associated with Fewer Emissions'[1]. In the paper annual reports of 141 large European companies were analysed to compare their communications about CO2 equivalent emissions with past, present and future developments in emissions. There was no clear statistical correlation over the period 2013-19.

In this context, The EU's Sustainable Finance Disclosure Regulation (SFDR) came into effect in March 2021 and is already requiring asset managers to disclose the credentials behind any investment products labelled as sustainable.

The UK's Financial Conduct Authority (FCA) is also unhappy about the prevalence of greenwashing. In response it has brought forward measures to manage the use of terms such as 'ESG', 'green' and 'sustainable'. Although such rules apply to financial products and organisations, it is indicative of the scale and the seriousness of the misuse of these terms that they are necessary.

Evidence of the need for such measures is easy to find in media reports. For example, while in May Deutsche Bank introduced a requirement that its suppliers undertake a vendor sustainability rating from EcoVadis, or another eligible rating agency, in June the CEO of Deutsche Bank subsidiary DWS resigned over claims that DWS had aggerated the sustainable credentials of some of its financial products. A few weeks earlier the US Securities and Exchange Commission fined BNY Mellon $1.5 million for misstatements and omissions about ESG considerations in making investment decisions for certain mutual funds that it managed.

The context for this latest FCA proposal is shown by a recent Boston Consulting Group (BCG) report[2] that found Environment, Social and Governance (ESG) related products could generate substantial revenues for retail banks. 75% of retail banks were found to be increasing their spend on ESG initiatives by 20%. The author said, 'sustainability has moved up the priority list for all stakeholders, making it the next frontier of competitive advantage for retail banks and a pillar for future growth.'

Challenge of metrics

At a recent session at the Sibos conference, the sheer complexity of measuring ESG was discussed. If environmental metrics are hard, the social and governance metrics are equally challenging. Whether it is sensible or even possible to award a 'score' for ESG was questioned, yet increasingly there is a regulatory requirement to do just that.

One of the speakers, Adrian Whelan, Global Head of Regulatory Intelligence at Brown Brothers Harriman, made two interesting comments.

First, 'everybody has to be doing something, either by law, regulation or for commercial purposes. If you don't have a coherent ESG strategy, that becomes your story.'

And second, 'the other thing about ESG is that it isn't, it can't and won't be the same on a regional or geographic basis. ESG can't be the same in India as it is in the UK or the Nordics or the US because the economies are built differently. The political environments are also very different. Standardised approaches to ESG are just not the way the world works.'

Different geographic priorities

JP Morgan, in a recent report on five major payment trends[3], agreed. It gave the example of Europe, where the 'E' of ESG is seen as the most important, US firms focusing more on social factors, like diversity, equity, and inclusion, and in Asia Pacific China has a Net Zero 2060 target. In Singapore and Hong Kong ESG disclosures for listed companies are becoming common.

Within a region there are often different priorities. For example, Malaysia and Indonesia's environmental concerns focus on rainforest preservation and palm oil. In Australia mining, water and energy resources are the priority.

There remains a lack of corporate disclosure on sustainability. As a result, financial firms are turning to data providers to fill the gap. This creates a challenge because of inconsistent data between vendors.

Research by Alveo, a cloud-based data management provider, found that 74% of buy-side firms, companies that provide advice on buying stocks and securities for use within their own organisations such as mutual funds, pension funds and hedge funds, rely on external ESG rating services for the bulk of their data. 57% use third party experts for information such as carbon emissions.

However, with different regulatory requirements in the US, UK and elsewhere, there is concern about a possible lack of international harmony in terms of the requirements facing firms.

Objections to ESG reporting

McKinsey have written about whether companies really care about ESG[4] and have listed four objections to ESG.

1. **ESG is not desirable, because it is a distraction.**

The logic here is that businesses exist to make money while meeting the rules and regulations laid down by society. It is, therefore, 'good for the brand' rather than being a core strategic requirement.

2. **ESG is not feasible because it is intrinsically too difficult.**

The argument is that meeting the technical requirements of each of the E, S and G components is too hard. How do you meet the diverse expectations of stakeholders for each component?

3. **ESG is not measurable, at least to any practicable degree.**

How can you measure each component of ESG, particularly the S and the G to an auditable, comparable level? How do you weight them in terms of importance? While credit scores of S&P and Moody's correlated at 99%, ESG scores across six of the most prominent ESG ratings and scores providers correlate on average by only 54% and range from 38% to 71%. Organisations such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) can measure the same phenomena differently; for example, GRI considers employee training, in part, by amounts invested in training, while SASB measures by training hours. The result is that different ratings and scores providers provide diverging scores.

4. **Even when ESG can be measured, there is no meaningful relationship with financial performance.**

Final word

Rather than decide that ESG is too hard, perhaps the solution is to focus on the environment in the context of the cash industry. Given the shared goal of issue departments of central banks, it should be possible to agree useful goals, metrics and methodologies to use in benchmarking operations and performance.

1 NEWS_No. 2_Corporate CO2 communication is not associated with fewer emissions.pdf (nationalbanken.dk)
2 Global Retail Banking 2022: Sense and Sustainability
3 Five Key Payment Trends to Watch in 2022 | J.P. Morgan (jpmorgan.com)
4 ESG is essential for companies to maintain their social license | McKinsey

8 CASH & PAYMENT NEWS | SUSTAINABILITY NEWS

Greenwashing: renewable energy

Problem 1 - Additionality:

- Would the renewable energy/project exist anyway (in the absence of the company action/buying the REC)?
- Independent empirical studies show no or very limited additionality

Problem 2 – Accuracy of GHG disclosures:

- Companies can report '0' emissions from electricity consumption… BUT is this an accurate reflection of their emissions?
  - They still consume power from the gird (contribute to aggregate demand) – and cause emissions
  - They haven't caused any increase in renewable generation
  - Distraction effect: 'Our scope 2 emissions are zero…so we don't need to do anything else to reduce them'

Companies can report they have met their emission reduction targets (including SBTs) **without reducing emissions to the atmosphere**

B-CCaS Centre for Business, Climate Change & Sustainability

RECONNAISSANCE

1. What & how to measure

- What can you control?
  - Your own staff and buildings
  - Suppliers
  - Cash cycle
  - End of life of the banknote
- Goals
  - E, S and G?
  - UNSDGs?

What & how to measure

- What actually matters?
  - LCAs etc.
  - Focus
- Methodologies
  - CDP
  - SBTi
  - Additionality

2. The power of procurement: JET 2021

- Certificate or contract as evidence of how much of their electricity was supplied from renewable sources for the production of the order.
- Greenhouse gas protocol used to measure the CO_2 emissions for scope 1, 2 and 3 emissions.
- Sustainable cotton

	2015	2016	2017	2018	2019
Organic	≥5%	≥5%	≥5%	≥10%	Together >20%
Fairtrade	≥5%	≥5%	≥5%	≥10%	
BCI	-	-			0 to 80%
Total sustainable cotton	50%	60%	70%	80%	100%

- Point system used for scoring

The power of procurement: JET: Scoring system

- Carbon footprint supplied but there no estimation of the carbon footprint calculation, **one point.**
- Substantiated estimation of the scope 1 and 2 carbon footprint for the Euro banknotes to be delivered, **two points.**
- Footprint of the paper was also included along with the print calculation, **three points.**
- Print, paper and a substantiated estimation of the full upstream scope 3 carbon footprint (activity prior to production such as material acquisition and pre-processing) relating to the supply of the order, **four points**.

The power of procurement: JET

Challenges

- How to compare calculations to assess the different suppliers?
- How to measure items such as waste and water?
- What weighting to give to sustainability compared with pricing and other criteria?

3. Improving the cash cycle

Big areas to focus on

- Renewable energy
- Fewer miles
- Fewer notes
- Co-operation
- Plastics
- Data

Improving the cash cycle

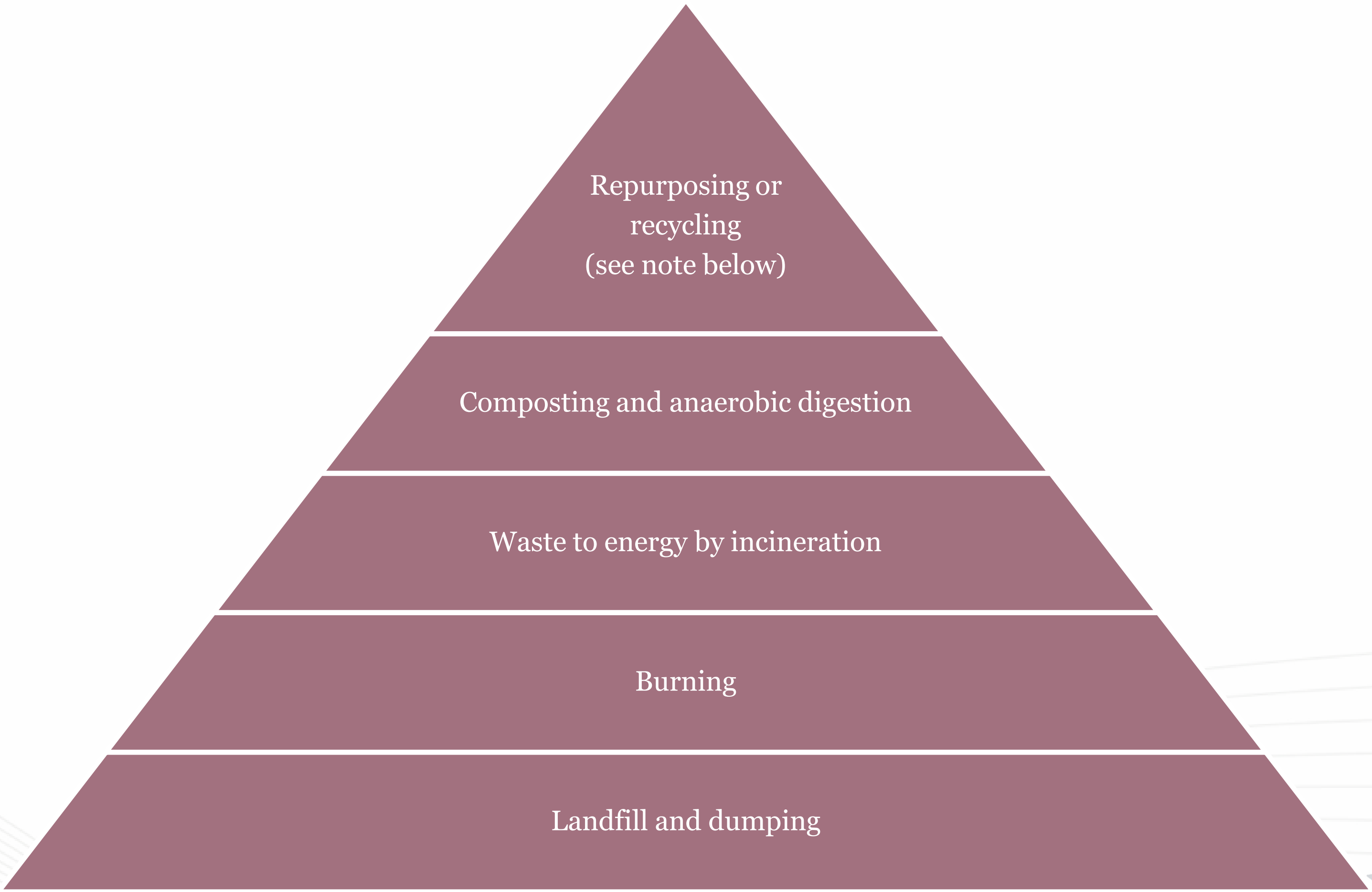
What?

- Note relief schemes (wholesale, retail)
- Recirculation
- Utility models

How?

- Regulations
- Guidance
- Groups

4. Repurposing unfit banknotes



Repurposing webinars: 5 & 26th April (free access)

Our survey said…

Asia	CIS	Africa	Caribbean, Latin America	Europe	Middle East
9	3	5	10	18	2

- 33% of central banks have a sustainability policy
- 22% of central banks issue a sustainability report
- 13% have carried out a Life Cycle Assessment

Asia	CIS	Africa	Caribbean, Latin America	Europe	Middle East
9	3	5	10	18	2

- 17% of central banks include sustainability in any way in procurement
- 83% of central banks allow recirculation by commercial banks

End of life disposal

Asia	CIS	Africa	Caribbean, Latin America	Europe	Middle East
9	3	5	10	18	2

- 42% of central banks send waste to landfill
- 38% of central banks incinerate their banknotes
- 20% of central banks do something other than landfill and incineration

- 40% are investigating doing something different

Factors that determe how is waste disposed of?

- Volume
- National regulations
- Banknote specification
- Available infrastructure
- Waste management companies

Landfill

Waste to energy by incineration

Composting

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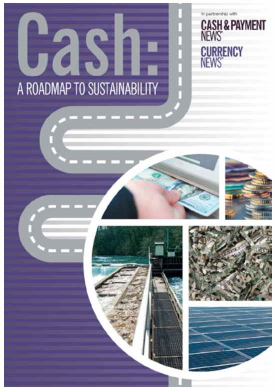

Information sources

- 5/26th April webinars
- Q1 2024 conference
- White papers