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On Trump and ESG

Krutham's response to client FAQs

February 2025

On his first day in office, the new US president signed almost 30 executive orders – several related to climate specifically or ESG broadly. While notable because the next highest number of executive orders signed by a US president on inauguration day was nine by Joe Biden in 2021, this approach was in no way a surprise. Regardless, these (very precedented) actions have caused quite a bit of consternation in the world of sustainability – in particular, his decision to pull the US out of the Paris Agreement (again) and the onslaught that Republicans are delivering to self-identified responsible investors. We take a look at what Trump's approach means for climate and sustainable finance – in general and in South Africa specifically – by answering some of Krutham's clients' FAQs.

Nicole Martens
Head of Impact Investing Research
E nmartens@krutham.com

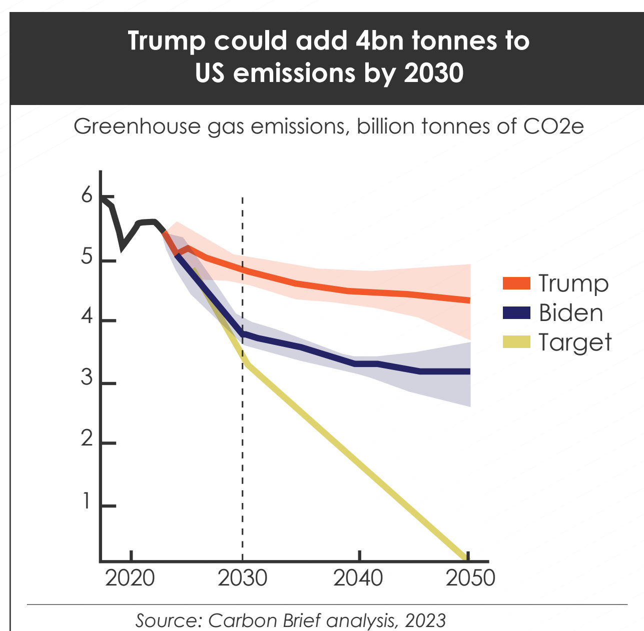
Matthew le Cordeur
JET Research Manager
E mlecordeur@krutham.com

Peter Attard Montalto
Managing Director
E peter@krutham.com

Is Trump bad for climate?

Unequivocally, yes. Exactly how bad? This will depend on how quite a few things play out over the next four years. What is certain is that the combination of regulatory rollbacks with respect to environmental protection and policy designed to accelerate increased fossil fuel production means that the US is on track to increase greenhouse gas emissions substantially in the near future (up to 4-gigatons by 2035, according to some estimates[1]).

Trump could add 4bn tonnes to US emissions by 2030



Source: Carbon Brief analysis, 2023

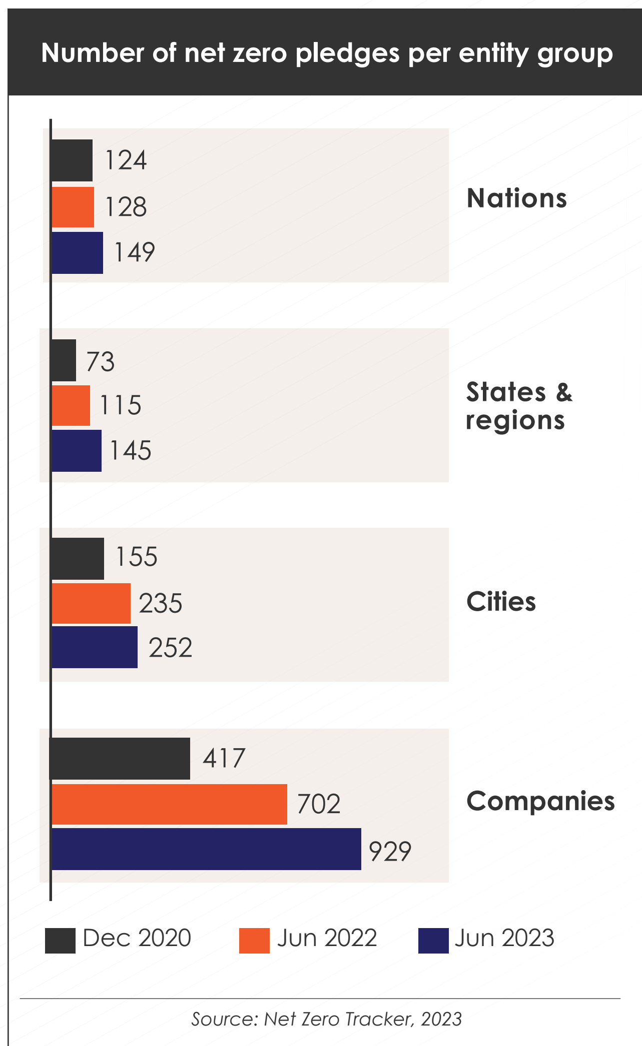
This is likely to be partially mitigated by the actions taken by individual states and businesses within the US – a significant proportion of which remain committed to integrating sustainability into their strategies.

Also set to have a substantial impact are California's recently implemented ESG disclosure regulations, set to apply to more than 10,000 businesses across the country, representing trillions of dollars in revenue. Furthermore, many of the country's largest companies also operate in markets outside of the US, including in the EU which has taken a progressive stance on aligning ESG regulation to national targets in line with the global agenda. These companies will still need to ensure that standards of operation and disclosure meet regulatory requirements in these markets. In 2023, almost 80% of the largest[2] 100 US companies publicly committed to net zero or carbon neutrality by 2050 and are actively disclosing progress towards achieving these goals[3]. Globally, commitments to net zero by companies continue to grow.

Even if partially mitigated, the US's increased emissions will undoubtedly undermine global efforts to limit the temperature rise – though not necessarily enough to completely derail international climate efforts. This, of course, is assuming that other nations remain steadfast in their respective climate commitments – and this is where the more concerning danger lies:

1. Including analysis by Carbon Brief (2024) and MIT (2024) which finds that under the Trump administration, annual US greenhouse gas emissions would be around 1GtCO2e higher in 2030 than would have been the case under Biden, resulting in a cumulative addition of around 4GtCO2e by that year.
2. By market capitalisation.
3. As You Sow, Road to Zero Emissions report, 2023.

in the risk that the US's withdrawal discourages other nations from maintaining or enhancing their climate ambitions. Given the progress made and momentum generated to date though, we expect deviations from existing commitments to be the exception rather than the rule.



Source: Net Zero Tracker, 2023

While the evidence suggests that companies committed to sustainability will remain so, we believe that what will change will be the way that businesses and investors talk about their approach to sustainability. Gone are the days of pitching sustainability strategies as values-based (as being a good corporate citizen). Much safer in the current context is to focus on financial materiality. No more "we're focusing on this because it's the right thing to do". Much more of, "We're focusing on this because it presents a material risk to our business." We expect this to result in more greenhushing.

The implications for companies' internal operations should be significant as sustainability shifts from a marketing function to a risk function. This is a good thing: the implication is that sustainability strategies that have been based on spinning a narrative should fade into the background, while those developed based on solid ESG integration for financial sustainability should be strengthened. Quality over quantity. On a net basis, this should be a positive development for the climate agenda.

Integrating ESG into business operations is often easier said than done. Businesses taking the decision to commit to sustainability strategies face several challenges. These range from constraints presented by organisational structure and inertia, to those related to the collection of credible, comparable data. There are also costs involved in process design, compliance, talent acquisition, capacity development and communication. Furthermore, there may be inherent trade-offs between meeting long-term sustainability targets and short-term financial targets.

The strain that this puts on company leadership can be significant. It is critical then, that organisations committed to sustainability are careful to align sustainability strategy to overall business strategy – integrating the two for the purpose of delivering superior long-term, risk-adjusted return – and that care is taken in developing appropriate associated communication strategies.

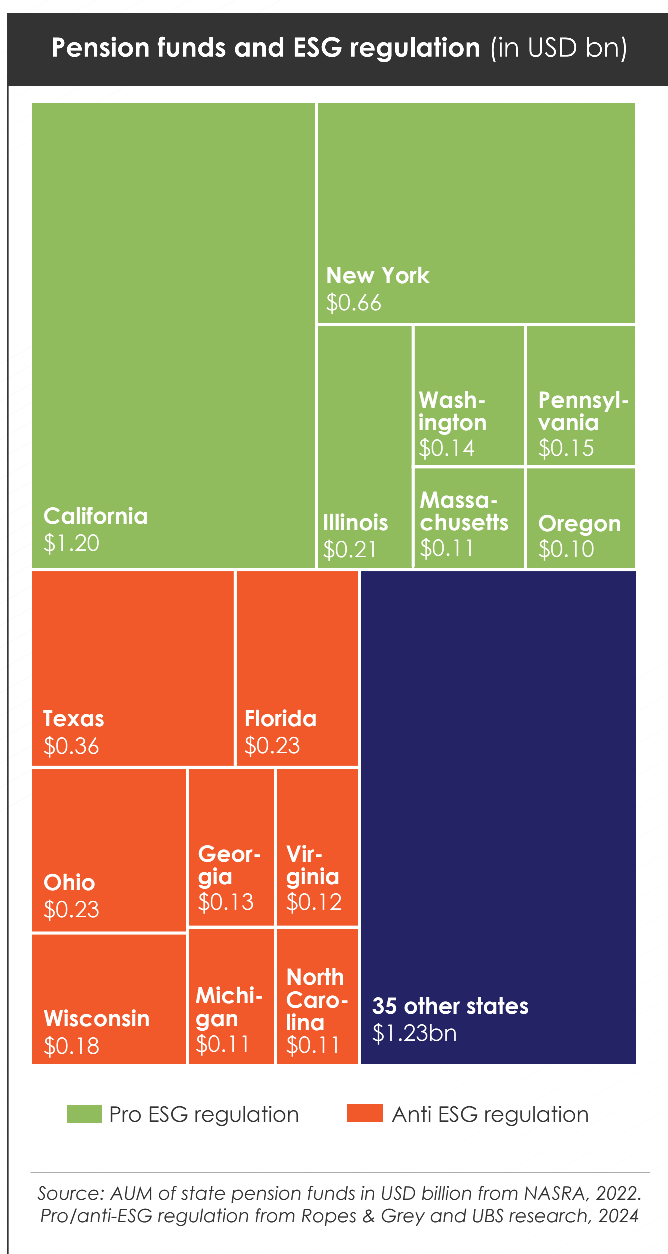
Is Trump bad for sustainable finance?

Perhaps not as bad as the rhetoric suggests. It's no secret that the past few months have been tough for proponents of sustainable finance (which, in this case, we take to include responsible investment).

International collaborative engagements on sustainability – like the Net Zero Asset Manager Initiative (NZAMI) and the Net Zero Banking Alliance (NZBA) – have been bleeding US-based signatories as US conservatives use membership as the foundation for a hit list of organisations to suffer accusations of collusion and violation of fiduciary duty. For those organisations – think BlackRock and JP Morgan – it makes all the sense in the world to have left these initiatives; if for no other reason than to be out of the crosshairs. It also makes sense to have left the initiatives in cases where the initial mandate has shifted over time, from one of integrating ESG for the purpose of maximising long-term, risk-adjusted returns to that of generating positive environmental and social impact for impact's sake.

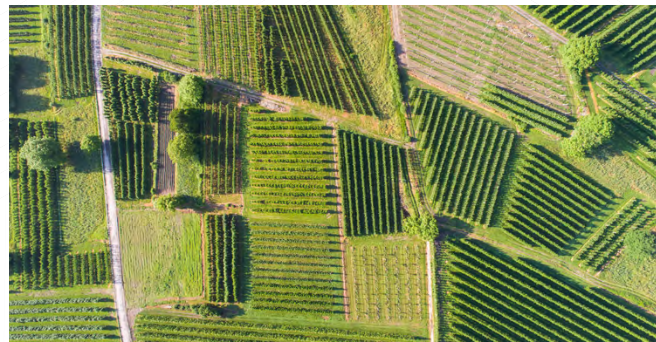
In the wake of the mass exodus of US-based members, the secretariates of these initiatives find themselves having to take a moment to reflect and rethink their positioning, which is a good thing. It presents an opportunity to refocus on what should remain the core function of these bodies – supporting financial institutions in integrating ESG into their decision-making processes as far as this is a financially material strategy.

Important to note though, is that the organisations pulling out of these initiatives are not necessarily rolling back on their sustainability commitments. BlackRock, for instance, in the same communication that it used to announce it was leaving NZAMI, took the opportunity to reassure clients that its departure from the initiative would not affect its investment approach or its net zero commitments. A few days later it launched a transition fund in the UK market. Similarly, JP Morgan remains committed to decarbonisation of the economy.



Source: AUM of state pension funds in USD billion from NASRA, 2022. Pro/anti-ESG regulation from Ropes & Grey and UBS research, 2024

Also worth noting is that the US's largest pension funds operate in states that have taken pro-ESG stances (think CalPERS, CalSTRS and New York State Common Retirement Fund). Sustainability focused mandates from these asset owners will undoubtedly continue to drive growth of the market for sustainable finance.



EU Omnibus ESG Regulation: Key changes and implications

Outside the US, ESG-related policies and regulations are progressing rapidly. The EU and UK are strengthening disclosure requirements and fund labelling regimes in line with global commitments, while frameworks like ISSB are gaining traction in both developed and emerging markets. Despite ongoing regulatory challenges, a reversal of these efforts seems unlikely—in fact, some markets may double down on sustainable finance regulations to counterbalance the US retreat.

The EU Omnibus ESG Regulation is part of the EU's broader push to integrate ESG factors into financial markets. Announced under the Sustainable Finance Action Plan, it enhances transparency and comparability of ESG disclosures for companies, financial products and investors. It extends existing disclosure requirements and promotes a standardised approach to reporting ESG risks and opportunities, including amendments to the EU Taxonomy and Sustainable Finance Disclosure Regulation. Companies and financial institutions must now be more explicit about sustainability strategies, performance and risk mitigation.

As part of the EU's 2050 climate neutrality goal, the regulation responds to investor and consumer demand for reliable, comparable ESG data and tackles greenwashing, where companies falsely claim sustainability credentials. While still being finalised, ongoing consultations aim to ensure smooth implementation across member states and sectors.

What about South Africa?

MFID, Basel III, the metric system – this is not the first time that the US has taken a path that is at odds with the rest of the world. In all cases, the South African market has aligned with the practice of the majority. With respect to ESG, South Africa takes a particularly strong steer from the EU (our National Green Finance Taxonomy, for example, is closely modelled on the EU's).

For a number of years now, South African policymakers and regulators have publicly acknowledged the financial materiality of ESG. National Treasury launched its Sustainable Finance Initiative in 2017 (of which one of the outputs was the taxonomy). Regulation 28 of the Pension Funds Act has required the consideration of ESG since 2011. The SARB is a member of the Network for Greening the Financial System, a coalition of central banks and financial supervisors that aims to enhance the financial sector's role in achieving sustainable and climate-resilient economies and has done work to quantify the value of risk presented to the South African economy by climate change. The Prudential Authority has issued guidance for banks and insurers on the disclosure of financially material climate metrics. The JSE published climate and sustainability related disclosure guidelines for issuers. The FSCA's sustainability programme is aiming to mandate climate-risk reporting (IFRS S2) by 2028. The Presidential Climate Commission has developed a Just Transition Framework and Just Energy Transition Investment Plan for the country[4]. Civil society and the media are active and have high standards for responsible business and sustainable finance.

When it comes to South Africa taking a position on ESG integration into business strategies, the ship has sailed. While stranger things have definitely happened, we do not expect the ship to turn around.

The rational approach for South African businesses and investors then, we'd argue, is to keep calm and carry on. Knee-jerk reactions now in the face of what is mainly rhetoric would very likely yield negative results – especially over the long term.

We do, however, encourage a strategic review of sustainability approaches to ensure that these are aligned to financial materiality rather than a "good corporate citizen" narrative.

4. One thing worth noting here is that there is a commitment from the US to the JET-IP which may be at risk given Trump's disdain for climate finance (and, at present, South Africa). This is unlikely to undermine the entire investment strategy though and may in fact present an opportunity for additional contributions from existing or new investment partners.

Where to from here?

The next few years will be a testing time for ESG. a great deal remains uncertain. What we do expect though, are a few things:

1. **A shift in discourse:** We expect the language used to describe ESG integration to shift as a result of the highly politicised nature of the term. Public and private sector bodies will begin to replace reference to ESG-related activities with those of sustainability and sustainable development. This will serve two important purposes: it will distance policy and practice from the highly politicised term, and it will allow for the conversation to move beyond risk mitigation and into broader strategy for actively seeking positive impact. This shift will be welcomed by several stakeholder groups, including policymakers and regulators, the broader public, civil society and a growing number of investors, who have been and will continue to press companies across industries to improve their sustainability performance. Organisations making the shift in language will need to clearly define the terminology that they will use. This will be critical in mitigating greenwashing risk – likely to increase as ESG regulations and reporting requirements become more stringent.

2. **The continued rise of ESG regulations and reporting standards:** We anticipate that the regulatory focus on ESG will continue to accelerate. In particular, we expect to see the CSRD extend its influence both within and beyond the EU, with emerging markets adopting strategies aimed at achieving alignment. In the interim, we expect markets outside the EU to adopt the ISSB and GRI frameworks, allowing for alignment with what will likely become global standards.

3. **The growth of sustainable finance in emerging markets:** The flow of sustainable finance to emerging markets will grow as international and domestic investors tune into the opportunities that these markets present for both financial return and impact. Sustainable infrastructure will be particularly attractive. Allocators of capital in markets like South Africa will need to prepare for the inflow of sustainability focused capital from abroad and the demand this will create for sustainable finance instruments which are aligned to international best practice standards in how they are structured and marketed.

4. **An increased focus on the 'S':** While climate will remain significant to the global agenda and nature will continue to receive attention, we expect human rights due diligence to be the number one priority. For investors particularly, we expect more appetite for instruments that focus on improved social outcomes in economies, which can help reduce risks of disruptive social unrest – particularly with respect to the just energy transition. We therefore also expect the market for social bonds and sustainability linked loans with a social focus to grow, particularly in the African context.

Talk to us about how we can help you

Krutham works across capital markets, philanthropy and the public sector to drive sustainable finance solutions with measurable ESG impact. We provide on-the-ground insights to navigate ESG risks and opportunities in investment and policy.

Visit our website for more information
www.krutham.com

Nicole Martens
Head of Impact Investing Research
E nmartens@krutham.com

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