The Sustainability-Indigenous Nexus: The Case for Indigenous Inclusion in ESG

Sustrio Advisors Inc.
April 14, 2023

Introduction

In recent years the corporate and investing worlds have embraced environment, social, and governance ("ESG") issues as indicators of how an organization is performing in each of the three pillars, and whether its performance is sufficient in making it an attractive investment. Across the world, this intense focus on ESG is growing in reach and influence, to the point that ESG is rapidly becoming a mainstream strategic business issue as investors and stakeholders are demanding increasingly more robust governance and oversight of ESG risks and opportunities. Governments and regulators around the world are also closely watching the rise of ESG's profile and importance in the business world and are responding accordingly by enacting some very broad and ambitious policies and regulations, commitments, and targets around ESG. Globally, ESG reporting regulations, and requirements are on the rise, and mandatory ESG reporting is on the horizon in many countries. Organizations that do not proactively keep pace or get ahead of these kinds of policy developments are going to have a hard time catching up.

Although many driving forces are behind the rise and rapid adoption of ESG as a strategic business issue, the key drivers are a better understanding of ESG risks on the part of investors and organizations, a clearer connection between ESG and improved performance and long-term value creation and preservation, and a growing recognition of ESG's connection to fiduciary duty. Even the recent global pandemic that we are emerging from did not shift societal focus away from ESG. If anything, the pandemic was a crucible moment for ESG – as the world rallied its resources to fight the virus, it simultaneously faced an onslaught of dire warnings about climate change and biodiversity loss and confronted complex moral and ethical questions around social justice.

Despite the many forces driving the ESG agenda forward, it would be a difficult proposition for any organization to align with and pursue this agenda without concrete evidence of advantages to doing so. In this regard, empirical research is continuing to bear out the linkage between ESG performance and organizational benefits – evidence around ESG benefits is growing and companies that do well on ESG are empirically doing better on financial, stakeholder, and operational metrics. Indeed, the effect of ESG factors on business performance continues to receive increased attention globally and in North America, with the result that ESG performance is becoming one of the determining factors for investors' capital allocation decisions and organizations' long-term value creation and retention abilities. Consequently, most organizations are facing an environment of heightened attention from investors, customers, regulators, and other stakeholders to their ESG risks and performance. Recognizing current market momentum and the importance of reflecting material ESG factors within organizational strategy and operations is the foundation of an integrated and cohesive approach to ESG that can unlock the long-term value of an organization.

While ESG may undergo changes in name and substance as it evolves in the future, one clear area of opportunity for practitioners is the inclusion of Indigenous voices, perspectives, and experiences in each of the three pillars of ESG. Currently, ESG approaches, performance reporting standards, and evaluation frameworks tend to gloss over or omit Indigenous rights and interests, even though Indigenous interests intersect all aspects of ESG and Indigenous inclusion is critical to the success of any ESG strategy and program. In Canada – and indeed in any country where Indigenous traditional territories are affected by development – strong relationships and collaboration with Indigenous communities can contribute to achieving long-term business, sustainability, and societal goals. Whether overlooked or misunderstood, Indigenous inclusion in the ESG agenda is an untapped and underdeveloped area that can greatly enhance organizational ESG efforts and goals.

The intense spotlight on ESG has highlighted the rising stakes of performance and disclosure for organizations of all types and sizes. ESG is critical to business resilience, and companies that ignore ESG do so at the risk of eroding their long-term value and at the cost of investment capital. In this article we argue that ESG is a critical, core component of organizational strategy, not a peripheral function. We also argue that there is a critical linkage between ESG and Indigenous peoples and perspectives that can not be overlooked. Key takeaways from this article are:

- ESG risks are becoming more acute over time, and no organizations are immune to these risks.
- ESG directly affects the future viability and long-term value of your business.
- Organizations' governance of ESG is critical to risk management, access to capital, and value creation.
- ESG is not a sprint, but a marathon – the key is to start the race!

What is ESG?

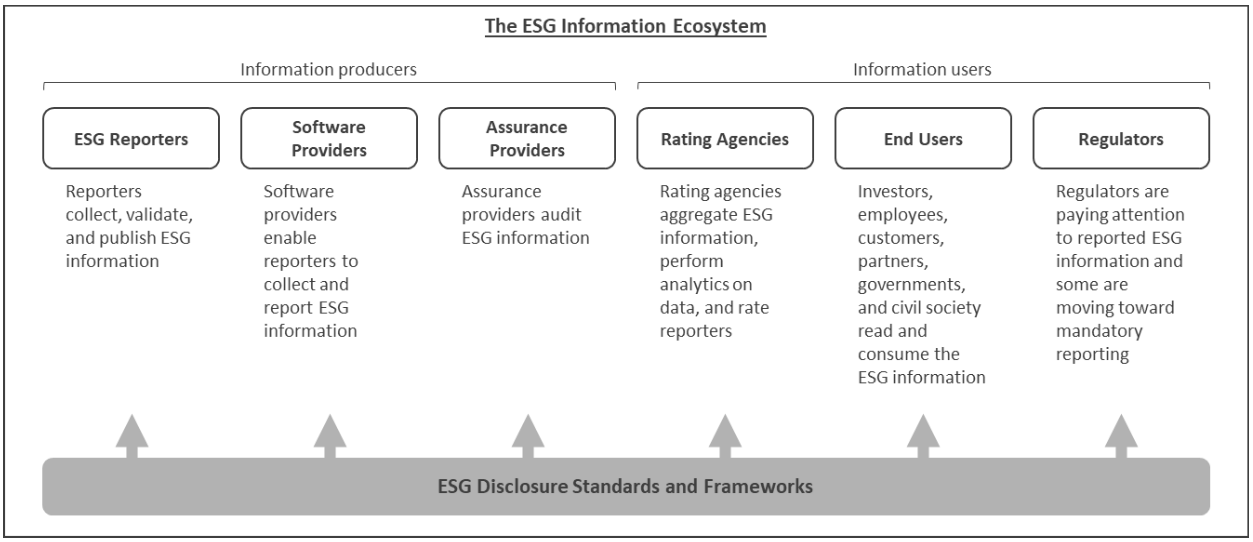
Environment, social, and governance – ESG – is the term used to identify matters that are deemed to have a material financial impact on an organization's short-, medium-, and long-term value. These matters will vary based on an organization's industry, geography, nature and scale of operations, supply chain, business strategy and values, and investor base. Not all aspects of E, S, and G, will be priorities for all organizations, and it is inevitable that organizations will have to make trade-offs as to which of the various ESG considerations and issues they will actively manage, perform, and/or lead on. Examples of relevant ESG matters for organizations to think about and manage are illustrated in the table below.

Environment How you impact the natural world around you	**Social** How you contribute to your community(-ies)	**Governance** How you conduct yourself and your organization
• Climate change and carbon emissions • Climate resilience and adaptation • Energy efficiency • Pollution • Use of natural resources • Waste management • Clean energy and technologies • Biodiversity	• Labor relations • Diversity, equity, and inclusion • Employee safety • Product safety • Human rights • Child Labour • Working conditions • Health and wellness • Community impacts and engagement	• Board diversity • Executive compensation • Cultural tone from the top • Auditor independence • Corruption and bribery • Anti-money laundering • Whistleblowing • Business ethics • Cartels and price fixing • Compensation policies • IT security

Box 5993, Fort McMurray, AB, T9H 4V9 Office: (780) 791-0478 www.naaba.ca

Although the focus on ESG has grown significantly and rapidly over the past several years, the roots of the movement can be traced back to earlier sustainable development, corporate social responsibility, and environmental movements that started in the late 1980s. The key difference in the current ESG movement is that it is geared toward investors and providers of capital who use ESG metrics to assess companies' performance and identify superior risk-adjusted returns. Earlier sustainability movements tended to be catch-all approaches for capturing a broad range of company initiatives that involve the notion of "doing well by doing good." Therefore, whereas sustainability tended to be used by a broad range of stakeholders and based on qualitative measures of performance and evaluation, ESG tends to be used by capital markets and based on more quantitative measures of performance and evaluation that rely on governance, systems, processes, and data to enhance the specificity and precision of metrics.

In practice ESG exists within an information ecosystem[1] comprising information producers on one end and information users on the other, supported by various ESG disclosure standards and frameworks that establish guidelines on what information should be reported and how.



The distinction between a disclosure standard and a framework is important to understand as these underpin the information produced and used: disclosure standards provide specific, detailed, and replicable requirements, including metrics, for what should be reported, whereas disclosure frameworks provide principles-based guidance on what topics are covered and how information should be structured and prepared. Globally-recognized and widely-used ESG disclosure standards include those published by the Global Reporting Initiative ("GRI"), the International Sustainability Standards Board ("ISSB"), and the Sustainability Accounting Standards Board ("SASB," now incorporated into the ISSB). Prominent ESG disclosure frameworks that are growing in adoption include the Task Force on Climate-Related Financial Disclosures ("TCFD") and the Task Force on Nature-Related Financial Disclosures ("TNFD"). Although the ESG disclosure landscape is strewn with a multitude of acronyms (often referred to as an "alphabet soup") that often cause confusion, the major standards are currently undergoing a process of consolidation and harmonization so that ESG reporting will be more consistent and comparable in the very near future.

[1] Source: adapted from IFRS Foundation's SASB Standards website. (Link)

For the time being, ESG disclosures are largely voluntary, though governments and regulators around the world are moving toward mandatory reporting requirements. Despite being voluntary, ESG disclosures are not new for many organizations. In Canada, a wide range of companies, especially in the energy and extractives sector, are no strangers to ESG reporting pressures and expectations – many of the largest Canadian companies have in fact been regularly publishing sustainability or ESG reports in some form for a number of years, many for a decade or more. However, since earlier sustainability reporting was neither mandatory nor standardized, reports tended to be communications exercises more focused on enhancing an organization's reputation or citizenship and preserving its social license to operate. Because current ESG reporting generally targets providers of capital who have specific information requirements and expectations, we are starting to see more focused and quantitative reports based on specific disclosure standards and frameworks.

As companies improve their ESG programming and performance, and as the information quality of ESG reporting continues to grow, we are also starting to see growing empirical evidence of the benefits of proactive ESG management and the impacts of not performing on ESG, including:

- As of 2020, 88% of publicly traded companies, 79% of venture and private equity-backed companies, and 67% of privately-owned companies had ESG initiatives in place.
- 80% of the world's largest companies are reporting exposure to physical or market transition risks associated with climate change.
- 53% of revenues of the 500 largest US companies and 49% of revenues of the 1,200 largest global companies come from business activities that support [the UN Sustainable Development Goals].
- 27% of revenues of the 500 largest US companies and 31% of revenues generated of the 1,200 largest global companies come from activities aligned with the EU Taxonomy for Sustainable Activities.
- Organizations with the highest employee satisfaction had ESG scores 14% higher than the global average, likely due to their strong environmental performance.
- 88% of consumers will be more loyal to a company that supports social or environmental issues.[2]

What is the connection between ESG and Indigenous peoples and perspectives?

ESG is currently, and will continue to be, viewed through an investor's quantitative lens. Rising expectations for organizations to measure and disclose their ESG performance will require them to show, through performance metrics and data that are complete, credible, consistent, and comparable, that they are analyzing and improving the environmental, social, and governance elements of their business. Increasingly they will be expected to also demonstrate that they are addressing and managing the risks of climate change, including both physical risks to their assets and energy transition risks as we move toward a lower-carbon economy. Often, however, Indigenous issues are overlooked or lost in the noise and clamor of ESG and sustainability discussions and reporting. What does Indigenous inclusion have to do with ESG? Not surprisingly, the answer is "a lot."

The Coalition for the Human Rights of Indigenous Peoples, a non-partisan group of Indigenous Peoples' and human rights organizations working toward the full implementation of the UN Declaration on the Rights of Indigenous Peoples in Canada, highlights the value that Indigenous perspectives can offer:

---

[2] Source: Niemoller, J. "ESG Statistics for 2023," EHS Management Blog, 2023. (Link)

> "Indigenous peoples have long maintained ways of life, including systems of law and deep knowledge of the environment, that embody principles and values which are now being described as 'sustainable development.'"[3]

Canada is arguably endowed with a unique number of competitive advantages when it comes to the environment – we are gifted with vast tracts of undeveloped land ripe with oil, gas, forests, minerals, metals, biodiversity, and agriculture, with pristine lakes, rivers, and oceans, not to mention great feedstock for renewables, including solar, wind, hydro, and nuclear. When it comes to the land, water, and air and the resources they contain, we share them as non-Indigenous and Indigenous people. Indigenous peoples in Canada have been living on and with the land for thousands of years, hunting, trapping, fishing, and harvesting. They are keenly aware of the effects climate change brings to the environment as it impacts their ability to continue their traditional ways of life. They are equally aware of the energy transition, and how energy development impacts their traditional ways of life and well-being.

Indigenous communities maintain their own Traditional Knowledge, which they pass down from generation to generation. At the heart of that knowledge is a worldview that the universe, its people, and the environment are interconnected. Sustainability is viewed from a reciprocity concept between people and the planet. Indigenous peoples have a deep respect for nature and its conservation as well as a community-based management approach to lands and natural resources:

> "Traditional Knowledge has today become a highly valued source of information for archaeologists, ecologists, biologists, ethnobotanists, climatologists and others. This information ranges from medicinal properties of plants and insights into the value of biological diversity to caribou migration patterns and the effects of intentional burning of the landscape to manage particular resources. For example, some climatology studies have incorporated Qaujimajatuqangit (Inuit traditional knowledge) to explain changes in sea ice conditions observed over many generations."[4]

The benefits of combining Indigenous Traditional Knowledge with Western science in both understanding and addressing environmental impacts are made abundantly clear with a recent example of an Indigenous-led initiative to address climate change. In December 2022, the 15th Conference of the Parties ("COP 15") to the United Nations Convention on Biological Diversity kicked off in Montreal to focus international attention on protecting the environment and halting biodiversity loss caused by climate change. Given that lands inhabited by Indigenous peoples contain 80% of the world's remaining biodiversity[5], the inclusion of Indigenous voices in developing solutions is critical. The urgency is even more apparent when we consider that Canada is warming twice as fast as the rest of the planet, and three times as fast in its most northern regions where many Indigenous people reside and depend on the land and water for their livelihoods.[6] As the conference kicked off, the Liberal government announce that it will spend up to $800 million to support four major Indigenous-led conservation projects covering nearly one million square kilometers across the country.[7]

---

[3] Source: The Coalition for the Human Rights of Indigenous Peoples. "Indigenous Peoples and the United Nations Sustainable Development Goals," 2021. (Link)

[4] Source: Nicholas, G. "How Western science is finally catching up to Indigenous knowledge," *Macleans*, February 15, 2018. (Link)

[5] Source: International Institute for Sustainable Development. (Link)

[6] Source: O'Malley, I. "Canada is warming twice as fast as the rest of the world," *The Weather Network*, 2019. (Link)

[7] Source: Government of Canada. "Protecting more nature in partnership with Indigenous Peoples," December 7, 2022. (Link)

Closing the gap between ESG and Indigenous inclusion

Indigenous voices, perspectives, experiences, and intergenerational Traditional Knowledge offer valuable inputs to all three pillars of ESG, and the fact that they remain an untapped resource is a significant gap in thinking and practice. To close the gap some ESG practitioners advocate for adding an "I" to ESG to represent Indigenous issues. While it is important to acknowledge the need for Indigenous inclusion in ESG, adding another letter to the acronym can give the impression that Indigenous issues are separate and distinct from the other pillars, when the reality is that they are an integral part of each of the E, S, and G pillars. Indigenous peoples have intimate relationships with and knowledge of the lands and resources of which they are stewards, and their identity, culture, and livelihoods are deeply linked to and dependent on the sustainability of their lands and resources. This means that climate change, environmental degradation, and economic marginalization will have a disproportionately detrimental impact on Indigenous peoples. It is therefore imperative that the gap between ESG and Indigenous inclusion be closed through education, dialogue, understanding, relationship-building, and ultimately, meaningful collaboration. Fortunately, awareness of the need for Indigenous inclusion in ESG is growing, and in Canada, we have a unique opportunity to engage and support Indigenous peoples and communities through reconciliation.

A collaborative and integrated path forward

In 2015 the Truth and Reconciliation Commission of Canada's final report set out 94 calls to action, some of which are specifically directed at Canadian businesses. The report directly called on the corporate sector to adopt the UN Declaration on the Rights of Indigenous Peoples as a reconciliation framework and apply its principles, norms and standards to corporate policies and operational activities involving Indigenous peoples, lands, and resources. Three critical concepts lie at the heart of this recommendation for business:

- Commit to meaningful consultation, building respectful relationships, and obtaining the free, prior, and informed consent of Indigenous peoples before proceeding with economic development projects.
- Ensure that Aboriginal peoples have equitable access to jobs, training, and education opportunities in the corporate sector, and that Aboriginal communities gain long-term sustainable benefits from economic development projects.
- Provide education to management and staff on the history of Aboriginal peoples, including the history and legacy of residential schools, the United Nations Declaration on the Rights of Indigenous Peoples, Treaties and Aboriginal rights, Indigenous law, and Aboriginal-Crown relations.[8]

Canadian businesses therefore have a valuable opportunity to work with Indigenous communities on and around their operations to incorporate Indigenous knowledge into environmental stewardship efforts, as well as improve engagement in relation to the "S" in ESG. However, as reported in a recent study on Canadian ESG reporting conducted by PwC, "Fewer than one in five (19%) of the companies in our analysis

[8] Source: National Centre for Truth and Reconciliation. *Truth and Reconciliation Commission of Canada: Calls to Action*, 2015. (Link)

discloses a reconciliation action plan … [a]nd only 38% … disclose policies around Indigenous relations."[9] Clearly there is much work to be done in answering the call to action for businesses.

In addition to the need for organizations and asset owners to build constructive relationships and engage in meaningful collaboration with Indigenous peoples, ESG disclosure standards and frameworks must also expressly recognize and integrate Indigenous issues. While some of the ESG standards in use today may indirectly reference Indigenous interests (e.g., impacts of climate change on local communities, impacts to biodiversity undermining the livelihood and cultures of Indigenous communities, and focusing on resilient communities), Indigenous issues and rights as distinct matters are not substantively addressed in any current standards. Where standards do account for Indigenous issues, they fail to provide meaningful guidance on the integration of Indigenous voices and perspectives into organizational governance, operational, and decision-making processes. Furthermore, where standards may recognize some qualitative factors in the assessment of Indigenous issues, they tend to focus on "consultation" and "due diligence" as checkbox exercises rather than advocating integrated decision-making and relationship-building or providing comprehensive guidance on inclusive operational and governance metrics on Indigenous issues.

Because current ESG disclosure standards and frameworks either lack any explicit and purposeful recognition of Indigenous issue and rights, or limit attention on these matters to superficial requirements or negative considerations (e.g., the existence of legal actions brought about by Indigenous communities), there is an important opportunity to achieve more substantive Indigenous rights recognition and protection in the standards. Specifically, ESG standards must develop guidance for organizations to meaningfully engage with Indigenous peoples and communities in compliance with Indigenous laws and protocols, and quantitative performance metrics should be developed to provide investors with greater clarity on the activities undertaken by organizations with respect to early, ongoing, and meaningful engagement with Indigenous rights holders. Until ESG standards explicitly address and integrate Indigenous issues and rights, any evaluation of an organization's ESG performance and long-term financial value will be, at best, incomplete.

Conclusion

Environment, social, and governance issues have fundamentally transformed how organizations of all stripes govern and conduct their business. ESG is rapidly becoming a mainstream strategic business issue as investors, customers, employees, governments, and other stakeholders are demanding increasingly robust governance and management of ESG risks and opportunities. Social issues, biodiversity loss, climate change, and the energy transition are all accelerating and paving the way for proactive and innovative businesses to reimagine their operations, demonstrate social responsibility, and lead the way as impactful changemakers.

Sustainability in Canada is intricately linked with Indigenous consultation and engagement. Tackling climate change and the inevitable transition to a low carbon economy present monumental risks and opportunities for Canadian businesses. Those risks are diminished, and the opportunities maximized, when non-Indigenous and Indigenous people work together toward a common goal. Indigenous peoples might describe that goal broadly as "if we take care of the land, it will take care of us." Investors might

[9] Source: PwC. "2023 Canadian ESG Reporting Insights," 2022. (Link)

Box 5993, Fort McMurray, AB, T9H 4V9 Office: (780) 791-0478 www.naaba.ca

describe that goal as transparent, credible, consistent, comparable metrics demonstrating continually improving ESG performance that will allow businesses to be sustainable in the long run. Regardless of what it is called, the result of working together for a more prosperous and sustainable Canadian economy that maximizes the benefits and reduces the risks for all only occurs if we understand, respect, and integrate Indigenous voices and perspectives into the sustainability mindset. As we work toward achieving this Sustainability-Indigenous Nexus, the benefits and opportunities for NAABA members to contribute to their own and their clients' long-term value and performance are boundless.

Sustrio Advisors Inc. is a trusted advisor that helps organizations identify and manage sustainability and environment, social, and governance risks and opportunities to enhance corporate value. That means developing robust sustainability/ESG strategies and programs, and addressing changing regulatory regimes, investor demands, and stakeholder and Indigenous concerns to help organizations design and deliver on their enterprise sustainability goals and objectives. We do this by providing a full suite of sustainability/ESG services, Indigenous relations and engagement services, permitting and regulatory services, and legal services. We partner with our clients to provide fit-for-purpose solutions and agile, experienced support that produces practical, systematic, people-focused results. Visit www.sustrio-esg.com.

SUSTRIO
ADVISORS