



ARTIFICIAL INTELLIGENCE, THE NEXT FRONTIER?

Background & Positioning



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As companies race to develop and integrate Artificial Intelligence (AI)¹, critical issues are emerging, from governance and ethical use to social equity and environmental impact. No longer just a technological upgrade, AI raises questions that go to the heart of responsible business conduct and fiduciary oversight. Paula Krol, ESG-AM's Engagement Manager, explores why investors should actively engage with companies and policymakers to encourage the ethical and sustainable development and deployment of AI.



"As a true ESG trifecta, AI cuts across environmental, social, and governance dimensions with wide-ranging impact. Investors cannot afford to stay on the sidelines. They have a critical role to play in ensuring AI is developed, deployed, and governed responsibly."

PAULA KROL

Engagement Manager

Once confined to the realm of experts, AI has become ubiquitous almost overnight. I hear about it on my commute to work, in meetings, at family gatherings — even from my seven-year-old. This growing public interest is mirrored by a wave of high-level summits covering the topic, from the AI for Good Global Summit to the G20, where AI has steadily climbed the agenda as a priority for global leaders. But as a stewardship specialist, the questions on my mind are: How are companies adapting to this shift? Are they prepared for the risks and seizing the right opportunities? And crucially, are investors asking the right questions?

There are certainly plenty of reasons to be excited. AI, particularly generative artificial intelligence (GenAI), has the potential to drive remarkable progress: streamlining operations, boosting productivity, and opening up entirely new avenues for innovation. For responsible investors, in particular, it also holds promise for addressing some of the world's most pressing challenges, including those targeted by the Sustainable Development Goals (SDGs).²

From improving healthcare through early disease detection, to enhancing education with personalized learning tools, enabling precision agriculture to increasing yields while reducing environmental impacts, AI could significantly accelerate SDG progress. It also plays a growing

role in climate action and conservation by supporting biodiversity monitoring, climate modelling, and smarter resource management³.

Beyond these applications, AI is also being harnessed to advance human rights and freedoms⁴. A growing number of companies and non-profits are using AI to empower communities, gather real-time input from the ground, and support civic engagement. Take non-profit technology company Ushahidi, for example, which developed a platform that uses AI to crowdsource and map data during crises, helping marginalized groups report abuses and access aid in real time in 160 countries in 40 languages⁵. Or supply chain tracing tools such as Altana AI or Sourcemap, which incorporate AI solutions to help companies enhance traceability of their global supply chains, allowing them to identify and address issues such as forced labor more effectively⁶.

But alongside its promise, AI introduces a growing set of potential risks, some poorly understood, underestimated, or unevenly addressed by current regulation and companies alike. According to the World Economic Forum's 2025 Global Risks Report, "adverse outcomes of AI technologies" are ranked relatively low (31st) among risks over the next two years, indicating that experts may be underestimating immediate threats from AI. The ranking, however, leaps to 6th place over a 10-year horizon, highlighting growing concern about the long-term societal and systemic impacts of AI as it becomes more deeply embedded in our economies and institutions⁷.

So what are some of the possible adverse impacts of AI? Added to the potential regulatory, operational and reputational risks of misuse, one increasingly visible concern is its environmental footprint. From soaring electricity use to water consumption and carbon emissions, the life cycle of AI technologies raises serious questions⁸. The rapid spread of data centers,

essential to training and deploying AI models, contributes to electronic waste and depends heavily on critical minerals and rare earth elements. These materials are often mined in ways that are far from sustainable, with impacts including water and air pollution, biodiversity loss, and high greenhouse gas emissions.

From a social perspective and beyond data misuse and privacy concerns, AI risks deepen existing socio-economic inequalities. The World Economic Forum projects that by 2030, 170 million new jobs will be created globally, while 92 million will be displaced, resulting in a net gain of 78 million jobs⁹. McKinsey's projections are grimmer: it estimates that between 400 and 800 million people could be displaced by automation globally over the same period¹⁰. Regardless of the figures, those most at risk of displacement are individuals in routine jobs roles, positions often held by women and minorities. For example, the ILO estimates that 7.8% of women's jobs in high-income countries (about 21 million roles) are at risk, compared to 2.9% (9 million) of men's jobs¹¹. Entry-level positions are also at risk, making it difficult for new graduates and young professionals to gain a foothold in the workforce¹². These risks are amplified by the biases built into AI systems. Biased training data and a lack of diversity among developers (only 30% women work in AI) lead to technologies that can reinforce harmful stereotypes and exclude large segments of the population¹³. Meanwhile, countries in low-income and emerging economies face major barriers to AI adoption: from limited infrastructure to talent gaps, as well as absence from major AI governance discussions, further widening the global digital divide¹⁴.

AI has far-reaching implications for society, promising to transform industries and improve lives. But the outcome is not guaranteed: a poorly managed transition could harm people and planet, while a thoughtful, inclusive approach could drive innovation and shared


prosperity. As a true ESG trifecta, AI cuts across environmental, social, and governance dimensions with wide-ranging impact. Investors cannot afford to stay on the sidelines, they play a critical role in ensuring AI is developed, deployed, and governed responsibly. Not only because it's the right thing to do, but also because it makes good business sense: responsible AI promotes enhanced customer trust, competitive advantage, innovation, and long-term growth¹⁵.

And this is where stewardship becomes essential. Investors need to be asking companies key questions such as: What principles are guiding AI development, adoption and deployment? How do policies align with international standards? Are potential adverse impacts beyond financial performance being assessed? What monitoring and safeguards are in place? Are employees being trained on responsible use? Where gaps exist, investors should advocate for the adoption of clear policies and transparent disclosure.

Individual companies can, however, only do so much. The challenges and opportunities of AI must also be addressed at the global and systemic level. This is where policy engagement comes into play, and where investors, too, can make a meaningful contribution. While international standards and regulations are

emerging—such as the EU AI Act, OECD AI Principles, and UNESCO's recommendation¹⁶, for example—significant gaps in these frameworks remain. These include keeping pace with AI's rapid development, ensuring comprehensive consideration of human rights impacts, addressing cross-border accountability, and developing clarity around legal and ethical boundaries¹⁷. By supporting clear and enforceable standards, advocating for alignment with international norms, and encouraging corporate participation in public policy processes, investors can help shape a governance landscape that fosters responsible AI and enables more effective engagement with companies on this topic.

AI is already reshaping the landscape of responsible business, and with it, the scope of investor engagement. As companies and policymakers navigate this complex and fast-moving space, investors have a meaningful role to play in guiding its direction, through informed stewardship, policy engagement, and a focus on transparency and accountability. Done well, this engagement may contribute to AI developing in ways that respect human rights, support sustainability, and create long-term value. The frontier may be new, but the tools for effective dialogue are well established, and the time to apply them is now.

 **Contact**

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