

# Unpacking the Social in ESG

...  
Considerations for Governments  
and the World Bank

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# What is ESG?

- **ESG refers to the non-financial risks and benefits** considered by the public and private sectors when managing their operations and making investments.
- **Government laws and regulations** set the rules of the game and codify how these risks and benefits are considered and addressed.

**E**  
Environment



**Impacts on the physical or natural environment**  
(e.g., pollution, biodiversity, climate change, natural resources)

**S**  
Social



**Impacts on communities and workers**  
(e.g., health and safety, supply chains, displacement, diversity, equity, inclusion)

**G**  
Governance



**Management accountability**  
(e.g., board structure and diversity, oversight and decision-making, ethical conduct, disclosure, transparency)

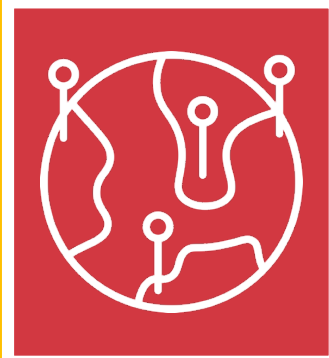
**Public sector accountability**  
(grievance redress, social audits, reporting, etc.)



# Why ESG?

ESG is important to both developed and developing countries

- 01 ESG influences investment opportunities and access to finance. ESG market is estimated to exceed **\$50 trillion by 2025**
- 02 Important for **attracting foreign capital** and facilitating exports
- 04 Better and **more sustainable** development outcomes
- 05 More **efficient project finance** and risk management
- 06 **Global public goods** and international commitments (climate change, SDGs, human rights)



# There are Multiple ESG Frameworks and Reporting Standards

- Multiple and **inconsistent frameworks**
- Largely developed for Europe and North America
- **Lack of clarity** and consensus about what to focus on, measure, and report.
- Companies pick and choose
- Potential for 'green-washing'
- **Biggest gaps in social.**





## The Social Aspects of ESG are Not Well Defined

### Current Issues with "S" in ESG

Reporting frameworks and indicators generally focus on companies' internal working conditions (occupational health and safety; diversity, equity, inclusion)

Social risks, opportunities, and relationships are contextual and cultural (e.g., gender relations)

More **difficult to quantify and compare indicators** for process and outcomes

**Less emphasis on community and societal impacts**



**Politically sensitive** (e.g., human rights)

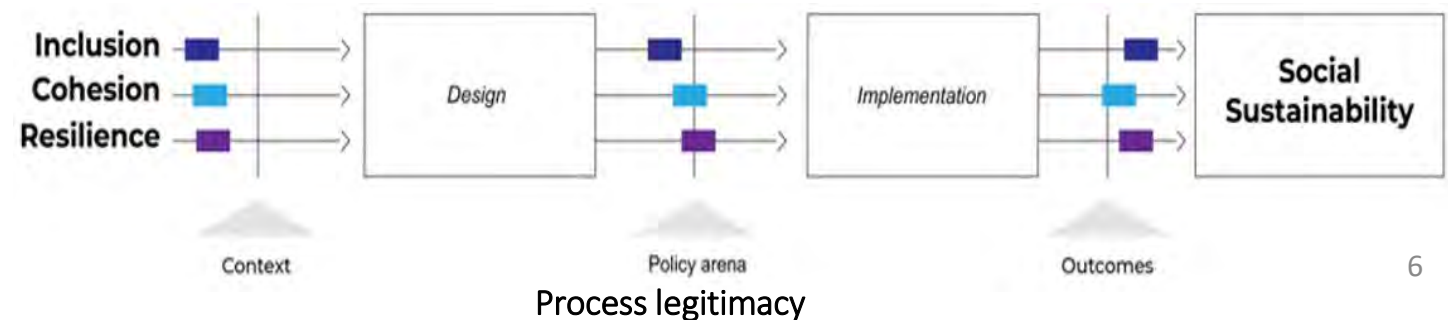


# What is social sustainability?

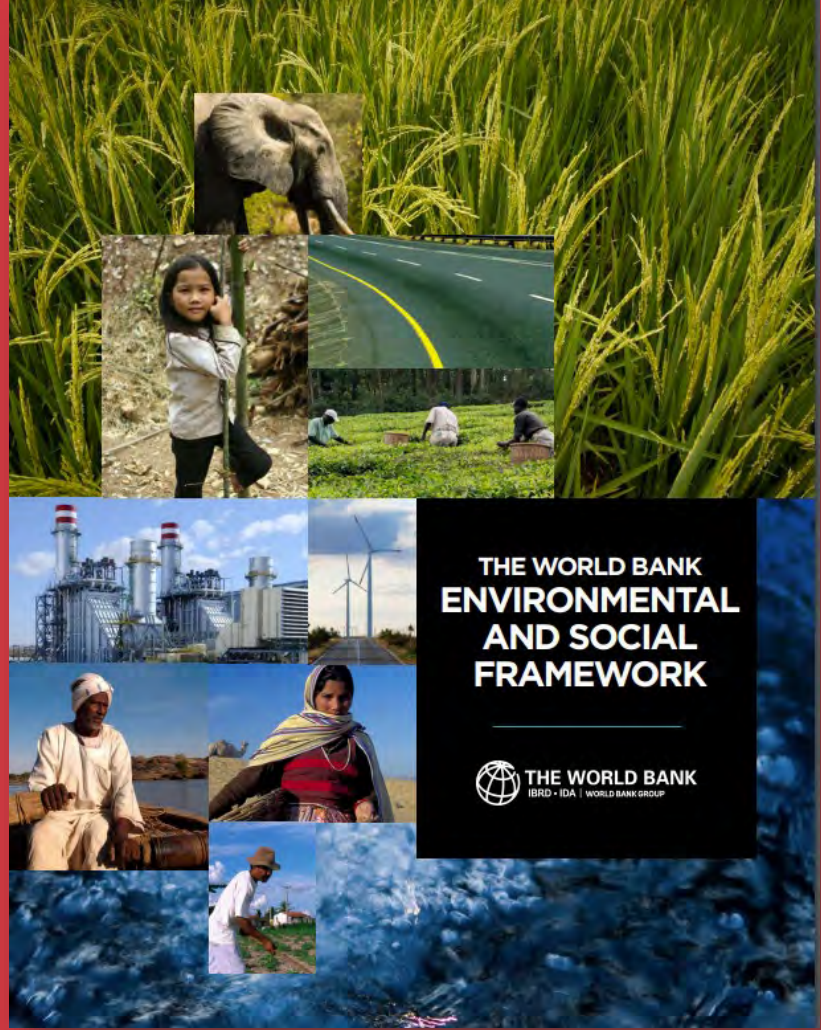
**Social Sustainability** is when people feel part of the development process and believe that they and their descendants will benefit from it.


Societies and communities with more social sustainability are better able to work together to overcome challenges, deliver public goods, and allocate scarce resources in ways that are perceived as legitimate and fair by all so that all people may thrive over time.


Social sustainability is not a binary state but is aspirational and can be promoted in different ways:



# World Bank's Environmental and Social Framework Represents one of the "Gold Standards" on E & S Risk Management



 **ESS1** **assessment and management of environmental and social risks and impacts**  
(The 'umbrella standard containing core principles of analysis and management of risk and opportunity and improving country E & S systems)

 **ESS2**  
labor

 **ESS3**  
resources and pollution

 **ESS4**  
health and safety

 **ESS5**  
land and resettlement

 **ESS6**  
bio-diversity

 **ESS7**  
indigenous peoples

 **ESS8**  
cultural heritage

 **ESS9**  
financial intermediaries

 **ESS10** **stakeholder engagement and information disclosure**  
(Cross-cutting standard ensuring meaningful engagement transparency, and access to remedy)



## What is the Issue on E &S Systems?

Many countries lack adequate regulatory frameworks and institutional capacity to effectively manage E&S risks. They also suffer from **weak implementation and enforcement** of regulations and policies.

Need to support country systems and public sector capacity in a strategic way, beyond a project-by-project approach.

## What is Needed to Improve E &S Systems?



### Improve regulatory and policy frameworks

**Upstream dialogue and stakeholder engagement** to secure client ownership and define priority areas and entry points

**E&S Systems Assessments** (as Core Extended ASAs) and deep dive analytics to identify gaps and opportunities for systems improvement



### Institutional strengthening

**Lending operations to strengthen the coordination and implementation capacity** of country institutions- IPFs, PforRs, MPAs, DPOs



### Build a Robust Local Market of E&S Specialists

**Accreditation Systems and training** in partnership with academia/training institutes



# Examples of E &S Systems Assessments



## GEORGIA

### Findings

- Advanced Environmental Assessment Code and new Labor Safety Law.
- Key laws and regulations omit international best practice provisions e.g., laws and guidelines on conducting social impact assessment, on land acquisition and valuation, biodiversity protection.

### Results

- ✓ Procedures improved on land registration and valuation in line with international best practice.
- ✓ Law on biodiversity added as a trigger for a Development Policy Operation for green and resilient growth in Georgia.



## ARGENTINA

### Findings

- No minimum standards law for EIA providing a uniform and detailed regulation of requirements and procedures.
- Legislation is broadly aligned with the ESS2, but equality and discrimination in the workplace continues to be an issue.
- Participation does not occur in early stages and does not ensure meaningful, continuous engagement.

### Results

- ✓ Borrower framework used in a project in ARG, using national labor standards.
- ✓ Helped ratify ILO 190, (Violence & Harassment Convention) in the workplace.

# Examples of Institutional Strengthening and Building Professional Competencies

## PACIFIC ISLANDS

Strengthening Environmental and Social Risk Management

Regional Project IPF with SPREP

US\$9m



## NIGERIA

Sustainable Procurement, Environmental, and Social Standards Enhancement Project (SPESSE)

Develops environment, social and procurement capacity in public and private sectors with 6 universities

US\$80m



## KENYA

Social Risk Country Systems Strengthening in a P4R: capacity, coordination, professional competencies

US\$1.6m

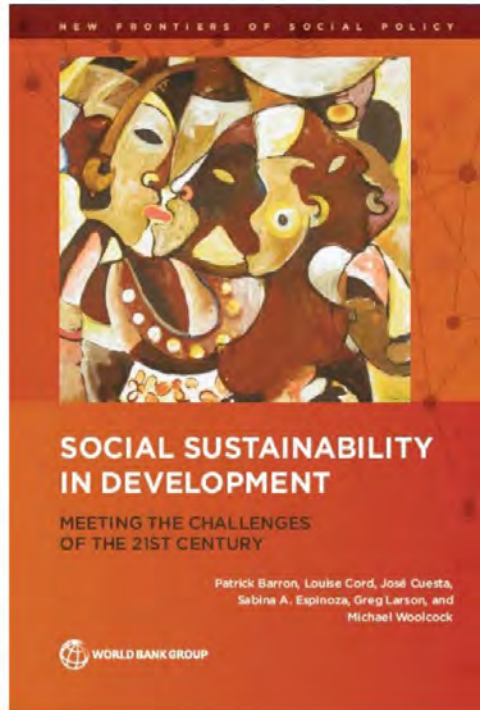
(component in Financing Locally Led Climate Action)



# Indonesia has published 10 ESG Standards, the World Bank can support the guidelines and operationalization of similar standards across the region

	Standards	Highlights
<b>E</b>	<b>1. Pollution Prevention and Waste Management</b>	Focuses on activities that present a risk of damage to the environment or human health from solid, liquid, or gas pollutants.
	<b>2. Biodiversity Conservation</b>	Aims to protect, restore, and enhance both terrestrial and aquatic ecosystems
	<b>3. National Resource Management and Energy Efficiency</b>	Encourages maintenance of quality of water, air, and soil standards set out in applicable laws and simultaneously encourage energy efficiency and the use of renewable energy.
	<b>4. Climate Change Mitigation, and Adaptation and Disaster Risk</b>	Targets provision of infrastructure that are climate resilient, responsive, and quick-recovering can reduce risks of social and economic threats
<b>S</b>	<b>5. Employment and Work Environment</b>	Includes health and safety as well as provision of training and skills development for the workforce.
	<b>6. Diversity, Equality, Inclusivity, and Access</b>	Ensure that community groups who have not been prioritized for access to infrastructure gain have access to facilities and to prevent abuse of access to infrastructure
	<b>7. Social Interest</b>	Projects should seek to maximise the social benefits for all communities directly and indirectly affected by the construction and operation of the project. Key aspects are physical and economic displacement, including land acquisition, as well as data and privacy risks.
	<b>8. Cultural Heritage</b>	Aims to promote the equitable sharing of benefits from the use of cultural heritage and meaningful consultation with stakeholders on the preservation, protection, use and management of cultural heritage.
<b>G</b>	<b>9. Leadership and Governance</b>	Covers Regulatory Compliance, Financial Fraud and Corruption, and Management Structure
	<b>10. Risk and Control</b>	Managing and controlling risk is necessary to ensure business activities can be maintained or restored promptly during a disruption

# LET'S CONTINUE THE CONVERSATION....



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the Book**  
*Social Sustainability in  
Development: Meeting the  
Challenges of the 21st Century*



The World Bank curates and maintains a wide range of ESG data for policy makers, financial market participants and academic researchers. Use this portal to explore how countries compare to each other, create country profiles and learn about the latest research on ESG

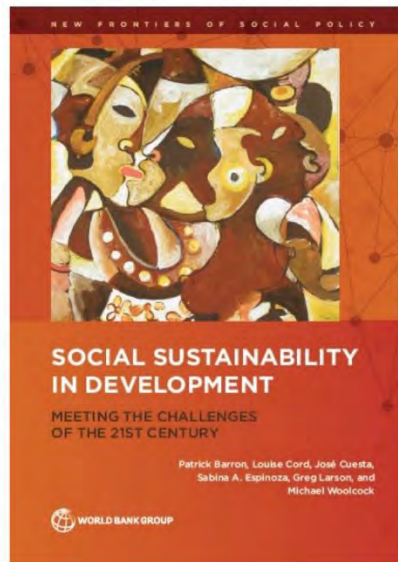


<https://esgdata.worldbank.org/?lang=en>

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# Let's continue the conversation!

Post questions and comments in the IAIA23 app.



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# ANNEX





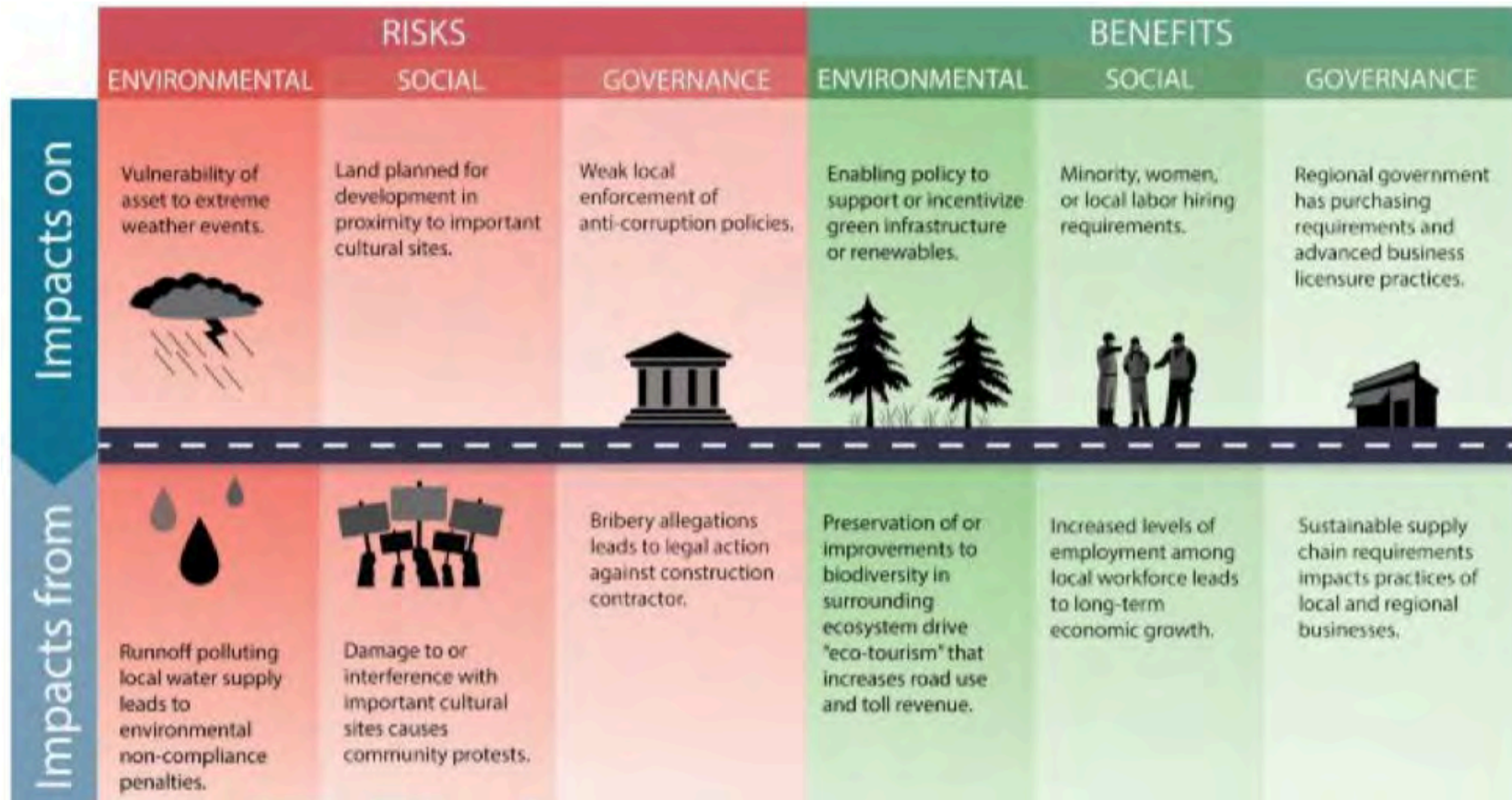
## E &S Systems Assessments supported by the World Bank can be a good resource to assess ESG factors in countries

### E &S Systems Assessment: What Does it Cover?

- **Upstream dialogue** to build client ownership and define priorities
- **Review of legislation and regulations** - at both national and regional level
- **Mapping of key institutions**, at both national and regional level
- **Capacity assessment** of core institutions (in some cases, resources permitting)
- **Implementation and Enforcement** of requirements

To improve systems and build country ownership, it is critical to start with upstream dialogue and solid analytics to understand national priorities and entry points

# EXAMPLE OF ESG CONSIDERATIONS IN A ROAD PROJECT





# ..BUT ADDRESSING ESG ISSUES IS MORE CHALLENGING IN DEVELOPING COUNTRIES

## Challenges in developing countries

- Poor regulatory frameworks and low institutional resources and capacity for implementation increase risk and dissuade investment
- Concerns include conflict and fragility, safety in the workplace, child and forced labor, poor enforcement of environmental regulations

## Improving authorizing environments for ESG- especially critical for developing countries

- Regulatory frameworks providing a level playing field
- Linking laws and regulations with institutional strengthening and implementation capacity
- Improved oversight, governance, and transparency
- Greatest need: Strengthened social standards

# THE WORLD BANK GROUP SUSTAINABILITY FRAMEWORKS CAN STRENGTHEN ESG AGENDA

*Private sector (IFC-Performance Standards) and public sector (World Bank-Environment and Social Framework-ESF)*



- **Intention:** Developed for challenges and priorities in emerging markets
- **Legitimacy:** ESF developed via most extensive consultation process ever by WB.
- **Scope:** Cover important processes and topics on social, missing in most ESG frameworks

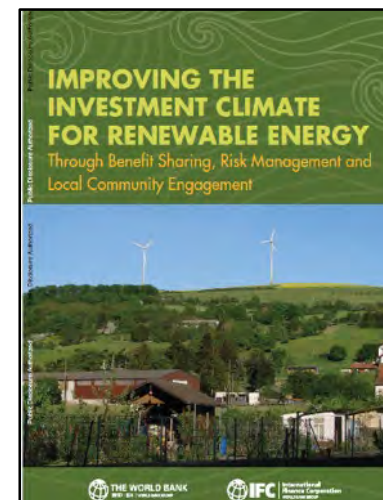
# EXAMPLES OF WORLD BANK'S GLOBAL AND COUNTRY-LEVEL SUPPORT TO ESG

*“The Bank will work with the Borrower to identify and agree on measures and actions to address gaps and strengthen the Borrower’s ES Framework.”*  
(Environmental and Social Policy for Investment Lending)



DataBank Environment Social and Governance (ESG) Data

Sustainable Finance and ESG Advisory Services



# Example of Building Professional Competencies

## Nigeria

### Sustainable Procurement, Environmental, and Social Standards Enhancement Project (SPESSE) P169405

**US\$80m**



## Solutions

- Unique project to develop both sustainable environment and social management and procurement capacity in the public and private sectors
- Anchor the “social” aspects in Ministry of Women Affairs to coordinate resettlement, gender and social inclusion/labor.
- Focused on highly demanded topics: resettlement, stakeholder engagement, GBV



## Current Progress

- Offers professionalization and academic tracks in a custom-made, fit-for-purpose manner through 6 Centers of Excellence (CEs) established in Nigerian Federal Universities
- Integrated Procurement, Environmental, and Social standards into one curriculum.
- Created demand by requesting consultants and staff of PIU for WB and other MDBs (at a certain future date) to have been certified by one of the Centers of Excellence

# OPPORTUNITIES AND PRIORITIES ON S IN ESG: GLOBAL AND COUNTRY-LEVEL SUPPORT



## Global agenda

- Dialogue on suitable and comprehensive ESG standards for emerging markets
- Defining and clarifying social aspects
  - Process and topics
  - Do no significant harm and do good requirements
  - Indicators, measurements, reporting formats

## Strengthening country systems

- Strengthen Regulatory Frameworks
- Improve Institutional Capacity
- Develop Professional Competencies, especially on S

## Tools:

- Analytics
- Technical assistance
- Projects funding and policy-based lending (e.g., Investment Loans, Dev. Policy Loans, Program for Results)