Mapping of ESG frameworks and standards and their connection with the Human Security approach

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Executive Summary

The aim of this paper is **to inform policymaking and practice on ESG impact by investigating the usefulness and relevance of the Human Security (HS) approach to ESG standards**. The Human Security approach is operationalised in terms of business use through the Human Security Business Partnership (HSBP) Framework which proposes a mechanism of partnering based on a set of Human Security principles, processes and tools.

The study sought broadly to assess to what extent the major ESG risk and SDG impact frameworks and standards already converge with the Human Security approach, and to highlight what more could be done in policy terms to tackle gaps in how these frameworks can improve corporate accountability and responsibility standards. To achieve the research objective, the authors conducted **a mapping study whereby Human Security informed local engagement mechanisms were mapped onto international ESG risk and SDG impact frameworks, standards and their guidance notes**.

Nine major ESG frameworks and standards have been assessed on the basis of four value creation areas: Learning, Relational, Instrumental and Financial, elaborating their weaknesses and strengths**, and how these standards align with the Human Security approach, and its core characteristics of people-centred, comprehensive, context-specific, and prevention-oriented responses that strengthen the protection and empowerment of all people and all communities.** These frameworks consist of internationally recognized standards, principles and guidelines for (institutional) investors, Development Finance Institutions (DFIs), Multilateral Development Banks (MDBs), asset owners, asset managers, corporations and rating agencies aiming to support ESG performance and sustainable impacts. The extent to which each standard in the discrete value creation areas already converges with the human security approach has been analysed, followed by potential areas for improvement of the standards. The following nine major frameworks and standards have been assessed:

1. Responsible Banking Principles - UNEP-FI
2. OECD Guidelines for Multinational Enterprises
3. UN Guiding Principles on Business and Human Rights (UNGPs)
4. GRI (Global Reporting Initiative) Standards
5. SDG Impact Standards
6. The OECD DAC Blended Finance Principles
7. Just Transition Criteria – Impact Investing Institute
8. The Equator Principles
9. EU Corporate Sustainability Due Diligence Directive (CSDDD)

The authors made a comparison of these nine frameworks and standards, leading to a matrix in which the standards were ranked according to the following two criteria: 1) the framework or standard's influence on the private sector in terms of geography and sectors and 2) the framework or standard's congruence with the HS approach.

The four standards offering the highest congruence with the Human Security approach in combination with the highest influence on the private sector are **the GRI (Global Reporting Initiative) standards, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the Equator Principles.**

The research points to the relevance of the HS approach in light of the current policy context, in that it responds to developments such as the new European regulations on corporate accountability and responsibility and the pushback against ESG in some parts of the world, in particular the US. Secondly, it draws attention to the significance of a people-centred perspective in terms of addressing the S in ESG and in particular the need to articulate engagement with communities. In policy terms, **there is a clear need for ESG standards to clarify how concepts of inclusion, participation, stakeholder engagement and ownership are defined and should be implemented, as part of the improvement and clarification of standards.**

In this paper, the focus is on value creation through Human Security-informed local engagement mechanisms that can demonstrate genuine benefits to all stakeholders from successful engagement – and to what extent current ESG standards include references to local engagement. **The key findings from the mapping on the four value creation areas** are as follows:

- <u>Learning</u>: Several elements of the Human Security approach are often included in the current standards, namely meaningful stakeholder engagement, knowledge sharing with local communities, and identifying lessons of past grievances. In the HS approach, meaningful community consultations and participation in stakeholder mapping are considered to create better understanding of vulnerability of different groups and its sources. This type of mapping generates local risk and impact metrics to inform baseline impact assessments as well as risk and management processes. Carrying out an assessment of needs and vulnerabilities as well as capacities of those affected is central to HS approach. A more nuanced understanding of the needs and capacities is important to ensure to ensure that the most affected and marginalized groups are accurately represented, such as women and youth, and to identify potential need for empowering those groups to engage more effectively with companies.

- <u>Relational</u>: Trust, transparency and inclusivity feature prominently across the examined standards, invoked often in the context of community engagement as a continuous process. While a frequent reference to partnering with local communities is made, there are major differences in operationalizing partnerships. Trust is one of the key principles of the HS approach - informed collaborations that develops through direct and consistent interactions which contribute to transparency and accountability in working towards shared goals. In addition, the HS approach is about empowering local communities by involving them in decision-making processes and ensuring their input is integral to partnership strategies.

- Instrumental: All standards emphasize the importance of due diligence processes, grievance mechanisms and remediation processes for adversely impacted stakeholders. The HS approach considers the existence of a grievance process with concomitant remedy and mitigation action as a necessary component to deal with difficulties in partnerships, which have to be conducted transparently in order not to undermine trust and the cooperation ethos. Grievance mechanisms should be guided by the principles of inclusivity and sensitivity to the local context and based on mutual trust. The prevention and context-specific dimension of the HS approach is key here, as well as incorporating resolution methods that align with local customs and practices to address grievances effectively and build lasting trust.

- Financial: Compared to others, there are fewer references to financial value creation area and its relevance in ESG risk assessments differs. By working with and alongside communities, the HS approach enables early identification of risks and their effective mitigation which can prevent some material impacts that affect the cash flow. Human security partnerships propose a pathway to achieving both social and financial goals through mutually beneficial and equitable collaborations. The HS approach is also focused on fostering enduring, resilient outcomes that look at long-term sustainability and go beyond immediate impacts.

There are many entry points for engagement of the Human Security approach with ESG frameworks and standards, as well as with investors and companies. Hence, the following recommendations are made.

Recommendations to standard setters:

- Evaluate the potential value added of applying the Human Security approach into different standards. The nine standards covered in this paper can potentially be strengthened by integrating the HS approach.
- Develop clear guidelines for meaningful stakeholder engagement that include best practices and case studies to ensure comprehensive and effective engagement processes.
- Foster multi-stakeholder partnerships by encouraging collaboration among companies, investors, local communities, and NGOs, among others to empower local communities to leverage diverse perspectives and expertise.

Recommendations to investors and companies:

- Initiate a discussion on the benefits of integrating the Human Security approach in their ESG impact measurement methods. This is expected to lead to an increase of ESG knowledge as a result of engagement with local community actors.
- Implement monitoring and evaluation systems to regularly assess the effectiveness of stakeholder engagement processes and make necessary adjustments based on feedback and changing conditions.
- Promote inclusivity and equity in engagement strategies, ensuring that all relevant stakeholders, especially marginalized and vulnerable groups, have a voice in the process.
- Highlight and share lessons learned from successful stakeholder engagements to continuously improve practices and outcomes.

1. Trends in ESG and impact investments

Sustainability and ESG standards are subject to various criticisms: there are too many different standards; they focus more on compliance and risk minimization than on measuring positive impact; and clear guidance on how to measure ESG impacts is lacking. Furthermore, the engagement on risks and sustainability by companies and investors often amounts to a box-ticking exercise. But a growing pro-active role by investors to accelerate corporate ESG performance and impact is changing this trend. A survey of 2022 found that 85% of investors thought that companies should embed ESG data into their corporate strategies.[3] Examples range from working with portfolio companies to make products and services more accessible to underserved populations through changes in the business strategy (i.e. Stewardship) that encourage companies to commit to paying a living wage to employees and outsourced companies or ensure that farmers receive a living income.

In a paper that aimed at defining ESG, the All-Party Parliamentary Group of the British Parliament concluded that it is surprisingly difficult to understand ESG due to the confusion around what it is exactly. Based on conversations with a broad range of stakeholders, the APPG came up with the following definition (see Box 1).

Box 1: Definition of ESG[4]
Environmental, Social, and Governance refers to non-financial criteria used by different stakeholders to judge a given asset's profile, such as risk, impact, or onward trajectory. ESG frameworks facilitate flows of information that assist with informed decision-making, whether from an investment or an operational perspective.

Environmental criteria apply to a business's climate policy, its energy and water use and greenhouse gas emissions, as well as its impact on biodiversity and resource use/depletion – water stress and waste generation are key factors.
Social considerations are both internal, a company's staff and external, the local community, and supply chain partners – their surrounding communities and employees.
Governance standards apply to transparency, leadership, accounting and other practices that help preserve a business's integrity. Key factors include corruption prevention, cyber and data security, and compliance with ESG regulations.

Frequently, the choices of topics for sustainability investing to increase ESG performance are inspired by a range of reference points, from risk assessments to international norms and principles. In contrast, engagement in relation to the SDGs, is directly linked to the impact objectives in the fund portfolio decision-making strategy. In both cases, the use of normative principles, performance standards or impact decision-making frameworks are at the heart of the engagement.

At the same time, there is sufficient evidence that ESG and SDG impact management is an important element to create value for investee companies and investors. Studies have

[3] PwC, 2022
[4] All-Party Parliamentary Group (APPG), 2023

shown that ESG and SDG engagement can help protect long-term investment value and create more value than "standard" investments.[5] Also, widely accepted disclosure standards encourage the exchange of information between investors and investee companies whereby investors derive meaning from that information. Investors may also demand from their investees to comply with certain ESG performance standards (e.g. the IFC Performance Standards) or embed sustainability into management systems and decision-making practices. In this way, value is being created that can take different forms, either immediately or more long term (e.g. reducing exposure to company risks and being more financially attractive to other investors).

According to a recent study, sustainability and ESG considerations are becoming increasingly central in the mergers and acquisitions (M&A) dealmaking process, with more than 70% of M&A leaders reporting that they had abandoned potential acquisitions over ESG concerns. It was noted that even though commercial or operational concerns are often the main reasons for a deal to collapse, ESG red flags are increasingly being considered with the same level of seriousness to either pause or end a deal.[6] Furthermore, failure to engage on ESG issues, may lead to accusations of green and social washing. The wide scope and unclear definition of ESG provides an opportunity for companies to cherry-pick ESG factors that portray them in the best possible light, rather than the most relevant, material ESG factors.[7] New binding regulations, such as the European Union's Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD), are increasing the urgency and need for demonstrating positive ESG impacts and minimizing the social and environmental risks for companies and investors.

Another significant development that is influencing the playing field is the pushback against ESG standards in the United States. ESG has become a polarizing, politicized term and has been seized upon by politicians who see such policies as a threat to the voters and companies they represent, fuelled by the anti-woke and climate change denial sentiment of right-wing politicians.[8] For example, in February 2023, Ron DeSantis, Florida's Republican Governor, announced a ban against applying ESG criteria for the issuance of municipal bonds, describing ESG as 'woke' and thus undesirable.[9] This anti-ESG backlash has opened up a transatlantic rift, with EU investors maintaining or increasing ESG practices, while many of their US counterparts are dodging the subject or saying they must defer to the funders' wishes. Despite these developments, sustainable investments have continued to grow, and returns have outperformed traditional funds, including in the US.[10]

[5] See among others Blackrock & Ceres, 2015; Global Research Institute DWS, 2018; UN PRI and ICGN, 2018; Whelan, Atz & Clark, 2021.
[6] ESG Today, 2024
[7] All-Party Parliamentary Group (APPG), 2023
[8] Financial Times, 2023; Thomson Reuters Institute, 2023
[9] All-Party Parliamentary Group (APPG), 2023
[10] Financial Times, 2023; Thomson Reuters Institute, 2023

2. The role of local inclusion, stakeholder engagement and participation

One of the major challenges in both managing and measuring ESG impacts is local stakeholder engagement. As part of encouraging business to take closer account of those impacted by its operations, many widely accepted ESG performance and SDG impact frameworks and their guidance materials acknowledge and have incorporated concepts of local inclusion, community engagement and participation. However, these concepts have a high qualitative dimension that is very context specific, and therefore difficult to translate into global guidance or standards. Moreover, how engagement with local communities is designed and implemented is key to understanding what matters in terms of impact assessment. In fact, it is the quality of local engagement that is crucial in terms of the sustainability of corporate activities, and related variables such as trust and legitimacy, especially in frontier markets and fragile settings.

The difficulty lies in translating principled frameworks and performance standards to outcomes consistent with strong local engagement. In many cases, concepts have not been clearly defined and guidance is limited on how to achieve strong and durable local engagement and inclusion as an essential component of positive impacts for ESG and sustainable development. This gap in the standards weakens both corporate due diligence as well as the intended environmental and social impact that investors are looking for. Strong local engagement practices are an often neglected but potentially valuable element in meeting ESG and impact objectives for investors, portfolio companies and other stakeholders. Highlighting their value could help formulate an improved market benchmark by standard setting organizations and rating agencies.

Stakeholder engagement is a critical component of the Human Security (HS) approach and ESG frameworks. Effective engagement involves meaningful interactions with local communities, investors, and companies, ensuring that their voices and concerns are incorporated into the decision-making process. This helps in creating more robust and inclusive ESG impact measurements and fostering trust among all parties involved. In the box below, the key elements of effective stakeholder engagement are listed.

Box 2: Key elements of effective stakeholder engagement

- Inclusivity: Ensuring that all relevant stakeholders, especially marginalized and vulnerable groups, have a voice in the process.
- Transparency: Open communication about the intentions, processes, and outcomes of stakeholder engagement activities.
- Continuous engagement: Ongoing dialogue rather than one-off consultations to build trust and adapt to changing circumstances.
- Cultural sensitivity: Understanding and respecting the cultural contexts of the communities involved.

3. How can the Human Security approach add value in ESG impact measurement

The aim of this paper is to show how current ESG risk and impact standards could benefit from following a Human Security (HS) approach. The benefit can be defined in terms of additional value for all stakeholders, including financial shareholders, when HS is used as part of a structured form of local governance between companies and communities. The model of Human Security Business Partnerships applies the human security approach to long-term relations and engagement between companies and investors with those affected by their presence. The HSBP Framework proposes a mechanism of partnering based on a set of HS principles, processes and tools (see Annex A).

HS takes a holistic and context-specific approach towards ESG issues by taking into account a wide variety of every-day (personal, economic, political, environmental, community, health, food or technology related) risks people face whether they are rights, security or development related and points to the effects of company operations and investments on those risks. Applying the Human Security Approach in engagement on ESG and SDGs objectives, can enhance the exchange of information between investors and investee companies for example by exposing localized risks, that the impact measurement should take into consideration. On the other end, ESG/SDG impact measures that do not account for such an HS perspective may be faced with a valuation risk (e.g. litigation risk by failure to disclose the known ESG risks). The key to this approach is that successful engagement on ESG and SDG impact management by private sector actors is crucial in value creation for the investee companies and investors.

4. Mapping of international ESG impact frameworks: objectives and approach

There is a clear need for ESG standards to clarify how concepts of inclusion, participation, stakeholder engagement and ownership as core Human Security approach components are defined and implemented, as part of the improvement and clarification of standards. The research that underpins this study has examined nine different ESG risk and SDG impact standards and frameworks to assess whether and how they align with the HS approach and its core characteristics of people-centred, comprehensive, context-specific, and prevention-oriented responses that strengthen the protection and empowerment of all people and all communities. These frameworks consist of internationally recognized standards, principles and guidelines for (institutional) investors, Development Finance Institutions (DFIs), Multilateral Development Banks (MDBs), asset owners, asset managers, corporations and rating agencies aiming to support ESG performance and sustainable impacts.

Methodology

The HS local engagement mechanisms[11] were mapped onto selected international ESG risk and SDG impact frameworks, standards and their guidance notes. The focus was on identifying criteria for the application of HS informed local engagement mechanisms that could facilitate successful ESG and SDG engagement. The HS local engagement mechanisms that can demonstrate genuine benefits for successful engagement are considered value creation approaches and mechanisms. Any value creation approach or mechanism that emerges from the mapping should reflect the goals and interests of corporations, investors and other stakeholders that use the international standards and guidelines as part of their engagement on ESG risks and SDG impacts. Arguably, quantifying precisely the value created by shareholder engagement is difficult[12]. Nevertheless, it is clear that its absence will lead to problems, not least due to shareholders' disengagement.

Box 3: A note on value creation[13]

The definition of value creation has changed over time, as explained by Mariana Mazzucato in her seminal work "The value of everything", She makes a distinction between 'value creation' and 'value extraction'. Value creation is defined as the ways in which different types of resources (human, physical, intangible) are established and interact to produce new goods and services. Value extraction consists of all activities focused on moving around existing resources ad outputs and gaining disproportionally from the ensuing trade.

In this paper, the focus is on value creation through Human Security informed local engagement mechanisms that can demonstrate genuine benefits to all stakeholders from successful engagement – and to what extent current ESG standards include references to local engagement. The value created is not so much from the production of new goods or services, but from ensuring that companies operate in a way that improves the situation for local stakeholders, in particular workers and local communities. The assumption is that this will ultimately also lead to increased profits as the company has reduced its risks (reputational, legal, etc.).

Four specific areas of value creation have been identified to cluster the mechanisms and approaches that emerge from the research.[14] Those are:

1. Learning: Local engagement mechanisms that generate new ESG and SDG impact knowledge and the improvement of ESG risk and SDG impact management capacities.

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[11] The HSBP Framework consists of principles, processes and tools, and serves as a guidance mechanism to bring about a new type of interaction or engagement with local stakeholders. A visual of the HSBP Framework is provided in Annex 1. Further information on the HSBP Framework elements can be found here: https://www.lse.ac.uk/ideas/Assets/Documents/reports/Human-Security-Business-Partnerships-Institutional-Report.pdf.

[12] Blackrock & Ceres, 2015

[13] Mazzucato, 2018

[14] These four areas were modelled after and build on the three PRI ESG value creation engagement dynamics. UN PRI, 2018. See: https://www.unpri.org/research/how-esg-engagement-creates-value-for-investors-and-companies/3054.article

2. Relational: Local engagement mechanisms fostering new and underdeveloped relationships with the investor/investee that enhance internal coordination and external collaboration.
3. Instrumental: Local engagement mechanisms that lead to better ESG and impact management practices that can take the form of changes in behaviour, policies and the use of enhanced sustainability tools.
4. Financial: Local engagement mechanisms that produce, among others, enhanced financial performance, long-term financial returns and short-term cost reductions.

5. Making the connection between Human Security and ESG impact frameworks

Human Security (HS) focuses on the most fundamental rights – to life, basic needs and dignity – and it emphasises the importance of the local context in which these rights are exercised. HS defines three freedoms to be fundamental to people's lives and aspirations: 1) Freedom from fear: Threats to the safety and the physical integrity of people (including all forms of violence); 2) Freedom from want: Threats to basic needs; and 3) Freedom to live in dignity. HS addresses the various challenges present in a specific time and place, while providing people with the means to address these challenges. HS therefore has a strong preventive dimension which not only covers the mitigation of risks and ensuring that affected people have access to remedy but that they can make tangible improvements in their everyday life. This suggests that people will need to be able to address the risks and fragility they are facing and not solely the impact of an economic activity that has been inflicted upon them. In short, Human Security concerns protection of people from threats related to human rights, peace and development and the creation of positive impacts for people and communities where the companies operate or intend to invest.

An HS approach emphasizes the connections between people's rights and needs, and makes it relevant for the analysis of the ESG standards and frameworks. Specifically, it can demonstrate the relationship between E, S and G issues, of paramount importance and an essential prerequisite for companies interested in maintaining their social licence in areas of operation. For instance, a focus on HS can reveal how land rights and ownership are connected to people's economic, environmental and food security and how these in turn also confer to people's dignity and sense of cultural belonging, issues that are also highly consistent with the goals and targets of the 17 SDGs. Arguably, current ESG risks assessments fail to consider such a holistic perspective, often resulting in corporate activities creating unintended negative consequences for local communities and facing costly operational disruptions.

For the purpose of the mapping, an illustrative list of benefits from the HS approach has been identified and classified according to the four value creation areas illustrated in Table 1 below.[15] These value creation areas and examples of benefits have been used to

[15] The identification and classification have been carried out following consultations with private sector stakeholders by LSE IDEAS.

pinpoint the criteria needed for successful engagement referenced in the ESG and SDG impact frameworks reviewed in this study.

Table 1. Human Security approach and value creation for ESG and SDG impact engagement

Value creation areas	**Human Security approach creates value by:**
Learning	Gathering feedback and identifying gaps on relevant and material ESG issues locally that also reveal the E&S connections and potential trade-offs
	Educating investors on local ESG risks leading to greater E&S impact understanding and new insights on the investee companies' impact on the ground
	Providing learning opportunities for the company management of ESG issues and impact strategies
	Helping partners (investors and investee companies) to understand the human security challenges they face
	Building-up a granular picture of local society and identifying key interests and needs that can inform or confirm the investor's impact objectives
	Better understanding the vulnerability and ESG risks associated with the company's activities
Relational	Supporting corporate accountability towards the asset managers and owners
	Enabling trust and transparency among investors by addressing potential impact washing
	Countering exclusion and enabling inclusion of local stakeholders
	Enhancing dialogue on ESG issues between investors and investee companies
	Indirectly supporting internal coordination between ESG departments ("breaking the silos")
Instrumental	Providing up-to-date information on E&S issues serving company ESG ratings
	Generating local risk and impact metrics for the benefit of baseline assessments and risk and management processes as well as measurements of the contributions to relevant SDGs
	Identifying ESG signals or concerns early in the pre- and post-investment process
	Assisting investors with the ESG and SDG impact strategy and timely management of ESG risks
	Helping to secure and nurture relationships with long-terms investors
	Assisting in the design of new ESG policies and practices to fit the expectations by investors, thus also supporting stewardship
	Influencing ESG practices including methods for ESG disclosure
	Improving transparency through consistent communication and information sharing
	Contributing to effective complaints and grievance mechanisms
	Identifying key impact KPIs and conflict risk screening indicators to support risk and impact M&E and their disclosure.
	Enhancing the ESG learning capacities of corporate sustainability personnel
Financial	Helping to close the perceived sustainability-financing gap between corporate sustainability and finance staff
	Reducing project delays, cancellations or exits
	Cost savings on time spent on monitoring and corporate risk management as well as internal coordination

6. Applying the Human Security lens to international ESG impact frameworks and standards

In this research, existing ESG and SDG standards and guidelines have been analysed, including to what extent HS principles and processes are used or not used before assessing their potential value in successful ESG/SDG engagement. For example, when

ESG engagement on environmental and social (E&S) risks takes place between companies and investors, its aim is to provide assurances on risk reductions, among others, by applying relevant due diligence standards. In addition to looking at company risks, the HS approach brings in the individual/community perspective and the everyday risks they face, and which are rooted in different human security dimensions.

More knowledge about these HS risks could add value to the ESG knowledge which helps the engagement between the investor and company to assess the materiality of the risks and ways to reduce them. For instance, the knowledge on HS risks has helped clarify relevant connections between different types of E&S risks. The objective of the mapping is to identify the gaps in the current standards and how HS grounded approach can add value for different users of the standards. This should serve as 'evidence' to support the idea that standards users will benefit from an increase in HS knowledge.

A review of internationally accepted frameworks and taxonomies for ESG and SDG impact management led to a selection of 23 relevant frameworks that are currently used by investors and companies operating and investing in Low-income Development Countries (LDCs) or Fragile and Conflict-affected Settings (FCS). This does not include sector or industry specific frameworks. These international frameworks are supported by a set of performance standards or apply high level principles that are guided by processes and instruments for effective implementation. The frameworks and their guidelines often include best practices, lessons and practical cases that are relevant for the mapping act as the main resource to identify areas where the HS approach can create value. The following criteria have been used to assess the 23 frameworks and standards:[16]

1. <u>Guidance for implementation should be present</u>. Such guidance can provide the details in the form of practices, lessons, cases and evaluations demonstrating how the frameworks have been used in relation to ESG and SDG impact engagement.
2. <u>(Local) stakeholder engagement is referenced in the frameworks</u>. The consideration and involvement of affected communities is a key aspect of the HS approach. The degree and ways in which such engagement is described offers valuable insights that can indicate the potential benefits for the use of the HS approach in ESG and SDG impact engagement.
3. <u>A partnership model that functions as the basis for the risk and impact management processes</u>. The HS approach is also based on partnership, one with strong relations with the affected community. International frameworks operating from a partnership approach can give an indication how the HS approach can create additional value in the current ESG and SDG impact engagement.
4. <u>A focus on SDG contributions or SDG alignment demonstrating the need for engagement on the SDGs</u>. Many of the ESG risk management frameworks argue that the implementation of standards and principles contribute to delivering on

[16] As part of the mapping, the OECD Guidelines for Multinational Enterprises and the Key Considerations for due diligence under these Guidelines targeting institutional investors were reviewed together.

the objectives of the SDGs. Additionally, specific standards have been designed to impact the SDGs more intentionally.

Table 2 provides the longlist with the selected frameworks for the review. In green, the shortlisted frameworks are presented, which include guidance notes for their implementation as well as principles for local stakeholder engagement. These nine frameworks and standards are expected to be most compatible with the HS approach and will be considered for engagement in a next phase of the project.

Orange highlighted frameworks have been left out due to the lack of any local stakeholder engagement in the due diligence and impact management processes. Red highlighted frameworks lack guidance notes for their implementation and have been excluded from the selection as well. Arguably, the principles and performance standards that lack local stakeholder engagement as part of their current due diligence processes could potentially benefit a great deal from a strong local engagement feature that the HS approach provides. However, in these cases, the analysis would likely emphasize a reconsideration of the user's existing ESG and impact management approach which will likely take more effort, while making the inclusion of the HS approach more challenging.

Table 2. ESG and SDG Impact Frameworks, Standards, Principles and Guidelines

#	ESG and SDG Impact Frameworks, Standards, Principles and Guidelines	Guidance for implementation	Local stakeholder engagement	Partnership model	SDGs reference
1	Principles for Responsible Banking (UNEP FI)	●	●	●	●
2	OECD Guidelines for Multinational Enterprises / Key Considerations for due diligence under the OECD Guidelines for Multinational Enterprises (OECD Responsible Business Conduct for institutional investors)	●	●		●
3	UN Guiding Principles on Business and Human Rights (UNGPs)	●	●		●
4	Global Reporting Initiative (GRI) Standards	●	●		●
5	The SDG Impact Standards	●	●	●	●
6	The OECD DAC Blended Finance Principles	●	●	●	●
7	Just Transition Criteria, Impact Investing Institute		●	●	●
8	Equator Principles	●	●		●
9	EU Corporate Sustainability Due Diligence Directive	●		●	●
10	OECD and UNDP Impact Standards for Financing Sustainable Development (IS-FSD)	●	●		●
11	Check List for Impact Assessment on the Poor by the Tri Hita Karana (THK) Impact Working Group	●	●		●
12	Global Environment Facility (GEF) Environmental and Social Safeguards or Minimum Standards	●	●		●
13	The IFC Environmental and Social Performance Standards	●	●		
14	E&S Performance Standards of the World Bank Multilateral Investment Guarantee Agency (MIGA)	●	●		

15	The World Bank's new Environmental and Social Framework (ESF) and the ten Environmental & Social Standards (ESS)	•	•		
16	UN Global Compact 'SDG 16 Business Framework: Transformational Governance'	•			•
17	The Principles for Responsible Investing initiative (PRI)	•			•
18	The Operating Principles for Impact Management (OPIM)				
19	The DFI Enhanced Blended Finance Principles (DFI Working Group on Blended Concessional Finance)				•
20	EDFI Principles for Responsible Financing of Sustainable Development		•		•
21	The EU Social Taxonomy		•		
22	Sustainability Accounting Standards Board (SASB) Standards and the International Sustainability Standards Board (ISSB)		•		
23	Kampala Principles			•	

7. In-depth analysis of selected ESG impact standards and frameworks

The following nine ESG impact standards and frameworks have been included for the purpose of this assessment:

1. Responsible Banking Principles - UNEP-FI
2. OECD Guidelines for Multinational Enterprises
3. UN Guiding Principles on Business and Human Rights (UNGPs)
4. GRI (Global Reporting Initiative) Standards
5. SDG Impact Standards
6. The OECD DAC Blended Finance Principles
7. Just Transition Criteria – Impact Investing Institute
8. The Equator Principles
9. EU Corporate Sustainability Due Diligence Directive (CSDDD)

As explained in section 4, the analysis covered four value creation areas: Learning, Relational, Instrumental and Financial. For each value creation area, the assessment identified the extent to which each standard already converges with the Human Security approach. Also, areas for improvement for (institutional) investors, DFIs, MDB, corporations, asset managers, asset owners and rating agencies were identified. A particular objective of the exercise was to clarify how stakeholders may benefit from the identified value creation approaches and mechanisms, according to the four value creation areas.

Where identifiable, criteria for successful engagement have been listed. For instance, if local engagement is considered to enhance the knowledge of the corporate context that investors are seeking, an example of a criterion is that the local knowledge generated by the HS approach should provide a reassurance that ESG risks related to prior adverse impacts will be under control. Also, best practices have been distilled for the users of the frameworks as well as any recommendations for improvements in ESG and SDG impact measurement (see next section).

Based on this assessment, the nine frameworks and standards have been compared, leading to a matrix in which they were ranked according to the following criteria:

- The framework or standard's influence on the private sector in terms of geography and sectors;
- The framework or standard's congruence with the HS approach.

Below, a summary is provided of the scoring framework for the nine selected standards and their congruence with the HS approach (see Annex B for a more extensive explanation of the scoring framework).

Table 3. Overview of the nine selected ESG impacts standards and frameworks and their congruence with the HS approach

Legend:

Rating of the standard's influence on the private sector in terms of geography and sectors:

5 Global influence/reaching all economic sectors
4 Influence in the most important markets/reaching multiple sectors
3 Influence in more than 1 major market/reaching more than 1 sector
2 Influence in 1 major market/1 sector
1 Relatively limited influence in major markets/sectors

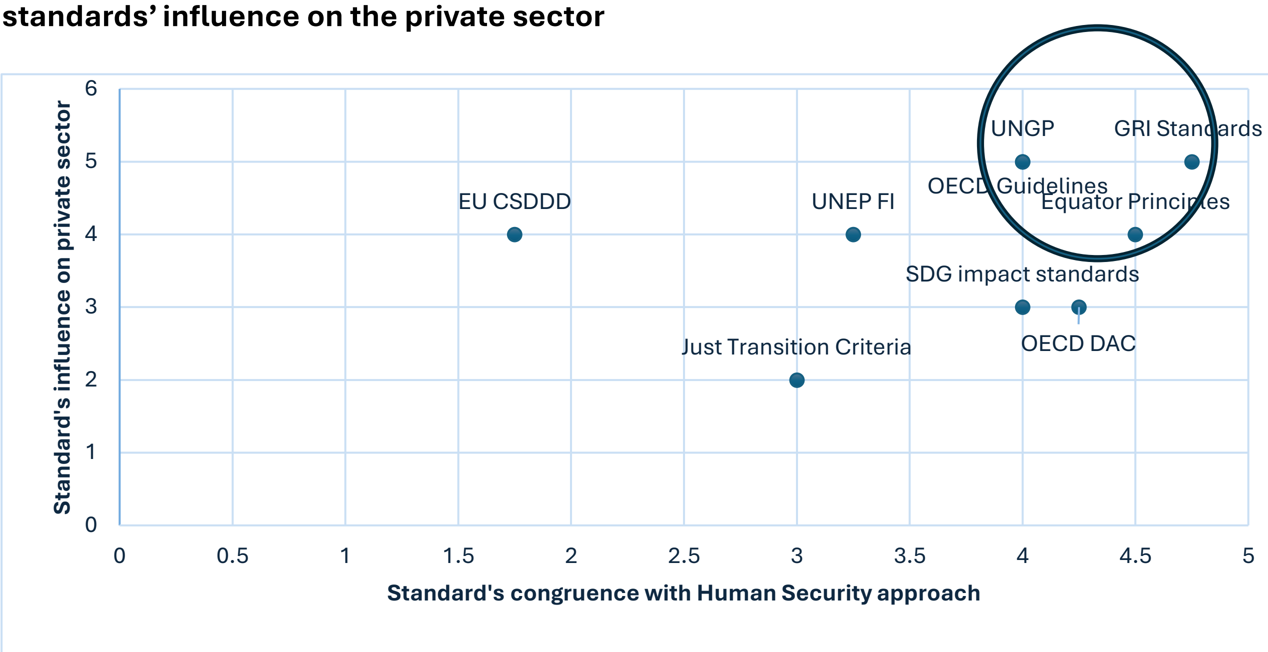
Rating of the standard's congruence with HS approach:

5 High congruence with HS approach
4 Substantial congruence
3 Average congruence
2 Low congruence
1 Lack of congruence

Standard/Framework	Standard's influence on the private sector	Standard's congruence with HS approach on Value creation area "Learning"	Standard's congruence with HS approach on Value creation area "Relational"	Standard's congruence with HS approach on Value creation area "Instrumental"	Standard's congruence with HS approach on Value creation area "Financial"
UNEP FI	4	4	5	4	n/a
OECD Guidelines	5	5	4	4	3
UNGPs	5	4	4	5	3
GRI Standards	5	5	5	5	4
SDG Impact Standards	3	3	4	5	4
OECD DAC blended finance principles	3	5	5	3	4
Just Transition Criteria	2	3	4	2	3
Equator Principles	4	4	5	5	4
EU Corporate Sustainability Due Diligence Directive	4	n/a	4	3	n/a

Based on the above rating, overall rating scores were calculated, as shown in Figure 1. In conclusion, it appears that the GRI standards, the UN Guiding Principles, the OECD Guidelines and the Equator Principles have the highest congruence with the HS approach in combination with the highest influence on the private sector.

Figure 1: Matrix of the nine standards' congruence with HS approach and the standards' influence on the private sector



More specifically, some of the key findings from the mapping in relation to each value creation area are as follows:

- <u>Learning</u>: Several elements of the HS approach are often included in the current standards, namely meaningful stakeholder engagement, knowledge sharing with local communities, and identifying lessons of past grievances. In the HS approach meaningful community consultations and participation in stakeholder mapping are considered to create better understanding of vulnerability of different groups and its sources. For instance, the OECD Guidelines focus on knowledge sharing with local communities for capacity building to get a better ESG contribution. This aligns with the HS approach, which emphasizes the importance of meaningful community consultations and participation in stakeholder mapping. This type of mapping generates local risk and impact metrics to inform baseline impact assessments as well as risk and management processes. Carrying out an assessment of needs and vulnerabilities as well as capacities of those affected is central to HS approach. A more nuanced understanding of the needs and capacities is important to ensure to ensure that the most affected and marginalized groups are accurately represented, such as women and youth, and to identify potential needs for empowering those groups to enable them to engage more effectively with companies.

- Relational: Trust, transparency and inclusivity feature prominently across the examined standards, invoked often in the context of community engagement as a continuous process. While a frequent reference to partnering with local communities is made, there are major differences in operationalizing partnerships. Another common element is that engagement should be a continuous process (OECD Guidelines, Equator Principles). Trust is a key principle of the HS approach and a necessary component to overcome the challenges of working collaboratively. The HS approach enables direct and consistent interactions that contribute to transparency and accountability in working towards shared goals. In addition, the HS approach is about empowering local communities by involving them in decision-making processes and ensuring their input is integral to partnership strategies.

- Instrumental: All standards emphasize the importance of due diligence processes, grievance mechanisms and remediation processes for adversely impacted stakeholders. The Just Transition criteria is one of the few standards that have a focus on positive ESG impacts. The HS approach considers the existence of a grievance process with concomitant remedy and mitigation action as a necessary component to deal with difficulties in partnerships, which have to be conducted transparently in order not to undermine trust and the cooperation ethos. Grievance mechanisms should be guided by the principles of inclusivity and sensitivity to the local context and based on mutual trust. The prevention and context specific dimension of the HS approach is key here, as well as incorporating resolution methods that align with local customs and practices to address grievances effectively and build lasting trust.

- Financial: Compared to others, there are fewer references to financial value creation area and its relevance in ESG risk assessments differs. By working with and alongside communities, the HS approach enables early identification of risks and their effective mitigation which can prevent some material impacts that affect the cash flow. For instance, the OECD Guidelines recommend the inclusion of material information on ESG risks as an important factor in determining a company's financial value, and the GRI standards state that financially significant impacts of enterprise activities are crucial to identify future ESG-related risks. The Equator Principles recommend that financial institutions ensure to finance projects that consider environmental and social risks to clients complying with Equator Principles. Human security partnerships propose a pathway to achieving both social and financial goals through mutually beneficial and equitable collaborations. The HS approach is also focused on fostering enduring, resilient outcomes that look at long-term sustainability and go beyond immediate impacts.

As part of the mapping of the nine ESG standards, we collected several best practices to illustrate the application of a particular standard and how they link to the four value creation areas. For the four highest ranking standards, some examples of best practices are presented in Annex C.

8. Recommendations

Based on the research, there are many entry points for engagement of the HS approach with ESG frameworks and standards, as well as with investors and companies. Hence, the following recommendations are made.

Recommendations to standard setters:

- Evaluate the potential value added of applying the Human Security approach into different standards. The nine standards covered in this paper can potentially be strengthened by integrating the HS approach.
- Develop clear guidelines for meaningful stakeholder engagement that include best practices and case studies to ensure comprehensive and effective engagement processes.
- Foster multi-stakeholder partnerships by encouraging collaboration among companies, investors, local communities, and NGOs, among others to empower local communities to leverage diverse perspectives and expertise.

Recommendations to investors and companies:

- Initiate a discussion on the benefits of integrating the Human Security approach in their ESG impact measurement methods. This is expected to lead to an increase of ESG knowledge as a result of engagement with local community actors.
- Implement monitoring and evaluation systems to regularly assess the effectiveness of stakeholder engagement processes and make necessary adjustments based on feedback and changing conditions.
- Promote inclusivity and equity in engagement strategies, ensuring that all relevant stakeholders, especially marginalized and vulnerable groups, have a voice in the process.
- Highlight and share lessons learned from successful stakeholder engagements to continuously improve practices and outcomes.

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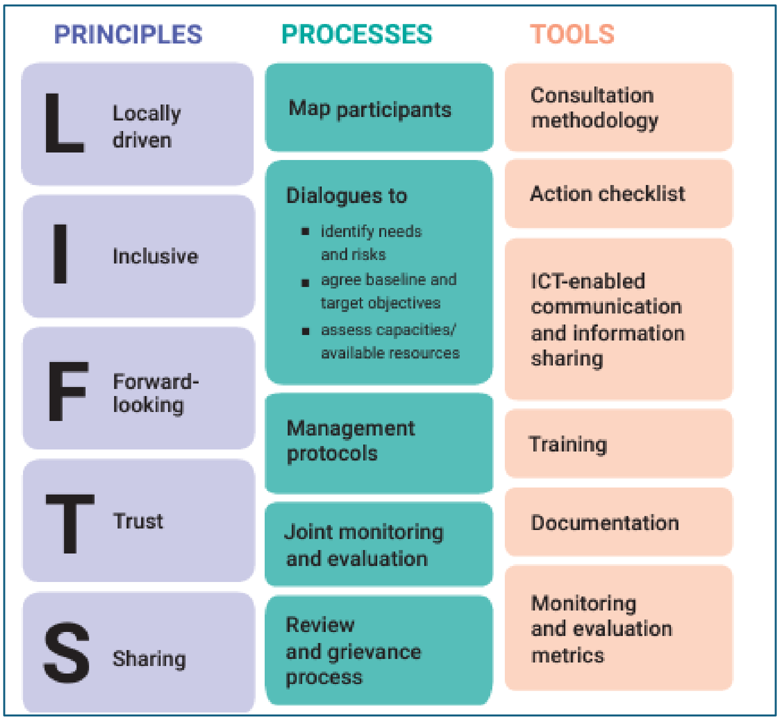
Annex A: The Human Security Business Partnership Framework[17]

The UN Business and Human Security Initiative at LSE IDEAS, the foreign policy and strategy think-tank of the London School of Economics and Political Science, is a research programme supported by the United Nations Trust Fund for Human Security that seeks to encourage and mobilise the engagement of the private sector in multi-stakeholder collaborations at the local level to achieve sustainable development outcomes. As part of the programme, the Human Security Business Partnership Framework (HSBPF) was developed. This Framework is a unique guidance tool to help companies, investors and other financial actors manage practice challenges and translate global ethical standards on responsibility and social impact into actions at local level and achieve positive social impacts. It sets out practical, innovative steps for businesses to meet their commitments to the Sustainable Development Goals (SDGs), to set and deliver on ESG impacts and develop state of the art corporate social responsibility and stakeholder engagement strategies.

The HSBP Framework consists of three pillars: principles, processes and tools. Each pillar connects to the others and defines the spirit and ethos of a new type of engagement between the private sector and other actors locally, while proposing practical actions to assist the private sector increase ESG performance and achieve the ambitions of the SDGs. The Framework uses the UN definition of human security (General Assembly resolution 66/290). This highlights the importance of people-centred action, the comprehensive nature of risk that individuals face, and the need for integrated solutions that can prevent vulnerability and future crises.



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Annex B: Overview of the nine selected standards and their congruence with the HS approach

In the table below, an explanation is provided of the scoring framework for the nine selected standards and their congruence with the HS approach.

Legend to the table:
Rating of the standard's influence on the private sector in terms of geography and sectors:

5 Global influence/reaching all economic sectors
4 Influence in the most important markets/reaching multiple sectors
3 Influence in more than 1 major market/reaching more than 1 sector
2 Influence in 1 major market/1 sector
1 Relatively limited influence in major markets/sectors

Rating of the standard's congruence with HS approach:

5 High congruence with HS approach
4 Substantial congruence
3 Average congruence
2 Low congruence
1 Lack of congruence

Value creation area → Rating of the standard's influence ↓	**Learning**	**Relational**	**Instrumental**	**Financial**
UNEP FI Influence rating: 4	**4 – Substantial congruence** Strong focus on stakeholder engagement, specifically communities	**5 – High congruence** Transparency and partnering with local communities are key elements to increase their confidence in investors to deliver its commitments	**4 – Substantial congruence** Use of stakeholder mapping to get a better understanding of the possible risks and adverse impacts early on in the investment process	n/a
OECD Guidelines Influence rating: 5	**5 – High congruence** Focus on knowledge sharing with local communities for capacity building to get better ESG contribution	**4 – Substantial congruence** Cooperation based on mutual trust and transparency to form long-term relationships	**4 – Substantial congruence** Focus on meaningful stakeholder engagement, grievance mechanisms for adversely impacted stakeholders	**3 – Average congruence** Inclusion of material information on ESG risks as an important factor in determining a company's financial value
UNGPs Influence rating: 5	**4 – Substantial congruence** Focus on identifying lessons of past grievances to reduce risks	**4 – Substantial congruence** Cooperation that focuses on knowledge sharing, creation of mutual goals can mitigate risks.	**5 – High congruence** Focus on grievance mechanisms, remediation processes, and due diligence processes to reduce risks and prevent future harm	**3 – Average congruence** Restoring the imbalance in resources between companies and investors by searching for win-win solutions
GRI Standards Influence rating: 5	**5 – High congruence** Sharing knowledge with local communities to prevent potential negative impacts	**5 – High congruence** Stakeholder engagement based on trust to understand their needs.	**5 – High congruence** Due diligence processes and grievance mechanisms are important factors to decrease potential risks	**4 – Substantial congruence** Financially significant impacts of enterprise activities are crucial to identify future ESG-related risks
SDG Impact Standards Influence rating: 3	**3 – Average congruence** Focus on evidence-based data for understanding the context in which they are operating to make better investment decisions	**4 – Substantial congruence** Formal procedures to identify relevant stakeholders to get a more holistic view of the local context.	**5 – High congruence** Risk management practices include sustainable development risks and opportunities, grievance mechanisms and remediation processes	**4 – Substantial congruence** A firm's long-term contribution to the SDGs should be linked to its approach to creating long-term value

OECD DAC blended finance principles Influence rating: 3	**5 – High congruence** Focus on knowledge sharing and the availability of lessons learned to improve operations	**5 – High congruence** Tailoring blended finance to the local context and focus on inclusive and transparent stakeholder engagement	**3 – Average congruence** Focus on enhancing transparency, a clear understanding among involved parties regarding expected outcomes and development impact	**4 – Substantial congruence** Focus on attracting sustainable capital that contributes to SDG goals while simultaneously generating revenues to investors.
Just Transition Criteria Influence rating: 2	**3 – Average congruence** Continuous learning in a fast-changing global context to identify opportunities	**4 – Substantial congruence** Focus on the ability of stakeholders' co-creation	**2 – Low congruence** Establishing KPI's to accurately measure and claim positive ESG impact and determine risks and opportunities	**3 – Average congruence** Focus on attracting capital for net-zero emissions while ensuring financial returns.
Equator Principles Influence rating: 4	**4 – Substantial congruence** Sharing knowledge to collaboratively learn and identify best practices	**5 – High congruence** Successful stakeholder engagement and dialogue as an ongoing process	**5 – High congruence** Remediation processes, grievance mechanisms and compliance to set goals are important to reduce risks	**4 – Substantial congruence** Focus on financing projects that consider environmental and social risks to clients complying with Equator Principles
EU Corporate Sustainability Due Diligence Directive Influence rating: 4	n/a	**4 – Substantial congruence** Focus on stakeholder engagement to take into account those affected to prevent, mitigate, and end adverse impacts	**3 – Average congruence** Focus on supporting sustainable transitions by conducting due diligence on potential or actual adverse human rights and environmental impacts.	n/a

Annex C: Best practices of ESG standards' links to the four value creation areas

As part of the mapping of the nine ESG standards, a number of best practices was collected to illustrate the application of a particular standard and how they link to the four value creation areas. For the four highest ranking standards, some examples of best practices are presented below.

Best practice 1: OECD Guidelines for Multinational Enterprises[18]
The perspective of a prominent European bank on the careful handling of climate-related and environmental risks includes recommendations on carrying out due diligence and ensuring compliance with the OECD Guidelines. The bank details its expectations for institutions to incorporate climate-related and environmental risks as influential factors within existing risk categories when shaping and executing their business strategy, governance, and risk management frameworks. Additionally, it emphasizes its anticipation for institutions to improve transparency by augmenting their disclosures related to climate and environmental considerations.

Value creation areas highlighted in this example: Instrumental

Best practice 2: UN Guiding Principles on Business and Human Rights[19]
An external assessment of a global power company pinpointed significant human rights risks in sourcing hard coal from high-risk countries. In response, a human rights organization conducted a comprehensive due diligence specifically on coal procurement in such countries. The report's recommendations follow the 'Act, Enable, and Influence' framework. 'Act' involves implementable changes within the company's control. 'Enable' suggests coal mining companies support or invest in entities like NGOs to expedite change. In 'Influence,' recommendations encourage advocacy and collaboration with government and stakeholders for policy changes. The aim is to align practices with international standards, enhancing transparency on human rights risks, addressing infrastructure gaps, and improving grievance mechanisms.

Value creation areas highlighted in this example: Relational, Instrumental

[18] Source: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf
[19] Source: https://media.business-humanrights.org/media/documents/files/documents/vattenfall_coal_sorcing_report_2017_0.pdf

Best practice 3: GRI standards[20]

A company's report that used the GRI standards identified eight stakeholder groups discussing important issues tied to the company's activities, such as the business community, customers, financial institutions, civil society, local communities, media, "our people," and suppliers. Using a color-coded index, the company prioritizes material issues raised by stakeholders, emphasizing that while all are significant, some receive higher priority based on stakeholder concerns. For example, "engaging local communities" is a "Very High Priority" for the "Media" group but a "Medium Priority" for "Our People." By using the GRI standards, this company was better able to identify high-priority situations concerning various stakeholders. The company disclosed sustainability targets aligned with material topics from stakeholder engagement. It establishes a connection between sustainability goals and specific SDGs.

Value creation areas highlighted in this example: Relational, Instrumental

Best practice 4: Equator Principles[21]

A major bank based in Taiwan has joined the Equator Principles Association, and aims to enhance international connectivity, enforce environmental and social risk management, and promote sustainable business operations. The bank will review credit facility cases following the Equator Principles, requiring high-risk cases to undergo third-party environmental and social risk assessments. This initiative aligns with global efforts to address climate change risks, and the bank's integration of environmental and social responsibility in corporate operations.

Value creation areas highlighted in this example: Instrumental, Financial

[20] Source: https://www.globalreporting.org/public-policy-partnerships/sustainable-development/reporting-in-practice/; Report title: "Engaging Stakeholders When Setting Sustainability Objectives and Linking Them to the SDGs"

[21] Source: https://www.megabank.com.tw/en-us/english/index/news/news-details?sno=%7BB55B0EC5-7396-4093-A283-B2820A20BBF4%7D