What is ESG and how is it related to the work of the ILO?

Key points

- The substance underlying ESG is not new to the ILO, as it has a similar conceptual approach as sustainable development.
- Regulation of aspects covered under the term ESG is growing significantly (e.g. regarding what to do and how to report).
- ILO's mandate is clearly aligned with the social dimension (S in ESG), though connections exist with E (e.g. just transition) and G (e.g. diversity)

What is ESG?

ESG stands for Environmental, Social, and Governance. It is used to describe environmental, social, and governance factors considered by companies when managing their operations, and investors when making investments, in respect of the risks, impacts, and opportunities.

The term ESG can be used in the context of

1. integration into companies' strategy and operations; internal processes and policies; and investment decisions/analysis → what companies actually do
2. regulation & reporting (disclosure of performance of ESG factors and KPIs; reporting of sustainability-related information; and compliance with regulatory requirements)

How and when did it emerge?

The term is ESG was first used in the financial sector (in the 2000s) to reflect the incorporation of non-financial matters in decision-making, initially limited to a risk management approach. The origin of such approaches can be traced back to religious or ethics-based investing emerging in the 1960s, evolving in later decades to approaches such as responsible investing, sustainable investing, impact investing and ESG investing, among others.

In recent years, the term has been increasingly used also in the context of non-financial companies. In such context, prior to ESG emerging as an approach, the private sector considered sustainability aspects in their operations within the concept of Corporate Social Responsibility (CSR).

In the 2010s, the term 'sustainability' began to overtake CSR, with many understanding sustainable development through the Brundtland Commission (1987)'s definition as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs.' The link between sustainability and ESG is exemplified in the EU definition of sustainable finance as 'the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector'.

Another evolution in the ESG field is that while it began as a voluntary consideration and framework, it is now becoming increasingly formalized through regulation in certain regions.

How does it differ from safeguards?

Safeguards are an approach to risk management with a clear principle of do not harm. Safeguards generally cover processes and not outcomes. Moreover, metrics and indicators are typically not included in safeguards, whereas they are key in the ESG landscape.

What is the relevance of the term ESG?

ESG-related financing in the private sector has gained importance in recent years. The global total of assets under management in ESG-related funds is around $41 trillion, around a third of global assets, far outweighing official development assistance and public funding.

What are the aspects typically covered in ESG?

Examples of work under ESG

- Building capacity for social and environmental management for the Africa Agriculture and Trade Investment Fund (2012-present): Social Finance advised the AATIF in the development and implementation of its ESG Framework (i.e. Sustainability Policy and Procedures, including reporting).
- Impact Strategies for Quality Jobs (2021): Social Finance and ITCILO worked with the Global Impact Investing Network on the development of 5 impact strategies for quality jobs (e.g. a blueprint for investors that want to achieve positive impact, including theory of change and relates metrics under themes such as "improving work skills for the future" and "improving rights, respect and cooperation in the workplace").
- ILO has been a founding partner of the Task-Force on Inequality and Social-Related Financial Disclosures (TISFD), supporting the working group towards the launch of the taskforce in Sept 2024. The TISFD is a multistakeholder initiative aiming at strengthening the development of financial disclosures regarding inequality and social-related issues, including informing upcoming regulation.

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