

Principles-Based Social Taxonomy for Sustainable Investing:

Building blocks and lessons
for the future

IISD REPORT



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Principles-Based Social Taxonomy for Sustainable Investing: Building blocks and lessons for the future

August 2022

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Acknowledgements

IISD recognizes the World Bank for its support of this discussion paper but notes that the opinions expressed herein solely belong to the authors and should not be attributed to the World Bank.





Foreword

In recent years, financial market actors have focused consistently on understanding what “green” assets and activities are, driven partly by the growing awareness of climate-related risks and partly by the urgency to tackle climate-related challenges, further propelled by the impetus to mobilize capital for a green recovery in the wake of the coronavirus pandemic. A number of jurisdictions, including the European Union, developed definitions of activities that can be considered environmentally sustainable with a view to supporting investment flows into those activities. By providing clear definitions of what is considered green, these green taxonomies are expected to help investors study and compare investments.

At the same time, there is a rising interest in understanding what type of activities could be considered as making positive social contributions. This stems from the stark reminder of the link between social factors and economic growth and the realization of the importance of investment in health care, elder care, education systems, gender equality, and social safety nets during the coronavirus pandemic. There is also a growing recognition of the need to address the social implications of the transition to a low-carbon economy on many communities dependent on fossil fuels. Just like a green taxonomy, a clear explanation of what constitutes a social investment can support better-informed and more efficient decisions on investment opportunities. Investor support can encourage projects and activities that contribute towards priority social objectives and the Sustainable Development Goals.

A social taxonomy is expected to be aligned with internationally agreed social norms, such as the United Nations Guiding Principles on Business and Human Rights, the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises and the International Labour Organisation’s Declaration on Fundamental Rights and Principles at Work. However, local context is also important. It is a complex exercise, requiring a wide range of expertise in sustainability issues. Consequently, there is a lot of debate on what a social taxonomy should look like, how to consistently identify social indicators and quantify impact, how to make it usable and practical, etc. This guide was developed by the International Institute for Sustainable Development (IISD) to contribute to the discussion by exploring key considerations for investments that are expected to generate positive social returns. We welcome the initiative.

As the world’s largest source of funding and knowledge for developing countries, the World Bank is committed to promoting knowledge and developing solutions that help countries integrate climate and development, boost human capital, mitigate the risk of disasters, enhance social protection, and achieve sustainable growth. The World Bank plays an important role in promoting sustainable capital markets and has developed guidelines for national green taxonomies in emerging markets and provided technical assistance to countries like Bangladesh, Colombia, Indonesia, Malaysia, and South Africa to design green taxonomies.



A social taxonomy will re-orient capital toward socially sustainable activities on a large scale by providing clear definitions of socially oriented activities and bring more transparency to investors on the social impact and performance of their investments. It was our pleasure to partner with the IISD in this effort. Our hope is that it will contribute toward unlocking much-needed resources to finance the sustainable development agenda.

Yasuhiko Matsuda

Country Manager Malaysia, World Bank Group



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1.0 Project Background and Lessons Learned

1.1 About This Paper

In June 2021, IISD was retained by the World Bank to help a client country (hereafter referred to as “the Country”) build a taxonomy of business activities that affect social sustainability in the Country and beyond. This social taxonomy was to be based on the specific social and economic development vision and priorities of the Country and aligned with international norms and best practices.

This paper begins with an IISD retrospective—as of March 2022—of the social taxonomy it created for the Country. Section 1 summarizes the context and construction of the social taxonomy as well as the lessons learned by the IISD project team. Section 2 provides the actual social taxonomy proposal that was delivered to the Country in August 2021.

1.2 Global and National Contexts

In the context of sustainable development and finance, a taxonomy is understood as a system of classification of business activities that helps investors and companies make informed investment decisions on sustainable economic activities. It is supposed to establish market clarity on what is sustainable in terms of green or social issues. For the moment, green taxonomies have been the most widespread (Natixis, 2020). The use of such taxonomies can spur sustainable finance that would direct capital into beneficial projects that lessen the load on the environment and protect it. Others claim taxonomies can facilitate the monitoring of credit and investment flows while preventing so-called “greenwashing” (Regulation Asia, 2022). In fact, as IISD set out to work on the project, numerous countries and organizations were announcing plans for taxonomies, soliciting public feedback on draft taxonomies, or inaugurating their initial taxonomies.

Of course, the trendsetter was the European Union. The European Union (EU) Taxonomy Regulation, which came into force in 2020, is part of a larger framework of a “European Green Deal” and European climate targets. It seeks to promote sustainable finance toward these European goals, combining laws and regulations, such as those related to due diligence and corporate disclosure, with market tools, including the taxonomy. This initiative was spearheaded by the EU Platform on Sustainable Finance, a permanent multidisciplinary expert group convened by the European Commission. Many other countries followed suit, notably Bangladesh, China, Mongolia, and Singapore; in January 2022, Indonesia became the latest country to announce its green taxonomy.

Meanwhile, the EU Platform on Sustainable Finance initiated another innovative stream of work to explore a social taxonomy with meaningful linkages to the environmental taxonomy. This initiation of a free-standing social taxonomy validated the advocates who insisted that a separate taxonomy is needed to ensure that the environmental taxonomy is not implemented



at the expense of negative social impacts, and also received strong support from those seeking common definitions of what doing good looks like in the social arena.

Despite the effort of the EU Platform, social taxonomy work is still in its infancy around the world. The EU's environmental taxonomy was years in the making, and it is still subject to updates and adjustments. Likewise, any new social taxonomy will need substantial lead time, at the very least a few years, to be accepted by market participants and companies as the main language of classification of business activities.

To be meaningful and be consistently usable as a regulatory, quasi-regulatory, or self-regulatory tool, a social taxonomy needs to be adapted to the local context while being broadly aligned with international principles and norms, such as the International Bill of Rights, the UN Guiding Principles on Business and Human Rights, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the International Labour Organization (ILO) Fundamental Principles and Rights at Work and goals, most notably the Sustainable Development Goals (SDGs), and the international best practices in implementing these norms. In the specific case of the current work, the Country previously articulated the national drivers toward social sustainability, including equitable growth, diversity and inclusivity, good governance, and transparency, as well as a special focus on small and medium-sized enterprises (SMEs), a vital component of the national economy. Balancing pragmatic national drivers with high-level norms and maximizing synergies between the two is critical for ensuring global legitimacy and local applicability.

1.3 Project Objectives

IISD agreed with the Country that the taxonomy project would aim to:

1. Increase general awareness in all economic actors and society about the various types of social risks and opportunities that economic activities can bring about.
2. Encourage progressive improvement of corporate capacity and performance in managing social risks and enhancing social opportunities.
3. Align corporate behaviour of national companies with the national vision of shared prosperity, national economic plans and development objectives, as well as international norms and standards on sustainable development, especially the SDGs.
4. Catalyze financial flows to activities that align with social objectives through a transparent, systematic classification of economic activities and business practices.
5. Ensure competitiveness of the national companies in international markets that are increasingly embedding social taxonomies in their requirements and guidance.

The project output described in Section 2 of this paper was designed to meet the foregoing objectives as well as other specifications and conditions of the Country, described in Sections 2.1 and 2.2.



1.4 An Overview of the Social Taxonomy

Basic Construct

The IISD team designed a system of classification of business activities that promote social good and social governance improvements, both inspired by international norms and good practices (Table 1), which were turned into minimum threshold-level activities that must be met for the user of the social taxonomy to assess its levels of contributions. We then constructed two sets of broad guiding principles (GPs): GP1 on promoting overall social well-being (enhancing positive social impacts) and GP2 on enhancing respect for human rights and enhanced company conduct (through company-level governance improvements on social issues) (Table 2). The addition of governance considerations in GP2 recognizes the fact that good social performance relies on an adequate management system that functions best in a sound governance environment.

The minimum threshold-level activities are a prerequisite for the application of GP1 and GP2. The threshold refers mostly to social safeguards, but also to minimum environmental safeguards, in an effort to create reference points between the social and environmental taxonomy and promote an integrated approach to achieving social and environmental sustainability.

To these foundational principles, we added a progressive system of implementation assessment that is designed to help companies move from a state of being out of compliance with domestic law to achieving international good practice, over time at their own pace, using a red, amber, yellow, light green, and dark green colour-coded system (Figure 2). This implementation assessment system is meant to highlight the fact that poor performance that results in negative social impacts and international good practice that contributes to social good are two ends of a continuum. Considering that many companies are likely to rate themselves in the middle, with both good and poor practices at play, the key is to disincentivize business as usual and incentivize them to move up the ladder of good practice.

For the dominant sectors in the Country, such as construction and real estate; utilities and infrastructure; finance and financial services; extractive; technology and telecommunications; education; healthcare; agriculture; and cross-sectoral activities, the taxonomy provides illustrative qualifying business activities that can contribute toward GP1 or GP2 (Table 3).

Intended Audience and Use of Social Taxonomy

The intended main audience of the social taxonomy includes regulators, especially securities regulators, stock exchange officials, policy-makers with an interest in sustainable finance, listed companies, as well as non-listed companies in the Country, and, of course, investors. The use of the taxonomy could be mandated in the case of listed companies as part of their listing conditions or ongoing reporting obligations. It can also be used voluntarily by listed and non-listed companies, as a reference point in their reporting, as an internal tool to improve their performance in a progressive manner, and as a market tool to demonstrate good social contributions deserving of investment in their enterprises. Furthermore, the taxonomy can be used in conjunction with regulators guiding and encouraging companies



to adopt international good practices on social sustainability, whether listed or otherwise. Beyond these immediate groups, the Country hoped that its vast SME sector might also be inspired by the social taxonomy to engage in more socially sustainable practices that would, over time, help the sector become more competitive and contribute to reducing unemployment in the Country.

The taxonomy has the advantage of informing not only the business activities of an enterprise but also its business counterparties, including contractors, suppliers, distributors, investee companies, borrowers, and others. This focus on business relationships extends the reach of the taxonomy beyond the immediate boundaries of corporate operations and can enhance the company's overall contributions toward social benefits creation. Two case studies—of an asset management company with a majority stake in a palm oil company and a real estate development company raising capital through a social bond—illustrate how the social taxonomy could be used in different business settings.

It should be noted that the description of qualifying activities that can contribute to GP1 or GP2 are indicative and not exhaustive. It can be supplemented and augmented at a later date if desired. Additional considerations in weighting and aggregating data, such as how the underlying investment performance should affect the rating of the investor, should also be included in the next iteration of the social taxonomy.

1.5 Lessons Learned

The taxonomy assignment was a valuable opportunity to learn first-hand what is involved in constructing a social taxonomy that would be principles based, tailored to a country, and functional in markets. Below, the IISD team shares four key lessons that may inform other similar efforts to create social taxonomies.

1. Classifying Business Activities

Should business activities be divided into substantive activities and process activities? By positive conduct and by negative conduct? By other organizing principles? This question is at the heart of the taxonomy-building exercise. The very question challenged the EU Platform on Sustainable Finance as well as the IISD team.

As the social taxonomy for the Country was under construction, the EU Platform on Sustainable Finance was grappling with a design of a system of classification and was leaning toward a classification of business products and services and another on business processes. These two systems of classification were presented on a horizontal and a vertical axis. The Country's social taxonomy, however, does not take the horizontal and vertical axes approach suggested by the European social taxonomy; instead, the IISD model created two GPs that guide the assessment of contributions by companies. GP1 focuses on the classification of business activities that promote social well-being with a focus on enhancement of opportunities, while GP2 on the governance processes to enhance respect for human rights. This approach is described in detail in Section 2. The explicit incorporation of governance considerations, including those related to corruption, in GP2 reflects the priority of the



Country. As the IISD team was finishing up the draft social taxonomy, the experts at the EU Platform were engaged in consultation on their approach to the social taxonomy.

Following a period of reflection after the close of consultation, on February 28, 2022, the EU Platform launched a revised approach to the social taxonomy. This time, a revised two-pronged approach focused on the efforts to alleviate negative social impacts by high-risk sectors on the one hand and enhancing positive social impacts measured by the efforts to make beneficial products and services available to society on the other. Needless to say, this approach diverges from their initial position and from the approach adopted in the IISD model. The new European proposal invites the question of whether the broad range of minimum safeguards that act as a threshold-level test in the IISD model is a bar too high for businesses to meet. In our view, the bar must necessarily be high because businesses should not be able to tout their positive contributions to society while doing harm in areas that are explicitly protected by numerous international instruments.

It should be recognized that any system of classification necessitates a judgment call in drawing clear and straight lines of demarcation where such lines may not exist in practice. Business conduct with a negative human rights impact is, in fact, one end of a spectrum in which conduct with a positive impact sits at the other. It may be best not to separate them. In human rights terms, process requirements are both a means and an end. It may seem artificial to separate them from substantive requirements. Under these circumstances, an exercise in a reasonable system of classification that is intuitive and reflects reality is still capable of producing several versions of similar but not identical output. In other words, seemingly divergent taxonomies will nonetheless have prospects of success in different places. At this stage in the exploration of the optimal social taxonomy, certain diversions and inconsistencies can be healthy and may stimulate debates on the best way forward, especially for a particular country and its businesses.

In addition to the system of classification, we paid close attention to how companies assess their contributions to social sustainability and can be incentivized to improve their business activities (GP1) and governance (GP2) while meeting minimum social safeguards and doing no significant harm to either of the two GPs (Figure 2). We also laid down explicit assumptions, some of which would have to be specifically worked into the entire set of taxonomies to be used by the Country, including assumptions regarding corporate disclosure, compliance with environmental laws and minimum levels of environmental performance (see below), and compliance with national laws and regulations on key social areas, such as employment law, child protection, and minimum wages.

The relationship between the social taxonomy and compliance with labour and other laws relevant to social sustainability is not as obvious as it seems. Does legal compliance demonstrate good conduct and contribution to society? How good? Is being out of compliance a demonstration of poor conduct? How poor? Is it acceptable that the company remains out of compliance while making positive social contributions and having an adequate management system in place? In the social taxonomy recommended for the Country, compliance with labour and other laws relevant to social sustainability is classified as a minimum social safeguard and a basic threshold activity.



2. Achieving Synergy Between National and International Priorities

As mentioned above, the social taxonomy for the Country is intended to underscore the national social sustainability priorities of the Country and promote visibility, acceptability, and integration of the priorities in the national markets. These efforts can potentially help countries promote their national social and economic aspirations while being aligned with international principles, norms, and good practices; for example, to the extent that the explicit national priorities that are incorporated in the taxonomy align with the national SDG implementation plan, the Country can look to its markets to play a contributing role in the execution of the SDG implementation plan.

These efforts can generate the kinds of debate that are important for the clear understanding by stakeholders of the national priorities and their relationship with international principles, norms, and best practices. For example, the Country's desire for the SME sector to become modernized, digitized, and capable of creating jobs to absorb the unemployed generated much interest during the Country's consultation with industry groups on the draft social taxonomy.

There are other ways to customize taxonomies to fit the national context. For example, the EU's taxonomy uses the NACE classification (*nomenclature statistique des activités économiques dans la Communauté européenne*), which is a European industry standard classification system established by EU law. This allows business enterprises to ascertain whether the taxonomy is speaking to its activities and modify their conduct, if necessary, as suggested by the taxonomy. The IISD model of the social taxonomy used the dominant industry sectors in the Country, as classified by the national stock exchange (construction and real estate; utilities and infrastructure; finance and financial services; extractives; technology and telecommunications; education; healthcare; and agriculture); in the future, more detailed industry sectors provided in the national industry classification system or a regional system used by the Country can promote the further relevance of the social taxonomy to sectors and uniformity of application across industries.

3. Building Meaningful Intersections Between Social and Environmental Taxonomies

Would-be taxonomy users and experts recognize that environmental taxonomy must include some minimum social safeguards and preferably be accompanied by a separate social taxonomy that includes minimum environmental as well as social safeguards. This way, a positive contribution to one type of taxonomy would not be at the expense of or in spite of poor performance under the other taxonomies. A well-designed and integrated system of environmental and social taxonomies is more likely to enable users to tackle environmental and social challenges synergistically and help maintain the integrity of the overall classification system.

An integrated system is necessary not only for mechanical or technical reasons but also for important substantive reasons. Business activities that sit at the intersection of social and environmental challenges hold the key to a smooth, swift, and just transition to a low carbon economy. As countries shed jobs in the traditional goods and services sectors and reinvest in a green economy and green jobs, businesses must play a leading role in facilitating this transition. A well-integrated system of taxonomies can potentially influence the ways in which



this transition will take place and will be especially appropriate for countries with fossil fuel-related assets that require revaluation.

The Country had the foresight to propose a climate change taxonomy and an environmental taxonomy, alongside a social one, in order to address all dimensions of sustainability. As the IISD team worked on the social taxonomy, another expert group was working on the environmental taxonomy. It was crucially important to ensure meaningful linkages between the two taxonomies. As a result, the IISD team and the other expert group had several discussions on how one taxonomy should interact with and support the other. The social taxonomy found in Section 2 attempted to build in some reference points to the environmental taxonomy (a threshold requirement of compliance with minimum environmental safeguards), and it was expected that similar reference points to minimum social safeguards will be included in the environmental taxonomy. There are many more ways to enhance the intersections of the two taxonomies, particularly an explicit focus on just transition, in the next iteration of the environmental and social taxonomies of the Country.

4. Regulatory Environment That Helps Taxonomies Thrive

The reliability and credibility of any taxonomy depend on corporate users of the taxonomy regularly disclosing their sustainability performance, whether positive or otherwise. Obviously, a regulatory environment that already enforces or strongly encourages corporate sustainability disclosures will help regulators and investors access current and accurate information on the business enterprise performance. The Country explicitly designated transparency as an area of priority that should be reflected in the new social taxonomy. Indeed, the national stock exchange of the Country includes corporate sustainability reporting as a listing requirement and issued guidance in this regard. In Europe, on the other hand, corporate sustainability reports have been mandated for some time, and the European Commission is currently in the process of considering a broader corporate sustainability reporting directive as part of the package of initiatives related to the Green Deal and its taxonomy. The new reporting directive extends the scope of disclosure to all large companies and all companies listed on regulated markets (except listed micro-enterprises), which is broader in scope than the disclosure mandated in the Country.

Transparency can also help to alleviate the challenges and dilemmas experienced by a reporting entity. For example, a company with multiple lines of business with different contribution levels to GP1 and GP2 will have to make clear distinctions between business activities and contributions, perhaps using a common weighting method and assumptions (which should be provided in a future iteration of an integrated system of taxonomies), and making these transparent in their reports. Since some variations in the approaches taken to aggregate the contribution levels of business activities is inevitable, especially at the outset of the taxonomy implementation, and also on an ongoing basis, transparency regarding weights and assumptions used will provide valuable information to all the stakeholders concerned with corporate sustainability performance.

Beyond transparency, well-designed and consistently enforced securities laws and regulations will be needed to tackle inevitable misrepresentations and omissions in corporate disclosures. Investors who are harmed by a business enterprise's false or exaggerated assertions of



contributions to social good may wish to rescind their purchase. Whether they can do so and whether there are conditions for such remedy (e.g., whether the investors must suffer economic loss or a “moral harm” is sufficient) will depend on the applicable securities laws. Clarity in the scope of investor rights in relation to investments made in reliance on taxonomy-related disclosures will enhance the confidence in taxonomy use in markets.

Next Steps

The infectious enthusiasm for taxonomies for a sustainable world has shown no signs of slowing down. In fact, the EU Platform’s recent decision on the basic structure of social taxonomy is likely to open a new phase of exploration and innovation in social taxonomy. The IISD team hopes to continue to learn from the developments in the coming months and years. It looks forward to incorporating new insights into taxonomies and other related work that promote finance for social and environmental sustainability.



2.0 Social Taxonomy Proposal

2.1 Relevant Policies and Actions to Advance Social Ambitions

2.1.1 International Norms and Standards

Past failures to manage social risks from business conduct in increasingly intertwined global markets and supply chains drove efforts to establish various international principles, norms, and standards on managing social risks and enhancing social opportunities. These efforts are founded on a need for business enterprises to respect and advance human rights while also advancing societal goals for more equality, cohesion, and resilience of communities and society. International conventions, principles, and guidance set forth by the UN, OECD, and the ILO that address human rights and workers' rights can serve as well-established international foundations for a social taxonomy. For the purposes of this discussion paper, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the ILO Fundamental Principles and Rights at Work were reviewed to establish the social objectives. Where relevant, industry-specific sustainability initiatives and standards have also been considered.

Keeping in line with best practice efforts on taxonomy development, the framework and architecture of the draft EU social taxonomy (European Union Platform on Sustainable Finance, 2021) were also reviewed. The norm-based approach of internationally accepted conventions and guiding principles (highlighted above) was instrumental in designing the European social pillars. Although the specific criteria and categories chosen for EU's taxonomy could differ from those of other countries, this proposal attempts to align the two by taking inspiration from the EU's two-dimensional classification scheme. The EU's use of a vertical dimension (provision of social products and services for an adequate standard of living) and a horizontal dimension (corporate processes for stakeholder rights across the value chain) could be adapted to fit the local context of the Country and could be further adapted into the system of taxonomies that address all dimensions of sustainability.

Furthermore, this paper was informed by a survey of frameworks and initiatives specifically linked to addressing social issues. For instance, the World Bank's Environmental and Social Framework (World Bank, 2018) is informative, as it highlights the need to include transparency, public stakeholder participation, non-discrimination, accountability, and incorporation of grievance mechanisms into various projects. Similarly, the SDGs underscore synergies between different social and environmental goals and encourage a stakeholder-based approach to implementing the actions toward achieving them. Goals can vary from ecologically important ones (climate action, life on land or water etc.) to those related to human development and human rights (eradication of poverty, zero hunger, access to clean drinking water, quality education and health care, gender equality, decent work, etc.) and institution building (peace, justice, and strong institutions, partnerships for the goals etc.).



At the corporate initiative level, the World Benchmarking Alliance administers the Corporate Human Rights Benchmarking (CHRB) methodology to score companies on their processes, policies, and practices regarding human rights performance (World Benchmarking Alliance, n.d.). Important social issues like human rights or access to basic social services have led to the creation of globally recognized assessment-based methodologies,¹ reporting practices,² and key metrics.³ Some of these focus on company-level alignment to social objectives and are reflected in the work below.

2.1.2 The Country Context

The principles and assessment criteria recommended in this paper are aligned with the social priorities of the Country by linking them to its Vision 2030 report. This report outlines the government's desire to achieve progress on development for all, addressing wealth and income disparity as well as prosperous nation building. The objectives outlined in the report are driven by multiple guiding principles—including equitable growth and outcomes, diversity and inclusivity for vulnerable groups, as well as good governance practices to reduce corruption and increase process-related transparency. The report also highlights outcome-related indicators and areas of strategic thrusts and enablers that are imbued in the GPs and key assessment criteria below.

To connect the government's social agenda to capital markets directly, the national securities commission has established foundational guidelines on key aspects of sustainable and responsible investments. The commission has also collaborated with the International Organization for Securities Commission to outline disclosure requirements for its capital market products. Similarly, its national stock exchange's sustainability reporting guideline and the central bank's work on value-based intermediation financing and investment helped contribute to this proposal. These efforts demonstrate how social sustainability has already been embedded in the Country's capital markets and will play a foundational role in the implementation of the system of taxonomies under preparation.

The Country's system of taxonomies was also influenced by a regional economic body's social bond standard and its sustainability standards as they provide guidance regarding funding socially beneficial projects in the region. For instance, the social bond standard highlights affordable basic infrastructure, essential services, affordable housing, employment generation, food security and socio-economic empowerment as some of the broad categories in which investment is usually focused. The standard also underscores the importance of addressing

¹ Some of these include: Morgan Stanley Capital International Ratings Methodology (2020) & Sustainable Impact Index Methodology (2020); CHRB Methodology (2020); European Reconstruction and Development Corporate Governance Sector Assessment (2014–2015) etc.

² Some of these include: Global Reporting Initiative (2016) Sustainability Reporting Standards; EU Social Taxonomy (forthcoming); UN Sustainable Stock Exchanges 2018 Biennial Report on Progress of sustainability-related activities of stock exchanges; World Federation of Exchanges Sustainability Principles; International Monetary Fund Global Financial Stability Report (2016).

³ Sustainability Accounting Standards Board Materiality Metrics; Sustainability Accounting Standards Board (2018) 77 indicators and industry-specific standards; World Federation of Exchanges (2018) Exchange Guidance and Metrics report (specific metrics for companies disclosing on baseline indicators).



those populations that are most vulnerable, whose needs, and barriers may be greater than the rest of the population.

Based on the international norms and keeping in mind the Country's context, the following section highlights various social risks and opportunities that could be a basis for the classification of the social component in the system of taxonomies.

2.2 Dimensions of Social Risks and Opportunities

Given the wide range of social risks and opportunities that businesses must address, assessing alignment to global frameworks like the SDGs can be a potential pathway to eliminate gaps and track progress. Based on the social goal identified, it may be relevant to look at the various country-level SDG indicators and targets as well as the national strategic thrusts and enablers that might fit within this goal.

Take SMEs, for example. They are not only a vital component of the Country's economy, but also tend to dominate the service sector. The service sector is also a significant employer of women as well as those who may not have the education or high-skilled training for a knowledge-based economy. That is why a key social risk in the Country is unemployment due to the lack of SME market competitiveness. Not only does rising unemployment affect vulnerable communities and groups disproportionately and increase inequalities, but it also keeps a significant proportion of the national population from upskilling opportunities that enable their participation in an innovation- and technology-centred economy.

Looking to the goals and targets listed in the SDG framework can help with identification of priorities and strategies to address the challenges. For example, the Country can focus on technological upgrading to help SMEs reach higher levels of economic productivity and resilience to socio-economic shocks. Promoting SME-related innovation and competitiveness with digitization strategies and technology adoption (see SDG Goal 9) may provide decent employment (Goal 8) opportunities, thereby helping to reduce economic inequalities (Goal 10). With the 2030 vision report also identifying national priorities, such as restructuring business and industry ecosystem and the need to transform human capital/strengthen the labour market and increase employee compensation, the Country's companies can connect national priorities with the Country's progress toward socially aligned SDGs and vice versa. A comprehensive social taxonomy could assist companies in advancing this national agenda by helping direct investments in SMEs in their supply chains, promote SME digitization, and help provide economic empowerment opportunities to vulnerable communities.

Good governance—in the form of internal systems that allow for better management of long-term risks and opportunities—is also a key component of any sustainable business. Good governance practices can allow companies to be mindful of their long-term goals when faced with socio-economic shocks and adapt to changing climate, environmental, and social realities. Improving transparency and accountability not only assists with market oversight but can also inform investors in their investment decisions and provide a basis for stakeholder engagement. Based on good governance systems, other broader social issues like bribery and corporate ethics can also be addressed, while grievance mechanisms can be put in place to help companies improve relationships with communities and stakeholders and stay accountable. Having company and shareholder buy-in for managing social risks is important because it



can create long-term value for shareholders, help companies report more transparently for their stakeholders and build internal business cases for improving investments or channelling greater capital toward specific target areas (S&P Global, 2019, 2021).

Box 1. Interlinkages Between Social and Environmental Dimensions

Many of today's most severe crises are those that sit at the intersection of multiple sustainability challenges. For example, those who are most vulnerable to extreme weather events are those without the resources to adapt and may not have access to other forms of social resilience. The COVID-19 pandemic has disproportionately affected those who are poor, disadvantaged, or marginalized in society. We no longer have the luxury to address one crisis at a time; instead, we must search for ways to tackle the intersections of sustainability challenges, which means taking a holistic and integrated view of climate, environmental, and social resilience.

As a result, market interventions to address the intersection of crises should deliberately consider green and social aspects together. "Green" projects may not necessarily support social sustainability, and even well-designed social programs could overlook opportunities to protect and enhance the natural environment, which in turn will enhance climate resilience of the population in the future. Hence, an acknowledgement of the environmental and social interlinkages is a prerequisite to synergistic and sustainable decisions that integrate environmental and social dimensions.

The urgent need for social and environmental interlinkages is also seen in the "just transition" movement, which seeks to address scenarios where the lack of societal integration into environmentally focused policies may lead to job losses or other negative social outcomes. Therefore, creating a "just transition" away from fossil fuels toward green sectors, where jobs could be decent and fair, and communities are able to thrive and be resilient (Just Transition Center, 2017) can be an integral aspect of better integrating social and environmental dimensions.

Although trade-offs will likely exist between the social and environmental dimensions, decision-makers should adopt strategies that allow for the highest level of benefits while avoiding any significant negative impacts on both dimensions. This approach is currently missing in most economies, as many business decisions are financially driven and fail to integrate the long-term impacts of social and environmental dimensions into the overall cost-benefit analysis. A well-designed environmental and social taxonomy system that is well-embedded in capital and financial markets could play a vital role in helping to correct this market distortion.

With these considerations in mind, we classify the broader social risks and opportunities that may be most relevant to the Country (see Appendix A). These include

- Employment generation and market competitiveness (including businesses and SMEs),
- Access to basic social infrastructure (like health care or finance),
- Poverty and income inequality (including rising standards of living),



- Corporate governance and transparency, affordable basic physical infrastructure (including affordable housing, energy, or water security), and
- Enhancing social capital and empowerment (including inclusivity and community resilience).

Furthermore, Appendix A1 provides examples of social risks and opportunities as well as links to the SDGs. The rationale for grouping these risks and opportunities is based on the various key domestic frameworks and international norms that were highlighted in the previous section.

2.3. Applicability of the Social Taxonomy

The proposed social taxonomy applies directly to the activities and operations of businesses. Beyond this immediate target group, other taxonomy user groups include investors, financial intermediaries, asset owners, regulators, and the government. Members of the public benefit directly and indirectly from the interactions of these groups with the taxonomy.

The social taxonomy could be used in the following ways:

- By companies looking to improve their performance, based on specific economic or governance activities, keeping in mind the need for rigorous reporting and disclosure requirements.
- By investors in their due diligence prior to making investment decisions or when tagging their investment portfolio or capital market assets under the taxonomy classification.
- By governments or regulators as a tool to improve corporate performance or reputation as well as to make companies and national capital markets more competitive.

Any company that is meeting the minimum requirements for social performance (see Table 1) can apply the social taxonomy. Those that already meet the minimum requirements are encouraged to apply the social component to their direct operations as well as to their business counterparties, including contractors, suppliers, distributors, investee companies, borrowers, and others. This focus on business relationships extends the reach of the taxonomy beyond the immediate boundaries of corporate operations and can enhance the company's overall contributions toward social benefits creation. Iterative engagement and sustainability reporting are specific tools that can be used to reach out to business relationships.

Those wishing to use the social taxonomy to evaluate potential economic or business activities (or governance-related activities) are encouraged to:

- **Understand the two overarching GPs** (see GP1 and GP2 below) and choose the relevant qualifying activity(s) that they would like to address.
- **Identify their internal baseline social performance category** for the chosen activity(s). This baseline mapping will allow companies and stakeholders to better



understand the scope and extent of improvements or changes that are needed by companies to improve their social performance.

- **Identify and disclose their baseline social performance category to relevant stakeholders** (see Figure 2) based on key assessment criteria like meeting the minimum social safeguards and substantial contribution to the GPs.
- **Modify activity(s) based on an improvement plan.** This step will also involve identifying a broad set of indicators and assessment questions (examples mentioned in Appendix B) to track performance improvements in undertaking the chosen activity(s).
- **Update or create new products and services (GP1) or internal policies, processes and procedures (GP2) or both,** in order to meet the GPs.
- **Advance in the social performance category (Amber to Dark Green)** and continue reporting or disclosing social performance over time to relevant stakeholders.

The foregoing guidance is transformed into seven practical steps that users of the social taxonomy can adopt to identify relevant social performance activities and improvements.

Step 1: Meet the minimum social safeguards (examples highlighted in Table 1) and do no significant harm (DNSH) to GP1 and GP2; this has been designed to ensure taxonomy users meet minimum social requirements of avoiding adverse impacts on human rights and presence of basic governance systems, in order to be eligible to apply the taxonomy.

Step 2: Identify the relevant qualifying activity(s) (see Table 2) that will have substantial contribution to GP1 (mandatory) and GP2 (optional but is strongly encouraged).

Step 3: Assess the social baseline performance on the chosen qualifying activity(s) to understand the magnitude of effort needed to achieve the social outcomes.

Step 4: Identify the relevant stakeholder group(s) (e.g., communities, consumers, workers) and anticipate the potential adverse and positive impact of the chosen activity(s) on these stakeholders.

Step 5: Undertake the chosen activity(s) by updating products or services or other business activities and instituting new governance systems or updating existing ones.

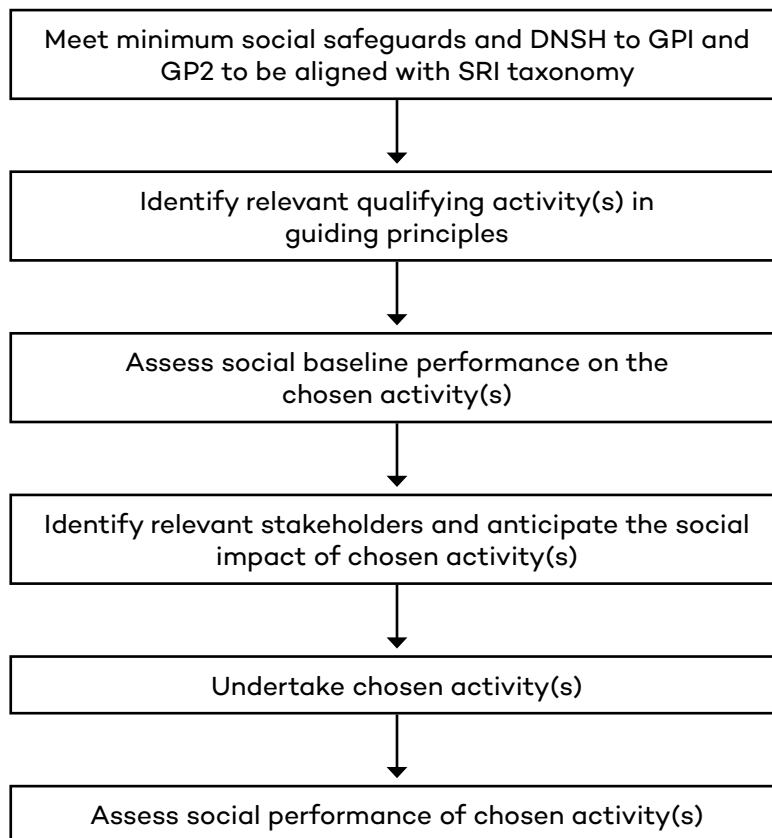
Step 6: Internally assess the chosen activity(s) social performance using some of the broad corporate governance level or human rights indicators (see Appendix B).

Step 7: Report or disclose on the social impact of the chosen activity(s) by using these indicators to relevant stakeholders.

Figure 1 illustrates the step-by-step process described above.



Figure 1. Step-by-step process of using the social component of the Sustainable Investing (SI) Taxonomy





3.0 Assessment of Economic and Governance Activities

3.1 Minimum Social Safeguards and Guiding Principles

Based on a combination of international norms described above as well as the national context of the Country, the companies using the social taxonomy must meet minimum social safeguards and pursue the two GPs described below. These safeguards and Principles are set forth to enable social risk management and enhance social opportunities as part of the social component of the Sustainable Investing (SI) Taxonomy. The minimum social safeguards (see Table 1) should be viewed as a mandatory threshold that a user needs to meet in order to be eligible to use the taxonomy to assess whether it is making substantial contributions to the GPs. Although the requirements are divided among those that address social risks and opportunities and those that address company governance, all social safeguards should be met before the user proceeds to identify relevant GP1 or GP2 activities. Alongside the minimum social safeguards, Table 1 provides examples of questions that users should answer in the affirmative if they are to be deemed to be meeting the minimum social safeguards.

Table 1. Minimum social safeguards of SI Taxonomy users

Minimum social safeguards	Examples of questions to be addressed
Social risk requirements	
Avoidance* of risks to human health	<ul style="list-style-type: none"> Does the business avoid risks to human health in its operations and through its products and services?
Avoidance of risks to health, safety, and security of employees	<ul style="list-style-type: none"> Does the business avoid risks to the occupational health and safety of employees? Does the business avoid risks to the security of its employees in its operations?
Avoidance of risks to health, safety, and security of communities	<ul style="list-style-type: none"> Does the business avoid risks to the health, safety, and security of communities in its operations?
Avoidance of discrimination	<ul style="list-style-type: none"> Does the business avoid discrimination across its employees (in terms of having inclusive and fair hiring and human resources practices)?
Avoidance of gender-based violence	<ul style="list-style-type: none"> Does the business avoid gender-based violence in its operations?



Minimum social safeguards	Examples of questions to be addressed
Avoidance of forced displacement	<ul style="list-style-type: none"> • Does the business avoid forced displacement in the production or distribution of its products and services or its operations? • If not, does the business compensate communities displaced by its operations, products, or services?
Avoidance of forced labour and human trafficking	<ul style="list-style-type: none"> • Does the business avoid employment of forced labour and trafficked persons in its operations?
Avoidance of child labour	<ul style="list-style-type: none"> • Does the business avoid employment of child labour in its operations? • Does it avoid dangerous work by those under 18 years old?
Avoidance of threats to Indigenous and vulnerable communities	<ul style="list-style-type: none"> • Does the business avoid threats to Indigenous and vulnerable communities in its operations?
Avoidance of social conflict	<ul style="list-style-type: none"> • Does the business avoid social conflict in its operations? • If operating in a conflict area, does the business avoid exacerbating the conflict?
Avoidance of threats to Indigenous and vulnerable communities	<ul style="list-style-type: none"> • Does the business avoid threats to Indigenous and vulnerable communities in its operations?
Meeting domestic laws and regulations	<ul style="list-style-type: none"> • Do the business's operations follow all domestic laws and regulations?⁴
Meeting minimum environmental safeguards	<ul style="list-style-type: none"> • Do the business's operations meet the minimum environmental safeguards set forth in the environmental taxonomy?
Remediation of harm	<ul style="list-style-type: none"> • Does the business remediate any environmental or social harm of the type described above and is not avoided, minimized, or compensated for?
Social governance requirements	
Due diligence prior to business decisions	<ul style="list-style-type: none"> • Does the business undertake social due diligence prior to making business decisions related to its operations, products, and services to identify social risks?

⁴ Compliance with national laws and regulations is a requirement of the application of the social taxonomy, especially in relation to employment, child protection, and minimum wages.



Minimum social safeguards	Examples of questions to be addressed
Disclosure/reporting of information on social risks	<ul style="list-style-type: none"> • Does the business report or disclose relevant social risks to its primary stakeholders on a timely (at least annual) basis?
Consultation with stakeholders	<ul style="list-style-type: none"> • Does the business ensure periodic consultation with stakeholders? • Does the business ensure culturally appropriate consultation with Indigenous peoples?
Grievance mechanisms for corporate accountability	<ul style="list-style-type: none"> • Does the business have operational-level grievance mechanisms to help address grievances of affected communities? • Does the business regularly disclose information on grievances registered and their resolutions?
Board oversight of social risks and internal company or corporate culture	<ul style="list-style-type: none"> • Does the business have regular board meetings that include a discussion of relevant social risks? • Does the business have board members with requisite competencies who act as champions of social issues?
Anti-corruption/anti-bribery measures	<ul style="list-style-type: none"> • Does the business ensure avoidance of participation in corruption and bribery schemes?

*When avoidance of adverse impact is not possible, companies should strive to minimize such impact, and where residual impacts remain, compensate for them. Failure to foresee and prevent adverse impacts should result in appropriate remediation of the relevant harm caused or contributed to by the business.

Once it is determined that the company meets the minimum social requirements, the company should then assess how it contributes to the two GPs. The principles are founded upon the belief that companies using the taxonomy should pursue positive social impacts and work to move beyond the minimum social requirements. For each GP, there is a non-exhaustive list of qualifying activities that can help companies and their stakeholders to identify different areas of social risks and opportunities (see Table 2).

For the purposes of these principles, an economic activity is defined as an activity involving the production of products or services and other business activities closely associated with it, which can help to contribute to the achievement of GP1 (see below). A governance activity is a corporate (firm-level) system change or improvement in internal or external policies, procedures, standards, guidelines, tools, performance indicators, etc. and the financial resources and personnel to support it—see GP2 below. The economic and governance activities together help companies improve their performance in advancing the two GPs toward the broader social objectives of equality, cohesion, and resilience.



GP1 promotes overall social benefits and well-being by enhancing positive impacts on human development and human rights that can result from business activities.

GP1 goes beyond the avoidance of adverse human rights impacts of business activities and beyond minimum social governance standards. GP1 relies on human rights due diligence, which not only will help identify potential adverse impacts but also opportunities to enhance the positive ones.

GP2 addresses corporate systems that help enhance human development and human rights, including policies, procedures, plans, resources, and capacities.

GP2 places specific importance on activities that enhance human rights and governance principles, such as transparency, participation, and accountability and encourages human development and human rights considerations throughout the business's value chain and with respect to its business relationships. Business relationships include those with contractors, suppliers, distributors, investee companies, borrowers, or other financial counterparties.

Table 2. GPs, including a non-exhaustive list of economic or governance activities

GP	Examples of qualifying activities
GP1: Promoting overall social well-being (enhance positive impacts)	<ul style="list-style-type: none"> • Job creation • Enhancement of access to decent work and working conditions • Living wage • Know-how transfer, training, upskilling of workers (generally and especially in connection with just transitions) • Access to nutritious food and sustainable food systems • Sustainable and climate-resilient agriculture • Access to drinking water and sanitation • Sustainable waste management • Affordable housing • Quality education • Quality health care • Affordable access to other economic infrastructure, such as energy, transportation, digital infrastructure • Community development • Active involvement of/partnership with communities and especially vulnerable groups and Indigenous peoples • Gender empowerment and economic opportunities • Promotion of SMEs/integration of SMEs into the supply chain



GP	Examples of qualifying activities
<p>GP2: Enhanced Respect for Human Rights and Enhanced Company Conduct (company-level governance improvements on social issues)</p>	<p>Creation and implementation of corporate management systems, which include company policies, procedures, plans, metrics, and resources, to help the business move toward or meet international best practices on addressing social risk and social governance requirements. Specific activities may include:</p> <ul style="list-style-type: none"> • Due diligence to identify and manage social risks and opportunities, including social impact assessment, human rights impact assessment, labour assessment, or other appropriate studies using international norms and standards as well as corporate policies as reference points • Regular and iterative engagement with stakeholders, based on disclosure of relevant information and accounting of how stakeholder comments and feedback are taken into consideration in business decisions • Ensuring free, prior, and informed consent of Indigenous Peoples on matters that affect them • Contractual relationships with suppliers and distributors of company goods and services that commit all parties to minimum social requirements • Incorporating sustainability considerations for business relationships as related to supply chains as well as at the client and investee levels • In the case of financial intermediaries, assessment of and engagement with investees and borrowers to help them establish adequate systems to ensure they meet minimum social requirements • Existence of an anonymous whistleblower system that is managed by a third party • Published employee diversity targets • Employee leadership programs for women and minority employees • Third-party audits of board oversight of social risks and internal company or corporate culture • Clear self-reporting measures to authorities if instances of corruption or bribery are uncovered • Participation in initiatives addressing social opportunities as part of collective action with third parties

3.2 Social Performance Aspects and Key Assumptions

Before companies can assert contributions to social progress, they should establish the baselines of their social performance. Doing so will allow the companies to ascertain a performance level from which future improvements in social contributions can be measured using the GPs and to disclose (both internally and publicly) their performance levels to relevant stakeholders.



Having consistent internal disclosures can be a useful tool to communicate to staff, management, and boards about the importance of social risk management and benefits creation. It can also enable better assessment of social performance through improved data collection and motivate personnel to remediate social impacts and move up the performance ladder. Improved public disclosure enables businesses to align their disclosure practices with international best practice. However, this social progression may not always be linear, and companies may fall in different levels of performance at different times and based on different social issues at play.

For the users of the social taxonomy, the following baseline assumptions about taxonomy users' current performance are outlined below:

- Basic level of voluntary or mandatory levels of disclosure, such as through periodic sustainability reporting, should be presumed among users.
- Compliance with environmental laws and minimum levels of environmental performance are also presumed.

Compliance with national laws and regulations is a requirement of the application of the principles and is mentioned in the minimum social thresholds. Hence, having a clear understanding of the various laws directly related to the broader social objectives can become an important criterion for taxonomy users. Most notably, the Country has underscored the national laws on employment, child protection and minimum wages as constituting the baseline for social compliance.

3.3 Assessing Social Contribution

Corporate users should assess whether their activities align with the social taxonomy. This can be done at the corporate level, as well as the level of specific activity, depending on the circumstance. Companies can use the following five key assessment criteria to determine social contribution levels and identify areas for performance improvements:

- Minimum social thresholds, which includes alignment with minimum environmental safeguards,⁵ where applicable
- DNSH to either GP
- Substantial contribution to GP1 (required)
- Substantial contribution to GP2 (optional but highly encouraged in order to progress across categories)
- Improvement plan, policy, or procedure that allows users to make or enhance contribution to GP2 if needed.

⁵ The environment component of the SI taxonomy designates the following as minimum safeguards that are aligned with the environmental objectives (climate change mitigation, climate change adaptation, protection and restoration of biodiversity and ecosystem, and transition to circular economy) as the following:

1. Prevent, reduce, and control pollution (air, water, and land)
2. Protect healthy ecosystems and biodiversity
3. Use energy, water, and other natural resources in a sustainable and efficient manner.

As a minimum, green or sustainable activities should be aligned with local laws, such as the Environmental Quality Act, 1974 (EQA) and other related laws like the Protection of Wildlife Act, the National Forestry Act 1984, the Fisheries Act 1985, and the National Parks Act 1980.



Companies should aspire to meet all criteria and make substantial contributions to both GPs. If a company does not meet the minimum social requirement threshold or does significant harm to one of the GPs, it would not meet the threshold, and it should not go any further in assessing the contributions made to the two GPs.

Upon confirmation that the company as a whole or the specific activity can meet the minimum social thresholds and avoid significant harm to each of the GPs, the next step is an assessment of whether it makes a substantial contribution to the GPs. A substantial contribution is defined as (a) meeting international best practices/norms/standards, (b) showing demonstrated positive benefits and measurable outcomes of the chosen activity(s), and (c) having robust reporting and disclosure systems in place, which are also communicated to the identified relevant stakeholders. To understand whether a company or a chosen activity(s) meets the substantial contribution to the GP1 threshold, demonstrable social outcomes or progress based on their baseline social performance will be necessary. For example, a real estate developer that ensures that the majority of its new developed housing meets the affordability threshold would be considered to make a substantial contribution if the average among national developers was much lower. Further development and assessment of sector- and activity-specific thresholds and indicators in comparison to business-as-usual practices can be developed at a later date as part of the social taxonomy.

Box 2. Individual Activities and Company Classification

Users of the social taxonomy could have multiple, different lines of business and undertake a variety of activities. A company could have some activities that substantially contribute to GP1 and GP2 and some activities that do not contribute to either. Under these circumstances, users should disclose the methods they have used to come to their classification. Based on the draft EU Taxonomy, it is preferable that the Country's social taxonomy users scale the importance of different activities based on a key relevant variable (e.g., number of employees working in activity, raw materials included in activity, revenue generated from activity, etc.) to come to one company classification that is an aggregation of the contributory levels of different activities. While the key relevant variable may differ among users, what should be standard is a high level of clarity and transparency regarding the assumptions used and the methodology, as it may inform other taxonomy users. Over time, the Country should provide detailed guidance on the weighting and aggregation methodologies accepted under the system of taxonomies.

Following an assessment of contributions to GP1, companies or specific activities should be assessed on whether they contribute to GP2. A substantial contribution under GP2 would be seen as action at the level of company governance that reaches or goes beyond current international best practices. In some cases, these international best practices will be sector-specific, but it will be incumbent upon taxonomy users to understand these nuances and apply them to the assessment of GP2 compliance.

Since meeting sector-specific international best governance practices is quite ambitious, it is important that companies that do not meet that level are not discouraged. Instead, through

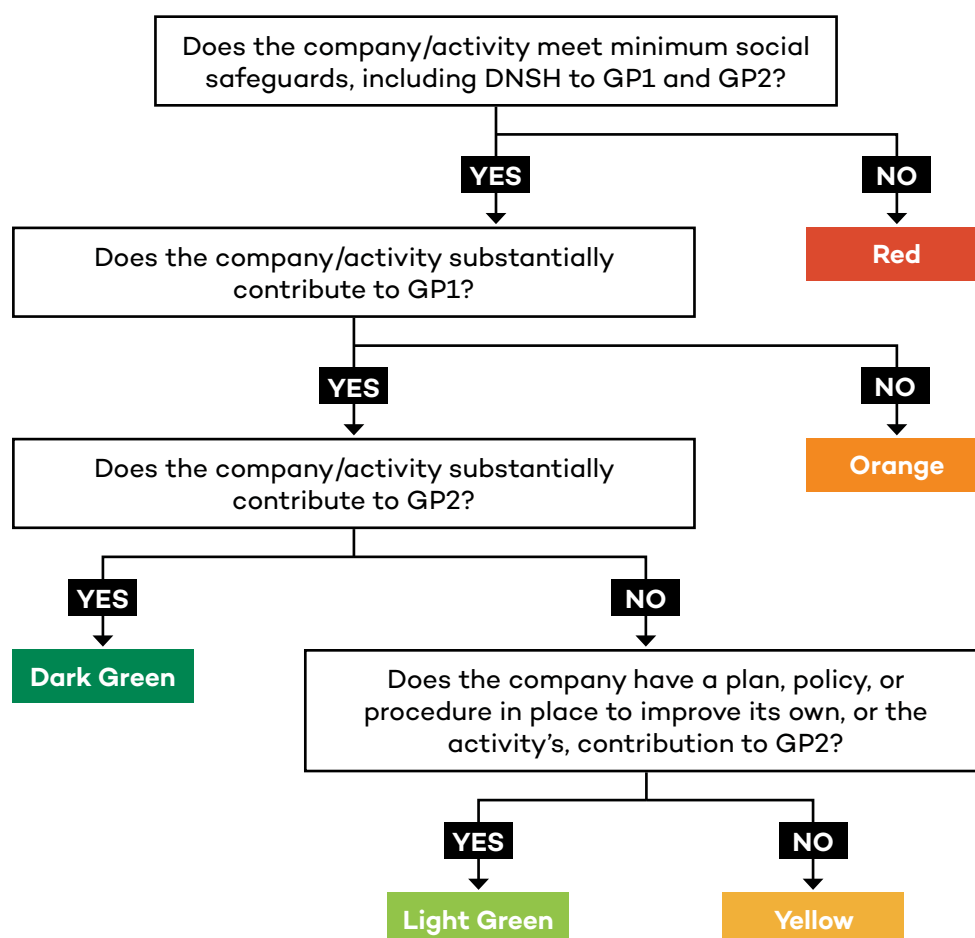


the assessment, companies should take the opportunity to identify areas of improvement and respond by creating or updating plans, policies, or procedures that outline how they will eventually meet these international best governance practices.

It is expected that many of the initial taxonomy users will be large financial companies or sector leaders who have high levels of internal capacity or internal resources to meet the proposed criteria. As part of making a substantial contribution to GP2 or having improvement plans, policies, or procedures to contribute to GP2, it is recommended that users assess how financiers are working with investees or borrowers to improve their social performance. Similarly, in other sectors, companies can make a substantial contribution to GP2 by working with suppliers and distributors to ensure that they meet minimum social requirements, do no significant harm to the GPs, and perhaps, make contributions in their own way to the GPs.

Upon navigating the entire assessment, a user will be able to ascertain the level of social contribution of a company or specific activity. These levels are colour-coded, with dark green being reserved for companies and activities that make the most substantial contributions, whereas companies and activities that are classified as red do not meet minimum social requirements on the other end of the spectrum. The following decision tree helps visually represent the social contribution at a company or an activity level.

Figure 2. Visual representation of assessing company- and activity-level social contribution





Light Green activities or companies are those that also meet minimum social safeguards but substantially contribute only to GP1 but not GP2. However, they do have an improvement plan in place that focuses on updating its products or services, internal plans, policies, or procedures in order to meet some level of contribution to GP2.

Yellow activities or companies are those that meet minimum social safeguards, contribute substantially only to GP1 but do not have this improvement plan for GP2 in place.

Orange activities or companies are those that meet minimum social safeguards but do not contribute substantially to either GP.

Yellow and **Orange** activities are those that recognize the early stages of transition toward socially sustainable business activity. Economic activities or company operations that are classified within these categories should not be excluded from financing opportunities but rather should be viewed as activities and operations that are on a trajectory of progress. Regulators and the government could also consider related social outcomes and results of such activities when providing capacity building and training activities, facilitating collaboration with strategic partners, or providing relevant advisory and support to accelerate this progression.

Lastly, **Red** activities or companies fall under those that are not aligned with the social component of the SI Taxonomy and have no contribution to either of the two GPs (in fact they may also not prevent significant harm) and do not meet any minimum social safeguards.



Box 3. Principles of Just Transition

The ILO (2015) describes a just transition for all as a step toward an environmentally sustainable economy, with the equally important objectives of contributing to the goals of decent work for all, social inclusion, and eradication of poverty.

Given the rising importance of decent work, poverty eradication, and environmental sustainability within our societies, a just transition pathway is one that showcases strong sustainability considerations to address these issues. In order to work toward the goals of the Paris Agreement, just transition pushes for the necessary greening and decarbonization of our economies alongside the equally important goal of social inclusivity. It supports the creation of decent, green jobs without losing focus on the lives of the people impacted by this economic transition. This type of inclusive growth is not relevant only in the context of advanced economies (which may still have carbon-intensive economies), but it is also equally important for developing and emerging countries, where economic growth must look to minimize risks and maximize opportunities when it comes to sustainability.

In order to implement just transition, the ILO lays out guidance-based principles that are reliant on having a strong social consensus on how to define these goals and pathways. These principles entail having a robust social dialogue as well as informed consultations with relevant stakeholders (especially those who will be most affected by the transition). In addition, it suggests the anticipation of transition impacts on employment due to the rise or fall of certain economic sectors, social protection for job losses and displacement, the need for reskilling and upskilling of workers as well as their right to organize and bargain collectively. Since there is no “one-size-fits all” approach, context-specific aspects like the stage of development, economic sectors affected, types and sizes of enterprises, as well as the level of international cooperation required, should all also be given due consideration when evaluating a just transition strategy.



4.0 Illustrative Classification of Qualifying Activities

4.1 Activity Classification

Note that the qualifying activities outlined below are illustrative examples and should not be construed as recommendations. Each Sustainable Investing (SI) Taxonomy user will need to assess its own methods to contribute to the GPs and how it may improve upon its activities when needed.

Table 3. Examples of contributory activities for key economic sectors⁶

Cross-sector activities (including broad sectors such as consumer goods, manufacturing, and tourism)	
Illustrative examples of contributory activities to GP1	<ul style="list-style-type: none"> • Expansion of business operations that create employment opportunities. • Adapting products and services to better serve employees and consumers with disabilities. • Designing products and services to ensure the safety of employees and consumers. • Implementing enterprise development along with supply chain and marketing practices that empower women and local business leaders. • Production methods of goods and services that transfer of skills and know-how to local and/or unskilled workers. • Reduction of income inequality through base pay requirements and closing gender pay gaps.
Illustrative examples of contributory activities to GP2	<ul style="list-style-type: none"> • Due diligence on social issues, including assessment of risks and opportunities, through a social impact, labour, or human impact assessment process and identification and assessment of all relevant stakeholders. • Ensuring diversity at the board level. • Establishing high-level corporate leadership for gender equality. • Instituting internal policies that encourage equitable participation and integration of employees across different minority communities, especially those that are vulnerable or marginalized. • Creating a system to ensure non-discrimination and fair treatment for all workers at the workplace. • Establishing opportunities for ongoing and iterative engagement with stakeholders and on topic-/project-specific issues.

⁶ Adapted from key economic sector classification by the national stock exchange.



- Establishing topic- and stakeholder-specific grievance mechanisms (e.g., for affected communities, workers, consumers of products or services, etc.).
- Measuring and publicly reporting on progress to achieve gender equality and diversity generally.
- Promote equality through community initiatives and advocacy.
- Incorporating a whistleblower policy for corruption-related activities or reducing instances of bribery.
- Increasing percentage of ethnic/gender representation for executive management positions.
- Establishing or participating in collective action initiatives with industry peers and civil society organizations for issues that require industry-wide improvement (such as identifying and eliminating recruiters who supply forced and child labour).

Construction and real estate sector

Illustrative examples of contributory activities to GP1

- Creating new affordable housing for low-income communities.
- Creating stable and affordable housing for migrant workers that also provides safe, clean and decent living conditions.
- Construction of recreational centres that promote healthy living among communities and may offer reskilling, education, and/or youth programs.
- Creating circular city/communities which may include urban farming and/or smart housing initiatives.
- Conversion of previous residences to affordable housing.
- Affordable housing in gentrifying areas.
- Universal design for all housing projects.
- Providing financial assistance to facilitate access to housing and ownership.
- Preference for local labour instead of expatriates.
- Training for local businesses to participate in procurement.
- Breaking down large procurement packages to benefit local and smaller-scale bidders.
- Training, housing, and other employment arrangements to ensure the health and safety of local populations, especially girls and women.
- Meeting design safety standards that are compliant with improved energy efficiency standards.



Illustrative examples of contributory activities to GP2	<ul style="list-style-type: none"> • Including corporate policy to build a percentage of affordable housing as part of overall housing portfolio. • Incorporating whistleblower policy for corruption-related activities in the real estate or construction sector. • Ensuring workers in the construction sector are provided a living wage. • Joining the CoST (Infrastructure Transparency [previously Construction Sector Transparency]) Initiative or providing similar levels of operational transparency. • Collaborating with regulators to establish a sustainable land-use policy for a relevant municipality or local jurisdiction.
Utilities & Infrastructure	
Illustrative examples of contributory activities to GP1	<ul style="list-style-type: none"> • Creation or upgrading of infrastructure (like clean drinking water) in both rural and urban areas. • Upgrading waste management infrastructure like sewers and sanitation. • Designing affordable and accessible transportation infrastructure for rural and urban areas. • Energy efficiency in infrastructure and transition to more efficient and clean energy sources. • Solutions for the “last mile” challenges to infrastructure to ensure physical access to services by underserved or unserved communities. • Investment in soft infrastructure (such as traffic systems software) to complement hard infrastructure. • Encouraging more use of public transportation infrastructure by designing safe and accessible transit routes, specifically considering women’s transportation needs. • Including cost savings or energy rebate programs for a percentage of infrastructure and utility users (those that are in the low-income or B4O category).
Illustrative examples of contributory activities to GP2	<ul style="list-style-type: none"> • Systems to address sustainability considerations in infrastructure projects. • Policies that ensure consultation with traditionally underserved or unserved population segments to help reverse the past pattern of discrimination in public service. • Establishing complaint mechanisms for consumers of services at the utility level/promoting the use of public ombud system. • Joining the CoST Infrastructure Transparency Initiative or providing similar levels of operational transparency.



Finance and financial services	
Illustrative examples of contributory activities to GP1	<ul style="list-style-type: none"> • Providing access to financial services like savings and credit to vulnerable communities and low-income groups. • Providing financial literacy assistance to vulnerable populations and youth. • Providing microloans or SME financing to women and/or low-income (B40) entrepreneurs. • Providing student loans and housing loans. • Providing sustainability loans/incentives-based loans (including SRI Sukuk and bonds) to encourage good sustainability performance of the borrower. • Creating facilities and childcare benefits for women employees.
Illustrative examples of contributory activities to GP2	<ul style="list-style-type: none"> • Create a policy or process that ensures meeting international best practices (re: KYC, AML) and is continually assessed and updated as industry standards evolve. • Establishing a comprehensive social risk assessment and management framework for high-risk activities, such as project finance and large corporate loans, possibly by joining initiatives such as the Equator Principles. • Policies and procedures to ensure screening for social and governance factors in relation to investment in listed and unlisted companies. • Instituting a formal data protection, fraud loss, and customer privacy policy/procedure that go beyond current legal requirements. • Policies to ensure the provision of transparent and fair financial advice for clients. • Improving professional development opportunities for women employees to advance at the workplace. • Increasing percentage of ethnic/gender representation for board and executive management positions.



Extractive industries (including oil and gas or mining)	
Illustrative examples of contributory activities to GP1	<ul style="list-style-type: none"> • Use of best available technology to minimize disturbances to local communities. • Improving level of land remediation activity undertaken on site. • Reducing reliance or contamination risks of freshwater usage/waste reduction at source (especially if located near a community). • Improve the resilience of workers through reskilling, upskilling, and other training to support them in the energy transition. • Establishing, funding, and managing a community development plan in close collaboration with the local government and communities. • Implementing emergency response training programs for employees. • Ensuring ability of employees to collectively bargain for better safety standards, wages, or benefits. • Establishing a system to manage the long-term health and safety risks of employees.
Illustrative examples of contributory activities to GP2	<ul style="list-style-type: none"> • Procedures that improve supply chain procurement by using less carbon or fewer socially risky sources. • Policies that ensure the payment of fair and living wages to employees. • Enhanced stakeholder engagement and due diligence practices with respect to Indigenous and vulnerable communities, especially ensuring the free, prior, and informed consent of Indigenous communities on matters that adversely affect them. • Disclosing key information along the extractive industry value chain, including disclosure of investor–state/host government contracts and payments made to governments under such contracts, consistent with the Extractive Industry Transparency Initiative. • Incorporating a system with better supply chain management policies. • Prevention of corruption or bribery through value chain.



Technology and telecommunications	
Illustrative examples of contributory activities to GP1	<ul style="list-style-type: none"> • Investing in technology or software that reduces data breaches of financial or customer information or data surveillance. • Creating access to new technology and telecommunication products for low-income customers, women, minorities, and/or customers with disabilities. • Enabling free or low-cost access to products and programs in the education and health sectors, such as long-distance learning and telemedicine. • Instituting technical and professional training programs or creation of jobs for women and ethnic minorities. • Providing career development opportunities for minorities and women to advance in the workplace.
Illustrative examples of contributory activities to GP2	<ul style="list-style-type: none"> • Policies and procedures that make transparent to customers, suppliers, and distributors the company's data privacy policy for technology and telecommunications users. • Ensuring non-censoring of content or right to information for public/government. • Identifying data security and cyber risks for use of technology and telecommunication at the operational level. • Educating and collaborating with regulators to help them better regulate this sector. • Establishing or joining sector-specific initiatives of peers to address social issues in the sector, such as the joint inquiry into how the sector contributes to harms to the public through technology and government action, especially how human rights defenders, labour union representatives, and environmental activities are affected. • Policy of engaging with the government to prevent blackouts and interruptions for political purposes.



Education	
Illustrative examples of contributory activities to GP1	<ul style="list-style-type: none"> • Provide access to all essential educational infrastructure (schools and related resources needed for primary education like books, computers, tablets, and other technology). • Construction/extension of educational capacity in rural and urban areas. • Focusing curriculum development on improving higher education. • Improving the quality of the existing educational programs through outcome-based learning. • Investing in good quality infrastructure and equipment for virtual or long-distance education. • Training teachers to improve learning outcomes for special needs students. • Incorporating better professional development considerations for teachers, especially those that are women and from vulnerable communities. • Incorporating accessibility to special education and providing appropriate resources to students with learning disabilities.
Illustrative examples of contributory activities to GP2	<ul style="list-style-type: none"> • Creating a strategy to empower SMEs or entrepreneurs through educational programs or training. • Engagement with government to enable access and affordability to educational courses for all, especially primary education (can be in the form of subsidies for technology or devices used to undertake educational programs).
Health care	
Illustrative examples of contributory activities to GP1	<ul style="list-style-type: none"> • Ensuring access to quality health care for groups that are marginalized, such as women, the elderly, minorities, Indigenous peoples, people with disabilities, etc. • Extending health care capacities. • Improving the quality of existing health facilities. • Production of medicines and innovation in services, such as telemedicine. • Training health care workers to support health care. • Improving access to health care with accessibility initiatives for low-income groups (externally) or employees (internally). • Investing in infrastructure that supports health care facilities, such as solar power and water and sanitation facilities for clinics.



Illustrative examples of contributory activities to GP2	<ul style="list-style-type: none"> • Creating partnerships with governments, universities, and others to develop new drugs and treatments. • Creating protocols for quality and safety during patient trials. • Following international best practices by disclosing product recall information or waste management practices during reporting or compliance-related governance activity.
Agriculture (including palm oil) & food systems	
Illustrative examples of contributory activities to GP1	<ul style="list-style-type: none"> • Physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements. • Sustainable agricultural practices, chain of custody, commodity certification. • Improved productivity of small-scale producers through better land-management practices and training. • Creating demand-side/consumer initiatives for sustainable food systems.
Illustrative examples of contributory activities to GP2	<ul style="list-style-type: none"> • Creating a wage policy for fair and living wages for low-income communities. • Having a detailed policy on sustainable and equitable land use and ownership. • Promoting awareness of principles and internationally accepted standards of responsible practices for the use and control of land, fisheries and forests, such as those set out in the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (FAO, 2012). • Joining commodity round table initiatives, such as Roundtable on Sustainable Palm Oil. • Establishing collective action initiatives to reduce food loss and food waste where possible. • Implementing financial inclusion and increasing financial literacy for smallholder farmers (especially in oil plantations). • Reducing land conflict through stakeholder engagement and collaboration. • Incorporating a whistleblower policy for instances of corruption or bribery related to the agriculture sector. • Educating farmers on landholder rights and sustainable agriculture practices.



4.2 Use Cases

For a taxonomy user to assess a company or a specific activity, the following key assessment criteria questions should be asked when identifying the chosen area of social contribution and/or improvements:

- **Meet minimum social requirements, including alignment with minimum environmental safeguards:** Does the company/activity meet minimum social requirements, including compliance with domestic laws and regulations, disclosure and reporting of social risks, and engagement with stakeholders?
- **DNSH:** Is either GP subjected to significant harm by the company or activity?
- **Substantial Contribution to GP1:** Does the company or activity make a substantial contribution to GP1?
- **Substantial Contribution to GP2:** Does the company or activity make a substantial contribution to GP2?
- **Existence of a plan, policy, or procedure to enhance contribution to GP2:** Does the company have an improvement plan in place that addresses how it could make a substantial contribution to GP2 if not doing so already?

The following scenarios illustrate a how the taxonomy may be applied by different types of taxonomy users, following the application of the above key assessment criteria.

Use Case #1: An asset management company having a majority stake in a palm oil plantation that has unsustainable labour practices

Scenario: An asset management company that has a majority share of a palm oil plantation is looking to use the social component of the SI Taxonomy to improve its performance on GP2. Although the asset management company itself meets the social safeguards and falls into the light green category (it is already making a substantial contribution to GP1 among its own workforce and has a management system that is broadly consistent with GP2, including a policy of engagement with investee companies), the company is considering how it can systematize such engagement and consistently improve and maintain investees' social performance in order to progress to dark green (substantial contribution to both GP1 and GP2).

Investment in this palm oil company exposes the asset management company to some level of social risks and reputational impacts. Their investee, the palm oil plantation company, has admitted to the presence of forced and trafficked labour among its workforce. It attributes this to a recruitment agency that does not have a policy on forced labour or human trafficking. Hence, the palm oil company does not meet the minimum social safeguards and falls into the red category of social performance. In order to improve its own social performance on GP2, the asset management company wants to work with the palm oil company to improve its track record on employment and remove or redress instances of forced or trafficked labour in order to meet the minimum social safeguards (also enabling the palm oil company to progress from a red to an amber category of social performance).



The following table illustrates a step-by-step process of how the asset manager will use the social component of the SI Taxonomy and help move its own social performance from the light green to the dark green category.

Table 4. The process of using the social taxonomy—asset managers

	Examples of actions undertaken by the asset management company
Step 1: Meet minimum social safeguards	<ul style="list-style-type: none"> • Check if the asset management company internally meets all the minimum social safeguards mentioned in the SI Taxonomy (including social risk and social governance requirements) as well as DNSH to GP1 and GP2
Step 2: Identify relevant qualifying activity(s)	<ul style="list-style-type: none"> • The company already substantially contributes to GP1 (Promoting overall social well-being) <ul style="list-style-type: none"> • Through job creation, decent work and living wages (labour practices meeting international standards) and inclusive hiring practices regardless of gender or sexual orientation for its own employees. • The company needs to substantially contribute to GP2 (Enhanced Respect for Human Rights and Enhanced Company Conduct) in order to move from the light green to the dark green social category. <ul style="list-style-type: none"> • Relevant qualifying activity chosen is to improve business relationship performance by systematically reviewing investee social performance. • With respect to the problem of forced and trafficked labour in investee companies, creating an investee-engagement program that helps provide additional support for investees to meet minimum social requirements.
Step 3: Assess the social baseline performance of the chosen activity(s)	<ul style="list-style-type: none"> • Social baseline performance of the palm oil company is currently in the red category—not meeting minimum social safeguards—as it employs forced and trafficked labour.
Step 4: Identify relevant stakeholders and social impact	<ul style="list-style-type: none"> • Relevant stakeholders identified by the asset management company are the investee company (palm oil company), the forced or trafficked labourers, the third-party recruitment agency, and its own shareholders/asset owners who will be reading the reports on social impact.



	Examples of actions undertaken by the asset management company
Step 5: Undertake the chosen activity(s)	<ul style="list-style-type: none"> • Chosen activity of the asset management company involves increased support for the investee company, including facilitation of a labour audit of the workforce and a rehabilitation plan for the existing forced or trafficked workers (e.g., removing or helping pay the debt bondage or addressing threats of deportation of migrant workers) and ensuring they are paid living wages in a timely manner. • Chosen activity could also involve the asset management company persuading the palm oil company to pressure its third-party recruitment agency to change or amend its hiring practices or do better background checks to verify the status of workers. The asset management company can also work with other companies to expose and eliminate the involvement of disreputable third-party recruiters.
Step 6: Assess the chosen activity(s) against some indicators	<ul style="list-style-type: none"> • Using ILO conventions and key indicators on reducing forced labour to identify which indicators could be useful in measuring the social impact of the chosen activity(s). • Using indicators related to decent jobs (living wages) and enhancement of access to decent work conditions to evaluate the social impact of chosen activity(s).
Step 7: Report or disclose social impact of chosen activity(s)	<ul style="list-style-type: none"> • Having the palm oil company report on the chosen activity and using the data on social outcomes (percentage of forced workers rehabilitated or compensated) to further disclose progress on GP2 to relevant stakeholders like shareholders/asset owners.

Use Case #2: A real estate development company raising capital through a social bond

Scenario: A real estate development company is looking to raise sustainable finance through a social bond and attract long-term investors with a sustainability mandate for its latest development project. Based on its current business activities, 95% of its portfolio is concentrated in commercial real estate. However, due to the pandemic, part of its commercial real estate holdings performed below projection and resulted in some write-offs and sale of underperforming assets. For the coming years, the company is looking to diversify its real estate portfolio so that it is resilient to future socio-economic shocks and can ensure long-term financial and social sustainability based on attracting a diverse set of investors as well as new clients. In addition, it is also considering how to collaborate better with cities' efforts in building back better and ensuring resilience in the face of climate impacts.

Based on its current social baseline performance, even though it meets all minimum social safeguards, the company falls in the amber category as it does not contribute substantially to GP1. However, it looks to move into the light green category by substantially contributing to GP1 by creating more affordable housing (e.g., up to 25% of its portfolio) as well as putting an improvement plan in place to contribute to GP2 in the future.



Hence, it is considering a qualifying activity under GP1, consisting of (i) building affordable housing that is affordable for low-income families, the elderly, and persons with disabilities; (ii) with some components of green buildings, such as energy efficiency and grey water recycling; and (iii) universal design to ensure accessibility by all, including people with disabilities. It is also considering offering rent deferrals or waivers for tenants in financial crisis situations, e.g., natural disasters from climate impacts or the pandemic. Through these actions, the company expects to increase the attractiveness of its social bond offering and access sustainable financing.

Table 5. The process of using the social taxonomy—real estate developers

	Examples of actions undertaken by the asset management company
Step 1: Meet minimum social safeguards	<ul style="list-style-type: none"> • Check if the real estate development company internally meets all the minimum social safeguards mentioned in the SI Taxonomy (including social risk and social governance requirements) as well as meets DNSH to GP1 and GP2.
Step 2: Identify relevant qualifying activity(s)	<ul style="list-style-type: none"> • The company needs to substantially contribute to GP1 (Promoting Overall Social Well-Being). <ul style="list-style-type: none"> • Increasing affordable housing projects across its development portfolio (up to 25%) and incorporating sustainability considerations (such as green building designs and sustainable construction). • The company needs to have an improvement plan in place for GP2 (Enhanced Respect for Human Rights and Enhanced Company Conduct) in order to move from the amber to the light green social category. <ul style="list-style-type: none"> • Including new policies and criteria on affordability, accommodation of needs of disabled persons, criteria rent waivers or deferrals for tenants going through financial hardship, and policy and procedure to effect lawful eviction.
Step 3: Assess the social baseline performance of the chosen activity(s)	<ul style="list-style-type: none"> • Social baseline performance of the real estate development company is currently in the amber category—meeting minimum social safeguards—but not contributing substantially to GP1 or GP2.
Step 4: Identify relevant stakeholders and social impact	<ul style="list-style-type: none"> • Relevant stakeholders identified by the real estate company are the tenants of affordable housing units, the business partners providing construction materials and resources, political leaders, planners, and community organizations representing or serving the areas in which housing will be located, company's board/ shareholders/owners and impact investors who will be reading the reports on social impact of the project.



	Examples of actions undertaken by the asset management company
Step 5: Undertake the chosen activity(s)	<ul style="list-style-type: none"> • Chosen activity involves creating new affordable housing development as part of the portfolio and making sure it has some aspects of green building components (e.g., energy efficiency and grey water recycling in units) and sustainable construction. • Chosen activity also involves consulting with new business partners/supply chain (architects, construction etc.) to ensure meeting green building components in units, design accommodation for physical disability and instituting internal policies that will help tenants in times of financial difficulties or climate crisis.
Step 6: Assess the chosen activity(s) against some indicators	<ul style="list-style-type: none"> • Using green building key indicators on measuring how planned activity on energy efficiency can reduce energy usage or avoid wastewater from affordable housing units as compared to buildings that do not have these components. • Having indicators that measure the percentage of units having physical accessibility considerations or percentage of tenants that have needed help/support during financial difficulties or crisis times.
Step 7: Report or disclose social impact of chosen activity(s)	<ul style="list-style-type: none"> • Having the real estate company report on the chosen activities by using the indicator data on social outcomes to further disclose progress on GP1 for impact investors and incorporate an improvement plan for GP2. • The company can also disclose its improvement plan to influence aspects of its supply chain business partners as well as advertising to attract potential tenants.



5.0 Next Steps

Our discussion paper highlights the following recommendations and next steps for the Sustainable Investing (SI) Taxonomy development:

- **Public consultation and international developments:** Based on the incorporation of public feedback into the SI Taxonomy document, the applicability of both environmental and social components will have to be practically assessed at the user level. Hence, there is a possibility that the document will have to be a “living document” and evolve as new feedback comes in and international developments occur (e.g., EU social taxonomy or other global industry-level initiatives like the Taskforce on Climate-related Financial Disclosures).
- **Further identification of qualifying activities:** The next phase of this work can include identification of economic or qualifying activities using codes already used and available in a country (this could mean working with the statistical office or a similar government agency as well as the International Standard Industry Classification of All Economic Activities/ISIC). Similarly, the EU Taxonomy can also be a reference point to further understand what types of activities can be added to the two GPs mentioned in this discussion paper. This will allow investors to compare investments across borders without imposing a “one-size-fits-all” approach.
- **Development of thresholds and indicators:** Although this paper has described a non-exhaustive and broad list of indicators to serve as a guidance point (see Appendix B), it should be seen as a starting point rather than a final version. Not only should more indicators and thresholds be incorporated when qualifying activities are identified, but they should also measure substantial contribution and push the ambition on the social and environmental aspects of this taxonomy. Furthermore, this stage will also need a deeper level of engagement with the third-party reviewers on the practicality of assessing or verifying these indicators and thresholds.



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Appendix A. Key Social Categories Commonly Applicable

Table A1. Key social categories commonly applicable

Key social categories	Examples of social risks	Examples of social opportunities	Alignment with relevant policies & frameworks	Alignment with SDGs
Employment generation and market competitiveness	<ul style="list-style-type: none"> • Lack of capabilities in line with current market conditions (including technology adoption, international competitiveness, and capabilities of businesses). • Lack of retraining opportunities for transitioning workers or misaligned labour market conditions (supply and demand in key economic industries). 	<ul style="list-style-type: none"> • Improving market access for businesses and SMEs through digitization and digital economy (digital inclusion and improving access to reliable internet connections). • Creating new jobs in key green sectors and industry-supply chains that allow upskilling and retraining of workers. • Improving access to banking, microfinance, and credit for SMEs. • Affordable access to commercial spaces for businesses. 	<ul style="list-style-type: none"> • National economic and development plans. 	<ul style="list-style-type: none"> • SDG 8: Promote inclusive and sustainable economic growth, employment and decent work for all. • SDG 9: Build resilient infrastructure, promote sustainable industrialization, and foster innovation. • SME-specific targets: <ul style="list-style-type: none"> • Achieve higher levels of economic productivity through diversification, technological upgrading, and innovation.



Key social categories	Examples of social risks	Examples of social opportunities	Alignment with relevant policies & frameworks	Alignment with SDGs
Access to basic social infrastructure	<ul style="list-style-type: none"> • Lack of access to universal health care. • Lack of quality healthcare facilities and services covered (including mental health counselling). • Lack of access to financial services (like banking, microfinance, financial literacy etc.). • Lack of access to digital as well as information and communications technology (ICT). 	<ul style="list-style-type: none"> • Providing access to universal health care and improving quality of existing hospital facilities. • Providing access to healthcare options for mental health (including at the workplace). • Improving financial literacy and easing access to financial products and services. • Providing access to digital services and ICT services. 	<ul style="list-style-type: none"> • Best Practice Guide for Social Infrastructure (Queensland Government, 2019) 	<ul style="list-style-type: none"> • SDG 3: Ensure healthy lives and promote well-being for all at all ages <ul style="list-style-type: none"> • Affordable basic infrastructure (Target 3.6) • Achieve Universal Health Coverage (Target 3.8) • Access to essential services (Targets 3.1, 3.2, 3.3, 3.4, 3.5, 3b, 3c)



Key social categories	Examples of social risks	Examples of social opportunities	Alignment with relevant policies & frameworks	Alignment with SDGs
Poverty and income inequality	<ul style="list-style-type: none"> • Lack of living wage that does not allow coping with rising living costs and standards. • Increasing income inequality gap. • Lack of savings and social security assistance for vulnerable populations (B40 group) and ethnic minorities. • Unaffordable standard of living and rising costs. • Lack of access to affordable food and goods. 	<ul style="list-style-type: none"> • Reviewing minimum wage and salary policies periodically and implementing the productivity-linked wage system. • Improving overall financial inclusion through access to banking and basic financial services. • Improving food security and access to food. 	<ul style="list-style-type: none"> • GTAP-POV: A framework to assess national poverty impacts of global economic and environmental change (Inter-American Development Bank, 2015). • National progress assessments. 	<ul style="list-style-type: none"> • SDG 1: No poverty <ul style="list-style-type: none"> • Access to essential services (Target 1.4) • SDG 10: Reduce inequality within and among countries <ul style="list-style-type: none"> • Access to essential services (Target 10.2, 10c) • Socio-economic advancement and empowerment (Targets 10.1, 10.2, 10.3, 10.7) • SDG 12: Ensure sustainable consumption and production patterns. <ul style="list-style-type: none"> • Food security (Target 12.3)



Key social categories	Examples of social risks	Examples of social opportunities	Alignment with relevant policies & frameworks	Alignment with SDGs
Corporate governance and transparency	<ul style="list-style-type: none"> • Increasing instances of corruption due to lack of internal controls and external corporate transparency. • Lack of business ethics and accountability. • Lack of corporate disclosures on mitigating relevant social risks (e.g., lack of reporting or stakeholder engagement on relevant social risks). 	<ul style="list-style-type: none"> • Reducing corruption by improving internal and external governance mechanisms or processes as well as improving overall transparency. • Incorporating the board or C-suite level as a focal point for improving governance mechanisms. 	<ul style="list-style-type: none"> • MSCI ESG Ratings Methodology • World Bank's Environmental and Social Framework • IMF Report (2016) 	<ul style="list-style-type: none"> • SDG 12: Ensure sustainable consumption and production patterns. <ul style="list-style-type: none"> • Improve corporate reporting (Target 12.6) • Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle (Target 12.6).



Key social categories	Examples of social risks	Examples of social opportunities	Alignment with relevant policies & frameworks	Alignment with SDGs
Affordable basic physical infrastructure	<ul style="list-style-type: none"> • Lack of equitable access to clean water, sanitation, and affordable energy. • Lack of incorporation of internal migration patterns from rural to urban areas and social mobility issues. • Lack of development of rural and suburban areas in terms of basic infrastructure access and facilities. 	<ul style="list-style-type: none"> • Providing equitable access to infrastructure that provides clean water, sanitation, affordable energy, and digital access in both urban and rural areas. • Improving access to affordable housing and conducive living environments. • Improving access to basic facilities (roads, markets, telecommunications etc.). 	<ul style="list-style-type: none"> • MSCI Sustainable Impact Index Methodology 	<ul style="list-style-type: none"> • SDG 6: Ensure availability and sustainable management of water and sanitation for all. • SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all. • SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation • SDG 10: Reduce inequality within and among countries. • SDG 11: Make cities inclusive, safe, resilient and sustainable. <ul style="list-style-type: none"> • Affordable basic infrastructure (Targets 11.1, 11.2) • Affordable housing (Target 11.1)



Key social categories	Examples of social risks	Examples of social opportunities	Alignment with relevant policies & frameworks	Alignment with SDGs
Enhancing social capital and empowerment	<ul style="list-style-type: none"> • Lack of access to quality education (specially to increase social mobility). • Lack of access to community activities and organizations. • Lack of professional development and representation for women in the workplace. • Lack of ability to progress within the workplace (especially for women, ethnic communities, and people with special needs or disabilities). 	<ul style="list-style-type: none"> • Enhanced quality of schooling through learning outcomes. • Creating targeted professional development opportunities for women in the workforce. • Incorporating the involvement of youth (across various ethnic groups) in local economic and community level development. • Upskilling opportunities. 	<ul style="list-style-type: none"> • ILO guide Promoting Social Entrepreneurship and Social Capital. • <i>ILO Empowering Women at Work: Company Policies and Practices for Gender Equality (2020)</i>. • <i>European Commission's Quality Youth Work: A Common Framework for Development of Youth Work (2015)</i>. 	<ul style="list-style-type: none"> • SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. • SDG 5: Achieve gender equality and empower all women and girls. • SDG 8: Promote inclusive and sustainable economic growth, employment and decent work for all. <ul style="list-style-type: none"> • Full employment and decent work with equal pay (Target 8.5). • Promote youth employment, education, and training (Target 8.6). • Protect labour rights and promote safe working environments (Target 8.8).



Appendix B. Potential Indicators for GP1 Reporting

Note that the indicators outlined below are examples and should not be construed as recommendations. Each Sustainable Investing (SI) Taxonomy user will need to establish its own set of indicators that adequately capture its social contribution and on which it can consistently report.

Table B1. Potential indicators for GP1 reporting

Examples of contributory activity under GP1	Examples of relevant indicators from IRIS Catalogue of Metrics	Other potentially relevant indicators
Job creation	<ul style="list-style-type: none"> • Jobs Created at Directly Supported/Financed Enterprises: Total (PI3687): Net number of new full-time equivalent employees working for enterprises financed/ supported by the organization between the beginning and the end of the reporting period. • Employees Trained (OI4229): Number of employees (full-time/part-time, or temporary) who were trained through programs provided by the organization (both internally and externally) during the reporting period. • New Businesses Created: Total (PI4583): Number of new businesses created as a result of investments made by the organization during the reporting period. 	<ul style="list-style-type: none"> • Total number of new jobs created during the reporting period • Income levels of jobs created • Sex disaggregated data on jobs created
Enhancement of access to decent work and working conditions	<ul style="list-style-type: none"> • Number of Employee Grievances Registered (OI1042): Number of formal grievances registered by employees of the organization during the reporting period. • Number of Employee Grievances Resolved (OI9077): Number of formal grievances registered by employees for the organization that were resolved during the reporting period. • Occupational Illnesses (OI7060): Number of occupational illnesses which affected any full-time/part-time and temporary employee of the organization during the reporting period. • Occupational Injuries (OI3757): Number of occupational injuries which affected any full-time/part-time and temporary employees of the organization during the reporting period. • Worker Safety Policy (OI8001): Indicates whether the organization has policies in place to monitor, evaluate, and ensure worker safety. 	<ul style="list-style-type: none"> • Number of workers entitled to holidays or other auxiliary employer-provided benefits • Number of workers represented by collective bargaining representatives



Examples of contributory activity under GP1	Examples of relevant indicators from IRIS Catalogue of Metrics	Other potentially relevant indicators
Living wage	<ul style="list-style-type: none"> • Employees Earning a Living Wage or Higher (OI4724): Number of full-time/part-time and temporary employees of the organization that are earning a local living wage or higher as of the end of the reporting period. • Employees Earning Lowest Wage (OI8296): Number of full-time/part-time and temporary employees of the organization that are earning the lowest hourly wage (including bonuses, excluding benefits) paid by the organization as of the end of the reporting period. • Employees Earning Minimum Wage (OI5858): Number of full-time/part-time and temporary employees of the organization that are earning the local minimum wage as of the end of the reporting period. • Minority/Previously Excluded Wage Equity (OI2362): Ratio of the average wage paid to minority/previously excluded employees of the organization for a specified position, compared to the average wage paid to dominant culture employees of the organization. 	
Nutritious food and access to sustainable food systems	<ul style="list-style-type: none"> • Average Client Agricultural Yield: Total (PI3468): Average agricultural yield per hectare of clients (who were farmers) of the organization during the reporting period. • Pesticide Use (OI9891): Amount of pesticides used during the reporting period on land area directly controlled by the organization. 	<ul style="list-style-type: none"> • Number and volume of loans/grants offered to local farmers/producers during a reporting period. • Direct or indirect investment in agricultural practices in a reporting period.



Examples of contributory activity under GP1	Examples of relevant indicators from IRIS Catalogue of Metrics	Other potentially relevant indicators
Sustainable and climate-resilient agriculture	<ul style="list-style-type: none"> • Water Discharged (OI0386): Volume of effluents, used water, and unused water released to surface water, groundwater, seawater, or a third party, for which the organization has no further use, during the reporting period. • Stream Nutrient Levels Assessment (OI3798): Describes whether the organization has assessed nitrogen and phosphorous levels in streams on directly and indirectly controlled land as of the end of the reporting period. 	<ul style="list-style-type: none"> • Volume of insurance provided to clients to mitigate impact of climate change in a reporting period. • Financial services provided to enhance climate-resilient agricultural practices in a reporting period.
Access to drinking water and sanitation	<ul style="list-style-type: none"> • WASH Facilities Type (PD3668): Describes the type of water, sanitation, and hygiene (WASH) facilities available onsite as a result of the organizations' activities during the reporting period. 	<ul style="list-style-type: none"> • Direct/Indirect investment into companies/services providing access to drinking water during a reporting period. • Number of individuals gaining access to drinking water due to operations/ investments during the reporting period.



Examples of contributory activity under GP1	Examples of relevant indicators from IRIS Catalogue of Metrics	Other potentially relevant indicators
Sustainable waste management	<ul style="list-style-type: none"> • Percentage Recycled Materials (PD9364): Percentage of recycled materials used to manufacture during the reporting period. • Wastewater Treated (OI9412): Volume of wastewater treated by the organizations' product/services (including packaging) during the reporting period. • Waste Disposed Total (OI6192): Amount of waste disposed by the organization during the reporting period. • Water Treatment Level (OI9278): Describes the level of treatment that discharged water received during the reporting period. 	
Affordable housing	<ul style="list-style-type: none"> • Percent Affordable Housing (PD5833): Percentage of housing units projected to be constructed or preserved as a result of expenditures made by the organization during the reporting period that will be considered to be affordable housing. • Individuals Housed (PI2640): Number of individuals housed in single-family or multi-family dwellings as a result of new constructions, loans, repairs, or remodelling resulting from investments made by the organization. • Value of Housing Units Financed (PI7233): Value of housing units projected to be constructed or preserved as a result of investments made by the organization during the reporting period. • Number of Housing Units Financed (PI5965): Number of housing units projected to be constructed or preserved as a result of investments made by the organization during the reporting period. 	<ul style="list-style-type: none"> • Total expenditure on grants and financial support provided to home buyers in a reporting period.



Examples of contributory activity under GP1	Examples of relevant indicators from IRIS Catalogue of Metrics	Other potentially relevant indicators
Quality education	<ul style="list-style-type: none"> • Average Student Test Score (PI9024): Average test score (as a percent of a perfect score) earned by students served by the organization during the reporting period. • Classroom Space New/Improved (PI7268): Area of classroom space that was built, converted, or expanded for use within educational facilities. Report only space completed during the reporting period. • Classroom Area per Student (PI5380): Area of classroom space per student during the reporting period. 	<ul style="list-style-type: none"> • Number of students supported by company/investment. • Number of students offered subsidized tuition if school is privately funded.
Affordable access to other economic infrastructure, such as energy, transportation, digital infrastructure	<ul style="list-style-type: none"> • Number of Household and Business Connections (PI8053): Number of residential and commercial connections to utilize services provided by the organization as of the end of the reporting period. • Number of Individual Connections (PI3317): Number of connections to utilities and services provided to individuals by the organizations as of the end of the reporting period. 	<ul style="list-style-type: none"> • Units of renewable energy invested in during the reporting period. • Increased number of telecommunications connections. • Number of people serviced by new infrastructure.



Examples of contributory activity under GP1	Examples of relevant indicators from IRIS Catalogue of Metrics	Other potentially relevant indicators
Community development	<ul style="list-style-type: none"> • Area of Community Facilities Financed (PI4765): Area of community facilities projected to be constructed or preserved as a result of investments made by the organization during the reporting period. • Community Facilities Type (PD7557): Describes the type of community development facilities projected to be built, renovated, or purchased as a result of the investments made by the organization during the reporting period. • Vocational/Technical Training (PI8836): Number of students receiving vocational or technical training during the reporting period. • Full-time Employees: Minorities/ Previously Excluded (OI8147): Number of paid full-time employees at the organization who belong to minority/previously excluded groups as of the end of the reporting period. 	
Gender empowerment and economic opportunities	<ul style="list-style-type: none"> • Employees Promoted: Female (OI8646): Number of employees who are female and who were promoted within the organization during the reporting period. • Gender Ratio of Promotions (PI9467): Ratio of the number of female employees promoted from within the organization compared to the number of non-female employees promoted within the organization during the reporting period. • Full-time Employees: Female (OI6213): Number of paid full-time female employees at the organization at the end of the reporting period. • Full-time Wages: Female (OI8941): Value of wages (including bonuses, excluding benefits) paid to all female full-time employees of the organization during the reporting period. 	<ul style="list-style-type: none"> • Percentage of women at executive level of company. • Percentage of women on the board (if applicable).



Examples of contributory activity under GP1	Examples of relevant indicators from IRIS Catalogue of Metrics	Other potentially relevant indicators
<p>Promotion of SMEs/ integration of SMEs into supply chain</p>	<ul style="list-style-type: none"> • Value of Loans Disbursed (PI5476): Value of loans disbursed by organization during the reporting period. • Number of Loans Disbursed (PI8381): Number of loans disbursed by organization during the reporting period. • Average Loan Size Disbursed (PI5160): Average loan size disbursed by organization during the reporting period. • Other Financial Services Offered (PD5098): Describes the types of financial services offered by the organization in addition to the core credit, savings, and insurance products. • Non-financial Support Offered (PD9681): Describes the type of non-financial support the organization offers to clients, if applicable. 	

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Published by the International Institute for Sustainable Development

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