▶ G20 Sustainable Finance Working Group Input Paper

Social Impact Investing – Quality Jobs Investment Strategies to achieve a cross-SDG impact

Input paper prepared for the G20 Sustainable Finance Working Group under the Indian Presidency

International Labour Organization (ILO)

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Executive Summary

Decent work, as defined by the ILO, is crucial for sustainable development. It is widely acknowledged that the quality of employment, in addition to quantity, is essential for inclusive economic growth. Despite progress in employment creation, however, significant challenges remain in ensuring employment quality, with marked differences in outcomes depending on geography, gender, and age.

The impact of quality jobs extends beyond Sustainable Development Goal 8, which focusses on economic growth and decent work. Quality jobs drive progress across a broad spectrum of Sustainable Development Goals (SDGs). These include no poverty (SDG 1), zero-hunger (SDG 2), good health and well-being (SDG 3), quality education (SDG 4), gender equality (SDG 5), reduced inequalities (SDG 10), climate action (SDG 13), and peace, justice and strong institutions (SDG 16). Promoting decent work through financing and investing decisions exploits opportunities to achieve positive social impact in all the sectors, including those typically financed by the public and private sectors. By investing in quality jobs, capital providers benefit from risk mitigation, but also derive value creation opportunities associated with promoting sustainable development.

Private sector finance is urgently needed to complement public sector efforts to fill the financing gap for sustainable development. The financial sector's willingness to support the SDGs is demonstrated by increasing commitments of companies to net-zero objectives as well as the significant growth of sustainable finance markets. Due to their focus on delivering positive social impact alongside financial returns, the propensity to innovate and, in certain cases, willingness to compromise on financial gains, impact-seeking investors are natural partners to support the SDGs. However, the size of the impact investment market, despite its recent rapid growth, is comparatively small in view of the SDG financing gap and suggests the need to mainstream some of the impact investing principles to the wider financial sector.

Achieving social and environmental impacts are highly interdependent. Climate change and climate action policies have an important social dimension, often disproportionally affecting the most vulnerable populations; at the same time, social buy-in plays an important role in enabling ambitious climate action. Although the significance of social impacts is widely acknowledged, the pressing need to address climate change has led sustainable finance actors to prioritize environmental objectives. While many public and private financial institutions are devoting resources to climate goals, the degree of inclusion of social aspects (including those related to employment) is not progressing at the same pace.

The capacity of financial sector stakeholders to allocate capital effectively and support the achievement of non-financial targets is highly dependent on the availability of quality decision-useful information. However, measuring social impact remains a challenge, in particular, due to its interdependency with other impacts, capacity gaps across the financial sector, the lack of standardized metrics, among others.

Following its mandate on labour and employment matters, as well as its experience working with impact investors, the ILO partnered with the Global Impact Investing Network (GIIN) and co-develop a set of Quality Jobs Investment Strategies to support investors advance investment approaches favouring quality jobs. The strategies and accompanying performance metrics can be applied to different asset classes and financial instruments. They can be implemented by numerous types of investors beyond the niche of impact investing, which allows a range of financial sector actors to complement public sector effort to support sustainable development by filling the financing gap.

The ILO recognizes the essential role of international cooperation in promoting sustainable finance and aligning capital to achieving the SDGs and maximising positive social and environmental outcomes. The G20 Sustainable Finance Working Group is an excellent forum for advancing this work and the ILO stands ready to contribute to its expertise.

▶ 1. Introduction

Positive social impact is a key aspiration of the Sustainable Development Goals (SDGs), which recognize that sustainable development requires a holistic approach that integrates social, economic and environmental considerations. Full and productive employment and decent work for all is one of the crucial enablers of sustainable development. The UN General Assembly underlined this nexus when, in 2015, it made decent work an integral element of the 2030 Agenda and embedded key aspects of decent work in the targets across many of the other 16 SDGs.

As a specialised UN agency that focusses on the world of work, the International Labour Organization (ILO) defines decent work as "opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men". Thus, the quality dimension of jobs is at core of the ILO's decent work agenda and summarised as "productive work for women and men in conditions of freedom, equity, security and human dignity."

Policymakers have long recognised that it is not only the number of jobs created but also the quality of these jobs that matters for inclusive economic development. The scale of the global decent work challenge, however, remains vast.

It is low quality jobs that keep people locked into cycles of poverty and exclusion, making it crucial to strive for better wages, benefits, and working conditions (Eurofund, ILO, 2019). Poor quality jobs affect individuals as well as the wider economy. Without gainful employment, workers cannot make investments in themselves, their children, or their communities.

▶ Examples of quality jobs deficits

While progress had been made pre-covid-19, particularly in job creation, there are still significant challenges in the area of job quality. The ILO's World Employment and Social Outlook (2020) found that substantial inequalities persist in access to work and job quality, with marked differences in outcomes among workers, according to geographical location (between countries and between workers in urban and rural areas), gender and age. Income inequality is far greater than previously thought and is growing in many countries around the world.

The ILO estimates that every year, 2.3 million people die from occupational accidents, and a total of 340 million work-related injuries occur around the world (ILOSTAT). Women continue to face the most significant challenges in the world of work – while working more hours than men overall, the gender pay gap averages 20.5% (Eurofund, ILO, 2019). Furthermore, 1.2 billion jobs that are dependent on a stable climate will be exposed to unavoidable risks of occupational health and safety if the current global warming trends continue (ILO, 2018). Research showed that such inequality can erode social cohesion, increases civil strife, and economic instability (NEF, 2014).

Providing people access to quality jobs, decent wages and social protection is at the core of SDG 8. Promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, however, extends far beyond the realm of SDG 8 and drives progress across a broad spectrum of other SDGs.

For instance, improving working conditions benefits an employee's well-being, increases productivity, and improves a company's environmental footprint. Achieving decent work supports realising other SDGs including reducing poverty under SDG 1, improving gender equality under SDG 5, reducing inequalities under SDG 10 and establishing peace, justice and strong institutions under SDG 16. The box below illustrates how investing in decent work is a cross-cutting driver of sustainable development.

▶ Decent Work as a cross-cutting driver of Sustainable Development

SDG 1: The most important asset for people living in poverty is the potential of their own labour; their capacity to work productively. Decent work is therefore the main route out of poverty.

SDG 2: Food production requires labour, and agriculture employs more people than any other sector. Furthermore, most people in extreme poverty live in rural areas, many dependent on earnings from agriculture. Decent work in sustainable agriculture and food value chains is therefore crucial to reaching this goal.

SDG 3: Healthy workers and decent and safe working conditions increase the productive capacity of the workforce. Conversely, lack of access to medically necessary health care, as well as occupational injuries and diseases, often drive people out of the workforce and into poverty. At the same time, the health sector is employing ever more people around the world who also need decent working conditions to deliver universal access to needed health care.

SDG 4: Education, as well as an end in itself, is also a means to getting a decent job, while lifelong learning is needed to keep up with the changing skills needed for the labour market. Additionally, lowering and eliminating child labour can lead to a greater number of opportunities for children to access education.

SDG 5: Women's economic empowerment is fundamental to gender equality. For most women, the most important source of economic empowerment and dignity is a job. Closing gender gaps in employment, ensuring decent work for all women and equal pay for work of equal value is thus key to achieving gender equality.

SDG 10: Decent work, with its emphasis on a fair income, security in the workplace and social protection for individuals and families, is a direct means to reduce inequalities in income, wealth and economic influence.

SDG 13: Social dialogue embedded in the decent work agenda plays a key role in achieving a just transition towards sustainable economy, while helping people and communities cope with the impact of climate change, while facilitating the transition towards a more sustainable economy.

SDG 14: Decent work for all, including fair remuneration and working conditions to the world's seafarers and fishers, is a foundation for conserving marine resources and reducing overfishing.

SDG 15: Ensuring that protecting the terrestrial environment is integrated into poverty-reducing national and local development strategies requires a focus on decent work for all land workers.

SDG 16: Furthermore, the benefits derived from having a decent job, including dignity, hope, and a sense of social justice, help build and maintain social peace.

Source: ILO, Decent Work and the 2030 Agenda for Sustainable Development (2014)

Decent work also is a major consideration for climate action: the required far-reaching economic transformation entails extensive employment and other socio-economic changes. On one side, the cost of inaction on climate change for the world of work is tremendous, while climate transition offers the potential for large-scale employment creation and upgrading, cost savings and the opening of new markets and investment avenues for enterprises. A net gain of 18 million jobs can be achieved globally by 2030 through energy related measures alone (ILO, 2018). At the same time, the climate transition comprises several risks: deep restructuring could leave workers and communities behind in certain sectors or localities; SMEs could face challenges to shift rapidly to new technologies and business models; low-income consumers may be hit by increases in energy and commodity prices unless remediation measures are in place. Benefits and costs associated with the transition will not necessarily be equitably distributed and certain groups may stand at a disadvantage (ILO, 2022).

As evidenced by the collaboration in the framework of the G20 Sustainable Finance Working Group (G20 SFWG), central banks, financial sector supervisors and ministries of finance are fully involved in developing and executing strategies to address climate risks recognizing them as one of the factors threatening the stability of national economies, their growth outlook as well as the stability of financial systems.

According to the Task Force on Inequality-related Financial Disclosures (TIFD), extreme inequality is another systemic risk for the economy. Inequalities negatively effect on economic growth, leading to longer and more

severe recessions, challenging employment, threatening financial stability and undermining the effectiveness of monetary policies. Income and regional inequalities, including those resulting from climate change and climate transition policies are therefore also highly relevant for the central banks' and ministries' of finance mandates. In the context of the climate transition, it is crucial to make sure that addressing one systematic risk - climate change - does not exacerbate another - inequality (INSPIRE, 2022). Strong social consensus is a major pre-requisite of ambitious and efficient climate action and therefore should not be overlooked.

Central banks and ministries of finance have a whole-of-economy vision and appropriate levers to drive the unprecedented capital mobilization and reallocation that need to happen for a transition to sustainable economies while intentionally promoting achievement of positive social outcomes through different available channels.

This paper is produced as a contribution to the G20 SFWG workstream on Social Impact Investing under the Indian Presidency.

The paper is structured as follows: Section 2 outlines the state of play of private sector financial flows towards achieving positive social impact. Section 3 discusses the concept of social impact investing and the levers it can have in supporting government efforts to close the financing gap for achieving the SDGs. It outlines the importance of ensuring decent work and the major impact this can have on achieving a cross-sector, cross-SDG impact. The section also presents quality jobs investment strategies as a tool for investors to create positive social impact. Section 4 summarises initial recommendations for action based on a review of literature and existing practices and drawing upon the ILO's expertise. These could be further explored for the purpose of informing future development of sustainable finance frameworks and approaches in the context of the G20 SFWG and other relevant platforms.

2. State of play of private sector financing targeting social impact

According to the United Nations, the annual investment needed to achieve the SDGs by 2030 is estimated to be between USD 5 trillion and USD 7 trillion (UN, 2022). However, the current levels of investment in sustainable development fall significantly short of this target, leaving a significant financing gap. Given the size of the global financial markets, SDG-aligned private sector capital flows can substantially contribute to financing the 2030 Agenda.

Robust social support infrastructure is a prerequisite for sustainable development, including climate action, through its major contribution to inclusive growth, increased social cohesion and social justice. However, the level of integration of social and employment dimensions of the climate transition and the level of attention paid to supplying capital for achieving SDGs beyond climate action is currently lagging behind the resources allocated to achieving climate goals.

Traditionally, positive social impact was generated by investing in social sectors, mostly financed through government tax revenues, with support from Overseas Development Assistance. However, social challenges that still need to be solved to achieve the SDGs are major. In the context of post-covid-19 recovery, geopolitical tensions, limited fiscal space, heavy debt burdens, particularly in emerging and developing economies, and rising inflation and interest rates governments are facing growing pressure to allocate resources more efficiently and effectively to social needs. In addition, traditional sources of development financing, in particular Official Development Assistance, are not sufficient to address the scale and complexity of current global development challenges (OECD, 2015).

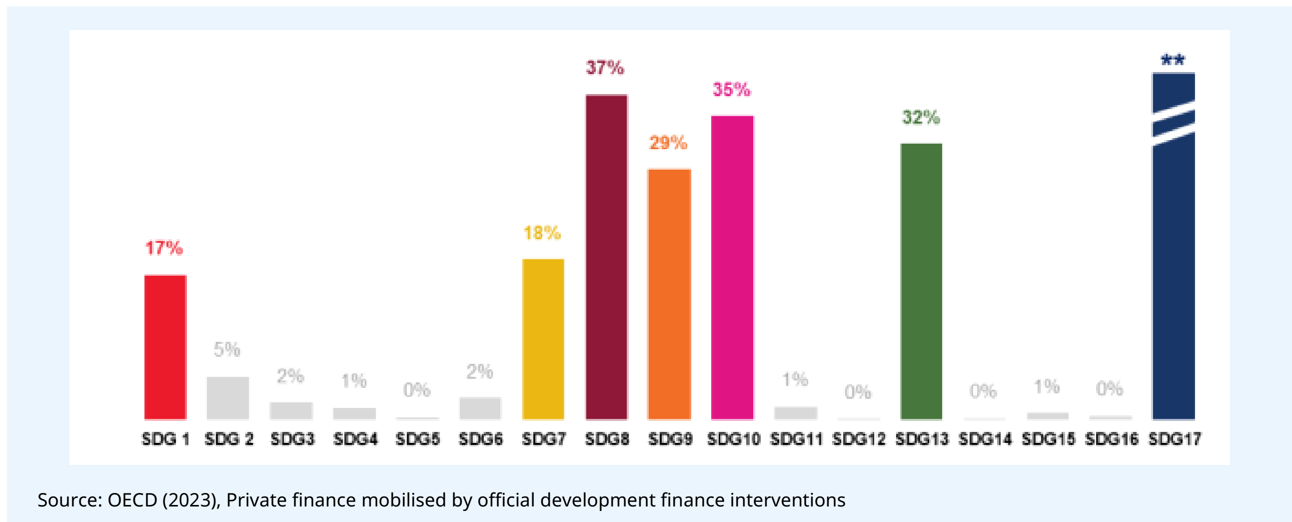
It is becoming ever clearer that there is an increasing need for innovative solutions to society's problems (SIIT, 2014) calling for an efficient combination of different public and private sources of financing.

The growth of sustainable finance markets show that private sector players are willing to complement public sector mechanisms of social protection and public investments in social sectors (such as healthcare, education, social services, emergency response and disaster management). Through their operations and investments they create additional positive social impact.

However, despite the growth, the amounts of mobilised private finance appear modest. A substantive proportion of private financial flows is still not aligned with the SDGs and represents a pool of opportunities to draw upon to complement and elevate public sector efforts.

The OECD estimates that private finance mobilized for developing countries mostly contributes to the SDGs aimed at developing economic infrastructure, reducing inequalities, and advancing climate action. Much smaller shares of mobilised private finance are targeting SDGs related to social sectors, such as SDG 3 (good health and well-being), SDG 4 (quality education) and SDG 16 (peace, justice, and strong institutions), or environment-related SDGs beyond climate action (OECD, 2023).

▶ **SDG focus of mobilized private finance (OECD estimation based on 2018-2020)**



Source: OECD (2023), Private finance mobilised by official development finance interventions

Naturally, the private finance sector mobilizes larger volumes in areas where prospects of financial return are high. This excludes social sectors, even though they do present some potential to attract the private sector (OECD, 2018). In addition, risks in terms of projects' commercial viability and return profile are perceived by private investors as particularly high in countries and sectors most in need. Hence the share of private finance mobilised to support the most vulnerable populations is small, even for projects with explicit impact goals.

The short-term nature of financial markets implies that risks and opportunities critical for sustainable development are often overlooked by businesses and investors. Although with the increasing prominence of sustainable finance approaches capital providers increasingly consider sustainability-related risks, they tend to focus on risks with a direct material impact on company financial performance in the near term. Inversely, both businesses and capital providers do not actively consider the impact of company activities on the environment or other negative impacts they might impose on the affected communities.

In addition, financial institutions face data and competency related constraints preventing them from providing larger and more targeted finance to socially focused SGDs. These include information asymmetries related to classifying sustainable investment and taxonomies, heterogeneity of approaches and lack of interoperability among them; large data gaps; quality and comparability of metrics on the impact of companies on social issues. Simultaneously, financial institutions often lack the tools to conduct in-depth sustainability assessment of companies they finance and much of the private sector does not have the necessary know-how to pursue both profit and sustainable development objectives.

There is evidence that interest and resources to promote commercial solutions that can close important financing gaps in infrastructure, climate change and social services are growing. Nevertheless, the amounts mobilised from the private sector are still small when compared to the trillions of USD that are needed to close the financing gaps to achieve the SDGs.

3. Quality Jobs investment strategies to achieve impact across SDGs

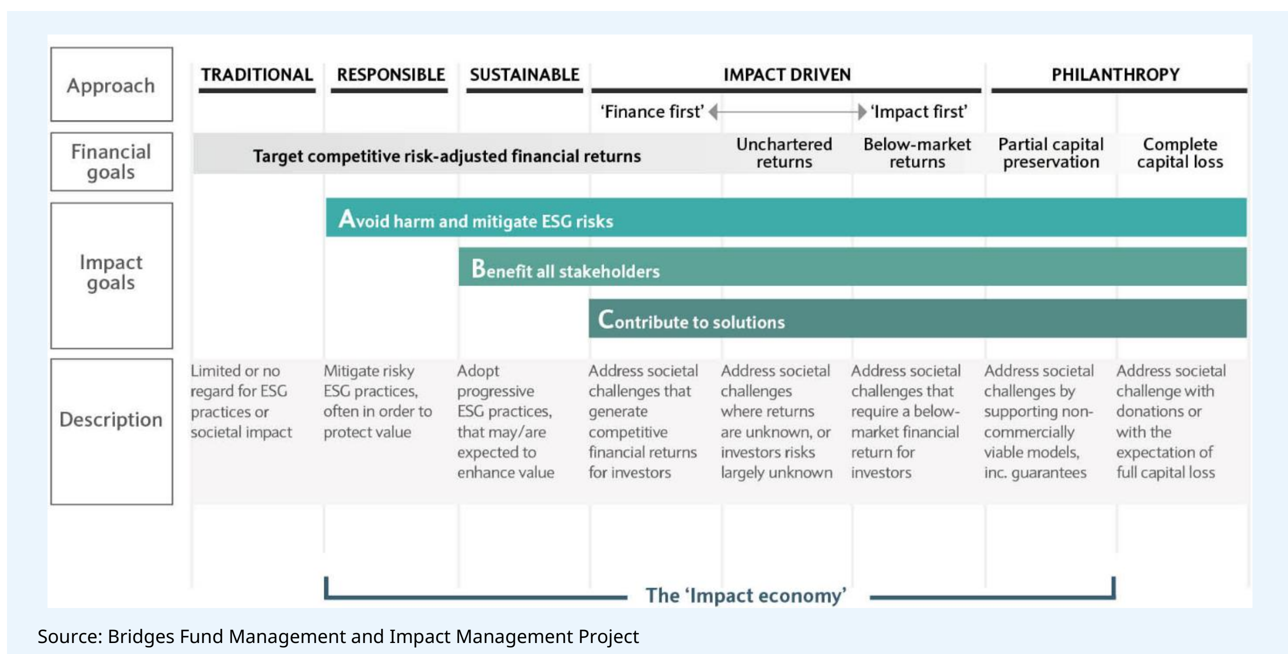
Social impact investing: bridging the financing gap for sustainable development

Investors can influence social performance of their investments by adhering to one of the two philosophies: i) "do no harm" by managing risks and mitigating and avoiding negative impacts by complying with safeguards and performance standards; ii) "doing good" by going beyond compliance and intentionally exploiting opportunities to create shared value and positive impacts also known as social impact investing.

The Global Impact Investing Network (GIIN) defines social impact investing as investments made into companies, organisations, and funds with the intention to generate positive, measurable social and environmental impact alongside a financial return. The practice of impact investing is defined by this intentionality: the intention to have a positive social or environmental impact through investments is essential. Impact investing is one of the responses to the growing awareness by both public and private sector actors that the challenges facing modern society are too large and too complex to be solved by government and the social sector alone (SIIT, 2014).

Impact investing lies at the core of an "impact continuum" that stretches from responsible and sustainable investment up to philanthropy and includes all those seeking to achieve positive social impact (SIIT, 2014). Different categories of actors along the spectrum of capital can target a range of financial returns from market rate to below market, depending on an investor's risk appetite and impact aspirations.

Spectrum of Capital



Source: Bridges Fund Management and Impact Management Project

Impact investors have several mechanisms to drive positive social outcomes. They can influence real economy actors and thus their outcomes through their capital allocation but also stewardship and engagement practices.

The instruments within the impact investor toolkit need to be adapted to the type of investment and context, and include:

- **Provision of capital to new or undersupplied capital markets**, contributing to growth of companies constrained by limited access to finance. In this case investors may create additionality (i.e. the change going beyond what would have happened even without investor actions) without compromising on risk - adjusted returns.
- **Provision of flexible capital** to impactful companies which resolve externalities not priced by the market or serving less profitable market segments, that cannot rely on financing provided at commercial terms. To support growth of these companies, investors can accept below-market risk-adjusted returns, invest in subordinated debt or equity, or accept longer term investment horizons.
- **Shareholder engagement** to influence the investee behaviour and improve social and environmental practices by dialoguing with the management, voting at shareholder meetings and exercising activist strategies**.**
- **Provision of non-financial support** to enhance growth of impactful companies. Investors can share their expertise and help to improve governance structures; directly provide management support or technical assistance; making benefit of reputation and networks to enhance companies' ability to raise additional capital or gain initial customers.
- **Sending market signals** e.g. by allocating capital toward companies with positive impacts and withholding it from companies with negative impacts to create cost of capital incentives and encourage improvement of the entire markets.
- **Non-market signals** may indirectly support systemic change, for example, by supporting political processes and governmental regulation (CSP, 2021).

Impact investing is also defined by the investor's commitment to target, measure and report on the social and environmental performance and track progress of underlying investments. This ensures transparency and accountability and enables investors to evaluate the effectiveness of their investments and to make informed decisions about where and how to allocate their resources.

The traditional view has been that pursuing social or environmental objectives could require some financial trade-off. However, as the market developed, a growing number of examples demonstrated that social impact investments can generate both a financial and social return (OECD, 2015). These developments are most conducive for social impact investors to provide private capital to address social challenges in innovative ways. These innovations include risk-sharing, blended finance solutions as well as innovative financial instruments that draw on a limited amount of public sector development funds to stimulate private sector investments to meeting the needs of vulnerable populations in countries that are most in need.

▶ Examples of public-private partnerships financing positive social impact

InsuResilience Investment Fund is a blended investment fund focused on climate adaptation. The aim of the fund is to protect vulnerable people and microentrepreneurs from the effects of climate change by providing access to climate insurance. The fund, set up as a public-private-partnership, provides debt investments and growth capital, and offers a technical assistance and premium support facility to financial institutions serving smallholder farmers in developing counties. The fund targets market-rate returns. Private investors benefit from de-risking mechanisms such as first-loss protection assumed by KfW.

Many insurers and distributors in emerging markets currently struggle to offer insurance products that are both viable and valuable to emerging consumers. Capacity gaps among insurers' staff are one of the factors inhibiting this progress. The ILO collaborates with the fund and contributes to achieving further social impact by building the capacity of investee insurance companies to serve low-income clients, thus increasing their ability to manage risk and enhance their resilience towards climate and other risks.

Africa Agriculture and Trade Investment Fund is an innovative public-private partnership dedicated to realizing the potential of Africa's agricultural production and related manufacturing, service provision and trade through sustainable investments across the entire value chain. By providing financing where it is most needed, the fund aims to contribute to inclusive growth and environmental sustainability increasing productivity, primary agricultural production, local processing, trade, employment, local value addition, knowledge transfer, and resilience, for the benefit of farmers, entrepreneurs and workers, men and women alike. The public-private partnership attracts private capital from institutional and other qualified investors, offering investments at three different levels, each with a unique risk/return profile. A first-loss share class, typically invested by governments with the goal of leveraging scarce public resources to de-risk and attract private capital, offers a comparatively low return and serves as a risk buffer protecting more senior share classes.

The ILO and UNEP collaborate with the fund as sustainability advisor, supporting both social and environmental improvements of investee companies as well as measuring the development impact of investments.

Impact investing is rapidly gaining traction with global market estimated at USD 1.164 trillion in assets under management under the responsibility of 3,349 organizations, including fund managers, DFIs as well as foundations, diversified financial institutions, and family offices (GIIN, 2022). However, despite the important growth of interest in impact investing and the number of private sector investors involved, the size of the market still represents a fraction of the annual funding gap required to achieve the SDGs estimated at USD 4.2 trillion (OECD, 2021).

Traditional and sustainable private sector finance currently account for a major part of the financial sector. If aligned with the sustainable development objectives, these funds can further complement impact investors' and public sector efforts in promoting sustainable development and contributing to filling the financing gap, in particular, in areas where expected cash flows are sufficient to compensate private investors.

Many of the quoted impact mechanisms can be adapted to sustainable finance and investing practices, taking the form of exclusion lists; norms and values-based screenings; ESG integration and best-in-class strategies investment; thematic investment approaches etc. Traditional and innovative financial instruments, including Green, Social and Sustainable, Sustainability-linked and results-based financial instruments can be used as vectors for social impact.

Quality Jobs Investment Strategies: a pathway to creating positive cross-sector and cross-SDG impact

Impact-seeking investors can contribute to addressing inequalities by investing into quality jobs and thereby promoting economic security, improving livelihoods, and creating stronger and more resilient individuals, families, and communities.

Beyond the aspiration to achieve positive social impact, job quality is also essential for the commercial success of private sector companies. When workers are treated well and have decent working conditions, businesses can reduce the likelihood of legal or regulatory action, increase their ability to attract and retain talent, and improve employee productivity and performance. As a result, investors can benefit from both risk mitigation and value creation opportunities by prioritizing job quality in their investment decisions.

Furthermore, corporate as well as global financial sectors are facing regulatory changes as societal expectations demand that costs inflicted on society as a result of economic activities are adequately factored into business models. Quality jobs are at the forefront of new regulations and stakeholder initiatives, and failure to meet these requirements can result in significant legal and reputational risks.

To enable impact investors achieve a social impact across multiple SDGs, the ILO partnered with the GIIN to co-create the Quality Jobs investment theme. The theme facilitates the process of setting and refining impact strategies, as well as selecting relevant performance metrics, for investors seeking to make a difference in this area.

The theme was developed with the GIIN's Navigating Impact initiative that gathers industry experts, impact investors and standard setters to elaborate common approaches, the evidence base and measurement resources.

Given the different ways in which impact capital can be deployed – across sectors, geographies and asset classes; flowing to companies of differing levels of maturity – the development of the Quality Jobs theme drew on the collective knowledge and experience of a diverse set of stakeholders, including asset managers, asset owners, advisors, consultants, researchers, NGOs and foundations.

As a result of the stakeholder consultation, a set of five strategic goals was designed to help investors navigate the Quality Jobs outcomes they are seeking to achieve and the ways in which progress towards them can be measured. A cross-cutting gender and vulnerability lens underpinned each strategy. The strategies alongside related core metrics are now part of the IRIS+, the GIIN's impact measurement and management system.

How investors can implement Quality Jobs investment strategies

Investors who adopt Quality Jobs investment strategies can contribute to creating and sustaining quality jobs by improving workers' job skills and occupational safety, increasing incomes, and reducing gender inequities in the workforce.

These investment strategies can be implemented by a wide range of investors from philanthropic and impact-first investors and DFIs to more traditional actors seeking to identify companies that carefully manage their human and social capital. They can do so by investing in vanilla and more sophisticated financial instruments, such as sustainability-linked debt, impact bonds and other results-based instruments linked to achievement of pre-defined KPIs and targets.

Each of the investment strategies allows generating quality jobs outcomes in two ways: first, by addressing quality jobs deficits within each investee's own operations and workforce practices; and second, by financing companies that support these goals through providing products and services to other organizations.

Investee practices: Investors can set a high standard for job quality across all their investments. Every portfolio company will be scrutinized on its ability to already deliver positive outcomes for its employees and supply chain workers, or selected based on the potential for the company to improving their positive labour practices. This goes beyond social safeguards or simply meeting basic compliance criteria (e.g. a legal minimum wage), to instead focus on practices that are proven to increase worker well-being (e.g. a living wage).

Here, quality jobs is likely to be a *mainstreamed approach*. For example, quality jobs may be a secondary impact objective (e.g. a fund supporting clean energy solutions with commitment to quality jobs), and plays out across different asset classes.

Thematic investment: Investors can pro-actively target solutions to specific problems affecting workers to achieve real-world impact. Here, investors identify the unmet needs (such as negative health outcomes) facing a particular group (such as migrant workers, or women), and identify innovations that can address the issue. These can be delivered as 'business to business' (B2B) solutions – for example training or health and safety auditing services – or as 'business to consumer' (B2C) solutions, such as mental health resources.

Here, quality job investments are likely to be aligned with a *single or small number of strategic goals*, as a primary impact objective (e.g. an impact thesis anchored in SDG 8), and often supporting earlier stage or fast-growing private companies through venture capital funding.

Source: ILO Working Paper *Investing for Quality Jobs*, forthcoming

Both approaches are well suited to support multi-dimensional challenges. One example of such is promoting a just transition to sustainable and climate resilient economies.

▶ **Quality Jobs for a Just Transition**

Social and environmental impacts are deeply intertwined. The link goes in both directions: climate change and climate action policies have an important social dimension, disproportionally affecting the most vulnerable populations. At the same time, social buy-in plays an important role in enabling ambitious climate action.

Financial institutions are facing increasing pressure to reduce the emissions they finance. High-emitting sectors, whose perspectives are negatively impacted by the race to net zero, provide many decent jobs. For instance, the automobile industry provides a significant number of well-paid and highly unionised jobs, where workers' rights are well-protected allowing to limit the number of jobs lost to automation through union action. Other examples of sectors offering well paid, highly unionized but not necessarily healthy or safe jobs could be oil and. As carbon-intensive activities are being scaled down, these sectors will become increasingly stranded, and many jobs may be lost (CISL, 2022). Although green economy sectors can partially absorb the workers amid re-skilling and upskilling, evidence suggests that not all jobs created in green activities are quality jobs (ILO, UNEP, 2008).

Investors need to consider the quality of jobs supported by their investment practices and decisions, in addition to the emissions impact, the sectors in which they exist, and the decarbonization pathways. This is crucial for enabling ambitious climate action and a just transition to sustainable and climate-resilient economies.

Five Strategic Goals of Quality Jobs Investments

Investors can support quality jobs by focusing on one or several aspects of quality jobs at any given time, aligning with the five strategic impact goals:

- Improving earnings and wealth through employment and entrepreneurship
- Improving work skills for the future
- Improving health and well-being across the workforce
- Improving rights, respect and cooperation in the workforce
- Increasing job security and stability for workers in precarious employment

The below summary of Quality Jobs investment strategies is an excerpt from the forthcoming ILO Working Paper *Investing for Quality Jobs*.

Improving earnings and wealth through employment and entrepreneurship

According to recent ILO estimates, 19% of the global workforce is extremely poor (7%) or moderately poor (12%). Globally, low-paid workers are disproportionately female, often young, have low levels of education, and are more likely to be members of disadvantaged groups. The global share of labour income was 49% for those in the top 10% and just 6% for the bottom 50%.

Investments for improving earnings aim to improve income earned from work, including for disadvantaged, excluded, and low-income populations. These investments help to ensure that every person can earn a wage that permits them and their dependents not only to meet their needs but also to build longer-term wealth and prosperity.

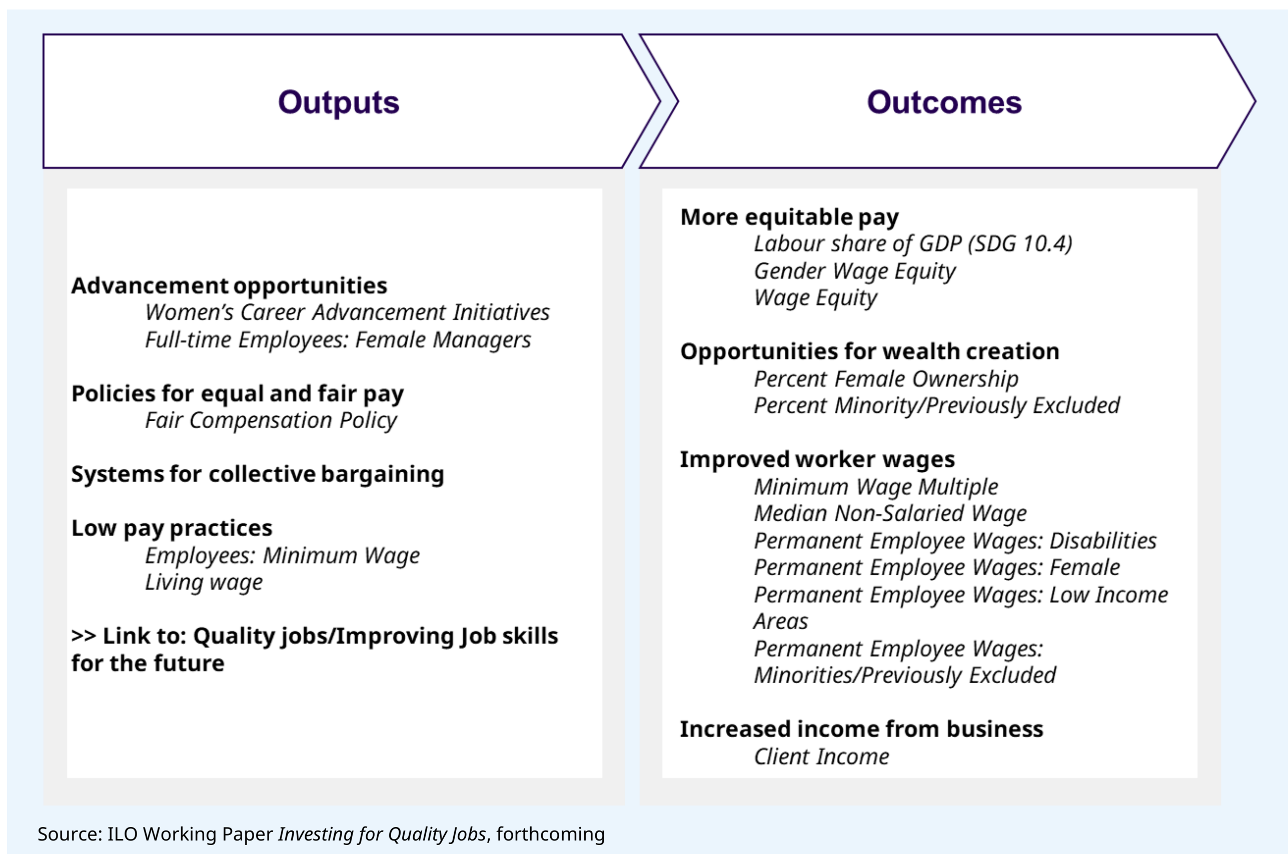
Investments can drive impact within portfolio companies and by supporting products and services that:

- Support measures to improve growth and productivity through mechanisms that directly benefit employees or entrepreneurs, such as performance incentives for workers, mechanisms for worker engagement, access to (new) technologies for entrepreneurs, production of higher-value-added products, and access to new markets;
- Ensure equal pay for work of equal value within the company and its suppliers, through strong human resources policies and procedures displayed in the workplace, worker engagement, equitable pay measures, living wages, and procurement policies;

- Support mechanisms for career advancement, providing opportunities for all workers to develop skills to access new roles; and
- Support mechanisms for savings and wealth creation by workers and entrepreneurs through financial education, employee ownership, profit sharing, retirement plans, savings, and insurance use.

To measure progress towards improving earnings and wealth through employment and entrepreneurship, investors need to select appropriate metrics at both output and outcome level.

▶ **Metrics: Improving earnings and wealth through employment and entrepreneurship**



Source: ILO Working Paper *Investing for Quality Jobs*, forthcoming

Improving work skills for the future

Digitization, automation, and advances in artificial intelligence are already causing changes that disrupt the nature of work. Globally, as many as 375 million workers, or about 14% of the global workforce, may soon need to switch occupational categories and will require retraining and reskilling. Poorly managing transitions related to the future of work risks deepening existing labour market challenges. In developed countries, between 10% and 30% of workers are skills-mismatched—as are 30% to 70% of workers in developing countries.

Investments aligned with improving work skills aim to prepare the current and future workforce for the rapid and evolving changes already taking place in economies and the work that people do. Such efforts include developing the skills needed to harness opportunities from new technologies, as well as those related to shifting to net-zero economies and low-carbon means of production and service delivery.

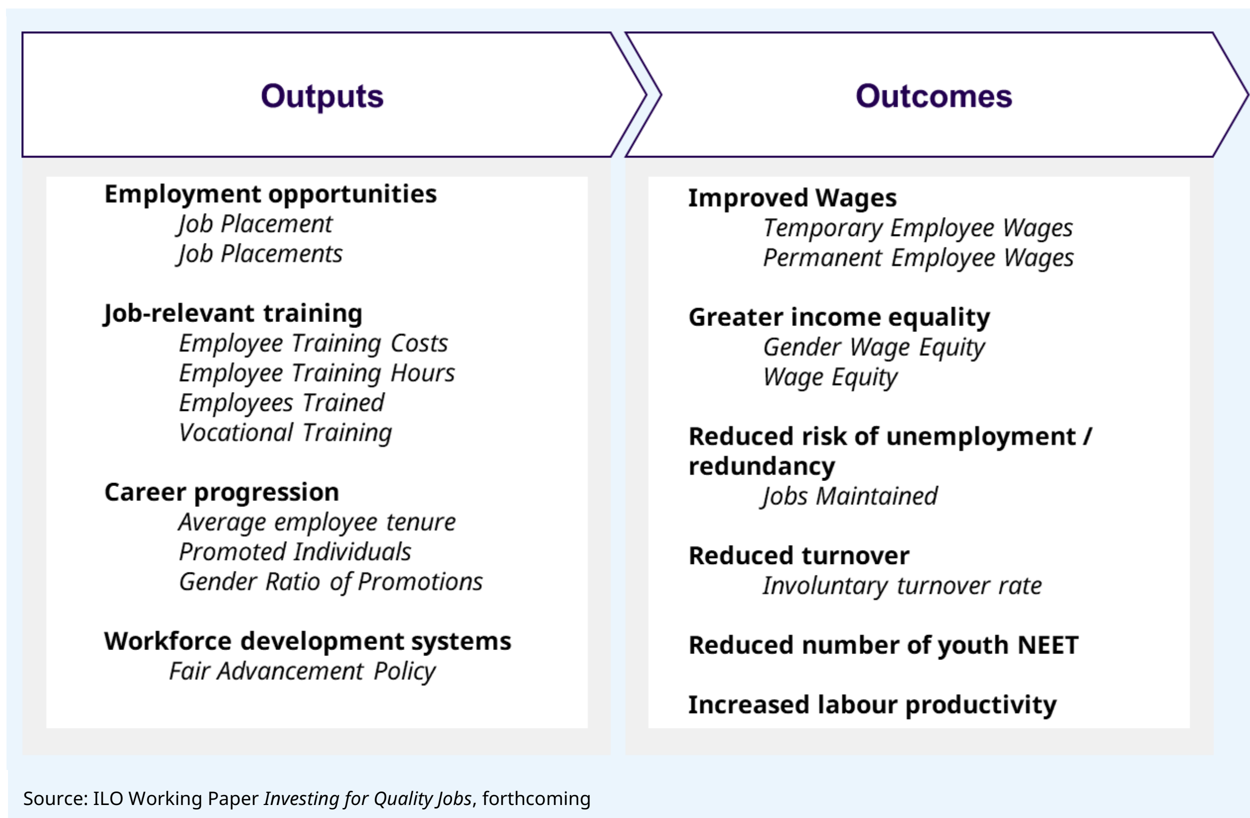
Investments can drive impact within portfolio companies and by supporting products and services that:

- Support opportunities for lifelong learning, while also ensuring that new entrants to the workforce are equipped with relevant job skills;

- Build job-relevant skills (by investing, for example, in professional and vocational education, workforce development, and job reskilling and multi-skilling);
- Facilitate labour mobility and job matching (by investing, for example, in intermediation or employment services);
- Encourage the provision of high-quality, affordable, and innovative training (by investing, for example, in technology-enabled training services and platforms); and
- Ensure that everyone has the opportunity to learn (by investing, for example, in equality and inclusion, lifelong and second-chance education, and entrepreneurial skills development).

To measure progress towards improving skills for the future, investors need to select appropriate metrics at both output and outcome level.

▶ **Metrics: Improving work skills for the future**



Source: ILO Working Paper *Investing for Quality Jobs*, forthcoming

Improving health and well-being across the workforce

In addition to the vast human cost of occupational accidents or work-related diseases, the economic burden of poor occupational safety and health practices reaches an estimated 3.94% of global GDP. Global estimates of mental health and wellbeing are scarce, but work in countries like Canada and the United Kingdom has assessed their impact. A Deloitte study in Canada found that annual direct costs totalled around CAD 50 billion, affecting 500,000 workers per week, and another in the United Kingdom estimated the annual costs around GBP 33 to 42 billion, with around 1,800 employees per 100,000 reporting stress, anxiety, or depression caused or made worse by work.

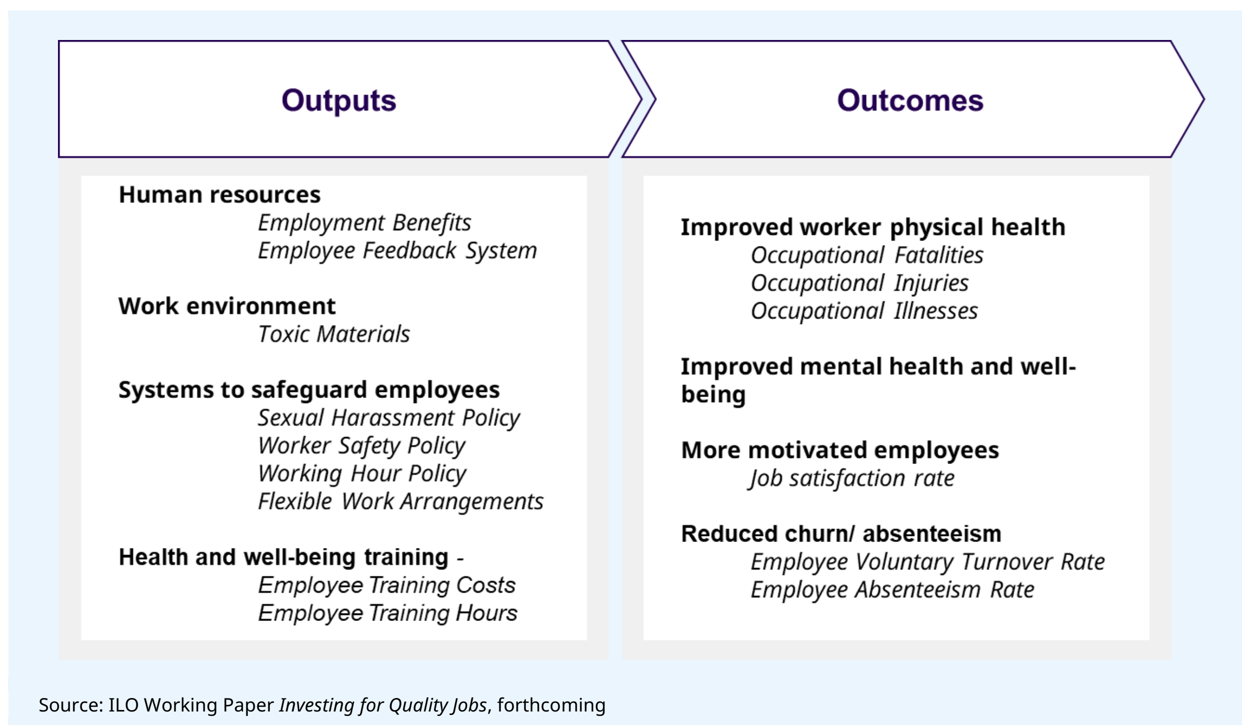
Investments aligned with improving health and well-being aim to improve workplace safety and health, as well as broader physical and mental well-being, among all workers and their families. This may include reactive measures to address workplace stress or gender-specific interventions focusing on areas such as violence at work, as well as proactive measures to improve job fulfilment and promote healthy lifestyles.

Investments can drive impact within portfolio companies and by supporting products and services that:

- Ensure physically safe workplaces (through access to training and proper equipment, mechanisms for worker engagement, renovating infrastructure, and increasing budget allocations);
- Implement measures to eliminate harassment, violence, and bullying (through strong human resources departments, rigorous code of conduct and worker protection policies, safeguarding and zero-tolerance policies, and safe mechanisms for grievances);
- Encourage fulfilling and meaningful work (through mechanisms for worker engagement to provide input on their work activities);
- Mitigate stress and anxiety and support work-life balance (through overtime and working hour policies, parental leave provisions, childcare and elderly care support provisions, and flexible working conditions); and
- Offer access to additional health and well-being services (through benefits and health programs, including those addressing mental health).

To measure progress towards improving health and well-being, investors need to select appropriate metrics at both output and outcome level.

▶ **Metrics: Improving health and well-being across the workforce**



Source: ILO Working Paper *Investing for Quality Jobs*, forthcoming

Improving rights, respect and cooperation in the workplace

Unions have long been ways for workers to organize. However, the global rate of trade union membership declined from 25% in 2000 to 17% in 2017. In many workplaces, workers can still not access a job or are still not rewarded according to merit because of their race, ethnicity, or gender, among other dimensions. Such discrimination not only leads to social and economic disadvantage but also generates unequal outcomes. Over the past quarter century years, the proportion of female managers and leaders has changed little globally, with women holding only 27.1% of those positions. Child and forced labour remain global problems that effect hundreds of millions of individuals and their families.

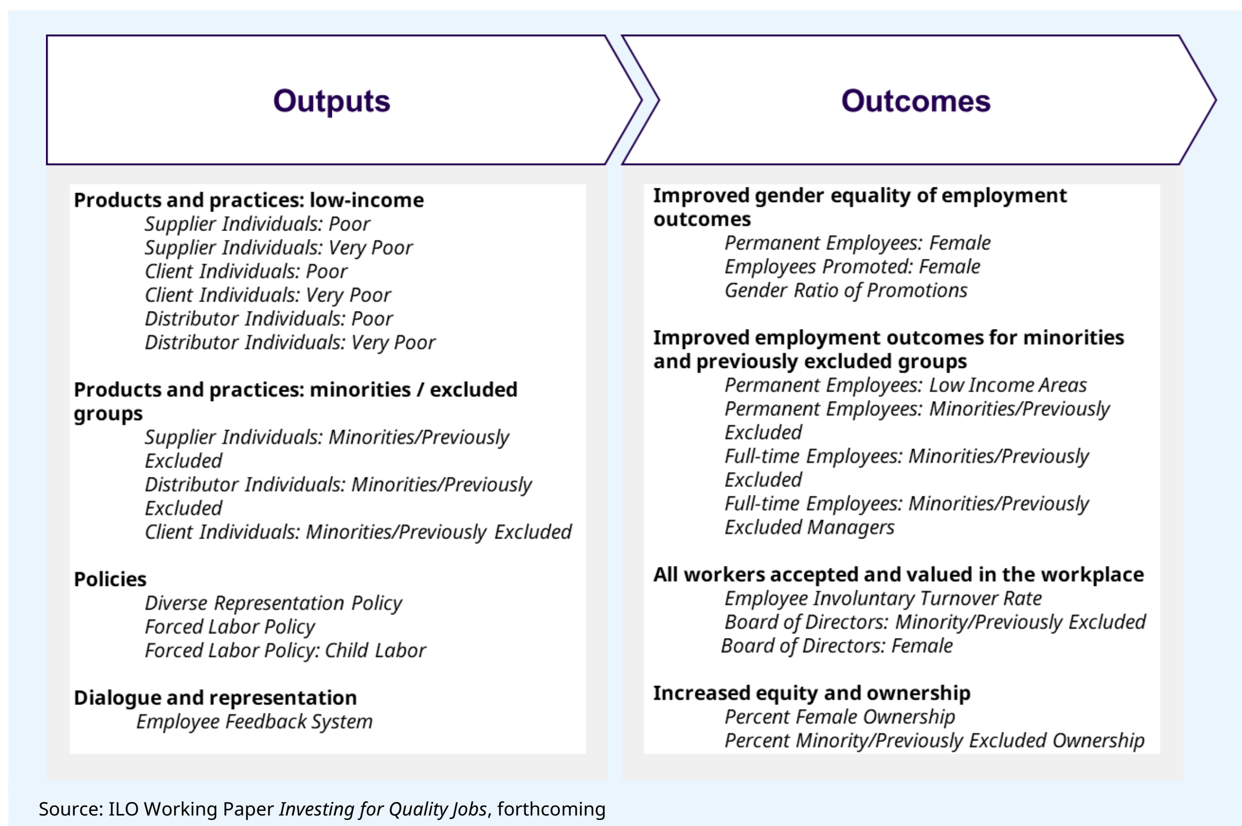
Investments aligned with improving rights aim to improve equity of opportunity and treatment by ensuring that employment opportunities are not restricted on the basis of sex, race, ethnicity, or belief. Investments may also aim to improve mechanisms for engaging workers and giving them 'voice' through effective representation by trade unions and similar organizations, as well as by promoting channels to communicate, raise concerns, and collaboratively find solutions together with management. Finally, investments may also go beyond ESG compliance and risk mitigation to invest in companies that positively contribute to the respect and support of fundamental human rights.

Investments can drive impact within portfolio companies and by supporting products and services that:

- Ensure equitable opportunity for all workers; finding innovative ways to address and improve well-being where the sector or country context presents specific barriers for workers to realise their rights.
- Support measures for deprived communities and disadvantaged groups to progress and advance in their careers, for instance through women's career advancement initiatives or initiatives to attract more minority-owned businesses as suppliers;
- Encouraging management to create spaces for employees to play a greater part in decision-making, for example through mechanisms to meaningfully involve workers in operational and strategic discussions, board representation, and ownership models;
- Supporting measures to actively address the underlying causes of human and labour rights violations in exposed sectors and supply chains, for example by addressing issues of inequality, poverty, or education.

To measure progress towards improving rights, respect and cooperation, investors need to select appropriate metrics at both output and outcome level.

Metrics : Improving rights, respect and cooperation in the workplace



Source: ILO Working Paper *Investing for Quality Jobs*, forthcoming

Increasing job security and stability for workers in precarious employment

Around two billion workers worldwide (61% of those employed) are employed informally and are therefore significantly less likely to have security and stability, especially in terms of enjoying the benefits of social protection systems. In general, informal workers are more likely to live in conditions of poverty. Many workers in the formal economy under nonstandard forms of employment also face precarious working conditions.

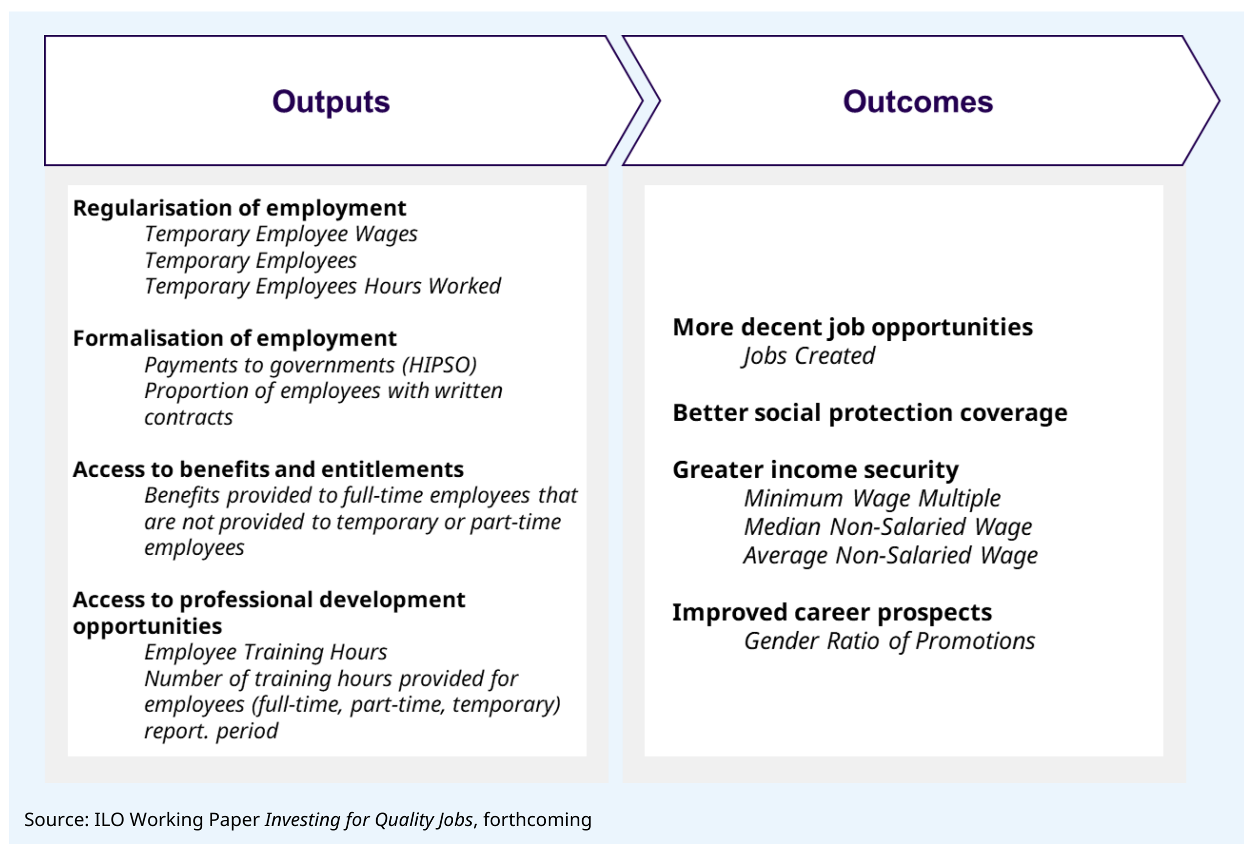
Investments aligned with improving security and stability aim to improve job security and stability for people who work under precarious conditions, including contractors, casual workers, and the self-employed, as well as those in the informal sector, and especially for those facing additional disadvantages as a result of factors such as gender, ethnicity, race, or citizenship.

Investments can drive impact within portfolio companies and by supporting products and services that:

- Catalyse new waged employment opportunities in formal enterprises; with more regularized employment, more predictable hours, and better access to benefits;
- Supporting business models that favour permanent over temporary working arrangements; while balancing companies' need for flexibility based on fluctuations in demand, an important determinant of resilience to economic shocks;
- Address issues related to non-standard and precarious forms of employment that adversely affect already disadvantaged groups;
- Encourage the formalization of sectors and supply chains (for example, by bundling financial services with training on formalization); and
- Ensure the fair treatment of contract, informal, and platform workers (in terms of social benefits, notice periods, workers' voice, fixing fair wages, and minimum working hours per day or week).

To measure progress, investors need to select appropriate metrics at both output and outcome levels.

Metrics: Increasing job security and stability for workers in precarious employment



Source: ILO Working Paper *Investing for Quality Jobs*, forthcoming

Challenges in assessment and measurement of Decent Work

The above example of co-designing quality jobs investment strategies and measurement metrics is the result of a recent collaboration which stands ready to be replicated by interested stakeholders. We deemed it relevant to highlight the example as, despite some level of recognition of social impacts and the willingness to focus on quality jobs outcomes, the sustainable finance market still primarily focusses on environmental objectives. Most asset managers who use ESG factors in their investment analysis continue to concentrate on the "E", or climate change, as their leading criteria for their decisions (BNP Paribas, 2021). Further research by the ILO shows that the economic and social impact of companies' investments and activities on local communities and businesses still receives very little attention (ILO, 2023).

Assessing social factors is challenging due to the breadth, interconnectivity, and complexity of social matters, including labour-related issues; and capacity of real economy actors, particularly the MSMEs to collect and provide data. Additionally, there is a lack of agreement and awareness among market participants on definitions and meaningful measurement methodologies, as well as a lack of standardization of social metrics and related challenges in obtaining relevant, quantifiable, and decision-useful data, increasing the costs associated with it (ILO, 2022).

Another recent article (ILO, 2023) identifies structural, technical and ethical challenges of measuring the decent work performance of companies related to the nature of ESG data, the nature of decent work issues and the investor's angle, including:

- **Insufficient quality** of data in terms of availability, reliability, and comparability. Research has shown that reporting practices differ greatly among companies, both in terms of the quantity and quality of the information. It depends on factors such as company size, profitability and sector and is influenced by institutional country-related factors, including access to freedom of expression and to media. CISL analysis of available data indicates gaps in availability of disaggregated data, e.g. employment by country, contract type, wages, gender; limited disclosure of information on rights of association and unionization, workplace discrimination (CISL, 2022)
- **Difficulties in quantification** of data as decent work-related information is generally reported in a qualitative manner. However, quantitative data sets are perceived by investors as more objective, reliable and efficient for financial decision making.
- **Difficulties in evaluating results** beyond intentions. Formal commitments and policies are often the only available source of information. However, they are unsuitable to measure the concrete implementation. Assessing the outcomes of these policies on working conditions and labour rights remains challenging.
- **Lack of comparability** resulting from the need for contextualization of corporate practices that are shaped by local institutional context, applicable standards and enforcement mechanisms. For example, none of the corporate disclosure frameworks requires disclosure of employees being paid a living wage (CISL, 2022).
- A certain **degree of subjectivity** involved in evaluating decent work, where, in contrast to the environmental dimension, ethical dilemmas seem to be more significant.
- In addition, **investment perspective** imposes investors and ESG rating agencies a certain angle when assessing decent jobs. Where a particular issue is not considered financially material, there is a risk that it would be regarded as irrelevant for investment. However, this does not necessarily mean that the issue is not relevant for decent work.

These challenges highlight the need for a concerted effort by stakeholders to develop and implement standardized, comparable, and meaningful metrics and reporting frameworks for social factors, including decent work. The example of co-creating quality jobs investment strategies as described in section 3 can serve as inspiration to other stakeholders.

▶ 4. Elevating financial sector contribution to SDGs

The road towards realizing sustainable societies and economies is paved with a series of social and environmental challenges that can neither be solved in isolation nor exclusively at the national level. Cooperation at the international level is necessary to support the implementation of actions targeting the whole family of SDGs, including those aiming at climate change mitigation and adaptation measures as well as those that are cross-cutting like decent work. The G20 SFWG provides an excellent forum for advancing this work.

Achieving the SDGs relies on credible national plans and policies. A particular focus should be given to enhancing policy coherence around climate, economic and social objectives, including decent work. Finance is a key facilitating element moving towards these goals.

Public finance alone cannot address the increasing social challenges; private sector finance has an important role to play. Coordination and alignment between these sets of financial flows is important to maximize the impact and achieve policy objectives. Integrated national financing strategies should guide an efficient combination of complementary sources of funding to explicitly address local economic development, environmental, and social priorities. In addition, social impact investing approaches, which focus on creating and supporting quality jobs, can be executed using various types of financial instruments and tailored to fit the objectives and constraints of a wide range of private and public investors.

The priorities of central banks, financial sector supervisors and regulators as well as ministries of finance are driven by multiple factors, including the effects of climate change and resulting climate transition policies, as well as shifting levels of social (in)equality. In response, their interventions and climate transition strategies can play a major role in driving an unprecedented capital reallocation and enable positive environmental outcomes. But that is not sufficient. Consideration should also be given to achieving social outcomes, such as the proliferation of quality employment, as a part of this sustainable transformation.

To promote the achievement of positive environmental and social outcomes, G20 SFWG members could lead an assessment of the socio-economic impacts of their financial sector policies and interventions implemented as a part of their core mandate, as well as when supporting national climate strategies. Following the assessment, material social and economic implications could be better integrated into supervisory, regulatory, planning and budgeting activities.

To support the integration of social aspects, the G20 can serve as a forum for international capacity building and knowledge exchange. Enhancing capacities of public and private financial actors and other relevant stakeholders will enable them to understand relevant social dimensions; adopt minimum compliance and "do no harm" approaches; develop strategies to generate additional positive social impact; and create an enabling environment for mobilizing additional private sector capital.

The financial sector is ready and willing to support the SDGs. Governments can leverage this willingness with an appropriate enabling environment and regulatory frameworks. At a national level, ministries of finance should use their whole-of-economy vision and budgetary function to define national financing strategies that attract SDG-aligned investments from complementary funding sources and create positive social and environmental impact.

Due to the significant influence of decent work in achieving several SDGs, measuring and managing the impact of financing activities on decent work becomes a critical element to consider in investment decisions. Various stakeholders such as civil society, companies, investors, policymakers, and regulators use corporate disclosures to gather information. Therefore, sustainability and integrated disclosure frameworks need to establish a connection between the environmental and social factors, including their interdependencies. In this regard, social and decent work-oriented elements need to be better integrated. In addition, to provide access to meaningful and useful information for decision-making, their coverage should be adjusted to address the existing data challenges and consider the capacity of businesses to comply with the requirements.

To fully exploit the potential presented by private capital mobilization towards the SDGs, it is important to establish a consistent policy and regulatory framework that promotes positive environmental and social outcomes. This includes policies that guide sustainable banking, investment management, and insurance sectors; corporate and financial sector disclosure requirements; national climate change and just transition strategies and associated financing frameworks; and SDG-aligned investment approaches.

It is necessary to further prepare private sector capital providers to allocate assets in accordance with the principles of sustainable development by strengthening their capacities in identifying and managing social risk and opportunities for generating positive impact; and engaging in private-public partnerships for financing sustainable transition as well as approaches and financial instruments targeting positive outcomes.

Positive social impact is the core of the “Leave no one behind” principle, representing the transformative element of the Sustainable Development Agenda. The G20 SFWG's efforts can be instrumental in advocating for the incorporation of positive social impact considerations in financing and investment decisions, thereby enabling the financial sector to effectively support sustainable development.

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