



# Pursuing Climate Justice within Environmental, Social and Governance Investment Frameworks<sup>1</sup>

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## *Climate Justice...*

*works at the intersection of climate change, development and human rights to achieve a people centred, developmental approach to addressing the climate crisis. It recognises that those least responsible for the emissions contributing to climate change are often the most vulnerable to its impacts.*

## **1. Introduction**

Synergies exist between Environmental, Social and Governance (ESG) investment frameworks and the [Principles of Climate Justice](#). The finance sector presides over a large pool of capital that potentially could be steered towards more low carbon, climate resilient activities that are good for people and the planet. While more investors are addressing climate change as part of a broader approach to ESG investing, the notion of climate justice has not yet entered the narrative.

The aim of this paper is to explore how, by incorporating climate justice, the investment community play a pivotal role in achieving a safe future underpinned by shared and durable prosperity.

## **2. The Principles of Climate Justice**

The Mary Robinson Foundation – Climate Justice (“the Foundation”) has developed a set of Principles of Climate Justice that emphasise the importance of considering the social dimensions of managing and responding to the impact of climate change, including:

1. Respect and protect human rights
2. Support the right to development
3. Share benefits and burdens equitably
4. Ensure that decisions on climate change are participatory, transparent and accountable
5. Highlight gender equality and equity
6. Harness the transformative power of education for climate stewardship
7. Use effective partnerships to secure climate justice

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<sup>1</sup> The Mary Robinson Foundation – Climate Justice commissioned Danyelle Guyatt to conduct research to inform this brief.

### **3. Why should an investor consider climate justice?**

The pursuit of climate justice within an ESG investment framework is material and beneficial for institutional investors. This section explores the motivations for investors to develop and adopt ESG frameworks that are consistent with climate justice.

#### **Fiduciary duty and climate justice**

Investment institutions are bound by a fiduciary duty. There are emerging legal opinions that it is the process of information gathering and deliberation that is critical to satisfying the duty of due care and diligence<sup>2</sup>. Engaging with policy makers, companies, fund managers, collaborating with other industry participants and investing in attractive opportunities that seek to mitigate and adapt to climate change in a way that also strengthens climate justice outcomes, are actions that are completely consistent with the legal opinion in regard to an investor's fiduciary duty; as these are actions of an engaged and active investor that seeks to positively improve the behaviour and outcomes of policy makers and investee companies through its influence as an investor.

#### **Intergenerational equity and climate justice**

The concept of intergenerational equity requires present generations to protect the interests of future generations. In doing so present generations recognise that their actions today, if not taken with a sufficiently long term view, risk inhibiting the rights of future generations. This is central to the pursuit of sustainable development and climate justice requires that we realise the human rights and development needs of present generations while safeguarding the rights of future generations. Pension funds make explicit reference to intergenerational equity and the need to provide a level of equality between beneficiaries that have different expected retirement dates. Investors that consider the intergenerational dimension of their function will seek to ensure that portfolio value is sustained for current and future generations of beneficiaries and that decisions focus on planning ahead.

#### **Universal Ownership and climate justice**

Universal ownership has become widely referenced by investors as a rationale for taking ESG factors into account because a universal owner has exposure to a broad cross-section of the economy and that its investment returns will be affected by the positive and negative externalities generated by the entities in which the universal owner invests. There is a clear link between the universal owner hypothesis and the Principles of Climate Justice, as there will be positive externalities from mitigating and adapting to climate change in a way that benefits everyone, especially those less equipped to manage, respond and prepare for its effects, in addition to benefiting universal owners.

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<sup>2</sup> See for example Freshfields Bruckhaus Deringer, A legal framework for the integration of environmental, social and governance issues into institutional investment, October 2005. More recently the Australian law firm Minter Ellison noted that the process of information gathering and deliberation of climate change is critical to satisfying the duty of due care and diligence. As an illustration of the link between climate change and fiduciary duty it referenced the action that Client Earth is launching against the trustees of a UK pension fund for failing in its duty to consider climate change as a material financial issue, <http://www.minterellison.com/publications/articles/Institutional-investment-corporate-governance-and-climate-change-what-is-a-trustee-to-do/>

## Values of constituents and climate justice

Averting climate change is a priority for a significant and increasing constituent base. There is also a growing awareness of the need to ensure that investments do not undermine or contravene human rights. With this awareness comes a greater demand for investment products that align with the Principles of Climate Justice. Investors that take the lead in pioneering the integration of climate justice into their ESG frameworks will be best able to respond to the needs of these constituents.

## Sustainable development and climate justice

The 2030 Agenda for Sustainable Development, adopted by 193 members of the United Nations General Assembly in September 2015, represents a convergence between the global response to climate change, stimulating sustainable development and protecting human rights. The Sustainable Development Goals that underpin the new agenda brings with it opportunities and challenges for the investment community. Delivering on these goals will require unprecedented engagement with the private sector and institutional investors specifically. However, the goals will require the drafting of policies that may undermine traditional ways of operating. The enabling policy environment that will be created to facilitate the goals will be geared towards companies with the ability to make a positive contribution to the lives of people they affect and this will directly impact on its social licence to operate and its reputation amongst policy makers, customers and other stakeholders. There are already leaders emerging, such as the 183 institutional investors<sup>3</sup> representing US\$20.7 trillion in assets under management that have committed to mitigate and adapt to climate change as part of the We Mean Business coalition. Other related networks such as the UN Global Compact has over 12,000 signatories from 170 countries that have made a commitment to assess, define, implement, measure and communicate a sustainability strategy.

## The Paris Agreement and climate justice

In 2015 world leaders agreed the Paris Agreement on Climate Change – a global commitment to hold the increase in the global average temperature to well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels. Realising the ambition of this agreement requires concerted action from all stakeholders, including the investment community.

The global economy is highly interdependent, meaning that adverse impacts of climate change on one part of the world economy will have a negative ripple effect through the whole economic system. A response to climate change that fails to consider the implications for human rights, equity and equality would not only be very harmful to the people directly affected, but would also be damaging for long-term global growth and investment returns<sup>4</sup>. Research also suggests that this can be avoided through coordinated action, as countries at all levels of income can have better economic growth and a better climate if these issues are adequately addressed, with all sectors and regions of the global economy having a role to play in facilitating this outcome<sup>5</sup>.

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<sup>3</sup> As of June 2016

<sup>4</sup> See for example: <http://www.worldbank.org/en/topic/sustainabledevelopment/overview>; <https://www.imf.org/external/pubs/ft/fandd/2012/09/pdf/dervis.pdf>

<sup>5</sup> See for example Stern (2006) and more recently the New Climate Economy: <http://www.newclimateeconomy.report>

## Financial stability and climate justice

The interconnectedness of the global economic system is also evident in the financial flows that take place between developed and developing economies through investments in financial assets as well as in real assets.<sup>6</sup> Financial dislocation in some developing economies as a result of climate change would have a knock-on impact to the wider financial system and cause instability as a result of widespread loss of life, movement and relocation of people, loss of income, adverse health effects, reduced access to food and security, loss of property and infrastructure.<sup>7</sup>

## 4. Possible indicators of climate justice

The realisation of climate justice through ESG frameworks requires taking a holistic approach to designing and applying ESG criteria. It is important not just to realise good environmental, social and governance dimensions to investments, but also to understand how these aspects interrelate. As Figure 1 highlights, there is overlap between ESG criteria and Principles of Climate Justice in many of the existing ESG metrics.

**Figure 1. Climate Justice Principles and ESG criteria – Overlap and Gaps**

Environmental criteria	Human rights	Development	Equity	Transparency	Equality	Education	Partnerships
Total Co2			•	•		•	
GHG emission			•	•		•	
Energy efficiency		•	•		•	•	•
Renewable energy usage		•	•	•	•	•	
Climate change mitigation plans	•	•	•	•	•	•	•
Climate change adaptation plans	•	•	•	•	•	•	•
Water usage	•	•		•		•	
Water pollution	•	•		•			
Total waste output				•			
Hazardous waste disposal	•			•		•	
Impact on air quality	•	•		•			
Toxic chemical use and disposal	•	•		•		•	

Social criteria	Human rights	Development	Equity	Transparency	Equality	Education	Partnerships
Community relations management	•	•	•	•	•	•	•
Supply chain risk management	•	•	•	•	•	•	
Child, slave and bonded labour	•			•			
Workplace health and safety	•	•		•			

<sup>6</sup> See for example research by the ECB (2007) “The Transmission of Emerging Market Shocks to Global Equity Markets” working paper series no.724

<sup>7</sup> This could also manifest as the unintended consequences of climate policy actions, such as we saw in the mid 2000s with biofuel policies in the US causing extreme upward pressure on some food and commodity prices that adversely impacted on the most disadvantaged segments of the global economy.

Freedom of association/expression	•	•		•	•		
Diversity (gender and ethnicity)	•	•		•	•		
Discrimination				•	•		•
Corruption and bribery	•			•			
Health impacts	•	•		•			
Political contributions		•	•	•			

Governance criteria	Human rights	Development	Equity	Transparency	Equality	Education	Partnerships
Board diversity					•		
Women on boards					•		
Women in management					•		
Investment in sustainability		•		•		•	•
Stakeholder interaction	•	•		•	•	•	•

Source: Compiled by Danyelle Guyatt from various sources including the PRI Reporting Framework (2013) Main Definitions; The European Federation of Financial Analysts Societies (EFFAS): KPIs for ESG - A Guideline for the Integration of ESG into Financial Analysis and Corporate Valuation version 3.0; The CFA Institute: Environmental, Social and Governance Factors at Listed Companies - A Manual for Investors; and CDP, GRI and SASB disclosure and reporting framework public guidance documents, various (by industry); the World Federation of Exchange guidance paper for ESG disclosure (2015) <http://www.world-exchanges.org/home/index.php/news/world-exchange-news/world-exchanges-agree-enhanced-sustainability-guidance>. The addition climate justice indicators have drawn from Mary Robinson Foundation, various reports on climate justice, <http://www.mrfcj.org/principles-of-climate-justice/>; and IFC Environmental and Social Performance Standards.

In addition to the existing suite of measures, the following additional criteria are proposed to capture key climate justice concerns.

**Figure 2. Additional Criteria to Address Climate Justice Principles**

**Additional climate justice criteria	Human rights	Development	Equity	Transparency	Equality	Education	Partnerships
Climate change knowledge building and sharing		•	•			•	
Partnerships that create access to opportunities		•	•				•
Engagement and accountability	•	•	•	•	•	•	•

The additional suggested criteria specific to climate justice principles to close some of the gaps within existing ESG criteria include:

- **Climate change knowledge building and sharing (by country):** Evidence of specific projects, initiatives or activities that directly or indirectly contribute to sharing knowledge on green technologies, mitigation and adaptation solutions that build local capacity in developing economies. This would address the climate justice goals to harness the transformative power of education and supporting the right to development.

- **Partnerships that create access to opportunities:** Evidence of participation in partnerships that respect and enhance the interests of local communities in projects that relate to green assets or initiatives. This might include partnerships with MDBs and IFIs, local community agencies, domestic and international investors and public sector authorities on projects and initiatives that relate to building expertise and capacity in green energy solutions, energy efficiency measures and building infrastructure that is more climate resilient.
- **Engagement and accountability:** Evidence of business activities, investments and/or expansion plans in green assets or initiatives that are open, transparent and actively encourage and seek participation from local community groups to ensure that their views are heard, respected and their needs are met. This will include producing evidence of community consultation and participation in the early planning processes, rather than responding to concerns once a ‘deal has been done’.

Given the qualitative nature of the climate justice issues, an initial assessment and application of these additional criteria is more likely to come about through direct inquiry with companies, either through surveys, meetings or through including climate justice into existing ESG databases<sup>8</sup>.

## 5. How could climate justice be integrated into ESG investment frameworks?

This section presents some examples of how climate justice might be reflected within an ESG investment framework including how it might fit into investment beliefs; investment policies; investment processes; and investor reporting frameworks.



<sup>8</sup> For example, MSCI ESG Research, Sustainalytics, EIRIS, GS Sustain, South Pole, Trucost, Bloomberg, ET Index, INRATE, Ecofys, KLD, to name a few.

## A. Climate justice and investment beliefs

Starting with investment beliefs, an investment institution could undertake a review of the Principles of Climate Justice and evaluate its own position on these issues. This might include engagement and/or reflection of the beliefs of its underlying members and beneficiaries, as well as the existing strength of beliefs and policies that prevail on climate change as well as social issues such as human rights, community engagement and gender equality. After considering these issues, an institution would be in a better position to make reference to climate justice as part of its approach to ESG investing. For illustrative purposes, some examples are provided below as to what such a statement might look like for investors that have differing strength of beliefs with respect to climate justice.

### Examples of strength of beliefs with respect to climate justice

Basic	Moderate	Strong
The Fund believes that it is the role of the public sector to address issues of sustainable development, human rights, equity and diversity when responding to climate change, and it will support policy makers to take the necessary actions to achieve this.	The Fund believes that it is primarily the role of policy makers to address issues of sustainable development, human rights, equity and diversity when responding to climate change, but that businesses and investors also have a role to play in this process and the Fund will consider its approach and any possible actions it might take on a case-by-case basis.	The Fund believes that it is the role of policy makers, businesses and investors to address issues of sustainable development, human rights, equity and diversity when responding to climate change and the Fund will seek to positively contribute to achieving this through its investment and engagement activities in collaboration with others

## B. Climate justice and investment policies

The next step for an investor would be to translate these investment beliefs into investment policies. Some examples are provided below to illustrate what additional content could be added to an investment or ESG policy to reflect climate justice.

### Examples of policy statements with reference to climate justice

Basic	Moderate	Strong
As part of its engagement on climate change, the Fund may also raise climate justice issues with policy makers to understand how this is being addressed as part of their climate change and sustainable development policies.	As part of its engagement on climate change issues, the Fund may also raise climate justice issues with policy makers, investee companies and external managers to understand how sustainable development, human rights, equity and diversity issues are being considered.	As part of its engagement on climate change issues, the Fund will also raise climate justice issues with policy makers, investee companies and external managers and encourage them to address sustainable development, human rights, equity and diversity issues as part of their core functions and processes.

### C. Climate justice, investment processes and reporting

Depending on the outcomes of the previous assessment, investors have a range of tools or options to help them realise and implement their beliefs and policies that reflect their position on climate justice. The following categories describe different levels of integration of climate justice that an investor could choose to pursue.

- i. Basic – The type of actions that this investor is likely to take would be limited but it could include for example making reference to climate justice issues in their correspondence or interactions with policy makers on climate change policy. This is most likely to be done through one of the collaborative investor groups on climate change.
- ii. Moderate – The type of actions that this investor could take will place an emphasis on engagement not only with policy makers as above, but also with companies and fund managers.
  - a. They may engage with fund managers to encourage them to consider climate justice as part of their ESG integration activities, particularly in developing country investment mandates and mandates with supply chain exposure to emerging economies
  - b. They may engage with companies to encourage them to adhere to the UN Guiding Principles on Business and Human Rights, the UN Global Compact, in particular
  - c. Encouraging them to improve their transparency around reporting on how their operations can support actions that support sustainable development, gender equality and the protection of human rights
  - d. They may also consider the introduction of additional ESG criteria to reflect climate justice principles in the future
- iii. Strong – The actions that this type of investor could take include engagement with policy makers, companies and fund managers as described above, but in addition to those activities they may also consider:
  - a. Integrating climate justice into the ESG investment criteria
  - b. Actively encourage companies to report their activities as they relate to climate justice to improve the transparency and reliability of information
  - c. Divesting from companies that act contrary to the Principles of Climate Justice or have demonstrated blatant disregard for the human rights and equity impact of their operations in emerging economies
  - d. Investing in opportunities that will help to strengthen the capacity of emerging market communities to mitigate and adapt to climate change, including through collaboration with local and international governments, international finance institutions (IFIs) and multilateral development banks (MDBs)
  - e. Including climate justice considerations in the way the investment institution reports on its activities with respect to climate change and ESG investing more broadly. This will include carbon footprinting, low carbon energy efficient investments, and engagement activities and outcomes with policy makers, fund managers and companies on climate change



## 6. Conclusion

On setting out a strategy to progressively integrate climate justice into ESG frameworks, the following considerations can help guide initial discussions.

### **Possible messages that investors could convey to policy makers about climate justice:**

One or all of the following statements could be included into an investor's communication with policy makers on climate change policy issues:

- We support policy action that responds to climate change in a way that is fair, equitable and respects the human rights and right to development for developing economies.
- We support climate policy that stimulates mitigation and adaptation capital flows into developing economies.
- We support knowledge building, information sharing and partnerships to encourage the development and adoption of green technologies and solutions in developing economies.

### **Possible questions that investors could ask companies about climate justice:**

Investors that pursue ESG investing and who invest in companies either through passive or active mandates could ask companies one or all of the following questions as part of their engagement activities:

- Do you publish a climate change strategy or policy?
- Do you publish a human rights policy?
- Do you adhere to the UN Guiding Principles on Human Rights and the UN Global Compact? If yes, can you explain how these relate to the activities of your company in developing economies and its future plans?
- Do you have a community engagement and knowledge-sharing program when operating in developing economies?
- Are you involved in any green projects or initiatives in developing economies? If yes, can you provide details including the procurement process and project outcomes?

### **Possible questions that investors could ask fund managers about climate justice:**

Asset owners that pursue ESG investing and who manage part, or all, of their assets externally could ask their fund managers one or all of the following:

- Do you have a policy on climate change? If not, can you define your position and how it relates to your investment process and activities?
- Does your investment policy include social issues such as human rights, gender equality and right to development in developing economies?
- Do you utilize third party ESG data and if so, can you explain the extent to which climate change and social issues are considered?
- Are you aware of the UN Guiding Principles on Human Rights, the UN Global Compact and the Sustainable Development Goals? If yes, can you explain how these relate to your investment process and approach to ESG investing?

Business-as-usual has delivered a world threatened by climate change and marked by stark and increasing inequality. The Paris Agreement on Climate Change and the 2030 Agenda for Sustainable Development concluded by world leaders in 2015 are an effort to address these crises. All stakeholders have a role to play in the implementation of both global agendas. Integrating climate justice into their ESG investment frameworks can help institutional investors advance progress towards the realisation of these two agendas and deliver a fairer and safer future for current and future generations.