

An Analysis and Study of the ESG Indicator Systems of Development Cooperation Agencies

ESG, having long been discussed as a means to achieving sustainability goals, has become an important strategy of the business management all around the globe. With countries mandating ESG disclosures and the ESG investment market expanding, there is now a strong need for an ESG ecosystem. The development of evaluation systems and guidelines related to ESG is expanding due to a combination of the spread of ESG concepts in response to international consensus and demand, the willingness and efforts of companies and public institutions to implement them, and attempts to objectively verify the level of goal achievement and implementation status. As good as they may sound, in practice, the myriad ESG evaluation systems across countries are more of a burden and confusion than a systematic support for many businesses. A similar trend is observed in the public sector. These days, the governments expect public institutions to play a leading role in ESG management as the main actors in realizing government policies and social value with ESG-related factors being increasingly reflected in management evaluation of public institutions. However, unlike the private sector, public institutions are already subject to management evaluations by the government and have relatively little connection to the market with few investment opportunities. Naturally, public institutions experience greater difficulty and confusion about how to practice and respond to ESG management than the private sector. Therefore, it is particularly necessary to analyze and develop ESG evaluation indicators customized for development cooperation agencies by taking into account the characteristics of public institutions and the concentration of their activities in developing countries.

There are currently a number of globally accepted ESG-related initiatives, including rating systems and guidelines. These initiatives can be divided into three categories: Execution, Reporting, and Evaluation, depending on (1) the purpose and nature of the initiative and (2) how the company is applying the initiative. The Execution category includes ISO 26000, UN SDGs, UNEP FI, and K-ESG guidelines, the Reporting category includes the GRI, ISSB, TCFD, and

SASB, while the Evaluation category includes the DJSI, MSCI, CDP, KCGS, Sustainvest.

Of the above, this study reviews DJSI and MSCI (foreign ESG rating systems) and GRI and ESRS (information disclosure systems), the World Bank (rates ESG performance at the national level), KCGS and Sustainvest (Korean ESG rating systems), and K-ESG (Korean ESG guidelines). These rating systems put great emphasis on corporate risk management, apply different weights based on key issues, and require disclosure of environmental, social, and governance issues in detail. To derive ESG management indicators applicable for development cooperation agencies, this study synthesized and analyzed 128 diagnostic components from domestic and international rating systems. Economic and governance indicators were organized into 6 categories with a total of 35 diagnostic components, environmental indicators into 12 categories with a total of 51 diagnostic components, and social indicators into 8 categories with a total of 43 diagnostic components. Through typological analysis, domestic and international specific indicators and common indicators were derived according to their frequency of use, which allowed to identify the important components of each rating system.

Considering that KOICA is a domestic public institution and a development cooperation agency at the same time, the study reviews cases of domestic public institutions - KOTRA (Korea Trade-Investment Promotion Agency), KOFIH (Korea Foundation for International Healthcare) and the foreign aid organizations - AFD (Agence Française de Développement) and DFAT (Department of Foreign Affairs and Trade). KOTRA plays a role in connecting domestic and foreign companies and markets mainly, and now expands its role serving as an ESG platform by considering ESG when selecting companies to support and by supporting companies to strengthen their ESG capabilities. KOFIH works to strengthen health care around the world, and is transforming its core business to take ESG into account, as shown by its Green ODA initiative. Public institutions in Korea have established ESG management strategies and organizational systems to respond to external demands and management evaluations, and are spreading their ESG management into organizational management perspective upon reflecting its own unique characteristics.

Meanwhile, AFD and DFAT have integrated ESG into their business operations. AFD focuses on social contribution, community development, and environmental issues towards achieving the UN SDGs, whereas DFAT's activities are more aligned with its existing management strategy and related to addressing climate change and protecting and enhancing human rights. The development projects and programs of AFD and DFAT linked to ESG mainly involve environmental

biodiversity, climate change, water management, social security, human rights, and community development. In sum, domestic public institutions approach ESG from the perspective of institutional management, while foreign aid agencies consider ESG management within their projects and programs.

As KOICA is a unique case in that it is a domestic public institution and mainly operates development projects in developing countries, KOICA's ESG implementation requires a complex review from a variety of perspectives. KOICA has included achievement of the SDGs in its mission statement and established an ESG management strategy with indicators to monitor its implementation. The ESG indicators examined in this study, including cases of other domestic public institutions and foreign aid agencies, show that KOICA generally places considerable emphasis on organizational and operational aspects, and therefore, it is important to ensure that KOICA's development projects and programs are reflected in its ESG assessment. In conclusion, monitoring of ESG implementation should include evaluation of the organization's operations, ESG implementation through development cooperation projects, as well as its contribution to raising ESG awareness among participants and the diffusion of ESG with gradual advancement of the monitoring indicators.