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Conceptual Foundations

Understanding relationships between
business, finance, people and inequality

TISFD

TASKFORCE ON INEQUALITY
and SOCIAL-RELATED
FINANCIAL DISCLOSURES

A discussion paper



About TISFD

In September 2024, a global multi-stakeholder group of businesses, financial institutions, civil society and labour organisations established the Taskforce on Inequality and Social-related Financial Disclosures (TISFD) to advance the integration of inequality and social-related issues into sustainability and financial disclosures, recognising these dimensions as relevant to long-term value, resilience and macroeconomic stability.

Embedding information on people into sustainability and financial reporting gives stakeholders insights into how businesses affect individuals and communities, and how these efforts link to corporate strategy, governance and risk management.

Companies and financial institutions that integrate social factors and inequalities into their decision-making are better equipped to sustain their labour force, increase innovation and productivity, maintain strong relationships with communities and consumers, and safeguard the resilience of businesses and investment portfolios. In doing so, they contribute to enhanced human and economic well-being, stronger economies and greater prosperity for all.

Various frameworks and standards address the multifaceted relationships between business and people, yet they do so with different aims and emphasis, and there is no cohesive approach that captures the highly interdependent nature of business and people. Nor is there a common understanding of how cumulative impacts, including those that drive inequalities, generate system-level risks.

These gaps are compounded by a limited understanding of how information about impacts on people and inequality can be financially material at both the entity- and system-level. The proliferation of disclosure standards without an integrated framework increases the burden on companies, while inconsistent and non-comparable indicators hinder effective decision-making.

TISFD was established with the aim to address these barriers. Its objectives include building a common model and language for describing relationships between business, finance, people and society; building evidence of financial materiality for businesses and investors of inequality and social-related impacts and dependencies; developing a market-usable and globally relevant framework, including conceptual foundations, core disclosures and recommendations on metrics and indicators; and enabling the framework's broad adoption. The Taskforce's work will support convergence in reporting standards and build on existing international standards of business conduct.

TISFD's work is governed by its multi-stakeholder Steering Committee, overseen by its four Co-Chairs. In line with its governance principles of inclusivity, co-creation, effective and efficient decision-making, continuous learning and improvement, and transparency, the Taskforce seeks to enable meaningful engagement with stakeholders while delivering on its mission.

Learn more about TISFD's work at tisfd.org.

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About this document

TISFD's Conceptual Foundations aim to offer definitions and explain key concepts to clarify the complex interactions between people, businesses and financial institutions, including their connections to climate and nature.

The Conceptual Foundations are intended as a frame of reference for the Taskforce's future work to develop recommendations on disclosures, including metrics and targets. They are also intended, along with future accompanying guidance, to support businesses and financial institutions in their identification and assessment of impacts and dependencies on people, along with associated financial risks and opportunities.

This discussion paper represents the first step towards delivering on the recommendations that were made by TISFD's Founding Partners in the Proposed Technical Scope. This includes the recommendation to take an integrated and coherent approach to social issues and inequalities that builds on and incorporates existing frameworks, such as human rights, well-being, and human and social capital, and that clarifies the relationships between them.

TISFD's Conceptual Foundations aim to describe the interactions between people, businesses and financial institutions with a view to support consideration of different types of materiality, including impact materiality and financial materiality, and how a consideration of system-level risks may influence materiality in the context of the disclosure framework. This document does not, however, directly address materiality, which will be the subject of further work by TISFD.

The primary purpose of this paper is to serve as the basis for discussion with the Taskforce's engagement groups (Regional Councils, Alliance and Knowledge Partners). Our Conceptual Foundations will be updated based on the feedback we receive.

The Taskforce will also undertake further research, including on evidence about the pathways by which businesses and financial institutions affect inequalities and the state of people, and the materiality of those impacts to businesses and financial institutions.

An updated version of our Conceptual Foundations will form a core part of TISFD's Disclosure Framework, a first "beta" version of which will be published in 2026 and then opened to public consultation and iterative development.

For now, we are also making this document available on our website to foster transparency about our work.

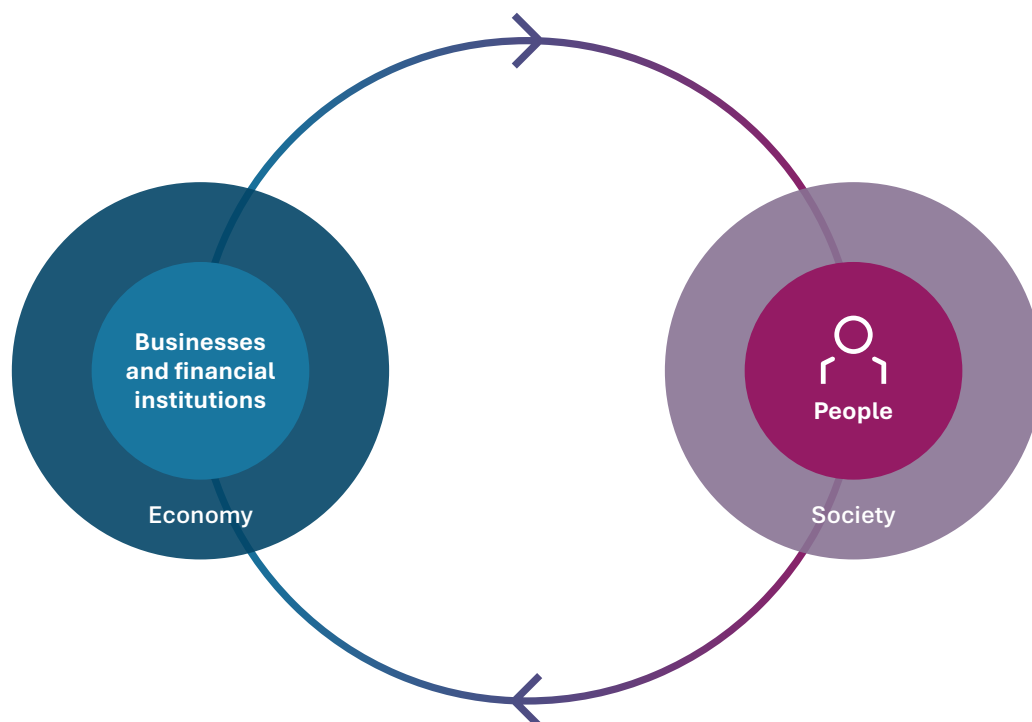
This document, prepared by the TISFD Secretariat's Technical Team and overseen by the Taskforce's Steering Committee, was developed with the support of a Technical Working Group. This group, comprised of 21 individuals, was selected following an open call for applications from businesses, the financial sector, labour organisations and civil society groups from diverse geographies, with expertise in the interactions between business, finance, people and society, including inequalities. A list of Technical Working Group members is included in Annex I. It was also informed by initial feedback from TISFD's Engagement Groups, including the Regional Councils and Knowledge Partners. Details of these groups can be found on TISFD's website.

Introduction

Businesses and financial institutions are inherently dependent on people. Human capital drives 60 percent of the world's wealth.¹ Businesses and financial institutions¹ rely on a healthy and thriving workforce to succeed. They rely on a prosperous consumer base to grow. And they rely on the trust they build with their workers, consumers, communities and business partners to operate. More fundamentally, sustained economic prosperity depends on a stable and cohesive society.

At the same time, businesses and financial institutions play a major role in shaping the state of people and inequalities—for better or worse. Decisions on, for example, wages and investment, supply chain practices, and engagement with local communities have major impacts on the state of people and have the potential to cause, exacerbate or mitigate inequalities. Business interactions with public institutions, via tax contributions or lobbying, can enhance or undermine the capacity of governments to improve the state of people. Through anti-competitive practices, entities can undermine business dynamism, adding to the concentration of wealth. But as vehicles for human activity and catalysts of innovation, businesses have the potential to advance the state of people and help mitigate inequalities.

Figure 1. The dynamic relationship between businesses, financial institutions and people



¹ The term “Financial Institutions” will be used in this document to refer to the broad set of organisations engaged in financial services, including the allocation and management of capital. This includes banks, asset managers, asset owners, insurance companies, sovereign wealth funds, private equity firms, and other institutional providers of capital. When the context requires, the term “providers of capital” will be used to include individual asset owners.

These dependencies and impacts on people can give rise to financial risks and opportunities for businesses and financial institutions. Respecting people's rights, advancing their well-being, and reducing inequalities can unlock human potential and lead to distinct opportunities for value creation through greater talent retention, enhanced creativity and innovation and productivity.^{II} At the same time, adverse impacts on people and inequalities can present material operational, reputational and legal risks such as loss of talent, loss of a license to operate, or lawsuits from injured parties.^{III} These risks carry financial consequences for business and financial institutions in the form of low productivity, operational disruptions, litigation costs or lost revenues.^{IV}

The situation of people in the global economy today is alarming. Hundreds of millions endure exploitative and unsafe working conditions,^V with over 50 million trapped in modern slavery.^{VI} Globally, about 60 percent of workers are currently operating in informal employment,^{VII} 58 percent of workers report to be struggling in life,^{VIII} and only 17 percent of employees belong to a trade union, leaving 83 percent unrepresented.^{IX} More than half a billion people still live in extreme poverty,^X and as many as 3 billion struggle to afford a place to live, with over one billion living in informal settlements without basic services.^{XI} The unsustainable use and pollution of water, soil, air and other natural resources threaten communities worldwide. Roughly half of the world's population experiences severe water scarcity for at least part of the year,^{XII} while air pollution constitutes the second leading risk factor for death globally.^{XIII} Indigenous Peoples also face escalating threats to their land, rights and cultural survival.^{XIV} At this point, only 17 percent of the Sustainable Development Goals (SDGs) are on track for 2030.^{XV} While these are only illustrative examples, they reveal the scale and urgency of today's global challenges.

The challenges people face both stem from and feed into persistent inequalities. Income and wealth disparities have reached critical levels: the top 10 percent own 76 percent of global wealth,^{XVI} the bottom 10 percent earn only 0.5 percent of total global wages,^{XVII} and more than one billion workers still earn less than a living wage.^{XVIII} In a 2021 survey across 25 countries worldwide, 71 percent of people said their country's system is rigged to benefit the rich and powerful.^{XIX} These disparities are mirrored in gaps across gender, race and ethnicity, and disability status.^{XX} Globally, women earn about 20 percent less than men^{XXI} and, in many countries, disadvantaged ethnic and racial groups earn less than others, with reduced opportunities for quality jobs and education.^{XXII} While some convergence between countries has occurred in recent decades, disparities between geographic regions remain stark. For example, Africa—with 19 percent of the world's population—holds just 1.3 percent of global household wealth, compared to 34.1 percent in North America, 22.9 percent in Europe and 18.4 percent in China.^{XXIII}

These inequalities contribute to system-level risks that threaten long-term economic growth and financial stability.^{xxiv} Extreme disparities between people erode social cohesion and trust, weaken the institutions businesses depend on, and give rise to societal stability risk.^{xxv} Inequalities can also constrain aggregate consumer demand, as the wealthy spend proportionately less of their wealth, and suppress aggregate productivity, resulting in macroeconomic risk.^{xxvi} Similarly, wealth concentration can drive imbalances in credit markets as lower-income households may rely on debt to maintain consumption, while households with accumulated savings may engage in increased risk-taking. This dynamic can heighten vulnerabilities in the financial system and raise the risk of credit crises that can undermine its overall stability and resilience.^{xxvii} Those patterns are of critical concern to diversified investors, macro-prudential regulators and policy makers.

The system-level risks of inequality are heightened in the face of climate change and nature loss. Climate change and nature loss disproportionately harm those already facing poverty, exclusion and poor working conditions, deepening inequality and vulnerability.^{xxviii} Adaptation costs hit vulnerable populations and low- and middle-income economies hardest. When governments absorb these costs, it can put pressure on public budgets, debt and inflation, contributing to systemic risks.^{xxix} The green transition cannot succeed, nor can its opportunities be realised, if it harms people or its costs and benefits are not proportionally shared by all.

While inequalities are shaped by historical, social and cultural factors, and governments bear an important responsibility for upholding rights and providing public goods, businesses and financial institutions play a pivotal role. Adverse impacts of businesses and financial institutions on people's rights and well-being generate negative externalities that aggregate across economies and societies. These externalities can contribute to system risks, ultimately affecting individual companies and the stability of the economic systems on which businesses and investors depend. Conversely, respect for people's rights and well-being are investments in the human and social capital that businesses depend on.

1. Understanding the relationship between business and people

People interact with businesses and financial institutions (“entities”) in four primary ways. They participate as workers, providing labour as an input into the production process, either within an entity’s **own workforce** or as **workers in the value chain**; as **consumers** and end-users, acquiring and using the products and services brought to market; and as members of **communities** connected to businesses activities, either directly or through their value chains. People may be members of multiple, overlapping social categories, defined by characteristics such as age, ethnicity or occupation.

Collectively, people make up **society** as a whole, the social and economic environment in which all enterprises operate. Within this societal context, businesses and financial institutions also engage with **public institutions** and with the **economic stakeholders** that operate within the **economy**. This broader social and economic system is itself embedded in and ultimately dependent on **nature and climate**. Each of these relationships is reliant on and shapes the state of people and inequalities.

How people, the economy, society, nature and climate fit together—with people at the heart of these systems—is illustrated in [Figure 2](#). [Box 1](#) provides more detailed definitions on the relationships that businesses have with people and society.

Figure 2. People are at the centre of the economy and society



Box 1 - Definitions of key stakeholders in society with which businesses and financial institutions interact

Communities: Groups of people linked by geography, culture, identity or other characteristics or interests.

Consumers: Individuals who acquire, consume or use goods and services.

Economic stakeholders: The economic entities that a given business or financial institution interacts with, including suppliers, clients, distributors, competitors, investees, banks, asset managers, shareholders, investors and service providers.

Own workforce: People employed or otherwise engaged directly by the entity, including permanent, temporary and part-time employees, as well as individuals in non-employee contractual arrangements whose work is controlled or directed by the entity.

Public institutions: Organisations that exercise public authority and/or serve the public interest at national or international level.

Workers in the value chain: Individuals performing work for direct or indirect business partners—such as suppliers, subcontractors, smallholders and micro-entrepreneurs—across the upstream or downstream value chain.

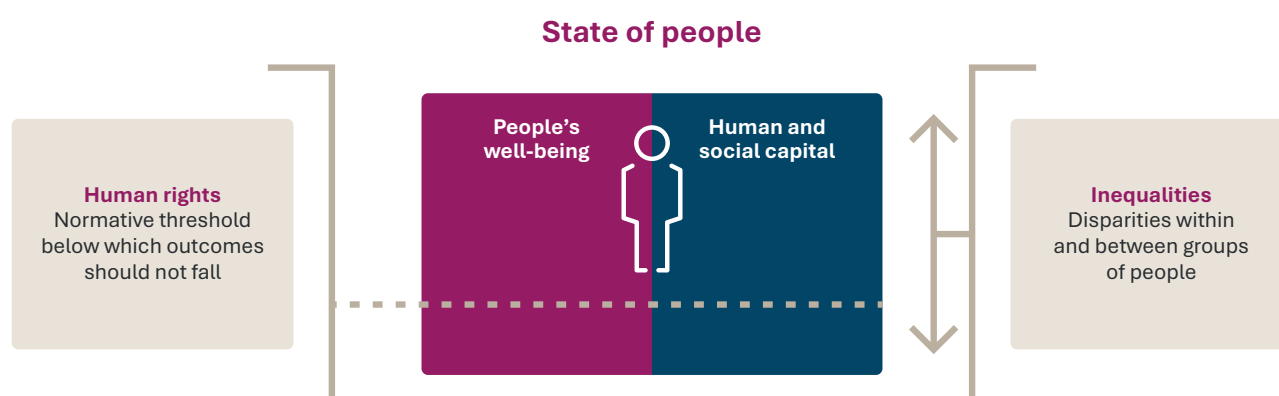
Section Commentary

This section introduces the key stakeholder groups that businesses interact with that are relevant from the perspective of identifying and assessing impacts, dependencies, risks and opportunities. The categories are to some extent artificial, as individual people can be, for example, workers, consumers and members of communities. The choice of categories is informed by the objective to align with existing disclosure standards.

2. Fundamental concepts for understanding social issues

Social issues are about **people** and **inequalities**. This includes respect for human rights and the advancement of people's well-being. In turn, people's rights and well-being provide the foundation for human and social capital.

Figure 3. The state of people reflects people's well-being, realisation of human rights, and human and social capital, while inequalities reflect disparities between people



People's **well-being** can be considered to encompass a range of dimensions, from health to income and wealth and from safety to meaning and purpose. Across each of these dimensions, people experience a spectrum of outcomes. Understanding and measuring well-being allows governments and businesses to determine the state of people in a holistic manner and whether interventions to improve outcomes have worked.

Human rights, in turn, represent a normative threshold below which these outcomes should not fall. They are entitlements of all people to a life of dignity, as comprehensively articulated in international treaties that define the obligations of states. Businesses and financial institutions have a responsibility to respect human rights, which is increasingly reflected in laws and standards on responsible business conduct ([See Box 2](#)). The respect for and realisation of human rights is fundamental to advancing people's well-being.

The respect of people's rights and their well-being are mirrored in their **human capital** and **social capital**. Human and social capital constitute critical resources and relationships on which businesses depend. When people's rights are respected, and when they experience good states of well-being, they are better equipped to invest in their own future, and to contribute productively to the economy and society.

Box 2 - The business responsibility to respect human rights

Human rights are universally recognised norms that set the minimum conditions for a life of dignity. International treaties define the obligations of states to protect, respect and fulfil these rights. Labour rights are an integral part of human rights, as reflected in, among others, the amended ILO Declaration on Fundamental Principles and Rights at Work.

Businesses also have a responsibility to respect human rights: to avoid infringing on people's rights and address any adverse human rights impacts with which they are involved. As set out in the UN Guiding Principles on Business and Human Rights (UNGPs), this responsibility applies to all enterprises, regardless of size, sector, ownership or structure, and exists independently of a state's ability or willingness to meet its own obligations.

This responsibility is also embedded in the OECD Guidelines for Multinational Enterprises. It is also increasingly codified into law, including mandatory human rights due diligence requirements in France, Germany and the forthcoming EU Corporate Sustainability Due Diligence Directive, alongside sector- and issue-specific legislation such as modern slavery acts in the United Kingdom and Australia. Litigation in this area is on the rise, including cases linking human rights harms to climate-related impacts.

2.1 The state of people

At their core, the constructs of **human rights**, well-being and human and social capital are all concerned with understanding and managing the **state of people**. Realising people's rights and improving their well-being is a key objective of social progress. Doing so also supports the management of risks and opportunities, both for individual businesses as well as for economies and societies.

The state of people is multi-faceted and spans a range of dimensions. [Figure 4](#) presents a number of these dimensions that are relevant from the perspective of respect for human rights, the advancement of well-being, and the strengthening of human and social capital.

They include dimensions that apply to individuals, such as physical and mental health, income and wealth, voice and participation, and inclusion and belonging, as well as access to resources and services, such as food and water, education and health care, and social protection. Other dimensions apply to groups or peoples. These include social cohesion and trust and the absence of conflict, as well as self-determination and cultural identity and heritage.

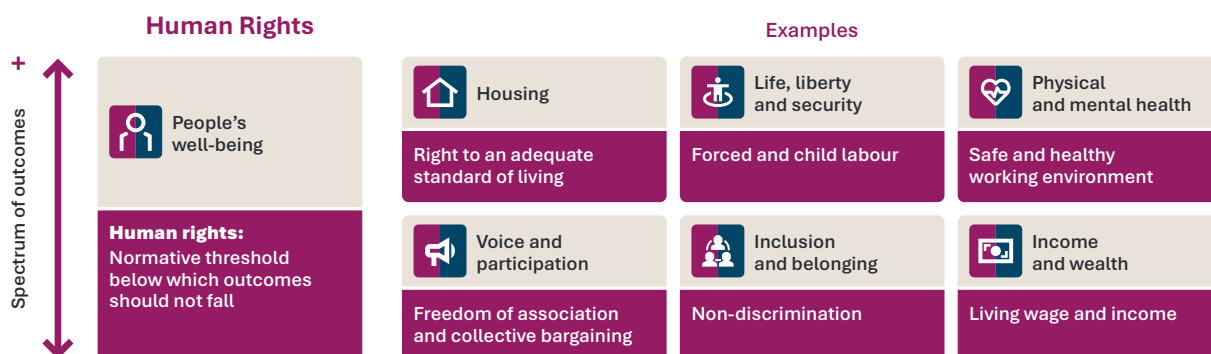
Figure 4. Illustrative dimensions of the state of people



Dimensions of the state of people can be understood as aspects of people's rights and well-being, while simultaneously reflective of their human and social capital. While these constructs have different traditions and usages, their relevant facets overlap. For example, people's health is an aspect of an individual's rights and well-being, and it is also critical to an individual's ability to contribute to organisations and society, reflecting their human capital.

Human rights relate to each of these dimensions. For example, all people have the right to an adequate standard of living, which represents a minimum level of food and water, housing and amenities, among others. The way human rights serve as a normative threshold across dimensions of the state of people is illustrated in Figure 5.

Figure 5. Human rights as a normative threshold



Box 3 - Definitions of concepts for understanding the state of people

Human capital: Knowledge, skills, health and other aspects of the state of people, viewed from the perspective of maintaining or providing value to the economy, society and people's future well-being.

Human rights: Entitlements of all people to enjoy a life of dignity.

Social capital: The relationships among and between people, businesses and other actors in society that foster cooperation and maintain or provide value for organisations, society and people's future well-being.

State of people: The combined set of outcomes that reflect people's well-being, the realisation of their human rights, and the human and social capital they hold.

Well-being: The overall state of people's lives reflecting the extent to which they are healthy, safe, fulfilled and able to pursue their goals and enjoy a good quality of life.

2.2 Inequalities

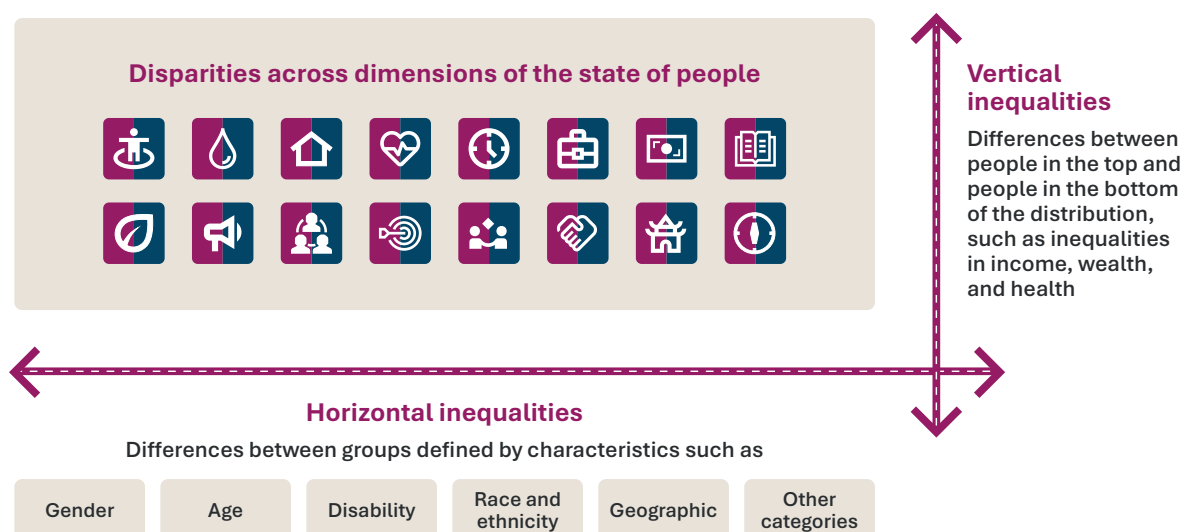
When considering the state of people, what matters is not only the average level of well-being of people in society, but also the disparities between individuals and groups, in other words, **inequalities**. People have unequal starting points in life due to, among other things, historical legacies and persistent power imbalances. These reflect **structural inequalities** that underpin persistent **inequalities of opportunity**.

Inequalities of opportunity stem from the ways public and private actors treat people—sometimes amounting to human rights violations, such as discrimination—as well as from unequal access to essential resources and services, like education and health care. They are also reinforced when individuals or groups are unable to exert their voice and participate in decision-making processes.

Together with individual actions and broader contextual factors, inequalities of opportunity contribute to **inequalities of outcomes**, occurring across dimensions of people's well-being such as disparities in income and wealth, health, knowledge and skills.

In practice, these two forms of inequalities are mutually reinforcing. Good health, for instance, can improve a person's prospects, while poor health outcomes can limit future opportunities. This dynamic is especially evident across generations, where the outcomes of one, such as family income, shape the opportunities of the next, influencing access to quality housing, education and other life chances, giving rise to **intergenerational inequalities**.

Figure 6. Horizontal and vertical inequalities occur across dimensions of the state of people



When analysing inequalities, it is also helpful to consider vertical and horizontal inequalities. **Horizontal inequalities** refer to differences between groups defined by characteristics such as gender, ethnicity, disability or geographic location. **Vertical inequalities** describe disparities between individuals along a distributional spectrum, for example in income, wealth or health outcomes. Each of these may occur in every dimension of the state of people, and they often interact, potentially compounding disadvantages across people and geographies.

Governments play a role in mitigating inequalities of opportunity and outcome, often with the aim of attaining greater **equity** in society. They do so through the provision of public services, redistribution and a range of regulatory and policy measures. Social issues and inequalities are inherently context-dependent, shaped by the distinct historical, economic and cultural dynamics of each region, country and community.

Businesses and financial institutions have a role in understanding and addressing inequalities. Respect for human rights entails a core responsibility to ensure equal treatment and non-discrimination. When inequalities become significant, inside an organisation or in society at large, they can trigger financial impacts that affect individual entities and the stability of the wider system. Understanding inequalities is therefore essential for identifying and managing material risks and opportunities.

Box 4 - Definitions of concepts for understanding inequalities

Equity: A situation where all people have access, opportunity, resources and power to thrive in a way that is just and fair.

Horizontal inequalities: Disparities in opportunities and outcomes between groups with different characteristics, such as gender, age, race or ethnicity, disability or sexual orientation.

Inequalities of opportunity: Disparities in people's access to resources, voice and treatment that affect their ability to realise their human rights and improve their well-being.

Inequalities of outcomes: Disparities across dimensions of the state of people, between individuals or groups.

Intergenerational inequalities: Disparities in resources, opportunities and conditions between generations.

Structural inequalities: The system that arises over time from practices, policies, laws and norms that systematically advantage some while disadvantaging others, and that are shaped by historical and persistent power imbalances.

Vertical inequalities: Disparities between those experiencing the best and worst opportunities or outcomes.

Section Commentary

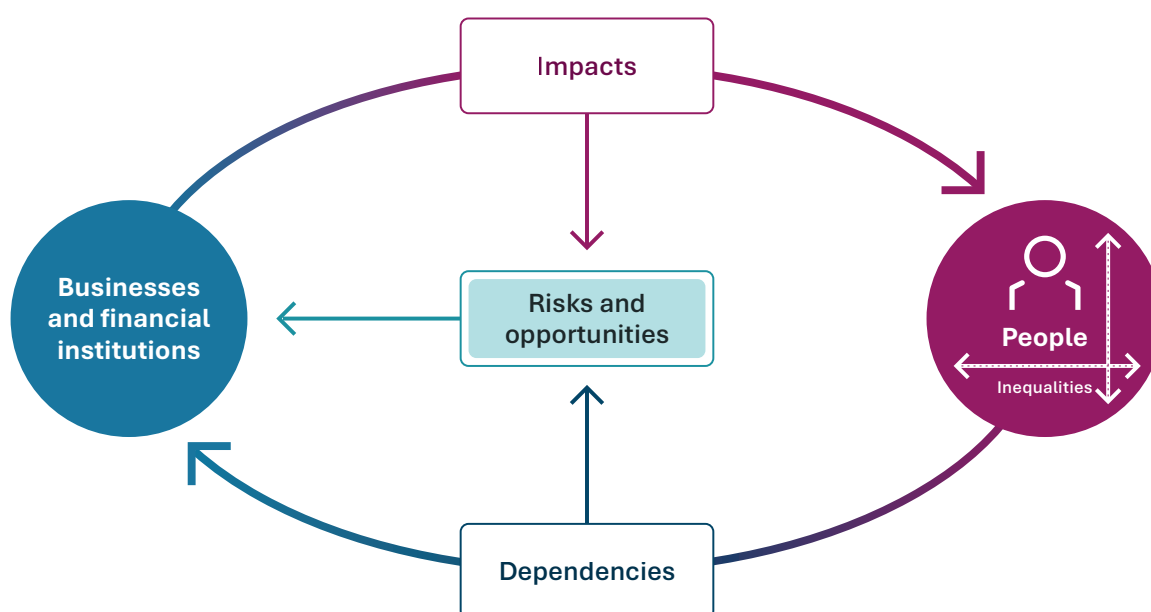
Over time, different constructs have emerged to conceptualise and address social issues, including human rights, well-being and human and social capital. This section introduces the notion of the “state of people” with the objective of providing a neutral bridge between these constructs and directing the attention of businesses and financial institutions to the outcomes of people that are relevant to the management of dependencies, risks and opportunities.

The section also provides a typology of dimensions of the state of people that are documented in various standards and frameworks, including international human rights standards, the OECD Well-being Framework and related national frameworks, the Sustainable Development Goals, and conceptualisations of human and social capital. Some categories are adapted to make them relevant and relatable to a business audience.

3. People-related impacts, dependencies, risks and opportunities

The relationship between businesses and financial institutions and people can be characterised by their **impacts** and **dependencies** on people. These impacts and dependencies are the source of financial **risks** and **opportunities** for businesses and financial institutions. The impacts of businesses and financial institutions can also accumulate and give rise to **system-level risks**.

Figure 7. Inequality and social-related impacts, dependencies, risks and opportunities

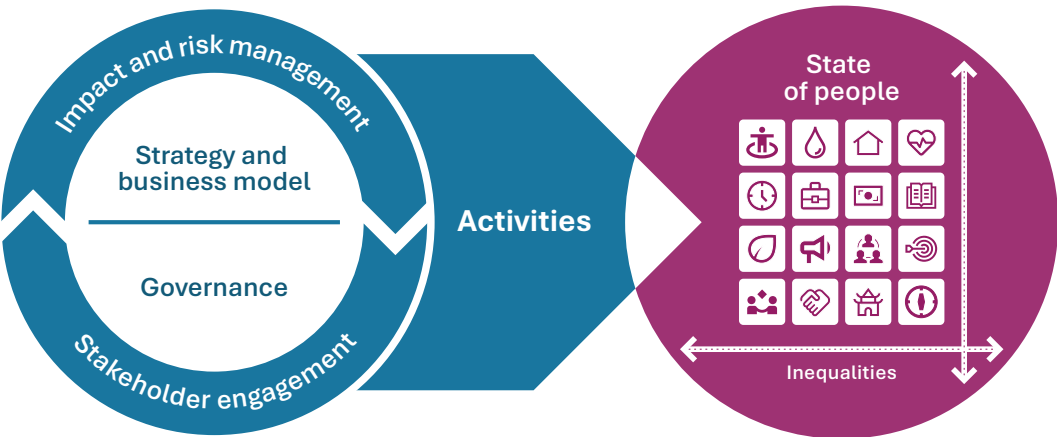


3.1 Impacts

“Impacts” refers to the way in which the **activities** of businesses and financial institutions affect people and inequalities (Figure 8). Impacts may be positive or negative, intended or unintended, and currently occurring (actual) or be at risk of occurring (potential). Impacts can also be direct and indirect, meaning that businesses and financial institutions may either cause, contribute to, or be linked to impacts through their operations, products or services.

 Through decisions on **wages, compensation and benefits**, businesses affect the income and wealth of people in their own workforce, as well as income inequalities. Through **research and development** leading to the discovery of life-saving drugs, businesses can make distinct improvements to the physical and mental health of consumers and people in society.

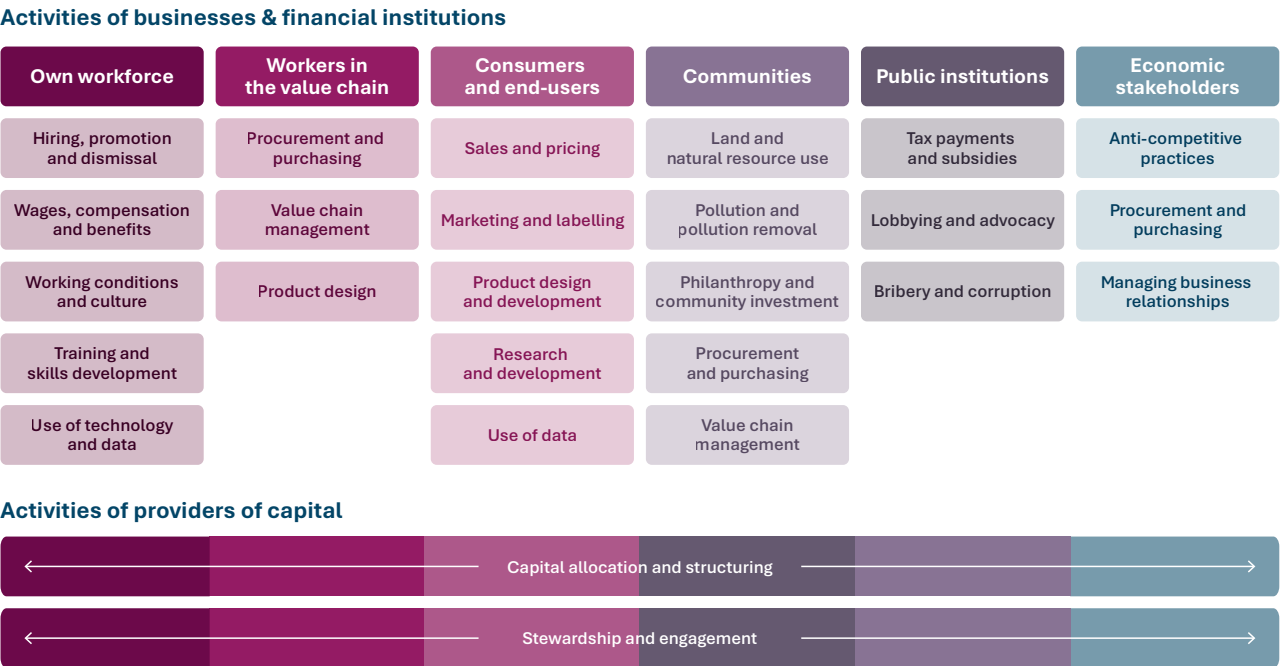
Figure 8. Impacts refer to the effects of the activities of businesses on all dimensions of the state of people



Activities originate in an entity’s **strategy and business model**, its **governance** structures, and its **impact and risk management** policies and processes. Across all of these, **stakeholder engagement** is a key input, ensuring people have a voice in decisions that affect them.

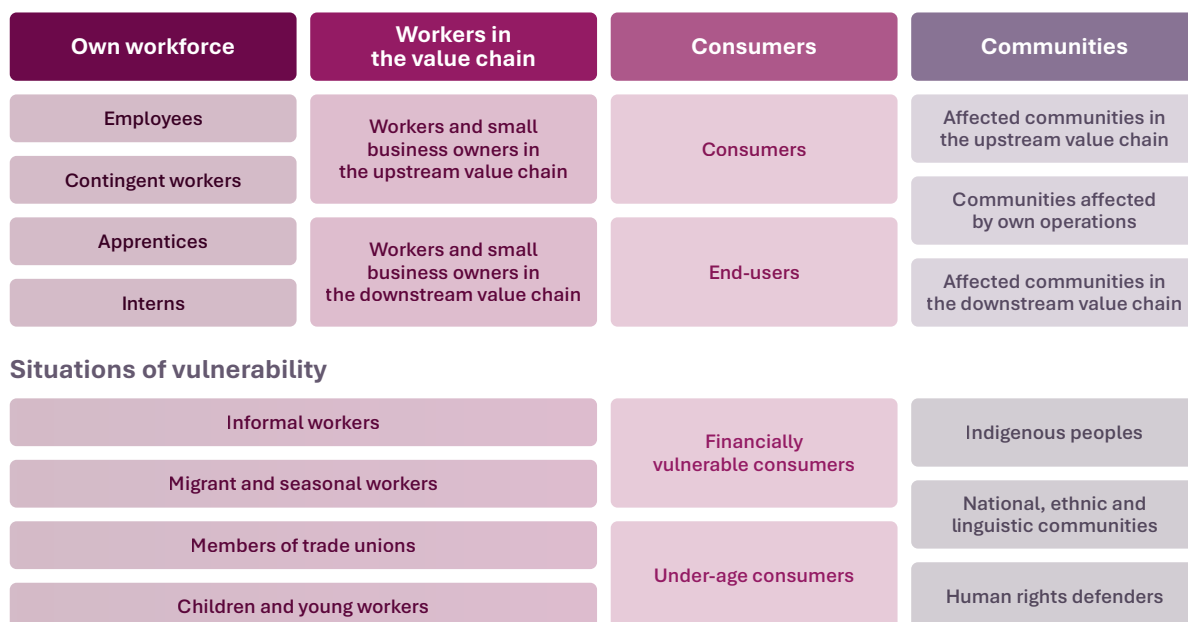
A typology of activities through which businesses and financial institutions affect people and inequalities is shown in [Figure 9](#).

Figure 9. Activities that can result in impacts on people and inequalities



In the context of business impacts on people, **affected stakeholders** are individuals or groups whose lives are or could be impacted by the activities of businesses and financial institutions (Figure 10). When these impacts pose potential or actual harm to human rights, those individuals or groups are also referred to as affected rightsholders.

Figure 10. Examples of groups of affected stakeholders



Specific groups, such as informal workers, members of trade unions, Indigenous Peoples (See Box 5), and financially vulnerable consumers, may face heightened risks of adverse impacts due to lack of legal and social protections, structural disadvantage or discrimination and therefore find themselves in situations of vulnerability. These vulnerabilities are recognised in international human rights treaties.

Box 5 - Indigenous Peoples as rightsholders

Indigenous Peoples hold distinct status under international law, with rights to self-determination, cultural preservation and land, affirmed in international instruments, including the Declaration on the Rights of Indigenous Peoples and ILO Convention No. 169. They maintain unique traditions and play a vital role in sustaining diverse social, cultural, economic and political systems.

Businesses and financial institutions can also have impacts on people and inequalities through their interactions with other stakeholders in society. They can strengthen or weaken the effectiveness and integrity of **public institutions** through tax payments, lobbying or (undue) political influence, or corruption and bribery. Such actions may affect people and inequalities by either supporting or undermining governments' ability to realise people's rights and advance their well-being.

Similarly, businesses and financial institutions can have impacts on people and inequalities through their effects on **economic stakeholders** and the wider economy. Actions that inhibit competition can dampen economic dynamism and innovation, while choices about suppliers and business partners can also have distributional effects, for instance, by creating opportunities for small- and medium-sized enterprises or for businesses operating in economically lagging regions.

The contribution of financial institutions to the state of people and inequalities

Financial institutions, from banks and insurance companies to asset managers and pension funds, engage in a range of activities that can affect the state of people and inequalities in both positive and negative ways. Their impacts arise through two primary channels: their **own activities as a business**, which resemble those of any business and can be understood using the business activities described above; and **their products and services**, which include, among others, lending, investment, insurance and retail banking offerings.

Providers of capital, including both individual and institutional investors and lenders, occupy a uniquely influential position within the financial system. Their investment approaches are shaped, not only by financial market regulation, such as requirements for diversification, but also by the interest of their beneficiaries, for example, the workers whose savings are invested in pension funds. Their decisions on capital allocation and structuring often play a role in shaping which entities can grow, which sectors thrive, and how risk, return and value is distributed across society. Their key activities include:

- **Capital allocation and structuring:** Capital allocation involves strategic decisions across investment types—direct and indirect, public and private, short- and long-term — on investee industry, geography and size. It also includes selecting intermediary managers with distinct mandates and determining any exclusions or divestments. Capital structuring refers to the terms, pricing, and conditions of investments and loans. Together these decisions shape the allocation of risk, return and value and whether investees can effectively manage their impacts on people and inequalities.
- **Stewardship and engagement:** Stewardship involves the exercise of rights and influence by capital providers to protect and enhance long-term value for clients and beneficiaries, including the shared economic, social and environmental systems on which those interests depend. Engagement strategies vary widely depending on the type of investor and their governance model. These may include direct dialogue with companies, voting on shareholder resolutions, public advocacy, and legal action.

Box 6 - Definitions of concepts for understanding impacts, dependencies, risks and opportunities related to people

Dependencies: The reliance of organisations and societies on human and social resources and relationships.

Entity-level risks and opportunities: Potential negative and positive effects on an entity's prospects, including the entity's cash flows, its access to finance or cost of capital over the short-, medium- or long-term. For investors, entity prospects include investment returns, liabilities, cost of capital, and the ability to raise and allocate funds over the short-, medium- or long-term.

Impacts: The effects of entities' activities on people and inequalities. Impacts can be positive or negative, intended or unintended, and direct or indirect.

System-level risks: Risks that affect all or most actors across the economy. They include major disruptions in social systems that trigger cascading effects throughout the economy and financial system, as well as non-diversifiable risks to providers of capital, arising from the market's impacts and dependencies on people and society.

Section Commentary

This section provides a comprehensive overview of business impacts on people and inequalities, aligning both with normative and legal frameworks, such as through business and human rights law, and with economic approaches that measure and assess impacts using qualitative or quantitative evidence.

The typology of entity-level activities was developed based on a review of activities of businesses and financial institutions across a range of authoritative standards and frameworks. These activities are framed in a neutral manner in order to acknowledge that business activities may have either negative or positive impacts and accordingly give rise to either risks or opportunities.

The typology of affected stakeholders in this section, similarly informed by existing standards and frameworks, aims to provide example categories of affected stakeholder groups and sub-groups that businesses and financial institutions may pay particular attention to when identifying and assessing their impacts on people, and related risks and opportunities.

3.2 Dependencies

Businesses and financial institutions depend on human and social capital, which is inextricably linked to people's well-being and to relationships with and between people and other stakeholders.

Human capital

In the most immediate sense, business dependencies on people include the **knowledge and skills** and **physical and mental health** of an entity's **own workforce** and of the **workers in its value chain**, which underpin operational and supply chain continuity, productivity, creativity and innovation, as well as the volume of the available labour force, which is shaped by demographic trends and the ability of all people in society to participate in the economy.

The human capital that forms the basis of these dependencies is rooted in the broader realisation of the rights and well-being of workers, including their **access to resources and services**, enjoyment of **environmental quality**, and other factors that reinforce people's capabilities and ensure their productive participation in the labour force.

Because individuals can be at once workers, consumers and members of communities, businesses fundamentally rely on people in **society**. Their well-being and the realisation of their human rights shapes the size and strength of the available talent pool, customer base and operating environment and therefore determines businesses' ability to attract talent, access markets and create long-term value. For example, they depend on the **income and wealth** of people living in the communities in which they operate, as well as more broadly across society, where their role as **consumers** helps sustain demand.

Indirectly, businesses also depend on **public institutions** and the **economic stakeholders** around them, each contributing to people's well-being, the realisation of their human rights, and to the development of human capital across society. Public institutions play a key role by providing education, health care, infrastructure and other social safety nets. Through their respective impacts, the activities of other economic stakeholders can equally contribute to or detract from individual well-being and human capital.

Social capital

Social capital includes dimensions of collective well-being, such as **trust**, **social cohesion** and **absence of conflict** in **society**. Societal stability and cohesion foster a predictable environment that supports long-term investment, creating the critical conditions necessary for sustainable growth and economic development.

In addition, trust in institutions, information and scientific knowledge help to create a reliable, shared understanding of the basis on which innovation, investment and trade can thrive. These factors also facilitate the role that **public institutions** and other **economic stakeholders** play in shaping human capital, as described above.

Trust, **social cohesion** and **absence of conflict** are not only important at the societal level. They also matter at the level of the **workforce** and **communities**, acting as an enabler of collaboration and stability.

In addition to these aspects of collective well-being, businesses also depend on relationships with **public institutions** and **economic stakeholders**, including suppliers, clients and investors. Moreover, good relationships with **workers** and **communities** help ensure business continuity and legitimacy, while fostering trust with **consumers** supports brand loyalty and the development of new markets.

Section Commentary

A key focus of this section is to describe businesses' and financial institutions' dependence on human and social capital as inextricably linked to people's individual and collective well-being. This framing highlights the overlap between business dependencies and the state of people, emphasising that respect for human rights and advancement of their well-being are essential aspects to preserve human and social capital.

In doing so, the section highlights businesses' core reliance on the volume and quality of the workforce—both within their own operations and across the value chain—while emphasising that human capital is ultimately embedded in people. It underscores that businesses have fundamental dependencies on the well-being of people in society.

3.3 Entity-level risks and opportunities

Impacts and dependencies can create financial risks and opportunities for individual businesses and financial institutions. Identifying, assessing and reporting on these risks requires recognising the impacts and dependencies that are at their origin.

Risks to individual entities can manifest, for example, as operational, policy and legal, reputational and market risks. Each of these may result in a range of different types of financial effects (See Figure 11).

Figure 11. Entity-level risks

Examples of risks	Description of risks	Examples of financial effects
Operational risk	Risk associated with loss, disruption or diminished performance in an entity's operations. This includes both acute risks, such as site closures, and chronic risks, such as productivity decline	Cost premiums Recovery expenses Hiring costs
Policy and legal risk	Risk associated with changes in policies, laws, regulations and case law governing how organisations impact people that increase the likelihood and potential severity of contingent liabilities and the eventuality of legal claims	Fines and penalties Compliance spending Litigation costs
Reputational risk	Risk related to changes in perception concerning an organisation's actual or perceived people-related impacts, including at the local-, economic- and societal-level	Lost revenues Higher cost of capital Reduced brand equity
Market risk	Risk resulting from changes in the social environment that leads to altered demand, supply or pricing dynamics	Revenue declines Higher cost of capital Lower growth potential

Operational, policy and legal, reputational, and market risks often interact and compound, affecting businesses through multiple channels before materialising into financial consequences.^{xxx}



A mining company that has caused environmental damage affecting the health and livelihoods of Indigenous Peoples may encounter community-led blockades that halt operations, reduced workforce productivity due to health impacts, legal claims for the harm inflicted, and reputational fallout that erodes the trust of clients and investors.

Businesses and financial institutions can also benefit from financial opportunities by fostering positive outcomes for individuals and communities and reducing inequalities (See Figure 12). When organisations invest in people and relationships, this can create strategic and commercial advantages, including by enhancing operational continuity, resilience and adaptability.^{xxxI} Prioritising fair treatment, human rights and well-being not only builds trust but also unlocks human capacity for innovation and improves talent attraction, retention and long-term organisational stability.^{xxxII}

Figure 12. Entity-level opportunities



Section Commentary

This section provides a structure for considering risks and opportunities to individual entities, using categories familiar to businesses and used in existing frameworks, such as the Taskforce on Nature-related Financial Disclosures (TNFD) and the Taskforce on Climate-related Financial Disclosures (TCFD). In the social domain, many important entity-level risks arise from the legal and normative expectations embedded in existing and evolving human rights and labour law, rather than from a “transition” dynamic. For this reason, categories such as reputational, market, policy and legal risks have been incorporated but not grouped under the umbrella term “transition risk”, as used in TNFD and TCFD.

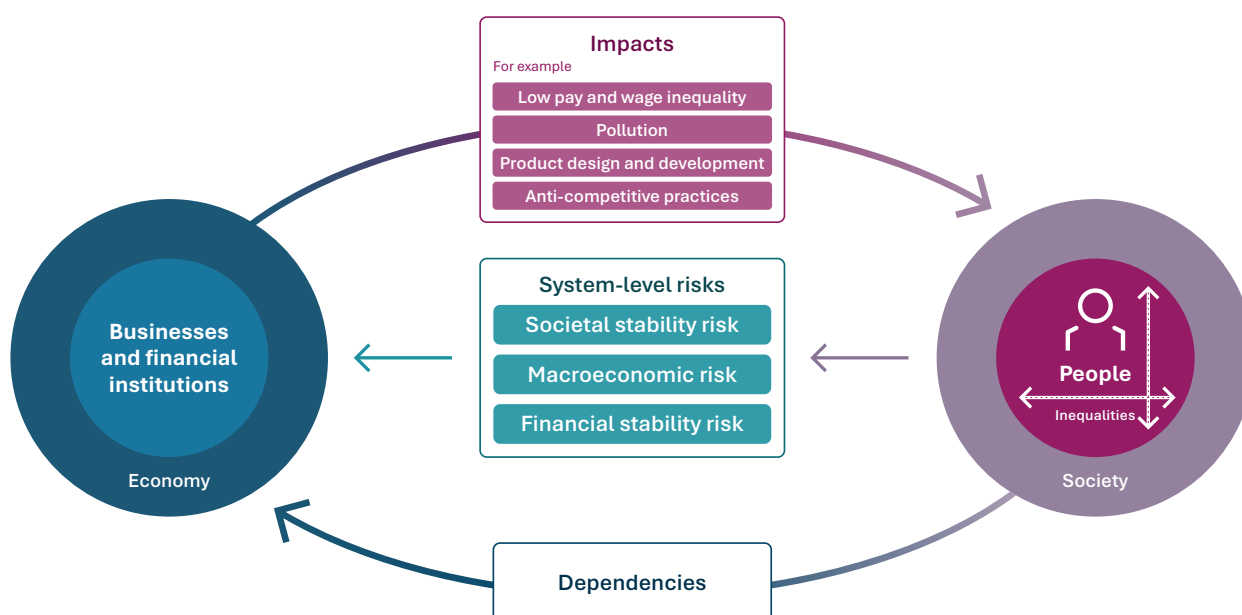
The section introduces a parallel categorisation of entity-level opportunities to help conceptualise the positive financial effects that may arise from actions that respect human rights and advance people’s well-being.

3.4 System-level risks and opportunities

The cumulative negative impacts of businesses and financial institutions and the negative externalities they create can lead to system-level risks.² These are risks that affect all or most actors in the economy and that can materialise acutely due to cascading effects. Inequality is among the most significant drivers of system-level risks to economies and societies.^{xxxiii} Such risks can undermine the tools of monetary and fiscal policy, heighten market volatility, undermine the profits of individual businesses, and affect portfolio-level returns. These dynamics are particularly relevant for financial institutions, macro-prudential regulators and governments. Externalities are a key pathway through which such impacts aggregate into system-level risks (or opportunities), for example:

- 💡 • **Low pay and wage disparities** deepen inequalities of income and wealth, reducing consumer purchasing power, confidence and spending, and dampening business investment, aggregate demand and growth, limiting profit potential.^{xxxiv}
- **Water, air and soil pollution** have detrimental impacts on people's health, reducing labour force participation, lowering the labour share of national income—a key measure of inequality—and constraining economic growth, which is closely tied to corporate profits.^{xxxv}
- **Product design** and the business models that underpin them have major impacts on people. For example, the algorithmic amplification of political or violent content may over time contribute to the erosion of social cohesion and trust, and related risks of polarisation and social unrest.^{xxxvi}
- **Anti-competitive practices** in product and labour markets can stifle entrepreneurship and reduce innovation and opportunities for economic mobility. Resulting wealth concentration and wage stagnation can contribute to perceptions of unfairness, mistrust and polarisation.^{xxxvii}

Figure 13. The cumulative impacts and dependencies of businesses and financial institutions give rise to societal stability risk, macroeconomic and financial stability risk



² Following the approach in the TISFD Proposed Technical Scope, system-level risks associated with inequalities include both (i) systematic risks: that is, non-diversifiable risks to the portfolios of providers of capital originating from the market's dependencies on people and society; and (ii) systemic risks: major disturbances in social systems that result in cascading effects for the economy and financial system and which can be of particular importance for financial institutions and macroprudential authorities.

Inequalities and deprivations in people's rights and well-being can contribute to three types of system-level risk:

- **Societal stability risk:** Risks associated with systemic disruptions in society as a whole, with cascading effects on macroeconomic performance and stability. These risks stem from eroded social cohesion, heightened perceptions of unfairness, and deepening political polarisation resulting from inequalities and deprivations in people's rights and well-being. These may result in a weakening of public institutions, both in perception and in practice, the erosion of public services, social unrest, heightened crime and violence, suboptimal regulatory responses, and, in severe cases, macroeconomic decline and financial instability.



The 2019 social uprisings in Chile, sparked by transport fare hikes, were rooted in longstanding inequality and disrupted economic activity. For investors and businesses, this translated into significant operational disruptions and negative impacts on financial returns.^{xxxviii}

- **Macroeconomic risk:** Systematic risks to sustainable economic growth and long-term financial performance associated with, for example, stagnating or declining levels of well-being and human capital, market concentration, and public and private debt. These risks can manifest as reduced productivity and innovation due to the erosion of human capital, or reduced labour market participation as marginalisation and exclusion shrinks the available talent pool.^{xxxix} Another pathway is through constrained aggregate demand, occurring when inequitable income distribution limits consumption among lower-income households.



In South Africa, persistently high unemployment and stark income inequality have constrained aggregate demand, leaving large parts of the population excluded from meaningful participation in the economy and limiting the size of domestic consumer markets. Over time, this has constrained productivity growth and investor confidence, resulting in capital flight and lower long-term returns.^{xl}

- **Financial stability risk:** The potential for inequalities to directly contribute to vulnerabilities in the financial system, threatening its stability and resilience.^{xli} These risks may arise on their own or as a knock-on effect of societal stability or macroeconomic risk. One way this happens is when concentrated wealth pushes up property and financial market prices, creating bubbles that can burst and hurt the wider economy. Financial stability risk can also originate directly from business activities that also impact people, as happens in the case of predatory lending.



In the lead-up to the 2008 Global Financial Crisis, the widespread provision of sub-prime mortgages by banks and other lenders to households in the U.S. already facing economic vulnerabilities eroded the quality of underlying loan assets. When these mortgages were securitised and embedded in complex financial products held across a range of financial institutions, rising defaults cascaded through global financial markets, undermining bank balance sheets, freezing credit flows, and ultimately triggering deep and lasting effects on economic growth and financial stability.^{xlii}

Addressing inequality and improving the state of people not only reduces exposure to systemic disruptions but also creates opportunities for long-term value creation associated with greater productivity, innovation, sustainable growth and more stable societies. Evidence suggests that reducing disparities can significantly boost economic output. For example, it has been estimated that greater gender equality in labour markets could raise GDP by over 9 percent in OECD countries by 2060,^{XLIII} while closing racial gaps in the U.S. could have added \$21 trillion (USD) to GDP over two decades.^{XLIV} Similarly, closing gender gaps in education could yield GDP gains of 5-11 percent in certain West African countries.^{XLV}

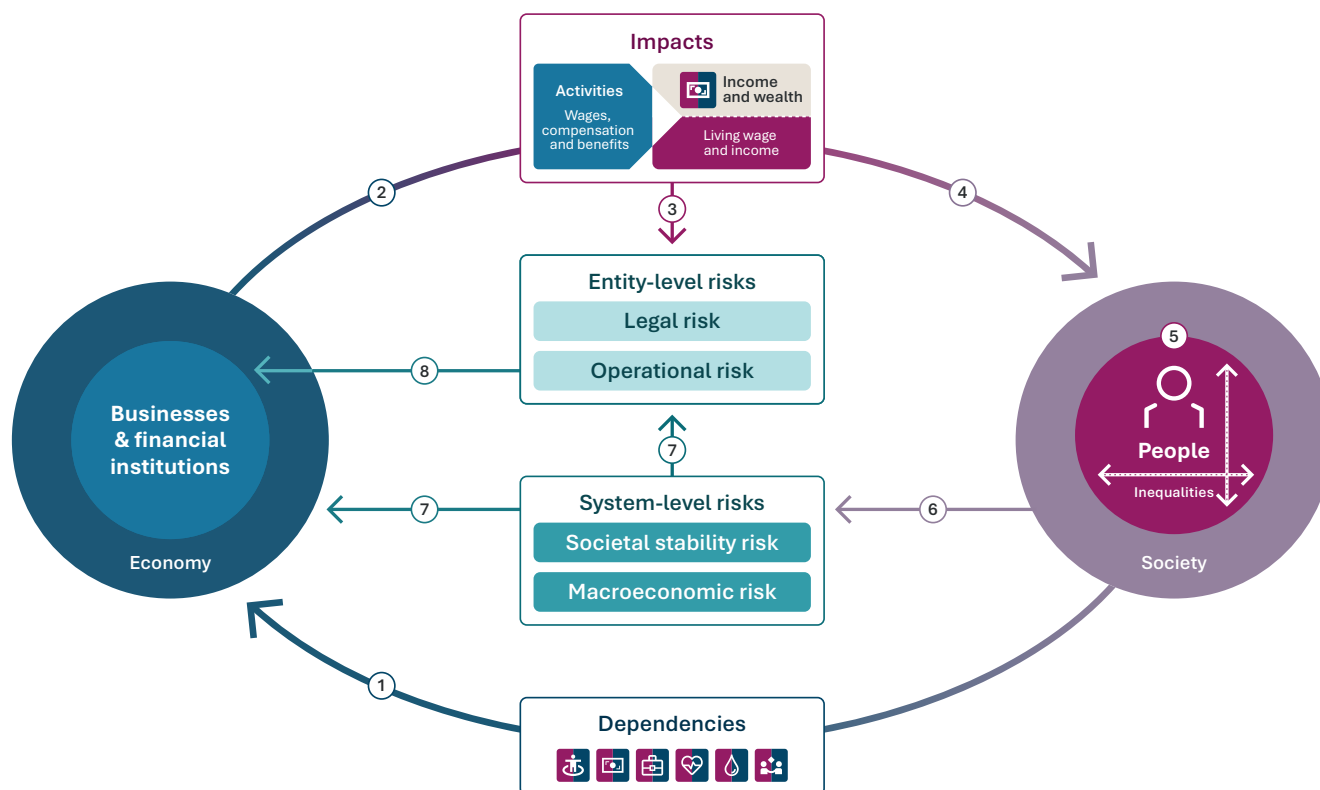
Box 7 - The importance of time horizons

When businesses and financial institutions consider their impacts, dependencies and associated entity- and system-level risks, it is important for them to take into account time horizons. Many dependencies are essential for the long-term financial objectives of the entity, yet they may be overlooked in day-to-day decision-making. For example, a business may rely on a highly skilled and motivated workforce for sustained innovation and continuity, but short-term operational or financial pressures can lead management to prioritise cost-cutting over investing in employee development or retention, undermining long-term goals.

Similarly, an individual entity's impacts may provide short-term opportunities but may contribute to the accumulation of system-level risks, which can materialise in the short-, medium- or long-term. For example, outsourcing activities to third parties can boost short-term entity-level profitability while contributing to the rise of precarious work and wage stagnation and the societal stability risk that can emerge from it. An exclusive short-term focus can therefore blind entities to the risks that eventually feed back into their own operations or the broader financial interests of their investors.

Figure 14 illustrates how the impacts of an individual business, in the form of a failure to pay its workers a **living wage**, may give rise to entity-level risks and may also contribute to the accumulation of system-level risks.

Figure 14. An illustrative pathway of the relationship between dependencies, impacts, risks and opportunities



- 1 Businesses depend on a healthy and skilled workforce and a cohesive society
- 2 A business pays a portion of its workers below the living wage
- 3 The failure to pay a living wage may result in risks to operations, such as operational shutdowns when workers strike or their health is compromised. It may also be associated with reputational risk
- 4 It also negatively affects the realisation of the rights and well-being of workers and their families, including their health, work-life balance, housing, and knowledge and skills
- 5 This negative impact detracts from the state of people in society as a whole and contributes to exacerbating inequalities
- 6 Resulting inequalities may contribute to societal stability risk and macroeconomic risk
- 7 System-level risks may affect the prospects of individual entities as well as the broader economy, financial markets, and investors' diversified portfolios
- 8 Entity-level risks affect the financial prospects of individual businesses and financial institutions

Section Commentary

This section builds on the TISFD Founding Partners' Proposed Technical Scope document, which recognises that the cumulative impacts of businesses and financial institutions can contribute to system-level risks, and that such information may be relevant to users of financial reports. Drawing on that evidence, three overarching categories of inequality and social related system level risk are proposed: societal stability risk, macroeconomic risk, and financial stability risk. These categories consolidate earlier classifications to make them flexible to emerging research, sensitive to differing political contexts, and clear and salient for a corporate audience.

4. The linkages between people, nature and climate

People and society are deeply interconnected with the natural world. People's well-being and the realisation of their rights depend on environmental conditions that support health, livelihoods, culture and leisure. At the same time, nature loss and climate change are largely driven by human activity, often shaped by private sector decisions. Understanding these interlinkages is essential for assessing business impacts, dependencies, risks and opportunities across value chains and operating contexts.

This is especially critical in the context of a just transition, which refers to climate and environmental action that takes account of people, ensuring workers, communities and vulnerable groups are not left behind. In practice, a just transition involves aligning climate and nature strategies (including those on adaptation and resilience) with principles of human rights, decent work, stakeholder engagement and social dialogue. It also encompasses investing in skills development and measures to address systemic inequalities that the transition may otherwise exacerbate.

Dependencies across people, nature and climate

The interlinkages between people, nature and climate mean that business dependencies on each can compound and reinforce each other. This can occur in both directions:

- **People's dependencies on nature and climate can compound business dependencies. Workers, communities and consumers all depend on the quality and stability of nature and climate in their day-to-day activities.**



A coastal business that depends on the flood protection from mangroves to protect and sustain its operations may have additional indirect dependencies as the mangrove protects the homes of its employees as well as potential customers.

- **People's positive and negative impacts on nature influence the supply of ecosystem services that the business depends on, creating an additional indirect dependence on people.**



A company relies on a nearby forest to prevent landslides. Local residents harvest wood for fuel and construction, but excessive extraction could degrade the forest and increase landslide risks. Traditional community norms, upheld through social capital, regulate sustainable harvesting. The company is therefore dependent on the social capital of the community.

Box 8 - The role of Indigenous Peoples in environmental stewardship

Indigenous Peoples play a vital role in safeguarding the natural world. They hold deep-rooted knowledge, traditions and community-driven approaches that have been shown to be effective in maintaining healthy ecosystems. While they represent a small portion of the global population and oversee a limited share of land and water, their stewardship has been crucial to biodiversity. Nature is central to the identity of many Indigenous Peoples, and essential for their access to food, water and shelter. This close bond between Indigenous Peoples and nature also means that they are especially vulnerable to the consequences of environmental degradation and the effects of climate change.

Impacts across people, nature and climate

Similarly, business impacts on people, nature and climate can interact and reinforce each other in various ways:

- **Mutually harmful impacts:** When businesses' actions are harmful to both people and nature. These happen when negative impacts on nature and climate result in negative impacts on people, or vice versa. Understanding such cascading impacts is important because they may compound risks to organisations or to society and the economy.
 -  Pollution has a negative impact on the natural environment and may also result in harm to human health and people's enjoyment of the natural environment.
- **Synergies:** When activities jointly result in positive impacts on people and nature or climate.
 -  Investments in regenerative agriculture could improve soil health and biodiversity while enhancing food security and livelihoods for farmers. Or a renewable energy project jointly owned by the community could reduce emissions and allow the community access to affordable energy and opportunities to build wealth.
- **Trade-offs:** When an entity's positive impacts on people result in negative impacts on nature and climate, or vice versa. They reflect the broader tension between the unsustainable use of ecosystem services and the fulfilment of human needs and desires.^{XLVI} When trade-offs occur, businesses can still take actions to potentially avoid, prevent, mitigate or remediate negative impacts and must not undermine human rights.
 -  Mining for critical minerals may positively contribute to decarbonisation but be associated with negative impacts on local communities and the water around the mine.

Box 9 - Definitions of concepts for understanding impacts across people, nature and climate

Mutually harmful impacts: Impacts that involve harm for both people and for nature and climate, reinforcing negative consequences across domains.

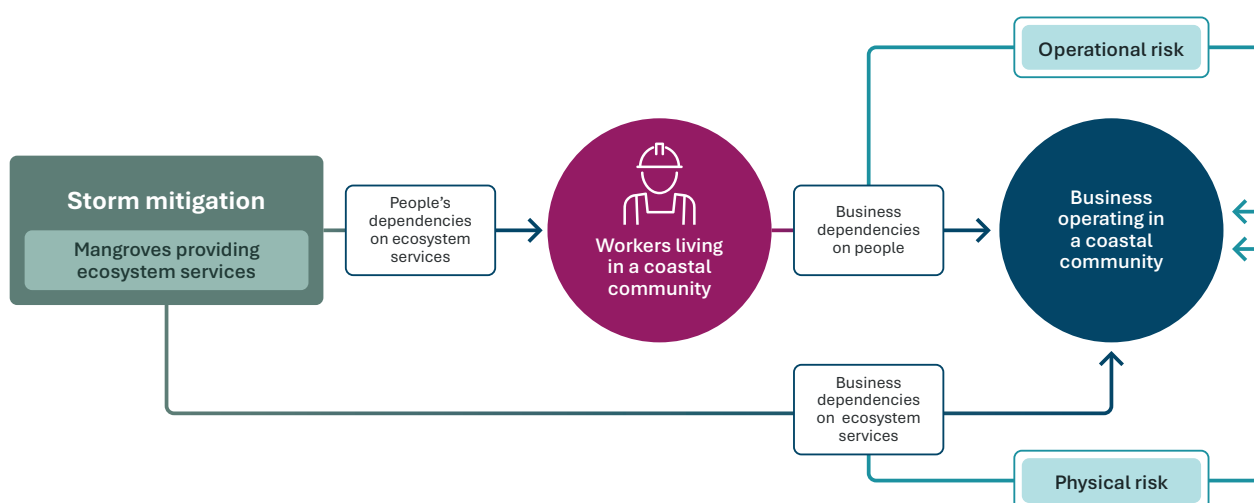
Synergies: Impacts that involve mutually reinforcing benefits, improving outcomes for both people and for nature and climate.

Trade-offs: Situations in which benefits to either people or nature and climate are in direct relation to adverse consequences for the other.

Risks and opportunity interactions

The interlinked impacts and dependencies across people, nature and climate can amplify entity-level risks and opportunities. In the case of dependencies, a business can be exposed to risk interactions due to mutual dependencies on nature and people.

Figure 15. An example of nature and people-related risk interactions



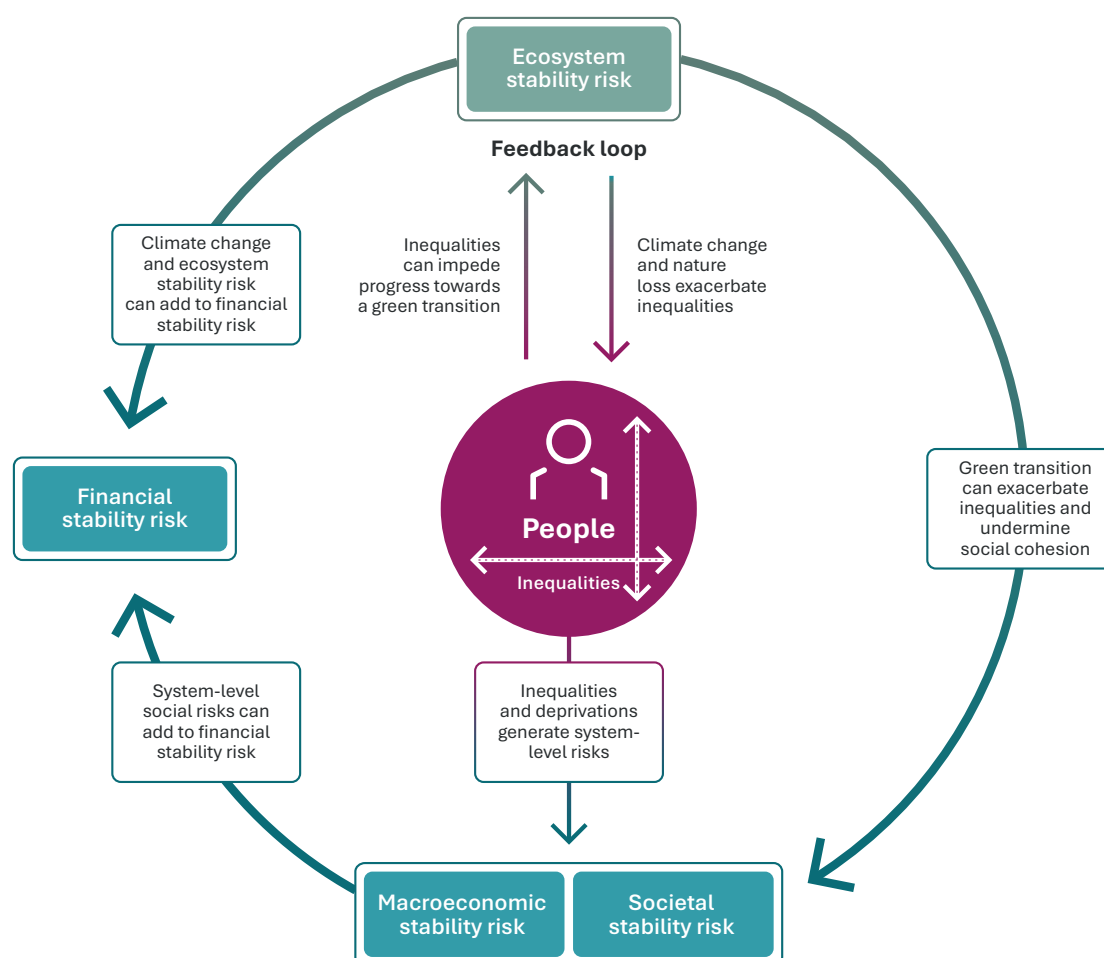
In the example of the storm mitigation services provided by mangroves (above), the dependencies of businesses and people can compound entity-level risks through multiple pathways. Businesses can face direct nature-related physical risks due to their dependency on the storm mitigation services, as well as workforce-related operational risks due to their workers, living in coastal communities, themselves having dependencies on the same storm mitigation services.

Compounding impacts can similarly deepen risks and opportunities. Synergies can carry significant business opportunities. This is the case for businesses built around nature-based solutions, which can benefit both local ecosystems and the people and workers and communities that rely on them, if properly designed and implemented. Conversely, businesses whose impacts mutually harm people and nature or climate can face aggravated operational, legal or reputational risks.

System-level risk and opportunity interactions

When aggregated at the system-level, these same relationships exist, but they can generate particular dynamics that undermine the stability of natural, social and economic systems. Figure 16 presents the interactions between risks in these different systems.

Figure 16. Interactions between climate change, nature loss, and inequality and social-related system-level risk



Box 10 - Select mechanisms of system-level risk interactions

Cascading risks: Chain reactions across interdependent systems

Feedback loops: Self-reinforcing interactions between systems

Synchronous failures: Simultaneous breakdowns across multiple systems

A particular feedback loop exists between climate change and nature loss, and inequalities, where:

- **Climate change and nature loss result in a range of impacts on people that exacerbate inequalities.** The impacts of climate change and nature loss fall disproportionately on vulnerable groups and regions.^{XLVII} This applies to physical impacts as rising temperatures, sea-level rise and extreme weather are occurring at higher rates in developing and emerging economies.^{XLVIII} It also applies to the costs of adaptation as marginalised groups, which are at once more likely to reside in areas that face heightened physical risks, such as flood zones or regions prone to extreme weather events, tend to lack the financial resources to implement protective measures.^{XLIX}
- **In turn, inequalities and the unevenly distributed impacts of transition policies can undermine people's support for the green transition and hinder progress.^L** The success of the green transition is reliant on people's support for mitigation and adaptation policies. Inequality-induced polarisation and perceptions that the burden and gains of the transition are not equally shared may result in opposition to transition activities. This applies to public policies, as well as to the introduction of business activities and projects, such as the exit from certain industries and the introduction of renewable energy.

As such, climate change, nature loss and inequality-related system-level risks may also result in **cascading risks** that originate in either system, which may also result in knock-on effects across interdependent systems:

- **Efforts to mitigate climate change and nature loss may contribute to societal stability risk, particularly through polarisation and weakened social cohesion.**

For example, regions reliant on high-impact sectors, such as coal mining or other extractive industries may be at risk of societal instability in the event of an industry exit without proper consideration for the impacts on the local community and workers.^{LI} Conversely, a well-planned transition that engages communities, workers, unions and businesses can generate practical solutions, foster buy-in and strengthen social cohesion.

In addition, as corporate decarbonisation accelerates, rising costs may be passed on to consumers, contributing to inflation, often termed *greenflation*. If these price increases are not matched by wage growth, purchasing power declines, particularly for low-income households, deepening inequality.^{LI} This, in turn, can also erode public support for the green transition and weaken social cohesion.

- **Climate change, nature loss and inequalities have the potential to trigger synchronous failures across environmental, social and financial systems.** A major shock, like a political crisis or an extreme weather event, could cause failures of social cohesion, ecosystems and the global financial system.

Section Commentary

This section builds on the concepts defined in this paper to clarify how people, nature and climate interact. It emphasises the deep interconnection between social and natural systems, showing how a cross-domain understanding can help businesses assess their impacts, dependencies, risks and opportunities in an integrated manner. By framing elements as part of a deeply intertwined system, the section highlights how environmental and social dynamics are systemically linked and may be mutually reinforcing. These dynamics further substantiate the urgency of addressing inequality and social-related system-level risks, which plays a critical role in achieving the green transition.

List of Technical Working Group members

Note: Technical Working Group members participated in a personal capacity.
Names of organisations are shown with the view to illustrating the range of stakeholder viewpoints represented.

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Camila Ramos Vilches	Global DEI & Change Manager, Hivos
Delilah Rothenberg	Co-founder and Executive Director, Predistribution Initiative (PDI)
Jeffrey Vogt	Legal Director, Solidarity Center / ILAW Network
Jonathan Milläng	Senior Advisor, ESG & Reporting Standards, Shift
Madeleine Evans	Director, Generation Investment Management
Maija Ziemele	Sustainability Consultant, ING Bank
Marina Leal	Head of Human Rights, Natura & Co.
Melanie Jenkins	Sustainability Manager, MAG Silver Corp.
Patricia Moles Fanjul	Member of the Standards Issuing Committee, Consejo Mexicano de Normas de Información Financiera
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Sharmeen Contractor	Lead, Investor Engagement and Advocacy, Oxfam America
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Annex II

Description of the dimensions of the state of people

Individual well-being | Human capital



Life, liberty and security

The freedom of individuals to make choices about their lives and to be protected from harm, threats and physical insecurity, in public, at work and at home.



Access to resources and services

Availability, accessibility, acceptability and quality of essential resources and services, such as food, water, education, health care, social protection and energy.



Housing

The quality, security and adequacy of the dwelling in which people live.



Physical and mental health

The physical and mental states of individuals, ranging from poor health and psychological distress to full physical functioning and psychological stability.



Work-life balance

The extent to which individuals are able to manage their time, energy, and responsibilities across work and personal life domains.



Work and job quality

Individuals' employment status and work experiences, including the degree of autonomy, stability, recognition, opportunities for progression and relationships.



Income and wealth

The level and distribution of financial resources individuals have access to, including income and wealth and their financial security.



Knowledge and skills

The breadth and depth of individuals' knowledge and competencies.



Environmental quality

The condition of people's surrounding natural and built environment, including air, water and access to green space.



Voice and participation

The extent to which individuals can participate in decision-making and have their perspectives heard and taken into account, including as citizens and as workers.



Inclusion and belonging

The degree to which individuals feel socially accepted, valued and connected, as opposed to experiencing exclusion, discrimination or isolation.



Meaning and purpose

The extent to which individuals experience a sense of meaning and purpose in life.

Collective well-being | Social capital



Social cohesion and trust

The presence of confidence, cooperation and solidarity within and between groups in a community or society.



Absence of conflict

The absence of war, political violence and civil unrest, and the presence of peace and stability within and between communities.



Cultural identity and heritage

The recognition, preservation and celebration of diverse cultural traditions, languages and practices that contribute to group identity.



Self-determination

The extent to which peoples or communities are able to shape their own political, cultural and economic development and exercise collective agency.

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