SDG Impact

UNDP

Standards Guidance

for the SDG Impact Standards for Private Equity Funds

October 2023

Contents

Introduction

Purpose

The Standards Guidance for the SDG Impact Standards for PE/Debt/VC funds (from now on "funds") provide additional information and detailed explanation of the Standards to:

- Help fund managers apply the Standards
- Support more consistent understanding and application of the Standards across users (fund managers, assurers, and other users)
- Ensure alignment with key reference frameworks, principles, and tools in the application of the Standards

Using the Standards Guidance

The Standards Guidance should be used in conjunction with:

- About the SDG Impact Standards
- SDG Impact Standards for PE funds
- SDG Impact Standards Glossary

Guidance is set out by practice indicator, generally at the individual practice indicator level and sometimes for several related practice indicators. Not all practice indicators are provided with additional guidance.

The level of aspiration in the Standards is set in line with the changes UNDP believes are consistent with achieving sustainability and the SDGs. They are provided as a best practice guide to show the direction of travel and ultimate goals required.

The assurance framework will set out minimum thresholds required to be demonstrated by funds to qualify to use the SDG Impact Seal. The minimum thresholds are based on the practice indicators in the Standards but set at a lower level to encourage participation and adoption. Funds will also need to demonstrate commitment to continuous improvement and progress towards best practice in line with the Standards to continue to meet the requirements to apply the SDG Impact Seal.

Education and training

User training on the SDG Impact Standards

The Standards Guidance is not user training. User training materials and programs tailored to different user groups will be available to support the adoption and implementation of the SDG Impact Standards. Updates will be posted at https://sdgimpact.undp.org/.

Impact Measurement and Management for the SDGs

UNDP has partnered with CASE at Duke University's Fuqua School of Business to develop a free on-line training course available through the Coursera platform called *Impact Measurement and Management for the SDGs*. This is a foundational course covering concepts and frameworks related to impact management. The course assists managers in developing the internal impact management capabilities needed to implement the SDG Impact Standards successfully. You can access the training on the Coursera platform at https://coursera.org/learn/impact-for-sdgs.

Note to Managers

Introduction

The SDG Impact Standards set out practice indicators across strategy, management, transparency, and governance that increase the likelihood of having a positive contribution to sustainability and the SDGs. This means improving the well-being of people and planet and recognizing that improving people's wellbeing includes protecting their human rights since any potential or actual change to those will have consequences for their well-being.

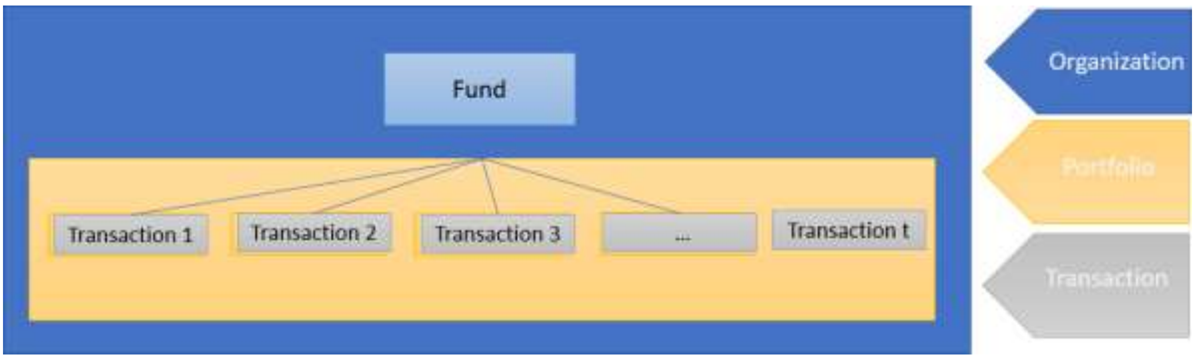
The fund needs a strategy that embeds this purpose, a set of policies, management practices, culture and incentives that are coherent and aligned with that purpose, and governance that provides effective oversight. This implies that the fund is making decisions, at all levels and at a rate, that optimize that contribution and therefore the Standards are a decision-making framework focusing on practices that drive performance and not on the performance.

That said, decision-making requires information to make decisions and so the fund will need to collect data to inform decisions, and it will need to measure changes in aspects of well-being and estimate its own contribution towards those changes, or in other words its impacts. (Aspects of well-being may be social, environmental, or economic in nature). For transparency, this approach and performance should then also be disclosed to stakeholders.

The purpose of measurement is to provide information to inform decisions, where the purpose of the decision is to make something better than it was. This means that decisions represent choices between options. For the SDG Impact Standards, the purpose is to help funds increase the likelihood of having a positive contribution towards sustainably and the SDGs.

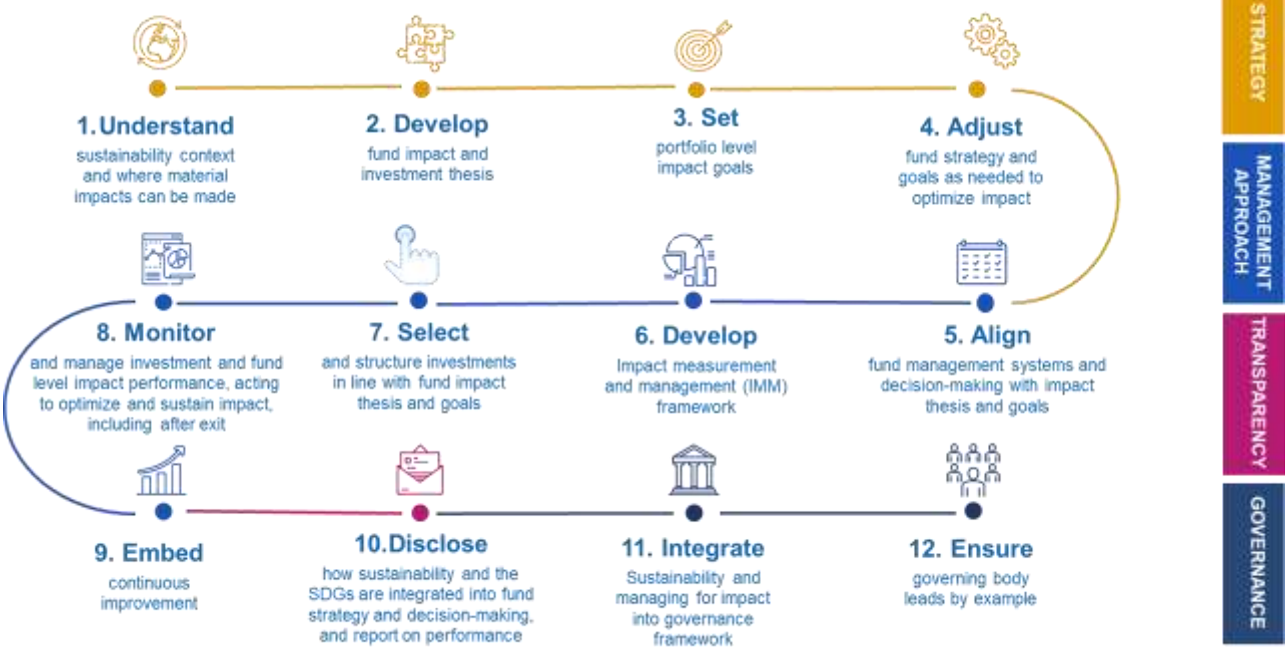
The fund will make decisions to achieve a positive contribution based on information available. So, we need to measure changes in aspects of people's wellbeing, including environmental impacts. In other words, we need to understand and estimate how the fund is impacting on people's wellbeing and the environment and how this could be changing as a result of the fund's decisions and actions.

Embedding impact into decision-making for a fund, requires a holistic approach that is applied at the organization, portfolio and transaction levels:



To implement the SDG Impact Standards, the Standards and practice indicators have been organized through 12 Fund actions as follows:

The 12 SDG Impact Private Equity Fund Actions



The practice indicators are aligned to each fund action and shall be used as guide to implement each action (see About the Standards).

Prioritizing, measuring and managing the things that matter

When we act on the world there will be an infinite number of choices that generate different changes in well-being (outcomes), ranging from the immediate to the longer term, from ones that are caused by our actions to ones to which our actions contribute, and including positive and negative, intended and unintended changes (outcomes).

We can't measure all of these, and not all of them matter equally for the decisions we need to take to improve well-being and our contribution to the SDGs. In other words, we need to make sure we collect information that is critical for taking the decision, considering whether not having the information (not measuring such changes in well-being) would change the decision. Indeed, there are some changes that if we don't measure, it won't make any difference to the choices we make. We'll still pick the same option.

So, we need to prioritize all changes in aspects of well-being to those experiencing them. And there will always be a risk that we get this wrong. In part we can filter based on expected changes in well-being. And then we can forecast the amount of change using metrics that we can subsequently measure, and we can measure with different levels of rigor. Each step reduces the risk that we miss something out that would have made a difference to our choice.

The bigger the difference between the choices, the lower the risk, the less we need to worry. But the biggest risk comes at the start, the risk we miss things out at the start, and so do not forecast the amount of change in aspects of well-being that we should have included. There are many psychological traps here but stakeholder involvement and testing for completeness of any changes in well-being for all stakeholders, especially for negative changes (outcomes) is designed to reduce the risks of these traps.

In forecasting the amount of change, we will get quantitative data that will both inform our decision of what matters and allow us to assess our performance in creating change, creating change as effectively as possible with the resources we have. We also need to recognize that positive change is not any change in the right direction. It's a change above a minimum threshold set by a mix of science, stakeholder expectations and social norms.

Using information to generate options and make decisions

We also need data that will give us insights that lead to these options from which we can choose. Limiting our data risks excluding data that matters because it creates these insights. What matters is not just about matters to the decision, it is also what matters to create insights that lead to options that lead to decisions.

There are more psychological traps, for example, that we tie ourselves up with our purpose. Again, stakeholder involvement and testing for completeness, especially of our non-intended positive changes (which may be our stakeholder intended changes) is designed to reduce the risk of these traps.

Although stakeholder involvement is critical to identifying the things we should measure, it is not enough. The SDGs are the set of things that we should also consider irrespective of the results of involving stakeholders, and for these Standards, there are four which always matter – inequality ("leaving no-one behind" is the overarching goal of the SDGs), and gender equality, climate action and decent work (including as cross-cutting goals of all others).

As a result of stakeholder involvement and assessment of the SDGs, including the four above, we will then have a set of expected positive and negative material impacts, and our options will include different subsets of these which will be experienced by different people. In choosing between these sets of expected material impacts we need to know some things. For each expected change we need to know: what is the change, who is affects, how deep the change is, against both a starting point but also against minimum thresholds; how long it lasts; how much was caused by us – but taking care here as if others contributed to it, it may still matter, it's just that we should be working with those others; how many people were affected; and what are the characteristics of those people.

And these will give us the ability to quantify and aggregate each impact.

It will also give us the ability to assign people to groups based on characteristics – the most common, and the ones we generally consider, are grouping people as customers or investees, suppliers, investors, and employees – although of course people can be more than one of these, and although, of course these types are not really a consistent taxonomy, or even complete, if we miss out the owners.

But by themselves this is just a list of aggregated expected impact for groups of people depending on how we have grouped them (and who decides this?). Choosing between options requires us to have a normative position on which we think is better. Most of the time the decision maker does this based on their preferences, their own prejudices, and all those other psychological traps. We almost may not have bothered with all that measurement.

We need some information on the relative preferences for these different expected impacts from the perspective of the people that will experience them – in finance this is money – a proxy for the change in wellbeing people expect to get from their purchases. For other changes in well-being, we need another way to quantify these relative preferences recognizing that this is reducing the risk of making the wrong decision, but it is not removing that risk.

Now we can make decisions on what matters informed by the quantified expected value of impacts. But just because this is low doesn't mean it doesn't matter. We can include things that have low expected value, but we can't exclude things that have a high expected value.

We have raised the issue of proxies or approximations. Approximations are both approximations of the amount of change, as soon as we don't measure change for everyone or use a measurement approach that doesn't precisely measures the thing we want to measure, we are approximating – so that's always. Approximations may also be of the thing we want to measure. We might use outputs as a proxy for the aspects of well-being. This might be supported by scientific research that there is a strong causal link. Unfortunately, this is not so useful in choosing between different options if the purpose is to increase well-being. It is only good for choosing between different options if the purpose is to increase outputs.

But often we find ourselves in a situation where we only have outputs, and yet we have to make a choice (ignoring the situation where we are not going to make a decision, and neither is anyone else, but we have spent time collecting and reporting this nonetheless). And now the risk that we make the wrong choice, or we would have made a better choice, has gone up.

The biggest risk is that our goal and purpose, considering what problem we are trying to solve is suboptimal. But then we make choices about how we are going to achieve that goal or purpose, and how much of it we try and how we do it, making choices about the design of products and services, choices about how they are packaged and delivered, and choices about how this is financed, resourced, and supported. In all of these we need to understand the risk, seek to stop the cause of the risk, or subsequently seek to reduce the consequences of that risk.

Making decisions in an imperfect world

This is all very well but not realistic in practice. We won't have all this data. And our risk will be higher than it could be. But that doesn't mean we can't make decisions. And the risk that what we are doing now isn't addressing a meaningful goal hasn't gone away. And we know we are not identifying options and making choices to contribute to sustainability and the SDGs at the rate we need, that people's well-being is not being improved at the rate they should expect, that people's human rights are being abused.

We need to get on and be more critical of our strategies and then be willing to accept a level of risk. And our risk assessment needs to consider the risk of the wrong choice to those that experience the changes in their well-being. And to recognize that their risk tolerance is low. Which gives you, the manager, a conundrum. Caught between the need to have data to reduce the risk of making a suboptimal decision, and the need to work with what data you must reduce the risk of inertia.

The solution is continuous improvement in your approach to measuring and managing impact. And setting ambitious and rigorous goals for both your expected impact and for that improvement. A mix of these, an understanding that sustainable development means increasing people's well-being and an understanding of what measuring that for decision making means, a recognition of the risk involved in deciding and risk in not making decisions, and an ambitious plan to improve is what will meet the requirements of the SDG Impact Standards.

The SDG Impact Standards for PE funds and this guidance are designed for a manager making these decisions, in an imperfect and uncertain world.

GENERAL GUIDANCE

SDGs and Impact

The SDG Impact Standards address both the SDGs and Impact. These are linked concepts, but not the same.

The 17 SDGs (and associated targets and indicators) set out an ambitious plan – as part of the 2030 Sustainable Development Agenda – to address critical issues affecting people and planet. The SDG framework is already being widely referenced, adopted, and increasingly integrated into both public and private actors' organizational systems, reporting and decision-making. While the SDGs, and the initial targets and indicators use 2030 as their reference point for achievement, the overarching structure and the frameworks and infrastructure being built around the SDGs will endure well beyond 2030. The Standards have been designed to be timeless, with Standard users' able to incorporate advancements in frameworks (including the SDGs), tools and their own and collective understanding over time.

The SDGs are not mutually exclusive, and they overlap and interrelate. For example, SDG 4 (quality education) also needs to be considered in all the other SDGs and performance in SDG 17 (partnerships for the goals) will increase performance in other SDGs. They are also an international framework to provide a summary of sustainability issues. The SDG indicators are designed to show progress at that international level in order that national governments can take corrective action to meet the goals.

The material impacts that contribute to the well-being of people and the planet and which therefore also contribute to sustainability are experienced by people because of the operations of a fund. Although they may be aligned to an existing SDG, they may require different indicators to measure the specific change in well-being the fund is affecting or seeks to influence. Those specific indicators will be helpful to better inform decisions to make a positive contribution to the SDGs.
Equally stakeholder engagement may not identify all the impacts that are material to sustainable development and addressed in the SDGs.

Impacts and dependencies

The Standards focus on how an fund defines and identifies material sustainable development issues and manages – and optimizes – its impacts on sustainable development and the SDGs. For the purpose of these Standards, material sustainable development issues are those that relate to outcomes that are important to the Stakeholders experiencing (or likely to experience) them, important to sustainable development and achieving the SDGs by 2030, where the fund can make (or is making) the most significant (positive and negative) impacts on important outcomes and take into account the sustainability risks and opportunities that are most significant for the fund's own value creation (i.e. its dependencies), because strong, resilient and sustainable funds will have more capacity to contribute positively to sustainable development and the SDGs.

This means that good impact management necessarily requires the management of both the fund's impacts on people and planet and its dependencies on the world around it. Good impact management will help funds manage and reduce their sustainability dependency risks and capitalize on opportunities, however managing dependencies alone will not always lead to positive outcomes for sustainable development and the SDGs.

ESG vs SDG Impact

Current approaches to incorporating environmental, social and governance (ESG) factors into business and investment decision making are grounded in existing risk management mechanisms the market has used for decades to protect financial value. However, these approaches are insufficient – and no longer future-fit – for businesses, investors, or society to contribute to sustainability (where sustainability includes making financial returns) and achievement of the SDGs at the pace the planet and the people need it.

The SDG Impact Standards have been designed to fill the gaps in current market practices that are undermining progress towards sustainability and achieving the SDGs – and which ultimately threaten economic and financial system stability which funds depend on to survive and thrive. As the Standards focus on managing the fund's material impacts – which also necessitates management of its dependencies – and have a strong focus on responsible business practices and governance, ESG is fully encapsulated within the Standards.

SDG 10 – Inequality – the overarching theme of "leaving no-one behind"

Addressing inequality and "leaving no-one behind" is an overarching objective of the SDGs and these Standards. Creating more inclusive business models that engage base of the pyramid populations in supply and value chains not only provides opportunity for better social outcomes but can reduce sustainability risks to the business and create business opportunities to meet the needs of previously underserved populations.

While gender equality, climate action and decent work are treated as cross-cutting goals in these Standards, inequality and "leaving no-one behind" is overarching, and all actions and decisions should be viewed through this lens. In particular, in terms of managing for more inclusive and equitable outcomes, a focus on making inequality more visible so it can be more effectively managed is key. Many of the practice indicators in the Standards have been designed to help users do this – for example, by involving Stakeholders in decision-making and disaggregating data to ensure the needs of different Stakeholder groups and minority sub-groups are visible and not lost in the process of averaging.

STRATEGY

Guidance Note 1.1. The Fund develops an impact thesis (or theses), embedding contributing positively to sustainable development and achieving the SDGs in its purpose and strategy.

Guidance Note. 1.1.1. The Fund determines how it intends to contribute positively to sustainable development and achieving the SDGs, including by engaging with the relevant local and national sustainable development context(s) and embedding respect for human rights and other responsible business practices in its approach

Making sustainability and the SDGs central and contributing positively

Making sustainability and the SDGs central means that sustainability and the SDGs are not just an add on. They become central and are embedded in the fund's purpose and how it creates value for itself and society (people and the planet). The lens shifts from a focus on the investee potential and actual performance but to its management practices and commitment to contribute to sustainable development and the SDGs. In so doing, human well-being and long-term business and fund performance (including sustainability and resilience) can be optimized. Stakeholder expectations and the requirements for sustainable development overlap and will drive purpose, strategy, and impact goals of both the investee and the fund.

The Better Business Better World report of the Business & Sustainable Development Commission (Jan 2017) describes incorporating the SDGs into organizational strategy as follows: "…. That means applying a Global Goals lens to every aspect of strategy: appointing board members and senior executives to prioritize and drive execution; aiming strategic planning and innovation at sustainable solutions; …; and using the goals to guide leadership development, women's empowerment at every level, regulatory policy, and capital allocation. Achieving the Global Goals will create 380 million new jobs by 2030. You need to make sure your new jobs and any others you generate are decent jobs with a living wage, not only in your immediate operations but across your supply chains and distribution networks. And you need to help investors understand the scale of value that sustainable business can create."
(https://sustainabledevelopment.un.org/content/documents/2399BetterBusinessBetterWorld.pdf)

Contributing positively

Through its investment, a fund will have indirect positive and negative impacts on stakeholders. A positive impact is a positive change in the level of an impact experienced by a stakeholder above a minimum threshold. However, the starting and ending point for that change can be below that threshold. Something is good but can still get better. Some that are bad can get better but still be bad.

A positive contribution is made taking all the positive and negative material impacts experienced by people and the planet because of the operations of an organization or portfolio the fund is investing in. Positive impacts are then those that reach a minimum threshold set considering, and at times making a judgement about a mix of, planetary thresholds, scientific targets, and stakeholder requirements. Although this is a minimum, the Standards require ambitious and rigorous targets to maximize impact, and set at the level of each expected impact, so that the positive change in contribution is being made at a rate commensurate with planetary thresholds, scientific targets, stakeholder expectations as well as SDG targets – and considering variations in impact within and across Stakeholders and sub-groups with a view to "leaving no-one behind".

Whether or not a positive contribution is being made, the challenge is that decision making should be increasing the contribution. Where the contribution is already above these thresholds this is less of a challenge, although the need for targets to be ambitious and rigorous remains. Accountability to those experiencing the impacts would still require performance to be maximized. Maximized means maximized subject to existing constraints. But constraints can also be changed, whether these are through capacity, capability, partnerships, or creativity and innovation.

Nonetheless the challenge is greater for an fund that has investments in companies that are currently making a negative contribution or if considered positive overall, still has material negative impacts.

This raises the challenge of considering impacts in the whole, taking positive and negative impacts, recognizing that not all impacts are equal. Net impact implies quantification including valuation, and valuation would need to consider values in relation to thresholds and planetary limits. Even where there is thought to be more positive impacts than negative impacts, the focus for allocating resources would be on reducing negative impacts before further increasing positive impacts.

The other challenge for funds is that impact is expected to occur through its investments but not directly. Indeed, the fund can have a direct effect though financial additionality and/or non-financial support for the investee where the investee would not have been able to access such financing (type, amount, conditions, etc.) or technical support otherwise and this is critical for the delivery of its impact goals. Depending on the investments, funds could also be part of the investee decision-making process.

Interdependency

The SDGs are interconnected, integrating economic, social, and environmental targets. Changes in one outcome can affect other outcomes directly or indirectly, intentionally, or unintentionally, positively, or negatively. A lack of progress on one goal can also hinder progress on others, for example, the relationship between inequality and climate action.

Consequently, impacts need to be considered holistically to understand how actions in one area might affect other areas, to understand the overall impact being created, and to avoid unintended negative impacts and consequences. Funds shall consider how their investees consider and make decision around interdependencies and positive net impacts.

Operating within planetary boundaries

Planetary boundaries define the environmental limits within which humanity can safely operate. Proposed in 2009 by Johan Rockstrom, Stockholm Resilience Centre and Will Steffen, Australian National University. Increasingly, science-based targets are being set and used by organizations to help them operate within planetary boundaries.

Given that climate action is always material within the context of these Standards, the expectation is that Enterprises set and manage to science-based targets – and interim targets – aligned with net zero by 2030 – taking into account that to achieve this outcome for the world, many countries and organizations need to arrive at this outcome sooner to enable a just transition for all.

In November 2022, the United Nations' High-Level Expert Group (UN HLEG) on The Net Zero Emissions Commitments of Non-State Entities released its first report – "Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions". The recommendations contained within this report are now included in the SDG Impact Standards as guidance for operating within planetary boundaries as this pertains to climate action, with the expectation that organizations implement the report's principles and recommendations as part of Standards implementation, irrespective of whether they are making public Net Zero pledges or commitments.

The Recommendations set out five principles (ambition, demonstrated integrity, radical transparency, credibility, demonstrable commitment to equity and justice) and ten recommendations, which together, create a universal definition for net zero and standardizes net zero pledges and commitments for non-state entities (the UN HLEG Net Zero Recommendations). In summary, the recommendations call for net zero pledges and commitments:

- To be made by the entire entity, made in public by the leadership, reflective of the entity's fair share of the needed global climate mitigation.
- Share comprehensive transition plans detailing how targets will be met, highlighting uncertainties, assumptions and barriers, detailing how entities are aligning their internal culture, practices and structures with commitments while also supporting a just transition and publicly report annually on progress against targets and baselines set, with reports to be independently verified and added to the UNFCCC Global Climate Action Portal.
- Contain short-, medium-, and long-term targets (including for 2025, 2030 and 2035) accounting for all GSG emissions with separate targets for material non-carbon emissions (such as fossil methane and biogenic methane) to reach net zero by 2050 in line with the Intergovernmental Panel on Climate Change (IPCC) or International Energy Agency (IEA), net zero greenhouse gas (GSG) emissions to peak global emissions by 2025 and cut emissions in half by 2030, modelled on pathways that limit global warming to 1.5 degrees Celsius with no or limited overshoot, covering the entire value chain of the entity, including end-use emissions.
- Prioritize urgent (i.e., front-end actions) and deep absolute reduction of emissions across the value chain to meet scientific requirements and reduce transition risks for entities.
- Only apply high integrity carbon credits for beyond value chain mitigation (i.e., not counted toward its interim emissions reductions required by its net zero pathway).
- Not support new supply or new investment of fossil fuels, with a need to decommission and cancel existing contracts.
- By 2025 that operations and investments are not contributing to deforestation, peatland loss and the destruction of remaining natural ecosystems.
- Actively lobby for positive climate action and not against it and work constructively with governments to create strong standards and a level playing field.
- Ensure a just transition and sustainable development for all, including by investing in projects or jurisdictional programmes that prioritize the people and sectors most in need of support.

REFERENCE FRAMEWORKS

United Nations, Sustainable Development Goals (SDGs), are the world's blueprint to achieve a better and more sustainable future for all. Adopted by all 193 UN Member States in 2015, the SDGs comprise 17 integrated and indivisible goals grounded in human rights balancing the three dimensions of sustainable development – economic, social, and environmental. Supported by 169 targets and 230 indicators, the SDGs focus on most pressing issues first with an overarching goal to "leave no-one behind" and are variously referred to as the world's strategy and the most comprehensive map of need, risk, and opportunity. US$5-7 trillion per year needed to achieve the global goals – requiring both public and private capital.https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals

Impact Management Project (IMP), five dimensions of impact, provides guidance on the types of data needed to understand and assess impact performance. The IMP community of 2,000+ practitioners identified five dimensions of impact, which can be broken down into 15 more detailed data categories. Organizations can use the five dimensions as a checklist to ensure the information gathered is sufficient for the decision it will inform (see also the ABC methodology and SDG Impact Standards Glossary). https://impactmanagementproject.com/impact-management/how-PE funds-manage-impact/ and Five Dimensions of Impact (Impact Management Norms), https://impactmanagementproject.com/impact-management/impact-management-norms/

High-Level Expert Group (UN HLEG) on The Net Zero Emissions Commitments of Non-State Entities report "Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions" www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 1: SDG IMPACT THESIS AND MEASUREMENT, "Business should develop a specific SDG impact thesis, which maximizes their unique capabilities and assets, promotes the most effective private-sector solutions to sustainable development and is updated or expanded over time"; "Align impact thesis with countries' own needs and priorities for SDG investments (climate and SDG gap analyses and investment plans), and where relevant, focus on priority sectors in less developed markets, considering the unique characteristics of each market, and respecting a common but differentiated approach to the sustainability transition."; Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Adopt investment criteria and decision-making processes based on SDG impact, alongside financial risk and return investment criteria"

UNEPFI Principles for Positive Impact Finance, Definition, Principle 1: Positive Impact Finance is that which serves to finance Positive Impact Business. It is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental, and social) once any potential negative impacts to any of the pillars have been duly identified and mitigated. By virtue of this holistic appraisal of sustainability issues, Positive Impact Finance constitutes a direct response to the challenge of financing the Sustainable Development Goals (SDGs).

UNEPFI Principles for Responsible Banking, Principle 1: Alignment – We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

Positive Impact Finance Principles (United Nations Environment Programme Finance Initiative, UNEPFI) acknowledge the interconnectedness of sustainability issues and therefore base themselves on a global assessment of positive and negative impacts rather than on the singling-out of sectors, recognizing some sectors are in and of themselves carriers of positive impact but no sector is devoid of potential negative impacts and most sectors arguably carry at least some positive impact for one or the three main pillars of sustainable development.

Capitals Coalition Natural and Social and Human Capital Protocols, and Principles of Integrated Capitals Assessments outlines a process that organizations should follow to identify, measure and value their impacts and dependencies on the natural environment and on social and human capital respectively including developing integrated thinking and decision-making capabilities through application of the Protocols.

OTHER RESOURCES:

SDG Action Manager (developed by B Lab and the United Nations Global Compact), is an online tool for exploring how an PE fund's operations may relate to the SDGs. Based on geography and industry, an PE fund can get a view into the positive impacts created by their operations, supply chain, and business model and the risk areas for each SDG. The SDG Action Manager also enables an PE fund to set goals and track improvement. https://bcorporation.net/welcome-sdg-action-manager

SDG Compass Guide (developed by UN Global Compact, GRI, and WBCSD) provides guidance for companies on how they can align their strategies as well as measure and manage their contribution to the realization of the SDGs https://sdgcompass.org/

SDG Ambition Benchmark Reference Sheets (developed by the United Nations Global Compact) provide illustrative details on the steps a company can take to integrate actions related to achieving the SDGs into its business systems. As of this recording, there are at least 10 reference sheets covering topics such as Gender Balance Across All Levels of Management, Zero Discharge of Hazardous Pollutants and Chemicals, and 100% of Employees Across the Organization Earn a Living Wage. https://unglobalcompact.org/library/5790

The SDG Industry Matrix, developed by the UN Global Compact and KPMG, reviews likely SDG intersections for 7 different industries. https://www.unglobalcompact.org/library/3111

Guidance note 1.1.2. The Fund develops an impact thesis, or theses (see Impact thesis) specifying:

1.1.2.1 the SDG and/or other sustainable development outcome areas it intends to target
1.1.2.2 the type of impact it intends to achieve (see ABC Impact Classifications)
1.1.2.3 set in context of its impact risk appetite and tolerance (see Impact risk)

Understanding the sustainable development context

When setting the fund impact goals and priorities, evidence and relevant social and scientific data from reputable agencies such as government, scientific, community and civil society organizations should be taken into account to better understand the sustainable development context(s) the fund is/ plans to be operating in.

It is important that this information is:

- Relevant to the people experiencing the impacts. International research or research with a similar group of people but in a different context, that aggregates different groups of people together (such that needs of disadvantaged or marginalized groups are masked), or that excludes certain groups may not be relevant and its use may increase the risk of making sub-optimal decisions. Therefore, data should be sufficiently disaggregated (i.e., segmented) for decision-making, especially regarding excluded or disadvantaged groups. Inclusive data sources may need to be expanded over time to counter for the shortcomings in currently available data sets and factors which might inadvertently compound disadvantage or discriminatory approaches.
- Timely and up to date, especially as the sustainable development context and our understanding of it is changing rapidly.
- Supported by meaningful stakeholder engagement (taking into account stakeholders along the fund's whole supply and value chain, its products and services) and does not supplant that engagement either in selection of potential impacts or in design of products and services to create impacts without documented reasons – and therefore informed by 1.1.5.

The Sustainable Development Goals (SDGs)

The 2030 Sustainable Development Agenda and SDGs call on all businesses to apply their creativity and innovation towards solving sustainable development challenges. This includes exploring different business models and new ways of working – including collaborating and partnering with a broader range of actors and constituents than in the past to achieve the SDGs, being more connected across the system, and looking for opportunities to target activities where sustainable development needs are greatest and aligned with in-country policy priorities.

Sustainability and achieving the SDGs is a shared accountability that requires all actors across the system to work together in realizing the SDGs. The SDGs help to break down silos between different actors and geographies – creating space and opportunities for new ways of working towards solutions around a common purpose and shared goals and targets (see also 1.1.7).

REFERENCE FRAMEWORKS:

United Nations, Sustainable Development Goals (SDGs), are the world's blueprint to achieve a better and more sustainable future for all. Adopted by all 193 UN Member States in 2015, the SDGs comprise 17 integrated and indivisible goals grounded in human rights balancing the three dimensions of sustainable development – economic, social, and environmental. Supported by 169 targets and 230 indicators, the SDGs focus on most pressing issues first with an overarching goal to "leave no-one behind" and are variously referred to as the world's strategy and the most comprehensive map of need, risk, and opportunity. US$5-7 trillion per year needed to achieve the global goals – requiring both public and private capital.https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 1: SDG IMPACT THESIS AND MEASUREMENT, *"Align impact theses with countries' own needs and priorities for SDG investments (climate and SDG gap analysis and investment plans), and where relevant, focus on priority sectors in less developed markets, considering the unique characteristics of each market, and respecting a common but differentiated approach to the sustainability transition";* Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria."; Principle 3: INTEGRATED CORPORATE SDG FINANCE, *"Leverage blended finance from governments, development finance institutions, philanthropic foundations and impact investors to de-risk or subsidize corporate investments for technologies, sectors and geographies that are critical for the SDGs by currently underfunded.*

UNEPFI Principles for Responsible Banking, Principle 4: Stakeholders – We will proactively and responsibly consult, engage, and partner with relevant stakeholders to achieve society's goals

OTHER RESOURCES:

UNDP SDG Impact Investor Maps are a market intelligence product produced by UNDP Country Offices and partners to help private investors (funds, financiers, corporations) identify investment opportunities and business models that have significant potential to advance the SDGs in specific country or regional contexts. https://sdginvestorplatform.undp.org/

Sustainable Development Knowledge Platform https://sustainabledevelopment.un.org/vnrs/ which houses information on countries' sustainable development voluntary national reviews.

Determining Material impacts

Identification of expected impacts is based on all impacts that are aspects of wellbeing for people and planet. The fund may need to a) estimate/model its expected impacts and b) prioritize which impacts it will see to collect data on/measure.

The fund does not have to measure all impacts, but it none-the-less needs to manage all, so estimation of all impacts is fine, when the decision about which impacts to measure takes into consideration the level of certainty required.

To determine which impacts to prioritize, the fund at the portfolio level and then its investees at each investment level should first:

- identify **all** expected impacts arising from their current and future operations, value chains and through its business relationships; then
- determine the relative importance of those impacts to sustainable development, the SDGs and the stakeholders experiencing them.

There are two points at which judgements are made to prioritize expected impacts where the risk of missing impacts must be considered:

- The initial identification of stakeholders as they experience the impacts;
- The engagement with those stakeholders to identify expected impacts (relevant) which

would include consideration of the SDGs and the relative importance (significant) of those expected impacts to them.

The approach should be designed to result in a complete list of stakeholders and the impacts that are relevant to them as a basis for making decisions alongside this plan. The objective is to reduce the risk that impacts are missing that would change decisions being made to increase well-being, and so covers the approach to stakeholder engagement (1.1.5), the checks to ensure that potential impacts are being identified through that engagement, including these in the Impact Thesis and Strategy (1.2.3 and 1.2.5)) and recognizing trade-offs in decision-making are inevitable (2.2.5). This should also include an assessment of the enterprise's relative capabilities and ability to deliver impacts that matter to stakeholders both efficiently and effectively (acknowledging that enterprises can decide to change their capabilities to meet stakeholder requirements).

The use of predetermined lists of sector level material impacts can help, especially where this is derived from the enterprise's previous application of a materiality policy that is consistent with the definition used in these Standards, but over reliance on this increases the risk that impacts are missing and that decisions will not be optimal (the risk of this happening increases if the sector level resources are based on a more narrow or different definition of materiality than is applied in the Standards).

The fund and its investees should consider expected impacts not only from the perspective of the impacts they are currently making and the stakeholders they are currently serving, but also take a more holistic perspective of the sustainable development contexts they are operating within and future trends, to identify potential risks and opportunities outside its current scope and line of sight.

Inequality (overarching) and gender equality, climate action and decent work are always priorities (1.2.2 – cross cutting goals). Priorities must also include negative impacts and be informed by stakeholders.

Where the purpose of the fund, the purpose of the investees, the requirements for sustainable development and the impacts that matter to those that experience them are all aligned, there is no conflict (1.2.1). Where the purpose of the fund/investees is not aligned there is a risk that the fund identifies material issues but then prioritizes a subset that are deemed to matter to the fund, often on the fund's ability to generate cashflows for investors. Nonetheless, corrective action is possible at both the fund and investee levels:

- The investee may have a plan for how it changes its business model, strategy, or operations to the point where its approach to materiality is aligned. So long as the Fund encourages the investee to act and to have plans that are ambitious and rigorous (2.2.1), and the investee considers the increased risk of making decisions that are not optimal, the fund can meet the requirements of the Standards;
- If the investee does not act, the fund can reconsider its investment and adjust accordingly, and still meet the requirements of the Standards.

REFERENCE FRAMEWORKS:

Social Value International (SVI) Principles of Social Value, Principle 3: Value what matters – "Making decisions about allocating resources between different options needs to recognize the values of stakeholders. Value refers to the relative importance of different outcomes. It is informed by stakeholders' preferences" https://socialvalueint.org/wp-content/uploads/2019/11/Standard-on-applying-Principle-3-Value-the-Things-that-

Matter-FINAL.pdfm

Social Value International (SVI) Standard for applying Principle 3: Value the things that matter – guidance to value impacts from the perspective of affected stakeholders, emphasizing the importance of using data collected directly from stakeholders.

Social Value International (SVI) Principles of Social Value, Principle 4 – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact".

Social Value International (SVI) Standard for applying Principle 4: Only include what is material – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact". https://socialvalueint.org/social-value/standards-and-guidance/standard-applying-for-principle-4-only-include-what-is-material/

Social Value International (SVI) Principles of Social Value, Principle 8: Be Responsive – (work in progress) "making decisions that optimize value for all stakeholder groups materially affected. Consideration of risks and rigour of data in context of decisions being made".

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 1: SDG IMPACT THESIS AND MEASUREMENT, "Identify and mitigate "significant negative impacts on relevant SDGs, based on an analysis of the corporate portfolio and the supply chain and benchmarked against impacts generally associated with comparable assets, activities, or operating contexts"; "Align impact thesis with countries' own needs and priorities for SDG investments (climate and SDG gap analyses and investment plans), and where relevant, focus on priority sectors in less developed markets, considering the unique characteristics of each market, and respecting a common but differentiated approach to the sustainability transition".

OTHER RESOURCES:

SDG Action Manager (developed by B Lab and the United Nations Global Compact) has been designed to help users learn which SDGs matter most based on PE fund profile, get a clear view of how the PE fund's operations, supply chain, and business model create positive impact, and identify risk areas for each SDG.

The UNEP FI Impact Analysis Tools have been designed open source for banks, investors and their corporate clients and investee companies. They enable practitioners to implement a holistic approach to impact analysis and management. The Corporate Impact Analysis Tool helps banks and investors gain a cross-cutting view of the impact status and possibilities of their clients and investee companies but can also be used as a self-assessment Tool by corporates themselves. The other Tools are specifically designed for banks and investors. The identification phase of the Tools' workflow helps users identify their most significant impact areas based on the nature of their business and the sustainability needs of the countries in which they operate. The Tools have in-built sector mappings which consider positive and negative impacts of business sectors and activities on specific sustainability topics and needs mappings which provide data on global and country specific sustainable development needs from various global

SDG Industry Matrix, developed by the UN Global Compact and KPMG, which reviews likely SDG intersections for 7 different industries

Impact Beacon, developed by Citylight Capital, which helps an PE fund define the sectors, issues, impact areas, and outcomes they want to influence, and suggests which SDGs match. Initial industries include environment, education, and safety and care, and others will be added over time.

Guidance note 1.1.3. The Fund links its purpose and strategy with its impact thesis or theses (and its impact risk appetite and tolerance), including:

1.1.3.1 demonstrating compatibility with its investment strategy (including its financial return targets and its financial risk appetite and tolerance)

No additional Guidance is needed

REFERENCE FRAMEWORKS:

IMP ABC Classification. The IMP has developed a set of impact classes that group investments based on their impact characteristics. **https://impactmanagementproject.com/investor-impact-matrix/**

SDG Investor Platform. https://sdginvestorplatform.undp.org/

United Nations, Sustainable Development Goals (SDGs), are the world's blueprint to achieve a better and more sustainable future for all. Adopted by all 193 UN Member States in 2015, the SDGs comprise 17 integrated and indivisible goals grounded in human rights balancing the three dimensions of sustainable development – economic, social, and environmental. Supported by 169 targets and 230 indicators, the SDGs focus on most pressing issues first with an overarching goal to "leave no-one behind" and are variously referred to as the world's strategy and the most comprehensive map of need, risk, and opportunity. US$5-7 trillion per year needed to achieve the global goals – requiring both public and private capital.https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 1: SDG IMPACT THESIS AND MEASUREMENT, "Align impact thesis with countries' own needs and priorities for SDG investments (climate and SDG gap analyses and investment plans), and where relevant, focus on priority sectors in less developed markets, considering the unique characteristics of each market, and respecting a common but differentiated approach to the sustainability transition".

The Fundamental Principles of Official Statistics (General Assembly resolution 68/261) – where feasible, data should be disaggregated (i.e., segmented) by income, sex, age, race, ethnicity, migratory status, disability and geographic location, or other characteristics pertinent to the PE fund's impact goals.

OTHER RESOURCES:

UN Sustainable Development Knowledge Platform https://sustainabledevelopment.un.org/vnrs/ contains the sustainable development goals, targets and indicators and information from the Voluntary National Reviews of progress towards achieving the SDGs conducted by member states.

UN Stats - SDG Indicators Database https://unstats.un.org/sdgs/indicators/database/ provides access to data compiled through the UN System in preparation for the Secretary-General's annual report on "Progress towards the Sustainable Development Goals" that can be used to identify areas of need in relation to specific SDG targets by SDG indicator.

The UNEP FI Impact Analysis Tools have been designed open source for banks, investors and their corporate clients and investee companies. They enable practitioners to implement a holistic approach to impact analysis and management. The Corporate Impact Analysis Tool helps banks and investors gain a cross-cutting view of the impact status and possibilities of their clients and investee companies but can also be used as a self-assessment Tool by corporates themselves. The other Tools are specifically designed for banks and investors. Organizations can use the Tools to identify areas of need in relation to specific sustainability topics. The Tools incorporate data on sustainable development needs from various global and regional databases.

UNDP SDG Impact Investor Maps are a market intelligence product produced by UNDP Country Offices and partners to help private investors (funds, financiers, corporations) identify investment opportunities and business models that have significant potential to advance the SDGs in specific country or regional contexts. https://sdginvestorplatform.undp.org/

OECD Statistics is a database of OECD's publicly available statistics that can be used to identify areas of need in relation to specific sustainability topics. Especially useful for organizations designing business models to meet the needs of a group of people or the natural environment.

World Bank Data is a database of the World Bank's publicly available statistics that can be used to identify areas of need in relation to specific sustainability topics. Especially useful for organizations designing business models to meet the needs of a group of people or the natural environment.

Better Business Better World: The report of the Business and Sustainable Development Commission, January 2017 **https://sustainabledevelopment.un.org/index.php?page=view&type=400&nr=2399&menu=1515**

IFC's Environmental and Social Performance Standards which define IFC clients' responsibilities for managing their environmental and social risks and can be applied by other organizations to manage ESG risks (https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards)

The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making https://equator-principles.com/about/352/

Sendai Framework for Disaster Risk Reduction (Sendai Framework) provides Member States with concrete actions to protect development gains from the risk of disaster. It works hand in hand with the other 2030 Agenda agreements, including The Paris Agreement on Climate Change, The Addis Ababa Action Agenda on Financing for Development, the New Urban Agenda, advocating for the substantial reduction of disaster risk and losses in lives, livelihoods and health and in the economic, physical, social, cultural and environmental assets of persons, businesses, communities and countries.

Guidance Note 1.1.4. The Fund specifies how it intends to establish and promote alignment of interests among general and limited partners, Investees and other Stakeholders.

As Funds do not have access to the investees' stakeholders, funds are advised to encourage and set alignment and incentives for investees to engage stakeholders in decision making around the identification of the most material impact, settings goals, monitoring, reporting and the identification of lessons learned.

Stakeholder identification

Stakeholder identification should differentiate between people and organizations that experience impacts and people and organizations that contribute to those impacts. Stakeholders includes both current Stakeholders and potential future stakeholders, including currently excluded sub-groups and stakeholders along the whole investee supply and value chain, its products and services.

Stakeholder identification should consider the appropriate level of disaggregation for use in the impact thesis and in design and development of products and services recognizing that these are likely to be different.

Stakeholder engagement/involvement plan for those experiencing impacts

Stakeholder engagement should be designed to reduce the risk that material impacts (both current and potential future impacts identified based on what matters to stakeholders and achievement of the SDGs) are not identified to an acceptable level. This includes making sure that:

- the engagement is appropriate and inclusive for different stakeholders.
- the approach to identifying potential impacts is open and results have been documented.
- the risk of bias from the person conducting the engagement is recognized and minimized, for example there is a risk of explaining away or not recording negative impacts, or differences between stakeholders and those conducting the engagement.
- Risk of unintended or perverse consequences of the approach has been considered.

The initial assessment is likely to be more demanding and time consuming than in future measurement cycles. A risk-based approach can be taken to the frequency and extent to stakeholder involvement by stakeholder, allowing for changes in the sustainability context and in the characteristics of the stakeholder group.

REFERENCE FRAMEWORKS:

Social Value International, Principles of Social Value: Principle 1 Involve stakeholders – “inform what gets measured and how his is measured and valued in an account of social value by involving stakeholders (the people who experience change as a result of your activity”.

Social Value International “Standard on applying Principle 1: Involve stakeholders” explains options and processes for identifying stakeholders and meaningfully engaging stakeholders, including sample questions to ask, and collecting information to help shape strategy and objectives. This Standard talks about how speaking to and involving people who experience change is an essential part of the process. But it also acknowledges that speaking directly to stakeholders is not the only source of relevant information. Third party research may be complementary to what you hear from stakeholders or may be a substitute if your stakeholders are particularly difficult to reach, or if they do not feel comfortable sharing their opinions. https://socialvalueint.org/wp-content/uploads/2019/03/Standard-on-Stakeholder-Involvement-V2.0-FINAL-1.pdf

Capitals Coalition Natural and Social and Human Capital Protocols provides guidance on how to identify and engage with stakeholders in order to set objectives for a natural and social and human capital based assessment respectively (see Step 02).

Office of the United Nations High Commissioner for Human Rights, Free and Prior Informed Consent for Indigenous Peoples, www.ohchr.org/Documents/IssueFree_and_prior_informed_consent_for_indigenous_peoples/Peoples/FreePriorandInformedConsent.pdf

UNEPFI Principles for Responsible Banking, Principle 4: Stakeholders – We will proactively and responsibly consult, engage, and partner with relevant stakeholders to achieve society’s goals.

OTHER RESOURCES:

OECD Directorate for Financial and PE fund Affairs, Guidelines for Due Diligence and Stakeholders Engagement in Investments, https://www.oecd.org/fr/daf/inv/

British Standards Institution, BS 8950 Social value – Understanding and enhancing – Guide (Draft, 2020)

Maximise Your Impact, A guide for social entrepreneurs (developed by Social Value UK) – guidance to help an organization maximize its positive social value by engaging stakeholders and understanding their objectives and needs in order to design a business model around delivering those objectives.

The Accountability Council, https://www.accountabilitycounsel.org/wp-content/uploands/2018/08/6-27-16-ams-benefits-and-best-practices_short.pdf

The Kampala Principles on Effective Private Sector Engagement, http://www.oecd.org/dac/effectiveness/Kampala-Principles-on-effective-private-sector-engagement-development-cooperation.pdf

The OECD Blended Finance Principle 3, http://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-3/P#_Guidance_Note.pdf

Tri Hita Karana (THK), Impact Working Group Checklist for Assessing the Impacts of Blended Finance on the Poor, https://www.thkforum/org/project/a-checklist-for-assessing-the-impact-of-blended-finance-on-the-poor/

Guidance note 1.1.5. The Fund ensures the magnitude (i.e. scale and/or depth) of the intended impact is commensurate with the size of the Fund

No additional guidance is needed.

Guidance Note 1.1.6. The Fund determines the resources it intends to allocate as part of its overall strategy.

Adequate resourcing

Integrating sustainability and impact management into decision-making requires investment in terms of resourcing, leadership and building capability, which if not adequately budgeted for will undermine strategy implementation.

REFERENCE FRAMEWORKS:

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, “Determine specific internal resources, investments, (R&D, capex, M&A, FDI) and funding needs to implement the SDG impact thesis and integrated strategy and analyze the financial risk-return profile (IRR) of SDG investments”.

Capitals Coalition Capitals Protocols. The Natural Capital Protocol highlights the consideration of the trade-off between investing in building skills and institutional knowledge within internal staff and hiring external specialists with significant technical expertise. It also gives an example of indicative resources that may be needed throughout an assessment within the context of natural capital (see Step 01).

OTHER RESOURCES:

Guidance Note 1.2 The Fund sets realistic but ambitious portfolio level impact goals aligned with its purpose and strategy, including its impact thesis, to optimize contributing positively to sustainable development and achieving the SDGs.

1.2.1. The fund draws on available evidence and relevant SDG impact data and information from reputable government and scientific and civil society organizations to set portfolio level impact goals that are:

1.2.1.1 realistic and ambitious (in context of current performance and relevant local or national SDG and/or other sustainable development outcome thresholds)

1.2.1.2 commensurate with the Fund's size

1.2.1.3 align with its purpose, impact thesis, investment strategy and the sustainable development context of the markets in which the Fund intends to operate

No additional guidance is needed.

Guidance Note 1.2.2. The Fund includes in its impact goals:

1.2.2.1 specific cross-cutting goals on creating gender equality, climate action, and decent work

1.2.2.2 specific goals to prevent and/or reduce all material negative outcomes in its direct operations and its supply and value chains (i.e. acting to avoid harm)

1.2.2.3 specific goals to optimize its own investor contributions (see Investor contribution(s) to impact)

When setting impacts goals, the following shall be considered both at the fund, portfolio and the investees levels.

Ambitious and rigorous impact goals

The fund having an impact thesis and setting rigorous and ambitious goals is fundamental to the argument that these processes will drive decision making that, taken up across the ecosystem, would maximize contribution to sustainability and the SDGs. Ambitious goals also relate to the need for continuous improvement.

Goals may be descriptive but must be associated with quantitative targets. The encouragement of debate between those preparing the targets and those setting the targets, who are responsible for holding the management to account is key.

Where there is an element of performance related pay in relation to those targets there will need to be more willingness by directors to ensure that those payments meet directors' fiduciary responsibilities and the approach to impact management may be less risky.

Targets

The process for setting targets should consider the local context:

- Wider market and sustainability developments, including SDG goals and timescales
- Thresholds, and allocation of those goals
- Inequality, gender equality, climate action and decent work
- Recognition and prevention or mitigation of material negative impacts
- Trade-offs between positive and negative impacts in decision making
- The relationship between impact targets, impact risk and risk tolerance
- The relationship between impact targets and risk adjusted expected financial returns
- Scale

Ambitious targets

A process for ambitious targets requires:

- Assessing current performance (establishing baseline)
- Estimating thresholds for each relevant impact both positive and negative
- Setting targets within the longer-term strategy for the business and the impact thesis over the coming years, recognizing the need for targets to be above thresholds for each impact
- Comparison with peers and competitors recognizing that comparators must also meet these requirements to be a useful benchmark
- Agreement and sharing of targets with identified collaborations
- Separation of roles between preparation and approval of goals
- Process to adjust targets
    - Regular director review of performance against targets that then informs future targets
    - Changes made to address the results of that review, covering both strategy and operations
- A process to check progress on those actions

Rigorous targets

A process for rigorous targets necessitates quantified indicators or metrics (SMART), based on

- Definitions as used in the Standards, including dimensions of impact in setting targets (2.1.6)
- Stakeholder involvement to inform potential impacts and to understand and quantify the relative importance of impacts (1.1.4)
- Materiality process that ensures completeness of all material impacts (1.1.5)
- Sufficient segmentation that captures relative differences between stakeholder groups and sub-groups
- Relate impacts to SDGs and ABC classifications (1.2.2)

Thresholds and allocations

A threshold is a societal norm or ecological level that is the social minimum that must be reached or an environmental maximum that must not be breached for an impact to be positive. For some impacts these can be set within the context of planetary capacities. For others social norms within the context of human rights may be required. The threshold defines the acceptable range for the impact. Performance outside of the acceptable range is negative or unsustainable. Performance within the acceptable range is positive or sustainable. Allocations represent *the fair, just and proportionate share of responsibilities to maintain common capital resources.*

Thresholds reflect allocations and should be set at a relevant scale which could be set locally, nationally, or internationally. They should also consider the affected stakeholder's perspective, so stakeholder feedback can be an important way to corroborate thresholds, especially when they are not well-established. (Note: care should be taken to recognize—and adjust accordingly—that under- represented stakeholder populations may not be aware of the negative impacts that business or other activities may have on their access to basic rights and services. Precedence should be given to international norms where locally set thresholds are unavailable or lower than international norms.) The Fund (and its investees) should default to using international norms when locally set thresholds are lower than international norms or not available.

There are two methods of arriving at thresholds for sustainable development:

- The first is grounded in natural or social sciences. Through research and empirical study, this method produces evidence to help organizations understand how their actions affect the people and natural resources they interact with (e.g., climate science).

- The second is stakeholder expectations, recognizing that stakeholder expectations are critical to gaining insights that will inform decisions to maximizing contribution to sustainability and the SDGs.

Funds and their investees should look to identify authoritative institutions which provide credible sources of thresholds for the impacts they are trying to measure. Where established thresholds are not available, Funds and their investees will need to determine a relevant threshold themselves. These will be informed by their duties and obligations which, in the context of the standards, relate to responsible business practices as determined in UNGPs, UNGC Ten Principles and UN Women's Empowerment Principles. These also require stakeholder engagement, so that at least the perspective of the affected Stakeholder is included, and drawbacks of other methods can be mitigated (for example they are often historical and "universal" and may have entrenched bias, for instance, gender bias).

Funds and their investees may find that they have a choice between several credible thresholds. For example, when considering the outcome of income from employment, a Fund or its investee might consider the national minimum wage, the national living wage, or a regional living wage. In such cases, the Fund and its investee should select the more ambitious threshold, so long as it is relevant to the affected stakeholder group. Funds and their investees may consider testing the relevance of thresholds through stakeholder engagement. It is important to note that setting thresholds provide incentives for continuous improvement even if reaching the target might take longer to achieve. It also increases the chances to find solutions that will be most impactful.

Allocations are grounded in ethics and look to social norms for what is considered fair in society. These norms may be enshrined in law or formalized through institutions that have legitimacy in producing associated reference documents (e.g., ILO Conventions).

Where responsibilities are shared, there are three main methods of estimating an allocation i.e. the Fund's or investee's share. These are: economic (an organization's value-added contribution to GDP); Per Capita (an organization's FTE percentage of the broader reference population); or physical (an organization's market share of the number of widgets). For some issues, for example those relating to equity like gender equality, there may not be an allocation as the threshold, is the same for all organizations. The assessment of allocations is not prescriptive and will depend on the context and require judgement.

Ensuring impact goals are sufficiently targeted

Impact goals should account for relative differences between stakeholder groups – and different segments within stakeholder groups. For example, on average the SDG threshold may be met, however outcomes for certain stakeholder sub-groups (e.g., socio-economically disadvantaged groups, indigenous peoples, religious or racial minority groups, people living with disability, women) may be significantly below the threshold level. This requires making intergroup comparisons of impact, which in turn requires transparent valuation of impacts (including incorporating the perspectives of those experiencing the impacts into the valuation process).

Setting impact goals to avoid or significantly reduce all material negative impacts

This includes taking into account all expected material direct and indirect, intentional and unintentional (upstream and downstream) impacts that arise as a consequence of decisions, actions and business relationships. Goals can also be set to improve the identification and management of indirect impacts over time, recognizing the challenges that currently exist.

Avoiding or significantly reducing expected negative impacts is a positive contribution to sustainable development and the SDGs when reaching the threshold level.

Amplifying impact through setting market leadership and collective action goals

The SDGs are a shared responsibility and require partnerships and collaboration to realize. Impact can be amplified through setting market leadership and collective action goals to further enable the SDGs, for example:

- sharing SDG impact data and lessons publicly (e.g., sharing case studies about which business models in which contexts are effective at tackling specific SDG targets; sharing examples of the different decisions made as a result of impact data)
- actively participating in initiatives to build and/or comprehensively (i.e., not selectively) adopt shared industry impact management terms, conventions, and standardized metrics where appropriate
- proactively seeking to have metrics added to standardized lists where they are likely to have broader applicability

- mentoring and enabling others
- building stakeholders' capacity (especially underserved and/or vulnerable populations)
- exploring partnerships as an enabler for greater SDG impact
- developing industry infrastructure such as open-source tools and resources
- helping to scale value-adding intermediaries, platforms, and networks
- promoting policy reforms.

Cross-cutting goals

For the purposes of applying the Standards, reducing inequality is an overarching objective and gender equity, climate action and decent work[1] are always material as they are key priority areas that underpin global sustainable development and require collective action to progress.

However, with respect to climate action, cross-cutting goals should take into account the development context, ensuring that developing countries and regions' ability to achieve important development outcomes are not jeopardized by unreasonable cross-cutting goals on climate action that are more fairly borne by more developed countries, and recognizing the interdependency between inequality and development issues and climate action.

Setting impact goals across the five dimensions of impact

An impact goal set across the five dimensions of impact is an expression of expected impact performance. It should include who is affected, what outcome occurs for them, how much that outcome changes, the contribution the fund expects to make to the change, and the risk that the impact is different from that expected. Quantified targets using both the dimensions and the assessment of materiality that incudes relative preferences on the set of impacts can then be set.

After considering each of the five dimensions, a fund can classify its specific impact goals according to the ABC impact classifications, which may be helpful in describing and summarizing the nature and depth of its impact intentions to stakeholders.

REFERENCE FRAMEWORKS:

United Nations, Sustainable Development Goals (SDGs), are the world's blueprint to achieve a better and more sustainable future for all. Adopted by all 193 UN Member States in 2015, the SDGs comprise 17 integrated and indivisible goals grounded in human rights balancing the three dimensions of sustainable development – economic, social, and environmental. Supported by 169 targets and 230 indicators, the SDGs focus on most pressing issues first with an overarching goal to "leave no-one behind" and are variously referred to as the world's strategy and the most comprehensive map of need, risk, and opportunity. US$5-7 trillion per year needed to achieve the global goals – requiring both public and private capital.https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals

UN Guiding Principles on Business and Human Rights
https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf

Impact Management Project (IMP), five dimensions of impact, provides guidance on the types of data needed to understand and assess impact performance. The IMP community of 2,000+ practitioners identified five dimensions of impact, which can be broken down into 15 more detailed data categories. Organizations can use the five dimensions as a checklist to ensure the information gathered is sufficient for the decision it will inform

[1] International Labour Organization (ILO)'s definition **of decent work** involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for peoples to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men. The four pillars of the ILO Decent Work Agenda are: (i) employment creation, (ii) social protection, (iii) rights to work, and (iv) social dialogue.

(see also the ABC methodology and SDG Impact Standards Glossary). https://impactmanagementproject.com/impact-management/how-PE funds-manage-impact/ and Five Dimensions of Impact (Impact Management Norms), https://impactmanagementproject.com/impact-management/impact-management-norms/

Social Value International (SVI) Principles of Social Value, Principle 1: Involve stakeholders – "Inform what gets measured and how this is measured and valued in an account of social value by involving stakeholders (the people who experience change as a result of your activity)".

Social Value International (SVI) "Standard on applying Principle 1: Involve stakeholders" explains options and processes for identifying stakeholders and meaningfully engaging stakeholders, including sample questions to ask. This Standard talks about how speaking to and involving people who experience change is an essential part of the process. But they also acknowledge that speaking directly to stakeholders is not the only source of relevant information. Third party research may be complementary to what you hear from stakeholders or may be a substitute if your stakeholders are particularly difficult to reach, or if they do not feel comfortable sharing their opinions. https://socialvalueint.org/wp-content/uploads/2019/03/Standard-on-Stakeholder-Involvement-V2.0-FINAL-1.pdf

Social Value International (SVI) Principles of Social Value, Principle 4 – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact".

Social Value International (SVI) Standard for applying Principle 4: Only include what is material – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact". https://socialvalueint.org/social-value/standards-and-guidance/standard-applying-for-principle-4-only-include-what-is-material/

The Ten Principles of the UN Global Compact https://www.unglobalcompact.org/what-is-gc/mission/principles

The UN Women's Empowerment Principles https://www.weps.org/

The International Labour Organization's 8 fundamental conventions for labor standards https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm

Office of the United Nations High Commissioner for Human Rights, Free and Prior Informed Consent for Indigenous Peoples, www.ohchr.org/Documents/IssueFree_and_prior_informed_consent_for_indigenous_peoples/Peoples/FreePriorandInformedConsent.pdf

OECD Guidelines for Multinational PE funds sets out principles and standards for responsible business conduct consistent with applicable laws and internationally recognized standards, including setting objectives with reference to minimum safeguards on topics such as: human rights, labour relations, employment practices, public health and safety, bribery and extortion, science and technology and taxation.

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 1: SDG IMPACT THESIS AND MEASUREMENT, *"Identify and mitigate "significant negative impacts on relevant SDGs, based on an analysis of the corporate portfolio and the supply chain and benchmarked against impacts generally associated with comparable assets, activities, or operating contexts"; "Set goals, targets, and indicators that promote and credibly measure the company's contribution to relevant SDGs and its mitigation of significant negative impacts, using consistent and comparable metrics that are based on the official SDG targets and indicators";* Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, *"Business should translate their SDG impact thesis into strategic objectives and initiatives that build upon the existing corporate strategy and business model".*

UNEPFI Principles for Responsible Banking, Principle 3: Clients and Customers – WE will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

UNEPFI Principles for Responsible Banking, Principle 2: Impact & Target Setting – We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and the environment resulting from our activities, products, and services. To this end, we will set and publish targets where we can have the most significant impacts.

Social Value International (SVI) Principles of Social Value, Principle 4 – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact".

Social Value International (SVI) Standard for applying Principle 4: Only include what is material – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact". https://socialvalueint.org/social-value/standards-and-guidance/standard-applying-for-principle-4-only-include-what-is-material/

OTHER RESOURCES:

R3.0 work with UNRISD – https://r3dot0.medium.com/thresholds-of-transformation-a -common-denominator-to-transcend-incrementalism-unrisd-r3-0-74fff499bcdb

SHIFT (human rights thresholds)

UN Stats - SDG Indicators Database https://unstats.un.org/sdgs/indicators/database/ provides access to data compiled through the UN System in preparation for the Secretary-General's annual report on "Progress towards the Sustainable Development Goals" that can be used to identify areas of need in relation to specific SDG targets by SDG indicator.

OECD Statistics is a database of OECD's publicly available statistics that can be used to identify areas of need in relation to specific sustainability topics. Especially useful for organizations designing business models to meet the needs of a group of people or the natural environment.

World Bank Data is a database of the World Bank's publicly available statistics that can be used to identify areas of need in relation to specific sustainability topics. Especially useful for organizations designing business models to meet the needs of a group of people or the natural environment.

Stockholm Resilience Centre (SRC) is an international research centre on resilience and sustainability science – (planetary boundary thresholds) https://www.stockholmresilience.org/about-us.html (planetary boundary thresholds)

How to guide for Setting Science Based Targets by the Science Based Targets Initiative provides guidance for a translating planetary thresholds related to green-house gas emissions into company-specific targets which incorporate a ecological threshold for a given global warming scenario.

Science-Based Targets for Nature Initial Guidance for Business by the Science Based Targets Network provides guidance for setting science-based targets relating to nature by translating planetary thresholds and societal goals into company-specific targets for air, water, land, biodiversity and ocean.

OECD Due Diligence Guidance for Responsible Business Conduct helps organizations comply with the OECD Guidelines for Multinational PE funds providing guidance on setting up due diligence processes to identify and address principal adverse impacts in operations, supply chain and business relationships.

SDG Action Manager (developed by B Lab and the United Nations Global Compact) has a goal-setting functionality which enables users to set specific goals with timelines for each question within a given SDG. Each question within the SDG Action Manager is mapped to SDG targets. The SDG Action Manager also enables users to get a clear and holistic view of how a company's operations, supply chain, business model and collective action create positive impact, and identify risk areas for each SDG.

SDG Compass Guide (developed by UN Global Compact, GRI, and WBCSD) provides guidance for companies on how they can align their strategies as well as measure and manage their contribution to the realization of the SDGs https://sdgcompass.org/

SDG Ambition (an accelerator initiative developed by the UN Global Compact) aims to challenge and support participating companies of the UN Global Compact in setting ambitious corporate targets and accelerating integration of the SDGs into core business management. Established in partnership with several UN Global Compact companies, the accelerator program provides participating companies with detailed guidance and training on how to integrate and mainstream sustainability goals across business units by pioneering a performance integration approach that utilizes enabling technologies.

SDG Ambition Guide (developed by the UN Global Compact) establishes the initial set of SDG Ambition benchmarks to support goal setting and the development of corporate targets in the areas in which business is positioned to have a substantial impact. Business leaders can use the guide to support their strategy and set goals ambitious enough to deliver the SDGs by 2030.

The UNEP FI Principles for Responsible Banking target setting guidance documents provide banks with guidance on setting targets on a range of sustainability topics: biodiversity, financial health & inclusion, climate, gender equality.

IFC's Environmental and Social Performance Standards which define IFC clients' responsibilities for managing their environmental and social risks and can be applied by other organizations to manage ESG risks (https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards)

The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making https://equator-principles.com/about/352/

UNDP SDG Impact Investor Maps are a market intelligence product produced by UNDP Country Offices and partners to help private investors (funds, financiers, corporations) identify investment opportunities and business models that have significant potential to advance the SDGs in specific country or regional contexts. https://sdginvestorplatform.undp.org/

Oxfam Women's Economic Empowerment Framework https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620269/gt-framework-womens-economic-empowerment-180118-en.pdf?sequence=7

SEAF Gender Equality Scorecard Manual – https://www.seaf.com/ges-manual/

2X Challenge Financing for Women – https://www.2xchallenge.org/criteria

The UNEP FI Impact Analysis Tools have been designed open source for banks, investors and their corporate clients and investee companies. They enable practitioners to implement a holistic approach to impact analysis and management. The Corporate Impact Analysis Tool helps banks and investors gain a cross-cutting view of the impact status and possibilities of their clients and investee companies but can also be used as a self-assessment Tool by corporates themselves. The other Tools are specifically designed for banks and investors. The Tools help users identify their most significant impact areas and guide them on their performance assessment based on which targets should be set. The Tools have an in-built indicator library which provides a compilation of impact-related indicators and metrics, useful for setting meaningful targets. This is also available as a standalone resource.

The Fundamental Principles of Official Statistics (General Assembly resolution 68/261) – where feasible, data should be disaggregated (i.e., segmented) by income, sex, age, race, ethnicity, migratory status, disability and geographic location, or other characteristics pertinent to the PE fund's impact goals.

World Business Council for Sustainable Development, Sustainable Development Goals Sector Roadmaps: Leveraging The Power of Collaboration to Drive SDG Impact, https://www.wbcsd.org/Programs/People/Sustainable-Development-Goals/SDG-Sector-Roadmaps/News/SDG-Sector-Roadmaps-Leveraging-the-power-of-collaboration-to-drive-SDG-impact

OECD Directorate for Financial and PE fund Affairs, Guidelines for Due Diligence and Stakeholders Engagement in Investments, https://www.oecd.org/fr/daf/inv/

British Standards Institution, BS 8950 Social value – Understanding and enhancing – Guide (Draft, 2020)

The Accountability Council, https://www.accountabilitycounsel.org/wp-content/uploands/2018/08/6-27-16-ams-benefits-and-best-practices_short.pdf

The Kampala Principles on Effective Private Sector Engagement, http://www.oecd.org/dac/effectiveness/Kampala-Principles-on-effective-private-sector-engagement-development-cooperation.pdf

The OECD Blended Finance Principle 3, http://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-3/P#_Guidance_Note.pdf

OECD Directorate for Financial and PE fund Affairs, Guidelines for Due Diligence and Stakeholders Engagement in Investments, **https://www.oecd.org/fr/daf/inv/**

The Future-Fit Benchmarks developed by Natural Step which identify a set of 'absolute' goals that are based on social and natural science and that all companies must ultimately strive to reach, irrespective of the products or services they offer.

WBCSD's Action2020 which sets the agenda for business to take action on sustainable development to 2020 and beyond. Action2020 defines societal targets, 'Societal Must-Haves' and around nine Priority Areas, based on a scientific review led by the Stockholm Resilience Centre.

The United Nations website contains public commitments to goals and targets announced by companies.

PivotGoals by Winston Eco-Strategies which allows users to browse goals and targets set by Global 500 companies. Adapted from SDG Compass Guide 2015.

Reconstructing Baseline Data for Impact Evaluation and Results Measurement by the World Bank – for when baseline data is missing

GRI Sustainability Reporting Standards are designed to help organizations understand and report their impacts in a way that meets the needs of multiple stakeholders. There are a set of Universal Standards that apply to all organizations, and 35 Topic Standards that contain disclosures for impacts related to economic, environmental, and social topics. Organizations can use the standards to report to stakeholders on “material” topics that reflect the organization's most significant impacts.

IRIS+ System by Global Impact Investing Network (GIIN) is a tool designed to help impact investors translate intentions into results (hence investors may request businesses they invest in to report using these metrics, and they may be useful to businesses looking to select appropriate metrics to measure, manage and report their impacts). IRIS+ metrics and metric sets are aligned to the SDGs and five dimensions of impact and work is underway to map various investor metric sets and corporate disclosure standards with a view to achieving global consistency, including IRIS+-GRI, B Lab-IRIS+, HIPSO-IRIS+. It starts by helping investors frame their impact goals in a common way (linked to an SDG or Impact Category) and offers a set of metrics (Core Metrics Sets) to assess performance against set goals, together with an evidence base (Navigating Impact) and implementation guidance.

HIPSO indicators (Harmonized Indicators for Private Sector Operations) are a list of reporting indicators set across various sectors and industries (including cross-cutting). They have definitions that have been agreed upon by 28 different development finance institutions from around the world, all of whom have signed the MoU on harmonized indicators. These indicators may be used by any entity wishing to use them.

UNCTAD core indicators for entity reporting on contributions towards implementation of the Sustainable Development Goals (GCI). The GCI is a set of core universal baseline indicators common to all businesses of all types and sizes aimed to facilitation harmonization and comparability of SDG reporting by companies. The GCI has been endorsed by UNCTAD member states, are selected based on main reporting frameworks and PE fund practices and aligned with the SDG indicators monitoring framework. https://unctad.org/webflyer/guidance-core-indicators-entity-reporting-contribution-towards-implementation-sustainable

UNCTAD GCI Training Material https://isar.unctad.org/wp-content/uploads/2020/04/UNCTAD_DIAE_2020_2.pdf

GRI – forthcoming – sector standards

WBA likely impacts that all PE funds might have regardless of their industry

WEB IBC's universal metric sets likely impacts that all PE funds might have regardless of their industry

Guidance note 1.2.3. The fund has a separation of roles between drafting and approval of impact goals, where those approving the goals recognize they are acting in both the interests of the Fund and those expected to be impacted

No additional guidance is needed.

Guidance note 1.2.4. The fund considers the potential for unintended consequences and seek to limit the potential for unintended negative or perverse outcomes in the framing of its portfolio level impact goals.

Reducing the potential for unintended consequences

The success of deploying an impact strategy needs to consider potential unintended consequences and limit its negative outcomes. When setting impact goals, the interdependency of the SDGs and whether the strategic goals or metrics selected may inadvertently redirect resources and attention from where they are needed most or incentivize unintended or undesirable behaviors that reduce positive impact or create or increase negative impact should be considered.

Guidance note 1.3 The Fund periodically reviews – and refines – its impact thesis, investment strategy and portfolio level impact goals to ensure they remain fit for purpose over the Fund lifecycle and as the sustainable development context changes. The Fund:

1.3.1 employs a dynamic approach to ensuring its impact thesis, investment strategy and portfolio level impact goals remain fit for purpose

1.3.2 incorporates lessons from impact performance, including analyzing deviations from expected outcome/impact performance

1.3.3 responds to current and anticipated changes in the sustainable development context including changes to in country SDG priorities or needs and accounting for sector advances and new and updated research/evidence, and lessons from its engagement with Investees, partners and other Stakeholders.

Strategy always on and embedding continuous improvement

The sustainable development context is dynamic and constantly changing. Further, as the Fund collects data and monitors its impact performance, it will learn about what’s working well, what needs refinement, and what’s not working. Strategy and goal setting is not a set-and-forget exercise and should be periodically (for instance annually) reviewed and updated as appropriate, including by incorporating:

- lessons from the engagement with investees, partners and stakeholders
- lessons from impact performance (e.g., evaluating deviations from expected outcome/impact performance, recognizing unintended positive or negative outcomes/impacts, and eventual need of corrections to future plans)
- changes in the sustainable development context (e.g., regulatory changes, technological advances, other actors’ activities, possibility of local political developments or public reactions, changes to in-country SDG priorities or needs)
- updated research, evidence, and/or approaches.

This process creates systematic feedback loops to support continuous improvement in impact practices and performance. For example, impacts that may have been expected to be “positive” in the planning phase that might no longer be sufficient and/or relevant for the stakeholders experiencing the impact.

REFERENCE FRAMEWORKS:

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 1: SDG IMPACT THESIS AND MEASUREMENT, “Business should develop a specific SDG impact thesis, which maximizes their unique capabilities and assets, promotes the most effective private-sector solutions to sustainable development and is updated or expanded over time”.

OTHER RESOURCES:

Guidance Note 2.1 The Fund has effective mechanisms and processes to deliver on its strategy, including its impact thesis and portfolio level impact goals.

2.1.1. The Fund embeds in its policies and practices the UN Guiding Principles for Business and Human Rights and Ten Principles of the UN Global Compact, including:

2.1.1.1 establishing or participating in effective grievance and reparation mechanisms for affected Stakeholders (including for the avoidance of doubt, whistleblowing safeguards)

2.1.1.2 ensuring senior leadership's commitment to respect human rights and other responsible business practices is visible throughout the organization

2.1.1.3 promoting the same in its supply and value chains

Respect for human rights, planetary boundaries, and other responsible business practices

Commitment to operating with respect for human rights, planetary boundaries and other responsible investment practices and acting to prevent, mitigate and remediate actions any breach to that commitment – through the investees' direct operations, business relationships and promoting the same through supply and value chains – is foundational.

Both the fund's and its investees policies and practices should be aligned with, or they should have a demonstrated commitment and progress towards aligning policies and practices with, the:

- UN Guiding Principles for Business and Human Rights (which incorporates the International Labour Organization – 8 fundamental conventions for labour standards)
- Ten Principles of the UN Global Compact, and
- UN Women's Empowerment Principles

Such policies include but are not limited to those labelled code of conduct, responsible business, Environmental, Social and Governance (ESG) policies and those concerning specific sustainable development issues such as climate change, human rights, and equal opportunities.

Practices may include, for instance with respect to workers, the role of trade unions being recognized and supported, collective bargaining rights and mechanisms for the application of ILO convention 169 (ILO, 1989) and as evidenced by the response, for example, a change to products or services, a change in operations or to working conditions, evidence of proposals that are rejected by those that are or may be impacted – even though they may generate financial returns.

Commitment is reinforced through visible senior leadership endorsement internally and externally in emails, newsletters, speeches, social media, website, etc. and coherence between stated policies and behaviors.

Effective grievance mechanisms

The goal is that stakeholders are easily able to submit complaints or claims, get a fair assessment of cases, and receive compensation/ reparation as applicable through effective accountability mechanisms. Effective accountability mechanisms are principles based and adhere to all of the following principles: (1) Legitimacy; (2) Predictability; (3) Accessibility; (4) Equitability; (5)

Transparency; (6) Rights compatibility; (7) A source of continuous learning; and (8) Based on engagement and dialogue.

In general, accountability mechanisms:

- receive complaints from people harmed, or likely to be harmed, by the fund
- determine whether the complaint is eligible under the mechanism's rules; and then, if it is eligible, the accountability mechanism may:
    - resolve the dispute through mediation, fact-finding or other methods; and/or
    - investigate whether the fund's own policies or procedures have been violated by the institution and whether those violations have caused or are likely to cause harm to people or the environment.
- Finally, the accountability mechanism issues a public report with their findings of the investigation and recommendations, if any.

Policies and guidelines should be in place for receiving complaints, giving complaints serious consideration, ensuring remedial actions are taken and commensurate to the magnitude of the damage and taking action to reduce the likelihood of future negative impacts. Cases, status, and resolutions are monitored and reported and available to senior management, the board, and other relevant stakeholders.

Funds should have an independent office to receive complaints from people alleging harm from the activities of the fund or its investees. The independent office should be equipped to address complaints through two primary functions: dispute resolution[2] and compliance review[3]. The purpose of dispute resolution is to provide a process for resolving concerns and remedying harm collaboratively with aggrieved stakeholders through a neutral facilitator. The purpose of compliance review is to determine whether harm resulted from non-compliance with the fund's environmental and social policies. If the conclusion of a compliance review is that harm has resulted from non-compliance, the fund should commit to remedy the harm (or potential harm), remediate it, and report on it. All reports should be substantiated by evidence.

Organizations like Accountability Counsel and SHIFT create resources that make it easier and more efficient for businesses to incorporate human rights and other responsible business practices into their policies and practices. In many countries, options now exist for organizations to participate in cost effective external complaints and dispute resolution schemes that support accountability to stakeholders.

Source: Adapted from Accountability Counsel

[2] Dispute resolution (also called conflict resolution) is a process that facilitates a dialogue between affected people, project sponsors, and other local stakeholders toward resolving the issues raised in a complaint. Typically, an accountability office will hire a neutral mediator or facilitator to aid the process. Dispute resolution frequently entails information-sharing, utilization of independent experts to better understand the extent of harm and possible solutions, and negotiation between the parties. The process often takes several months. Agreements reached through dispute resolution are typically followed by a monitoring period where the accountability office reports on the progress of implementing agreed-upon commitments. Source: Accountability counsel

[3] Compliance review (also called compliance investigation or compliance audit) is the process of probing whether an institution violated its own policies or procedures by engaging in activities that lead to the harm described in a complaint. Source: Accountability Counsel.

Operating within planetary boundaries

Planetary boundaries define the environmental limits within which humanity can safely operate. Proposed in 2009 by Johan Rockstrom, Stockholm Resilience Centre and Will Steffen, Australian National University. Increasingly, science-based targets are being set and used by organizations to help them operate within planetary boundaries.

Given that climate action is always material within the context of these Standards, the expectation is that Enterprises set and manage to science-based targets – and interim targets – aligned with net zero by 2030 – taking into account that to achieve this outcome for the world, many countries and organizations need to arrive at this outcome sooner to enable a just transition for all.

In November 2022, the United Nations' High-Level Expert Group (UN HLEG) on The Net Zero Emissions Commitments of Non-State Entities released its first report – "Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions". The recommendations contained within this report are now included in the SDG Impact Standards as guidance for operating within planetary boundaries as this pertains to climate action, with the expectation that organizations implement the report's principles and recommendations as part of Standards implementation, irrespective of whether they are making public Net Zero pledges or commitments.

The Recommendations set out five principles (ambition, demonstrated integrity, radical transparency, credibility, demonstrable commitment to equity and justice) and ten recommendations, which together, create a universal definition for net zero and standardizes net zero pledges and commitments for non-state entities (the UN HLEG Net Zero Recommendations). In summary, the recommendations call for net zero pledges and commitments:

- To be made by the entire entity, made in public by the leadership, reflective of the entity's fair share of the needed global climate mitigation.
- Share comprehensive transition plans detailing how targets will be met, highlighting uncertainties, assumptions and barriers, detailing how entities are aligning their internal culture, practices and structures with commitments while also supporting a just transition and publicly report annually on progress against targets and baselines set, with reports to be independently verified and added to the UNFCCC Global Climate Action Portal.
- Contain short-, medium-, and long-term targets (including for 2025, 2030 and 2035) accounting for all GSG emissions with separate targets for material non-carbon emissions (such as fossil methane and biogenic methane) to reach net zero by 2050 in line with the Intergovernmental Panel on Climate Change (IPCC) or International Energy Agency (IEA), net zero greenhouse gas (GSG) emissions to peak global emissions by 2025 and cut emissions in half by 2030, modelled on pathways that limit global warming to 1.5 degrees Celsius with no or limited overshoot, covering the entire value chain of the entity, including end-use emissions.
- Prioritize urgent (i.e., front-end actions) and deep absolute reduction of emissions across the value chain to meet scientific requirements and reduce transition risks for entities.
- Only apply high integrity carbon credits for beyond value chain mitigation (i.e., not counted toward its interim emissions reductions required by its net zero pathway).
- Not support new supply or new investment of fossil fuels, with a need to decommission

and cancel existing contracts.

- By 2025 that operations and investments are not contributing to deforestation, peatland loss and the destruction of remaining natural ecosystems.
- Actively lobby for positive climate action and not against it and work constructively with governments to create strong standards and a level playing field.
- Ensure a just transition and sustainable development for all, including by investing in projects or jurisdictional programmes that prioritize the people and sectors most in need of support.

REFERENCE FRAMEWORKS:

UN Guiding Principles for Business and Human Rights

Ten Principles of the UN Global Compact

UN Women's Empowerment Principles

High-Level Expert Group (UN HLEG) on The Net Zero Emissions Commitments of Non-State Entities report "Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions" www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf

International Labour Organization – 8 fundamental conventions for labour standards

OECD Guidelines for Multinational PE funds sets out principles and standards for responsible business conduct consistent with applicable laws and internationally recognized standards, including setting objectives with reference to minimum safeguards on topics such as: human rights, labour relations, employment practices, public health and safety, bribery and extortion, science and technology and taxation.

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria"; " Leverage and strengthen corporate governance mechanisms to incentivize and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration and disclosure".

UNEPFI Principles for Responsible Banking, Principle 3: Clients and Customers – WE will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

OTHER RESOURCES:

OECD Due Diligence Guidance for Responsible Business Conduct helps organizations comply with the OECD Guidelines for Multinational PE funds providing guidance on setting up due diligence processes to identify and address principal adverse impacts in operations, supply chain and business relationships https://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm

Accountability Counsel

Shift project: UN Guiding Principles 101

SDG Action Manager Baseline Module (developed by B Lab and the United Nations Global Compact)

Grievance Mechanism Gap Analysis by the Business Call to Action

Resource Guide on Good Practices in the Protection of Reporting Persons by the United Nations Convention against Corruption

Accountability Counsel's Accountability Mechanisms: Benefits and Best Practice

Forthcoming October 2021: Good Policy Paper published by Accountability Counsel, SOMO, & others

Gaining Buy-In For A Human Rights Program: A Planning Worksheet by the Business Call to Action

UN Guiding Principles Checklist, Human Rights Policy Tool, Rapid Human Rights Risk Assessment, Internal and External Questionnaires available at Business Call to Action

UN Global Compact's Supply Chain Sustainability: A Practical Guide for Continuous Improvement, Second Edition

The State of Play: The Corporate Responsibility to Respect Human Rights in Business Relationship by the Institute for Human Rights and Business and the Global Business Initiative on Human Rights

IFC's Environmental and Social Performance Standards which define IFC clients' responsibilities for managing their environmental and social risks and can be applied by other organizations to manage ESG risks (https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards)

The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making https://equator-principles.com/about/352/

Guidance Note 2.1.2 The Fund integrates respect for human rights, other responsible business practices and impact management into day-to-day roles and decision making processes, including:

2.1.2.1 developing its integrated thinking and decision making capabilities using mechanisms such as appropriate culture, communication systems and training

2.1.2.2 making choices between different options, taking into account trade-offs and/or impact risks to optimize contributing positively to sustainable development and achieving the SDGs

2.1.2.3 allocating adequate budget and people resources (including capability, training and leadership) to deliver its strategy and impact goals

2.1.2.4 holding people at all levels accountable for operating in accordance with organizational culture and responsible business and impact management policies and practices

2.1.2.5 having sufficient diversity, sustainable development, Stakeholder engagement and impact management specialization at the appropriate level of seniority and authority to influence decision making

2.1.2.6 aligning its incentive mechanisms with its purpose and strategy, including by rewarding challenge and diversity of thought and reducing emphasis on short term financial outcomes

Organizational culture and diversity

Respect for human rights, planetary boundaries and other responsible business practices and operating sustainably and contributing positively to achieving the SDGs should be embedded in organizational culture and "how we do things around here", and reinforced through business processes, systems, job descriptions, training, organizational and personal KPIs and internal controls. Particular care should be taken to ensure that what gets rewarded (financial and/or non-financial incentives) is consistent with the stated organizational purpose and values and commitment to respect human rights, planetary boundaries and other responsible business practices and impact goals – including holding people at all levels accountable for their actions. Goals, KPIs and incentive structures should be designed and implemented in a way that avoids unintended consequences (including by creating perverse incentives). This is applicable both at the fund and the investee levels.

Diversity of thought and effective challenge in decision-making is sought out, valued, and celebrated in an open, curious, inclusive, culture (acknowledging that there are cultural variations in how this is achieved), contributing to break-through thinking and decision-making. Consequently, diversity should be evident across the fund and its investees, including in leadership roles – not only in terms of capabilities (including in sustainable development and impact management), but in terms of gender, minority representation and lived experiences, perspectives and thinking styles. A culture of continuous improvement and evidence-based learning should be evident from how the fund and the investees respond when outcomes are different to what is expected and how impact data is used systematically to monitor performance and identify opportunities for improvement.

Impact management capabilities

Internal sustainable development and impact management capabilities and capacity should be developed commensurate with the fund's size and complexity and in line with its commitment to embed sustainable development issues and impact management into organizational purpose, strategy, and business model. Some of these capabilities may include:

- Expertise in impact measurement and management, sustainability, international development, stakeholder engagement, systems thinking, theories of change, integrated thinking, change management, understanding of key sustainable development challenges and sectoral issues (including key SDG priorities in context)
- Diversity of lived experience, perspectives and thinking styles
- Expertise in dealing with impact data including how data can be manipulated, identifying key data elements that may be missing or unrealistic
- Ability to conduct high quality impact assessments and reviews, diagnose issues and opportunities, and integrate impact and financial analysis into decision making.

Where internal sustainable development and impact management expertise is supplemented with outside support, there is a baseline level of internal expertise to identify skill gaps, select third parties with appropriate skills and experience to fill those gaps and manage/oversee third party arrangements, key person risks and institutional knowledge transfer.

This is also applicable to the investees.

REFERENCE FRAMEWORKS:

CFO Principles on Integrated SDG Investments and Finance (developed by the UN Global Compact), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Determine specific internal resources, investments, (R&D, capex, M&A, FDI) and funding needs to implement the SDG impact thesis and integrated strategy and analyze the financial risk-return profile (IRR) of SDG investments"; "Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria'; "Leverage and strengthen corporate governance mechanisms to incentivize and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration and disclosure."

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Frameworks, Principle 2: To promote the delivery of Positive Impact Finance, entities (financial or non-financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects programmes, and/or entities to be financed or invested in. *"Allocate and equip staff with relevant mandates and skill sets to enforce the above processes."*

Principles for Responsible Banking (developed by UN Environment Finance Initiative), Principle 5: Governance and Culture – We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

Capitals Coalition's Human and Social Capital Protocol and Natural Capital Protocol (developing integrated thinking and decision-making capabilities through application of the Protocols)

OTHER RESOURCES:

SDG Ambition Benchmark Reference Sheets (developed by the UN Global Compact). The SDG Ambition Benchmark Reference Sheets, provide illustrative details on the steps a company can take to integrate actions related to achieving the SDGs into its business systems. There are at least 10 reference sheets covering topics such as Gender Balance Across All Levels of Management, Zero Discharge of Hazardous Pollutants and Chemicals, and 100% of Employees Across the Organization Earn a Living Wage. https://unglobalcompact.org/library/5790

What does it take to go big? Management practices to bring inclusive business to scale by Business Call to Action

The Inclusive Business Management Practices Tool by Business Call to Action

Oxfam Women's Economic Empowerment Framework https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620269/gt-framework-womens-economic-empowerment-180118-en.pdf?sequence=7

SEAF Gender Equality Scorecard Manual – https://www.seaf.com/ges-manual/

2X Challenge Financing for Women – https://www.2xchallenge.org/criteria

Choices, options, and trade-offs

Decision making means making choices between options, addressed in the fund's approach to internal reporting and summarising data (2.2.7), generating options for increasing that contribution (2.3.1), and assessing the risk in making decisions (2.2.4). The choices will invariably involve making trade-offs. There may be trade-offs between positive and negative impacts within an option as well as trade-offs between the positive and negative impacts in different options, or potentially impacts experienced by different people. Although the thresholds represent minimum levels, there may be situations where all the options include impacts that do not meet thresholds and the choice is the 'least bad.'

The indicator focuses on transparency and maximizing. Transparency requires those trade-offs to be transparent and transparency requires that those involved in the decision start with a common measure, informed by the people that will or have experienced the impacts. 2.2.4.1 refers to valuation using well-being as a common measure. Maximizing the contribution means that the decisions consider the positive and negative impacts in the round and the implications for any positive contribution where options include impacts that do not meet thresholds.

Funds should recognize these challenges, have a documented approach to trade-offs, an approach to a common measure of valuing what is important to the people who experience impacts, and ensure that decisions made have considered trade-offs.

REFERENCE FRAMEWORKS:

Social Value International (SVI), Principle 3: Value what matters – "Making decisions about allocating resources between different options needs to recognize the values of stakeholders. Value refers to the relative importance of different outcomes. It is informed by stakeholder preferences."

Social Value International (SVI) Standard for applying Principle 3: Value the things that matter – guidance to value impacts from the perspective of affected stakeholders, emphasizing the importance of using data collected directly from stakeholders.

Social Value International (SVI) Principles of Social Value, Principle 8: Be Responsive – (work in progress) “making decisions that optimize value for all stakeholder groups materially affected. Consideration of risks and rigour of data in context of decisions being made”.

The Capitals Coalition Natural Capital Protocols and Social and Human Capitals Protocols are the internationally accepted harmonized framework for identifying, measuring and valuing the impacts and dependencies on natural and social and human capital and outline a series of actions that will help organizations integrate sustainable development and impact management into management decision-making. See also Capitals Coalition, Principles of Integrated Capitals Assessments.

OTHER RESOURCES:

Guidance note 2.1.3 The Fund implements mechanisms to proactively monitor its performance and conformance with its responsible business and impact management policies and practices, and embeds a culture of continuous improvement

No additional guidance is needed.

Guidance note 2.1.4 complies with local and international laws and regulations, striving to comply with the highest possible level of industry best practice, particularly in cases where there is a lack of local regulation or the standard is comparatively low and identifying (and finding solutions for) where local and international lows and regulations are in conflict

No additional guidance is needed.

Guidance Note 2.1.5. The Fund has effective mechanisms to identify Stakeholders materially affected (or likely to be affected) by its (and its Investees) activities and promotes Stakeholder involvement in decisions that impact them, including:

2.1.5.1 having (and ensuring Investees have) transparent mechanisms for involving those Stakeholders and ensuring they have meaningful agency in decisions relating to the Fund and its' investments that impact them, including in identifying material impacts, designing solutions, developing impact data collection processes, selecting metrics, and participating in collecting and assessing impact data

2.1.5.2 transparently keeping Stakeholders informed of actions, progress, and lessons through the lifecycle of the investment, directly or indirectly through its Investees

2.1.5.3 supporting Stakeholder involvement with adequate budget and resources (including capability and local leadership) Stakeholder engagement/involvement

Stakeholders involvement

Involving stakeholders and giving them meaningful agency in decisions that impact them (noting that inaction is also a decision) is an overarching theme throughout the Standards. Decisions will be more robust if the perspective and input from those experiencing the impacts of the fund's actions and decisions is incorporated into the investees decision-making for instance:

- In the design process for products and services
- In determining what impacts matter and to understand and quantify the relative importance (value) of those impacts on their well-being along the whole fund supply and value chain, its products, and services
- In understanding Stakeholders' tolerance for unexpected outcomes and the impacts on them if impacts do not occur as expected
- In collecting and analyzing impact data (while not being overly burdensome or intrusive)
- In identifying effective consultation mechanisms and reporting
- In identifying communication channels between stakeholders and the fund

This necessitates the involvement being sought from those that experience the impacts, that those stakeholders feel comfortable to share their perspectives, and that the information received is interpreted objectively.

Stakeholder involvement requires the allocation of financial and non-financial resources and thus should be included in budgets, resource plans and job descriptions/KPIs and a systematic approach supported by stakeholder management systems and communications plans.

Stakeholders should be kept informed about decisions, actions, execution progress and lessons learned on matters impacting them.

Nature of engagement with Stakeholders

Engagement should be appropriate in context, for instance, if the investees' relationship with stakeholders is direct, the engagement strategies employed by investees will include direct engagement with stakeholders to understand their views.

The fund's relationship with stakeholders is indirect so it is likely the fund will not engage with stakeholders directly, but it will consider it on its due diligence look to ensure that the relevant entities have done so and also post due diligence as part of their operations. Where it can be shown to be appropriate to do so and relevant in context, evidence-based proxies and information from reputable civil society agencies may also be used, however should not diminish stakeholder's rights, including for meaningful agency.

Additional sectoral due diligence (and follow up impact evaluations) may be appropriate in high-risk sectors (e.g., agri-business, apparel, housing, or land acquisition related activities that may result in relocation or displacement), or when dealing with marginalized stakeholder groups (e.g., indigenous peoples). Consideration should also be given to issues of provenance e.g., with respect to indigenous land rights.

Assessing the impacts on different groups of Stakeholders separately is also important to ensure that the overarching objectives of the SDGs (to leave no one behind) are met – for example, benefits to stakeholders already above thresholds should not be at the expense of stakeholders currently experiencing outcomes below threshold levels. Care should be taken to recognize that under-represented stakeholder populations may not be aware of the negative impacts that business or other activities may have on their or others access to basic rights and services. However, this does not impede informing them and engaging them.

Examples of organizations acting on behalf of those impacted that call out negative impacts of organizations include Accountability Now, Corporate Responsibility Organization, Oxfam, among others.

The fund should also consider how it corroborates information about stakeholders (e.g., by collecting and analyzing various perspectives from different stakeholders as well as through third party research or evidence – e.g., using data triangulation), and identifies and mitigates the risks associated with using information received from different stakeholder groups (e.g., reliability, bias, relevance to context).

REFERENCE FRAMEWORKS:

Social Value International, Principles of Social Value: Principle 1 Involve stakeholders – "inform what gets measured and how his is measured and valued in an account of social value by involving stakeholders (the people who experience change as a result of your activity".

Social Value International "Standard on applying Principle 1: Involve stakeholders" explains options and processes for identifying stakeholders and meaningfully engaging stakeholders, including sample questions to ask. This Standard talks about how speaking to and involving people who experience change is an essential part of the process. But they also acknowledge that speaking directly to stakeholders is not the only source of relevant information. Third party research may be complementary to what you hear from stakeholders or may be a substitute if your stakeholders are particularly difficult to reach, or if they do not feel comfortable sharing their opinions. https://socialvalueint.org/wp-content/uploads/2019/03/Standard-on-Stakeholder-Involvement-V2.0-FINAL-1.pdfILO convention 169: prior consultation and participation of indigenous peoples in decisions affecting them, and in particular with regard to free and informed consent on private activities in their territories.

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria.

UNEPFI Principles for Responsible Banking, Principle 4: Stakeholders – We will proactively and responsibly consult, engage, and partner with relevant stakeholders to achieve society's goals

OTHER RESOURCES:

OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector, Feb 2017)

British Standards Institution, BS 8950 Social value – Understanding and enhancing – Guide (Draft, 2020).

Guidance Note 2.1.6. The Fund introduces robust, reliable and practical processes to collect, manage and use its impact data, including:

2.1.6.1 systematically capturing results from across its impact management activities

2.1.6.2 presenting its impact data and information in a way that it can be integrated with financial data and inform investment decision making

2.1.6.3 managing data ownership (i.e., Stakeholders) and privacy issues and ethical and commercial issues regarding data gathering, use and disclosure

2.1.6.4 taking a risk-based approach to determine external verification and assurance requirements for its impact data, impact assessments and evaluations, and external reporting, and following up findings with suitable rectification measures in a timely manner

Impact data collection and use

This guidance note covers several indicators relating to a number of activities that underpin the SDG Impact Standards approach to impact management. These indicators refer to the data that would be collected to allow a fund to make decisions to increase its positive contribution to sustainability and the SDGs at a rate commensurate with stakeholder expectations and the SDG targets. These activities are data collection (2.1.6), reporting and summarizing data on impacts assessments (2.3.7), generating options for increasing that contribution (2.3.8), assessing the risk in making decisions (2.3.6.4) and ongoing review of impact management approach (2.3.10).

Management practice

This approach is based on the funds ability to set up a the right incentives, structure, capabilities and processes to deliver on its impact goals. This includes, developing an IMM framework to screen ex ante, the investees sustainability practices and expected impacts, monitor and assess performance and collect relevant data for decision-making both at the investee and portfolio levels. The framework shall include mechanisms to capture and share lessons learned for continuous improvement.

The requirements are:

- a complete set of material impacts;
- impacts defined as changes in well-being of people and planet caused by the activities of the organization; and
- all the data points (or metrics) for each impact.

The fund shall seek to ensure its investments are allocated on investees with highest likelihood of having positive impacts in line with fund impact goals. Thus, its IMM approach shall be designed to reduce the risk that the best option is not chosen and to increase the universe of potential insights that drive options to contribute positively to sustainability and the SDGs. Whilst many approaches to impact measurement focus on accurate measure of each impact, few recognize the importance of data that does not relate to intended impacts but is critical to increasing performance.

Where data relates to proxies for impacts this also increases the risk that the wrong decision may be made. This risk may still be within the risk appetite of the organization and the tolerance of those who will experience the impacts.

Good decision-making is based on a combination of factors including the approach to data collection (what is collected from which source, how often, etc), the rate at which decisions are being made, the fund's understanding of risk, both to the fund and those experiencing the impacts, and the requirement to increase the likelihood that the fund is contributing positively to sustainability and the SDGs (and reduce the risk that it is not to an acceptable level). A fast rate of decisions based only on data relating to expected material impacts would not be sufficient. A low rate based on data requirements referenced in the Standards would not be sufficient.

The central risks are that the set of expected material impacts is incomplete (2.1.2.2), the data on each impact is incomplete or the data is inaccurate or not timely. In each of these situations the risk is that if the impacts or the data on impacts were complete, or if the inaccuracies were corrected, then a different decision would be made.

Measurement practice

The purpose of collecting data is to enable evidence-based decisions. Decisions are between options and the merit of each option are assessed in terms of their potential to increase the positive contribution to sustainability and the SDGs. Options are generated from the data. No fund can say that its approach to impact management is perfect or that it is making as much of a positive contribution to sustainability and the SDGs as possible (with existing resources). The fund should always be striving to improve its effectiveness and making changes across the business model.

The main means for generating options that lead to changes is by making comparisons, against targets, against past performance and against peers but also, critically, by comparing data for different data points between individuals with different characteristics but from the same stakeholder group. Evidence is required that the data is reported in a format that allows these comparisons to be made, the comparisons being made lead to insights and options and then to choices between options. Then the fund will monitor how the selected option is implemented and whether it is on track to achieving the expected results and impacts. An fund making comparisons but not subsequently making changes to its activities as a result would satisfy 2.1.2.2 but not 2.1.3.

Making decisions then requires a balance between the rate at which decisions are made and the data available to support the decisions. Where the available data does not cover all the requirements or where data relates to proxies for impacts, this increases the risk that the wrong decision may be made. This risk may still be within the risk appetite of the fund and the tolerance of those who will experience the impacts.

This does not mean a choice cannot be made. It means that the risk that the wrong decision may be made has increased.

Minimum data requirements

The fund should collate (2.1.7) and review its performance in generating insights and learning lessons from the data and acting on the results (2.1.3).

Whilst the balance of focus is towards decision making and responsiveness, there is nonetheless a minimum threshold for data collection. This is that:

- All expected material impacts are identified, i.e., in the sequence inputs, outputs, outcomes, aspects of wellbeing, at least outcomes and preferably aspects of well-being are the basis for measurement
- Where these are prioritized, the priorities relate to aspects of well-being (taking into consideration inequality within and between stakeholder groups) and include climate action, gender equality and decent work and also negative and positive expected impacts
- Data is collected for all metrics for those impacts expected to be most significant within context of the fund's resources together with a plan for collecting data on the others, which may include incomplete data or measurement at an earlier point in the above sequence
- Where output data has been used as the basis for decisions, this is appropriate in the context of the decisions recognizing the risk that this may not result in the optimal or even any positive contribution, for example a measured reduction in climate change emissions but with a non-measured increase in gender inequality.
- The assumptions are reviewed and updated when context changes.
- In deciding the balance between collecting statistically rigorous data (random samples) for the metrics for the most significant impacts and collecting some data for the metrics of all material impacts, the balance is on the risk associated with the intended decision. For many operational decisions at the rate required this is on some data on more metrics across more impacts. For strategy, business model and significant decisions this is on statistically rigorous data across all metrics and all material impacts.
- Impact data shall be complemented by the investees practices in regards to sustainability, impact and the SDGs (see SDG Impact Standards for Enterprises).

As an example, the fund might identify ten expected material impacts, decide to measure all metrics for four, only the change without considering duration, causation, and relative importance for three and only the change in the outputs for the final three. Here an ambitious plan for addressing the data gaps together with an assessment of the risk of using this data in decision should be put in place.

Human Rights Based Approach to data collection

The Danish Institute for Human Rights, a leading organization in the field of Business and Human Rights, stresses the importance of using a Human Rights Based Approach to data collection, based on the precepts of participation, data disaggregation, self-identification, transparency, privacy, and accountability.

Data ownership

The confidentiality, privacy and ethical considerations of collecting, using and sharing data involving or pertaining to stakeholders should be carefully and responsibly managed in line with human rights standards and the United Nations System Organization principles. This starts with the recognition that the data belongs to the provider (i.e., the people experiencing the impacts) and that the fund is a steward of that data on their behalf. This includes informed consent or the International Standard of free, prior, and informed consent (FPIC) in relation to indigenous peoples where relevant, and taking into consideration cultural norms, legal requirements, personal data, safety, education, and literacy levels.

Disaggregated data

In accordance with the Fundamental Principles of Official Statistics (General Assembly resolution 68/261) indicators – where feasible, data is disaggregated by income, sex, age, race, ethnicity, migratory status, disability and geographic location, or other pertinent characteristics that contribute to exclusion, inequality, or discrimination. Inclusive data sources may need to be expanded to counter shortcomings in available data sets and factors that might inadvertently compound disadvantage or discriminatory approaches.

Data quality

Impact data is actively managed, and its accuracy and completeness assessed to determine implications for decision-making, including:

- Determining the most appropriate data sources for the decisions that need to be made (i.e., enough precision for the decision)
- Where necessary, collecting data using more than one method or source (data triangulation, third party research and evidence) to corroborate findings and reduce risk (e.g. reliability, bias, relevance to context)
- Systematically checking assumptions and calculations and incorporating impact evidence risks such as checking data for double counting, drop-off rates and failure rates. This includes doing updates as needed.
- Ensuring the utility of the underlying raw data is not lost by taking it out of the context of other dimensions of impact (for example, not knowing the stakeholder group an outcome indicator relates to), or by aggregating the data in a way that may impede clear interpretation of the data and ensuring data can be compared on a period-to-period basis.
- ensuring transparent documentation and audit trails for impact data collected (including data sources, inferences and assumptions made, proxies used and any limitations) and including periodical reviews
- Assessing confidence in the data and documenting and factoring this risk into account in decision-making where confidence is low and making plans to improve confidence in future.

External assurance

Where there is external assurance, the approach to assurance should be consistent as set out in the Standards. It should

- address the approach to stakeholder engagement and the material completeness of the positive and negative impacts resulting from the activities of the fund.
- refer to an existing assurance standard or equivalent approach as a basis for determining the work carried out providing assurance against a documented reporting framework or existing reporting standard.

Where this is not the case, or where there is no assurance, the fund, in giving its reasons:

- recognizes the risks of self-reporting or restricted assurance on the completeness of the positive and negative impacts experienced as a result, and
- that these risks include suboptimal impact including higher levels of negative impact than could be caused, including impacts that exceed international norms or planetary boundaries.

- REFERENCE FRAMEWORKS:
- Social Value International (SVI) Principles of Social Value, Principle 7: Verify the results – “Ensure appropriate independent assurance”.

- CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Leverage and strengthen corporate governance mechanisms to incentivize and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration and disclosure."; Principle 4, INTEGRATED SDG COMMUNICATION AND REPORTING "Business should engage in proactive investor communications about their SDG impact thesis, strategy, and investments, including through investor calls and engagement, annual financial disclosures, and integrated financial and sustainability reports."; "Enhance integrated reporting practices with key elements of SDG-aligned investments and finance, including impact measurement and valuation, alignment of investments with strategy, and accounting and monitoring performance."
- OTHER RESOURCES:

Guidance Note 2.1.7. The Fund employs a dynamic approach to ensuring its impact management practices remain fit for purpose by:

2.1.7.1 incorporating lessons from its impact management activities and impact performance, including analyzing deviations from expected outcome/impact performance

2.1.7.2 incorporating sector advances, new and updated research/evidence, and lessons from its engagement with partners and other Stakeholders

2.1.7.3 periodically reviewing and refining its impact management practices considering changes in the sustainable development context and its impact performance, impact thesis, investment strategy, and/or portfolio level impact goals.

See also Guidance note – Impact data collection and use

REFERENCE FRAMEWORKS:

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria.

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Frameworks, Principle 2: To promote the delivery of Positive Impact Finance, entities (financial or non-financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects programmes, and/or entities to be financed or invested in. *"Review and update processes as appropriate on an on-going basis."*

OTHER RESOURCES:

The **UNEP FI Impact Analysis Tools** have been designed open source for banks, investors and their corporate clients and investee companies. They enable practitioners to implement a holistic approach to impact analysis and management. The Corporate Impact Analysis Tool helps banks and investors gain a cross-cutting view of the impact status and possibilities of their clients and investee companies but can also be used as a self-assessment Tool by corporates themselves. The other Tools are specifically designed for banks and investors. The Tools help users identify their most significant impact areas and guide them on their performance assessment which can be monitored over time. The Tools also enable users to update the outputs of the impact analysis based on the changes of their business, their performance, and the sustainable development context.

Guidance Note 2.2. The Fund establishes criteria and pre-screens potential investments to assess strategic alignment with its purpose and strategy, including its impact thesis and portfolio level impact goals. The Fund:

2.2.1 establishes investment pre-screening criteria to assess alignment with its purpose, impact thesis/theses, investment strategy, portfolio level impact goals (including its portfolio composition) and its responsible business and impact management policies and practices

2.2.2 pre-screens potential investments against its pre-screening criteria

2.2.3 for investments it intends to advance to the due diligence phase that have any material gaps or shortcomings against its pre-screening criteria:

2.2.3.1 communicates these to potential investees

2.2.3.2 documents these for rectification (as conditions precedent or overtime post investment close) through negotiation of impact terms and plans

No additional guidance is needed

Guidance Note 2.3 The Fund conducts ex ante impact assessments of potential investments that pass its pre-screening criteria, to assess relevant and material impacts, make informed choices between investment options, and so optimize its impact performance in line with its portfolio level impact goals.

2.3.1 develops its impact thesis for each potential investment (see Impact thesis), informed by its ex-ante impact assessment (see below)

2.3.2 develops impact assessment criteria for pre-screened investments that reflect its portfolio level impact goals, and assesses all material (positive, negative, intended, and unintended) impacts systematically and consistently, incorporating the Five Dimensions of Impact and associated data categories

2.3.3 engages with the local context to substantiate the relevant local or national SDG and/or the sustainable development outcome thresholds, giving precedence to international norms where locally set thresholds are lower than international norms

2.3.4 assesses how the Investee is acting to avoid harm by preventing, reducing or mitigating all material negative impacts in its direct operations and supply and value chains (and if not the case, actions that can be introduced to do so)

2.3.5 determines the (positive and/or negative) contributions the Fund expects to make (through its own actions) to the impact performance of each investment (see Investor contribution(s) to impact)

2.3.6 considers which metrics to use and how much data is sufficient to make a decision

No additional guidance is needed

Guidance Note 2.3.7. The Fund seeks to define the results from its impact assessments consistently (e.g. using a common measure and defining outcomes in terms of wellbeing) to facilitate systematic, evidence- and risk-based valuation and decision making

See also Guidance note – Impact data collection and use

Using wellbeing as a consistent measure to value impacts

Impacts are the desired changes in wellbeing stakeholders experience resulting from the fund's decisions and actions. Aspects of wellbeing are economic, social, or environmental. Valuing impacts in a systematic way is important because it helps decision-makers make more objective decisions – generating options, choosing between those options, and making trade-offs in a consistent way. Without valuation, those decisions are often made based on underlying unconscious biases and assumptions which often reinforce existing inequities.

Using wellbeing to value and measure impacts requires taking into consideration:

- Stakeholders' views of the relative importance (value) of the outcomes they experience in making those trade-offs,
- material impact risks and stakeholders' risk appetite and tolerance for unexpected outcomes and
- interdependency of impacts and across the SDGs

The OECD Framework for Measuring Well-Being and Progress is an established framework for measuring wellbeing built around three components: current well-being, inequalities in well-being outcomes, and resources for future well-being.

There are a variety of qualitative, quantitative, and monetary approaches available for valuing impacts – or changes in aspects of wellbeing. The Standards do not prescribe one approach over another, rather expecting the decision-maker to select the most appropriate approach, taking into account the nature of the decision and the amount of precision required.

Guidance note 2.3.8. The Fund makes (relative and absolute) choices between investment options accounting for trade-offs and impact risks to optimize impact performance and contribution to sustainable development and achieving the SDGs

Making decisions in context

Making decisions in context means thinking holistically (informed by stakeholder perspectives and focusing on all material impacts in the investees direct operations and through business relationships, as well as through upstream and downstream supply and value chains).

Making decisions in context requires an understanding of interdependency across the SDGs as actions in one area can impact other areas.

It also means taking into consideration where you are starting from (establishing baselines), understanding where you need to get to (what is needed in order to reach or exceed required thresholds in a timely way) and understanding what will happen anyway irrespective of what the fund does – or in other words, what contribution or difference the fund's decisions are making.

Leaving "no-one" behind

The fund should consider heterogeneity among stakeholders and seek to identify those most in need as this would potentially allow to maximize positive contribution to the SDGs.

Assessing the impacts on different groups and sub-groups of stakeholders separately is important to ensure the overarching objectives of the SDGs (to leave no one behind) are met – for example, by including previously excluded stakeholders, or by not creating benefits for one group of stakeholders at the expense of other stakeholder groups. This concept is linked to guidance note 2.3.2 on using sufficiently disaggregated data to make decisions.

REFERENCE FRAMEWORKS:

The OECD Framework for Measuring Well-Being and Progress, an established framework for measuring wellbeing built around three components: current well-being, inequalities in well-being outcomes, and resources for future well-being https://www.oecd.org/statistics/measuring-well-being-and-progress.htm

United Nations, Sustainable Development Goals (SDGs), are the world's blueprint to achieve a better and more sustainable future for all. Adopted by all 193 UN Member States in 2015, the SDGs comprise 17 integrated and indivisible goals grounded in human rights balancing the three dimensions of sustainable development – economic, social, and environmental. Supported by 169 targets and 230 indicators, the SDGs focus on most pressing issues first with an overarching goal to "leave no-one behind" and are variously referred to as the world's strategy and the most comprehensive map of need, risk, and opportunity. US$5-7 trillion per year needed to achieve the global goals – requiring both public and private capital.https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals

Impact Management Project (IMP), five dimensions of impact, provides guidance on the types of data needed to understand and assess impact performance. The IMP community of 2,000+ practitioners identified five dimensions of impact, which can be broken down into 15 more detailed data categories. Organizations can use the five dimensions as a checklist to ensure the information gathered is sufficient for the decision it will inform (see also the ABC methodology and SDG Impact Standards Glossary). https://impactmanagementproject.com/impact-management/how-PE funds-manage-impact/ and Five Dimensions of Impact (Impact Management Norms), https://impactmanagementproject.com/impact-management/impact-management-norms/

The Fundamental Principles of Official Statistics (General Assembly resolution 68/261) – where feasible, data should be disaggregated (i.e., segmented) by income, sex, age, race, ethnicity, migratory status, disability and geographic location, or other characteristics pertinent to the fund's impact goals.

ILO convention 169: prior consultation and participation of indigenous peoples in decisions affecting them, and about free and informed consent on private activities in their territories.

Social Value International (SVI): A Discussion Document on The Valuation of Social Outcomes

Social Value International (SVI) Principles of Social Value, Principle 1: Involve stakeholders – "Inform what gets measured and how this is measured and valued in an account of social value by involving stakeholders (the people who experience change as a result of your activity".

Social Value International "Standard on applying Principle 1: Involve stakeholders" explains options and processes for identifying stakeholders and meaningfully engaging stakeholders, including sample questions to ask. This Standard talks about how speaking to and involving people who experience change to understand actual and potential significant impacts. It also acknowledges that speaking directly to stakeholders is not the only source of relevant information. Third party research may be complementary to what you hear from stakeholders or may be a substitute if your stakeholders are particularly difficult to reach, or if they do not feel comfortable sharing their opinions. https://socialvalueint.org/wp-content/uploads/2019/03/Standard-on-Stakeholder-Involvement-V2.0-FINAL-1.pdf

Social Value International (SVI), Principles of Social Value: Principle 2 Understand what changes – "Articulate how change is created and evaluate this through evidence gathered, recognizing positive and negative changes as well as those that are intended and unintended".

Social Value International (SVI) Standard for applying Principle 2: Understand what changes, Part One: Creating well defined outcomes. This practice standard sets out how to engage with stakeholders to collaboratively agree on which outcomes to measure and contains guidance on how an organization can examine "chains of events" and engage with stakeholders to decide the most appropriate point of measurement to support management decision-making (framed as "well-defined" outcomes)

Social Value International (SVI) Principles of Social Value, Principle 3: Value what matters – "Making decisions about allocating resources between different options needs to recognize the values of stakeholders. Value refers to the relative importance of different outcomes. It is informed by stakeholders' preferences".

Social Value International (SVI) Standard for applying Principle 3: Value the things that matter – guidance to value impacts from the perspective of affected stakeholders, emphasizing the importance of using data collected directly from stakeholders.

Social Value International (SVI) Principles of Social Value, Principle 4 – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact".

Social Value International (SVI) Standard for applying Principle 4: Only include what is material – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact". This standard provides guidance on collecting information to assess the impacts that matter most to stakeholders, in order to decide which to continue measuring and managing. https://socialvalueint.org/social-value/standards-and-guidance/standard-applying-for-principle-4-only-include-what-is-material/

Social Value International (SVI) Principles of Social Value, Principle 8: Be Responsive – (work in progress) "making decisions that optimize value for all stakeholder groups materially affected. Consideration of risks and rigour of data in context of decisions being made".

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria.

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Frameworks, Principle 2: To promote the delivery of Positive Impact Finance, entities (financial or non-financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects programmes, and/or entities to be financed or invested in. *"Implement specific processes, criteria and methodologies to identify Positive Impact. The analysis should cover activities, projects and programmes but also underlying companies; Apply regular ESG risk management before determining Positive Impact eligibility."*

UNEPFI Principles for Responsible Banking, Principle 2: Impact & Target Setting – We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and the environment resulting from our activities, products, and services. To this end, we will set and publish targets where we can have the most significant impacts.

Capitals Coalition Natural and Social and Human Capital Protocols outline a process that organizations should follow to identify, measure and value their impacts and dependencies on the natural environment and on social and human capital respectively and can be used to value impacts and dependencies on natural and social and human capital respectively. This framework draws on organizational data, data collected from stakeholders, and publicly available country- or sector-level data.

British Standards Institution, BS 8950 Social Value – Understanding and enhancing – Guide (Draft, 2020).

OTHER RESOURCES:

Social Value International: A Discussion Document on The Valuation of Social Outcomes

OECD Due Diligence Guidance for Responsible Business Conduct helps organizations comply with the OECD Guidelines for Multinational PE funds providing guidance on setting up due diligence processes to identify and address principal adverse impacts in operations, supply chain and business relationships.

SDG Action Manager (developed by B Lab and the United Nations Global Compact) is a tool designed to help organizations measure and manage their impacts in relation to the Sustainable Development Goals. Organizations can fill in the online questionnaire to get a quick read on the Sustainable Development Goals likely to be the most relevant to manage, based on the organization's size, sector, and geography. The questionnaire draws from B Lab's B Impact Assessment, which is developed through research and public consultation and so provides an evidence-based starting point for identifying sustainability topics to measure.

Impact Lab (developed by Business Call to Action, BCtA) is an online tool/resource that aims to guide companies on their impact measurement. Through this lab, BCtA aims to help both BCtA members and non-members in the process of identifying the right tools for collecting and analyzing data on their social and environmental performance to inform their business decisions. The online Lab comprises four modules 1) assess their impact measurement readiness 2) design their impact measurement frameworks 3) monitor their impact and 4) analyze their collected data.

The UNEP FI Impact Analysis Tools have been designed open source for banks, investors and their corporate clients and investee companies. They enable practitioners to implement a holistic approach to impact analysis and management. The Corporate Impact Analysis Tool helps banks and investors gain a cross-cutting view of the impact status and possibilities of their clients and investee companies but can also be used as a self-assessment Tool by corporates themselves. The other Tools are specifically designed for banks and investors. The Tools help users identify their most significant impact areas based on the nature of their business and the sustainable development needs of the countries in which they operate. Moreover, they guide users on their performance assessment based on which meaningful targets can be set.

EU Taxonomy by the European Commission is a rating methodology that sets out performance thresholds for organizations to classify their economic activities as “sustainable:" according to European policy objectives. Organizations can use the EU Taxonomy to find the economic activities that correspond to the organization and review what the taxonomy says about likely impacts on sustainability. This can be an input into identifying sustainability topics to measure. This regulation is based on research connecting NACE economic activities to likely significant impacts on six environmental objectives. Currently, research related to objectives of climate change mitigation and adaptation are most developed.

UNCTAD core indicators for entity reporting on contributions towards implementation of the Sustainable Development Goals (GCI). The GCI is a set of core universal baseline indicators common to all businesses of all types and sizes aimed to facilitation harmonization and comparability of SDG reporting by companies. The GCI has been endorsed by UNCTAD member states, are selected based on main reporting frameworks and PE fund practices and aligned with the SDG indicators monitoring framework. https://unctad.org/webflyer/guidance-core-indicators-entity-reporting-contribution-towards-implementation-sustainable

UNCTAD GCI Training Material https://isar.unctad.org/wp-content/uploads/2020/04/UNCTAD_DIAE_2020_2.pdf

HIPSO indicators (Harmonized Indicators for Private Sector Operations) are a list of reporting indicators set across various sectors and industries (including cross-cutting). They have definitions that have been agreed upon by 28 different development finance institutions from around the world, all of whom have signed the MoU on harmonized indicators. These indicators may be used by any entity wishing to use them.

Global Reporting Initiative (GRI) is developing Sector Standards for 40 sectors to complement their current topic standards that will provide a list of topics for each Sector Standard as an input when identifying sustainability topics to measure https://www.globalreporting.org/capitals-approach/social-human-capital-protocol/

GRI Universal Standards (Exposure draft) are multi-stakeholder sustainability reporting standards that can be used to help conduct a materiality assessment to help identify sustainability topics to measure and manage https://www.globalreporting.org/standards/standards-development/review-of-the-universal-standards/

IRIS+ System by Global Impact Investing Network (GIIN) is a tool designed to help impact investors translate intentions into results (hence investors may request businesses they invest in to report using these metrics, and they may be useful to businesses looking to select appropriate metrics to measure, manage and report their impacts). IRIS+ metrics and metric sets are aligned to the SDGs and five dimensions of impact and work is underway to map various investor metric sets and corporate disclosure standards with a view to achieving global consistency, including IRIS+-GRI, B Lab-IRIS+, HIPSO-IRIS+. It starts by helping investors frame their impact goals in a common way (linked to an SDG or Impact Category) and offers a set of metrics (Core Metrics Sets) to assess performance against set goals, together with an evidence base (Navigating Impact) and implementation guidance.

CDP Questionnaires are a tool to measure and disclose on climate change, forests, and water security impacts. These online questionnaires provide a framework for companies to provide environmental information to their stakeholders covering governance and policy, risks and opportunity management, environmental targets and strategy, and scenario analysis. The questionnaire can provide a quick read on the climate change, forests and water security impacts that are likely relevant to measure, based on the organization’s size, sector, and geography.

World Benchmarking Alliance (WBA) Benchmark Methodologies are benchmarks that rank companies based on their impact across seven systems that require transformation to achieve a sustainable future. Organizations can use the list of topics in the relevant ‘system’ to help identify sustainability topics to measure.

B Impact Assessments (developed by B Lab) is a tool designed to help organizations measure and manage their impacts on workers, community, environment, and customers. Organizations can get a quick read on performance on sustainability topics that are likely relevant to manage, based on the organization’s size, sector, and geography. B Lab's questionnaire is developed through research and public consultation, and so provides an evidence-based starting point for identifying sustainability topics to measure.

IFC's Anticipated Impact Measurement and Monitoring (AIMM) framework

OECD's Policy Brief on Social Impact Measurement for Social PE funds, Policies for Social Entrepreneurship

UN Global Compact Guidelines on Supply Chain Sustainability

OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector, Feb 2017)

UNRISD with r3.0 its Three-Tiered Typology, introduced in the Compared to What? Paper a framework that compares the PE funds' impact with thresholds, divided into three tiers:

Tier One: Incrementalist Numeration: Numerator indicators focus on actual impacts, including absolute indicators, as well as relative or intensity indicators that are non-normative, and therefore incrementalist.

Tier Two: Contextualized Denomination: Denominator indicators contextualize actual impacts against normative impacts. Also known as "Context-Based" indicators, denominator indicators take into account sustainability thresholds in ecological, social, and economic systems, as well as allocations of those thresholds to organizations and other entities.

Tier Three: Activating Transformation: Transformative indicators add the element of implementation and policy to normative denominator indicators to instantiate change within complex adaptive systems

Source: r3.0

A guide to social return on investment (developed by Social Value International, SVI) – follow methodology to monetize the social value an organization creates, preserves, erodes for stakeholders (society).

Impact-Weighted Accounts Initiative is research on impact valuation published in the form of case studies and white papers which organizations can use to learn about key considerations when monetizing impact using publicly available information https://www.hbs.edu/impact-weighted-acccounts/Pages/default.aspx

Maximise Your Impact, A Guide for social entrepreneurs provides organizations with guidance on whether it has all of the information it needs to assess impact. The guidance contains ten questions that guide impact assessment, and function as a checklist to ensure all necessary contextual information is collected. https://socialvalueint.org/wp-content/uploads/2018/05/MaximiseYourImpact.24.10.17.pdf

The Science Based Targets initiative by CDP, the World Resources Institute (WRI), WWF and the UN Global Compact, which is developing tools and methodologies for companies to set targets that align with the prevailing scientific consensus that global temperatures should not rise above two degrees Celsius.

The Future-Fit Benchmarks developed by Natural Step which identify a set of 'absolute' goals that are based on social and natural science and that all companies must ultimately strive to reach, irrespective of the products and services they offer.

WBCSD's Action2020 which sets the agenda for business to take action on sustainable development to 2020 and beyond. Action2020 defines societal targets, 'Societal Must-Haves' and around nine Priority Areas, based on a scientific review led by the Stockholm Resilience Centre.

The United Nations website which contains public commitments to goals and targets announced by companies.

PivotGoals by Winston Eco-Strategies which allows users to browse goals and targets set by Global 500 companies.

Guidance note 2.3.9. The Fund determines whether comprehensive ex ante or ex post (independent third party) impact evaluations in line with international guidance are required for certain investments

Comprehensive independent impact evaluations

Comprehensive impact evaluations are generally third-party independent assessments undertaken by qualified evaluators. These are additional to the regular impact assessment and monitoring activities conducted internally by management. An independent comprehensive impact evaluation may be appropriate where the potential impacts (especially risks to stakeholders) are especially high (for example, a large mining operation situated on indigenous lands). They won't be feasible (on a cost-to-value basis) for many activities, nor relevant to many types of impact decisions funds will need to make.

The criteria to undertake comprehensive and independent impact evaluations should be defined, transparent and based on:

- the size of the investment (in absolute and relative terms)
- the expected impact and impact risk (including with respect to human rights)
- the country and sector risk
- the learning potential (e.g., activities/projects in new markets and sectors)
- the strategic importance of the activity/project
- the newness of the intervention (e.g., pilots)

Results of any comprehensive impact evaluations should also be made available to stakeholders.

REFERENCE FRAMEWORKS:

Social Value International (SVI) Principles of Social Value, Principle 7: Verify the results – "Ensure appropriate independent assurance".

Social Value International (SVI) Principles of Social Value, Principle 8: Be Responsive – (work in progress) "making decisions that optimize value for all stakeholder groups materially affected. Consideration of risks and rigour of data in context of decisions being made".

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Frameworks, Principle 2: To promote the delivery of Positive Impact Finance, entities (financial or non-financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects programmes, and/or entities to be financed or invested in. *"Seek second opinions and/or third-party assurances on the implementation of the above processes as appropriate."*

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Assessment, Principle 4: The assessment of Positive Impact Finance delivered by entities (financial or non-financial), should be based on the actual impacts achieved. The assessment of Positive Impact Finance can be internally processed, i.e., for internal monitoring and evaluation purposes, or undertaken by qualified third parties (i.e., auditing companies, research providers, and rating agencies), for certification and/or rating purposes.

OTHER RESOURCES:

OECD Due Diligence Guidance for Responsible Business Conduct helps organizations comply with the OECD Guidelines for Multinational PE funds providing guidance on setting up due diligence processes to identify and address principal adverse impacts in operations, supply chain and business relationships.

OECD's Better Criteria for Better Evaluation: Revised Evaluation Criteria, Definitions and Principles for Use

Guidance note 2.3.10. The Fund captures the results from its impact assessments (including documenting its calculation methodologies and assumptions applied) in its impact management system so it can be connected to its decision making and ongoing impact management activities.

Risk-based approach to data verification or assurance

Decision makers will always need assurance that the information they have to inform their decisions is good enough for the decision. There is always a risk and this will need to be within the decision maker's risk appetite. If the consequences to stakeholders of decisions based on the data being wrong are high, for instance, the decisions have a big impact on stakeholders and are not easily reversed, more data and more formal assurance of the impact data being relied upon to make those decisions may be needed.

This may include collecting data using more than one method or source (data triangulation, third party research and evidence) to corroborate findings and reduce risk (e.g., reliability, bias, relevance to context) or seeking third party verification or assurance of the data.

Established criteria should be in place to guide when more data or third-party data validation or assurance of that data is required. Investing in organizations that get assurance on practice, data quality and undertake evaluations is encouraged.

REFERENCE FRAMEWORKS:

The Fundamental Principles of Official Statistics (General Assembly resolution 68/261) – where feasible, data should be disaggregated (i.e., segmented) by income, sex, age, race, ethnicity, migratory status, disability and geographic location, or other characteristics pertinent to the PE fund's impact goals.

United Nations System Organization principles (for data management).

International Standard of free, prior, and informed consent (FPIC)

Social Value International (SVI) Principles of Social Value, Principle 7: Verify the results – "Ensure appropriate independent assurance".

Social Value International (SVI) Principles of Social Value, Principle 8: Be Responsive – (work in progress) "making decisions that optimize value for all stakeholder groups materially affected. Consideration of risks and rigour of data in context of decisions being made".

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria"; "Leverage and strengthen corporate governance mechanisms to incentivize and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration and disclosure."

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Frameworks, Principle 2: To promote the delivery of Positive Impact Finance, entities (financial or non-financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects programmes, and/or entities to be financed or invested in. *"Implement specific processes, criteria and methodologies to identify Positive Impact. The analysis should cover activities, projects and programmes but also underlying companies."*

OTHER RESOURCES

Danish Institute for Human Rights, 'Human Rights Impact Assessment Guidance and Toolbox'

Corporate Human Rights Benchmark, https://www.corporatebenchmark.org/who-we-are, last accessed 2 September 2020, measures progress on business adherence to international human rights standards.

Capitals Coalition Protocols (see Step 08) and the Capitals Checker – additional guidance on selecting and assessing the usefulness and confidence levels required of impact data.

Impact Lab (developed by Business Call to Action, BCtA) is an online tool/resource that aims to guide companies on their impact measurement. Through this lab, BCtA aims to help both BCtA members and non-members in the process of identifying the right tools for collecting and analyzing data on their social and environmental performance to inform their business decisions. The online Lab comprises four modules 1) assess their impact measurement readiness 2) design their impact measurement frameworks 3) monitor their impact and 4) analyze their collected data

SDG Compass Guide (developed by UN Global Compact, GRI, and WBCSD) provides guidance for companies on how they can align their strategies as well as measure and manage their contribution to the realization of the SDGs https://sdgcompass.org/

Maximise Your Impact: A Guide for Social Entrepreneurs. https://socialvalueint.org/wp-content/uploads/2018/05/MaximiseYourImpact.24.10.17.pdf

The UNEP FI Impact Analysis Tools have been designed open source for banks, investors and their corporate clients and investee companies. They enable practitioners to implement a holistic approach to impact analysis and management. The Corporate Impact Analysis Tool helps banks and investors gain a cross-cutting view of the impact status and possibilities of their clients and investee companies but can also be used as a self-assessment Tool by corporates themselves. The other Tools are specifically designed for banks and investors. The tools guide users in their data collection process of the identification and assessment phases.

IMP Using self-reported data for impact measurement,

Data governance and data policies at the European Commission

Data Privacy, Ethics and Protection Guidance Note on Big Data for Achievement of the 2030 Agenda by the UNSDG

International Standard of free, prior, and informed consent (FPIC)

outcomes map created by Social Value International.

The Guide to the Assessment of Socio-Environmental Impact, produced by Insper Metricis in Brazil

UNCTAD core indicators for entity reporting on contributions towards implementation of the Sustainable Development Goals (GCI). The GCI is a set of core universal baseline indicators common to all businesses of all types and sizes aimed to facilitation harmonization and comparability of SDG reporting by companies. The GCI has been endorsed by UNCTAD member states, are selected based on main reporting frameworks and PE fund practices and aligned with the SDG indicators monitoring framework. https://unctad.org/webflyer/guidance-core-indicators-entity-reporting-contribution-towards-implementation-sustainable

UNCTAD GCI Training Material https://isar.unctad.org/wp-content/uploads/2020/04/UNCTAD_DIAE_2020_2.pdf

HIPSO indicators (Harmonized Indicators for Private Sector Operations) are a list of reporting indicators set across various sectors and industries (including cross-cutting). They have definitions that have been agreed upon by 28 different development finance institutions from around the world, all of whom have signed the MoU on harmonized indicators. These indicators may be used by any entity wishing to use them.

GRI Sustainability Reporting Standards are designed to help organizations understand and report their impacts in a way that meets the needs of multiple stakeholders. There are a set of Universal Standards that apply to all organizations, and 35 Topic Standards that contain disclosures for impacts related to economic, environmental, and social topics. Organizations can use the standards to report to stakeholders on "material" topics that reflect the organization's most significant impacts.

IRIS+ System by Global Impact Investing Network (GIIN) is a tool designed to help impact investors translate intentions into results (hence investors may request businesses they invest in to report using these metrics, and they may be useful to businesses looking to select appropriate metrics to measure, manage and report their impacts). IRIS+ metrics and metric sets are aligned to the SDGs and five dimensions of impact and work is underway to map various investor metric sets and corporate disclosure standards with a view to achieving global consistency, including IRIS+-GRI, B Lab-IRIS+, HIPSO-IRIS+. It starts by helping investors frame their impact goals in a common way (linked to an SDG or Impact Category) and offers a set of metrics (Core Metrics Sets) to assess performance against set goals, together with an evidence base (Navigating Impact) and implementation guidance.

Guidance Note

2.4 The Fund engages openly, proactively, and collaboratively with limited partners and potential Investees during the due diligence and investment structuring phase, to agree on how to embed impact considerations within the investment terms, and so optimize future impact performance.

2.4.1 The Fund is transparent with potential Investees and limited partners about its investment strategy, impact thesis and portfolio level impact goals and communicates its expectations about impact management, impact reporting, transparency and governance

2.4.2 The Fund satisfies itself of potential Investees' commitment to sustainable development and impact management and their:

2.4.2.1 strategic alignment with sustainable long term value creation and the Fund's impact thesis relating to the investment, or where there are differences or gaps, these have been accounted for in the Fund's impact risk assessment (see below)

2.4.2.2 adequacy of systems in place (orto be put in place)to manage impact(including impact risk) appropriately (no additional guidance is needed)

2.4.2.3 ability and willingness to improve, adapt and learn, including to rectify shortcomings and/or change direction based on results (no additional guidance is needed)

2.4.2.4 governance practices, including independent oversight from a body comprising competencies concerning sustainable development issues and impact management (no additional guidance is needed)

Selecting metrics

Collecting, monitoring, and evaluating data and metrics requires a resource commitment – from both the fund and those it collects data from. Therefore, data and metrics selection should focus on information that is decision-useful and proportionate to the decision being made (i.e., enough precision for the decision), including taking into consideration the risks to stakeholders if decisions based on that data and metrics results in outcomes that are different from what is expected.

When selecting metrics, there are benefits of choosing standardized metrics as they allow aggregation for portfolio analysis and comparison (not only between options but also vis a vis external organizations). Standardized metrics are more likely to be clearly defined and use the same unit of measure. There is also more data publicly available for standardized indicators. However, first and foremost, the focus should be on selecting data and metrics that are decision-useful, which may require the use of internally generated, non-standardized or bespoke metrics.

When it is not possible to obtain reliable impact metrics, proxies (activity or output metrics) are often used instead. When using proxies, it is important to determine whether there is a strong enough and evidence-based causal link between the activities or outputs and the intended impacts and take into account additional risks that using proxies may present in decision-making.

REFERENCE FRAMEWORKS:

Social Value International (SVI) Principle 2: Understand what changes – “Articulate how change is created and evaluate this through evidence gathered, recognizing positive and negative changes as well as those that are intended and unintended”.

SVI’s Standard on Applying Principle 2: Understand what changes Part Two: Designing indicators (metrics) to measure the outcomes. This practice standard builds on the previous “Part One”, outlining how to design custom metrics to measure a “well defined” outcome.

Social Value International (SVI) Principles of Social Value, Principle 8: Be Responsive – (work in progress) “making decisions that optimize value for all stakeholder groups materially affected. Consideration of risks and rigour of data in context of decisions being made”.

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, “Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria.

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Frameworks, Principle 2: To promote the delivery of Positive Impact Finance, entities (financial or non-financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects programmes, and/or entities to be financed or invested in. *“Implement specific processes, criteria and methodologies to identify Positive Impact. The analysis should cover activities, projects and programmes but also underlying companies.”*

UNEPFI Principles for Responsible Banking, Principle 2: Impact & Target Setting – We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and the environment resulting from our activities, products, and services. To this end, we will set and publish targets where we can have the most significant impacts.

(The Capitals Coalition Natural Capital Protocols and Social and Human Capitals Protocols are the internationally accepted harmonized framework for identifying, measuring and valuing the impacts and dependencies on natural and social and human capital and outline a series of actions that will help organizations integrate sustainable development and impact management into management decision-making (see Measure and Value Stage). See also Capitals Coalition, Principles of Integrated Capitals Assessments.

OTHER RESOURCES:

UN Sustainable Development Knowledge Platform https://sustainabledevelopment.un.org/vnrs/ contains the sustainable development goals, targets and indicators and information from the Voluntary National Reviews of progress towards achieving the SDGs conducted by member states.

the Fundamental Principles of Official Statistics (General Assembly resolution 68/261) - i.e. where feasible, data should be disaggregated (i.e. segmented) by income, sex, age, race, ethnicity, migratory status, disability and geographic location, or other characteristics pertinent to the PE fund's impact goals

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UNCTAD core indicators for entity reporting on contributions towards implementation of the Sustainable Development Goals (GCI). The GCI is a set of core universal baseline indicators common to all businesses of all types and sizes aimed to facilitation harmonization and comparability of SDG reporting by companies. The GCI has been endorsed by UNCTAD member states, are selected based on main reporting frameworks and PE fund practices and aligned with the SDG indicators monitoring framework. https://unctad.org/webflyer/guidance-core-indicators-entity-reporting-contribution-towards-implementation-sustainable

UNCTAD GCI Training Material https://isar.unctad.org/wp-content/uploads/2020/04/UNCTAD_DIAE_2020_2.pdf

HIPSO indicators (Harmonized Indicators for Private Sector Operations) are a list of reporting indicators set across various sectors and industries (including cross-cutting). They have definitions that have been agreed upon by 28 different development finance institutions from around the world, all of whom have signed the MoU on harmonized indicators. These indicators may be used by any entity wishing to use them.

GRI Sustainability Reporting Standards are designed to help organizations understand and report their impacts in a way that meets the needs of multiple stakeholders. There are a set of Universal Standards that apply to all organizations, and 35 Topic Standards that contain disclosures for impacts related to economic, environmental, and social topics. Organizations can use the standards to report to stakeholders on "material" topics that reflect the organization's most significant impacts.

IRIS+ System by Global Impact Investing Network (GIIN) is a tool designed to help impact investors translate intentions into results (hence investors may request businesses they invest in to report using these metrics, and they may be useful to businesses looking to select appropriate metrics to measure, manage and report their impacts). IRIS+ metrics and metric sets are aligned to the SDGs and five dimensions of impact and work is underway to map various investor metric sets and corporate disclosure standards with a view to achieving global consistency, including IRIS+-GRI, B Lab-IRIS+, HIPSO-IRIS+. It starts by helping investors frame their impact goals in a common way (linked to an SDG or Impact Category) and offers a set of metrics (Core Metrics Sets) to assess performance against set goals, together with an evidence base (Navigating Impact) and implementation guidance.

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B Impact Assessments by B Lab can be used as asset of metrics. The questionnaire enables organizations to quickly get started collecting information on performance on sustainability topics that are likely relevant to measure and manage based on the organization's size, sector, and geography.

CDP Questionnaires are a tool to measure and disclose on climate change, forests and water security impacts and can also be used as a set of metrics.

GRI Sustainability Reporting Standards are designed to help organizations understand and disclose their impacts in a way that meets the needs of multiple stakeholders. The standards can be used to provide guidance on identifying metrics to measure each significant impact and provide guidance on what to report. Using standardized metrics can help the organization and its stakeholders compare performance with others.

the World Benchmarking Alliance (whose benchmarks are constructed of metrics for measuring companies' performance against the SDGs)

UN RISD's Sustainable Development Performance Indicator research project

Maximise Your Impact, A Guide for social entrepreneurs provides organizations with guidance on whether it has all of the information it needs to assess impact. The guidance contains ten questions that guide impact assessment, and function as a checklist to ensure all necessary contextual information is collected. https://socialvalueint.org/wp-content/uploads/2018/05/MaximiseYourImpact.24.10.17.pdf

Measuring Social Change, Alnoor Ebrahim of Tufts University

The Guide to the Assessment of Socio-Environmental Impact, produced by Insper Metricis in Brazil.

SVI's Standard on Applying Principle 3: Value the things that matter

Beneficiary Assessment: An Approach Described | Better Evaluation

Risk management

Risk is unavoidable when making choices between options designed to increase positive contribution to sustainability and the SDGs. Risk as referred to in the Standards covers both the risk that the result will be less than expected and the uncertainty implicit within the impact management approach. There is uncertainty:

- that all the expected changes in aspects of well-being for people and planet have been identified;
- about the expected change (magnitude, duration, direction of the change) for each and in subsequent measurement; and
- about the extent to which proxies are good enough approximations, for example using outputs as proxies for impacts.

When making decisions between options it will often be a comparison between an existing way of doing things and a projected or forecast way of doing things. Choosing the option that is a forecast will be based on forecast data and not on actual data where there is more uncertainty. Approaches to impact measurement based only on measuring past impact could reduce an fund's willingness to choose options based on expected impact and reduce the rate of decision making and therefore are unlikely to be sufficient.

The approach to impact management is designed to reduce measurement uncertainties to an acceptable level. The fund should consider options, and its approach to forecasting should be consistent with the approach to measurement, informed by past experience or other research and, depending on risk assessment, supported by sensitivity.

Within 2.1.6, the fund needs to understand the risk that the impact will be less than expected has consequences, potentially both for the fund and for the people experiencing the impacts. This could range from slightly lower positive impact than expected to a negative impact. It could include a positive impact for the majority of the group in line with expectations but a negative impact for a minority of the group. Forecasts and scenario planning should consider these risks, that the actual impacts do not occur as and when expected. It should also include risk tolerance from those that would experience the negative impacts.

Risk management – data gaps

The risk that impacts will not occur as and when expected increases where there are data gaps. These arise when an fund is using predetermined lists of outputs, outcomes, or changes in aspects of well-being instead of meaningful stakeholder engagement as the basis for measurement or where data is not collected for all the data points for each material impact.

Predetermined lists increase the risk that relevant potential material impacts are not identified thus affecting what is prioritized and what decisions are made. Missing data points also increase the risk since having incomplete data could affect decisions.

Recognition of the risks to both quantity and quality of decisions and therefore for determining whether there is a positive contribution to sustainability and the SDGs is needed and to the extent there are significant gaps, an ambitious plan put in place for developing the approach subject to 2.1.6.

REFERENCE FRAMEWORKS:

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria.

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Frameworks, Principle 2: To promote the delivery of Positive Impact Finance, entities (financial or non-financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects programmes, and/or entities to be financed or invested in. *"Implement specific processes, criteria, and methodologies to monitor the achievement of intended impacts throughout the life-time of the financial instrument."*

OTHER RESOURCES:

The **UNEP FI Impact Analysis Tools** have been designed open source for banks, investors and their corporate clients and investee companies. They enable practitioners to implement a holistic approach to impact analysis and management. The Corporate Impact Analysis Tool helps banks and investors gain a cross-cutting view of the impact status and possibilities of their clients and investee companies but can also be used as a self-assessment Tool by corporates themselves. The other Tools are specifically designed for banks and investors. The Tools help users identify their most significant impact areas based on the nature of their business and the sustainable development needs of the countries in which they operate. Moreover, they guide users on their performance assessment which can be monitored over time and based on which meaningful targets can be set and action points defined. Finally, the Tools enable users to update the outputs of the impact analysis based on the changes of their business, performance, and the sustainable development context

Guidance note 2.4.3 The Fund engages openly, proactively and collaboratively with potential Investees and limited partners throughout the impact due diligence and investment structuring phase to align and set shared impact and financial objectives, terms and expectations.

No additional guidance is needed

Guidance note 2.4.4 The fund documents agreed impact and financial objectives, terms and expectations within the legal documents of the investment agreement.

No additional guidance is needed

Guidance Note

The Fund

2.5.1. develops an effective monitoring system to assess progress against its portfolio level impact goals and investment level impact targets and relevant SDG and/or other sustainable development outcome thresholds, baselines and counterfactuals to inform decision making

2.5.2 monitors and manages Investees' adherence to impact terms (including to embed Stakeholder involvement in impact monitoring and management activities) and progress against impact plans

Monitoring

Monitoring means comparing progress in the achievement of impact (performance) against the ambitious and rigorous targets (targets based on the measurement requirements in 2.3.6).

The fund should have a framework to identify, analyze, and report internally on deviations from expected performance and the reasons why these happen as well as mechanisms in place to take corrective actions to address any deviations. Potential actions include a justified change to targets, a change to aspects of the business model or a decision to accept the difference without further action. Changes to the business model represent a subset of alternatives to be considered. Although the focus should be on first addressing negative impacts (2.3.4), the fund should also collect data on unexpected positive impacts to influence design of products and services and to increase future targets.

The deviations are opportunities for insights that lead to consider options for improved decision-making in 2.5.5.1. For the avoidance of doubt, mitigation plans include options to avoid negative impacts and/or diminution or cessation of future positive impacts.

A critical source of insights is comparison of the impacts, across the dimensions, experienced by a stakeholder group based on different characteristics within the group. Alternative characteristics or groups of characteristics should be considered, differences reported, and insights generated, and options created, and choices made.

REFERENCE FRAMEWORKS:

United Nations, Sustainable Development Goals (SDGs), are the world's blueprint to achieve a better and more sustainable future for all. Adopted by all 193 UN Member States in 2015, the SDGs comprise 17 integrated and indivisible goals grounded in human rights balancing the three dimensions of sustainable development – economic, social, and environmental. Supported by 169 targets and 230 indicators, the SDGs focus on most pressing issues first with an overarching goal to "leave no-one behind" and are variously referred to as the world's strategy and the most comprehensive map of need, risk, and opportunity. US$5-7 trillion per year needed to achieve the global goals – requiring both public and private capital.https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals

Impact Management Project (IMP), five dimensions of impact, provides guidance on the types of data needed to understand and assess impact performance. The IMP community of 2,000+ practitioners identified five dimensions of impact, which can be broken down into 15 more detailed data categories. Organizations can use the five dimensions as a checklist to ensure the information gathered is sufficient for the decision it will inform (see also the ABC methodology and SDG Impact Standards Glossary). https://impactmanagementproject.com/impact-management/how-PE funds-manage-impact/ and Five

Dimensions of Impact (Impact Management Norms), https://impactmanagementproject.com/impact-management/impact-management-norms/

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria.

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Frameworks, Principle 2: To promote the delivery of Positive Impact Finance, entities (financial or non-financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects programmes, and/or entities to be financed or invested in. *"Implement specific processes, criteria, and methodologies to monitor the achievement of intended impacts throughout the life-time of the financial instrument."*

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Assessment, Principle 4: The assessment of Positive Impact Finance delivered by entities (financial or non-financial), should be based on the actual impacts achieved. The assessment of Positive Impact Finance can be internally processed, i.e., for internal monitoring and evaluation purposes, or undertaken by qualified third parties (i.e., auditing companies, research providers, and rating agencies), for certification and/or rating purposes.

Capitals Coalition Natural and Social and Human Capital Protocols outline a process that organizations should follow to identify, measure and value their impacts and dependencies on the natural environment and on social and human capital respectively and can be used to value impacts and dependencies on natural and social and human capital respectively. This methodology draws on organizational data, data collected from stakeholders, and publicly available country- or sector-level data (see Apply Stage).

OTHER RESOURCES:

OECD Due Diligence Guidance for Responsible Business Conduct helps organizations comply with the OECD Guidelines for Multinational PE funds providing guidance on setting up due diligence processes to identify and address principal adverse impacts in operations, supply chain and business relationships.

Impact Lab (developed by Business Call to Action, BCtA) is an online tool/resource that aims to guide companies on their impact measurement. Through this lab, BCtA aims to help both BCtA members and non-members in the process of identifying the right tools for collecting and analyzing data on their social and environmental performance to inform their business decisions. The online Lab comprises four modules 1) assess their impact measurement readiness 2) design their impact measurement frameworks 3) monitor their impact and 4) analyze their collected data.

SDG Action Manager (developed by B Lab and the UN Global Compact) is a tool designed to help organizations measure and manage their impacts in relation to the Sustainable Development Goals. Organizations can fill in the questionnaire to track change in performance over time. Each question is scored – some with reference to social or ecological thresholds – to help the organization determine whether it is performing sustainably on that topic.

B Impact Assessments by B Lab are a tool designed to help organizations measure and manage their impacts on workers, community, environment, and customers. Organizations can fill in the questionnaire to track change in performance over time. Each question is scored – some with reference to social or ecological thresholds – to help the organization determine whether it is performing sustainably on that topic.

The UNEP FI Impact Analysis Tools have been designed open source for banks, investors and their corporate clients and investee companies. They enable practitioners to implement a holistic approach to impact analysis and management. The Corporate Impact Analysis Tool helps banks and investors gain a cross-cutting view of the impact status and possibilities of their clients and investee companies but can also be used as a self-assessment Tool by corporates themselves. The other Tools are specifically designed for banks and investors. The Tools help users identify their most significant impact areas based on the nature of their business and the sustainable development needs of the countries in which they operate. Moreover, they guide users on their performance assessment which can be monitored over time and based on which meaningful targets can be set and action points defined.

UNCTAD core indicators for entity reporting on contributions towards implementation of the Sustainable Development Goals (GCI). The GCI is a set of core universal baseline indicators common to all businesses of all types and sizes aimed to facilitation harmonization and comparability of SDG reporting by companies. The GCI has been endorsed by UNCTAD member states, are selected based on main reporting frameworks and PE fund practices and aligned with the SDG indicators monitoring framework. https://unctad.org/webflyer/guidance-core-indicators-entity-reporting-contribution-towards-implementation-sustainable

UNCTAD GCI Training Material https://isar.unctad.org/wp-content/uploads/2020/04/UNCTAD_DIAE_2020_2.pdf

HIPSO indicators (Harmonized Indicators for Private Sector Operations) are a list of reporting indicators set across various sectors and industries (including cross-cutting). They have definitions that have been agreed upon by 28 different development finance institutions from around the world, all of whom have signed the MoU on harmonized indicators. These indicators may be used by any entity wishing to use them.

GRI Sustainability Reporting Standards are designed to help organizations understand and report their impacts in a way that meets the needs of multiple stakeholders. There are a set of Universal Standards that apply to all organizations, and 35 Topic Standards that contain disclosures for impacts related to economic, environmental, and social topics. Organizations can use the standards to report to stakeholders on “material” topics that reflect the organization’s most significant impacts.

IRIS+ System by Global Impact Investing Network (GIIN) is a tool designed to help impact investors translate intentions into results (hence investors may request businesses they invest in to report using these metrics, and they may be useful to businesses looking to select appropriate metrics to measure, manage and report their impacts). IRIS+ metrics and metric sets are aligned to the SDGs and five dimensions of impact and work is underway to map various investor metric sets and corporate disclosure standards with a view to achieving global consistency, including IRIS+-GRI, B Lab-IRIS+, HIPSO-IRIS+. It starts by helping investors frame their impact goals in a common way (linked to an SDG or Impact Category) and offers a set of metrics (Core Metrics Sets) to assess performance against set goals, together with an evidence base (Navigating Impact) and implementation guidance.

CDP Questionnaires are a tool to measure and disclose on climate change, forests, and water security impacts. Organizations can fill in the questionnaire to track change in performance over time. Each question is scored – some with reference to social or ecological thresholds – to help the organization determine whether it is performing sustainably on that topic.

A guide to social return on investment (developed by Social Value International, SVI) – follow methodology to monetize the social value an organization creates, preserves, erodes for stakeholders (society).

Impact-Weighted Accounts Initiative is research on impact valuation published in the form of case studies and white papers which organizations can use to learn about key considerations when monetizing impact using publicly available information https://www.hbs.edu/impact-weighted-acccounts/Pages/default.aspx

Guidance Note 2.5.3. The Fund uses data, results and evidence-based learning to inform its decision making and benchmark its impact performance.

Additional guidance not needed.

Guidance Note 2.5.4. The Fund seeks to fill relevant and material impact data gaps and establish an evidence base to test the validity of any assumptions made and replace proxies used in its ex ante impact assessments with outcome measures

Additional guidance not needed.

Guidance Note 2.5.5. The Fund identifies and analyzes the reasons for deviations from expected impact performance, and where necessary, acts to optimize impact and manage negative impacts, emergence of additional impact risks and impact underperformance, including:

2.5.5.1 developing mitigation plans

2.5.5.2 addressing the immediate and sustained impact(s) on Stakeholders

2.5.5.3 where actual impact performance underperforms expected impact performance, giving precedence to actions that may improve impact performance ahead of considering early exit options

Additional guidance not needed.

Guidance Note 2.5.6 The Fund engages proactively with its Investees to share lessons and continuously improve their responsible business and impact management policies, practices, and performance throughout the lifecycle of each investment

Additional guidance not needed.

Guidance Note 2.5.7 The Fund accounts for the positive and negative impacts from exited investments in its overall assessment of the Fund's impact performance

Additional guidance not needed.

Guidance Note 2.5.8. The Fund incorporates lessons into its strategy and management approach, and shares lessons with limited partners.

See also Guidance note – Impact data collection and use

Guidance Note.

2.6.1 The Fund monitors and reassesses its exit options and pathways throughout the investment's lifecycle to optimize impact on sustainable development and achieving the SDGs post exit

2.6.2 The Fund assesses the overall impact of each investment at exit relative to the Fund's portfolio level impact goals, investment level impact targets and contribution to sustainable development and achieving the SDGs, taking into account baseline performance and relevant SDG and/or other sustainable development outcome thresholds

2.6.3 Where possible, the Fund follows up on investments post exit to understand drivers for sustaining and optimizing impact post exit, and incorporates lessons in its impact management practices and decision making.

At exit, the Fund will consider not only the expected impact after exit but also the investee sustainability management practices (see SDG Impact Standards for Enterprises).

REFERENCE FRAMEWORKS:

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY

AND INVESTMENTS, “Adopt investment criteria and decision-making processes based on SDG impact alongside financial risk and return investment criteria.

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Frameworks, Principle 2: To promote the delivery of Positive Impact Finance, entities (financial or non-financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects programmes, and/or entities to be financed or invested in. *“Implement specific processes, criteria, and methodologies to monitor the achievement of intended impacts throughout the life-time of the financial instrument.”*

OTHER RESOURCES:

EVPA, “A practical guide to planning and executing an impactful exit”, by Priscilla Boiardi and Dr Lisa Hehenberger, 13 Nov 2014 https://www.evpa.ngo/insights/practical-guide-planning-and-executing-impactful-exit

The **UNEP FI Impact Analysis Tools** have been designed open source for banks, investors and their corporate clients and investee companies. They enable practitioners to implement a holistic approach to impact analysis and management. The Corporate Impact Analysis Tool helps banks and investors gain a cross-cutting view of the impact status and possibilities of their clients and investee companies but can also be used as a self-assessment Tool by corporates themselves. The other Tools are specifically designed for banks and investors. The Tools help users identify their most significant impact areas based on the nature of their business and the sustainable development needs of the countries in which they operate. Moreover, they guide users on their performance assessment which can be monitored over time and based on which meaningful targets can be set and action points defined.

Guidance Note 3.1. The Fund 3.1 discloses relevant information about the Fund and the Fund Manager in its legal and offering documentation to enable potential Investees, limited partners and Stakeholders to make informed decision

External reporting

External reporting should cover narrative reporting on how the fund integrates sustainability and the SDGs into its decision making, and impact performance consistent with the requirements about performance, including measurement of progress against ambitious and rigorous targets. Where any material gaps have been identified, the report should include a plan for addressing these gaps.

The report should address the principles of SDG disclosure in the Sustainable Development Goal Disclosure Recommendations, which are embedded in the relevant practice indicators through-out the Standards. The recommendations cover sustainability issues which for the purposes of the SDG Impact Standards refer to changes in well-being of people and planet caused by the activities of the reporting fund. The risk of using other metrics for decision making should also be disclosed as part of the connectivity principle.

REFERENCE FRAMEWORKS:

Sustainable Development Goal Disclosure (SDGD) Recommendations

Social Value International (SVI) Principles of Social Value, Principle 4 – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact".

Social Value International (SVI) Standard for applying Principle 4: Only include what is material – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact". https://socialvalueint.org/social-value/standards-and-guidance/standard-applying-for-principle-4-only-include-what-is-material/

Social Value International (SVI) Principles of Social Value, Principle 6: Be Transparent – "Demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported and discussed with stakeholders".

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Leverage and strengthen corporate governance mechanisms to incentivize and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration and disclosure."; Principle 4, INTEGRATED SDG COMMUNICATION AND REPORTING "Business should engage in proactive investor communications about their SDG impact thesis, strategy, and investments, including through investor calls and engagement, annual financial disclosures, and integrated financial and sustainability reports."; "Enhance integrated reporting practices with key elements of SDG-aligned investments and finance, including impact measurement and valuation, alignment of investments with strategy, and accounting and monitoring performance; "Work with peer companies

UNEPFI Principles for Responsible Banking, Principle 6: Transparency & Accountability – We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Transparency, Principle 3: Entities (financial and non-financial) providing Positive Impact Finance should provide transparency and disclosure on: the activities, projects, programs, and/or entities financed considered Positive Impact, the intended positive impacts thereof (as per Principle1); The processes they have in place to determine eligibility, and to monitor and to verify impacts (as per Principle 2); the impacts achieved by the activities, projects, programs, and/or entities financed (as per Principle 4).

OTHER RESOURCES:

GRI Sustainability Reporting Standards are designed to help organizations understand and report their impacts in a way that meets the needs of multiple stakeholders. There are a set of Universal Standards that apply to all organizations, and 35 Topic Standards that contain disclosures for impacts related to economic, environmental, and social topics. Organizations can use the standards to report to stakeholders on “material” topics that reflect the organization’s most significant impacts.

Guidance Note 3.2. The Fund reports publicly at least annually on the Fund's impact performance

Applying the ABC impact classifications to individual impacts not aggregated impacts

Within the context of these Standards, the ABC impact classifications are applied to describe and summarise the nature and depth of each impact – not to combine several material impacts to categorize the fund as a whole or portfolio subset.

REFERENCE FRAMEWORKS:

United Nations, Sustainable Development Goals (SDGs), are the world's blueprint to achieve a better and more sustainable future for all. Adopted by all 193 UN Member States in 2015, the SDGs comprise 17 integrated and indivisible goals grounded in human rights balancing the three dimensions of sustainable development – economic, social, and environmental. Supported by 169 targets and 230 indicators, the SDGs focus on most pressing issues first with an overarching goal to "leave no-one behind" and are variously referred to as the world's strategy and the most comprehensive map of need, risk, and opportunity. US$5-7 trillion per year needed to achieve the global goals – requiring both public and private capital.https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals

Impact Management Project (IMP), five dimensions of impact, provides guidance on the types of data needed to understand and assess impact performance. The IMP community of 2,000+ practitioners identified five dimensions of impact, which can be broken down into 15 more detailed data categories. Organizations can use the five dimensions as a checklist to ensure the information gathered is sufficient for the decision it will inform (see also the ABC methodology and SDG Impact Standards Glossary). https://impactmanagementproject.com/impact-management/how-PE funds-manage-impact/ and Five Dimensions of Impact (Impact Management Norms), https://impactmanagementproject.com/impact-management/impact-management-norms/

Social Value International (SV) Principles of Social Value, Principle 5: Do not overclaim – "Only claim the value that activities are responsible for creating. Understanding the role of your activities in a system of change".

Social Value International (SVI) Principles of Social Value, Principle 6: Be Transparent – "Demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported and discussed with stakeholders".

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Leverage and strengthen corporate governance mechanisms to incentivize and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration and disclosure."; Principle 4, INTEGRATED SDG COMMUNICATION AND REPORTING "Business should engage in proactive investor communications about their SDG impact thesis, strategy, and investments, including through investor calls and engagement, annual financial disclosures, and integrated financial and sustainability reports."; "Enhance integrated reporting practices with key elements of SDG-aligned investments and finance, including impact measurement and valuation, alignment of investments with strategy, and accounting and monitoring performance; "Work with peer companies

UNEP FI Principles for Responsible Banking, Principle 6: "TRANSPARENCY & ACCOUNTABILITY We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals".

Principles for Positive Impact Finance (developed by UN Environment Finance Initiative), Transparency, Principle 3: Entities (financial and non-financial) providing Positive Impact Finance should provide transparency and disclosure on: the activities, projects, programs, and/or entities financed considered Positive Impact, the intended positive impacts thereof (as per Principle1); The processes they have in place to determine eligibility, and to monitor and to verify impacts (as per Principle 2); the impacts achieved by the activities, projects, programs, and/or entities financed (as per Principle 4).

OTHER RESOURCES:

UNCTAD core indicators for entity reporting on contributions towards implementation of the Sustainable Development Goals (GCI). The GCI is a set of core universal baseline indicators common to all businesses of all types and sizes aimed to facilitation harmonization and comparability of SDG reporting by companies. The GCI has been endorsed by UNCTAD member states, are selected based on main reporting frameworks and PE fund practices and aligned with the SDG indicators monitoring framework. https://unctad.org/webflyer/guidance-core-indicators-entity-reporting-contribution-towards-implementation-sustainable

UNCTAD GCI Training Material https://isar.unctad.org/wp-content/uploads/2020/04/UNCTAD_DIAE_2020_2.pdf

HIPSO indicators (Harmonized Indicators for Private Sector Operations) are a list of reporting indicators set across various sectors and industries (including cross-cutting). They have definitions that have been agreed upon by 28 different development finance institutions from around the world, all of whom have signed the MoU on harmonized indicators. These indicators may be used by any entity wishing to use them

GRI Sustainability Reporting Standards are designed to help organizations understand and report their impacts in a way that meets the needs of multiple stakeholders. There are a set of Universal Standards that apply to all organizations, and 35 Topic Standards that contain disclosures for impacts related to economic, environmental, and social topics. Organizations can use the standards to report to stakeholders on “material” topics that reflect the organization’s most significant impacts.

GRI/UN Global Compact Action Platform – Reporting on the SDGs, including (i) Integrating the SDGs into Corporate Reporting – A Practical Guide, https://www.unglobalcompact.org/library/5628; (ii) An analysis of the Goals and Targets; and (iii) Addressing Investor Needs in Business Reporting on the SDGs.

IRIS+ System by Global Impact Investing Network (GIIN) is a tool designed to help impact investors translate intentions into results (hence investors may request businesses they invest in to report using these metrics, and they may be useful to businesses looking to select appropriate metrics to measure, manage and report their impacts). IRIS+ metrics and metric sets are aligned to the SDGs and five dimensions of impact and work is underway to map various investor metric sets and corporate disclosure standards with a view to achieving global consistency, including IRIS+-GRI, B Lab-IRIS+, HIPSO-IRIS+. It starts by helping investors frame their impact goals in a common way (linked to an SDG or Impact Category) and offers a set of metrics (Core Metrics Sets) to assess performance against set goals, together with an evidence base (Navigating Impact) and implementation guidance.

World Benchmarking Alliance (WBA) Benchmark Methodologies are benchmarks that rank companies based on their impact across seven systems that require transformation to achieve a sustainable future. Organizations can use the list of topics in the relevant ‘system’ to help identify sustainability topics to report on to enable comparability and comparison through benchmarking.

Impact-Weighted Accounts Initiative is research on impact valuation published in the form of case studies and white papers which organizations can use to learn about key considerations when monetizing impact using publicly available information https://www.hbs.edu/impact-weighted-acccounts/Pages/default.aspx

Guidance Note 3.3. The Fund considers and implements reporting mechanisms best suited to meeting the needs of Stakeholders affected by its activities and the civil society organizations that act on their behalf, including considering where appropriate to use additional non-public, tailored reporting or changes to existing public reporting to make it more relevant and accessible to a broader range of Stakeholders

Reporting reflects stakeholder needs

The fund's reporting process should explain how the needs of stakeholders have been reflected for both completeness and accessibility of the information. Materiality identifies what is material to a group of people for a purpose so the report must be clear on the intended audience and their purpose and what is material to them. Recognizing that other groups may access and use the information, the report should address the risks of other uses. This includes the investees stakeholders.

The primary user for the SDG Impact Standards is the UNDP acting in the interests of people's human rights and well-being. The purpose is to contribute positively to sustainability and the SDGs and to increase that contribution. The implications of any variation from that audience and purpose must be addressed in the report together with a plan for addressing the variation.

REFERENCE FRAMEWORKS:

Social Value International (SVI) Principles of Social Value, Principle 6: Be Transparent – "Demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported and discussed with stakeholders".

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 4, INTEGRATED SDG COMMUNICATION AND REPORTING "Business should engage in proactive investor communications about their SDG impact thesis, strategy, and investments, including through investor calls and engagement, annual financial disclosures, and integrated financial and sustainability reports."; "Enhance integrated reporting practices with key elements of SDG-aligned investments and finance, including impact measurement and valuation, alignment of investments with strategy, and accounting and monitoring performance; "Work with peer companies and standard setters to harmonize practices and maximize the utility of integrated reporting, by promoting simplification, readability, and a balance between innovation and comparability."

OTHER RESOURCES:

Guidance Note 3.4. The Fund makes publicly available the Fund's and Fund Manager's (and any parent and/or holding company's – including its ultimate holding company's) human rights and other responsible business policies.

Public policies and disclosure

Disclosure on both policies and performance should be consistent with the remainder of these Standards. Any gaps should be reported as outlined in 3.2.4, 2.3.6.3 and 2.5.4 together with a plan for addressing those gaps and the implications of any gaps for decision making should be recognized.

The Fund assesses the risk that actual impacts do not occur as and when expected, taking into account: (i) the likelihood and magnitude of the risks, (ii) the tolerance for unexpected outcomes (including by those experiencing the impacts), and (iii) any risk mitigation measures

The Fund fills data gaps, including by: (i) replacing proxies with outcome measures, where possible, and (ii) testing the validity of any assumptions made and updating them as needed (e.g., as the context changes).

REFERENCE FRAMEWORKS:

Social Value International (SVI) Principles of Social Value, Principle 6: Be Transparent – "Demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported and discussed with stakeholders".

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Leverage and strengthen corporate governance mechanisms to incentivize and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration and disclosure."; Principle 4, INTEGRATED SDG COMMUNICATION AND REPORTING "Business should engage in proactive investor communications about their SDG impact thesis, strategy, and investments, including through investor calls and engagement, annual financial disclosures, and integrated financial and sustainability reports."; "Enhance integrated reporting practices with key elements of SDG-aligned investments and finance, including impact measurement and valuation, alignment of investments with strategy, and accounting and monitoring performance.

OTHER RESOURCES:

Annual Communication on Progress (COP) to the United Nations Global Compact website on progress made to implement the Ten Principles of the Global Compact. The COP is the UN Global Compact's reporting framework. It serves as the initiative's main accountability measure based on commitments from companies to make continuous progress on the Ten Principles.

Guidance Note 4.1. The Fund has active oversight from its governing bodies (depending on structure, the board and/ or the investment committee) of matters relating to:

4.1.1 organizational culture

4.1.2 its policies on respect for human rights and other responsible business and impact management policies, including its grievance and reparation mechanisms for affected Stakeholders (including for the avoidance of doubt, whistleblowing safeguards)

4.1.3 performance and conformance (including progress on and process for continuous improvement) with its responsible business policies and practices

4.1.4 process of Stakeholder identification and involvement in decision making

4.1.5 Stakeholder complaints and remedial actions taken (ensuring no instances of adverse findings without adequate remedies being in place)

4.1.6 relevant and material sustainable development issues, including risks and opportunities

4.1.7 its purpose and approach to creating sustainable long term value, impact thesis (including its impact risk appetite and tolerance), portfolio level impact goals and investment strategy and the compatibility of its impact thesis and portfolio level impact goals with its investment strategy (including its financial return targets, and financial risk appetite and tolerance)

4.1.8 performance and conformance with its impact management policies and practices, and progress against its portfolio level impact goals and investment level impact targets and related relevant SDG and/or other sustainable development outcome thresholds, baselines and counterfactuals

4.1.9 adequacy of budget and resources to manage Stakeholder involvement effectively and deliver its impact thesis and portfolio level impact goals

4.1.10 impact and sustainable development related disclosures and external reporting

Board leadership and oversight

Boards send a strong message to their workers and stakeholders about what's important by virtue of what does and does not make it to the Board agenda and gets airtime during board meetings. The CEO and senior executives that engage directly with the Board take their cues from what they see is important to the Board. If the Board isn't engaged and actively driving the agenda on – and taking ownership of – respect for human rights and other responsible business practices, operating sustainably and making positive contributions towards achieving the SDGs, it's unlikely that these will be embedded in the culture, purpose, and strategy of the organization.

Intent is insufficient. Sound governance policies and oversight practices – including consequences for breaches – are needed to ensure the Board's intent is realized and to create a culture of accountability for decisions and actions in line with stated policies and commitments.

For small funds, there may not be a formal board however there should be opportunities to create additional accountability by forming a group of advising trustees, an advisory board or the like.

Organizations like Accountability Counsel and SHIFT create resources that make it easier and more efficient to incorporate human rights and other responsible business practices into policies and practices. In many countries, options now exist for organizations to participate in cost effective external complaints and dispute resolution schemes that support accountability to stakeholders.

A board comprises Directors legally registered as required by national legislation. A minimum of 25% of all directors or higher for rounding (i.e., 5 directors means 2 non-executive directors) should be non-executive directors, and there should be regular, minuted board meetings.

REFERENCE FRAMEWORKS:

UN Guiding Principles on Business and Human Rights
https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf

The Ten Principles of the UN Global Compact https://www.unglobalcompact.org/what-is-gc/mission/principles

The UN Women's Empowerment Principles https://www.weps.org/

The International Labour Organization's 8 fundamental conventions for labor standards
https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm

OECD Guidelines for Multinational PE funds sets out principles and standards for responsible business conduct consistent with applicable laws and internationally recognized standards, including setting objectives with reference to minimum safeguards on topics such as: human rights, labour relations, employment practices, public health and safety, bribery and extortion, science and technology and taxation.

Office of the United Nations High Commissioner for Human Rights, Free and Prior Informed Consent for Indigenous Peoples,
www.ohchr.org/Documents/IssueFree_and_prior_informed_consent_for_indigenous_peoples/Peoples/FreePrioran dInformedConsent.pdf

United Nations, Sustainable Development Goals (SDGs), are the world's blueprint to achieve a better and more sustainable future for all. Adopted by all 193 UN Member States in 2015, the SDGs comprise 17 integrated and indivisible goals grounded in human rights balancing the three dimensions of sustainable development – economic, social, and environmental. Supported by 169 targets and 230 indicators, the SDGs focus on most pressing issues first with an overarching goal to "leave no-one behind" and are variously referred to as the world's strategy and the most comprehensive map of need, risk, and opportunity. US$5-7 trillion per year needed to achieve the global goals – requiring both public and private capital.https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals

Impact Management Project (IMP), five dimensions of impact, provides guidance on the types of data needed to understand and assess impact performance. The IMP community of 2,000+ practitioners identified five dimensions of impact, which can be broken down into 15 more detailed data categories. Organizations can use the five dimensions as a checklist to ensure the information gathered is sufficient for the decision it will inform (see also the ABC methodology and SDG Impact Standards Glossary).
https://impactmanagementproject.com/impact-management/how-PE funds-manage-impact/ and Five Dimensions of Impact (Impact Management Norms), https://impactmanagementproject.com/impact-management/impact-management-norms/

Social Value International, Principles of Social Value: Principle 1 Involve stakeholders – "inform what gets measured and how his is measured and valued in an account of social value by involving stakeholders (the people who experience change as a result of your activity".

Social Value International "Standard on applying Principle 1: Involve stakeholders" explains options and processes for identifying stakeholders and meaningfully engaging stakeholders, including sample questions to ask. This Standard talks about how speaking to and involving people who experience change is an essential part of the process. But they also acknowledge that speaking directly to stakeholders is not the only source of relevant information. Third party research may be complementary to what you hear from stakeholders or may be a substitute if your stakeholders are particularly difficult to reach, or if they do not feel comfortable sharing their opinions. https://socialvalueint.org/wp-content/uploads/2019/03/Standard-on-Stakeholder-Involvement-V2.0-FINAL-1.pdfILO convention 169: prior consultation and participation of indigenous peoples in decisions affecting them, and in particular with regard to free and informed consent on private activities in their territories.

Social Value International (SVI) Principles of Social Value, Principle 4 – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact".

Social Value International (SVI) Standard for applying Principle 4: Only include what is material – "Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact". https://socialvalueint.org/social-value/standards-and-guidance/standard-applying-for-principle-4-only-include-what-is-material/

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Leverage and strengthen corporate governance mechanisms to incentivize and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration and disclosure."

UNEPFI Principles for Responsible Banking, Principle 4: Stakeholders – We will proactively and responsibly consult, engage, and partner with relevant stakeholders to achieve society's goals

UNEPFI Principles for Responsible Banking, Principle 5: Governance and Culture – We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

OTHER RESOURCES:

OECD Due Diligence Guidance for Responsible Business Conduct helps organizations comply with the OECD Guidelines for Multinational PE funds providing guidance on setting up due diligence processes to identify and address principal adverse impacts in operations, supply chain and business relationships https://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm

Accountability Counsel's Accountability Mechanisms: Benefits and Best Practices

What's Stopping Boards from Turning Sustainability Aspirations into Action? By N. Craig Smith, INSEAD and Ron Soonieus, Camunico, INSEAD, The Corporate Governance Centre, https://www.insead.edu/sites/default/files/assets/dept/centres/icgc/docs/whats-stopping-boards-from-turning-sustainability-aspirations-into-action-july2019.pdf

Guidance Note 4.2. The Fund has governing bodies (depending on structure, the board and/or the investment committee)

4.2.1 have competencies concerning sustainable development issues and impact management

4.2.2 prioritize gender and other dimensions of diversity (as demonstrated by composition and culture, including openness to hearing and including different voices and perspectives in decision making)

4.2.3 recognize the implications of low accountability to those impacted and the need to act on their behalf in decisions

4.2.4 hold the CEO/Managing Director accountable for the Fund positively contributing to sustainable development and the SDGs, including operating in accordance with its culture, responsible business and impact management policies and practices and delivering on its strategy, including its impact thesis and portfolio level impact goals

4.2.5 meets the national minimum corporate governance standards, as appropriate

Board competencies

With respect to board competencies, the board may consider including human rights/sustainability/impact skills in its board skills matrix, implementing a 'fit and proper' test for new board members/directors, human rights and sustainability training for existing members/directors, including appropriately skilled Stakeholders or individuals with relevant scientific or social sustainability expertise – especially in the SDGs most relevant to the fund's context, nominating an independent director/member to have responsibility for championing human rights/sustainability/SDG/impact management issues, creating an independent sustainability/SDG/impact management advisory committee of suitably qualified and experienced personnel, and/or promoting diversity for example by including representation by women and under-represented stakeholder groups.

Training for the whole board is another option to strengthen the board's competencies in relation to sustainability matters and to ensure knowledge remains current.

REFERENCE FRAMEWORKS:

UN Guiding Principles for Business and Human Rights (UNGPs)

Ten Principles of the UN Global Compact

UN Women's Empowerment Principles

International Labour Organization – 8 fundamental conventions for labour standards

International Standard of free, prior and informed consent (FPIC) in relation to Indigenous Peoples, where relevant

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Leverage and strengthen corporate governance mechanisms to incentivize and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration and disclosure."

OTHER RESOURCES:

Guidance Note 4.3. The Fund manager (and any parent and/or holding company – including its ultimate holding company) has policies, practices, and performance relating to corporate governance, and respect for human rights and other responsible business practices that are consistent with the requirements set out in these Standards

Additional guidance not needed.

REFERENCE FRAMEWORKS:

CFO Principles on Integrated SDG Investments and Finance (developed by UN Global Compact convened CFO Taskforce for the SDGs), https://www.unglobalcompact.org/library/5788 Principle 2: INTEGRATED SDG STRATEGY AND INVESTMENTS, "Leverage and strengthen corporate governance mechanisms to incentivize and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration and disclosure."

OTHER RESOURCES: