

# SDG Impact Standards for Private Equity funds

Response to the consultation input

# Foreword

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We're thankful that so many individuals and organizations took the time for thoughtful reflection and comment through the development of the SDG Impact Standards for Private Equity Funds. This has had a significant influence on the Standards. Thank you.

We are delighted that those who responded overwhelmingly saw the important contribution that these Standards can make in shifting capital to fund the SDGs. We are also glad they agreed that the SDG Impact Standards will provide the tools to target and document contributions toward the SDGs.

In this document, we summarise the points you raised on the SDG Impact Standards for Private Equity and tell you how we have taken your feedback into account. Your feedback is also assisting our work on the SDG Impact Standards for SDG Bonds and the SDG Impact Standards for Enterprises.

We appreciated the opportunity to learn about concerns in various regions on how to make best use of these standards and have begun work on several initiatives to address them. For example, we are designing online training with the [Center for the Advancement of Social Entrepreneurship \(CASE\)](#) at [Duke University](#); we expect the training to be available mid-2021.

The many questions we received about the process planned for Certification and the SDG Impact Seal, still under development, are informing our plans to enable funds, bonds and businesses to seek independent assurance from accredited assurers to demonstrate their progress towards implementing and integrating the SDG Impact Standards into their decision-making practices. The questions raised about this process are not dealt with in this document.

The UNDP SDG Impact Standards are freely available and can be used as an internal diagnostic tool for organizations aligning their internal processes and practices to better address sustainable development risks and opportunities—and to facilitate their SDG contributions. We encourage organizations to use the Standards when evaluating or designing their own impact-management processes, whilst we continue work on developing guidance for these Standards.

Our goal from the beginning has been to make this a collaborative process. Input is welcome at any time. You can provide it through [sdgimpact@undp.org](mailto:sdgimpact@undp.org). We are especially curious to learn more from the many organizations who have reviewed the Standards and have begun using them.

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# Development of the SDG Impact Standards for Private Equity Funds

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Our development of the SDG Impact Standards for Private Equity Funds sought to facilitate ongoing alignment with other standards and frameworks. We also sought to demonstrate the added value of using the SDG Impact Standards for Private Equity Funds in conjunction with other key standards.

## Standards governance

The overall development of the SDG Impact Standards has been guided by a Steering Committee whose members are:

The SDG Impact Steering Group, chaired by the UNDP Administrator, Achim Steiner. Members include John Denton (Secretary-General, International Chamber of Commerce), Cheo Hock Kuan (Executive Director & CEO, Temasek Trust), Anna Ryott (Chair of Board, Summa Equity), Amy Jadesimi (CEO, Ladol), Ma Weihua (Chairman, China Alliance of Social Value Investment), Lisa Genasci (Founder and CEO, ADM Capital Foundation (ADMCF)), Daniel Hanna (Global Head of Sustainable Finance, Standard Chartered), Rajiv Lall (Chairman, IDFC First Bank), Ronald Cohen (Philanthropist and Chairman of the Global Steering Group for Impact Investment), Ken Shibusawa (CEO, Shibusawa and Company, Inc.), Denise Hills (Global Sustainability Director, Natura).

## Consultation process

The consultation process for the SDG Impact Standards for Private Equity Funds was designed to meet the UNDP Principles for social and environmental standards and aspires to meet ISEAL Alliance's international benchmarks for design, impact and consultation.

The engagement plan elicited feedback from a broad range of Stakeholders, including the investment and business community, civil service organizations, organizations expert in human rights and the rights of indigenous peoples, other United Nations bodies and initiatives, and relevant industry groups.

We held more than 50 events to gather feedback from across Africa, Europe, and North and South America, from more than 4,000 participants.

In addition to meetings, calls and focus groups the process involved two consultation periods:

- First draft - Public consultation period of three months, October-December 2019.
- Second draft - Public consultation period of one month, July 2020.

Through this process, we have received written input and input via one-on-one conversations from approximately 46 organisations and individuals, including 20 asset managers/asset owners; 10 consultants/assurance providers; 7 standard-setting organizations; 4 UN agencies; 2 organizations representing CSO organizations; 3 Industry organizations.

Input from the first consultation period resulted in the SDG Impact Standards for Private Equity Funds being significantly streamlined between the first and second drafts.

Further additional input has come from:

- Relevant input to the public consultation for SDG Impact Standards for Bonds
- The process of developing standards for private sector partners with OECD
- Learnings from the development of the Sustainable Development Goal Disclosure (SDGD) Recommendations
- Input from the reference group for the SDG Impact Standards for Enterprises that are under development

## The consultation questions

### The second public consultation asked:

*Are the Standards clear, comprehensive and implementable?*

*Have the key elements of market leading impact measurement and management practice been captured? If no, what's missing?*

*Do the Practice Indicators strike the right balance between being sufficiently robust on the one hand and accessible on the other?*

*Has the right balance been struck between the core and expanded Practice Indicators?*

*Is the guidance on evidencing the Practice Indicators clearly defined and evidence-able? If no, how can it be improved?*

*To be eligible to apply for the Seal, should any of the expanded Practice Indicators be mandatory or assessed as “developed” rather than “developing”?*

*What factors will influence adoption of the Standards?*

*In your view, what is the most important contribution the Standards can make?*

*Are there other frameworks or principles (other than the ones already listed) that you believe the Standards should align with?*

### It asked assurers:

*Do you foresee any difficulties assuring against this Standard? and,*

*If so, how might this be addressed?*

*Is there anything missing from the examples of sources of evidence that you would like to see included?*

*And with respect to the Guidance notes and resources it asked:*

*What other guidance and resources would you find useful to be included?*

## Summary of key changes

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The purpose of the Standards has been restated for clarity: They contribute to sustainable development and achievement of the SDGs by facilitating decision-making. Achievement of the SDGs cannot happen without demonstrating respect for human rights and other responsible business practices. We believe effective contributions are realized through consistent, inclusive development of impact management frameworks for investment decision making.

The Standards have been streamlined with a significant reduction in the number of Standards and Components.

The distinction between core and expanded indicators has been removed.

The guidance has been removed and will be expanded on in a separate document that can be regularly updated.

The language has been simplified and definitions clarified.

The Standards have been more clearly distinguished from our assurance framework.

The examples of evidence have been removed from the Standards and will be incorporated in the Guidance.

The Governance Practice Indicators have been revised to accommodate a broader range of organisation types and jurisdictions.

## Summary of the consultation feedback and how we have responded

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This section summarises the responses to each consultation question and how we have responded.

### **In your view, what is the most important contribution the Standards can make?**

We were delighted with the overwhelmingly positive feedback that the Standards will help:

- Stop rainbow-washing, increased rigor, and transparency
- Change mindsets, increase capital flows to SDGs, particularly in lesser developed markets and underserved communities, where private investment is needed
- Better manage, report, benchmark against others and to identify gaps for improvements.
- Encourage meaningful stakeholder engagement throughout the process – critical to credibility.
- Bring together other existing methodologies through the umbrella approach.
- Inform better investment decision-making.

## Are the Standards clear, comprehensive and implementable?

Most respondents answered yes to this question, noting that the Standards were valuable and comprehensive and that the second draft was a considerable improvement on the first. However, there was a strong concern that the Standards would be difficult and costly to implement, particularly in some jurisdictions. Several respondents called for a more detailed explanation of how to implement with examples and steps.

### How we have responded

- The Standards have been streamlined and simplified.
- The Standards have been repositioned as best practice.
- The Guidance has been removed from Standards document. It will be further developed in a separate document and cross referenced to the Practice Indicators.
- The Practice Indicators and subindicators are now numbered to facilitate cross-referencing to the Guidance.

## Have the key elements of market-leading impact measurement and management practice been captured? If no, what's missing?

Most respondents felt that the elements of market-leading practice were captured and that the SDG Impact Standards made an important contribution. However, there was some concern that the Standards would be challenging to apply, as they go beyond current practice. It was also noted that impact management and measurement practices are evolving and questions regarding how that would be addressed.

A concern was raised that the use of the Impact Management Project's (IMP) framework may exclude some investors and/or other frameworks.

### How we have responded

The Standards are deliberately designed to facilitate best practices and help organisations make better decisions. The core elements embedded in the SDG Impact Standards are the SDGs, IMP norms, UNGP-BHR and UNGC's Ten Principles to drive integrity and standardisation. They represent what we believe needs to be done to meet the SDG Goals. We are developing a series of support materials (Guidance, Training and Outreach programs) to support the progress toward these shared goals.

We use the IMP Framework to help achieve a common language for understanding and communicating impacts, which is necessary to transition to a market at the scale needed. Its use in the SDG Impact Standards does not preclude the use of other frameworks and approaches.

The Standards will be updated periodically, while the Guidance will be a more dynamic resource outside the governance processes. The Guidance will apply to revisions of the Standards. It will also refer to a broader range of tools as they are developed.

## Do the Practice Indicators strike the right balance between being sufficiently robust on the one hand and accessible on the other?

There were mixed views on the balance between robustness and accessibility, with a significant portion thinking the Practice Indicators were too extensive to be widely accessible. These responses pointed out the need to consider constraints around access to data and costs especially for smaller funds.

There was a concern that the Practice Indicators for governance outlined in the SDG Impact Standards for Private Equity Funds were contrary to industry best practices and could be a hindrance to accessibility for many Funds.

Accessibility was also raised with respect to the requirement for external assurance.

There was a concern that the Standards might exclude investors that do not consider themselves impact investors but might nevertheless have important roles in achieving the SDGs.

### How we have responded

The Standards are intended to provide a common framework for best-practice decision-making, including identifying material issues and appropriate data, and accounting for risks when there may be gaps or deficiencies.

The Practice Indicators for Governance have been clarified to better accommodate entities of differing sizes and structures.

While impact funds may be more familiar with some of the concepts in the Standards than their mainstream counterparts – we note that this is changing. We hope the Standards will accelerate that change.

Adding trust to the claims made by funds through a third-party assurance process is key to building clear and credible systems that help us meet our goals. We recognize the need to build a bridge between the assurance framework and these best practice Standards to encourage participation in external assurance and provide accessible entry points.

## Has the right balance been struck between the core and expanded Practice Indicators?

The issue of cost was again raised in consultation responses, where concern was raised about having to rely on consultants. Some organisations perceived the Practice Indicators being perceived as onerous.

### How we have responded

The Standards are intended to facilitate best practices in investment decision-making.

Additional guidance and tools will be developed to make the Standards more widely accessible and to support users.



## Is the guidance on evidencing the Practice Indicators clearly defined and evidence-able? If no, how can it be improved?

Many respondents answered yes to this question; i.e., they thought the guidance was clear and evidencable. The integration with other frameworks was welcomed. Key issues raised were:

- Not all Funds have a designated “impact manager”.
- Not all indicators are objective, evidencable and assurable.
- Organisations will not want to share their Intellectual Property.
- Guidance is needed on how to achieve a Practice Indicator.
- Guidance is needed on identifying unknown negative impacts.
- Overlap of Practice Indicators.

### How we have responded

To maintain the currency of the Guidance, it has been removed from the Standards and will be provided separately. This way, we can update it outside the governance processes for Standards.

For clarity, the defined term “impact manager” has been dropped from the Standards without losing the focus on the required capabilities and the level of authority needed to influence decision-making.

Questions on assurance will be dealt with in the assurance framework.

The disclosures required for transparency and accountability purposes have been reduced but include those that will enhance credibility and specifically support the core objectives of the Standards; for example, supporting comparability by using the SDG targets and ABC impact classifications to communicate impacts consistently.

Guidance on achieving Practice Indicators will be provided separately.

The Standards outline processes to minimise the risk that negative impacts have been overlooked. The Practice Indicators have been substantially rewritten to remove overlap.

## To be eligible to apply for the Seal, should any of the expanded Practice Indicators be mandatory or assessed as “developed” rather than “developing”?

Respondents overwhelmingly answered no to this question and felt that developing was sufficient.

### How we will respond

The suggestions made will be considered in the assurance framework.

## What factors will influence adoption of the Standards?

Factors mentioned were:

- Cost – especially for smaller organisations
- Achievability – because of the complexity and number of Practice Indicators
- Need to hire consultants (also drives cost)
- Need to be achievable in less developed countries
- The business case for the Standards and resulting market demand
- Availability of training
- Alignment with IFC’s Operating Principles for Impact Management

### How we have responded

We understand that in many cases, funds will need to invest resources to implement the Standards and to follow the practices outlined in them. The Standards are meant to provide a common platform for practice design that will help maximize the success in reaching the intended SDG focused impacts.

We are working on developing a series of tools that will support building internal capacity to support efficient and effective application of the Standards. These tools include training tools, guidance and webinars.

The Standards have been streamlined with a focus on key Components. We anticipate that many organisations will consider that the benefits warrant investing in building internal capacity through hiring, training or using consultants.

The Practice Indicators for Governance have been updated to make it more accessible to a broader range of organisations in different jurisdictional contexts.

The Guidance will provide a mapping to the IFC Operating Principles for Impact Management.

## Are there other frameworks or principles (other than the ones already listed) with which you believe the Standards should align?

The Standards were generally seen as well aligned with key frameworks. Some responses expressed interest in understanding how the IFC Operating Principles for Impact Management relate to the Standards. A mapping to the IFC Operating Principles for Impact Management will be released with Version 1.0 of the Standards and incorporated into the guidance. The guidance will be updated to discuss alignment with other frameworks as demand arises.

## Questions to Assurers

Assurers were asked:

- Do you foresee any difficulties assuring against this Standard? and,
- If so, how might this be addressed?
- Is there anything missing from the examples of sources of evidence that you would like to see included?

Several points were raised in answer to these questions that will help us develop the assurance framework. These included: cost; encouragement of continuous improvement; avoiding the possibility that different third-party providers could come to different conclusions; provision of local training; reference to ISAE 3000 in the planning of such engagements; guidance on appropriate evidence and how to use it; and, periodicity of Seal renewal requirements.

### How we will respond

As we build our Assurance Systems, we are focused on developing and publishing clear guidance to assist users in conducting internal diagnostics and preparing for eventual third-party assurance reviews. We will be sharing the Assurance Systems information and documents as we formalize them in the next weeks.

## Guidance notes and resources

Respondents were asked: “What other guidance and resources would you find useful to be included?” Responses were generally favourable regarding the quality of the Guidance.

There were requests to:

- Link the Practice Indicators with other frameworks through the guidance
- Provide case study examples
- Link to additional resources as they are developed
- Provide details of possible independent assurers

### How we will respond

The Guidance will be issued separately and will be responsive to these suggestions.

