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# Towards harmonised management and measurement of impact: The experience of development finance institutions

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# Abstract

This paper analyses how development finance institutions (DFIs) manage and measure the impacts of their investments. Using the logic of an earlier scoping exercise, we examine how DFIs operationalise the different impact management and measurement (IMM) tools and initiatives emerging from harmonisation efforts within the industry, or roll out their own proprietary frameworks. This mapping enables us to draw broad conclusions for other investors operating in a development context. Namely, it is possible to both harmonise broad sets of agreed values (principles) and standardise metrics and indicators. At the same time, the paper shows that it is not useful to converge towards a "single, limiting" measurement framework. Ultimately, the different contexts and geographies DFIs operate in, as well as their different stakeholders and shareholders, demand flexibility. Nevertheless, convergence around underpinning standards of practice is essential to producing transparent, consistent and comparable data on impact. Such data on impact, outlining what works in different geographies and contexts, is critical in strengthening the efficient deployment of funds. In this sense, we want to avoid both impact washing and a "race to the bottom", in favour of an aspirational drive towards better impact management and measurement.

# Foreword

This paper is a follow-up to the OECD Development Co-operation working paper *Managing and measuring the impact of sustainable investments: A two-axes mapping*, and is supported through, and is an outcome of, the OECD Central Priority Funding (CPF) project, *Addressing the impact challenge: operationalising impact measurement of SDG related investments*. CPF supports multidisciplinary topics that are not covered by one individual work programme.

The findings of this paper also contribute to build the knowledge and evidence base for the work on the OECD UNDP Impact Standards for Financing Sustainable Development (IS-FSD), approved by the DAC in March 2021 (https://www.oecd.org/dac/oecd-undp-impact-standards-for-financing-sustainable-development-744f982e-en.htm).

# Acknowledgements

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# Executive summary

Even before the COVID-19 pandemic, one of the main criticisms levied at actors deploying development finance to mobilise commercial finance, was their perceived inability to retain a tight development focus centred on “leaving no one behind”. Specifically, civil society organisations (CSOs) highlighted continued failure to adequately embed human rights considerations and local development needs into investment process decision making (Van de Poel, 2020[1]).

Pandemic-induced public budgetary pressure has since served to heighten scrutiny and accountability regarding how development finance providers deploy resources to support private sector development. As a result, these organisations need to respond with transparent and reliable data on the development impact they actively target and achieve. However, getting transparent, comparable impact data is only possible if common standards for measuring and managing impact are created and implemented widely.

Impact management and measurement (IMM) tools and initiatives are key in helping public and private organisations to go beyond risk mitigation and towards achieving the 2030 Agenda**.** IMM tools can be used to: (i) identify areas with the highest development needs and channel more finance accordingly; (ii) provide evidence as to which policies are most effective for different contexts; and, (iii) hold public and private stakeholders to the same degree of accountability when it comes to achieving the SDGs.

Impact *management* initiatives support investors, enterprises and other stakeholders in integrating positive and negative impact considerations into investment and business decisions. Impact *measurement*, on the other hand, allows these actors to set impact objectives, monitor impact performance and evaluate impact.

In recent years, investors, employees and consumers have adopted numerous uncoordinated initiatives aimed at helping the private sector achieve impact at scale. As the findings of an initial scoping exercise that mapped the large volume of IMM tools and initiatives in the market (Boiardi, 2020[2]) demonstrate, these initiatives lack an overall coherency and thus generate confusion. Building on the logic of this earlier scoping exercise, here we examine how development finance institutions (DFIs) operationalise the: (i) principles and guidance; (ii) frameworks and methodologies; (iii) standards, certifications and ratings; as well as (iv) metrics and indicators proposed by various IMM harmonisation tools and initiatives.

DFIs are of particular interest due to their dual mandate to generate both development impact and financial returns, bridging the public and private sectors. As such, their experience can inform other investors operating in developing countries to improve their internal processes to manage impact. This, in turn, can generate much needed transparent, consistent and comparable data on the impact of investments on the SDGs.

Initial findings suggest that it is possible to harmonise the broad sets of agreed values (principles), as well as the standardised metrics and indicators that development finance providers use to measure, manage and report on their development impacts. At the same time, we maintain that it is not useful to converge towards a single measurement framework. Ultimately, the different contexts and geographies DFIs operate in, as well as the different stakeholders and shareholders they cater for, demand flexibility.

Nevertheless, converging towards underpinning standards of good impact management practice can produce the needed transparent, consistent and comparable data. This can be achieved by: (i) signing up to principles for management and working towards external verification and disclosure; (ii) aligning metrics used for measurement and comparing systems; and finally (iii) adopting impact management standards.

## Sign up to principles for management and work towards external verification and disclosure

High-level impact management principles play a significant role in signalling investors' interest in sustainability and impact. By signing up to principles, investors commit to publishing their impact thesis (including how the investment addressing an existing market need, the proposed theory of change and any assumptions) as well as publicising their intention to pursue impactful investments across the part of their portfolios considered to be within the principles' scope. In turn, this opens the door to greater levels of scrutiny, comparison and feedback.

Although DFIs have successfully harmonised on high-level principles, wide variation remains in terms of IMM framework quality and data disclosed. This contributes to the systemic lack of transparency on what sustainable development impacts the private sector should address. While independent verification goes some way towards mitigating this, the self-reported data that forms the basis of most non-financial disclosure runs the risk of generating "SDG and impact washing". Finally, without a common assurance standard, organisations called to verify adherence to principles might employ very different approaches in terms of quality and level of scrutiny.

## Align metrics used for measurement and compare systems

DFIs increasingly use harmonised impact indicators with a view to providing reliable, comparable data on contributions to the SDGs. The growing evidence of alignment on common metrics is illustrated by EDFI and the GIIN's recently launching the Joint Impact Indicators (JII), a subset of HIPSO and IRIS metrics with an initial thematic focus on jobs, gender and climate (GIIN; HIPSO, 2021[3]). While it remains to be seen whether the JII can become the primary reference point for both DFIs and other investors working in development co-operation contexts, alignment around key thematic areas facilitates benchmarking, contributing to overall more effective impact management and measurement. Moving forward, greater alignment in more areas is necessary, and data collected through harmonised metrics should also be shared transparently, to allow for a greater comparison across investment performance, geographies and context.

## Adopt impact management standards

Although a single limiting development impact framework for all providers of development finance would not be appropriate, they should converge towards the standards that underpin good impact management practices. That is, standards that support organisations make informed decisions and assess trade-offs regarding the material positive and negative, intended and unintended, social and environmental impacts of their investment decisions on others. Previously overlooked in the crowded SII landscape, underpinning impact standards such as the OECD-UNDP Impact Standards for Financing Sustainable Development are vital for donors and private sector partners seeking to producing transparent, consistent and comparable data (OECD/UNDP, 2021[4]).

## Key messages

- Providers of development finance currently define development impact *performance* selectively against a variety of different IMM principles, standards, frameworks and methodologies, metrics and indicators. This makes the sector vulnerable to "impact washing", a process whereby investors claim that their investments contribute towards the SDGs without being transparent about the real impact (Boiardi, 2020[2]).
- DFIs, working under a dual mandate, channel donor resources towards private sector development in partner countries. While these organisations have successfully harmonised common principles, the principles' lack of prescription at the level of reporting and verification impede their effectiveness.
- From their unique position at the intersection of donor priorities and private sector development, DFIs have been paying increasing attention to job quality (SDG 8, Decent Work and Economic Growth), gender-lens investing (SDG 5, Gender Equality) and climate (SDG 13, Climate Action). DFIs can encourage the broader field of development finance towards the harmonisation of *impact management and measurement* (IMM) practices, and should be encouraged to do so by donors.
- Because impact frameworks must be tailored to the size and capabilities of each DFI, however, full harmonisation is not the answer. Frameworks are best thought of as *guiding tools* that translate principles into practice, and that DFIs can design and deploy as proprietary. This stems principally from the fact that, in order to be meaningful, frameworks must be tailored to the size and capabilities of the DFI in question.
- To achieve greater harmonisation, we recommend that DFIs:
    1. demonstrate *transparency* through external IMM verification and disclosure, as well as by making their results and methodologies publicly available,
    2. *align* the metrics used for measurement and the comparison of IMM systems, and
    3. adopt common impact management *standards* across the field of development finance.

# 1 Social impact investing and the role of development finance institutions

This introductory chapter outlines the concept of Social Impact Investing (SII) as an investment strategy to help achieve the SDGs. While this currently remains both a growing and contested space, harmonisation of impact management and measurement (IMM) practices can help achieve the 2030 Agenda by: (i) channelling finance to areas with the highest needs; (ii) providing evidence as to which policies are most effective for different contexts; and, (iii) holding public and private stakeholders to the same degree of accountability. While accepted evaluation criteria for the use of official development finance (ODA) exist, there is no such equivalent for private investments. In this context, we introduce development finance institutions (DFIs), which are spearheading IMM harmonisation in pursuit of the SDGs.

Effectively enhancing the positive impact of private investment is crucial to addressing the growing financing gap for the Sustainable Development Goals in developing countries, currently estimated at USD 2.5 billion (OECD, 2020[5]). As the Addis Ababa Action Agenda recognised in 2015, while official development assistance (ODA) and international aid budgets remain crucial, a robust private sector is necessary to deliver the 2030 Agenda. Supporting the continued development of the private sector is also necessary to create more resilient societies that are better equipped to withstand future unexpected shocks like the COVID-19 pandemic.

Social impact investment (SII) is a powerful strategy with the potential to help achieving the SDGs and the 2030 Agenda. SII goes beyond the direct outputs of an intervention, encouraging organisations to manage and measure the social and environmental impacts[1] generated by investments.

However, despite increasing awareness and commitments towards delivering sustainable investments, the (broad) impact landscape remains characterised by an ever-growing number of projects and initiatives, resulting in sweeping disparities (OECD, 2019[6]). As such, transforming impactful investments into results for the SDGs remains an uphill task.

## 1.1. The rise of social impact investing (SII) as a tool to achieve the SDGs

SII is an approach that intentionally aims to achieve positive social and environmental impacts alongside sustainable financial returns. The Global Impact Investing Network (GIIN) defines impact investments (II) as investments made with the intention of generating "positive, measurable, social, environment impact alongside financial returns" (GIIN, 2020[7]). The OECD broadens this definition, stating that SII seeks to "not only mobilise private financing to contribute to achieving the SDGs, but, most importantly, catalyse innovative, new approaches, to social, environmental and economic challenges" (OECD, 2019[6]). Altogether,

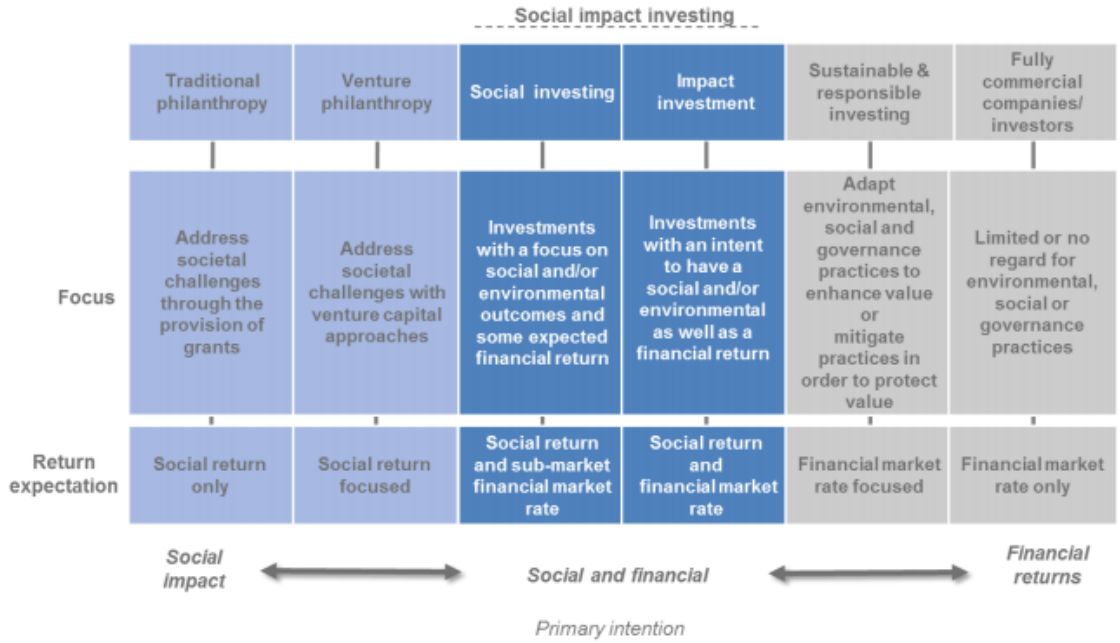
> *SII is composed of three main elements: (i) the publicly stated intention to generate a (ii) long lasting positive impact on people and the planet by (iii) supporting innovative solutions to pressing social issues (Boiardi, 2020[2]) (OECD, 2019[6]).*

Over the course of the past decade, the sustainable finance market has experienced a marked rise and, at end-2019 was predicted to exceed USD 30 trillion in total assets, an increase of more than 30% compared to 2016 (OECD, 2020[8]). Globally, sustainable funds held almost USD 1 trillion of assets at end-2019. However, within the world of sustainable finance investment, it is crucial to differentiate between the different approaches in use and, in particular, between ESG investing and impact investing – terms that have often been used interchangeably (see Figure 1.1).

> *Whereas ESG investing should be seen as an investment strategy that aims at mitigating the material risks associated with investments, impact investing has as its main objective the intentional achievement of social or environmental impacts through targeted investments.*

[1] The OECD Development Assistance Committee (DAC) defines "impact" as "the extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects."

## Figure 1.1. The spectrum of capital: Moving towards greater impact




Source: "The spectrum of capital", OECD (OECD, 2019[6]), *Social Impact Investment 2019*, https://doi.org/10.1787/9789264311299-en.

Impact investing, in its own right, now occupies a bigger share of the market than ever before. For instance, the number of social impact investors rose from fewer than 50 pre-1997 to well over 200 in 2017 (OECD, 2019[6]). Today, the 2020 Global Impact Investing Network (GIIN)'s annual report estimates this market to be worth in the region of USD 715 billion in 2019 (GIIN, 2020[7])[2]. Research undertaken as part of the OECD's 2019 Report on SII indicates that this growth results from both the rapidly rising number of new investors in the market, as well as the steady growth in portfolio commitments being made by those already operating in the space (OECD, 2019[6]).

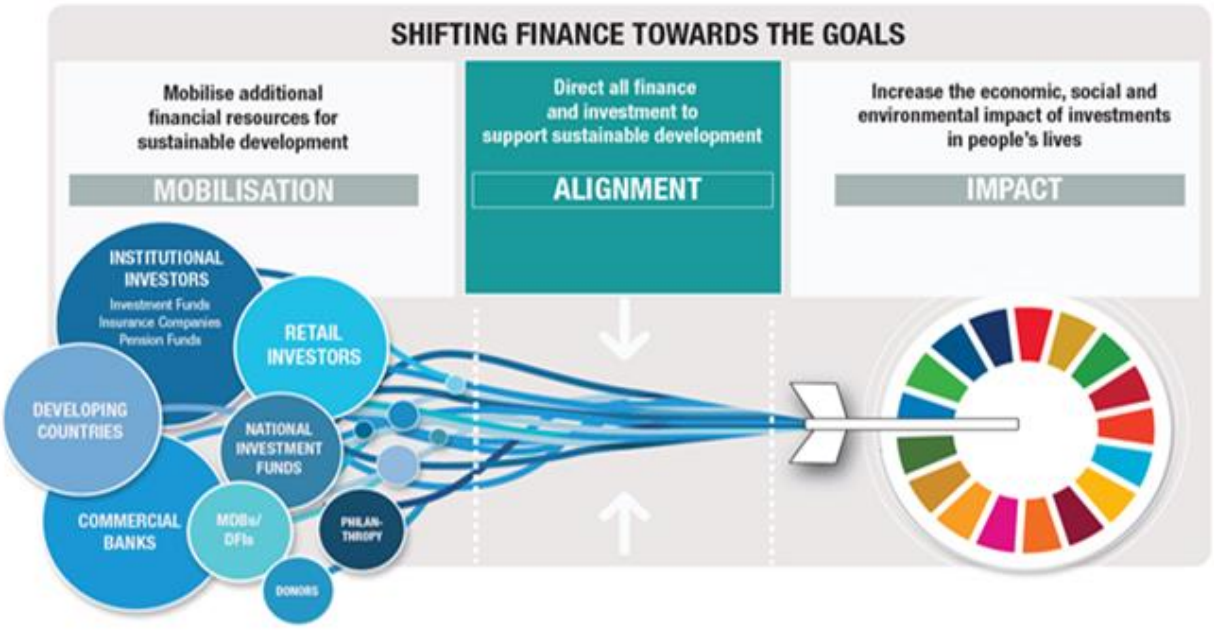
The adoption of the UN 2030 Agenda and the Addis Ababa Action Agenda (AAAA) cemented the importance of SII as a headline feature of the international development agenda. The concept of impact investment pre-dates the Sustainable Development Goals (SDGs) and the 2030 Agenda, ratified in 2015 (United Nations, 2015[9]). However, these international commitments undoubtedly helped to promote SII in development finance and, in particular, its focus on achieving measurable social and environmental outcomes through private sector investments.

Six years after their original ratification, and now well into the "Decade of Delivery", the need to mobilise unprecedented resources for development is more pressing than ever before; the current USD 2.5 trillion annual SDG financing gap is predicted to increase by USD 1 trillion following the COVID-19 emergency and generalised economic uncertainty (OECD, 2020[5]). However, it is not enough to focus on the increase in the quantity of development finance without a commensurate increase in quality, that is, the actual development impact achieved by investments deployed to meet the SDGs. Retaining a tight focus on impact is crucial for demonstrating and ensuring accountability to taxpayers in the use of official development assistance (ODA). Beyond this, a focus on development impact provides opportunities to assess what works across different geographies and contexts, strengthening the efficient deployment of funds.

[2] The Global Impact Investing Network sizes the impact investing market based on the collation of AUM data from impact investors (including asset managers, foundations, banks, DFIs, family offices, pension funds, insurance companies and others) around the world. All data is self-reported.

Achieving the 2030 Agenda with integrity means eradicating "SDG and impact washing". This will only be possible if additional private resources are mobilised and aligned for the SDGs, and if their impacts are measured and managed. As depicted below in Figure 1.2, the approach to shift finance towards the SDGs crystallises around three inter-related objectives: mobilisation, alignment and impact (Horrocks, Boiardi and Bellesi, 2020[10]).

## Figure 1.2. Shifting Finance towards the Goals




Source: OECD (2020[5]), *Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet,* https://dx.doi.org/10.1787/e3c30a9a-en.

The mobilisation of finance for the SDGs means crowding in additional resources not yet directed towards sustainable development (Boiardi, 2020[2]). Among the strategies used to mobilise private investment, blended finance has become more established in recent years. The OECD defines blended finance as "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries" (OECD, 2018[11]).[3] Aligning finance to the SDGs involves ensuring that donors and development partners deploy ODA, consisting of public and private investments, and including technical assistance, to meet one or more of the SDGs. SDG alignment also represents an important opportunity for value creation for the private sector. With regulation increasingly emphasising the need for private actors to be accountable for their positive and negative environmental and social impacts, the commitment to do no harm and to contribute to sustainable solutions can help preserve the long-term value of assets. This demonstrates the increasingly intertwined nature of planetary and business model resilience. The recent OECD-UNDP Framework for SDG Aligned Finance identifies pathways to facilitate this (UNDP, 2020[12]). The third and final pillar of the strategy is impact, which entails achieving measurable economic, social and environmental outcomes, which would not have otherwise occurred through investments.

[3] The OECD, through the DAC Blended Finance Principles, has developed a best-practice approach to financial instruments like blended finance with the capacity to push private capital into contexts characterised by high development needs. Collectively, innovative instruments have been increasingly successful, mobilising USD 152 billion in private capital 2012-2017 (Horrocks, Boiardi and Bellesi, 2020[10]).

Embedding and demonstrating both positive and negative impact considerations in investment decision-making processes is crucial to: (i) channel finance to areas with the highest needs; (ii) improve enabling environments with evidence as to which policies are most effective; (iii) give insight into the real value of the investment by ensuring that investors work to minimise negative impact; and, (iv) hold public and private stakeholders to the same degree of accountability when it comes to the achievement of the SDGs. The growing awareness of SII has, in turn, contributed to an understanding that it is possible beyond the traditional separation between philanthropy and market investments, whereby the former focuses solely on social and environmental issues, and the latter solely on the achievement of financial returns (Boiardi, 2020[2]). Heightened public interest in sustainability, alongside increasing investor awareness of sustainability as a business proposition, has pushed more investors to reflect on their impact, including both the positive and negative consequences of their investments.

### Box 1.1. Impact investing and COVID-19

Acknowledged by the United Nations' Secretary General to be the "greatest challenge we have faced since WWII" (United Nations, 2020[13]), the triple shock unleashed by the COVID-19 crisis has raised the stakes and further underlined the need for more effective SII policies. The virus initially emerged in December 2019 and has now spread to almost every continent, with worldwide cases reaching almost 262 million globally as of December 2021.

Undeniably, the overall investment picture in the face of the unprecedented crisis is bleak. For example, according to the latest OECD Global Outlook on Financing for Sustainable Development, developing countries are set to witness a projected USD 700 billion drop in external private finance (OECD, 2020[14])

Altogether, the crisis is three pronged, exposing critical fragilities and dysfunctionalities in health systems, economies and societies. Most importantly for development professionals, COVID-19 shows signs of reversing a significant number of hard-won gains made towards the SDGs. With this in mind, it arguably represents the ultimate litmus test for an industry predicated on securing positive outcomes for people and the planet in addition to financial returns.

Certainly, emerging evidence points to a sustained appetite for impactful investments. According to a survey of 294 impact investors conducted over March and April 2020, 57% of respondents said they would maintain their 2020 investment plans, while 16% even expected to increase the amount of capital they invest (Oxford Business Group, n.d.[15])

Now that the pandemic has exposed the need for more thorough and effective impact investment, we must collectively push for greater harmony and clarity in IMM. This will ensure that impactful investments are able to strengthen recovery, build resilience against future crises, and help us to achieve the 2030 Agenda with integrity.

For more information on how impact investors are responding to the after COVID-19, please refer to the GIIN (GIIN, 2021[16])and the GSG (GSG, 2021[17]).

## 1.2. Impact management and measurement: Why it matters and the rise of harmonisation initiatives

Impact management and measurement are two fundamentally intertwined yet distinct processes. The initial OECD Two-Axes Mapping paper (Boiardi, 2020[2]) defines them as follows:

- ***Impact management*** is the ongoing practice of working to reduce negative impacts and increase positive ones. Impact management initiatives support both investors and enterprises to embed positive and negative impact considerations into (all) decision-making processes, investment and business strategies and throughout the investment process, from deal screening and due diligence to deal structuring, investment management and exit.
- ***Impact measurement*** refers to the process of measuring and monitoring the amount of societal and environmental change created by an organisation or investor's activities. Hence, initiatives in this group include principles, frameworks, methodologies and standards that support investors and enterprises in the process of measuring positive and negative impacts.

With a view to effectively channelling the private sector's growing interest in more impactful investments, the harmonisation of approaches and methodologies is gaining ground. While accepted standards of evaluation processes exist for the use of ODA[4], there is no such equivalent for private investments (undertaken by different groups of stakeholders). This is partially because "impact" itself is notoriously difficult to assess in practice. However, there are a number of notable efforts to harmonise in the industry, including the Impact Management Project (IMP). Since 2016, the IMP has made significant progress in leveraging different existing market initiatives, as well as aligning investors and enterprises behind widely accepted IMM (IMP, 2020[18]). Currently, IMP is actively working to bring clarity to the existing system existing standards and identify gaps, such as through the creation of a joint development web platform and a joint IMP-OECD paper that provides an analysis of observed gaps and recommendations for future work. As a collaborative effort between standard setters including the Global Reporting Initiative (GRI) and the Sustainability Accounting Standard Board (SASB) as well as international organisations, the IMP intends to provide: (i) joint market guidance on how reporting frameworks can be applied in a complementary and additive way; (ii) a joint vision of how these elements can complement financial accounting principles; and (iii) a joint commitment to deeper future collaboration towards greater convergence (IMP; WEF; Deloitte, 2020[19]).

Nevertheless, *effective* harmonisation of IMM practices for investments across stakeholders remains elusive.[5] In practice, the already large volume IMM approaches continues to expand. Not only do the public and private sectors continue to measure success by fundamentally different yardsticks, but the approach to impact varies between different between private sector organisations. This has resulted in the continuous expansion of initiatives, including principles, frameworks, methodologies, tools and metrics employed to measure and manage impact (Boiardi, 2020[2]). Further complicating the picture, there is a lack of consistency regarding how these initiatives can increase the quality of the IMM systems developed by organisations, or address the lack of transparency in terms of the results reported. Due to the proliferation of different initiatives combined with the variation in terms of quality and lack of overall transparency, from an outside perspective it is difficult to distinguish between those organisations merely pursuing a tagging exercise and those seeking to contribute meaningfully to the SDGs.

[4] For instance, the DAC Quality Standards for Development Evaluation build on Paris Declaration on Aid Effectiveness and intend to contribute to a harmonized approach

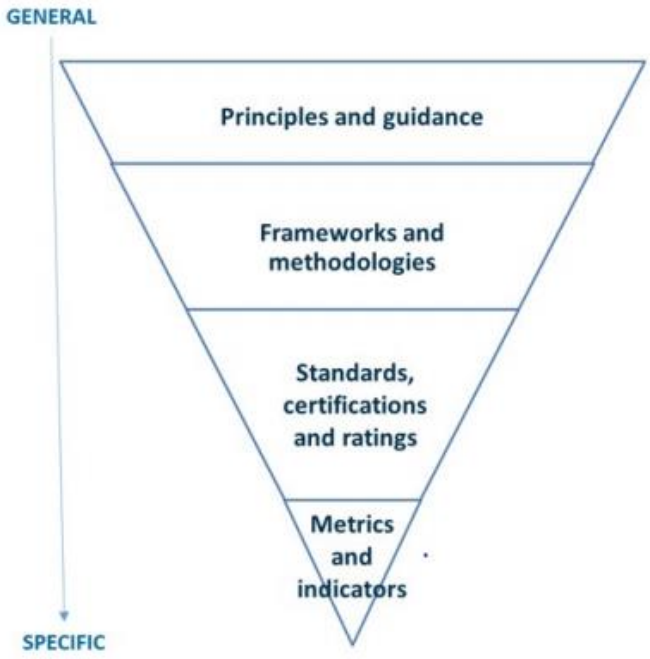
[5] It is important to underline that accepted **standards of evaluation** processes exist **for the use of ODA**. For instance, the DAC Quality Standards for Development Evaluation build on Paris Declaration on Aid Effectiveness and intend to contribute to a harmonized approach: https://www.oecd.org/dac/evaluation/2754804.pdf.

To shed light on this undeniably crowded space, an initial scoping paper categorised existing IMM initiatives into for broad groups (Boiardi, 2020[2])[6]:

- Principles and guidance
- Frameworks and methodologies
- Standards, certificates and ratings

Figure 1.3 depicts this categorisation in the form of an inverted pyramid, starting with the most "high-level" (principles), and gradually descending towards the most detailed (metrics and indicators).

### Figure 1.3. Categorisation pyramid

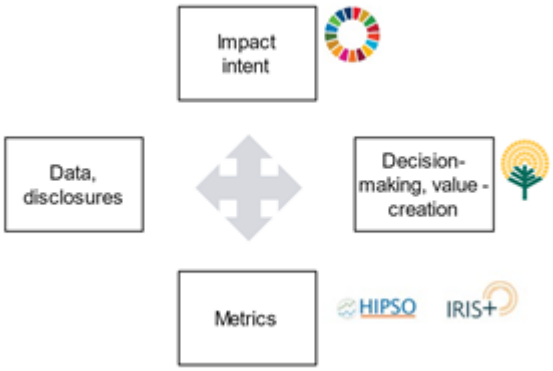



Note: Readers should note that the above table represents an attempt to bring order to a complex and crowded space for the purposes of this paper. However, in reality, as the IMM market continues to evolve, the divide between management and measurement is not straightforward, and the boundaries cannot be neatly delineated.
Source: Boiardi (2020[2]), *Managing and measuring the impact of sustainable investments: A two-axes mapping*, https://doi.org/10.1787/2ff2b2f4-en.

More recently, other organisations have undertaken similar clarification exercises. For instance, as outlined in Figure 1.4, EDFI depicts impact management as composed of four primary elements including "impact intent", "data disclosures", "decision-making and value-creation" and "metrics", and shows their interconnectedness.

[6] For more detailed information on the definitions of each of the respective categories, please refer to (Boiardi, 2020[2])

## Figure 1.4. EDFI Harmonisation of impact management and reporting




Source: EDFI (2021[20]), "Harmonisation of impact management and reporting".

Building on the initial OECD scoping paper categorisation pyramid presented in Figure 1.3, Figure 1.5 outlines the definitions of the various different tools, standards, frameworks and initiatives across the impact landscape, and indicates whether they fall under the function of impact management or measurement (Boiardi, 2020[2])[7].

## Figure 1.5. Mapping IMM Initiatives

| CATEGORIES | | Principles and Guidance | Frameworks and Methodologies | Standards, Certifications and Ratings | Metrics and Indicators |
|---|---|---|---|---|---|
| **FUNCTION** | Impact Management | Define how to: (i) include positive and negative impact considerations into the investment strategy, throughout the investment process and into the governance of an organisation; (ii) maximise positive impacts, align commercial finance to the SDGs and (iii) minimise negative impacts. | Tools used to design an impact-centred investment strategy and process for a specific organisation, that maximises positive impacts on the SDGs and minimises negative impacts on the SDGs. | Based on best practice, specify how to include positive and negative impact considerations into strategy, management and governance, to abide by a certain level of quality. | NA |
| | Impact Measurement | Define how to design and implement an impact measurement process. | Used to (i) set up an impact measurement process for a specific organisation and (ii) map the existing portfolios of activities based on the development impact they target or have achieved. | Used to signal that the impact measurement process used by an organisation and/or its reporting system abides by a certain level of quality. | Define the input, outputs and outcomes that the organisation will measure. |

Note: Readers should note that the above table represents an attempt to bring order to a complex and crowded space for the purposes of this paper. However, in reality, the IMM market continues to evolve. To reflect this, certain initiatives cover multiple areas across both impact management and measurement.

[7] Readers should note that the initial mapping was populated with a sample of the existing impact initiatives at the time, and is by no means exhaustive. A year later, the impact space continues to grow, and new initiatives continue to be developed to support investors and corporates with different aspects of the investment process. In response, the IMP together with the OECD plan to develop an online platform with a comprehensive overview of the different tools corporates and investors can adopt to measure and manage impact.

Source: Adapted from Boiardi (2020[2]), *Managing and measuring the impact of sustainable investments: A two-axes mapping*, https://doi.org/10.1787/2ff2b2f4-en.

While the initial OECD scoping aimed to help policy makers navigate this crowded space, it also underlined the need for best practice and more effective harmonisation. Harmonisation of the different projects and initiatives is necessary in order to overcome pervasive disparities and reorient efforts around a shared strategic objective. As IMM continues to grow, the risk of "SDG washing" grows exponentially in parallel, making it difficult to assess which investments are meaningfully helping to deliver the SDGs. Often subtle, "SDG washing" is a practice whereby investors claim to align with and contribute to the SDGs, without providing meaningful or sufficient supporting evidence (Boiardi, 2020[2]).

> *For instance, in 2018, the World Business Council for Sustainable Development found that, while 79% of companies acknowledge the SDGs, only 6% actually aligned their business practices and sustainability strategy to these goals and targets (Verles, 2018[21]).*

More recently, the GIIN's annual survey cited "SDG and impact washing" as the chief industry challenge over the next five years (GIIN, 2020[22]).

The current lack of harmonisation also constrains the ability of actors across the spectrum of capital to meaningfully manage, measure and compare the impacts of their investments, As well as to use their resources strategically. The dearth of evidence on the extent to which investment efforts have resulted in development impact (OECD, 2019[6]) – which stems primarily from limitations in data availability – is particularly significant in light of increasing downward pressure on ODA in a post-COVID-19 world. As the OECD 2021 Global Outlook on Sustainable Financing emphasises, "the economic fallout from COVID-19 underscores the call for better measurements of both the quantity and quality of existing flows within the financing for sustainable development landscape" (OECD, 2020[5]). ODA will need to be used in an increasingly strategic manner and alongside private sector involvement.

> *However, to guarantee the most effective use of limited resources and channel funds into areas with the greatest needs, we need more robust and comparable evidence on impact.*

This is crucial because, for example, the current disproportionate negative risk perception in certain investment locations, notably Africa, does not necessarily reflect realities on the ground.

> *More robust and comparable data can help to challenge this and promote more investment; by raising awareness of cases where investment in such locations can work, a market precedent can be established that would improve high-impact locations' risk profile to more accurately reflect actual – as opposed to perceived – risk.*

At present, data suggests that private finance mobilised tends not to be concentrated in the poorest countries. For instance, the least developed countries (LDCs) received only 8% of private finance mobilised through ODA between 2012 and 2017 (OECD, 2019[23]). Better data on impact in these environments can help alter the outsized risk perception of investing in these geographies by providing holistic, tangible information on what works and what does not.

As highlighted by the initial scoping paper, recent years have witnessed a sustained rise in industry-related initiatives aimed at promoting greater impact data collection and reporting standardisations for all actors working in this space (Boiardi, 2020[2]). For example, the GRI "supports businesses to understand and communicate their impact on critical sustainability issues like climate change, human rights, governance and social well-being" (GRI, 2021[24]). Likewise, SASB has developed a set of corporate measurement and disclosure standards (SASB, 2021[25]). Other notable efforts include the Operating Principles for Impact Management (OPIM), Harmonised Indicators for Private Sector Operations (HIPSO) and the Global Impact Investing Network Impact Reporting and Investing Standards (GIIN IRIS+), all of which are outlined in more detail in Box 1.2 (IFC, 2021[26]) (HIPSO, 2021[27]) (GIIN, 2021[28]).

## Box 1.2. Industry-led IMM harmonisation initiatives

### The Operating Principles for Impact Management (OPIM)

Launched in the Spring of 2019, and led by the International Finance Corporation (IFC) in partnership with a group of peer institutions, the OPIM have already attracted 135 signatories (and counting), underlining their traction in the market. Designed in close consultation with asset owners and managers, the Principles provide a framework through which adhering organisations can demonstrate that impact considerations have been purposefully integrated throughout the investment lifecycle. The OPIM consist of 9 Principles anchored around five main elements – strategy, origination and structuring, portfolio management, exit and independent verification. Each signatory is required to publish an annual Disclosure Statement, in which they describe how each principle has been incorporated into its investment process and the extent of its alignment. In addition to the annual Disclosure Statement, Principle 9 stipulates that each signatory provide independent verification of the alignment of its impact management system. For a complete list of signatories and reporting on OPIM, please see (OPIM, 2021[29]).

### Harmonised Indicators for Private Sector Operations (HIPSO)

HIPSO is a set of development results indicators that was initially designed to mitigate the burden of different DFI reporting requirements on investees. Through using the aligned metrics, investees avoid having to report separately to different DFIs all using roughly similar indicators. For example, in the event that multiple DFIs invest in the same company, HIPSO means investees are obliged to provide data on a common set of indicators only. The efforts underpinning HIPSO began in 2008, and four years later over 20 DFIs formed a Working Group on Indicator Harmonisation. The first set of 27 indicators was agreed in the form of a Memorandum of Understanding (MoU), signed in October 2013. Based on the MoU, the DFIs commit to do the following:

- use the harmonised definitions and units of measurement to track development results;
- replace all indicators in the tracking system that are similar to the harmonised ones accordingly.

In 2015, the MoU was amended and expanded to include 11 additional indicators. This produced a total of 38 indicators aligned to the SDGs across 15 sectors and industries.

There are currently 28 DFIs in the HIPSO Whole Group, with a private sector operations portfolio of around USD 300 billion (HIPSO, 2021[30]). HIPSO data is available to the public and helps both DFIs and their investees to better understand the impact of their investments and report to their financiers on their activities.

### Global Impact Investing Network Impact Reporting and Investing Standards (GIIN IRIS+) Catalogue of Metrics

The IRIS+ system, released by the GIIN in 2019, provides a generally accepted impact accounting system that helps investors translate impact metrics into practices (GIIN, 2021[28]). The system encourages investors and companies to align behind and engage with a common understanding of how to effectively manage, measure and optimise their positive development impact. Within this, the system promotes transparency, credibility and accountability in the use of impact data for decision making. One of the key features of IRIS+ is its catalogue of metrics, which provides a standard set of metrics by theme that can be used to understand impact performance. Globally, roughly 15 000 stakeholders, including impact investors, DFIs, fund managers and banks report using the IRIS+ materials.

**Joint Impact Indicators**

In 2021, HIPSO and IRIS+ launched the "Joint Impact Indicators" (JII), a sub-catalogue of impact metrics that align HIPSO's and IRIS+ metrics on jobs, gender and climate. The teams managing HIPSO and IRIS+ have the intention to align impact metrics in other areas over time, adding them to the common JII catalogue. The JII was launched with the endorsement of more than 50 leading impact investing institutions, including DFIs and private impact investors that are also OPIM signatories, calling on other providers of finance to adopt the harmonised impact metrics (GIIN; HIPSO, 2021[3]).

In this paper, we examine how Development Finance Institutions (DFIs) operationalise the different IMM tools and initiatives through the various industry-led harmonisation efforts. This exercise is undertaken with a view to identify: (i) which categories depicted in the inverted pyramid above lend themselves most readily to harmonisation; and (ii) the policies that can assist investors working in the development cooperation space to improve the availability of transparent, consistent and comparable data on impact.

## 1.3. The role of development finance institutions in development

Development Finance Institutions (DFIs) are specialised development organisations that are usually majority owned by national governments which invest in private sector projects in low- and middle-income countries (EDFI, 2020[31]) (Savoy, Carter and Lemma, 2016[32]). To enact their mandate, DFIs' invest part of their portfolios in private sector projects in emerging economies using a variety of financial tools, including loans and guarantees to investors and entrepreneurs and equity participation in firms or investment funds, as well as financing for public infrastructure projects. Alongside profit generation, DFIs invest both to promote job creation and to stimulate sustainable economic growth (EDFI, 2020[31]), thus supporting a country's sustainable transition path. Effectively, DFIs occupy an intermediary space between public aid and private investment (Dickinson, 2019[33]).

Although DFIs first emerged in the 20th Century, their rise in terms of relevance and portfolio diversification has accelerated rapidly in the past 15 to 20 years (Savoy, Carter and Lemma, 2016[32]). Notably, annual, non-sovereign private development investments by multilateral and bilateral DFIs have grown from USD 12 billion in 2000 to USD 87 billion in 2017, a six-fold increase in 17 years (Publish What You Fund, 2020[34]), driven by the reinvestment of profits (Kwakkenbos and Romero, 2013[35]). This rise coincides with increased private sector activity in emerging markets and a more explicit role for DFIs called for by the Addis Ababa Conference on finance for development in 2015 (United Nations, 2015[36]).

The global DFI community includes a range of organisations that vary greatly in terms of governance structures, mandates and risk appetites. DFIs can be financed and governed by a single country (bilateral DFIs), or by more than one country (multilateral DFIs). Bilateral DFIs often serve to implement the foreign development and co-operation policies of a single government. On the other hand, multilateral DFIs, such as the European Investment Bank (EIB) and the International Finance Corporation (IFC), represent the private sector arms of international financial institutions (IFIs), established by more than one country. They are hence subject to international law (OECD, 2020[14]). DFIs can be specialised, independent development banks or subsidiaries of larger entities (OECD, 2020[14]). The Netherlands Development Finance Company (FMO) is an example of the former, whereas the German Investment and Development Company (DEG) is an example of a subsidiary, as it is part of the German development bank KfW.

Further to this, DFIs can differ according to their respective mandates and objectives; for example, whether they are obliged to support domestic firms in their investments overseas. Depending on their position in a country's development architecture, DFIs can report to different entities within Government, creating different governance patterns (Andersen et al., 2019[37]).

While there is a great deal of diversity among DFIs in terms of governance and structure, they are united by several key characteristics. At a base level, DFIs follow the commercial bank business model and incentivise their employees accordingly. As a result, within portfolios, policy-led development projects "co-exist with opportunity-driven deals" (Andersen et al., 2019[37]). Linked to this, a large proportion of DFIs have AAA institutional ratings, which they strive to maintain. Together, these characteristics limit DFIs' risk appetite and, by extension, investments in the most impactful projects.

Prioritisation of financial returns is one of several variables at play that prevent DFIs from optimising their full development impact potential. For example, DFIs' ability to lend counter-cyclically during times of crisis is constrained by their shareholders' willingness to provide capital injections[8]. Elsewhere, beyond finance, a lack of support to project identification and preparation (a pipeline of "bankable projects", in other words, projects that meet the minimum investment or lending requirement of the organisation) remains a real challenge (Bilal and al., 2020[38]).

Despite these challenges, DFIs' mandate to catalyse investments in private sector development cements their leading role in "building back better" towards unlocking the 2030 Agenda and its 17 Sustainable Development Goals (SDGs). This is especially true in the wake of the COVID-19 crisis: DFIs' role in providing credit lines will be key to recalibrating developing economies towards sustainable growth trajectories (Bilal and al., 2020[38]). As a recent Tri Hita Karana (THK) paper highlighted, it is imperative that the conditions required for DFIs to lend counter-cyclically are met in order for them to assist in the creation of a robust pipeline of investments in under-served markets badly hit by the pandemic. (Bilal and al., 2020[38])

On the development practitioner side, development finance institutions (DFIs) are leading the drive towards impact management and measurement (IMM) best practice and harmonisation. Bridging the gap between public and private actors in the development space, DFIs play an important driving role in mobilising significant resources to support the achievement of the 2030 Agenda. Mounting external pressure to demonstrate the development impact of investments, alongside the desire for more comparability, experience, best practice and cost sharing, continue to drive DFIs towards more effective harmonisation in key areas of IMM.

DFIs are at the forefront of impact measurement and management (IMM) harmonisation practices and are increasingly demonstrating their ability to achieve the international development commitments with integrity. For instance, IFC led the co-creation of OPIM, now an independent secretariat and a major industry effort (see Box 1.2 in the previous chapter). In 2019, the European Development Finance Institution (EDFI) launched a harmonisation initiative (the details of which are outlined in Box 1.3 below) and, in 2020, the Joint Impact Model (JIM) was launched by a group of DFIs (as further outlined in Box 1.4.

[8]For more information on DFI institutional structures, see "*The Role of DFIs and their Shareholders in Building Back Better in the Wake of Covid-19*" (Bilal and al., 2020[38]) and "Blended Finance Evaluation: Governance and Methodological Challenges" (Andersen et al., 2019[37]).

### Box 1.3. EDFI Harmonisation Initiative

In 2019, EDFI launched the **EDFI Harmonisation Initiative.** The primary stated aim was to define key impacts of private sector development (including SDG 5 Gender Equality, SDG 8 Decent Work and Economic Growth, SDG 10 Reduced Inequality and SDG 13 Climate Action) with a view to harmonising the ways in which EDFI members track and jointly report on them (EDFI, 2020[39]). Throughout 2020, the EDFI Harmonisation Initiative focused in particular on SDG 13 Climate Action. This included concretising commitments to the Paris Alignment and the adoption of the Task Force on Climate-Related Financial Disclosures (TCFD) fossil fuel exclusion and climate mitigation finance reporting requirements (EDFI, 2020[39]).

EDFI members adhering to the Harmonisation Initiative also adopted shared commitments on impact management. This included: (i) signing up to existing initiatives (such as the Operating Principles of Impact Management (OPIM)); (ii) supporting clients to achieve impact; (iii) contributing to the wider strengthening of impact reporting standards; and, where needed (iv) developing new metrics and tools, such as matrices on gender-smart investing (with the 2X Challenge and the GIIN), and the Joint Impact Model tool for the estimation of indirect and induced employment (with consortium of institutions).

### Box 1.4. Joint Impact Model (JIM)

The Joint Impact Model (JIM), launched in November 2020, was designed by a group of DFIs, alongside the specialist development consultancy Steward Redqueen. The model was built in a bid to estimate the *indirect* economic, social and environmental impacts of investments.

JIM is an input-output model derived from social accounting matrices. This is used to measure five types of financial output: direct, supply chain, wage induced, power enabled and finance enabled. These financial flows are then translated into three key impacts (value added, employment and GHG emissions) using sectoral and geographical multipliers.

Data sources used in the model include the Global Trade Analysis Project (social accounting matrices and GHG data for 121 countries and 65 sectors), the International Labour Organization (employment data for 189 countries and 14 sectors) and the World Bank (various indicators including GDP growth, private sector capital formation and electricity consumption for 217 countries). (JIM, 2020[40])

Altogether, an examination of how DFIs operationalise the various industry-led impact harmonisation initiatives acts as a litmus test to indicate the present status of the market. As this introductory chapter has detailed, DFIs, with their “army of several thousand investment professionals and portfolios of active working client relations” (Chadwick, 2020[41]), remain trailblazers in the strategic pursuit development commitments like the SDGs. Hence, by analysing their practices, it is possible both to draw broad conclusions about the status of the IMM market in 2021 and to propose policy recommendations that are applicable for other investors active in development cooperation contexts.

# 2 Impact management and measurement practices of development finance institutions

This chapter employs the logic of the initial scoping paper to examine trends in how development finance institutions (DFIs) operationalise the different impact management and measurement (IMM) harmonisation initiatives. Within this, the chapter examines the rise of common principles for impact management and the (general) turn towards proprietary frameworks and harmonised indicators in impact measurement. Finally, this chapter considers overall levels of transparency in DFI IMM practices.

## 2.1. The impact management and measurement matrix

DFIs are mandated to strengthen the private sector in developing countries and achieving financial, non-financial and development additionality through their investments. Mandated to generate both development impacts and financial returns, DFIs assess their development impact for a number of important reasons. Firstly, by managing and measuring the impact of projects they invest in and support, DFIs become more accountable to taxpayers. Improving accountability and subjecting investment decisions to greater public scrutiny can serve to strengthen development impact and to ensure that capital is deployed and directed towards those who are currently left behind. Linked, accurate development impact data helps DFIs inform donors and shareholders, thus contributing to future allocation of aid spending. Finally, the data and impact information generated from evaluations can be used to help strengthen future investment decisions and implementation. (Savoy, Carter and Lemma, 2016[32]) (Attridge, 2021[42]).

This section analyses how DFIs manage and measure the impact of their investments, either by operationalising the different IMM tools and initiatives proposed by the various industry-led harmonisation efforts (Boiardi, 2020[2]), or by rolling out proprietary frameworks. Altogether, the findings of the research indicate that broad set of agreed values like principles, as well as standardised quantitative factors like metrics and indicators, can be effectively harmonised to facilitate more disciplined, comparable and transparent impact management and measurement practices. However, overarching frameworks, which facilitate the practical implementation of principles and guidance, cannot be effectively harmonised. This primarily stems from different contexts and geographies DFIs operate in, as well as the different stakeholders and shareholders they cater for.

In order to assess how DFIs operationalise principles and guidance, frameworks and methodologies, standards, certifications and ratings, as well as metrics and indicators proposed by the numerous harmonisation initiatives, we conducted a detailed desk research drawing upon a wide range of different material. The material cited includes DFIs' annual reports, development reports, sustainability reports, disclosure statements and/or resources from the organisations that lead various impact measurement and management harmonisation initiatives. A total of 24 major bilateral and multilateral DFIs were selected for review (depicted in Table 2.1 below), based on the OECD principal list of main DFIs (OECD, 2020[14]).

### Table 2.1. DFIs selected for review

| European Bilateral DFIs | Non-European Bilateral DFIs | Multilateral DFIs |
|---|---|---|
| Development Bank of Austria (OeEB) | Development Finance Institute Canada (FinDev Canada) | African Development Bank (AfDB) |
| Belgian Investment Company for Developing Countries (BIO) | United States International Development Finance Corporation (DFC) | Asian Development Bank (ADB) |
| Belgian Corporation for International Investment (BMI-SBI) | | European Bank for Reconstruction and Development (EBRD) |
| Finnish Fund for Industrial Cooperation (Finnfund) | | European Investment Bank (EIB) |
| French Development Finance Institution (AFD Proparco) | | International Finance Corporation (IFC) |
| German Investment Cooperation (KfW DEG) | | Islamic Development Bank (ISDB) |
| Italian Development Finance Institution (CDP SIMEST) | | |
| Dutch Development Bank (FMO) | | |
| Norwegian Investment Fund for Developing Countries (Norfund) | | |
| Portuguese Development Finance Institution (SOFID) | | |
| Compañía Española de Financiación del Desarrollo (COFIDES) | | |
| Swedish Development Finance Institution (Swedfund) | | |
| Swiss Investment Fund for Emerging Markets (SIFEM) | | |
| United Kingdom Development Finance Institution (CDC Group), | | |

Source: Authors.

Following the logic of our initial scoping paper, impact management initiatives are categorised into: (i) principles and guidance; (ii) frameworks and methodologies; and (iii) standards, certifications and ratings (see Figure 1.3). Likewise, impact measurement initiatives are categorised into: (i) principles and guidance; (ii) frameworks and methodologies; (iii) standards, certifications and ratings; and (iv) metrics and indicators.[9]

Readers should note that the research assessed how DFIs implement 13 different impact management initiatives (7 principles and guidance, 3 frameworks and methodologies, 3 standards, certifications and ratings, respectively) and 23 different impact measurement initiatives (3 principles and guidance, 6 frameworks and methodologies, 12 standards, certifications and ratings, 2 metrics and indicators, respectively). This is reflected in Table 2.2, Figure 2.1 and Figure 2.2. In particular, Table 2.2 gives an overview of the initiatives that were reviewed on for the purpose of this paper. As mentioned above, the decision focus on these particular initiatives stemmed from DFIs as the core focus of the paper.

[9] **Principles** are broad sets of agreed values that provide a common ethic, **Guidance** is used to further detail the principles. **Frameworks** provide a structure to facilitate the implementation of principles and guidance in practice. **Methodologies** provide a systematic way and procedures to implement principles within a certain framework. **Standards** are requirements based on best practice, agreed through an internationally recognised process. **Certifications** usually include third-party verification to guarantee that a company or investment meets a certain standard. **Ratings** are rankings of companies or investments based on a comparative assessment of their level of achievement of a certain standard. **Metrics** and **indicators** are standardised quantitative factors used to measure, track or compare investments. Often they are included in databases of standardised, defined or commonly used indicators and measures can be applied by investors and corporates (Boiardi, 2020[2]).

## Table 2.2. IMM Initiatives Reviewed

| | Impact Management | Impact Measurement |
|---|---|---|
| **Principles and Guidance** | Operating Principles for Impact Management (OPIM)<br>EDFI Harmonisation Initiative<br>UNEP-FI Principles for Positive Impact Finance<br>GPEDC Kampala Principles<br>UN Principles for Responsible Investing (PRI)<br>EDFI Principles for Responsible Financing of Sustainable Development<br>Equator Principles | World Bank IFC Environmental, Health and Safety Guidelines<br>Guiding Principles on Managing for Sustainable Development Results (MfSDR)<br>SVI Principles of Social Value |
| **Frameworks and Methodologies** | CERISE-IDIA<br>IMP Guide to Classifying the Impact of an Investment<br>OECD Due Diligence Guidance for Responsible Corporate Lending and Securities Underwriting | Impact Rate of Return (IRR) Framework<br>IFC Anticipated Impact Measurement and Monitoring (AIMM)<br>KfW DEF Development Effectiveness Rating System (DERa)<br>CDC Development Impact Grid<br>European Venture Philanthropy Association (EVPA) impact measurement process<br>IMP Five Dimensions of Impact |
| **Standards, Certifications and Ratings** | Social Performance Task Force (SPTF) Universal Standards for Social Performance Management<br>SVI Social Value Certificate<br>AERIS Impact Management Ratings | SASB Corporate measurement and disclosure standards<br>Task Force on Climate-related Financial Disclosures (TCFD)<br>Global Reporting Initiative (GRI)<br>DBSA Environmental and Social Safeguards<br>IFC Performance Standards on Social and Environmental Sustainability<br>OECD Guidelines for Multinational Enterprises<br>EIB Environmental and Social Standards<br>ECG Good Practice Standards for the Evaluation of Private Sector Investment<br>SoDA Social Data Standards<br>Rainforest Alliance Certification<br>B-Corp Certification<br>GIIRS Fund Rating |
| **Metrics and Indicators** | | Harmonized Indicators for Private Sector Operations (HIPSO)<br>Global Impact Investing Network (GIIN) IRIS Catalogue of Metrics |

Note: Readers should note that the above table represents an attempt to bring order to a complex and crowded space for the purposes of this paper. However, in reality, as the IMM market continues to evolve, the divide between management and measurement is not straightforward, and the boundaries cannot be neatly delineated.
Source: Authors.

The two matrices below visually depict the different impact management and measurement initiatives operationalised by DFIs. Figure 2.1 presents the results for European Bilateral DFIs, and Figure 2.2 displays the results for non-European Bilateral and Multilateral DFIs. In the next sections we will analyse the main trends that emerge from this mapping.

## Figure 2.1. Impact Management & Measurement – European Bilateral DFIs

| DFIs | | | AFD Proparco | BIO | CDC Group | CDP SIMEST | COFIDES | Finnfund | FMO | IFU | KfW DEG | Norfund | OeEB | SBI-BMI | SIFEM | SOFID | Swedfund |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Impact management | Principles and Guidance | Operating Principles for Impact Management (OPIM) | | | | | | | | | | | | | | | |
| | | UNEP-FI Principles for Positive Impact Finance | | | | | | | | | | | | | | | |
| | | GPEDC Kampala Principles | | | | | | | | | | | | | | | |
| | | UN Principles for Responsbile Investment (PRI) | | | | | | | | | | | | | | | |
| | | EDFI Principles for Responsible Financing of Sustainable Development | | | | | | | | | | | | | | | |
| | | Equator Principles | | | | | | | | | | | | | | | |
| | | EDFI Harmonization initiative | | | | | | | | | | | | | | | |
| | Frameworks and Methodologies | CERISE-IDIA (Impact Driven Investor Assessment) | | | | | | | | | | | | | | | |
| | | IMP Guide to Classifying the Impact of an Investment | | | | | | | | | | | | | | | |
| | | OECD Due Diligence Guidance for Responsible Coporate Lending and Securities Underwriting | | | | | | | | | | | | | | | |
| | Standards, Certifications and Ratings | Social Performance Task Force (SPTF) Universal Standards for Social Performance Management | | | | | | | | | | | | | | | |
| | | SVI Social Value Certificate | | | | | | | | | | | | | | | |
| | | AERIS Impact Management Ratings | | | | | | | | | | | | | | | |
| Impact measurement | Principles and Guidance | World Bank IFC Environmental, Health and Safety Guidelines | | | | | | | | | | | | | | | |
| | | Guiding Principles on Managing for Sustainable Development Results (MfSDR) | | | | | | | | | | | | | | | |
| | | SVI Principles of Social Value | | | | | | | | | | | | | | | |
| | Frameworks and Methodologies | Impact Rate of Return (IRR) Framework | | | | | | | | | | | | | | | |
| | | IFC Anticipated Impact Measurement and Monitoring (AIMM) | | | | | | | | | | | | | | | |
| | | KfW DEG Development Effectiveness Rating System (DERa) | | | | | | | | | | | | | | | |
| | | CDC Development Impact Grid | | | | | | | | | | | | | | | |
| | | European Venture Philanthropy Association (EVPA) impact measure process | | | | | | | | | | | | | | | |
| | | IMP Five dimensions of impact | | | | | | | | | | | | | | | |
| | Standards, Certifications, and Ratings | SASB Corporate measurement and disclosure standards | | | | | | | | | | | | | | | |
| | | Task Force on Climate-related Financial Disclosures (TCFD) | | | | | | | | | | | | | | | |
| | | Global Reporting Initiative | | | | | | | | | | | | | | | |
| | | DBSA Environmental and Social Safeguard Standards | | | | | | | | | | | | | | | |
| | | IFC Performance Standards on Social and Environmental Sustainability | | | | | | | | | | | | | | | |
| | | OECD Guidelines for Multinational Enterprises | | | | | | | | | | | | | | | |
| | | EIB Environmental and Social Standards | | | | | | | | | | | | | | | |
| | | ECG Good Practice Standards for the Evaluation of Private Sector Investment | | | | | | | | | | | | | | | |
| | | SoDA Social Data Standards | | | | | | | | | | | | | | | |
| | | Rainforest Alliance Certification | | | | | | | | | | | | | | | |
| | | B-Corp Certification | | | | | | | | | | | | | | | |
| | | GIIRS Fund Rating | | | | | | | | | | | | | | | |
| | Metrics and Indicators | Harmonized Indicators for Private Sector Operations (HIPSO) | | | | | | | | | | | | | | | |
| | | Global Impact Investing Network (GIIN) IRIS Catalogue of Metrics | | | | | | | | | | | | | | | |

Note: This table provides an overview of the IMM harmonisation initiatives the European bilateral DFIs in the sample subscribe to.
Source: Authors.

## Figure 2.2. Impact Management and Measurement – non-European bilateral DFIs and Multilateral DFIs

| DFIs | | | DFC (OPIC) | FinDev Canada | ADB | AFDB | EBRD | EIB | IDB | IFC | ISDB |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Impact management | Principles and Guidance | Operating Principles for Impact Management (OPIM) | | | | | | | | | |
| | | UNEP-FI Principles for Positive Impact Finance | | | | | | | | | |
| | | GPEDC Kampala Principles | | | | | | | | | |
| | | UN Principles for Responsbile Investment (PRI) | | | | | | | | | |
| | | EDFI Principles for Responsible Financing of Sustainable Development | | | | | | | | | |
| | | Equator Principles | | | | | | | | | |
| | | EDFI Harmonization initiative | | | | | | | | | |
| | Frameworks and Methodologies | CERISE-IDIA (Impact Driven Investor Assessment) | | | | | | | | | |
| | | IMP Guide to Classifying the Impact of an Investment | | | | | | | | | |
| | | OECD Due Diligence Guidance for Responsible Coporate Lending and Securities Underwriting | | | | | | | | | |
| | Standards, Certifications and Ratings | Social Performance Task Force (SPTF) Universal Standards for Social Performance Management | | | | | | | | | |
| | | SVI Social Value Certificate | | | | | | | | | |
| | | AERIS Impact Management Ratings | | | | | | | | | |
| Impact measurement | Principles and Guidance | World Bank IFC Environmental, Health and Safety Guidelines | | | | | | | | | |
| | | Guiding Principles on Managing for Sustainable Development Results (MfSDR) | | | | | | | | | |
| | | SVI Principles of Social Value | | | | | | | | | |
| | Frameworks and Methodologies | Impact Rate of Return (IRR) Framework | | | | | | | | | |
| | | IFC Anticipated Impact Measurement and Monitoring (AIMM) | | | | | | | | | |
| | | KfW DEG Development Effectiveness Rating System (DERa) | | | | | | | | | |
| | | CDC Development Impact Grid | | | | | | | | | |
| | | European Venture Philanthropy Association (EVPA) impact measure process | | | | | | | | | |
| | | IMP Five dimensions of impact | | | | | | | | | |
| | Standards, Certifications, and Ratings | SASB Corporate measurement and disclosure standards | | | | | | | | | |
| | | Task Force on Climate-related Financial Disclosures (TCFD) | | | | | | | | | |
| | | Global Reporting Initiative | | | | | | | | | |
| | | DBSA Environmental and Social Safeguard Standards | | | | | | | | | |
| | | IFC Performance Standards on Social and Environmental Sustainability | | | | | | | | | |
| | | OECD Guidelines for Multinational Enterprises | | | | | | | | | |
| | | EIB Environmental and Social Standards | | | | | | | | | |
| | | ECG Good Practice Standards for the Evaluation of Private Sector Investment | | | | | | | | | |
| | | SoDA Social Data Standards | | | | | | | | | |
| | | Rainforest Alliance Certification | | | | | | | | | |
| | | B-Corp Certification | | | | | | | | | |
| | | GIIRS Fund Rating | | | | | | | | | |
| | Metrics and Indicators | Harmonized Indicators for Private Sector Operations (HIPSO) | | | | | | | | | |
| | | Global Impact Investing Network (GIIN) IRIS Catalogue of Metrics | | | | | | | | | |

Note. This table provides an overview of the IMM harmonisation initiatives the non-European bilateral and multilateral DFIs in the sample subscribe to.
Source: Authors.

## 2.2. General trends in DFIs IMM practices

This section presents general trends around the IMM employed by DFIs. We employ the logic put forward by an initial mapping paper (displayed in Figure 1.3 in Chapter 1) in order to present how DFIs are operationalising the various impact harmonisation initiatives. That is, the analysis begins with impact management initiatives before moving onto impact measurement. In both cases, we first look at trends in high-level initiatives, namely principles, before then homing in on frameworks, and ending with the more granular and specific initiatives, namely indicators and metrics.

### *2.2.1. Trends in impact management: the rise of common principles and proprietary frameworks*

Following the logic of the aforementioned mapping paper, the first set of initiatives under analysis are impact management initiatives. In this category, there is strong convergence towards common principles. Principles are a broad set of agreed values that provide a common language for a given set of actors operating in the same space. Often, principles are accompanied by guidance, which can be used to detail practical implementation (Boiardi, 2020[2]).

#### *The rise of common principles*

As demonstrated by the mapping exercise, while a large variety of principles have emerged over the past years, DFIs have coalesced around the adoption of the Operating Principles of Impact Management (OPIM) and the EDFI Principles for Responsible Financing of Sustainable Development. There are certain elements common across all impact management principles, including encouraging investors to embed impact considerations in their strategies, strengthening an impact-central organisational culture, guaranteeing adequate resources to manage impact, having an impact management and measurement system in place and abiding by principles of transparency and accountability (Boiardi, 2020[2]). However, different constituencies view the specificities of impact measurement and management from different perspectives.

Results from our study indicate that a total of 19/24 DFIs across the two matrices displayed publicly subscribe to the OPIM. This aggregate number is broken down into 13/15 European bilateral DFIs and 6/9 non-European bilateral DFIs and multilateral DFIs. The high number of DFIs claiming to operationalise OPIM in our results is indicative of its broad popularity; in the two years since its initial launch, the Principles now count over 135 impact investing organisations among their signatories across 33 countries, representing almost USD 400 MM in impact assets under management (OPIM, 2021[43]).

The OPIM were originally developed in consultation with impact asset managers and owners with a view to harmonising the burgeoning SII initiatives. More specifically, the nine Principles were designed with the aim of holding investors accountable to a set of shared standards, thus promoting better discipline and comparability between investments (OPIM, 2018[44]).

In line with the nature of principles, the OPIM are general in character and intended for broad use. Subscription is undertaken on a voluntary basis, and OPIM calls on signatories to publicly demonstrate their commitment to maximising positive impacts and/or minimising the risks associated with negative impact through independent verification and alignment. By publishing their impact thesis, as well as publicly stating their intention to pursue impactful investments across their portfolios, signatories open the door to "scrutiny, comparison and feedback" (Jeffries, 2020[45]).

However, since their launch, the OPIM have been subject to important criticisms worth highlighting (BlueMark, 2021[46]). Firstly, it bears reiterating that the OPIM were developed for, and with, asset managers and asset owners, not donors or CSOs, and the broader development community. This is significant; extensive consultations on the recently adopted OECD UNDP Impact Standards for Financing

Sustainable Development (IS-FSD) revealed that, in many cases, asset managers and asset owners have different priorities to that of donors. Hence, there is a case to be made for greater harmonisation with a view to ensuring that development priorities are upheld and maintained in every investment made towards the Sustainable Development Goals (SDGs) (OECD DAC, 2021[47]). The current omission of donor priorities is significant for DFIs operationalising the Principles; it implies that they do not necessarily measure and manage the impact to the same standard as their shareholders.

In addition, at present, *publicly* available DFI portfolio information is largely restricted to disclosure statements containing self-reported information. This ultimately means it is near impossible to assess the percentage of DFIs' investments subject to rigorous IMM practices or commitments with any degree or precision. Given the self-reported nature of this data, an externally verified estimation of what part of the DFIs portfolio can be considered SII does not yet exist.

Although the Principles have gained much traction, OPIM's effectiveness in promoting harmonisation is constrained by the lack of standardisation in reporting and verification. The OPIM do not prescribe a standardised framework for the multiple organisations providing external verification services, nor do they assess the quality of reporting. Consequently, disclosure statements often differ quite significantly in terms of depth and quality, as do the approaches used by external verifiers. For instance, in response to Principle 6, which stipulates that signatories ought to "monitor the progress of each investment in achieving impact against expectations and respond appropriately", one DFI asserts that it "requires investee reporting on key development impact indicators, in line with its yearly reporting schedule" and "collects development impact data on all investments on an annual basis through its development impact reporting system" (OPIM, 2021[29]). However, it does not specify which indicators are used to collect the data, whether they are harmonised or not, and what are the limitations and challenges encountered. Elsewhere, another DFI prefers to "discuss and draft a Development Impact Action Plan" with the client and specifies that responsibility for data collection lies with the impact team (OPIM, 2021[29]). This example speaks to Publish What You Fund's main criticism of OPIM, namely that it is "limited to statement of adherence" (Publish What You Fund, 2020[34]). In other words, there is no prescription or evaluation in the OPIM regarding the underlying processes used to measure and manage impact Lack of prescription on how to implement the standard can lead to issues in consistency and, by extension, comparability.

In terms of the consistency of external verification approaches, different organisations have developed different methodologies. Among these, arguably the most famous is the one developed by Tideline/BlueMark in 2019, which provides verification services for 30 out of the over 130 signatories of the OPIM (BlueMark, 2021[46]). Although the industry is still far from having a harmonised process for to verifying adherence to these principles, this convergence is necessary as it is the only way to compare impact management systems consistently. Lastly, although independent verification goes some way towards mitigating this, at its most extreme, self-reported data evaluated using different methodologies can even risk generating "SDG and impact washing", the very tendency it strives to reduce.

EDFI Principles for Responsible Financing of Sustainable Development represent common commitments on responsible financing, impact management and transparency towards sustainable development (EDFI, 2019[48]). In May 2019, one month after 12 European DFIs publicly announced their commitment to align with the newly-launched OPIM, the 15 members of EDFI announced their Principles for Responsible Financing of Sustainable Development (EDFI, 2019[49]). With the adoption of these high-level Principles, EDFIs committed to "investing with the aim of having positive impact" (EDFI, 2019[48]), actively contributing to the SDGs and the Paris Agreement, and adhering to human rights commitments. It is worth noting that the significant overlap between the EDFI Principles for Responsible Financing and the OPIM stems from the fact they were developed in parallel. Despite the similarities, OPIM ultimately prevailed, and now boasts 135 signatories worldwide.

While the OPIM and EDFI's Principles for Responsible Financing represent important steps towards DFI harmonisation on IMM, they remain very high level, and do not always allow third parties to discern the

depth and quality of the evidence base that investors use to link their investment strategy and the impacts they target. In the absence of alignment regarding underpinning standards of good impact management practice and transparency, principles do little to facilitate external differentiation between those DFIs merely conceptualising existing management practices in order to align publicly, and those updating their implementation practices to improve the contribution of their investments towards the achievement of the SDGs.

### *Proprietary Frameworks*

Frameworks are tools that facilitate the practical implementation of principles and guidance (Boiardi, 2020[2]), in line with each organisation's mandate, strategy and incentives, and thus constitute the other major impact management tool. Perhaps the most famous impact management framework belongs to the Impact Management Project (IMP), born out of Bridges Ventures. Now considered a "pillar of best practice" (Impact Alpha, 2020[50]), the IMP's 'Guide to Classifying the Impact of an Investment' (IMP, 2018[51]), and the IMP 'Five Dimensions of Impact', constitute a framework for investors to map their activities and strategies according to expected or achieved level of impact. The framework employs an ABC categorisation: (i) A for avoiding harm in order to mitigate negative social or environmental effects; (ii) B for benefitting stakeholders in order to favour more socially and environmentally sustainable business practices; and (iii) C for contributing to solutions that address identifiable social and environmental challenges (IMP, 2018[51]). The 'five dimensions of impact' assert that impact can be measured across five dimensions: (i) what (the outcome the enterprise is contributing to, whether it is positive or negative); (ii) who (which stakeholders are experiencing the outcome and how underserved they are – prior to the intervention – in relation to the outcome); (iii) how much (how many stakeholders experienced the outcome, the degree of change they experienced; (iv) how long they experienced the outcome for, contribution (whether an enterprise and/or investor's efforts resulted in outcomes that were better than what would have occurred otherwise); and (v) risk (likelihood that impact will be different than expected) (IMP, 2016[52]).

Across the broad SII market, the IMP is perceived as one of the most prominent frameworks. This was the position adopted at 2020 meeting hosted by Tideline and Duke University, who described the framework as "ubiquitous" (Investor Strategy News, 2021[53]). Nevertheless, the results from the exercise undertaken as part of this paper indicate a distinct lack of uptake of the framework amongst DFIs, with only 4/24 across the two matrixes disclosing implementation. This breaks down into 2/15 bilateral European DFIs, and 2/9 non-European, bilateral and multilateral DFIs. This is supported by a recent paper by Paddy Carter in the EDFI/ODI Essay Series, who states that the IMP framework "has the potential to improve consistency across investors, but few DFIs have adopted it" (Attridge, 2021[42]). CDC uses the IMP as a framework for assessing the impact of individual investments, to have consistency around transaction-level impact assessments, and has used it as the backbone of the "impact dashboard" they use to assess anticipated impact.

Our research indicates that the majority of DFIs do not follow a harmonised impact framework such as the one proposed by IMP. Certainly, frameworks are more complicated to harmonise. Unlike principles, they need to be tailored to the size of the DFI, the sectors it is active in, the types of projects and investees it supports, and its internal processes. Consequently, any attempt at harmonisation is debatably too high-level and even runs the risk of backwards-engineering impact (in other words, adapting or modifying findings to fit the prescribed framework) in a tagging exercise. One immediate consequence of this is a heightened risk of impact washing.

As a result, in order to effectively set impact objectives ex-ante, monitor results and assess ex-post according to specific organisational requirements, a growing number of DFIs prefer to rollout proprietary frameworks, rather than trying to develop a single solution or to re-design them based on existing harmonised initiatives. Establishing and employing proprietary frameworks for impact measurement helps

to DFIs select, design and adjust their projects in order to maximise and assess their impact before, after and during the course of an investment (IFC, 2020[54]). These frameworks are designed in-house according to organisational specificities and are used by the DFI's staff to manage and measure the impact of their investments. Many of these proprietary frameworks help streamline and refine the DFI business model by providing a direct feedback loop when considering future project design, especially with regards to optimising impact according to geographical and sectoral specificities. A good approach to improve these frameworks is to look more in-depth at how they help improve decision-making at an organisation's level, potentially through the lens of impact management standards.

Some DFIs adapt proprietary frameworks of other DFIs, also as guidance and inspiration. In this respect, the IFC's Anticipated Impact Measurement and Monitoring (AIMM – see Box 2.1 below) is a clear frontrunner; it has been used as a reference point for many other organisations to develop their own systems. This includes the newly established US DFC's Impact Quotient (IQ) system (DFC, 2020[55]), and J.P. Morgan's proprietary methodology (J.P. Morgan, 2020[56]).

### Box 2.1. IFC's Anticipated Impact Measurement and Monitoring (AIMM) system and its broader use

The AIMM, launched in July 2017, replaced the original Development Outcomes Tracking System (DOTs). Whereas the DOTs assessed development impact of a project three years following completion, the AIMM is an ex-ante tool that helps IFC to estimate the expected development impact of their investments (Bretton Woods Project, 2018[57]). The AIMM includes four sector frameworks and enables IFC's to estimate both project-level outcomes and examine the systemic effects on the overall market by promoting competitiveness, resilience, integration within and across markets, inclusiveness and sustainability (IFC, 2021[58]).

The United States' "Better Utilization of Investments Leading to Development (BUILD)" Act of 2018, which led to the establishment of the new Development Finance Corporation (DFC), also created a modernized development impact measurement tool, the Impact Quotient (IQ). IQ is used primarily to provide an "objective and systematic assessment of potential and current projects" undertaken by the organisation, including any potential negative environmental, social or development risks" (DFC, 2021[59]). The team also "analyses data on expected and actual impact" to guide future investment decisions. The main evaluation criteria are: (i) growth (economic, assessed via infrastructure improvements, contribution to local income, trade benefits and job creation); (ii) inclusion (provision of products and/or services, diversified workforces and inclusive supply chains); and (iii) innovation (advancement of new products and services, knowledge or technology transfer, environmental sustainability) (DFC, 2021[59]).

Recently J.P. Morgan created their Development Finance Institution Methodology, based on the AIMM framework, to perform ex-ante assessments of J.P. Morgan's Corporate and Investment Banking (CIB) transaction. Based on the AIMM, J.P. Morgan define eligible transactions and anticipate their impacts, to help attract private investment to developing countries, and aim to increase engagement with clients and investors interested in financial critical projects and transactions in emerging markets (J.P. Morgan, 2020[60]; J.P. Morgan, 2020[56]).

In Europe, the DERa system developed by the German DEG, is also used by the Austrian OeEB to measure and manage impact (see Box 2.2).

### Box 2.2. DEG's Development Effectiveness Rating (DERa)

DEG, the German DFI and member of the KfW Group, has been using DERa for monitoring purposes since 2017. DERa establishes the basis for DEG's impact reporting and rates individual client's contribution to development and follows up on changes in performance in investments which allows DEG to steer the overall development quality of its portfolio and provide impetus for improvements. Guided by 2030 Agenda for Sustainable Development and the SDGs, the DERa uses five outcome categories to assess the development contributions of each customer, which outlines the development effects of investments made by DEG's customers and their contribution to the SDGs presented along these five categories: (i) decent jobs; (ii) income; (iii) market and sector development; (iv) environmental stewardship and community benefits. Each of these five categories consists of a set of indicators and are used for scoring and reporting.

DEG uses DERa to measure how the private sector contributes to development and to identify how impacts can be increased. The average DERa score increased from 79 in 2017 to 81 in 2019 and around 60% of DEG customers achieved higher DERa scores in this period. From 2021 onwards, DERa will allow to analyse three-year trends for all customer clusters in detail.

### Box 2.3. Finnfund's Development Effect Assessment Tool (DEAT)

Finnfund's ex-ante DEAT scoring system uses a combination of qualitative and quantitative indicators to assess all prospective investments. Comprised of three dimensions, "strategic relevance", "market impact" and "additionality", this bespoke system considers an investment's expected impact relative to Finnfund's organisational objectives (Finnfund, 2021[61]). For instance, the "strategic relevance" criterium is more heavily weighted than its counterparts (contributing to 40% of the total development impact score), meaning Finnfund's "definition" of impact is highly specific to its organisational properties and the contexts in which they operate. Finnfund's selection of indicators is nevertheless informed by HIPSO and EDFI harmonised indicators (Finnfund, 2021[61]).

Finnfund endeavours to establish a direct feedback loop between the indicators used to project impact and ex-post learnings by monitoring portfolio level impact quarterly. DEAT*alive*, a tool under development, is also expected to improve the implementation of learnings by annually reviewing a larger sample of investments than those reviewed by the Project Management Committee ex-post to isolate causes for discrepancies between expected and achieved impact.

DEAT scoring differentiates between short- and long-term impacts. For instance, whereas a short-term impact would be broadening access to internet, the longer-term impact would be its implications for job creation or improvements in quality of life.

Examining the different proprietary frameworks employed by DFIs, we find considerable degrees of variation across impacts specified, industries and geographies covered, as well as scoring. Variation is also found in terms of the point in the investment cycle the frameworks are designed to target. For example, the AIMM is primarily a screening tool, stating its core purpose as improving "the ability to select and design projects to maximise development impact" (IFC, 2021[58]), although it is used at every stage of the project cycle including investment selection, implementation, monitoring and evaluation. Likewise, the CDC Development Impact Grid is a "first-level investment screening tool" (CDC, 2020[62]) constructed to ensure investment officers actively consider geography- and sector-specific factors in the project selection

process, with a view to deploying more funds towards more difficult investment markets, and ultimately helping to fulfil the organisation's development mandate (ICAI, 2019[63]). However, CDC and FCDO also assert that they are "committed to tracking actual results over time and using post-investment impact data to refine the Grid." The latest available CDC Development Impact Grid score found online was published in 2017 (Department for International Development, 2017[64]), with the weighted average development impact (DI) score for all CDC investments made from 2015-2017 fixed at 3.01 (Department for International Development, 2017[64]). Finally, the DEG asserts that DERa is applied "throughout the project cycle". Information on baseline values and forecasts of expected effects with a five-year horizon is imputed prior to transaction approval. Information is subsequently updated and compared against the baseline annually. This allows DEG to review clients' development impact performance over time and compare specific client performance with larger groups to gain insight.

The differences across proprietary frameworks indicate that it is not necessarily useful to converge towards a single approach. Ultimately, the different contexts and geographies DFIs operate in, as well as the different stakeholders and shareholders they cater for, necessitate framework flexibility. That said, as the preceding analysis demonstrated, harmonisation on underpinning standards of good impact management practice remains vital to produce consistent, comparable and transparent data.

### *2.2.2. Trends in impact measurement: harmonised indicators and their use in proprietary frameworks, and an increased focus on jobs quality, gender-lens investing and climate*

In analysing DFI impact measurement, we observe two broad trends, **the increasing use of harmonised** indicators and (ii) a marked trend towards adoption and roll out of proprietary frameworks.

DFIs have been working to harmonise the metrics and indicators used to measure the impact of their investments. Our initial scoping paper defines metrics and indicators as standardised quantitative factors used to measure, track or compare investments (Boiardi, 2020[2]). Our research finds evidence of a tendency to use particular databases "of standardised, defined or commonly used indicators and measures that can be applied by investors and corporates" (Boiardi, 2020[2]). The use of standardised indicators stems from the necessity of reliable comparable data on impact and the need to demonstrate contribution towards the SDGs. The most common sets of indicators are the Harmonised Indicators for Private Sector Operations (HIPSO) and the GIIN IRIS+, with a total of 19/24 and 12/24 DFIs purporting to use each, respectively.[10]

The IRIS Catalogue of Metrics was initially developed in 2008 by Rockefeller Foundation, Acumen and B Lab to help investors measure the social and environmental performance (GIIN, 2019[65]). Since 2009, the IRIS Catalogue of Metrics has been managed by the Global Impact Investing Network (GIIN), and in 2019 was expanded into IRIS +. IRIS + adds thematic taxonomies, core metrics sets, curated resources, alignment with the UN SDGs and other major frameworks and interoperability with other platforms to the original IRIS Catalogue of Metrics (GIIN, 2019[65]). The result is a streamlined, one-stop-shop for investors seeking to effectively measure the impact of their investments. Likewise, recognising the multiplicity of different structures used to track development impact data, the primary aim for the establishment of the HIPSO initiative was to ease the reporting burden for DFIs' shared clients (HIPSO, 2021[30]). After four years of consultations and work, an initial 27 SDG-aligned indicators were agreed in 2013 and expanded to 38 in 2015. Of these original 27 indicators, 15 (or 56%) were aligned to IRIS metrics (HIPSO, 2021[27]).

Following this initial mapping in 2013, HIPSO and IRIS+ have made concerted efforts to avoid duplication and renew their commitment to furthering alignment. For instance, in 2016, IRIS and HIPSO updated their alignment, with 19 out of the now 38 HIPSO indicators aligned to the IRIS metrics. Two years later in 2018,

[10] Readers should note that the findings on HIPSO and the GIIN IRIS+ is based on metrics as opposed to initiatives. With the introduction, and increasingly wide use, of the Joint Impact Indicators (JII), the actual figures of organisations employing these initiatives to some extent may well be higher.

the GIIN/IRIS became an official observer to the HIPSO Whole Group. A more recent testament to this is the 2021 IRIS+ and HIPSO launch of their Joint Impact Indicators (JII). The JII are a subset of HIPSO indicators and the IRIS catalogue of metrics common across investments, including jobs, gender and climate (GIIN, 2021[66]). Complementary, qualitative research indicates that these three areas appear to be the most relevant for DFIs to track and report on. However, it remains to be seen to what extent the JII will become the primary reference for jobs, gender and climate metrics.

DFIs have long collected data on job creation, viewing employment as a means to poverty reduction and fulfilling their development pledge to "leave no one behind". Leaving no one behind is one of the six Guiding Principles of the United Nations Sustainable Development Cooperation Framework (United Nations, 2015[67]). It represents the unequivocal commitment to eradicate poverty, end discrimination and exclusion, and reduce inequalities and vulnerabilities that leave people behind. The SDGs are also, in effect, a pledge to end extreme poverty by 2030. DFIs primarily fulfil this commitment by directly generating or supporting employment creation in the projects and companies they invest in. For example, CDC have "reported on job creation numbers as their main measure of impact since 2012" (Carter, 2019[68]), reflected in their Development Impact Grid. FMO also report the measurement of job creation as one of their main indicators of impact, "we measure our impact on employment and environment, through jobs supported" (FMO, 2021[69]).

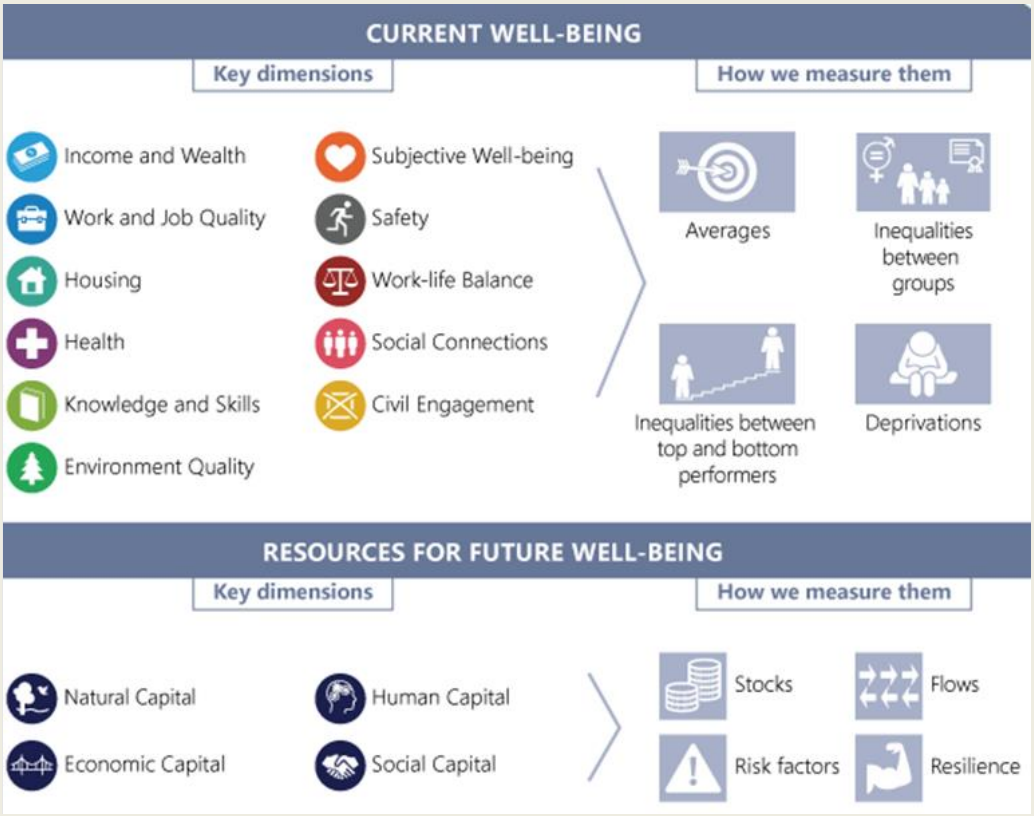
In recent years, the focus on job creation has been complemented by the "decent work" agenda. Originally coined by the International Labour Organisation (ILO) with a view to "achieving fair globalisation and poverty reduction" (ILO, 2015[70]), decent work is also enshrined in the international development agenda under SDG 8 'Decent Work and Economic Growth' (United Nations, 2015[67]). DFIs aligned with the IFC Performance Standards Environmental and Social Sustainability (the research presented here indicates this represents 9/15 EDFIs and 4/9 non-EDFI and multilaterals) are obliged to frame investments with respect to Performance Standard 2 on labour and working conditions (EDFI, 2019[71]). In some cases, DFIs' preoccupation with SDG 8 is also intrinsically tied to the geographies in which they invest. For instance, across Africa, the primary destination for CDC Group's investment, citizens report their highest development priority to be SDG 8 (Carter, 2019[68]). While as yet there is "no internationally-agreed approach to measuring job quality" (EDFI, 2019[71]), the GIIN's IRIS+ is one set of indicators that provides relevant indicators across five different "quality jobs" strategies (GIIN, 2019[72]). For individual DFIs, arguably DEG has developed the most established system for measuring quality job (EDFI, 2019[71]) (elaborated in greater detail in the following section).

When it comes to job-creation, one key area for future work for DFIs and for the organisations they support will be to move from an assessment of the quantity of jobs created towards a more multi-dimensional assessment of the quality of such jobs. Recent work by the OECD Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE) (presented in Box 2.4) can provide guidance in terms of areas to consider for such a multi-dimensional assessment.

### Box 2.4. Applying the OECD Wellbeing Framework to non-financial business performance

The OECD is leading research looking at how non-financial performance of firms can be measured and reported, to guide strategic decisions of companies. The OECD Framework for Measuring Well-Being and Progress (depicted in Figure 2.3) can be adapted and used as a lens through which to measure such non-financial performance. The framework is based around three core elements, including current well-being, inequalities in well-being outcomes, and resources for future well-being. The Framework also covers 11 dimensions of well-being, listed below (OECD, 2020[73]).

### Figure 2.3. OECD Framework for Measuring Well-Being and Progress




Source: OECD (2020[73]), *How's Life?*, https://doi.org/10.1787/9870c393-en.

Alongside jobs, evidence suggests DFIs view SDG 5, 'Gender Equality and Women's Empowerment' as an increasingly key theme in their investments. As a collective, EDFIs are committed to promoting equal opportunity for women and men in the workplace, as well as broader commitments such as access to finance for female entrepreneurs and access to services for women (EDFI, 2019[71]). Certain DFIs are also becoming clear frontrunners in terms of gender and women's equality considerations, including the founding members of the 2X Challenge (elaborated in Box 2.5), from the G7 countries – FinDev Canada, the United Kingdom (CDC), the United States (Development Finance Corporation – DFC), Italy (Cassa depositi e presiti – Cdp), France (Proparco), Japan (JBIc and JICA) and Germany (DEG) (2X Challenge, 2018[74]).

In order to create a shared understanding of what investing in women looks like, the 2X Challenge group worked with Dalberg[11] to define the 2X Criteria. The criteria were developed from collective research and evidence on where women currently stand in terms of participation, representation and access to the businesses DFIs invest in, and is based on contributions from DFIs and the broader impact investing community.

Derived from the 2X Criteria is a set of 2X Indicators which 2X Challenge DFIs have all adopted in their reporting and EDFI has committed to reporting on an annual basis. In 2019 the 2X Challenge worked with the GIIN to align the indicators with the IRIS+ catalogue.

In 2020, the 2X indicators were aligned with the new set of Gender HIPSO metrics through collaboration between HIPSO members and the 2X Challenge. These metrics were subsequently adopted by the newly launched Joint Impact Indicators (JII). Additional work is under way to align 2X metrics with other international principles and policy markets related to gender equality.

### Box 2.5. The 2X Challenge

At the 2018 G7 Summit in Canada, the DFIs of participating countries agreed to collectively mobilise USD 3 billion of DFI and private investments towards achieving SDG 5 – gender equality and women's economic empowerment. Specifically, via providing women with access to finance, leadership opportunities, quality jobs and business support.

As of the beginning of 2021, the 2X Challenge had exceeded its original pledge and mobilised a total of USD 4.6 billion in commitments. Alongside this, an additional seven DFIs had been onboarded as members, alongside the European Investment Bank as an adopted.

The five criteria for organisations to fulfil alignment with the 2X Challenge include entrepreneurship, leadership, employment, consumption and intermediated investment. These criteria were formally adopted by the Global Impact Investing Network (GIIN) as the global standard for gender-lens investing (GLI). In 2019, they were officially incorporated into the GIIN's impact measurement and management system, IRIS+. The metrics were also aligned with the Harmonised Indicators for Private Sector Operations (HIPSO). Plans are currently underway to revise the criteria and even potentially develop a "version 2.0". The Carbis Bay Communiqué from the most recent G7 Summit references the 2X Challenge in the context of the intention of their "DFIs and multilateral partners to invest at least USD 80 billion into the private sector in Africa over the next five years to support sustainable economic recovery and growth" (G7, 2021[75]). The communique also mentions that 2X will receive an additional USD 15 billion of new funding (2X Challenge, 2018[74]).

Most impact measurement initiatives now also integrate climate considerations. The SDGs and the Addis Ababa Action Agenda, alongside the Paris Climate Agreement outline the need to embed climate considerations into investment strategies and processes. Evidence suggests that DFIs are beginning to respond to this challenge in earnest, as evidenced by EDFIs' recent announcement that its members intend to both: (i) cease new coal or fuel investment in favour of aligning new investments with the Paris Agreement by 2022; and (ii) ensure that their portfolios achieve net zero emissions by 2050 at the latest (EDFI, 2020[76]). In terms of tools to measure impact of climate, nature and biodiversity, the new Joint Impact Indicators cover: (i) GHG Emissions; (ii) GHG Emission Sequestration; (iii) water consumption; (iv)

[11] Dalberg Advisors are a self-described "global working group" seeking to build a more sustainable world across a variety of different issues, including malnutrition to climate change and economic growth. https://dalberg.com/who-we-are/

waste water treatment; (v) energy consumption; (vi) land use; and (vii) sustainable management of natural resources (GIIN; HIPSO, 2021[3]). Likewise, the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) aims to harmonise existing initiatives to strengthen climate-related reporting (see Box 2.6). This initiative, outlined in further detail in Box 2.6, includes a number of prominent DFI supporters, such as CDC, DEG, Swedfund, EBRD, EIB, IDB and IFC. CDC Group, for one, plan to track portfolio climate metrics to assess progress made in relation to their Climate Change Strategy (CDC Group, 2020[77]). More recent research also highlights DFIs attempting to connect the dots between climate and environmental and social issues through the gender-climate nexus. For example, ODI-EDFI research suggests that women's equal access to agricultural resources can produce 20-30% higher yields on farms, while at the same time using land more efficiently and promoting deforestation. Likewise, investments in education and reproductive health can help save 120 gigatons of C02 saved by 2050 (Attridge, 2021[42]).

### Box 2.6. The Financial Stability Board Task Force on Climate-related Financial Disclosures

The Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) is a market-driven initiative, set up to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosures in mainstream findings. Companies will therefore be better guided in providing information to investors, lenders, insurers and other stakeholders.

The financial impacts of climate-related risks are often overlooked, mostly because of the differences in disclosure requirement and different perceptions and the difficulties in measuring climate risk and impact. TCFD aims to provide guidance to collaboration and alignment by bringing harmonisation to over 400 initiatives in existence today. The work of TCFD defines an overarching set of recommendations for voluntary reporting, outlining practical steps for financial markets to evaluate and mitigate the financial impacts of climate risk. Moreover, while the work of the TCFD builds on existing work, it represents an opportunity to bring climate-related financial reporting to a wider audience, beyond the sustainability sector.

In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocations. The disclosure recommendations are structured around four thematic areas that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets, and the task force helps companies implement the recommendations and promote advancements in the availability and quality of climate-related disclosure (TCFD, 2021[78]).

Finally, the launch of the Joint Impact Model (JIM) in 2020 by a group of DFIs[12] alongside impact and sustainability consultancy firm Steward Redqueen (Steward Redqueen, 2020[79]) suggests DFIs commitment to disclosing not only the direct, but also the indirect, impacts of their investments. JIM is an input output model that uses financial flows of projects through the economy and employs social accounting matrixes, alongside GHG and ILO data, to measure the indirect impact produced by an investment. Although its methodology remains constrained, it allows for more robust and complex insights into investments, and allows DFIs to pool data and share intelligence. For example, Proparco is currently using the tool to estimate job and value added by country at the project level, as well as for ex ante assessment during the due diligence stage of an investment. Elsewhere, CDC use the tool to estimate the number of jobs supported by CDC at the portfolio level (JIM, 2020[40]).

[12] AfDB, BIO, CDC Group, FinDEV Canada, FMO, and Proparco

We examined how the aforementioned proprietary frameworks *measure* their impacts, including to what extent they embed harmonised indicators. For instance, AIMM publicly states in its brochure that "AIMM sector frameworks have been linked with indicators in the Harmonized Indicators for Private Sector Operations (HIPSO)", and that metrics and indicators are also undergoing alignment with IRIS+ (IFC, 2020[80]). Likewise, CDC embed both HIPSO and IRIS+ and consider themselves "an active participant [across] various platforms that discuss impact measurement and harmonisation" (OPIM, 2021[29]). Finally, alongside the SDGs, HIPSO is listed as one of the "vital elements used to create DERa" (IFC, 2020[54]). All three organisations behind these proprietary frameworks recently endorsed (and therefore signalled their commitment to embedding) the JII (HIPSO; GIIN, 2021[81])

More broadly on impacts specified, the AIMM examines the project's direct impact potential on stakeholders, the economy and the environment. It also purports to look at wider market outcomes and how a project can catalyse systemic change in terms of competitiveness, resilience, integration, inclusivity and sustainability (IFC, 2021[58]). On the other hand, CDC takes into consideration the difficulty of the geography where the investment is made (market size, income level, ability to access finance, World Bank Doing Business Rankings, composite measure of fragility) and the propensity of the business sector in which it is made to generate employment (considers the direct employment potential, as well as indirect impact such as employment creation through backward linkages and the potential to build a broader environment for jobs) (CDC Group, 2018[82]). KfW DEG structures its reviews around a "Theory of Change", starting from the activities of a DEG client, the resulting outputs, to desired development effects (societal outcome) and impact (societal impact). In a further step, DEG's role is also considered as "input". The outcome pillars specified are direct impact considerations such as: (i) decent jobs (both direct impact and indirect job potential are considered) and local impact as well as broader indirect impacts; such as (ii) local income; (iii) market and sector development; (iv) environmental stewardship; and (v) community benefits (KfW DEG, 2021[83]).

Regarding geography and industry covered, AIMM states that it covers financial institutions (such as insurance and SME finance), infrastructure and natural resources (airports, mining, oil and gas), manufacturing, agribusiness and service (including agribusiness, education and tourism) and disruptive technologies and funds (examples include private equity funds and venture capital direct investment) (IFC, 2021[58]). CDC's Development Impact Grid divides geographies into four categories, according to investment difficulty of country-assessed based on market size, income level, ability to access finance and the ease of doing business. CDC's Development Impact Grid also divides sectors into three categories accordingly to their propensity to generate employment (CDC Group, 2018[82]). DERa, on the other hand, appears more sector-agnostic, making no reference to particular geographical or sectoral considerations (KfW DEG, 2021[83]).

The variation found in terms of both impacts specified and geography and industry covered by the different proprietary frameworks further underline the thesis that it is not useful to create one overarching impact measurement framework. On the contrary, each organisation has different strategic objectives, which sometimes necessitate the use of different tools and frameworks. What matters is an agreement around the key elements of a high-quality framework, which can be defined through standards.

We also find significant variation across the different proprietary frameworks in terms of scoring methodologies. First and foremost a screening tool, AIMM is used at every stage throughout the project cycle, and considers qualitative assessment of project outcomes (the sum of project potential, likelihood of achievement and risk), including a gap analysis of the relative size of the development challenge and contribution to market creation and overcoming developing gaps (the sum of project potential, likelihood of achievement and risk) according to "project intensity", defined as the degree to which the project contributes to the solution. These qualitative assessments are then transformed into a mechanical score (IFC, 2021[58]). For CDC, an investment is plotted onto the grid according to the difficulty of its geography (x-axis) and the propensity of the business sector in which it is made (y-axis). The location on the grid is then translated into a score from 1 to 4. CDC also publicly states that this sore is independently assured

on an annual basis (OPIM, 2021[29]) Alternatively, DERa's scoring system involves a cumulative score with a maximum of 150 points. The score is calculated according to aforementioned five primary outcome pillars, which are each made up of set(s) of quantitative indicators and qualitative expert judgements. DEG also notes that the score is linked to a more qualitative categorisation, "for ease of interpretation" (KfW DEG, 2021[83]).

Incidentally, IFC is the only organisation to publicly state that AIMM's scoring is taken into account in terms of future decision making. Specifically, IFC states that AIMM considers scoring in terms of "learning and accountability" (OPIM, 2021[29]) in its OPIM disclosure statement. This is illustrative; it points to the broad lack of transparency surrounding DFI investments. In the next section, we examine the state of play regarding DFIs transparency more closely.

## 2.3. The need for more transparency on impact management approaches and development impact results of DFIs

Limited levels of transparency emerged as one of the major themes of our research on DFI impact management and measurement practice. Despite widespread subscription to various upstream harmonisation initiatives, there is a notable lack of DFI impact data. This stems partly from market-driven legal obligations such as commercial confidentiality (impact data can be price-sensitive, reveal operational data that competitors could use, or simply prove tricky to collect) and, more fundamentally, from the fact that there no real efforts are made to align the underpinning processes DFIs employ to measure and manage impact. The result is considerable variation among DFIs' disclosure practices, not only in terms of impact results (results transparency), but also regarding how ex-ante assessment, monitoring and ex-post evaluation are performed (process transparency).

Adapting a blended finance definition, we defined transparency as "the availability, accessibility, comprehensiveness, comparability, clarity, granularity, traceability, reliability, timeliness and relevance of both ex-ante and ex-post information" (THK, 2020[84]). In this context, we refer specifically to information on the development impact targeted, and achieved, by a specific transaction.

Transparency has been recognised as both a pillar of aid effectiveness (GPEDC, 2016[85]) and necessary for private market growth (OECD, 2019[6]). However, according to GIIN's research on the progress of IMM over the course of the last three years, "transparency on impact performance, including targets and results" remains one of the most significant challenges in the IMM field. (GIIN, 2020[86]). Higher levels of transparency are fundamental to ensuring that DFIs provide the levels of accountability necessary for donors and improving overall development results through sharing and learning from previous investments. At present, the lack of transparency prevents donors from having a more robust understanding DFIs' strategies and investments (Publish What You Fund, 2020[34]).

Our findings are in line with ongoing conversations regarding DFI transparency. For instance, *Publish What You Fund* is currently working on a two and a half year Gates Foundation-funded project, advocating for greater transparency and accountability amongst DFIs. Working collaboratively with DFIs, the organisation employs an evidenced-based, multi-stakeholder approach with a view to lay the foundation for future policy change. Evidence from Publish What You Fund's Work Stream 1 indicated that there is little standardisation of reporting amongst the major DFIs in terms of project rationale, funding instrument and ESG category. Likewise, Work Stream 2 identified that almost no DFIs publish activity-level data (Publish What You Fund, 2020[34]).

Likewise, a recent Tri Hita Karana Working Group on blended finance – a strategy most commonly implemented by DFIs – also underlined the need for greater transparency. The authors of this report pointed to the limited nature of impact data from blended finance projects. Further to this, they highlighted discrepancies between transparency at the portfolio versus individual project level. To improve current practice, suggestions raised include "harmonising reporting practices through minimum reporting requirements for all stakeholders – emphasising the public availability of information" (The Tri Hita Karana Roadmap for Blended Finance, 2020[87]).

Nevertheless, there are promising signals of change, with some DFIs demonstrating commitment to greater transparency. For instance, CDC group recently disclosed impact dashboards for every investment, which are detailed statements aligned to the IMP impact definitions, clearly highlighting what they are tracking (CDC Group, 2020[88]). CDC's public commitment to publish 20 impact deep-dives by 2021, and the ambitious FCDO-CDC evaluation and learning programme will also help address the lack of transparency on ex-post impact data in particular (FCDO-CDC, 2017[89]). Likewise, Swedfund is challenging the commercial confidentiality firewall by providing user-friendly data portals to make reporting on non-commercial metrics easier (Forster, 2020[90]). In the same vein, DEG plans to provide benchmark reports back to investees to give them more incentive to disclose their data (Forster, 2020[90]).

One key step towards greater transparency is convergence around underpinning standards of good impact management practice. This is vital to produce transparent, consistent and comparable data.

In this context, the OECD-UNDP jointly developed the Impact Standards for Financing Sustainable Development (IS-FSD) (OECD/UNDP, 2021[4]). Approved by the OECD Development Assistance Committee (DAC) in March 2021, the Standards help donors, DFIs and asset managers find a common language and integrate impact management into investment practices and decision-making, with a view to assessing both positive and negative effects on people and the planet. IS-FSD embed the IMP shared norms, help operationalise high-level principles (such as the OPIM) and provide an operating system for the application of existing tools and frameworks, including metrics (IRIS+ and HIPSO), taxonomies and reporting frameworks. Through alignment, all development finance actors can show their intention to contribute positively to development and achieving the SDGs.

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