

DEVELOPMENT CO-OPERATION DIRECTORATE

Unleashing the Impact of Development Finance

A roadmap for the Impact Standards for Financing Sustainable Development

This paper assesses what it would take for the OECD-UNDP Impact Standards for Financing Sustainable Development to be actively implemented by 2030. It draws from interviews conducted between November 2021 and March 2022 with representatives of donor governments, development finance institutions (DFIs), multilateral development banks (MDBs), private investors, partner governments, and Civil Society Organisations (CSOs).

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Abstract

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Foreword

This paper was commissioned by the Private Finance for Sustainable Development Team of the OECD Development Cooperation Directorate. The main findings contribute to building the knowledge and evidence base for the work on the [OECD-UNDP Impact Standards for Financing Sustainable Development](#).

The Standards were developed through a multi-stakeholder process in the OECD DAC Community of Practice on Private Finance for Sustainable Development, and approved by the DAC in March 2021.

This paper is authored by Lisa Hehenberger, ESADE Business School, under the supervision of Paul Horrocks and under the strategic leadership of Haje Schütte. Esme Stout contributed to the research, interview process and editing. The findings and analysis benefitted from the insights of Coralie Martin and Valentina Bellesi. The authors would also like to express their gratitude to all the interviewees listed in the Annex.

Executive Summary

The OECD-UNDP Impact Standards for Financing Sustainable Development (henceforth referred to interchangeably as "IS-FSD" or the "Standards") (OECD-UNDP, 2021^[1]) provide an impact management framework for donors, development finance institutions and their private sector partners. Impact measurement and management (IMM) implies proactively monitoring and controlling the economic, social and environmental consequences of business and investment decisions for people and the planet, while observing good practices of impact measurement. Impact measurement is a necessary component of this but alone insufficient.

What would it take for the Standards to be actively implemented by 2030? We asked donor governments, development finance institutions (DFIs), multilateral development banks (MDBs), private investors, partner governments and civil society organisations (CSOs)

Ambition of the Standards

There is a general agreement among interviewees that the Standards set out important and ambitious objectives.

Firstly, an overarching ambition of IMM is to better understand if development finance goes where impact is most needed, i.e. addressing the most pressing environmental and social issues (i.e. leaving no one behind). The Standards set a high bar in terms of IMM practice, incorporating both previously overlooked donor priorities and recent market trends centred on improved transparency, governance and stakeholder consultation. This implies that if the Standards were to be fully implemented, they have the potential to improve IMM across development finance, bringing the IMM practices of DFIs, MDBs and private asset managers more in line with the needs of developing countries and with the objective of donor governments to close the SDG financing gap.

Secondly, the mobilisation of private capital for development finance remains a pending issue. Respondents consider that the Standards create a common language between public and private actors, potentially fostering greater collaboration and communication between the stakeholders involved in development finance. Standardising IMM and Environmental, Social and Governance (ESG) practices across development finance can help reduce transaction costs, facilitate the aggregation of assets and potentially mobilise greater volumes of capital. The Standards are part of a suite of standards that collectively aim to change the practices of investors and companies for greater impact (UNDP, 2021^[2]).

Implementation challenges and recommendations

The OECD is seen as a neutral and credible standard-setting organisation. However, stakeholders expressed confusion about how the Standards fit with existing IMM initiatives, including other principles, frameworks and standards in the market. They also wonder if there will be any mechanism to encourage or enforce compliance – and, if not, question whether actors will comply. Interviewees requested guidance,

case studies and trainings to implement the Standards especially for less advanced actors and specifically targeting the Least Developed Countries¹.

Future vision

Development finance should proactively support projects with a positive impact, while enabling investors to comply with ESG criteria. Thinking about impact holistically and considering both positive and negative consequences of activities are crucial recommendations. It is impossible to come up with completely ethical and viable measurement of impact. The very best one can hope for is to design institutions, incentives, processes, and staffing that point in the right direction. The Standards provide a roadmap. Ultimately, we need to submit any measure of implementation to the following question:

“How will this serve to increase the flows of capital to the countries, sectors and people currently “left behind”?”

¹ The OECD is currently working on Detailed Guidance Notes for each of the four OECD-UNDP Standards – as detailed in Section 6.

1 Introduction

The OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD) provide an impact management framework for donors, development finance institutions and their private sector partners. The OECD-UNDP Standards represent a best practice guide and self-assessment tool to help actors working in development finance manage projects in ways that generate positive impact on people and the planet, and improve the transparency of development results.

More concretely, the main characteristics of the OECD-UNDP Standards are as follows:

- Act as a decision-making framework to integrate high-level principles into investment strategies. In this context they seek to make high-level impact management principles actionable;
- Guide the choices of which existing frameworks, methodologies and tools should be used to accurately measure and manage impact;
- Embed the Impact Management Project (IMP) shared norms, and provide an operating system for the application of existing tools and frameworks, including metrics (IRIS+, HIPS0 and the Joint Impact Indicators), taxonomies and reporting.

This report aims to review the current market for sustainable investments in developing countries, and what it would look like if the IS-FSD were actively implemented before 2030. To answer this question, we conducted a number of interviews² with experts and representatives of the key stakeholder groups, as outlined in Section 2 involved in sustainable investment in developing countries. Preliminary analysis of data derived from the interviews was supported with various contextual reports and documents.

The market for sustainable investments in developing countries

Sustainable investments in developing countries combine financial returns with intended positive social, economic and environmental impacts, striving to contribute positively to the Sustainable Development Goals (SDGs) (UN, 2015^[3]). Importantly, these types of investments need to demonstrate measurable evidence of their SDG impacts. Impact measurement is needed to assess expected impact, monitor it over time and report on development impact results. While important, impact measurement alone is insufficient; it needs to be supported by robust impact management, which involves embedding impact in internal systems and processes to make it actionable and ensure that data can be used to inform strategies and policies, as well as investment decisions and operations. IMM, when successfully implemented, provides evidence of the extent to which sustainable investment is achieving impact on the SDGs. Such evidence is required to allocate resources to the most impactful initiatives and can help mobilise financial and human capital towards the SDGs.

The key actors involved in sustainable investment in developing countries are:

- **Donor governments:** These are defined as OECD countries, emerging donors but also the organisations and agencies that underpin the flow of development resources, such as USAID, SIDA, etc.

² A full list of the interviewees can be found in the Annex.

- **Development Finance Institutions (DFIs):** Specialised development banks or subsidiaries set up to support private sector development in developing countries. They have different shareholder arrangements, with the national DFIs sourcing their capital from national development funds, and the multilateral DFIs, including IFC and IADB, sourcing their funding from international development funds as well as from private market actors, for example through bond issues (OECD, n.d.^[4]).
- **Private investors:** These include a wide range of investors with different risk-return-impact expectations, including asset managers that are increasingly engaging in “impact investing” activities and specialized impact investment funds that invest in developing countries, often as co-investors with DFIs and through blended finance vehicles (funds and facilities)³.
- **Partner governments:** These includes developing countries that are recipients of development aid. The DAC lists these countries according to the categories of Least Developed Countries (LDCs), Low Income Countries that are not part of the LDCs, Lower Middle Income Countries that are not part of the LDCs and Upper Middle Income Countries that are not part of the LDCs (OECD, 2021^[5]).
- **Civil Society Organisations (CSOs):** These are “an organisational representation of civil society and include all not-for-profit, non-state, non-partisan, non-violent, and self-governing organisations outside of the family in which people come together to pursue shared needs, ideas, interests, values, faith and beliefs, including formal, legally registered organisations as well as informal associations without legal status but with a structure and activities” (OECD, 2021^[6]). These include implementing partners in developing countries that execute projects that target the SDGs. Many of these organisations are concerned about the subsidisation of the private sector and potential misuse of official development assistance (ODA).

³ For an overview of the actors in impact investment, please refer to: <https://www.oecd.org/dac/social-impact-investment-2019-9789264311299-en.htm>.

2 How development finance institutions are using IMM tools

Interviewees highlighted several recent DFI-led initiatives⁴ in the area of impact measurement and management. Table 2.1 provides an overview of the initiatives mentioned.

Table 2.1. Recent DFI-led initiatives in in impact management and measurement

Categories	Principles and Guidance	Frameworks and Methodologies	Standards, Certifications and Ratings	Metrics and Indicators
Impact Management	Operating Principles of Impact Management	IDB Invest's Impact Management Framework	UNDP SDG Impact Standards for Enterprises, Bond Issuers and Private Equity	
	THK Transparency Tool	IFC Anticipated Impact Measurement and Monitoring System (AIMM)	IFC Performance Standards	
	EDFI Harmonisation Initiative	DFC Impact Quotient		
Impact Measurement		CDC's "Impact Score" to manage impact of their portfolio on a strategic basis		Joint Impact Indicators
		IDB Invest's DELTA Impact Rating System (Development Effectiveness Learning, Tracking and Assessment tool)		

Note: This table only includes the initiatives highlighted by interviewees during the course of the interviews.

Source: Author – based on (Boiardi, 2020^[7])

Donor Governments

The interviews revealed some frustration on the part of donor governments in terms of how DFIs execute their joint mandate to create development impact alongside financial returns. Donors would like more transparency in terms of whether the investments are reaching the poorest countries and beneficiaries, and if DFIs are taking appropriate levels of risk. More robust, transparent data would support donors - as

⁴ A more comprehensive overview of impact management and measurement initiatives can be found in (Boiardi, 2020^[7]) and (Impact Management Platform, n.d.^[14]).

DFI shareholders - to better steer the direction of these institutions as they implement publicly-financed projects. There is a lack of feedback loops between the impact data that is reported to donors and how policy regarding investment strategy is developed, with some exceptions (indicated below)⁵.

“IDB Invest provides incentives for teams working in origination by scoring investments according to development impact, additionality, and their alignment with country and sector priorities, using the DELTA Impact Rating System. All operations are then monitored and evaluated, and lessons learned are fed back into the design of new operations. At the strategy level, feedback loops are also ensured by the work of the IDB Group’s Independent Evaluation Office. For instance, a full review of the execution of each country strategy is mandated before a new strategy cycle starts.”

Alessandro Maffioli, Chief of the Development Effectiveness Division, IDB Invest

At the same time, donors may set unrealistic or conflicting objectives for DFIs. This can stem from a lack of understanding of the reality of DFIs’ work, which in turn, could be due to a lack of transparency, or inappropriate governance mechanisms where donors are only partially exposed to the DFI’s work. It can also stem from the fact that donors, set objectives driven by a political agenda, rather than catering to the needs of the developing nations they aim to support.

“Donors tend to set multiple objectives, [but] there are tensions within this that are not necessarily understood. The board and the shareholders need to hammer these issues out and make them workable. “

Samantha Attridge, Senior Researcher, Overseas Development Institute.

“We know from speaking directly to DFI shareholders that even they do not always necessarily get the right data to know if their DFIs are making a difference including data relating to impact, ESG and even concessionality”

Gary Forster, CEO Publish What You Fund.

DFIs and MDBs

Almost all interviewees mentioned that they felt DFIs’ IMM sophistication has improved in recent years. DFIs are increasingly designing and implementing proprietary frameworks to assist implementation of principles and guidance in line with their own mandates and strategic objectives.

For example, IDB Invest developed its Impact Management Framework and the associated DELTA Impact Rating System. Notably, IDB Invest transparently publishes both the results and the methodologies used to rate investments. IDB Invest makes impact material by using the impact rating as a mandatory eligibility criterion with specific thresholds defined for transactions to be considered eligible for financing (IDB Invest, 2020^[8]). IFC has developed the Anticipated Impact Measurement and Monitoring (AIMM) system, which has arguably moved forward the level of transparency around IMM process. It is helpful in terms of disclosing how the organisation views impact, and how they predict impact in an ex-ante sense (IFC, 2017^[9]). The DFC has developed the Impact Quotient and has also demonstrated leadership by choosing to publish how they manage for impact (DFC, 2020^[10]).

However, interviewees qualified observations on progress with comments on the large variation between the most advanced and the least advanced DFIs. Moving forward, IMM Initiatives like the Joint Impact Model (JIM) have demonstrated the possibility of bringing better resourced institutions and smaller ones

⁵ There is a wide variety of governance structures of DFIs, which has an implication on the ability of donor agencies to set, monitor and evaluate the achievement of their development objectives (Winckler Andersen et al., 2019^[26]). More work is needed in this area.

together, allowing all to tap into group resources (JIM, 2020^[11]). Such initiatives provide a lower barrier to entry and a model to allow smaller institutions to get up to speed without substantial investment in IMM.

“There is an argument that, if you can’t do this impact prediction and monitoring, you should not really be investing with public money, or money backed by public guarantees and deposits. We would not accept this from public actors; there is very little excuse for them [not to do impact prediction and monitoring]. When we are talking about DFIs and public money, there is very little excuse.”

Paul James, leads the research on the DFI transparency initiative of Publish What you Fund.

However, several interviewees still questioned to what extent the DFIs are truly generating impact. Whereas there is a greater transparency in terms of IMM processes, there is still a lack of evidence in terms of comparable impact data. Furthermore, while there is more data about where these investments go in terms of partner country and sectors, we do not yet have comparable data on which segment of the population benefits the most from these investments (i.e. the true impact on e.g. poverty and inequality).

“One aspect could be to look more into how DFI investments are reaching the poorest parts of the country and people living in poverty. By investing in sustainable businesses, the DFIs play a key role in promoting private sector development and the creation of jobs with decent working conditions. However, should they do more to reach out to the poorer parts of the population and vulnerable groups?”

Anna Holmryd, Swedish Ministry of Foreign Affairs

Private investors

Despite the proliferation of different initiatives in the IMM market, private investors tend to coalesce around the Operating Principles for Impact Management (OPIM) as the main point of reference which counts 152 signatories since its launch in spring 2019 (OPIM, 2019^[12]). OPIM, a set of high-level principles that are not binding, is frequently used in combination with IRIS+ indicators (GIIN, n.d.^[13]) and the Impact Management Project’s categories of impact. The Impact Management Platform (Impact Management Platform, n.d.^[14]) groups together the main tools and initiatives employed by impact investors and thus facilitates access. OPIM has helped integrate impact and ESG systematically into the investment process.

In recent years, evidence points to growing trend – and, in the European context, legal requirement - to report on sustainability and development (in terms of ESG and impact creation), as evidenced by, for example, the Sustainable Finance Disclosure Regulation (SFDR) in the EU (European Commission, 2022.^[15]). The SFDR is designed to help institutional asset owners and retail clients understand, compare, and monitor the sustainability characteristics of investment funds by standardising sustainability disclosures. In 2020, five major standard-setting institutions have published a statement flagging they’d work together on integrated reporting (Impact Management Project; World Economic Forum; Deloitte, 2020^[16]), thus pointing to a general trend towards alignment and simplification of reporting requirements for the private sector. Notably, the Impact Finance Taskforce report provided concrete recommendations on how to mobilize private capital for the SDGs (Impact Taskforce, 2021^[17]). It included strong support for the International Financial Reporting Standards Foundation’s International Sustainability Standards Board (IFRS-ISSB) efforts to create a comprehensive global baseline of sustainability disclosures (IFRS, 2022^[18]).

“We hope that with the International Sustainability Standards Board process that is now launching, looking at both sustainability but also social and economic non-financial reporting, that these themes of employment, decent work and gender will also be picked up, and it is not just climate and sustainability metrics.”

Soren Andreasen, CEO of EDFI – the Association of European Development Finance Institutions.

Transparency and governance, including incentive structures, remain the foremost unresolved issues for private investors to address. On the former, interviewees indicated that some investors may be reluctant to be more transparent, in particular, to be compared in a way that might be damaging to them in terms of their performance vis-à-vis peers. This issue is particularly relevant for fund managers whose fundraising success depends on past performance. On the latter, there is an issue in terms of aligning incentives; fund manager's incentives are still mostly linked to the financial performance of the investments and projects managed, and not to development impact performance. Inspiration on how to change this can be found by looking at impact investing funds, that are increasingly implementing impact-linked carried interest structures (Boudoux d'Hautefeuille and Hehenberger, 2021^[19]) and at some DFIs that are also including impact in bonus schemes (British International Investment, 2021^[20]).

Partner governments and CSOs

Partner governments and CSO representatives expressed that they believe that DFIs often aim to follow high standards, but that implementation could be improved. At the outset, limited consultation takes place with the local communities set to be affected by the projects financed. Limited stakeholder engagement is a well-documented issue that Publish What you Fund (PWYF)'s Work Stream 3 (Publish What You Fund, 2021^[21]) findings explore at length. Linked to this, while some DFIs, including FMO, DEG and Proparco (BankTrack, 2018^[22]), have attempted to establish more robust grievance mechanisms, partner governments and CSOs believe that generally, these need to be strengthened; it tends to be difficult for the affected stakeholders to file a complaint (Rees, 2008^[23]). Furthermore, impact assessment is often left to consultants or private parties who do not necessarily know or understand the local context. This means that the information is incomplete or not necessarily factual. Partner organisations agree that, overall, there is a need for further accountability and transparency and that this would help local populations know more about the projects funded and implemented and how they affect them.

“The local community should have the right to understand what is going on, it is about sharing the data and the information. They need to know that this is going to be happening and how it will be impacting them.”

Jiten Yumnam, Secretary at Centre for Research and Advocacy, Manipur

3 Benefits and roadblocks of IS-FSD according to key stakeholders

The IS-FSD represent a decision-making framework to integrate high-level principles into investment strategies. They include four themes: impact strategy (integrating impact in the investment strategy), impact management approach (integrating impact in the management of its operations), transparency and accountability (disclosure) and governance (structures and mechanisms). Interviewed stakeholders were asked whether any of these themes were particularly critical to enhance the work on sustainable finance in developing countries. They were also asked about potential benefits and possible roadblocks in terms of implementation of the Standards.

Donors

For donors, the Standards are broadly aligned with their ambitions on IMM and well accepted in theory, but not yet fully implemented in practice. If implemented, they could be a means to determine how public resources are effectively used and encourage standardisation, best practice sharing and knowledge transfer. They have the potential to enable better feedback loops between data collected on the ground by DFIs and policy decision-making, thus enhancing the effectiveness of development finance more broadly. However, there is a prevailing lack of awareness around compliance and a sense that DFIs and private investors will not comply unless they have a clear obligation or a strong incentive to do so. There is also confusion around how the Standards align with, and compliment, other initiatives in the IMM market, such as principles, frameworks, tools and metrics (as detailed in Section 2). Donors welcome and encourage the push towards greater transparency, but, in the absence of external verification, there is scepticism about enforcing compliance. Donors want more transparency but a level playing field on transparency also requires agreement on enforcement otherwise compliance will remain voluntary.

DFIs

According to the DFIs, the OECD-UNDP Standards are comprehensive and set a high bar. If implemented, they provide a good **blueprint** and can work effectively against **impact washing**. In particular, the Standards could generate a **common language around impact with donors and private sector partners. By providing a common language, IS-FSD could also enable** DFIs to share best practice more broadly with the private sector. DFIs also consider the Standards useful as a **self-assessment tool** to identify areas of improvement and (re)design IMM systems to be more aligned with donors' priorities (as outlined in IS-FSD).

"IS-FSD is not a standard that has been adopted per se by the DFIs and MDBs, but it is something that they view as an equivalent to the other standards that they have adopted and they use it as a useful reference point."

Søren Andreasen, CEO of EDFI – the Association of European Development Finance Institutions.

However, DFIs need to be convinced of the value in complying. Our interviews revealed that the Standards can be daunting as the bar is set high and there are many other standards to comply with. The practices related to transparency, governance and exit are considered the key gaps in DFI's current practices in terms of complying with the IS-FSD.

“Unless you have a governance system in place, and unless you can make the shift and integrate impact, the internal champion leaves and you go back to square one.”

Fabienne Michaux, Director of SDG Impact at the United Nations Development Programme

There is a tendency among DFIs to view the Standards as a burden, and they will implement them only with a clear mandate from the government agency or ministry. DFIs are pushed in opposite directions by their multiple stakeholders and mandates, and are not always in a position to prioritise impact considerations to the level required by the Standards, which can be seen as too ambitious. Therefore, the OECD-UNDP Standards are a tool donors can use to support and guide DFIs towards becoming a key implementer of development policy and that can support coordination among stakeholders and policy coherence.

“The Standards have the benefit of coming from the DAC; you have stakeholders that are saying this is the direction of travel that we want to pursue. There is an opportunity for the DAC to take more of a stance in terms of their expectations on the deployment of public money.”

Fabienne Michaux, Director of SDG Impact at the United Nations Development Programme.

Private sector investors

Private sectors investors see the main benefits of the Standards in terms of their **connection to the public sector**. If compliance with the Standards is seen as a **sign of quality**, this could enable private sector investors to **access public funding** and enter into **blended financing vehicles**, thus offering **material value**. However, since DFIs have a history of leadership in this area and are often the arrangers of projects and finance, the Standards first need broad adoption and dissemination by DFIs before they can become truly relevant for private sector investors

Provided DFI buy-in is secured, the OECD-UNDP Standards could engage new private sector investors in **mobilising additional resources** for development. Standard 1, “Strategy”, is important to help organisations embed impact into their overall mission and purpose. Likewise, Standard 4, “Governance”, which includes how decision making is organised within the organisation, including incentive structures, and roles and responsibilities, is particularly useful as limited guidance exists so far on this important topic. Standard 3, “Transparency”, further strengthens the need for transparency also on governance which is necessary to avoid impact washing. However, more detailed guidance is still needed to help particular actors understand how to improve on Standard 4, “Governance”.

“Market practitioners will find this type of guidance useful because it aggregates existing market best practice into one consistent framework, and this is even more the case for those that were not exposed to these topics previously.”

Nadina Stodiek, Senior Impact Manager at BlueOrchard.

However, **without clear incentives**, it is unlikely that private sector investors will implement the Standards. For many, they will not be implemented unless there is some sort of verification and disclosure statement (as is the case for OPIM (OPIM, n.d.^[24])), directory or ranking (as in the Transparency Index) (Publish What You Fund, 2020^[25]).

A practical issue regarding the implementation of the Standards is that they do not follow the typical investment process of an investor (as is the case for the OPIM). For example, Standard 1 pays particular

attention to certain sectors, but also additionality, and ESG screening, but these are concepts that are relevant at different stages in the investment process. For example, investors will define which sectors to invest in as part of developing the investment strategy, and they will assess their additionality during due diligence when it becomes clear if there are other funders involved.

Partner governments and CSOs

The Standards set a high bar with regards to ensuring investment projects **comply with human rights and environmental regulations**, Compliance with the Standards can work as a **quality stamp** of DFIs and private investors. Partner organisations especially value the cross-cutting theme of **Stakeholder Consultation** so that the voice of local communities is incorporated in the design, implementation and evaluation of programmes. According to interviewees, what often happens in development projects is that corporate needs are being prioritised rather than community needs. When investments are made, there tends to be a focus on access to new markets, infrastructure and raw materials for corporations. **Transparency and accountability** are key for local populations and are reflected not only specifically in Standard 3, but throughout IS-FSD. More broadly, some interviewees questioned the use of Standards vs. Regulation, commenting that Standards, as soft-law, are difficult to enforce.

“A concern that civil society has is that, when we talk about Standards, there is not a huge role envisaged for developing country governments partners. The dynamics are heavily skewed in favour of governments, DFIs, but also private actors. Within that space, you do not see a heavy input/presence of civil society actors. They might comment but they are not involved in the strategy level “

Farwa Sial, Senior Development and Advocacy Officer at Eurodad

4 Implementation of, and compliance with IS-FSD

Interviews revealed two overarching concerns regarding the Standards: ease of implementation, and incentives to comply. Various suggestions and recommendations emerged, here grouped into policy measures and practice recommendations.

Policy Measures

- OECD-UNDP Standards could be included more explicitly in development policy. By extension, donors, as DFI shareholders, could formally integrate the Standards into DFI mandates. The Standards could also be integrated in assessment and evaluation tools that DFIs use for IMM.
- Compliance with the OECD-UNDP Standards can serve as a prerequisite for private investor access to public funding, or indeed in the case of DFIs, capital injections. Publicly-funded investment programmes can be designed to include compliance with Standards, providing DFIs and private investors with concrete incentives to comply.
- Capacity building on IMM and ESG practices should be encouraged to help less developed DFIs and private sector investors to comply with Standards.
- Gradual compliance with the Standards may be advisable to encourage a “learning journey” rather than excluding less developed actors.

Practice recommendations

- Develop guidelines that show different types of actors how to implement the Standards, according to their specific work process (e.g. how to integrate into the investment process for impact investors).
- Publish cases and examples demonstrating how to implement the Standards – including different learning journeys according to size, experience, resources at hand, etc. The OECD is already working on this (see Box 4.1 below).
- Regarding publication of cases, make an explicit effort to include examples from LDCs via the planned pilot studies for greater adoption (c.f. OECD’s work below).
- Continue collaboration with the Impact Management Platform to publish guides that demonstrate how Standards compare with other tools and Principles that organizations are familiar with, a need previously identified by the OECD and detailed in the Box below, to facilitate implementation and harmonisation.
- Translate to multiple languages and collaborate with platforms such as the Global Partnership for Effective Development Cooperation (GPEDC) and the Global Steering Group on Impact Investing

(GSG) who have reach, and the country offices of the UNDP. Organise complementary webinars to disseminate more widely.

- Provide recommendations on how much budget should be allocated to IMM and encourage smaller DFIs and asset managers to get started.

Box 4.1. Current Initiatives to Facilitate Implementation of the OECD-UNDP Impact Standards for Financing Sustainable Development

The OECD is currently working on Detailed Guidance Notes for each of the four OECD-UNDP Standards, with a view to supporting organisations to move towards practical implementation. Most importantly, the Guidance Notes include “success signals”, i.e. concrete actions to be used for self-assessment and to indicate compliance. The Guidance also expands on potential levels of compliance according to different criteria (i.e. sector, geography, size of the investor/investee/ project).

Linked to this, OECD is currently working with select DFIs and asset managers to map their existing impact management practices against the OECD-UNDP Standards and associated success signals. This will help populate the Guidance with concrete examples of good practice, and provide additional feedback on the formulation of the aforementioned success signals.

Finally, in order to test the conceptual design of the Standards against reality on the ground, the OECD plans to pilot the application of IS-FSD. These pilot studies aim to (i) test the applicability and implementation of the Standards in different contexts and (ii) support donors, DFIs and private sector partners in improving the measurement and management of the development impact of their investments, (iii) improve the dialogue between donors and DFIs/private sector partners on the development impact of investments.

The stakeholders interviewed also recommended that the OECD to consider ways of encouraging compliance, including public disclosure statements, development of rankings that show how well DFIs and impact investors comply with the standards, and/or external assurance or verification processes. Two approaches in particular are interesting to consider; those of the IFC OPIM and the UNDP SDG Impact Standards, as detailed below.

OPIM: Provide a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle (OPIM, 2019^[12]). Both DFIs and private sector investors are increasingly adhering to these principles, which require a disclosure statement and periodical external verification of compliance.

“Because people do not necessarily have the resources, we didn’t over-specify who should do the verifications and how they should be undertaken. OPIM don’t want to get into too much prescription about how to do it; the institutions working in this space are too disparate. “

Neil Gregory, Chief Thought Leadership Officer, IFC

UNDP SDG Impact Standards: The mission of the initiative is to catalyse private sector investment towards the Sustainable Development Goals. The SDG Impact Standards are internal decision-making standards with an assurance framework and a seal. The governance and minimum requirements are under development, with the following characteristics:

“We designed the SDG Standards as best practice Standards, understanding that no one will meet all of them in full. What we wanted to do was provide the North Star on where we need to head, this is the end point we need to get to, in order to create a system to create sustainability and achievement of the SDGs. “

Fabienne Michaux, Director of SDG Impact at the United Nations Development Programme

Table 4.1. OPIM compared to UNDP SDG Impact Standards

	OPIM	UNDP SDG Impact Standards
Applicability	Applicable to a wide range of institutions and across a wide range of asset classes	SDG Impact Standards for Enterprises, Bond Issuers and Private Equity
Level of prescriptiveness	Organisations have discretion regarding how they implement the Principles	Supported by a glossary, Standards guidance, and user training conducted by accredited trainers
Verification/Assurance and degree of compliance	Compliance or non-compliance is verified. There is an external, periodical verification of the compliance with the Principles.	An open source approach for accreditation and training for assurers, and a quality control process by the external secretariat, and an external complaints mechanism
Guidelines regarding verification/assurance	External consultants with loose guidelines provided by the OPIM secretariat.	Assurance framework is consistent with the Standards, but sets minimum thresholds that are lower than what is set out in the Standards. Repeated every two years and need to demonstrate continuous commitment and progress towards best practice in line with the Standards
Who performs verification/assurance?	Specialised consultants have emerged, with own methodology. Canada has created a peer to peer system for conducting verifications.	Trained, external independent assurers to deliver the assurance

Source: Author

Clearly, there are pros and cons of each implementation approach. OPIM is less prescriptive about the implementation of the principles and leaves it open to the market who performs the external verification and how this is done, factors that may have favoured its rapid adoption. However, some interviewees expressed a concern with the emergence of private sector actors developing black-boxed, proprietary methodologies of verification that do not provide grounds for comparison.

“It is great to see the market advancing towards verification of practice, and hopefully soon, of results as well. As the verification market evolves, it would be ideal to see providers coming together to develop standards or methodologies to conduct verifications and to arrive to a point where the methodology itself is a public good. The real value-add of impact verification providers is not a bespoke methodology, but their expertise and ability to advise clients on how to best implement the findings from the verification”

Leticia Emme, IMM Managing Director, DFC

UNDP, on the other hand, has co-developed a Coursera course⁶ to help users and assures to implement the Standards, and is developing an **open-source** approach to assurance with trained assurers and a quality control process. There will be a separation between consultation and advisory from assurance to ensure proper governance and avoidance of impact washing. For the Standard-setter, the UNDP approach is costlier and may lead to a slower adoption, but there is a greater degree of quality control, potentially enhancing the integrity of impact.

⁶ <https://www.coursera.org/learn/impact-for-sdgs>

5 Challenges and future vision

This chapter looks at issues raised by our interviewees on sustainable investment in developing countries, and proposes a vision of the future if the IS-FSD were to be implemented.

Challenges around IMM and Development Finance

The biggest gap for actors at large and the first step for implementing the Standards is often shifting and aligning mind sets around the need to centralise sustainability and impact at the core of business purpose. Private sector processes are most often not “fit for purpose” when it comes to managing for impact. Many investors are managing ESG risks in terms of thinking what is the materiality of people and planet on their financial returns, instead of what is their impact on people and planet. They see ESG as a way of mitigating their own financial risk, rather than considering the risk to the stakeholders that they are impacting⁷. Moving from a risk-return perspective to a risk-return-development impact outlook requires a shift from a risk centred management strategy to development impact creation as the primary business objective, which simultaneously strives to mitigate ESG risks. It also makes it more pertinent to measure impact when it is seen as value-enhancing as opposed to a reporting burden.

Furthermore, there is an inherent tension between sustainability and development. Whereas more developed countries are embracing sustainability and ESG, policies that tie funding to ESG thresholds may have the perverse effect of reallocating capital away from developing economies that are unable to meet stringent ESG requirements, due to both lower ESG compliance and poor data quality. Thus, an unintended consequence of strict IMM and ESG reporting requirements may be that countries and organizations that are least prepared will receive lower amounts of funding, removing a key goal of the SDGs of delivering impact to the neediest. Development finance should include both proactively supporting impactful projects while enabling these to comply with ESG criteria.

“Expectations of DFIs have changed immensely since 2015 – they are expected to go into very difficult markets and transform them. At the same time, they are also expected to mobilise billions from institutional investors – there is tension on many levels between those objectives.”

Samantha Attridge, Senior Researcher, Overseas Development Institute.

Inter-dependency elements of the SDGs are often not considered, and investors use the SDGs as aspirational. Policymakers and practitioners do not necessarily think about the negative consequences or unintended outcomes, also because they are difficult to anticipate and measure. It will be important for organisations working in development finance to take a holistic approach to the SDGs, considering how they interact with others and collaborate to achieve broader impacts.

“We now recognize sustainability as a macro-economic concept; and all large macro-financial actors (e.g. ECB) have started referencing sustainability systematically, in particular climate change. However, we still need to work on moving from words to action.”

⁷ The issue of double-materiality is beyond the scope of this paper. However, readers who would like to know more can refer to (Adams et al., 2021^[27])

Sony Kapoor, Managing Director, Nordic Institute for Finance, Technology, Sustainability & Society.

Donors and civil society organisations, are calling for increased transparency including actual data on ex-post impact. Investors are now demonstrating and comparing IMM practices, but it is not yet possible to compare impact performance. The market needs to start looking at results in order to gauge whether or not the needle is moving on the SDGs. The SDGs are so varied and tend to be framed at macro level, which implies that they need to be “translated” at the level of companies in order to be usable as a measurement framework. Yet we start with the assumption that the measurement, benchmarking, and comparison of outcomes at organisational or project level is possible.

“The biggest challenge is lack of benchmarking. There are in a never-ending argument with the financial people. Accounting has risk registers, and benchmarking. This is lacking in the impact world, which makes it hard to achieve understanding with the finance people.”

Sean Turnbull, International Assistance Innovation Programme (IAIP) the blended finance pool of funds within Global Affairs Canada

DFIs may be averse to more high-risk projects for fear of potential reputational risks and associated negative publicity. Some DFIs mentioned that they need to be able to explain to stakeholders when an investment has sub-optimal financial returns, even when the project is achieving positive development impact. At the same time, there is pressure on those DFIs that do not have any failed investment in their portfolio, as they are seen as likely not taking sufficient risk. The media does not yet give organisations the time and space to pursue the more high-risk, potentially impactful investments that will likely only produce results over longer time periods. Closely linked, here is a fear of harming the investee by publishing results, but some funders such as the Global Innovation Fund include clauses that enable investees to disclose data without being penalised for potential poor performance.

“The truth is that DFIs rarely ask for this kind of disclosure; too often they use boilerplate contracts and Non-Disclosure Agreements. Judging by their investment processes and contracting tools the priority appears to be far more about financial returns than it is about a positive developmental impact.”

Gary Forster, CEO of Publish what You Fund

Many DFIs have difficulty combining ex-ante and ex-post impact evaluations. The reasons for this vary; sometimes different teams are in charge of these evaluations, using different criteria. They might also be reticent to make projections about impact that they will later be held accountable against. However, unless investors measure impact ex-ante, they cannot make projections, and without projections and objectives they will not know if the investee is on the right track.

“We need to measure change rather than collecting data on static metrics.”

Samantha Attridge, Senior Researcher, Overseas Development Institute

Furthermore, the incentive structures are still heavily geared towards financial returns. That is why governance is a key issue going forward. Incentives should also be tied to their development additionality, a term that is included in the Standards but seldom properly implemented by DFIs.

Future vision – if Standards are implemented

There is a general perception that if properly implemented, the OECD-UNDP Standards can raise the minimum level of impact measurement and management in development finance – which, in turn, could serve to contribute more meaningfully to the SDGs. IMM is not just about measurement tools. Development finance actors are encouraged to leverage the Standards to think more holistically about the impact they are having and potential roadblocks.

If actively adopted between now and 2030, the benefits of the OECD-UNDP Standards would be significant. The OECD is considered a neutral, trustworthy party without a hidden agenda. Therefore, donors can effectively mandate the implementation of the Standards to put pressure on DFIs and private sector investors.

It is important to keep in mind that the Standards are useful to shape the boundaries of what sources of finance can be considered to have a real development impact, which may help prevent “impact washing”. However, the Standards also initially serve to create barriers that exclude actors who might consider it too costly to comply. They might also exclude those that are unable to comply, due to lack of resources, such as partners in developing countries. It will thus be necessary to distinguish between these two categories of actors, and support those who would like to comply but are unable to do so. DFIs have worked successfully in the past with private sector actors to drive adoption of the OPIM and other impact-related standards.

“What DFIs have been doing is initially recruiting private equity fund managers that they finance as DFIs to try and get them to align with the Principles [OPIM]. IFC and EDFIs have maybe financed 1000 investment funds in developing and emerging economies. This could also work in the OECD setting; if you get them to adopt the Standards, it can help drive the transformation of these institutions to become more impact orientated. These are often financially motivated institutions.”

Soren Andreasen, CEO of EDFI – the Association of European Development Finance Institutions.

As we push towards greater standardisation of IMM, it will be important to **normalise and mainstream** these practices, without jeopardising the integrity of impact.

“Standardisation of rigorous impact measurement and management practices will eventually reduce costs. We need to embed these aspects as normal, and part of standardised business. This will lead to broader adoption without compromising quality and credibility.”

Alessandro Maffioli, Chief of the Development Effectiveness Division at IDB Invest

The Standards represent a common framework of expectations around transparency and accountability when it comes to the use of public money. For the public sector, the Standards can act as a due diligence checklist in deciding whether to work with private sector actors. For the private sector, the Standards can provide guidance on the terminology and approach needed to secure public funding. Ultimately, the Standards can help public sector actors collaborate more effectively with the private sector and mobilise much-needed finance to the people and places in most need

The transparency encouraged by the Standards could improve knowledge transfer between donors and DFIs. DFIs know the reality on the ground in developing contexts whereas donor organisations may be thematic experts on issues like gender equality or climate change. Increased transparency and openness could lead to greater learning so that policy topics can be properly comprehended and prioritized by DFIs and impact data can reach donors and inform policy. The Standards emphasise the need to involve stakeholders in the communities where projects are financed which could lead to a better understanding of the needs and better targeted solutions.

“The DFIs gather a lot of information on the enabling environment in the country. For instance, what are the challenges the private sector faces in that country, and what are the working conditions. We can use that kind of knowledge to inform traditional development cooperation, for example when providing development assistance to strengthen the institutional capacity and regulatory framework of a country.”

Anna Holmryd, Ministry of Foreign Affairs Sweden

A big obstacle to mobilising capital is the scale of transactions and volume of investments. Most capital is managed by large institutional investors that do not have the bandwidth to explore individual co-investments with DFIs. The more we can **standardise investment processes**, the easier it is to aggregate

assets, facilitating securitization, reducing transaction costs and thereby **mobilising capital**. Large actors (IFC, British International Investment (BII), IADB) have in place impact systems that are advanced and that fit their scale. The Standards have the potential to harmonise IMM and ESG practices across public and private investors. However, in order to bring in the smaller actors and broader development community, including those in developing countries, we need to make sure that also partners in developing countries can engage in this space. This can be done through the provision of capacity building in the form of trainings or resources for alignment. Another barrier to mobilising capital is that DFIs, despite having local presence and ability to conduct smaller deals, often target larger deals where their additionality is lower.

“We need more transparency to understand to what extent DFI investments are crowding in rather than crowding out other forms of finance. It’s common knowledge that DFIs are often competing for the same deals, making repeat investments, or co-financing with one another. We don’t see so much investing in smaller organizations, women-led organizations, locally led organizations, i.e. organizations that are perceived to carry more risk. We know that the private sector is eager to have DFIs move out of the traditional investment space in order to focus on earlier stage, higher risk investments which can fill the pipeline and later the BlackRocks or Allianz’s of this world can come in to help these organizations grow. “

Gary Forster, CEO of Publish what You Fund

Blended finance when effectively used can de-risk private capital, potentially enlarging the ODA pie. However, if not properly structured, sometimes blended finance can divert concessional donors’ resources from aid to social sectors, without achieving a real development impact. Given this risk, we need principles supported by Standards to assess whether that diversion is right and impactful. Public funding has been important to building sectors in developed contexts and we need to **understand the value-add and the risks of involving private sector actors in development finance**. The Standards if implemented could be an important tool in facilitating this understanding.

“The dangers of over-subsidizing the private sector for no particular impact is huge. There needs to be much more competition in access to blended finance. So that the private sector really has to compete, demonstrating that they are maximizing impact in relation to the subsidy. Clear measures of impact relative to cost – could be a principle of blended finance. “

Nancy Lee, Senior Policy Fellow at the Center for Global Development

Thinking about impact holistically and considering both positive and negative consequences of activities are crucial recommendations. It is impossible to come up with completely ethical and viable measurement of impact. Often, the development community gets so lost in the detail that we forget the reality on the ground. The very best we can hope for is to design institutions, incentives, processes, staffing - that point in the right direction. The Standards provide a roadmap for development finance to move in this direction.

Ultimately, we need to submit any measure of implementation to the following question:

“How will this serve to increase the flows of capital to the countries, sectors and people currently “left behind”?

Annex A.

Table A.1. List of interviewees

Name	Organisation	Interview Date
Sony Kapoor	Nordic Institute for Finance, Technology, Sustainability and Society	23/11/21
Sean Turnbull	Global Affairs Canada	02/12/21
Leticia Emme	DFC	10/12/21
Gary Forster and Paul James	Publish What You Fund	10/12/21
Nancy Lee	Center for Global Development	10/12/21
Soren Andreasen and James Brenton	European Development Finance Institutions	09/12/21
Nadina Stodiek	Blue Orchard Finance	15/12/21
Anna Holmryd	Ministry of Foreign Affairs Sweden	16/12/21
Jiten Yumnam	Secretary of the Centre for Research and Advocacy Manipur (CRAM)	21/12/22
Farwa Sial	Eurodad	24/01/2022
Alessandro Maffioli	IDB-Invest	25/01/2022
Fabienne Michaux	UNDP	07/02/2022
Neil Gregory	IFC	08/02/2022
Samantha Attridge	ODI	17/02/2022

Figure A A.1. OECD-UNDP Impact Standards for Financing Sustainable Development

Standard 1 - Impact strategy

The partner sets development impact objectives, framed in terms of the SDGs, with particular attention to the overarching commitment to “leave no one behind”. Objectives are aligned with donor and partner country priorities and are embedded in the impact-centred investment strategy.

1. 1 The partner articulates both quantitative and qualitative development impact objectives that positively contribute to the SDGs, and cross-sectoral donor priorities. The goals are realistic but ambitious, and are aligned with the partner size and resource availability.
1. 2 The partner defines investment objectives that are coherent with local democratically owned development priorities and grounded in local development needs. With a focus on creating decent work, investment objectives respect human rights, as well as other social and environmental safeguards
1. 3 The partner develops and implements a policy for assessing financial and development additionality, aligned with its size and resources availability.
1. 4 The partner optimises the integration of Environmental, Social and Governance (ESG) factors in the investment strategy and throughout the investment process.

Standard 2 - Impact management approach

The partner adopts an impact management approach that integrates development impact, human rights safeguards, the SDGs and ESGs into the design and management of its operations.

2. 1 The partner assesses the investment's compliance with local and international legal frameworks, including international human rights frameworks, when conducting both the due-diligence and ex-post impact assessment of investments. The partner also establishes criteria for investees' integration of ESG factors and compliance with responsible business conduct (RBC) standards. The partner ensures that an independent functioning grievance and reparation mechanism is in place.
2. 2 The partner has effective processes to identify stakeholders affected (or likely to be affected) by its operations and implements a plan to conduct Meaningful Stakeholder Engagement ex ante, throughout the investment cycle (when circumstances change or when needed) and ex post.
2. 3 The partner has a monitoring and evaluation system in place that is used to assess progress against impact targets and portfolio level impact goals, identify the partner's contribution, and to identify areas for improvement. Adequate resources are provided for monitoring and evaluation, proportionate to the size of the investment.
2. 4 The partner manages its exits from investments in a manner that optimizes sustained effects on development impact and contribution towards the SDGs post-exit.
2. 5 The partner periodically reviews and refines its impact-centred investment strategy and impact goals based on the learnings and evidence collected through monitoring and evaluation to guarantee that the impact strategy and goals remain fit-for-purpose in the changing development context.

Standard 3 - Transparency and accountability

The partner discloses towards donors and beneficiaries how it manages and measures the development impact and contribution to the SDGs of the private sector operations deploying public resources, as well as how development impact is integrated in its management approach and governance practices.

3. 1 The partner discloses information at the portfolio and, where feasible, individual operation level, that promotes SDG and ESG impact integrity, comparability and transparency towards the donors and relevant investment stakeholders with a view to building trust and confidence.
3. 2 The partner discloses to donors and other relevant stakeholders, at the portfolio and, where feasible, individual operation level, the sources of data used for both the ex-ante and ex-post assessment of development results and for monitoring.

Standard 4 - Governance

The partner's commitment to contributing positively to the SDGs is reflected in its governance practices and arrangements

4. 1 The partner engages actively its shareholders, based on its governance structure.
4. 2 The partner ensures the presence of impact management competences in its governing bodies, promoting a culture of learning and development.
4. 3 The partner incentivises its staff to embed impact considerations at all investment stages and decision-making levels, to facilitate the adoption of the impact-centred strategy and approach.
4. 4 The partner allocates adequate (financial and non-financial) resources to the development and implementation of a sound impact management process.

Source: (OECD-UNDP, 2021^[1])

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