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OECD UNDP Impact Standards for Financing Sustainable Development

Implementation Guidance Note for Standard 1 – Impact Strategy

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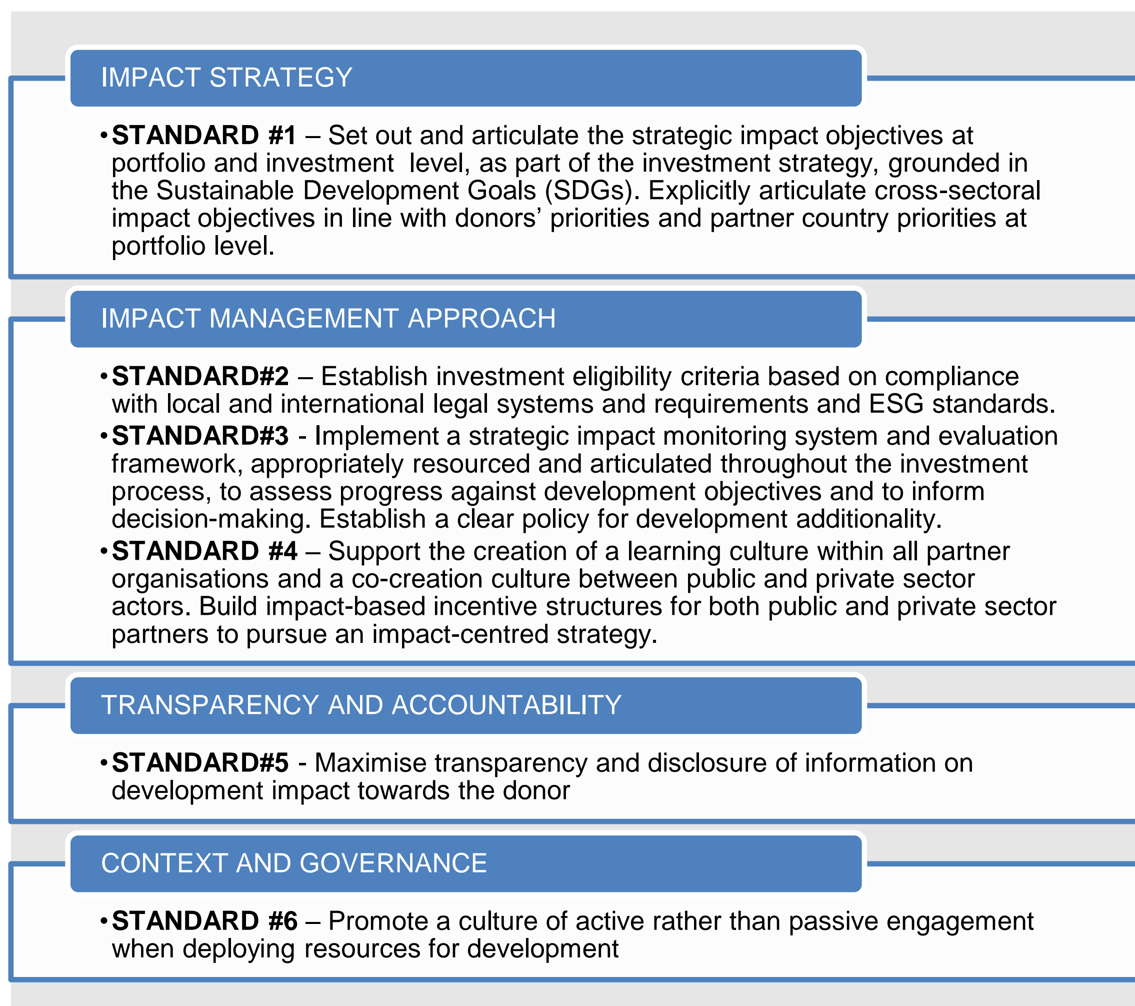
Figure 1. Four parts, six standards



Consultation process

On 26 March 2021, members of the OECD Development Assistance Committee (DAC) officially adopted the OECD-UNDP Impact Standards for Financing Sustainable Development. Therein, Standard 1 is dedicated to development partners' impact strategy.

This document presents the accompanying Detailed Guidance note for Standard 1 and was developed by an OECD team comprised of Priscilla Boiardi and Esme Stout, under the oversight of Paul Horrocks and Haje Schütte. The Detailed Guidance Note for Standard 1 benefited from the senior strategy review of Fabienne Michaux, Director UNDP SDG Impact.

Like the Impact Standards for Financing Sustainable Development (IS-FSD) themselves, the Implementation Guidance Note for Standard 1 was developed through a process of multi-stakeholder and consensus seeking consultation. Originally presented as a draft during a dedicated meeting of the OECD DAC Community of Practice on Private Finance for Sustainable Development (CoP-PFSD) on 1 July 2021, a public online consultation followed, spanning 2 July – 30 September 2021. Both the presentation and the subsequent online consultation enabled development finance and impact communities, including donors, development finance institutions (DFIs), asset managers, civil society organisations (CSOs), experts and other relevant stakeholders, to provide their comments and insights. As a result, this document reflects the comments and feedback received throughout the process.

The Detailed Implementation Guidance will remain a living document that the Secretariat will update in the future to reflect new developments in impact measurement and management, other best practice examples and research. Readers are invited to send feedback and comments to dcdpf4sd@oecd.org.

Introduction

On March 26 2021, the OECD Development Assistance Committee (DAC) approved the **OECD-UNDP Impact Standards for Financing Sustainable Development** (henceforth referred to interchangeably as "IS-FSD" and "the Standards") (OECD/UNDP, 2021[1]). The Standards provide a framework that aims to assist donors, development finance institutions (DFIs) and their private sector partners seeking to optimise their positive contribution to the sustainable development goals (SDGs), promote impact integrity and avoid impact washing.

The Standards constitute a best practice guide and self-assessment tool; they are provided as a public good, free for any organisation to use. Applying the Standards allows organisations to reduce the risk of making sub-optimal decisions.

This draft **Detailed Implementation Guidance** accompanies the Standards. It is intended to enhance meaningful alignment with the Standards themselves by providing clear and instructive guidance. In particular, the Guidance aims to support organisations in the process of revising their strategy, management approach, governance systems and transparency policies, and make them fit for achieving development impact and the SDGs.

Aligning organisational practices to the Standards allows organisations to take decisions that maximise the impact of their investments, by improving its impact measurement and management (IMM) approaches. In particular, organisations that align their practices to the Standards:

- Set ambitious and rigorous goals for their expected impact and for that improvement.
- Understand that sustainable development means increasing people's well-being.
- Understand what "measuring for decision making" means.
- recognise of the risk involved in making a decision and risk in not making decisions.
- Strive for continuous improvement.

The OECD-UNDP Impact Standards for Financing Sustainable Development are part of a broader set of Standards developed by the UNDP SDG Impact team (UNDP, 2021[2]).

The Detailed Implementation Guidance is composed of **four Guidance Notes**, one per each Standard. This document constitutes the draft Guidance Note for Standard 1 – Impact Strategy.

Overall structure of the Detailed Implementation Guidance

The Detailed Implementation Guidance is articulated around the four Impact Standards (illustrated in Figure 2). Each Standard is accompanied by 3 to 5 sub-Standards, elaborating in further detail the provisions made by each Standard[1].

Figure 2. The OECD UNDP Impact Standards for Financing Sustainable Development (IS-FSD)

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.

STANDARD 2 - IMPACT MANAGEMENT APPROACH

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

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.

STANDARD 4 - GOVERNANCE

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

Note: For the purpose of these Standards, "partner" refers to any organisation deploying public or public/private capital through debt, equity or mezzanine instruments, as well as guarantees and other unfunded contingent liabilities for investments contributing to the SDGs. When a donor is investing directly, the "partner" is the donor itself.
Source: (OECD/UNDP, 2021[1])

Each Implementation Guidance Note document, prepared for each Standard, provides a short introduction to each Standard, highlighting several key issue areas that are relevant for each. **Standard 1** pays particular attention to: (i) climate, (ii) gender, (iii) decent work and high quality jobs, (iv) local stakeholder engagement, (v) additionality and (vi) ESG screening and integration.

For each **sub-Standard**, each detailed guidance document provides:

A. **Success signals** – Grounded in concrete actions that the partner can take, "success signals" are designed to be used as part of mandatory self-assessment, and indicate the minimum requirements to meet operationalisation of the provisions made in each Standard and sub-Standard; **EXTRA** – where success signals indicate the basic operationalisation of the Standards, actions marked "extra" are available to those partners with the possibility (in terms of resources or influence on the stakeholders) to go the extra mile.

B. **Alignment Checklist –** this section provides a step-by-step questionnaire guiding partners through actions they can take to assess whether they adhere to the sub-principles.

C. **Useful Examples and Guidance –** In order to make the provisions of the success signals concrete, this section provides several examples of practice from different organisations, and Guidance from key sources. The practice examples seek to demonstrate different possible ways of aligning with the key elements of the sub-Standard.

D. **Anchor impact management principles** – Standards help put impact management principles into practice by systematising requirements and levels of quality or attainment. The impact management principles that relate to each sub-standard are thus presented for each of the sub-standards.

E. **Principles and Frameworks specific to this sub-Standard –** Each sub-standards is accompanied by references to existing frameworks that guide partners in the implementation of

the standards. In the spirit of the Standards, the Detailed Implementation Guidance does not aim to "reinvent the wheel", but to provide coherence to what already exists in the market, with the aim of guiding development finance practitioners in their journey to constantly improve their impact management (and measurement) practices.

The Detailed Implementation Guidance accompanies the joint OECD-UNDP Impact Standards. As part of the overarching Guidance, the OECD Secretariat is working with leading donors, DFIs and asset managers active in the impact management and measurement (IMM) space to provide institutional mapping **case studies**[2]. The case studies will be dedicated to examining how specific organisations integrate and align with the Standards. The case studies are intended to represent a first step towards understanding how the conceptual design of the Standards works in practice and contribute to the continuous improvement of impact management practices.

The Detailed Implementation Guidance will remain a **living document**, subject to future updates by the Secretariat to reflect new developments in impact measurement and management, other best practice examples, as well as incorporate new research, evaluation reports, and relevant knowledge.

Standard 1: Investment strategy – implementation guidance

This document constitutes the Implementation Guidance Note for Standard 1.

Standard 1, Impact Strategy, provides guidance on embedding impact consideration into an organisation's purpose and strategy.

More specifically, the sub-Standards of Standard 1 require the Partner to:

- *Frame* development priorities and objectives in terms of the SDGs, with the overarching commitment of leaving no one behind, and in line with respective donor and investee country priorities;
- *Set* investment priorities and objectives that are coherent with local democratically owned development priorities;
- *Possess* a policy for financial and development additionality;
- *Integrate* Environmental, Social and Governance (ESG) factors in the investment strategy and investment process.

These provisions are articulated in the four sub-Standards of Standard 1, which are presented in Figure 3

Figure 3. Standard 1: Impact strategy and sub-standards

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.

Source: (OECD/UNDP, 2021[1])

In this document, we take a deeper dive into Standard 1, focusing on several key thematic areas identified as more ambitious and challenging for implementing organisations to align with. In particular, we examine cross-cutting (i) climate and (ii) gender considerations, (iii) decent work and high-quality jobs, (iv) additionality, (v) local stakeholder engagement and human rights and (vi) environmental, social and governance (ESG) due diligence considerations. Below is brief contextual information illustrating why these particular areas have been selected.

(i) Focus on climate

The focus on climate comes in the context of huge institutional efforts to scale resources to fight the undisputed arrival of *the* most pressing existential threat to humanity. The World Bank estimates that the effects of climate change could push a further 132 million people into poverty by 2030 (World Bank, 2020[3]) Likewise, New Climate Economics Index predicts an 18% loss to global GDP if no mitigating actions are taken between now and 2050 to halt the global temperature rise of 3 degrees (New Climate Economics Index, 2021[4]).

In recent years, public policy actors have begun to develop structures to facilitate both the management, measurement and reporting of climate risks, as well as the ability to distinguish climate mitigation and adaptation activities from climate-detrimental ones. For example, 2020 witnessed the entry into force of the EU Taxonomy for Sustainable Activities, a foundational tool of the European Green Deal (European Union, 2020[5]). The Taxonomy itself helps economic actors assess their contributions towards environmental objectives, including climate change mitigation, climate change adaption, transition to a circular economy and protection of healthy ecosystems. While the EU Taxonomy is perhaps the most well-known, is applies to the European market only. However, globally, there are multiple jurisdictions seeking to establish their own taxonomies. For instance, the Task Force on Climate-related Financial Disclosures (TCFD) is gaining increasing wide-spread recognition (TCFD, 2021[6]). In light of these developments, the International Platform on Sustainable Finance established a working group in October 2020 to identify commonalities between different jurisdictional taxonomies (European Commission, 2020[7]).

The Capitals Coalition Natural Capital Protocols and Social and Human Capitals Protocols are the internationally accepted harmonized framework for identifying, measuring and valuing the impacts and dependencies on natural and social and human capital and outline a series of actions that will help organizations integrate sustainable development and impact management into management decision-making (Capitals Coalition, 2021[8]) (Capitals Coalition, 2021[9]).

Within this rapidly evolving landscape, there is scope for DFIs and MDBs to use the lessons learnt from the development of these taxonomies and adopt a more proactive approach, targeting climate adaptation and green growth. For instance, the 15 European Development Finance Institutions (DFIs) have substantially expanded their investments in climate projects; their combined climate finance portfolio reached EUR 9.3 billion at end-2018 (EDFI, 2020[10]). At the end of 2020, the European Development Finance Institutions (EDFI) association also publicly committed to achieve net zero emissions by 2050 (EDFI, 2020[11]).

(ii) Focus on gender-lens investing

Likewise, marked gender inequality continues to persist in the geographies where providers of development finance invest, with ripping effects for both the economy and the climate. That said, gender (alongside climate and decent jobs) is becoming one of the core impact reporting areas for development finance actors, as evidenced by the focus areas of the Joint Impact Indicators, a subset of HIPSO and the IRIS catalogue of metrics (GIIN & HIPSO, 2021[12]).

The effects of gender inequality are varied and cross-cut different sectors. For instance, there are currently huge gaps in access to agricultural resources due to gender bias and structural inequalities. Improving

women's equal access to agricultural resources can increase yields on farms on 20-30%, resulting in 100-150 million fewer hungry people, and more efficient land use (i.e. less deforestation) (Attridge, 2021[13]). Another key issue is the fact that 132 million girls are out of school and lack reproductive rights (UNICEF, 2020[14]). Investing in girls' education and family planning can equal USD 44 billion investment opportunity, and 120 gig tons of CO2 saved by 2050 (Attridge, 2021[13]). In a 'full potential' scenario, in which women play an identical role in labour markets to that of men, as much as 36% or USD 28 trillion could be added to global GDP (Attridge, 2021[13]).

The decision to focus on gender also follows the United Nations Framework Convention on Climate Change (UNFCCC) Gender Action plan, through which signatories recognised the importance of involving women and men equally in the development and implementation of national climate policies that are gender responsive (UNFCCC, n.d.[15]), and the 2021 G7 Summit Carbis Bay Communiqué, which highlights '"gaps in gender equality affect access to basic services, as well as decent work, equal pay, social protection, education and technology" (G7, 2021[16]). Looking forward, the EU's proposed social taxonomy is also taking into consideration gender-related issues in the context of the impact of economic activities on workers, customers and communities. In particular, the draft taxonomy refers to gender pay gaps, job-creation for women, as well as gender diversity across boards and senior management (Platform on sustainable finance, 2021[17]).

In line with the OECD DAC Development Guidance on Gender Equality and the Empowerment of Women and Girls, it is also important to note the theory of "intersectionality". This theory suggests that social identifiers such as race, ethnicity, faith, socio-economic status, class, caste, geographic location, age, ability, sexual orientation, migration status and gender combine-or intersect- to result in an individual's lived experience. Intersectional strategies encourage approaches that respond to the compounding dimensions of vulnerability and discrimination that must be considered to increase gender equality (OECD, 2022[18]).

For the OECD DAC Members working on inequalities that frequently intersect with gender, there are three key priorities: equality and rights of LGBTQIA+ individuals, women and girls who live with disabilities, and women and girls of ethnic and racial minorities.

Ultimately, partners should recognise that women and girls, as well as men and boys, are not homogenous groups. Policies and approaches should be developed or adjusted to equitably advance equality and the advancement of women and girls – and leave no one behind.

(iii) Focus on decent work and high-quality jobs

The Decent Work Agenda, which includes employment creation, social protection, rights at work and social dialogue, is a central pillar of the overall 2030 Agenda for Sustainable Development. The specific link between "Decent Work and Economic Growth" is enshrined in SDG 8 and its accompanying ten targets and speaks to the Agenda's overarching commitment to "leave no one behind" (United Nations, 2015[19]). Without doubt, the creation of decent jobs is a demonstrated key driver of development impact, as evidenced by the dramatic pre-pandemic decline of workers living in extreme poverty (Joint SDG Fund, n.d.[20]). Added to this, the 2016 Association of European Development Finance Institutions' (EDFI) flagship study found that the "most cited government policy goals for increased investment in EDFIs [were] job creation, growth and private sector development" (EDFI, 2016[21]).

However, the pandemic has quickly reversed hard-won gains in relation to quality jobs. For instance, 255 million full-time jobs were lost due to COVID-19 (four times the total number lost during the Global Financial Crisis) (ILO, 2021[22]). The pandemic also prompted the first increase in child labour (160 million) for almost two decades (UNICEF, 2021[23]).

Earlier this year, the International Labour Organization adopted a 'Global Call to Action', a comprehensive agenda committing countries to ensuring the recovery from the crisis is inclusive, sustainable, resilient,

and, above all, job rich (ILO, 2021[24]). This pledge towards a human-centred recovery, taken together with the SDGs, informs the rationale for the Guidance Note's focus on decent work and high-quality jobs.

As climate, gender-lens investing and high-quality jobs are the three central priorities for donors, the Guidance for sub-Standard 1.1 devotes particular attention to these areas.

(iv) Local stakeholders' engagement

Third-party impact verification provider BlueMark's most recent aggregated report indicated that only 11% of their client sample (equivalent to 30 investors) currently solicit input from local stakeholders (end beneficiaries) (Blue Mark, 2021[25]). Elsewhere, the 2021 edition of the ODI EDFI essay series underlines the need for consistent [local] stakeholder engagement throughout the investment process, highlighting this is crucial to building effective impact management and measurement systems (Attridge, 2021[13]).

Ensuring local stakeholder participation and engagement (including voicing opposition and raising concerns) is fundamental aspect of upholding human rights. However, as IFC's Position Statement on Retaliation Against Civil Society and Project Stakeholders notes, this is "increasingly challenging in the context of shrinking civic space, crackdowns on peaceful protestors, barriers to freedom of association, heightened fragility and conflict" (IFC, 2018[26]) in many of the geographies where aligning organisations invest.

Failure to include local stakeholders throughout the investment process risks a misalignment between project objectives, anchored in high-level international agreements, and the realities of needs in project-affected communities. For example, although many actors in the northern hemisphere are preoccupied with meeting climate objectives and goals, many people in the southern hemisphere still lack the basics, such as food security.

The pertinence of this topic is underlined by the development of the proposed EU Social Taxonomy, which, following broadly the same logic as its sustainable finance counterpart, will present an opportunity for the EU to reinforce norms within its borders via the implementation of a stakeholder-centric approach to indicate the positive and negative impacts companies have on workers, customers and communities, and manage the risks (Platform on sustainable finance, 2021[17]).

Given the central importance of this topic, the Guidance for sub-Standard 1.2 focuses specifically on this area.

(v) Additionality

Demonstrating financial, value and development additionality (also referred to as development impact) is a core aspect of the mandate of development finance providers (DCD DAC, 2018[27]). As the Center for Global Development emphasises "without additionality, any claim to development impact is irrelevant […] and suggests scarce public resources are being miss-deployed" (Kenny and Moss, 2020[28]).

Yet demonstrating how investments are additional, how they add distinct values and improve outcomes using a hypothetical counterfactual remains notoriously challenging in methodological terms. "Additionality" also remains a contested term in the development finance space, and a plethora of different organisational approaches exist across the industry (Winckler Andersen, Hansen and Rand, 2021[29]).

Given the central importance of this topic, the Guidance for sub-Standard 1.3 devotes attention to the subject of additionality with a view to helping aligning organisations to navigate this this space.

(vi) ESG screening and integration

Screening potential investees' ESG risk-management practices and making a plan on their improvement is crucial to guarantee that they can thrive in the long term. The Principles for Responsible Investment

(PRI) defines ESG integration as “the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions.” (PRI, n.d.[30]). Once again, the EU Taxonomy is an important tool that European organisations have at their disposal to facilitate integration of environmental (and social) considerations in their investment strategy (EU Technical Export Group on Sustainable Finance, 2019[31]).

It’s worth underling that the average lifespan of a Fortune 500 company is set to drop to just 14 years (Inc., 2016[32]). The companies who will survive, and indeed thrive, are those who understand the dynamic nature of materiality. Recent research from the Center for Sustainable Business (CBS) at NYU Stern shows that embedding environmental, social, and governance (ESG) criteria into business strategies is good for both the business and its stakeholders, as it can protect from risks, such as the ones brought about by the COVID pandemic (Whelan, 2020[33]). The author also argues that it is crucial to make sure that ESG integration into business practices is not just a reporting exercise, but that companies focus on ESG factors that have a material impact on their business performance. Research by Khan, Serafeim and Yoon found that firms with a good material ESG rating outperform those with lower material ESG ratings, indicating that drawing such a material/ non-material distinction is a worthwhile practice for investors (Khan, Serafeim and Yoon, 2015[34]).

Given the many advantages of ESG integration, and the importance to commit to high quality in the deployment of development finance (OECD, 2017[35]), the Guidance for sub-Standard 1.4 focuses specifically on this area.

Guidance on how to implement Standard 1: Impact Strategy

Box 1. 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.

Sub-Standard 1.1

The partner articulates both quantitative and qualitative development impact objectives that positively contribute to the SDGs. The goals are realistic but ambitious and aligned with the partner size and resource availability.

A. Success signals for mandatory self-assessment[3]

The partner:

1.1.1 Determines a strategy as to how it intends to contribute positively to sustainable development and achieving the SDGs, with particular attention to ensuring partner country ownership of the development targets, and the overarching commitment to "leave no one behind".

1.1.2 Works with partner country government to consider relevant cross-cutting social and environmental priorities including climate, gender investing and decent work (and associated international commitments such as the 2X Challenge and Paris Agreement), when developing its investment strategy. *(For more information, please see the following examples: (i) "Considering cross-cutting climate-related priorities when investing", (ii) "Employing technology to support gender strategy and reach local stakeholders", (iv) "Forward-looking gender strategies for the Goals" and (v) "Proactive investments in support of climate change commitments).*

> **EXTRA**[4]: When allowed by its fiduciary duties, prioritises development impact over financial returns
>
> **EXTRA:** Actively targets individual investments towards activities tackling climate change mitigation
>
> **EXTRA**: Pursues investments and projects that ensure a 'just transition' *(see the example "Just Transition Mechanism: the key to a human-centred COVID-19 recovery")*

EXTRA: Adopts an intersectional (combining gender, climate and diversity) strategic[5] approach to investment stakeholders

EXTRA: Prioritises allocation of resources to sectors that positively impact sectors that intersect the social and environmental nexus

1.1.3 Sets goals, targets, and relative impact metrics in the context of current baseline performance and desired outcome or threshold. The impact metrics are grounded in the SDG targets and indicators, but flexible enough to adapt to context as necessary. *(For information on practical implementation, see the example "More robust context analysis with emerging technology").*

1.1.4 When defining impact objectives, applies the OECD/DAC Network on Development Evaluation (EvalNET) definition of impact: *"the extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects"*.

1.1.5 Translates the impact intentions into appropriate portfolio and investment level impact objectives and targets, aligned to SDG-led donor objectives, ambitious but realistic *(see the example " Setting positive impact targets and thresholds that are ambitious but realistic" and the example on "Blue Orchard's COVID-19 Emerging and Frontier Markets MSME Support Fund").*

EXTRA: Articulates its impact intentions around the IMP Five Dimensions of Impact[6] and frames them using the Impact Management Project's (IMP) 'ABC' impact classifications, recognising that satisfying (A) is a precondition for satisfying (B) or (C).

1.1.6 Explicitly identifies potential (impact) risks that are relevant and significant for the sectors and countries it is active in, making use of existing analyses, research risk management tools as well as the lessons learnt from past investments and outlines specific actions to prevent and/or reduce all material negative outcomes in its direct operations and its supply and value chains (i.e. acting to avoid harm), in compliance with recognised international and national due diligence mechanisms.

EXTRA: Depending on degree of separation and capacity, undertakes, together with the investee, a joint thorough impact risk assessment at the ex-ante stage, centred upon those stakeholders set to benefit from the investment.

EXTRA: Produces a report detailing the anticipated overall net positive impact of the investment, including mitigation plans in case the impact risk is too high.

1.1.7 Provides incentives to investees and clients for the realisation of development impact objectives. *(See the example "Incentivising investees' and projects' impact focus").*

1.1.8 Determines the resources it intends to allocate to impact management and measurement, proportionate to its size and the size of the projects/investments supported.

B. Alignment checklist for self-assessment

Step 1: Define the strategy:

- How does the organisation contribute positively to sustainable development and achieving the SDGs?
- How does the organisation focus on "leaving no one behind"? Is it a part of the portfolio or all of it?
- How is the organisation considering the following cross-cutting priorities:
  - Climate change adaptation and mitigation
  - Gender-lens investing
  - Decent work agenda

- Can the organisation define its outputs, outcomes and impacts (based on the OECD/DAC EvalNET definition)?

Step 2: Set goals, targets and metrics:

- What are the goals linked to the organisations expected contributions? What are the targets? Which metrics are used to define and monitor the achievements of the targets?
- Are the goals and targets ambitious enough? Are they realistic?

Step 3: From portfolio-level to investment-level:

- How do the organisational objectives translate into investment-level objectives and targets?
- Are the goals and targets ambitious enough? Are they realistic?

Step 4: Risks:

- What are the potential (impact) risks that are relevant and significant for the sectors and countries the organisation is active in?
- How have the risks been identified (i.e. making use of existing analyses and research, risk management tools as well as the lessons learnt from past investments)?
- What are the specific actions that the organisations will take to prevent and/or reduce all material negative outcomes in its direct operations and its supply and value chains?

C. Useful examples and guidance

The examples listed below are illustrative, intended to highlight different organisational approaches to 'solving' some of the more challenging aspects of alignment with the Standards.

More robust context analysis with emerging technology

Technology like the Equilo Dash Tool, an interactive dashboard which aggregates and analyses large quantities of quantitative and qualitative data, can help organisations incorporate both intersectional and context-specific gender considerations into their investment strategies. The consolidation of information and clear country data sheets, graphs and domain analysis allows partner organisations to ensure that their cross-cutting social and environmental impact strategies are supported with relevant contextual information. The analysis provided by the Tool can help organisations minimise gender risks and optimise gender-related development impact, and enhancing its overall net positive impact (Equilo, 2021[36])

Considering cross-cutting climate-related priorities when investing

CDC Group recently developed a Gas Guidance Note, which contains a methodology for assessing the alignment of gas power with the Paris Agreement. It is applicable across both greenfield and brownfield investment opportunities, for both equity and debt investments (CDC Investment Works, 2020[37]). In other words, the approach allows to assess whether an investment in a natural gas power plant can be considered in line with 1.5 emission pathways. This is a useful tool for organisations seeking both low-cost options to invest in less advanced markets and to supplement more expensive renewables with gas until the storage price has fallen (Carter, 2021[38]).

Strategic transformational change aimed at achieved gender goals

The EU"s Gender Action Plan (GAP) III: An Ambitious Agenda for Gender Equality and Women's Empowerment in EU External Action provides the EU with a policy framework for accelerating progress towards meeting international commitments. The GAP III highlights that human rights-based and intersectional approaches, a gender-transformative approach is required to advance the effectiveness of

the EU's engagement of gender equality. To leave no one behind, the plan seeks to tackle all intersecting dimensions of discrimination, paying specific attention for example, to women with disabilities, migrant women, and discrimination based on age of sexual orientation. The interrogation of oppressive gender norms and power imbalances is highlighted as one of the key elements involved in addressing the root causes of gender inequality

The GAP also commits the EU to leading by example, and includes objectives around gender-balanced management, and that gender advisers or focal points are in place and trained.

IDB's commitment to gender and diversity

Within IDB's corporate structure, the gender and diversity division is tasked with promotion gender equality alongside the development of indigenous peoples, people with disabilities, afro-descendants and the LGTBQ+ population in Latin America and Caribbean.

Three strategic lines of action support this work:

- Support the integration of proactive actions to address gender and diversity issues in lending operations across the Bank's sectors
- Develop new initiatives with innovative approaches for advancing gender equality and diversity
- Generate data and evidence on what works to support future policies and operations

Collaborating with partner governments to achieve development outcomes: The EU in Morocco

The EU has a longstanding commitment to gender equality in Morocco, aligned with the Moroccan government's National Plan for Equality (PGE) since 2012 and conducted through a mix of modalities, including budget support, and accompanying measures, such as technical assistance and grants to non-state actors.

The use of budget support dedicated to gender equality, which entails a strong policy and political dimension, helped provide EU staff unique insights into the opportunities and obstacles to gender mainstreaming in policies and policy processes (e.g. budget formulation and execution). This led to an enhanced understanding of the opportunities to integrate a gender perspective throughout the EU's sectors of co-operation, and substantially contributed to enhancing

Just transition mechanism: The key to a human-centred COVID-19 recovery

Too often the climate agenda has been socially blind. This fact has been formally recognised in the international development architecture, in particular through the Solidarity and Just Transition Silesia Declaration at COP24, which states that "a just transition of the workforce and the creation of decent work and quality jobs are crucial" (COP24, 2018[39]) and the ILO Climate Action for Jobs Initiative. Co-led alongside Spain and Peru, 46 countries committed to develop "national plans for a just transition and create decent jobs" (ILO, 2019[40]).

Since 2020, the COVID-19 shock has presented an historic opportunity to move the just transition from concept to reality.

- In the context of the EU Green Deal, the European Union recently announced its Just Transition Mechanism. Pitched as a "fair transition to the climate-neutral economy, leaving no one behind", the tool aims to mobilise 150 billion euros over the period 2021-2027 (EC, 2021[41]). The intersectional strategy ensures the benefits of an environmentally sustainable economy are socially inclusive. It is linked to at least 14 of the 17 SDGs, and fulfils the Paris Agreement imperative "of a

just transition of the workforce, and the creation of decent work and quality jobs in accordance with nationally defined development priorities".

- Elsewhere, commitment to ensure the transition to a net zero economy "is just", by keeping the creation of decent jobs and skills development, is one of the three building blocks of CDC's Climate Change Strategy, launched in 2020 (CDC, 2020[42]). In practice, CDC have begun to identify green skills needed across priority sectors, in order to develop more targeted initiatives. For example, in the food and agriculture sector, CDC investment support agricultural workers to gain adaptation and resilience skills against extreme weather events. In addition to this, CDC are building on the green skills pilot programme developed with Ayana, the renewable energy company they established in India in 2017 (FuelCellWorks, 2021[43]) Through this pilot programme, CDC have supported the widespread training of infrastructure workers for new roles that are being created within the renewable energy sector. The DFI is also committed to integrating gender considerations in to the design of their skills programme, as an additional means of enacting an intersectional social and environmental strategy.
- Proparco, in their Economic and Financial Transition Strategy 2021-2025, state that "resource-efficiency, inclusion and resilience" represented the "three fundamental markers structuring their activities to support partners in developing new ways of producing, consuming and financing" (AFD, 2021[44]).

Setting positive impact targets and thresholds that are ambitious but realistic

Standard 1.1 calls on the partner to determine how it will contribute positively to the SDGs. In practice, this involves setting realistic but ambitious time-bound targets, determined in light of a baseline, accompanied by minimum thresholds. At the same time, it also involves considering the potential negative impacts of an investment.

First, the partner needs to set **meaningful targets** that are **concrete**, **measurable** and **time-bound**. the Such targets should be based on a clear **baseline**, calculated at the outset of the investment, and accompanied by **milestones**, which will be used to track the investee's/project advancement vis-à-vis the target. Without a clear timeline for the measurement of progress, the risk is for the targets to be a window-dressing exercise without clear managerial implications.

Second, the targets should look at the **(net) positive impacts** the investee/project is meant to achieve. Hence, for each investee or project the partner will need to try and calculate the *net positive contribution*, by taking into consideration all the positive and negative material impacts experienced by people and the planet, including those within the SDGs.

However, trying to estimate all the potential negative effects of an investment or a project on all SDGs is not practical. Partners have thus developed different approaches to identify the potential positive and negative, intended and unintended consequences that are **relevant** and **significant** for an investment or project in a specific context. The definition of which risks are relevant and significant for a specific investment can be based on research, as well as by asking stakeholders.

FinDev Canada, for example, has made a decision not to invest in any oil and gas operations. Therefore certain risks that are connected to potential environmental damage are less significant and relevant for its operations. However, for its investments in green energy, FinDev Canada is particularly careful to manage, among others, the risks associated with accidents in the workplace. Similarly, when investing in women-led MSMEs, FinDev Canada pays particular attention to the risks of owners being victims of domestic violence, as research shows women entrepreneurs are exposed to a higher risk than average.

Third, these targets should be both **ambitious and realistic**. This means they need to be based on rigorous analysis, so that the positive change is being made at a rate commensurate with planetary thresholds, scientific targets (where available), stakeholder expectations as well as SDG targets – and

taking into account variations in impact within and across stakeholders and sub-groups with a view to "leaving no-one behind".

In summary, a process to set targets requires going through the following steps:

1. Assessing current performance on each impact objective (establishing a **baseline**);
2. Estimating **thresholds** for each relevant impact, both positive and negative (based on scientific targets or stakeholders' expectations – see more below);
3. Setting targets over a **set period of time**, recognizing the need for targets to be above thresholds for each impact.
4. Determining the potential positive and negative, intended and unintended consequences that are **relevant** and **significant** for an investment or project in a specific context.
5. Sharing of targets with relevant stakeholders (including donors, other investors, investees, projects and – where possible – beneficiaries).
6. Developing a **monitoring** system to check the progress made relative to the targets over time (frequency should allow timely decision-making to take corrective actions as needed;
7. And agreeing on a process to adjust targets, that involves the right levels of decision-making (i.e., investment committees and Board);

There are three methods that can be employed to **establish thresholds** and **risks**:

- The first is grounded in natural or **social sciences**. Through research and empirical study, this method produces evidence to help organizations understand how their actions affect the people and natural resources they interact with (e.g., climate science).
- The second is grounded in **ethics**. This method looks to social norms for what is considered fair in society. These norms may be enshrined in law or formalized through institutions that have legitimacy in producing associated reference documents (e.g., ILO Conventions).
- The third is **stakeholder expectations**.

Partners should look to identify authoritative institutions that provide credible sources of thresholds and risks for the impact they are trying to measure. Where established thresholds and risks are not available, partners must determine them themselves. One option to inform the decision is through Stakeholder feedback, so that at least the perspective of the affected Stakeholder is included, and drawbacks of other methods can be mitigated (for example they are often historical and "universal" and may have entrenched bias, for instance, gender bias).

Partners may find that they have a choice between several credible thresholds. For example, when considering the outcome of income from employment, a partner might consider the national minimum wage, the national living wage, or a regional living wage. In such cases:

> *The partner should select the most ambitious threshold, so long as it is relevant to the affected stakeholder group.*

Partners may consider testing the relevance of thresholds through stakeholder engagement. It is important to note that setting ambitious thresholds provide incentives for continuous improvement even if reaching the target might take longer to achieve. It also increases the chances to find solutions that will be most impactful.

An example of a useful tool to set ambitious but realistic targets in terms of climate action is represented by the concept of "planetary boundaries", which define the environmental limits within which humanity can safely operate (Steffen et al., 2015[45]). Increasingly, science-based targets are being set and used by organisations to help them operate within planetary boundaries. Given that climate action is always material within the context of these Standards, the expectation is that Enterprises set and manage to

science-based targets – and interim targets – aligned with net zero by 2030 – taking into account that to achieve this outcome for the world, many countries and organizations need to arrive at this outcome sooner to enable a just transition for all.

A useful tool to identify relevant and significant risks is to look at **sector-specific guidance**[7], providing a holistic list of risks for a specific project or sector. References to the OECD's sector-specific guidance are expanded upon under Standard 2, Impact Management Approach.

Employing technology to support gender strategy and reach local stakeholders

As discussed in the 2021 ODI EDFI essay series, Finnfund recently used mobile technology surveying provider *Work Ahead* to assess their investment in New Forests Company (an East African forestry company), to gather data and assess the impact of their co-operation with women smallholder farmers. Over two weeks and using six mobile phones, the outreach consisted of a 10 minute video survey with 50 questions for 200 respondents. The survey was available in two languages and required no literacy skills (Uusihakala, Mooney and Mitchell, 2021[46]).

Forward-looking gender strategies for the Goals

- The Inter-American Development Bank has pioneered investment approaches with an intersectional equity lens (Attridge, 2021[13]).
- A forthcoming DEG and OeEB study aims to provide comprehensive gender-lens investing impact evaluation framework (Esponiza, 2021[47]). It will link the harmonised 2X IRIS+ impact metrics to gender-transformative indicators.

Proactive investments in support of climate change commitments

- Norfund's investment strategy is self-described as "closely aligned" with the SDGs. SDG 13, 'Climate Action' is cited as a cross-cutting priority. Within this, SDG 7 'Affordable and Clean Energy' is highlighted as the organisation's largest investment area, constituting almost half of their portfolio (Norfund, 2021[48]). Norfund's 'Climate Position Statement' details how climate change considerations inform their investment strategy: (i) investment in climate solutions (large-scale renewables, waste management and water solutions) (ii) integrate climate across investments (use role as owners to influence and support companies on climate), (iii) avoid fossil fuels and (iv) build climate resilience (adaptation by investing in LDCs and in sub-Saharan Africa). (Norfund, 2020[49]).
- FMO's 'Position Statement on Phasing out Fossil Fuels in Direct Investments' highlights that their investments are designed to contribute to particular SDGs, including SDG 13, 'adapt to climate change'. In order to deliver, both on this and their Paris Climate Agreement pledge, their portfolio is aligned with a 1.5 degree Celsius pathway. Like Norfund, FMO also invests in line with SDG 7 'Affordable and Clean Energy' (FMO, 2020[50])
- COFIDES 2019-2021 Strategic Plan entitled 'From Do No Harm to Do Good' underlines that the organisation sees its investment strategy as catalysing progress towards SDG compliance, which includes environmental and climate change concerns. As part of this, COFIDES is working with the EU on a Renewable Energy Guarantee Programme for sub-Saharan Africa, as well as the Green Climate Fund (COFIDES, 2019[51]).
- BIO's current investment strategy 2019-2023 dedicates capital (50 million EUR in 2020 alone) to climate change mitigation and adaption. The document also specifies that the organisation aims to deploy over 1 billion EUR to 'new high impact and sustainable projects' with a focus on climate change, alongside financial inclusion, agribusiness, health and education (BIO, 2019[52]).

Incentivising investees' and projects' impact focus

The partner needs to provide incentives to investees and clients for the realisation of the development impact objectives. The issue of incentives it is further elaborated in the Guidance Note for Standard 4 – Governance. However, in the context of Standard 1, it is relevant to mention that the partner should determine, as part of its impact strategy, how it will provide incentives for the organisations it support. Incentives are crucial to get the buy-in and commitment at the right level of the investee or project, normally the senior leadership of the organisation.

The way in which incentives are designed will largely depend on the type of organisation or project supported. In the case of the partner supporting a fund manager, for example, the discussion and negotiation of targets with senior managers early on can help ensure buy-in. In other cases, technical assistance can play a key role, especially when the issue is a lack of capacity in the investee/project supported.

To strengthen the incentives for the investee/project supported, the partner needs to make sure it is aligned with other investors and in particular with the lead syndicate of the project. Speaking with one voice at the right level can help investors drive the investee or project senior management towards understanding the importance of properly managing and reporting on impact.

Tight contractual agreements can also be used as a tool to push investees to manage for impact. However, these are less effective than a discussion and alignment with senior staff.

D. Anchor impact management principles

Operating Principles for Impact Management (OPIM) #1 "Define strategic impact objectives consistent with the investment strategy"" (OPIM, 2019[53]).

United Nations Environment Programme Finance Initiative (UNEP-FI) Principles for Responsible Banking #1 also mention that they will "align the business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the SDGs, Paris Climate Agreement and relevant national and regional frameworks" (UNEP-FI, 2017[54])

Global Impact Investing Network (GIIN) Core Characteristics of Impact Investing #1 states that investments should "intend to contribute to positive social and environmental impact". (GIIN, 2017[55])

OECD DAC Network on Evaluation (EvalNet) six evaluation criteria – relevance, coherence, effectiveness, efficiency, impact and sustainability – **and principles for use**. (OECD DAC Network on Evaluation, 2019[56])

E. Principles and frameworks specific to this sub-Standard

Table.1. Principles and frameworks specific to this sub-Standard that can guide in achieving the success signals of sub-Standard 1.1

Success signal	Relevant principles and frameworks
1.1.1 Determines a strategy as to how it intends to contribute positively to sustainable development and achieving the SDGs, with particular attention to the overarching commitment to "leave no one behind".	United Nations (2015) The Sustainable Development Goals (SDGs) (United Nations, 2015[19]) World Business Council for Sustainable Development (WBCSD) (2018), Sustainable Development Goals Sector Roadmaps: Leveraging The Power of Collaboration to Drive SDG impact, (WBCSD, 2018[57])

Success signal	Relevant principles and frameworks
1.1.2. Considers cross-cutting social and environmental priorities including climate, gender investing and decent work (and associated international commitments such as the 2X Challenge and Paris Agreement), when developing its investment strategy.	Convention on Biological Diversity (CBD) (2011), Aichi Biodiversity Targets, (CBD, 2011[58]) Global Impact Investing Network (GIIN) (2017) Core Characteristics of Impact Investing (GIIN, 2017[55]) Oxfam (2018) Women's Economic Empowerment Framework (OXFAM, 2018[59]) Small Enterprise Assistance Funds (SEAF) (2020) Gender Equality Scorecard Manual (SEAF, 2020[60]) Task Force on Climate-related Financial Disclosures (TCFD) (2017) Climate-related financial disclosure recommendations (TCFD, 2017[61]) The 2X Challenge (2018), 'The world's development finance institutions (DFIs) commit to mobilize $3 billion dollars to invest in the world's women' (2X Challenge, 2018[62]) OECD (2016), Handbook on the OECD-DAC Gender Equality Policy Marker (OECD, 2016[63]) United Nations (2015) The Sustainable Development Goals (SDGs) (United Nations, 2015[19]) United Nations (2015) The Paris Agreement (United Nations, 2015[64]) European Union (2020) EU Taxonomy for Sustainable Activities (European Union, 2020[5])
1.1.3 Sets goals, targets and relative impact metrics in the context of current baseline performance and desired outcome or threshold. The impact metrics are grounded in the SDG targets and indicators, but flexible enough to adapt to context as necessary.	Impact Management Project (IMP) (2016) ABC Framework (IMP, 2016[65]) Impact Management Project (IMP) (2016), Five Dimensions of Impact (Impact Management Norms) (2016) (IMP, 2016[66]),
1.1.4 When defining impact objectives, applies the OECD/DAC Network on Development Evaluation (EvalNET) definition of impact: "the extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects".	OECD DAC Evaluation Criteria – Impact (OECD, 2021[67])
1.1.5 Translates the impact intentions into appropriate portfolio and investment level impact objectives and targets, aligned to SDG-led donor objectives, ambitious but realistic.	United Nations (2015) The Sustainable Development Goals (SDGs) (United Nations, 2015[19])
1.1.6 Explicitly identifies potential (impact) risks that are relevant and significant for the sectors and countries it is active in, making use of existing analyses, research risk management tools as well as the lessons learnt from past investments and outlines specific actions to prevent and/or reduce all material negative outcomes in its direct operations and its supply and value chains (i.e. acting to avoid harm), in compliance with recognised international and national due diligence mechanisms.	Tri Hita Karana (THK) (2020), Impact Working Group Checklist for Assessing the Impacts of Blended Finance on the Poor (THK Impact Working Group, 2020[68]), OECD (2011), Busan Partnership for Effective Development Cooperation (OECD, 2011[69]) BC Council for International Cooperation (BCCIC) (2010), The Istanbul Principles on Development Effectiveness, (BCCIC, 2010[70]) OECD (2019), The Kampala Principles on Effective Private Sector Engagement (OECD, 2019[71]) IMP (2020), The 'risk' impact dimension' (IMP, 2020[72]) European Union (EU), (2021) Guidance on due diligence for EU businesses to address the risk of forced labour in their operations and supply chains **Invalid source specified.** EU (2017) Regulation (EU) 2017/821 – Conflict Minerals Reguation **Invalid source specified.** OECD, (2011), Responsible Minerals Due Diligence Guidance**Invalid source specified.** OECD, (2017), Child Labour in Minerals Supply Chains Due Diligence Guidance **Invalid source specified.** OECD, (2016). Agriculture Due Diligence Guidance **Invalid source specified.** OECD, (2017), Extractives Due Diligence Guidance **Invalid source specified.** OECD (2019) Financial Sector Due Diligence Guidance **Invalid source specified.** OECD (2020) The Alignment of Industry and Multi-stakeholder programmes with the OECD garment and footwear guidance **Invalid source specified.** OECD (2018) Methodology for the Alignment Assessment of Industry programmes with the OECD Minerals Guidance **Invalid source specified.**
1.1.7 Provides incentives to investees and clients for the Incentivises the realisation of development impact objectives.	
1.1.8 Determines the resources it intends to allocate to impact	

Success signal	Relevant principles and frameworks
management and measurement, proportionate to its size and the size of the projects/investments supported.	

Sub-Standard 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.*

A. Success signals for mandatory self-assessment

The partner:

1.2.1 Respects local country regulation and international regulation, such as the ILO convention 169[8] and IFC Performance Standard 2 on promoting fair treatment, non-discrimination and opportunities for workers. Respects the United Nations Human Rights Office of the High Commissioner (OHCHR) Guiding Principles on Business and Human Rights. In circumstances of conflict between international and local laws, strives to apply the higher benchmark while retaining respect for the rule of law. For instance, in the case that human rights requirements are prohibited by the local legal environment, it should contribute by lobbying the government to change.[9] *(For more information, see the examples under "Different DFI strategies to protect local and national interests alongside human rights safeguards").*

1.2.2 Transparently engages with the relevant local and national sustainable development context(s), to define impact objectives that are aligned with local priorities to the maximum extent practicable[10]. This should be implemented in line with the Busan Principles for Development Effectiveness and the Kampala Principles, which stipulate that private and public partners should align their efforts with priorities identified in the plans and policies of investee governments (OECD, 2019[73]). When investing through a DFI or a private investor, the donor supports the alignment with local priorities, particularly in cases where the donor is present in the country in question. *(For more information, please see the examples under "Alternative understandings of responding to and aligning with local sustainable development priorities", and "Stakeholder engagement/involvement plan for those experiencing impacts").*

> **EXTRA:** Makes distinction between different groups of stakeholders, i.e. workforce and end-beneficiaries *(see the examples "Using technology to stimulate workforce engagement" and "How Summit Africa Engages Local Stakeholders in the Investment Process").*
>
> **EXTRA:** Has a transparent policy and mechanisms for how it prioritises local investment needs, how it promotes multi-stakeholder dialogue with public and private local actors and how it effectively articulates and includes stakeholder voices *(see the example Renovation of the Francisco Morazán Hydropower Plant in Honduras by the Inter-American Development Bank (IADB)).*
>
> **EXTRA**: Ensures the collection of proper and actionable data from both investee countries and local beneficiaries to inform prioritisation of local investment needs
>
> **EXTRA:** Takes steps to foster a robust enabling environment for stakeholder engagement[11]

EXTRA: Implements an accessible grievance mechanism that can protect confidentiality and provide anonymity *(see the example "Effective Grievance Mechanisms")*.

EXTRA: Includes a workforce representative (for example, a Trade Union Member) on the Board.

B. Alignment checklist

Step 1: Respect local and international regulations and norms:

- Does the organisation respect local country regulation and international regulation?[12]
- Does the organisation strive to apply the higher benchmark while retaining respect for the rule of law?

Step 2: Engaging with local context:

- Does the organisation transparently engage with the relevant local and national sustainable development context(s), to define impact objectives that are aligned with local priorities?
- Does the donor support the partner in achieving alignment with local priorities?

C. Useful examples

The examples listed below are illustrative, intended to highlight different organisational approaches to 'solving' some of the more challenging aspects of alignment with the Standards.

Different DFI strategies to protect local and national interests alongside human rights safeguards

- Finnfund states that, as an organisation, it "holds human rights in high regard and conducts its business with respect for, and a view to promote, internationally recognised human rights". In practical terms, Finnfund identifies potential or existing impacts on human rights, pays specific attention to local and country contexts, evaluates the likelihood and severity of harm to people from potential adverse human rights impacts and prioritises the management of the most severe human rights impacts. Companies by Finnfund are also required to have an effective operational level grievance mechanism (Finnfund, 2019[74]).
- Likewise, the FMO Human Rights Position Statement stresses "the ability of local communities, civil society and other stakeholders to engage freely with FMO and FMO's clients is an important part of this". Like Finnfund, FMO implements operational level grievance mechanism in the form of an Independent Complaints Mechanism as required by the United Nations Guiding Principles on Business and Human Rights (FMO, 2017[75]).
- EBRD 2019 statement of 'Retaliation Against Civil Society and Project Stakeholders' stresses they do not tolerate actions by EBRD clients or other project counterparties that amount to retaliation. They emphasize that impairing or harming (or threatening to impair or harm) can be subject to enforcement proceedings (EBRD, 2019[76]).
- Principle 22 of the United Nations Guiding Principles on Business and Human Rights (UNGPs) states: "Where business enterprises identify that they have caused or contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes." These remediation mechanisms, which may involve State-based judicial and non-judicial mechanisms, as well as non-State-based grievance mechanisms, should meet the criteria set out in Principle 31 by being: legitimate, accessible, predictable, equitable, transparent, rights-compatible, a source of continuous learning, and based on engagement and dialogue. Such

mechanisms, states the UN Working Group, are critical to effective due diligence, as they reinforce prevention by helping an enterprise to identify concerns and systemic problems and address grievances at an early stage. (United Nations OHCHR, 2011[77])

Alternative understandings of responding to and aligning with local sustainable development priorities

- A multilateral development bank with offices in its operating countries, IDB Invest serve local development priorities through the mentality that the 'country is the client' (IDB, 2013[78]). This allows iDB Invest to develop its expertise and familiarity with key development challenges and opportunities at the country level, as well as the political, regulatory and market environments.

  IDB Invest also make use of an 'Engagement and Response Platform' to provide their clients with a channel to communicate information or grievances at the project level (iDB Invest, n.d.[79]).
- IDB Group also has an independent accountability mechanism, known as the "Independent Consultation and Investigation Mechanism (MICI)", which deals with IDB Group project-affected communities, specifically concerning non-compliance with the Group's social and environmental standards. On their website, a brochure indicates the steps involved to launch a complaint, including relevant contact points should the complaint be filed. IDB Group also list their "commitment to complainants" online (IDB Group, n.d.[80]).
- The first of Swedfund Strategic Sustainability Goals is community development, which it defines in terms of job creation and the fostering of good working conditions. To incorporate this into their investment strategy, Swedfund have adopted compliance with the ILO Core Conventions and the ILO Basic Terms and Conditions of Employment, as well as considering the number of employees in its portfolio companies (Swedfund, n.d.[81]).
- As a DFI that operates without country offices, Finnfund largely relies on local demand for the product or service provided by the investee as an indicator of a project's alignment with local priorities, in what they describe as a 'grassroots up' approach through the use of peer groups in the field. Finnfund's in-house DEAT scoring system incorporates local priorities and needs through the inclusion of inclusive business, CSR/ Community development and climate change mitigation among other criteria under its 'strategic relevancy' performance which accounts for 40% of a project's final DEAT score. Its market impact performance, accounting for a further 40%, likewise favours projects that source inputs locally and create local jobs (Finnfund, n.d.[82]).
- A number public sources can be used to better understand the local markets and needs. These include:
  - OECD Statistics is a database of OECD's publicly available statistics that can be used to identify areas of need in relation to specific sustainability topics. Especially useful for organizations supporting business models to meet the needs of a group of people or the natural environment.
  - The Voluntary National Reviews featured in the UN Sustainable Development Knowledge Platform present information on the progress made by member states towards achieving the SDGs (United Nations, 2021[83]).
  - UN Stats - SDG Indicators Database provides access to data compiled through the UN System in preparation for the Secretary-General's annual report on "Progress towards the Sustainable Development Goals" that can be used to identify areas of need in relation to specific SDG targets by SDG indicator (UN Stats, 2021[84]).
  - UNDP SDG Impact Investor Maps are a market intelligence product produced by UNDP Country Offices and partners to help private investors (funds, financiers, corporations) identify

investment opportunities and business models that have significant potential to advance the SDGs in specific country or regional contexts (UNDP SDG Impact, n.d.[85]).

How Summit Africa Engages Local Stakeholders in the Investment Process

Summit Africa, based in South Africa, is a specialist Alternatives Investment Manager working through a private equity fund and unlisted real estate fund. As they do not take a majority stake in any of their investments, Summit Africa's investment strategy rests on both alignment with business owners and identification of impact goals through extensive end-beneficiary stakeholder engagement.

For example, with a view to targeting SDG 3 'Good Health and Well-being', Summit Africa recently approached a group of doctors who had founded a relatively remote hospital in South Africa in the 1980s. During the course of extensive research and exploratory conversations with the doctors, the business owners, they established that the business model was under-resourced and therefore unable to fulfil the needs of the local community. For instance, with only 32 beds and a single operating theatre, the doctors were frequently obliged to turn away prospective patients who were subsequently forced to travel up to four hours for treatment.

In addition to the doctors, the asset manager also conducted consultations with the 'final beneficiaries', in this case, the patients who stood to benefit from the investment, as well as local government representatives.

From these detailed conversations, *a joint* business plan between Summit Africa and the hospital was created and presented to local community leaders. The joint business plan proposed an increase to 98 beds and four theatres, and detailed specific benefits grounded in local community needs. In this particular example, maternity was identified as a key area of interest. As such, it was proposed that 14 of the 98 beds be assigned for maternity purposes.

Using technology to stimulate workforce engagement

CDC Group recognise that instigating strong worker voice systems within their investment beneficiary organisations can help mitigate business risks and promote more business opportunities. Aside from the practical cost-effective benefits – particularly in high risk contexts or unstable global realities like the current pandemic – CDC assert that technology can enable greater engagement with a larger number of workers on a more regular basis. They also assert that technology can not only protect anonymity, but encourage the participation of those unable or unwilling to make use of grievance mechanisms because or trust or language barriers (CDC, 2021[86]).

The British Development Finance Institution used telephone surveys to verify its development impact (in terms of jobs and vocational training) in the case of Coscharis Farms in South-Eastern Nigeria, which is managed by Sahel's Capital Fund for Agricultural Finance in Nigeria (FAFIN). Following the telephone survey, CDC and FAFIN worked with Coscharis Farms to implement new policies such as setting up a committee and engaging an ESG manager and community liaison officer to help manage grievances in the community. This policy was also supported by practical attempts to improve communication between management and staff, such as regular 'town hall' meetings and departmental meetings as an opportunity for staff to share their views, via tools like suggestion boxes.

Stakeholder engagement/involvement plan for those experiencing impacts

Not only should development partners seek to adopt a more stakeholder-centric approach in their investment strategy, but they should also seek ensure a culture of *evidence* gathering and impact learning through *continuous stakeholder engagement*, throughout the investment lifecycle. This includes leveraging

technology to ensure those classed as "vulnerable" (i.e. women, youth, racial and ethnic minorities), as shown in CDC example above.

Stakeholder engagement should be designed to reduce the risk of overlooking acceptable level material impacts[13]. This includes ensuring that:

- the engagement is appropriate and inclusive for different stakeholder groups;
- the approach to identifying potential impacts is open and results have been documented;
- the risk of bias from the person conducting the engagement is recognised and minimised, for example there is a risk of explaining away or failure to adequately record negative impacts, or indeed differences in views between stakeholders and those conducting the engagement;
- the risk of unintended or perverse consequences of the approach has been considered;
- Stakeholder engagement occurs throughout the investment cycle.

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

To pursue effective implementation of stakeholder-centric strategies (with a view to understanding the impact of their investments and guarding against potential reputational risk), donor development partners are obligated to demonstrate increased levels of transparency. The Third Work stream 'ESG and Accountability to Communities' of Publish What You Fund's DFI Transparency Initiative examined the practices of 20 bilateral and multilateral DFIs and found that Assurance of Community Disclosure (i.e. confirm publicly that they and their clients met disclosure requirements) was severely lacking (Publish What You Fund, 2021[87]).

In response to this gap, Publish What You Fund are in the process of developing a DFI Transparency Tool which will include indicators related to the assurance of disclosure on Environmental and Social risks, as well as assurance of the presence of independent accountability mechanisms. Ultimately, this can help strengthen best practice regarding due diligence.

That said, the research revealed that multilateral DFIs often have some form of disclosure linked to stakeholder engagement plans in more high-risk projects. One prominent example is elaborated in further detail below.

Renovation of the Francisco Morazán Hydropower Plant in Honduras by the Inter-American Development Bank (IADB)

In October 2020, the IADB approved an USD 18 million loan to renovate the largest hydropower plant in Honduras. As the project was deemed to be medium risk, IADB was required to produce both an environmental and social assessment and management plan. Prior to project approval, the local government was required to consult with local stakeholders (Publish What You Fund, 2021[87]).

A consultation report of the consultation proceedings is available in Spanish on the project website. The report itself provides evidence (in the form of photos and minutes) that the Honduran authorities undertook consultation meetings with a variety of different project-implicated stakeholders preceding project approval. These included (i) employees of hydropower plant (ii) other organisation in the area (iii) local government and (iv) local community leaders/representatives. During the course of the meetings, participants were given instructions on how to access the environmental and social assessment and management plan on IADB's website.

Effective grievance mechanisms

Standard 1.2.2 EXTRA calls on the partner to *"implement an accessible grievance mechanism that can protect confidentiality and provide anonymity".* The goal of grievance mechanisms is to give stakeholders the opportunity to submit complaints or claims, get a fair assessment of cases, and receive compensation/ reparation as applicable through effective accountability mechanisms.

Effective accountability mechanisms are principles based and adhere to all of the following principles: (1) Legitimacy; (2) Predictability; (3) Accessibility; (4) Equitability; (5) Transparency; (6) Rights compatibility; (7) A source of continuous learning; and (8) Based on engagement and dialogue.

In general, accountability mechanisms:

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

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

Ideally, the partner should have an independent office to receive complaints, equipped to address complaints through two primary functions: dispute resolution[14] and compliance review[15].

Organizations like Accountability Counsel and SHIFT (SHIFT, 2021[88])create resources that make it easier and more efficient for businesses to incorporate human rights and other responsible business practices into their policies and practices. In many countries, options now exist for organizations to participate in cost effective external complaints and dispute resolution schemes that support accountability to stakeholders (Accountability Counsel, 2021[89]).

D. Anchor impact management principles

1. United Nations Guiding Principles on Business and Human Rights, "II. The Corporate Responsibility to Protect Human Rights" (UN OHCHR, 2011[90])
2. United Nations Environment Programme Finance Initiative (UNEP-FI) Principles for Responsible Banking, Principle #4 "We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals" (UNEP-FI, 2019[91])
3. United Nations Principles for Responsible Investment (PRI), Human Rights and Labour Standards, "adopt a policy commitment to respect internationally recognised human rights" (UN PRI, n.d.[92])
4. OECD Blended Finance Principles, Principle #3 "Tailor blended finance to the local context" (OECD, 2017[35])
5. IFC Performance Standards on Environmental and Social Sustainability, Standard #2 "Labour and Working Conditions" (IFC, 2012[93])

E. Principles and frameworks specific to this sub-Standard

Table 2. Principles and frameworks specific to this sub-Standard that can guide in achieving the success signals of sub-Standard 1.2

Success signal	Relevant principles and frameworks
1.2.1 Respects local country regulation and international regulation, such as the ILO convention 169 and IFC Performance Standard 2 on promoting fair treatment, non-discrimination and opportunities for workers. Respects the OHCHR Guiding Principles on Business and Human Rights. In circumstances of conflict between international and local laws, strives to apply the higher benchmark while retaining respect for the rule of law. For instance, in the case that human rights requirements are prohibited by the local legal environment, it should contribute by lobbying the government to change.	ILO convention 169 (ILO, 1989[94]) IFC Performance Standard 2 (IFC, 2012[93]) Office of the United Nations (UN) High Commissioner for Human Rights (2013) , *Free and Prior Informed Consent For Indigenous Peoples* (Office of the UN High Commissiioner for Human Rights, 2013[95]),
1.2.2 Transparently engages with the relevant local and national sustainable development context(s), to define impact objectives that are aligned with local priorities to the maximum extent practicable. This should be implemented in line with the Busan Principles for Development Effectiveness and the Kampala Principles, which stipulate that private and public partners should align their efforts with priorities identified in the plans and policies of investee governments (OECD, 2019[73]). When investing through a DFI or a private investor, the donor supports the alignment with local priorities, particularly in cases where the donor is present in the country in question.	Accountability Counsel (2018) *Accountability Mechanisms: Benefits and Best Practices for International Financial Institutions*, (Accountability Counsel, 2018[96]) Impact Management Project (IMP) (2019), *Using Self-Reported Data for Impact Measurement: How to Use Stakeholder Surveys to Improve Impact Performance* (IMP, 2019[97]) OECD, *Blended Finance Guidance Principle 3 'Tailor blended finance to a local context'* (OECD, 2017[35])OECD (2019) *Better Criteria for Better Evaluation Revised Evaluation Criteria Definitions and Principles for Use, Impact: What Difference Does an Intervention Make?,* (OECD/DAC Network on Development Evaluation, 2019[98]) United Nations Human Rights Council in (2011) *Guiding Principles on Business and Human Rights* (UN Human Rights Council, 2011[99]), OECD (2019), *The Kampala Principles on Effective Private Sector Engagement* (OECD, 2019[71]) OECD (2011), *Busan Partnership for Effective Development Cooperation* (OECD, 2011[69]) OECD Statistics (OECD, n.d.[100]) Social Value International (2019), Principles of Social Value, Principle 1 (Social Value International, 2019[101]) Social Value International (2019), "Standard on applying Principle 1: Involve stakeholders" (Social Value International, 2019[101]) United Nations (2021), Sustainable Development Knowledge Platform - Voluntary National Reviews (United Nations, 2021[83]) United Nations Stats (2021), Global SDG Indicators Data Platform (UN Stats, 2021[84]) UNDP SDG Impact Investor Maps (UNDP, 2021[102])

Sub-Standard 1.3

> *The partner has a policy for assessing financial and development additionality[16], aligned with its size and resource availability.*

A. Success signals for mandatory self-Assessment

The partner:

1.3.1 Clearly and transparently articulates which definitions of financial, value non-financial and development additionality it abides by. OECD DAC Donors and bilateral DFIs refer to the OECD DAC definitions of financial, non-financial/value and development additionality (OECD DAC Working Party of Development Finance Statistics, 2021[103]). MDBs refer to the Multilateral Development Banks' Harmonized

Framework for Additionality in Private Sector Operations. *(For further information, please see the example "Defining Additionality")*.

1.3.2 Has policies that articulate how the investment is expected to mobilise more resources (financial additionality) and/or generate value additionality and development impact (development additionality) *(see the example "Creating non-financial additionality through terms and conditions")*.

> **EXTRA**: Policies are systematically shared with relevant stakeholders

1.3.3 Provides a transparent assessment of financial and value additionality ex-ante, systematically conducts ex-post financial and value additionality assessments and reports the results to donors and other relevant stakeholders *(see the examples under "A scoring system to capture additionality")*.

> **EXTRA:** Where resource allocations permit, conducts ex-ante additionality assessments as part of project approval. Such assessments articulate the development additionality rationale of the projects clearly and comprehensively.
>
> **EXTRA:** Builds on the ex-ante development additionality assessment, and - together with the investee – establishes a plan to continuously assess development additionality throughout the investment**.**

B. Alignment checklist

Step 1: Define additionality and develop a policy:

- Does the organisation have a clear definition of financial, non-financial and development additionality[17]?
- Does the organisation use a commonly-agreed definition?
- Does the organisation have an additionality policy, clearly articulated, and shared publicly?

Step 2: Implement additionality policy:

- Does the organisation provide a transparent assessment of financial and value additionality ex-ante? Does it report it to donors and other relevant stakeholders?
- Does the organisation systematically conduct ex-post financial and value additionality assessments and reports the results to donors and other relevant stakeholders?

C. Useful examples

The examples listed below are illustrative, intended to highlight different organisational approaches to 'solving' some of the more challenging aspects of alignment with the Standards**.**

Readers should note that following the discussion on additionality at the 2021 Blended Finance and Impact Week, the OECD is preparing a stocktake on how DFIs, MDBs and asset managers manage for additionality. In particular, the work will seek to explore the current approaches employed to manage additionality, how the development ecosystem can better manage for additionality, and how to inspire donors to more actively steer their DFIs towards managing for additionality.

Defining additionality

For Donors and DFIs, the DAC Working Party on Development Finance Statistics (WP-STAT) "Converged Statistical Reporting Directives for the Creditor Reporting System" provides definitions on the different forms of additionality.

'Financial additionality' refers to financing provided in cases where private sector partners are unable to obtain commercial financing owing to the high-risk nature of the investment. Financial additionality aims to avoid market distortion, i.e., institutions do not compete with other commercial finance providers, but rather support capital-constrained markets, and where possible, crowd in investment' (OECD DAC Working Party of Development Finance Statistics, 2021[103]). On the other hand, **'value additionality'** refers to the specific role and comparative advantage of public institutions as a partner to the private sector, conveyed through non-financial contributions such as provision of knowledge and expertise, board participation and links to local networks. Value additionality is a key contributor to improving the quality of investments and business operations from a development perspective. Public institutions ensure the inclusion of safeguards, good corporate governance and foster more socially-responsible businesses over time in a way that other investors typically would not (OECD DAC Working Party of Development Finance Statistics, 2021[103]).

Finally, an official transaction conveys **development additionality** if the development impact of the investment would not have occurred without the partnership between the official and the private sector (DCD DAC, 2018[27]).

A scoring system to capture additionality

- Finnfund's in-house Development Effect Assessment Tool (DEAT) scores potential investments according to both their financial and non-financial additionality during the due-diligence phase and pays particular attention to the project's strategic relevance, the target country's need for market development and the financial additionality of Finnfund's participation (Finnfund, 2020[104]). For instance, an investment where no alternative funding is available would score higher in terms of financial additionality than an investment that the market would also be able to provide (although on less favourable terms). Similarly, higher scores on value additionality are attributed to investments in fragile states and the LDCs, or where socially responsible practices go beyond community involvement so as to engage in benefit-sharing. (Finnfund, n.d.[82])
- IDB Invest's DELTA scoring system similarly attempts to capture, ex-ante, an investment's anticipated financial and development additionality (IDB Invest, 2020[105]) (IDB Invest, n.d.[106]). Each transaction is attributed a score of 0-10 embedding additionality alongside the economic and social rate of return (or monetisation), stakeholder analysis and sustainable factors, which is then tracked and updated throughout implementation (IDB Invest, 2018[107]).
- Norfund has developed an internal additionality framework which consists of ten additionality "ambitions". Financial additionality is based on the following 8 ambitions:
    - Investing in the poorest countries
    - Investing in the most capital constrained markets
    - Investing in the riskiest markets
    - Investing in the most difficult business environments
    - Investing in sectors with high development needs
    - Investing in high risk instruments
    - Targeting underserved segments
    - Mobilising private investors

  Value additionality is based on the following two ambitions:
- Taking an active role in investments
- Improving social and environmental performance

Each ambition is linked to an indicator, with definitions and associated scores. For example, the ambition "investing in the riskiest markets" is based on the "Country credit rating", which is an indicator of the risk

level associated with the investment environment. Two categories are defined based on ratings from external agencies:

- Non-investment grade (BB+ or below/not rated) – which gives the investment a score of 1
- Investment grade (BBB- or above) – which gives the investment a score of 0

Based on these ambitions and associated indicators, Norfund has developed an “Additionality Calculator”, which is used to assess the investments and provide an overall score on a scale 1-10. As per Norfund’s policy *“investments with an additionality score <=3 shall be accompanied by a clear and substantiated case for additionality beyond what is captured by the framework and/or substantial and well documented development effects expected as a result of Norfund´s investment”*.

Creating development additionality (development outcomes) through terms and conditions

- IDB Invest additionality framework ensures that IDB Invest “provides financing beyond what is available in the market and contributes to better project outcomes” (IDB Invest, 2020[105]) For IDB, being financially additional also means “closing funding gaps for companies or projects that may have exhausted the capacity of local lenders who are unwilling to allocate more resources given the risk/return profile of the investment”. Non-financial (or value) additionality means encouraging “the use of our advisory services to further support clients in achieving impact objectives and mainstreaming sustainable business practices. This means helping clients adopt higher environmental and social standards through advisory services to support climate risk assessments, energy and environmental management audits, and sustainability certifications, among other activities”. (IDB Invest, 2020[105])
- EBRD has terms and conditions to achieve non-financial additionality; by setting higher standards on their investees (for instance, in terms of ESG or, more specifically, gender equality performance), EBRD aims to deliver more impactful project outcomes than would have been required by commercial financiers (EBRD, n.d.[108]).

Transition impact: EBRD’s indirect approach to additionality

EBRD’s mandate is to foster a transition to market-oriented economies and influence economic systems and decision-making, rather than to directly pursue development outcomes. This is reflected in its approach to additionality as ‘transition impact’ in supporting market economies to become competitive, well-governed, green, inclusive, resilient and integrated (of which a minimum of two need to be satisfied in order for a transaction to proceed) (EBRD, n.d.[109]) (EBRD, n.d.[108]).

D. Anchor impact management principles

UNEP-FI, Principles for Positive Impact Finance ‘Level of Additionality’, (UNEP-FI, 2017[54])

E. Principles and frameworks specific to this sub-Standard

Table 3. Principles and frameworks specific to this sub-Standard that can guide in achieving the success signals of sub-Standard 1.3

Success signal	Relevant principles and frameworks
1.3.1 Clearly and transparently articulates which definitions of	OECD DAC Working Party on Development Finance Statistics (2021), *Draft revised Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire*_(OECD

Success signal	Relevant principles and frameworks
financial, value non-financial and development additionality it abides by. OECD DAC Donors and bilateral DFIs refer to the OECD DAC definitions of financial, non-financial/value and development additionality. MDBs refer to the Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations.	DAC Working Party of Development Finance Statistics, 2021[103]) OECD (2016), *Understanding Key Terms and Modalities for Private Sector Engagement in Development Cooperation* (OECD, 2016[110]) IFC (2018) *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*, (IFC, 2018[111])
1.3.2 Has policies that articulate how the investment is expected to mobilise more resources (financial additionality) and/or generate value additionality and development impact (development additionality	Donor Committee for Enterprise Development (DCED) (2014) , *Demonstrating Additionality in Private Sector Development Initiatives*, (DCED, 2014[112]) Social Value UK (2014), *Additionality Guide*, (Social Value UK, 2014[113])
1.3.3 Provides a transparent assessment of financial and value additionality ex-ante, systematically conducts ex-post financial and value additionality assessments and reports the results to donors and other relevant stakeholders	

Sub-Standard 1.4

> *The partner optimises the integration of Environmental, Social and Governance (ESG) factors in the investment strategy and throughout the investment process.*

A. Success signals for mandatory self-assessment

The partner:

1.4.1 Applies ESG standards as a criterion in the deal screening and due diligence phases. Investee companies do not need to adhere to all international standards at the beginning, but shall be supported by the partner to reach the highest possible level of compliance. This is particularly relevant for young and small companies that are active in fragile contexts and LDCs *(see examples "Differentiating between ESG risks at the granular level: Aegon Asset Management and Russell Investments", "**Finnfund's approach to E&S Screening, due-diligence and monitoring"** and "Finnfund's approach to identifying private-sector investments with potential climate risks and opportunities").*

> **EXTRA**: Is able to demonstrate its support in helping the investee optimise its commitment to ESG throughout the investment process.
>
> **EXTRA**: Transparently shares with the public the results of the ESG screening and due diligence *(see the example "DFC: Engaging public scrutiny to strengthen ESG screening").*

1.4.2 Frames ESG decisions using one of the standardised meaningful criteria available on the market, including (but not limited to) the UNGP on business and HR, the IFC Performance Standards[18] and the World Bank Environmental, Health and Safety Guidelines.

1.4.4 Embeds Responsible Business Conduct practices in its approach and complies with local laws and criteria for due diligence (i.e. EU law on human rights and environmental due diligence, EU Green New Deal, including the EU Sustainable Finance Taxonomy).

1.4.5 Supports it investees in developing a reporting system based on internationally recognised reporting Standards such as the International Integrated Reporting Framework (IIRC) Global Reporting Initiative (GRI) the Task Force on Climate-Related Financial Disclosures (TCFD), and the Sustainable Development Goal Disclosure (SDGD) Recommendations [19] .

B. Alignment checklist

Step 1: Apply ESG screening and RBC in due diligence

- Does the organisation use ESG criteria as a screening tool for potential projects/investees? Are these criteria based on standards available in the market?
- Does the organisation embed Responsible Business Conduct practices in its approach and comply with local laws and criteria for due diligence?

Step 2: Support investees compliance:

- Does the organisation have a plan to support investees in achieving compliance with the highest possible level or ESG?
- Does the organisation support investees in developing a reporting system based on recognised reporting Standards?

C. Useful examples

The examples listed below are illustrative, intended to highlight different organisational approaches to ‘solving’ some of the more challenging aspects of alignment with the Standards.

European Union social taxonomy

In 2021, the European Union Platform on Sustainable Finance published a draft report on the development of a social taxonomy for public consultation. The forthcoming report, based on the feedback received during this consultation, will be tabled for adoption by the end of 2021.

The proposal involves extending the EU Taxonomy “beyond green” to drafting a structure for a social taxonomy, based on what constitutes substantial social contribution, how not to do significant harm, and what activities are harmful. This would be both vertical and horizontal, with the vertical dimension focusing on products and services for basic human needs and basic infrastructure. The horizontal dimension takes into account impact on different groups of stakeholders affected by economic activities and would likely be a combination of entity and activity level criteria, crucial for ensuring businesses’ respect and support for human rights as part of the social taxonomy.

The Social Taxonomy proposal would be built on international norms and principles like the sustainable development goals (SDGs) and the United Nations’ Guiding Principles for Businesses and Human rights, facilitating investors’ contribution to financing solutions around decent work, enabling inclusive and sustainable communities, and affordable healthcare and housing.

The Social Taxonomy would also be incorporated into existing legislative texts such as the Non-Financial Reporting Directive and the Sustainable Finance Disclosure Regulation.

However, it is worth underlining that the European Union’s Social Taxonomy is applicable in the European Union only. Secondly, in the current absence of detailed implementation guidance, it is thus far unclear how actors can align with the provisions of such a taxonomy.

Differentiating between ESG risks at the granular level: Aegon Asset Management and Russell Investments

- Aegon Asset Management's ESG Screening Policy categorises potential ESG risks into Ethical and Sustainability screening processes, which are in turn broken down into a concrete set of exclusionary factors, including animal welfare, harmful substances and political track records (AEGON, 2020[114]).
- Russell Investments has developed a methodology to distinguish between ESG reporting that is financially material for investors relative to those that are not (Boffo, R and Patalano, R., 2020[115]).

Finnfund's approach to identifying private-sector investments with potential climate risks and opportunities

Finnfund is in the process of developing a system where, during the initial stages of the investment process, projects are screened for any potential climate risks and/or opportunities for increasing overall climate resilience (Arvola, Uusihakala and Halonen, 2021[116]).

This analysis (also referred to "Clearance in Principle", or CIP) of climate risks and opportunities involves the following steps:

Contextualisation, including country and sector-specific climate risk assessment, undertaken using online tools such as ThinkHazard (ThinkHazard, 2021[117]) or ND-GAIN (Notre Dame Global Adaptation Initiative, 2021[118]). This initial screen is then complemented by an assessment of whether the investee has the potential to increase its adaptive capacity-and subsequently improve overall resilience- either within the organisation itself or its wider operating environment.

- Where climate risks are identified, a more detailed assessment is undertaken during the routine due diligence phase. Typically, this is outsourced to specialised consultancies who collect primary, location-specific data, sometimes with the assistance of local stakeholders.
- A determination is then made on the investee's ability to adapt and respond to the identified climate risk. Support may be detailed in a project-specific Social and Environmental Management Plan (Arvola, Uusihakala and Halonen, 2021[116]).

ESG due diligence in times of COVID-19

Conducting in-depth ESG due-diligence is only possible through in-person engagement with the project/investee. The restrictions on international travel obliged partners to find innovative solutions to guarantee effective project screening and due diligence. While, thus far, few solutions have been found, strategies with demonstrated success include the creation and leveraging of local partnerships (often facilitated by donors' local offices) and the efficient use of technology.

In particular, light-touch, standardised technology-enabled due diligence surveys can be used to establish basic labour rights' facts, in particular by asking more close-ended questions. In the case of CDC, for example, "worker voice technologies can be used to triangulate data sources on key ESG risks and opportunities", i.e. mobile surveys may help triangulate information generated by external consultants during ESG assessment who may have limited time or capacity to speak to a broad cross-section of workers in person (CDC, 2021[86]).

DFC: Engaging public scrutiny to strengthen ESG screening

During the due diligence phase, DFC flags the details of projects that are likely to have significant adverse E&S impacts that are "sensitive, diverse, or unprecedented in the absence of mitigation measures". These

environmental and social impact assessments are made public for comment on the 'Information Summary for the Public' section of the DFC website for a 60-day period, (US DFC, 2020[119]).

Finnfund's approach to E&S screening, due-diligence and monitoring

Finnfund supports investees integrating environmental and social elements in their business model, to make sure they reach the highest possible standards by the end of the investment period. Finnfund's approach is guided by its overarching **Sustainability Policy**, which covers environmental, social and governance issues and impact created through sustainable business practices and is accompanied by Thematic Statements and tools to guide the implementation (Finnfund, 2020[120]). Finnfund's policies and practises are aligned with the commonly agreed, harmonized EDFI E&S standards (e.g. exclusion list , E&S due diligence and monitoring practices, minimum E&S requirements for clients) (Finnfund, 2020[121]).

In particular, Finnfund requires the client to comply with (i) host country regulations on E&S, (ii) the IFC Performance Standards 1-8 on Environmental and Social Sustainability and the sector specific Environmental, Health & Safety Guidelines, (iii) ILO core labour standards. In addition, projects with high risks need to have an E&S monitoring and management system with ISO certification management system standards (e.g. ISO 14001, SA8000).

Finnfund believes that the integration of ESG elements in the business model of an investee can increase its value, by:

- Saving costs
- Increasing productivity
- Improving risk management
- Enhancing access to capital and international markets
- Reducing the environmental footprint

When screening an investment or project, Finnfund performs a preliminary risk categorisation, from low to high. Based on this first screening the due diligence is planned, during which an ESG gap analysis is performed vs applicable international standards.

Compliance with international standards is not a requirement from the start of the investment, but an investee is expected to reach the highest possible level within one to three years. For this reason the gaps identified are documented in an **E&S action plan (ESAP)** developed with the clients with clear deadlines and responsibilities. The E&S Action Plan is developed together with the investee, to ensure the realistic deliverables and timeline. While the clients is responsible to take steps forward, Finnfund helps and provides guidance also through the provision of consultants and experts.

An E&S review is then prepared for internal decision making, pointing out key gaps and action plans. If the Board approves the transaction, the plan is translated in contractual requirements and reporting requirements, visitation rights, etc. Finnfund works with the client for several years to bring it to compliance, through monitoring that the project is on the right track, together with the client. This is a long but rewarding journey.

For instance, in the case of EthioChicken Group, a poultry company in rural Ethiopia, Finnfund guidance supported the establishment of an E&S function operationalised by site-based E&S officers, and developed a set of E&S Impact Assessments for the future use of the Group. Following Finnfund's investment, EthioChicken also became the first poultry company in Africa to become GLOBALG.A.P. certified. GLOBALG.A.P. is an internationally recognized set of farm standards dedicated to Good Agricultural Practices (Finnfund, n.d.[122]).

D. Anchor impact management principles

OPIM #5.1 “For each investment, the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage ESG” (OPIM, 2019[53])

OPIM #5.3 “As part of portfolio management, the Manager shall monitor investees’ ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events”. (OPIM, 2019[53])

PRI Principles for Responsible Investment #1: “We will incorporate ESG issues into investment analysis and decision-making processes”” (PRI, 2019[123])

E. Principles and frameworks specific to this sub-Standard

Table 4. Principles and frameworks specific to this sub-Standard that can guide in achieving the success signals of sub-Standard 1.4

Success signal	Relevant principles and frameworks
1.4.1 Applies ESG standards as a criterion in the deal screening and due diligence phases. Investee companies do not need to adhere to all international standards at the beginning, but shall be supported by the partner to reach the highest possible level of compliance. This is particularly relevant for young and small companies that are active in fragile contexts and LDCs	IFC (2007*), Exclusion List*, (IFC, 2007[124]) United Nations Principles of Responsible Investment, *Environmental, Social and Governance issues*, (UN PRI, n.d.[92]) PRI, *ESG Integration* (PRI, n.d.[30])
1.4.2 Frames ESG decisions using one of the standardised meaningful criteria available on the market, including (but not limited to) the UNGP on business and HR, the IFC Performance Standards and the World Bank Environmental, Health and Safety Guidelines.	International Financial Corporation (IFC) (2012) *Performance Standards on Environmental and Social Sustainability*, (IFC, 2012[93]) IFC (2016) *World Bank Environmental, Health and Safety Standards*, (IFC, 2016[125]) UN Guiding Principles on Business and Human Rights (United Nations, 2011[126])
1.4.3 Embeds responsible business practices in its approach	OECD (2018) Due Diligence Guidance for Responsible Business Conduct (OECD, 2018[127])
1.4.4 Embeds Responsible Business Conduct practices in its approach and complies with local laws and criteria for due diligence (i.e. EU law on human rights and environmental due diligence, EU Green New Deal, including the EU Sustainable Finance Taxonomy).	EU Technical Export Group on Sustainable Finance (2019) Financing a sustainable European economy. Taxonomy: technical report (EU Technical Export Group on Sustainable Finance, 2019[31]) European Commission (2020) EU Taxonomy for Sustainable Activities (European Commission, 2020[128])
1.4.5 Supports its investees in developing a reporting system based on internationally recognised reporting Standards such as the Global Reporting Initiative (GRI) and the Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainable Development Goal Disclosure (SDGD) Recommendations.	Global Reporting Initiative (GRI) (1997) (GRI, 1997[129]) Task Force on Climate-related Financial Disclosures (TCFD) (2017) *Climate-related financial disclosure recommendations* (TCFD, 2017[61])

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Notes

[1] For a complete overview of all Standards and sub-Standards as approved by the Development Assistance Committee (DAC) on 26th March 2021, please see (OECD/UNDP, 2021[1]).

[2] The case studies for the Standards are under development, and are not yet included in this document.

[3] Self-assessment success signals indicate the minimum requirements to meet operationalisation of the Standards. All parties publicly reporting to align with the Standards should be undertaking these concrete actions and reporting on how they do so.

[4] Actions marked “extra” are available to those partners with the possibility (in terms of resources or influence on the stakeholders) to go the extra mile

[5] Intersectional strategic approach can be defined as follows: the recognition that any given stakeholders are not a homogenous group, and subsequently the attempt to into account different structural dynamics such as gender, race, class and ethnicity.

[6] IMP Five Dimensions of impact (impact norms): ‘what’, ‘who’, ‘how much’, ‘contribution’, ‘risk’ (IMP, 2020[130]).

[7] To facilitate and promote effective observance of Guidelines for Multinational Enterprises regarding Responsible Business Conduct, the OECD has developed sectoral guidance to more concretely identify and address risks to people, the environment and society associated with business operations, products, or services in particular sectors. For more information: http://mneguidelines.oecd.org/sectors/

[8] ILO convention 169: prior consultation and participation of indigenous peoples in decisions affecting them), and in particular with regard to free and informed consent on private investments in their territories

[9] For interested parties, more information on this can be found at https://www.ilo.org/empent/areas/business-helpdesk/lang--en/index.htm

[10] Partners should seek to carefully balance the demands of implementing and operating a sustainable business model with the mandate to create long-term impact. In rare exceptions where they may be tension between development objectives and local priorities, i.e. if local priorities require a trade off on the achievement of SDGs, partners are obligated to provide evidence of thorough and extensive steps to mitigate and resolve this. For instance, detailed consultation reports with evidence (registrations, minutes of meetings, photographic evidence, etc.)

[11] CIVICUS Monitor, a global research collaboration, found that in 2019 just 3% of the world’s population live in countries where their fundamental rights are generally protected and respected (CIVICUS, 2019[131])

[12] This includes the ILO convention 169 and IFC Performance Standard 2 on promoting fair treatment, non-discrimination and opportunities for workers and the OHCHR Guiding Principles on Business and Human Rights.

[13] Ideally, this includes both current and potential future impacts identified based on what matters to stakeholders and the achievement of the SDGs.

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

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

[16] Financial, value (non-financial) and development additionality are complex concepts, with many different definitions used and hard to assess. The OECD is working to provide further guidance on this topic, through additional work of the CoP-PFSD in 2021/22.

[17] Development additionality can be referred to as development impact

[18] Implementing organisations should be aware of the following. Firstly, that the IFC Performance Standards were designed and drafted for large infrastructure projects, and therefore are not necessarily applicable to Venture Capital

or technology-related investments. Secondly, by definition, the Performance Standards are limited to Environmental and Social considerations, and do not include Governance.

[19] These include SGD-specific disclosure recommendations, enabling enterprises to consider and report on: both risks and opportunities resulting from sustainable development issues; the implications for value creation (and value destruction); and the implications for an impact on achievement of the SDGs. They require disclosures on Strategy, Management Approach and Governance, as well as Performance and Targets. The SDGD Recommendations and the Fundamental Concepts and Principles that underpin them are aligned to, and draw together the concepts underpinning the: recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD, 2017); the GRI Standards; and, the International <Integrated Reporting> Framework (IIRC, 2013) (Adams, 2020[132])