OECD DAC Community of Practice on Private Finance for Sustainable Development

OECD-UNDP IMPACT STANDARDS FOR FINANCING SUSTAINABLE DEVELOPMENT

OECD

SDG Impact

UNDP

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Foreword

Today, the international community is grappling with the implications of COVID-19 on both public budgets and widening financing gaps for the sustainable development goals (SDGs). If we are to reorient progress back towards delivering the 2030 Agenda, we need more sustainable investments with measurable evidence of their SDGs impacts.

Donors can help promote appropriate accountability mechanisms amongst the many organisations involved in financing sustainable development. This need for accountability is especially relevant when using financing approaches that involve private sector actors.

A growing number of investors and corporations are interested in coupling financial returns with positive social, economic and environmental impacts. Nevertheless, there are sweeping disparities in their approaches to managing and measuring impact. While industry-led initiatives demonstrate the possibility of effectively harmonising impact management and measurement, both in terms of high-level principles and specific, targeted, metrics and indicators, a decision-making framework is missing. A common set of underpinning standards is needed to guide impact management practice, based on existing principles, frameworks and indicators.

It is in this context that the OECD and UNDP jointly developed the Impact Standards for Financing Sustainable Development (IS-FSD). After ten months of wide-ranging consultations with donors, development finance institutions (DFIs), asset managers, civil society organisations (CSOs) and impact specialists, the IS-FSD were approved by the OECD Development Assistance Committee on 26 March 2021. The IS-FSD seek to fill the gap between high-level principles and the impact measurement and management frameworks and tools that each organisation independently choses to use.

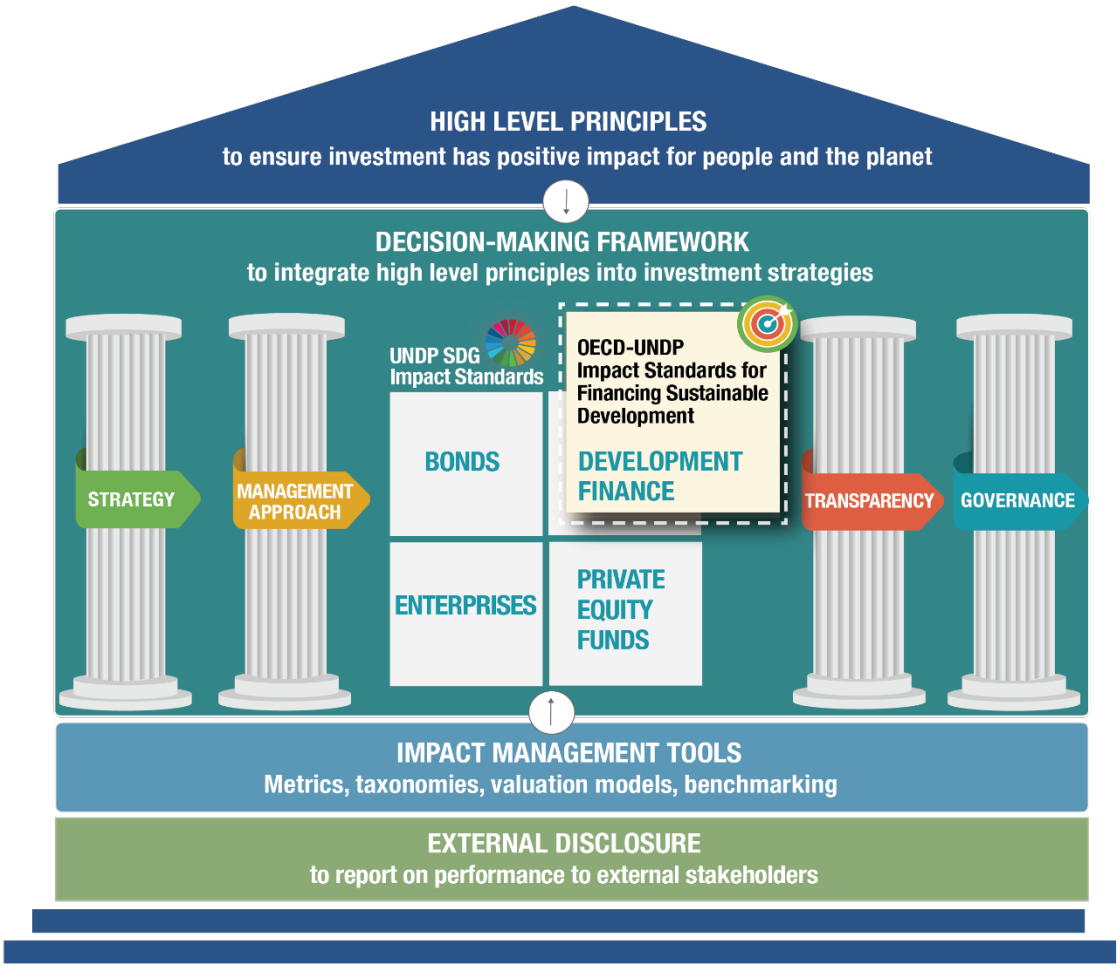
The Standards provide donors, DFIs and private investors with a joint best practice guide and self-assessment tool with which to integrate impact management into investment practices and decision-making. By aligning with the Standards, all development finance actors can show their intention to contribute positively to SDGs and assess their positive and negative effects on people and the planet.

The OECD-UNDP Impact Standards build on and complement existing work undertaken by other industry-led initiatives on impact management and measurement, and follow the same structure as all the SDG Impact Standards proposed by the UNDP for other constituencies (see infographic 1). The OECD and UNDP are both members of the Impact Management Project (IMP) Structured Network, a collaboration among standard-setting organisations aiming to co-create and coordinate standards for impact measurement and management.[1]

[1] The Network includes B Lab, GIIN, GRI, GSG, IFC, OECD, PRI, SASB, SVI, UNDP, UNEP Finance Initiative and World Benchmarking Alliance.

The IS-FSD help to make high-level impact management principles[2] actionable, and guide the choice of which frameworks, methodologies and tools should be used to accurately measure and manage impact. They embed the IMP shared norms and provide an operating system for the application of existing tools and frameworks, including metrics[3] (IRIS+ and HIPSO), taxonomies and reporting.

Infographic 1. Mapping of the existing impact management principles, frameworks and tools (2021)



Source: OECD-UNDP

[2] Examples of impact management principles include Operating Principles for Impact Management (OPIM) and the United Nations Environment Programme - Finance Initiative (UNEP-FI) Principles for Positive Impact Finance.

[3] The most commonly used catalogues of metrics are the Harmonised Indicators for Private Sector Operations (HIPSO) and the IRIS Catalogue of Metrics managed by the Glo

Guide to using the Impact Standards

The Standards are designed to support donors in the deployment of public resources through development finance institutions (DFIs) and private asset managers, in a way that maximises the positive contribution towards the sustainable development goals (SDGs). They address previously overlooked donor imperatives, such as local development needs and cross-cutting themes, including climate and gender investing. By helping to set expectations, ensure consistency, and drive comparability across investments, the IS-FSD enable the articulation of the development rationale and assess the overall performance of investments, improving the dialogue between donors, DFIs and private sector partners.

By nature, principles are general and intended for broad use, leaving room for interpretation. Guidance will support the implementation of those principles, but it is only through *standards* that different actors can make better decisions. **Standards systematise requirements and levels of quality or attainment, based on best practice.**

A forthcoming Detailed Implementation Guidance will accompany the Standards, clarifying (i) how to implement the Standards in practice, (ii) what "compliance" with the Standards means, complemented by practical examples.

By providing systematic Guidance for implementing the standards in different contexts, and by involving different constituencies, the Standards aim to improve the measurement and management of the development impact of investments in the SDGs. Ultimately, they facilitate public and private investors alike in adopting sustainable investment practices with the intention of achieving a sustainable impact on the SDGs.

Who can use the Standards and how

Donors

Embedding the Standards into existing systems requires donor governments to work more closely with their private sector arms, DFIs, and other private sector stakeholders. Donors must also understand the operating models that development actors engaging with the private sector face, and the effects they have on impact evidence.

The Standards can help donors with the following:

- Guarantee/support the adoption of a high level of quality when deploying public resources for development objectives (both when investing directly and when investing through DFIs and private sector partners);
- Check what others do and benchmark practices;
- Explore different levels of compliance;

- Set up a new investment programme (both direct investment and through DFIs and other private sector partners);
- Push for greater standardisation of impact management practices.

DFIs and private sector partners (investors and enterprises)

- Apply the Standards as a self-assessment tool, to see how much they are aligned with international principles, standards and norms;
- Design impact management systems aligned with the Standards;
- Help donors identify high-quality impact management systems;
- Use the detailed guidance to identify areas of improvement and thus upgrade their current practices.

Civil society organisations

- Use the Standards as a reference point to assess the quality of the impact management systems of DFIs and private sector partners.

The Impact Standards for Financing Sustainable Development (IS-FSD)

The OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD) are designed to support donors in the deployment of resources through DFIs and private asset managers, in a way that maximises the positive contribution towards the SDGs.

The standards constitute a decision-making framework for all organisations with a desire to demonstrate public accountability regarding their measurement and management of impact.

The IS-FSD help bridge the needs of the donors with investors and DFIs. In doing so, they provide a common framework for dialogue between parties.

The UNDP-OECD Impact Standards are framed around four interconnected and interdependent themes: impact strategy, impact management approach, transparency and accountability, and governance (see Figure 1).

Figure 1. 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.

Standard 1 - Impact strategy

The partner sets development impact objectives, framed in terms of the SDGs, with particular attention to the overarching commitment to "leave no one behind". Objectives are aligned with donor and partner country priorities and are embedded in the impact-centred investment strategy.
1. 1 The partner articulates both quantitative and qualitative development impact objectives that positively contribute to the SDGs, and cross-sectoral donor priorities. The goals are realistic but ambitious, and are aligned with the partner size and resource availability.
1. 2 The partner defines investment objectives that are coherent with local democratically owned development priorities and grounded in local development needs. With a focus on creating decent work, investment objectives respect human rights, as well as other social and environmental safeguards
1. 3 The partner develops and implements a policy for assessing financial and development additionality, aligned with its size and resources availability.
1. 4 The partner optimises the integration of Environmental, Social and Governance (ESG) factors in the investment strategy and throughout the investment process.

Standard 2 - Impact management approach

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

Standard 3 - Transparency and accountability

The partner discloses towards donors and beneficiaries how it manages and measures the development impact and contribution to the SDGs of the private sector operations deploying public resources, as well as how development impact is integrated in its management approach and governance practices.
3. 1 The partner discloses information at the portfolio and, where feasible, individual operation level, that promotes SDG and ESG impact integrity, comparability and transparency towards the donors and relevant investment stakeholders with a view to building trust and confidence.
3. 2 The partner discloses to donors and other relevant stakeholders, at the portfolio and, where feasible, individual operation level, the sources of data used for both the ex-ante and ex-post assessment of development results and for monitoring.

Standard 4 - Governance

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