

MEASURING AND MANAGING THE IMPACT OF SUSTAINABLE INVESTMENTS - A TWO AXES MAPPING

Priscilla Boiardi

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Abstract

To mobilise and align finance to the SDGs, and, most importantly, to achieve impact, both public and private actors need to implement effective impact measurement and management practices. Impact *management* enables investors, enterprises and other stakeholders to include positive and negative impact considerations into investment and business decisions. Impact *measurement* allows organisations to set impact objectives, monitor impact performance and evaluate impact.

The increasing focus of investors on “impact” has led to the development of a large number of principles, frameworks, standards, certifications, tools and indicators for impact management and measurement. The crowded nature of this space and the multiplicity and different understanding of terms and concepts makes it hard to navigate.

This paper attempts to bring some clarity in this space, by proposing a two-axes mapping of the existing (i) principles, (ii) frameworks and methodologies, (iii) standards, certifications and ratings and (iv) metrics and indicators to *manage* and *measure* impact of sustainable investments targeting the SDGs.

In addition, the paper applies the mapping approach to a series of existing initiatives, highlighting the complexity and range of principles, frameworks, methodologies, standards and metrics that exist to measure and manage impact and providing interesting initial insights into the level of consensus in the space of investing for sustainable development.

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1 Introduction

The engagement of the private sector to achieve the 2030 Agenda can be structured on three pillars: mobilisation, alignment and impact.

The mobilisation of finance for the SDGs means crowding in additional resources not yet directed towards sustainable development. One of the tools to mobilise private finance for sustainable development is blended finance, which is defined by the OECD as “the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries” (OECD, 2018^[1]). Aligning finance with the SDGs means ensuring that official development assistance (ODA), public and private investments and business operations are deployed to meet one or more of the SDGs. The third and last pillar of the strategy is impact. There are two layers to this: the first entails achieving positive outcomes for people and the planet (and avoiding negative ones), and the second relates to the measurement and management of said outcomes.

To mobilise and align finance to the SDGs, and, most importantly, to achieve impact, both public and private actors need impact measurement and management systems. Impact *management* supports investors, enterprises and other stakeholders in including positive and negative impact considerations in investment and business decisions. Impact *measurement* allows to set impact objectives, monitor impact performance and evaluate impact.

Much work has been done on measuring and managing the impact of ODA and other public development finance flows. Concepts, frameworks and definitions have been developed and crystallised in the last two decades. In recent years, private investors have started considering the positive and negative impacts of their investment decisions, raising new issues in terms of measurement and management of impact at portfolio level. Differences in understanding and definition of key concepts (including the terms impact and additionality, among others), resulting from the increasing involvement of both public/non-profit and private/commercial actors in the same investments and projects, create additional challenges.

Initiatives to support private investors in their quest to achieve impact at scale have mushroomed and resulted in a large number of principles, frameworks, standards, certifications, tools and indicators for impact management and measurement. There are multiple drivers of these initiatives, ranging from investors themselves to employees and consumers (Shinwell and Shamir, 2018^[2]). The crowded nature of this space and the multiplicity and different understanding of terms and concepts makes it hard to navigate.

This paper attempts to bring some clarity, by proposing a two-axes mapping of initiatives targeted at harmonising impact measurement and management of sustainable investments¹ in developing countries. The two axes used for the mapping are:

- Function: whether the initiative targets impact management or impact measurement;

¹ Sustainable Investment, for the purpose of this paper, includes all public and private financial transactions, other than grants, deployed for the Sustainable Development Goals, including concessional loans. All debt, equity or mezzanine instruments as well as guarantees and other unfunded contingent liabilities by public & private entities may thus be considered, on all policy fields, domestic or cross-border, across all geographies.

- Category: four different purpose categories are considered, namely (i) principles and guidance, (ii) frameworks and methodologies, (iii) standards, certifications and ratings and (iv) metrics and indicators.

The mapping presented in this paper shows the complexity of principles, frameworks, methodologies, tools and metrics that exist to measure and manage impact in the social impact ecosystem and, accordingly, the urgent need to define integrity standards for measuring and managing the impact of sustainable investments.

There is a need to harmonise the ways in which the impacts of projects, investments and organisations are conceptualised, identified and measured, as well as the way in which impact considerations are embedded into the decision-making processes of investors. The current lack of harmonisation undermines the credibility of efforts towards social impact and sustainable investing and effectively gives rise to SDG-washing. SDG-washing refers to the practice of identifying (financial) products' and services' contribution to one of the Sustainable Development Goals (SDGs), while ignoring the negative impact on others. SDG-washing can also refer to the practice of labelling as "impact" existing financial products, claiming that they contribute to a certain SDG, without being transparent about the *real* impact.

At present, we see enterprises and investors re-labelling as "impact" investments and activities that have little to do with the development of a more sustainable world. To counter the danger of "impact washing", public authorities, such as policy makers and development finance providers, have the capacity to regulate the market by establishing and promoting integrity standards (OECD, 2019^[3]).

Despite the attempts to support investors and enterprises in moving from measuring outputs towards measuring outcomes and impacts, most of them still measure only the former. Measuring impact is complex, as to accurately calculate social impact you need to adjust outcomes for: (i) what would have happened anyway ("deadweight"); (ii) the action of others ("attribution"); (iii) how far the outcome of the initial intervention is likely to be reduced over time ("drop off"); (iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes ("displacement"); and for unintended consequences (which could be negative or positive). However, as a minimum, investors should be encouraged to measure outcomes; this helps them move from simple minimisation of risks to the maximisation of positive impacts (Hehenberger, Scholten and Harling, 2013^[4]).

The lack of consistency in measuring and managing impact also constitutes a barrier to entry for new investors, who cannot differentiate between different levels of impact. By mobilising additional private resources, ODA providers can achieve additional developmental impact. If conducted well, impact measurement and management can help providers of development finance to develop strategies that incentivise mobilisation of resources towards impact.

Lastly, despite the proliferation of approaches, methodologies and frameworks to measure and manage impact, as of today we still do not have enough evidence of what has been achieved. One of the main causes of this is that existing frameworks do not work well enough to increase the evidence base, by being vague about the metrics tracked or by not allowing comparability. But how can we know whether the footprint of finance is positive, if we cannot collectively measure it?

Complexity should not justify inaction. Transparent and shared systems to measure and manage impact can facilitate the credibility of sustainable investment efforts in developing countries. Donors and investors need to be able to explain what impact is targeted, directly and indirectly, what was achieved, what not, and why, in a credible, harmonised and transparent way. A number of actors have started harmonisation initiatives, but to date policy guidance has not caught up to the existing initiatives led by the industry. This paper aims at supporting policy makers in this process.

Section 2 presents the two axes that are used for the mapping: function and categories. Section 3 presents the mapping of impact management and measurement initiatives, divided into the four categories. Section 4 summarises the main findings and concludes.

2 A dual-axes framing of impact management and measurement harmonisation initiatives

We propose a framing for impact measurement and management based on a dual axes approach: “function” and “categories”. The following section will present each of the two axes.

2.1 Function axis: impact management and impact measurement

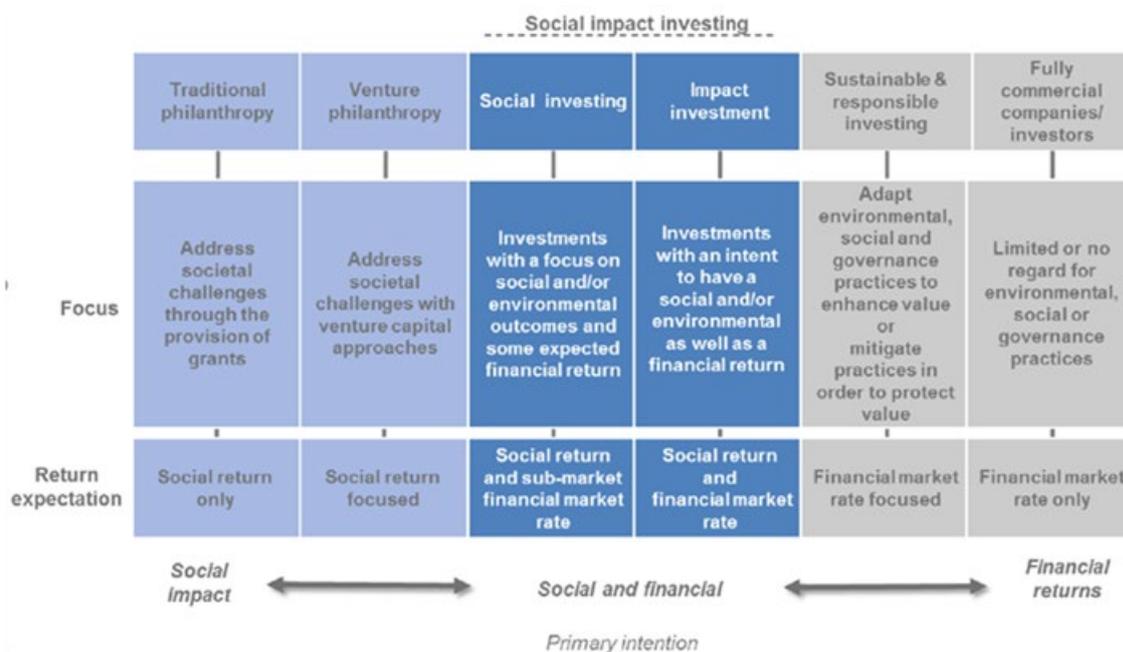
The first axis used to map the impact management and measurement approaches is the function axis. Function refers to the aim of each initiative mapped. We distinguish between two functions: (i) initiatives that support investors and enterprises on *managing* impact and (ii) those on *measuring* impact.

Impact management initiatives support both investors and enterprises embed positive and negative impact considerations in all decision-making processes, in the investment and business strategy and throughout all the steps of the investment process, from the deal screening, to the due diligence, deal structuring, investment management and exit. Impact management is the ongoing practice of working to reduce negative impacts and increase the positive ones.

Impact measurement refers to the process of measuring and monitoring the amount of change created by an organisation’s or an investor’s activities. Hence, initiatives in this group include principles, frameworks, methodologies and standards that support investors and enterprises in the process of measuring positive and negative impacts.

Investors will approach impact management and measurement differently, depending on their “impact strategy” (Gianoncelli et al., 2019^[5]). On one hand, investors that have the intentional objective of creating positive societal impact, while generating financial returns at the same time, look for guidance to maximise their positive impacts on a certain development goal. On the other hand, investors aiming to minimise the risk of generating negative impacts, and to avoid causing harm to people and the planet, but without the intention or mandate to generate positive impact, look for negative screening approaches, such as through environmental, social and governance (ESG) standards. The spectrum of investors is shown in Figure 1.

Figure 1. The spectrum of capital



Source: (OECD, 2019^[3]). "Social Impact Investment 2019: The Impact Imperative for Sustainable Development" <https://www.oecd.org/development/social-impact-investment-2019-9789264311299-en.htm>.

For the purpose of the paper, we mark a clear distinction between impact management and measurement initiatives. However, it is important to note that in reality the two cannot exist independently of each other. The process of managing impact defines the measurement system and practices that an investor or enterprise will adopt. At the same time, through impact measurement, development impact data are collected, analysed and used to then manage impact.

2.2 Categories axis

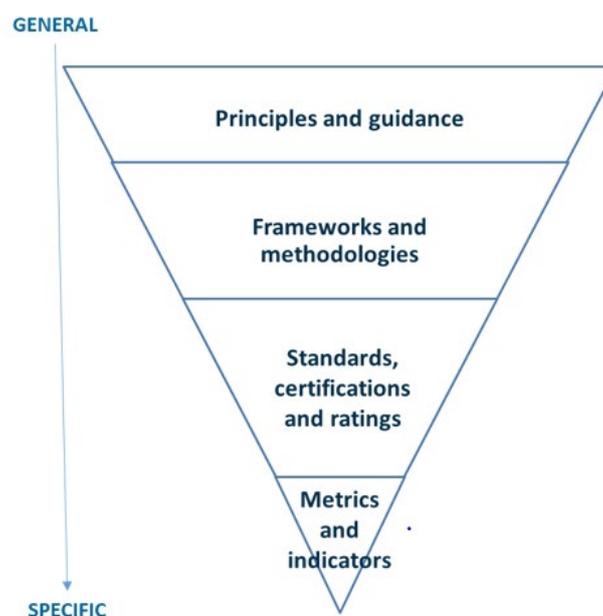
We categorise the existing impact management and measurement initiatives into of four broad groups:

- Principles and guidance: Principles are a broad set of agreed values that provide a common ethic. Guidance is used to further detail the principles.
- Frameworks and methodologies: Frameworks provide for a structure to facilitate the implementation of principles and guidance in practice. Methodologies provide a systematic way and procedures to implement principles within a certain framework.
- Standards, certifications and ratings: Standardised requirements based on best practice that has been agreed through an internationally recognised process. Certifications usually include a third-party verification to guarantee that a company or investment meets a certain standard. Ratings are rankings of companies or investments based on a comparative assessment of their level of achievement of a certain standard.
- Metrics and indicators: Standardised quantitative factors used to measure, track or compare investments. Databases of standardised, defined or commonly used indicators and measures that can be applied by investors and corporates.

The four categories are non-exclusive, as some of the initiatives reviewed in this paper aim at providing, for example, a set of principles that underpin certain standards, or a measurement framework.

Figure 2 illustrates the categorisation as an inverted pyramid, going from general (principles) to specific (metrics). Harmonisation and standardisation become increasingly difficult and problematic as we move from the more general categories (principles) to the more specific (metrics), as further detailed in Section 3.

Figure 2. Second axis: categories



Source: Authors

2.3 Combining the two axes: the framing

The combination of functions and categories results in a two-axes framing that can be used to map impact management and measurement initiatives. The result is the matrix presented in Table 1.

Initiatives are first assigned to one of the two functions: impact *management* or *measurement*. Within each functional group, an initiative can be assigned to one of the four categories: (i) principles, (ii) frameworks and methodologies, (iii) standards, certifications and ratings and (iv) metrics and indicators.

Table 1. Combining categories and functions: the framing of the mapping

CATEGORIES		Principles and guidance	Frameworks and methodologies	Standards, certifications and ratings	Metrics and indicators
FUNCTION	Impact management	How to: (i) include positive and negative impact considerations in the investment strategy and throughout the investment process, (ii) maximise positive impacts, align commercial finance to the SDGs and (iii) minimise negative impacts.	Frameworks and methodologies to design an impact-centred investment strategy and process, maximise positive impacts, align commercial finance to the SDGs and minimise negative impacts.	Standards, certifications and ratings based on best practice on how to include positive and negative impact considerations in the investment process in order to maximise positive impacts, align commercial finance to the SDGs and minimise negative impacts	NA
	Impact measurement	Principles and guidance to design and implement an impact measurement process.	Impact measurement frameworks and methodologies are used by investors to (i) set up an impact measurement process and (ii) map the existing portfolio activities based on the level of impact they target or have achieved.	Standards, certifications and ratings applying to impact measurement are instruments used to indicate that (i) the impact measurement process used by an investor or company abides to a certain level of quality, (ii) that the reporting on the impact achieved by the investor meets a certain standard or (iii) that the impact achieved by an investors meets a certain standards.	Metrics to use to measure impact. Input, output and outcome indicators. ESG metrics

Source: Authors

The next section examines each of the function/categories combinations in-depth, illustrating each of them through a number of examples.

3 Mapping of the impact management and measurement initiatives

Based on the two-axes framing presented in Section 2, this section presents each of the function/category combinations, and maps a number of impact management and measurement initiatives. The objective is not to provide a complete and exhaustive list of all the initiatives, but to present a number of examples for each of the function/category combination, and to give the reader an idea of the complexity of the impact management and measurement space.

The first sub-section analyses in more detail each category within the impact management function, followed by impact measurement. Each is illustrated by initiatives active in this area, and the mapped initiatives are summarised in Annex A.

3.1 Impact management

Impact management supports both investors and enterprises to embed positive and negative impact considerations in all decision making processes, in the investment and business strategy and throughout the investment process. This section will explore each of the four categories of the impact management function.

Impact management principles and guidance

Impact management principles provide a common ethic to help investors either (i) maximise positive impact by embedding impact-related issues and considerations in all decisions or (ii) minimise negative impacts and avoid harm by managing the risks associated with unsustainable practices.

In general, principles encourage investors to:

- embed impact considerations in the strategic intent and goal setting;
- strengthen an impact-centric organisational culture, focussing on data collection efforts to build the evidence that should drive decision making;
- guarantee that adequate resources are allocated to manage impact;
- have an impact measurement and management system in place and
- abide by overall principles of transparency and accountability.

Principles are intended for a broad use, hence they tend to be general and thus challenging to operationalise. Given their broad scope, principles are not specific to certain risks or impacts. Principles are voluntary, and most investors have been subscribing to one or another set of principles – often more than one – to signal to shareholders and the broader public their interest in managing impact. Although most principles mandate that reporting by investors should be subject to external audit and include reporting expectations, they are not designed to be frameworks for reporting or for impact measurement and thus do not include detailed key performance indicators (KPIs) or disclosure instructions.

The identification of strong KPIs, as well as third-party verification confirming that intentions have been put into practice, would be helpful to demonstrating how investors implement these principles and guidance in practice. A concrete step in this direction has been taken by the signatories of the IFC Operating Principles for Impact Management (OPIM), who have started publishing Disclosure Statements and Verification Statements on the OPIM website (IFC, 2020^[6]).

In recent years, a number of principles have been developed and adopted by both the public and private sector to support investors intentionally target positive outcomes.

The International Finance Corporation (IFC), for example, developed the Operating Principles for Impact Management (IFC, 2019^[7]), which describe the essential features needed to manage investment funds with the explicit intent to contribute to measurable positive social or environmental impact alongside financial returns. In addition, the Principles aim to ensure that impact considerations, both positive and negative, are integrated throughout the investment process and lifecycle of an investment, and that both positive and negative impacts are considered ex-post.

Similarly, the Principles for Positive Impact Finance of UNEP-FI (UNEP-FI, 2017^[8]) support banks and financial institutions in the creation and management of positive social impact. The principles are a high-level, inclusive, meta-framework to encourage financial institutions to put impact at the heart of their business operations. They are specifically addressed to banks and investors and push them to do more in areas where they have the power to lead change and create positive social impact beyond the minimisation of risks.

Although not solely targeted at impact management, the OECD DAC Blended Finance Principles (OECD, 2018^[9]) and the Kampala Principles (GPEDC, 2019^[10]) on effective private sector engagement in development co-operation call for a clearer focus on development outcomes, increased transparency and accountability. The OECD DAC Blended Finance Principle 1 in particular calls for blended finance to be anchored to a development rationale (ensuring development additionality). Similarly, the Kampala Principle 2 (GPEDC, 2019^[10]) emphasises the need for private sector engagement to be focussed on achieving sustainable development outcomes. The OECD DAC Blended Finance Principle 5 and the Kampala Principle 4 promote monitoring and evaluation, and the collection and use of data to guarantee transparency and accountability.

Despite their attempt to guide investors towards more impact-centric investment strategies and processes, or away from investments and business practices that harm people and the planet, most principles do not provide detailed guidance on how to assess the intentionality of the investor in the creation of social impact. The principles reviewed only include generic provisions for transparency regarding the motivations for an investor's decision to invest in activities that have the potential to generate a positive social impact. Hence, principles often need to be coupled with guidance, to guide investors and enterprises in the process of implementing the principles.

While certain investors and businesses strive to maximise their positive impact, others have as a primary aim the achievement of a financial return, and consider "impact" as a secondary decision-making factor. These investors will strive to mitigate the potential negative impacts that can be generated by their investments. Hence, principles have been developed to help minimise the risk of creating negative impact, and to help screen investments and projects with a view to directing resources away from investments that have potential negative impacts.

The Principles for Responsible Investment (PRI) (PRI, 2006^[11]), for example, are based on the premise that institutional investors and asset managers have a duty to act in the best long-term interests of their shareholders. As a result, investors and asset managers need to give appropriate consideration to how Environmental, Social and Governance (ESG) issues can affect the performance of investment portfolios. Principle 2 of the UNEP-FI principles focuses on impact and target setting, mandating that banks

continuously work to increase their positive impact while reducing the negative ones, and managing risks (UNEP-FI, 2017^[8]).

Similarly, the OECD “Responsible Business Conduct for Institutional Investors” (OECD, 2017^[12]) provide guidelines for institutional investors to help (i) identify actual and potential adverse impacts, (ii) seek to prevent and mitigate adverse impacts and (iii) account through tracking and communicating on results during due diligence. Notably, PRI and the OECD “Responsible Business Conduct for Institutional Investors” have been mentioned as key standards to report against in the recently agreed EU Regulation on Investor Sustainability Disclosures².

Focussing on debt instruments, the Equator Principles (EPs) (EPA, 2019^[13]) provide a risk management framework for financial institutions to assess and manage the environmental and social risks of projects. These principles aim, inter alia, to mobilise finance away from investment that have a degrading effect on the planet, such as fossil fuels and projects with a high level of carbon emission. EPs apply to (limited) project finance transactions, hence mainly lending operations.

Impact management frameworks and methodologies

Impact management frameworks and methodologies facilitate the implementation of impact management principles and guidance in practice.

Impact management frameworks are developed to help investors turn their impact ambitions (both in terms of the maximisation of positive impact or the minimisation of negative ones) into practice, assess how well they did so, and self-assess the quality of their impact management systems. The use of these frameworks is voluntary, and thus there is no expectation for investors to be externally audited on the quality of their impact frameworks.

The CERISE-IDIA (Impact-Driven Investor Assessment) (CERISE, 2018^[14]), for example, is a tool that investors can use to assess how well they have translated their impact strategy into practice. The IDIA scoring system is based on five dimensions: (i) how well the impact strategy is articulated, (ii) the quality of governance and management of the impact strategy within the organisation, (iii) the practices and products, (iv) the robustness of the business model and profitability and (v) the quality of the social and environmental reporting.

The Impact Management Project (IMP) “Guide to Classifying the Impact of an investment” (IMP, 2018^[15]) provides a framework for investors to map the existing portfolio activities based on the level of impact they target or have achieved. The framework categorises investments in three groups: A for Avoid harm, B for Benefitting stakeholders and C for Contributing to solutions. This classification allows investors to understand whether their portfolio is leaning more towards risk minimisation (“avoid harm” category) or impact maximisation (“contribute to solutions” category). Investors can use the framework to see whether and how their impact intentions translate into practice. The framework provides guidance on how to categorise the investments. However, in the absence of high-quality granular data, investors might encounter difficulties when assigning an investment to one or another category, with the risk of reducing the usefulness and practical value of the exercise.

The OECD Due Diligence Guidance for Responsible Corporate Lending and Securities Underwriting (OECD, 2019^[16]) provides a common global framework for financial institutions to identify, respond to and publicly communicate on environmental and social risks associated with their clients.

² https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2019.317.01.0001.01.ENG&toc=OJ:L:2019:317:TOC

Impact management standards, certifications and ratings

By virtue of being guided by the principles and anchored to frameworks and methodologies, standards, certifications and ratings are developed through an internationally recognised process, are based on best practice and are usually subject to third-party verification. A number of standards, certifications and ratings exist, each one serving different purposes, or targeting different types of investors.

The Social Performance Task Force (SPTF) Universal Standards for Social Performance Management (SPTF, 2013^[17]), for example, provide a specific group of investors, specifically microcredit investors, with best practice examples of how to put clients at the centre of all strategic and operational decisions and align policies and procedures with responsible business practices.

The United Nation Development Programme (UNDP) SDG Impact Practice Assurance Standards for Private Equity (UNDP, 2019^[18]) provide practical guidance to private equity investors to adopt best practice in managing impact. The Standards are designed to support private equity investors in their quest to align to the SDGs, putting into practice the intentions they signalled by signing up to principles. The Standards are combined with an SDG Impact Seal, a UNDP-managed certification framework to certify compliance with SDG-alignment standards. Currently, the UNDP is developing further standards on SDG Bonds (UNDP, 2020^[19]) and will also do so for enterprises.

Other impact management certifications are used to guarantee the quality of the process an investor follows to maximise its social impact. An example of a process certificate is the Social Value Certificate (SVUK, 2019^[20]), which can be awarded to investors and enterprises that have systems and processes in place to measure impact and for maximising social value. The Certificate is awarded by Social Value International, through a third-party review and verification process (SVI, 2019^[21]).

Ratings are used to classify organisations that have embedded impact in their investment strategy and decision-making processes (either as a positive or as a negative screening tool). The AERIS Impact Management Ratings (AERIS, 2018^[22]), for example, externally rate companies' or funds' environmental and social impact. Since 2004, AERIS has issued Financial and Impact Management ratings on more than 120 loan funds, with 83 loan funds rated in 2017. More than 150 institutional investors have used AERIS' ratings and analyses in their investment decision process and their portfolio management practices.

Impact management metrics and indicators

Metrics and indicators are used to measure the impact of investments (or of a portfolio of investments). As such, this category does not apply to the impact management function, but only to impact measurement and it is thus further explored at the end of the next section.

3.2 Impact measurement

Impact measurement is the process of measuring and monitoring the positive and negative impacts created by an organisation's or an investor's activities. This section explores the (i) principles and guidance, (ii) frameworks, (iii) standards, certifications and ratings and (iv) metrics and indicators to measure impact.

Impact measurement principles and guidance

Impact measurement principles are a broad set of values that provide a common ethic for investors to apply in designing and rolling out an impact measurement process.

In the "impact measurement principles" category we identify principles and guidance that support the design and/or implementation of a good impact measurement framework or process. Principles are

agnostic to tools or methodologies, hence their level of application is very broad, but they are not always easy to operationalise.

In the field of development co-operation, the principles to measure impact have been set through the monitoring and evaluation practice. Development co-operation has historically been at the forefront of the definition and dissemination of the monitoring and evaluation practice. This is at least partially due to the higher transparency standards which are intrinsically tied to cross-border transactions in general. The use of public money across government frontiers is understandably subject to (even higher) public scrutiny.

Therein, the OECD Development Assistance Committee (DAC) promotes norms and good practices and fosters common standards among the results and the evaluation communities. The OECD DAC Principles for the Evaluation of Development Assistance (OECD, 1991^[23]) include impartiality, independence, credibility and usefulness. They set the most important requirements for evaluation processes and products. Since the early 1990s, the evaluation criteria of the Development Assistance Committee, which include “impact” as one of the criteria, have been a strong foundation for international development evaluation. They have been the most prominent and widely adopted criteria used for aid evaluation by most bilateral and multilateral donor agencies, as well as international non-governmental organisations. These criteria have recently been updated, with new definitions of impact, effectiveness, sustainability, relevance, efficiency and coherence.

The Guiding Principles on Managing for Sustainable Development Results (MfSDR), adopted by the DAC in 2019 (OECD, 2019^[24]), aim to help development organisations navigate complex development co-operation and humanitarian challenges, reach their expected results and achieve impact. These principles reflect the changing context of development co-operation and the broader set of actors involved, and help organisations address the recurrent challenges they have been facing in practice. They provide a framework applicable to all development organisations, public and private, in setting up or refining results-based management approaches that are fit for the 2030 Agenda for Sustainable Development.

In recent years, the provisions made by impact measurement principles used by private investors to define and implement the impact measurement process have been converging. Overall, principles call for measurement processes to be transparent, clear, stakeholder-centred and useful to improve the quality of their activities, products and services. The principles have a broad application, so they should be applied both at enterprise/project level and at portfolio level.

The Social Value International (SVI) Principles of Social Value (SVI, 2018^[25]), for example, provide guidance on how to design and implement an impact measurement process that allows investors to be accountable for both the positive and negative impacts generated. They are generally accepted social accounting principles, so they can be applied by both enterprises and investors.

The European Expert Group on Social Entrepreneurship (GECES) also provides a set of guiding principles on social impact measurement. These guiding principles state that effective measurement should be: relevant (related to, and arise from the outcomes it is measuring), helpful (in meeting the needs of stakeholders’, both internal and external), simple (both in how the measurement is made and in how it is presented), natural (arising from the normal flow of activity to outcome), certain (both in how it is derived, and in how it is presented), understood and accepted by all relevant stakeholders, transparent and well-explained (so that the method by which the measurement is made, and how that relates to the services and outcomes concerned are clear) and founded on evidence (so that it can be tested, validated, and form the grounds for continuous improvement) (GECES, 2015^[26]).

The SVI principles and the GECES principles overlap and complement each other. They are also close to the evaluation principles set by the OECD DAC and other multilateral institutions. However, the language used is slightly different, to adapt to the user group they are directed to: investors and enterprises.

Impact measurement frameworks and methodologies

Impact measurement *frameworks* help investors define the steps to follow to set up and roll out an impact measurement process, how to measure impact ex-ante and ex-post and how to report impact. Impact measurement *methodologies* are techniques used to measure the impact of a project, an investment, or a portfolio of investments.

Investors use a wide variety of frameworks and methodologies to measure their positive and negative impacts. Although some of them have been picked up by a number of investors, to date there is no framework or methodology that has imposed over the others.

Commonly used methodologies include monetisation techniques that allow to assign a monetary value to units of impact, such as the Social Return on Investment (SROI) framework (SVUK, 2012^[27]), and the Impact Rate of Return (IRR) framework (Buffet and Eimicke, 2018^[28]). Monetisation approaches allow to simplify the reporting of the impact achieved by using a numerical proxy. SROI, for example, enables the calculation of an impact score for each investment relative to the amount of resources invested, while the IRR presents a way to calculate the relative social or environmental impact performance of impact-oriented investments. Recently, Harvard Business School – in partnership with the Global Steering Group on Impact Investing (GSG) and the Impact Management Project (IMP) – has worked on impact-weighted financial accounts (Serafeim, Zochowski and Downing, 2019^[29]). This initiative is built to drive the creation of financial accounts that reflect a company's financial and non-financial (social and environmental) performance. The ultimate aim of the initiative is to support investors and enterprises in a move from ESG-compliance to a focus on impact. It is hoped this will be achieved by seeing both financial and non-financial performance in the same accounts.

Harmonising impact measurement methodologies is a difficult exercise, as different methodologies have been developed to serve different purposes. Different investors measure success with different yardsticks, depending on their impact strategy (Gianoncelli et al., 2019^[5]). The underlying investments vary in their potential for data collection and reporting, depending on their size and level of development. This means investors constantly need to find the balance between measuring accurately and avoid creating cumbersome reporting requirements. In addition, the data availability and the sophistication of data collection systems differ greatly across sectors and countries, reducing the possibility to standardise impact measurement methodologies. For instance, lack of data to create an accurate baseline would make the exercise of conducting an SROI analysis complex and costly.

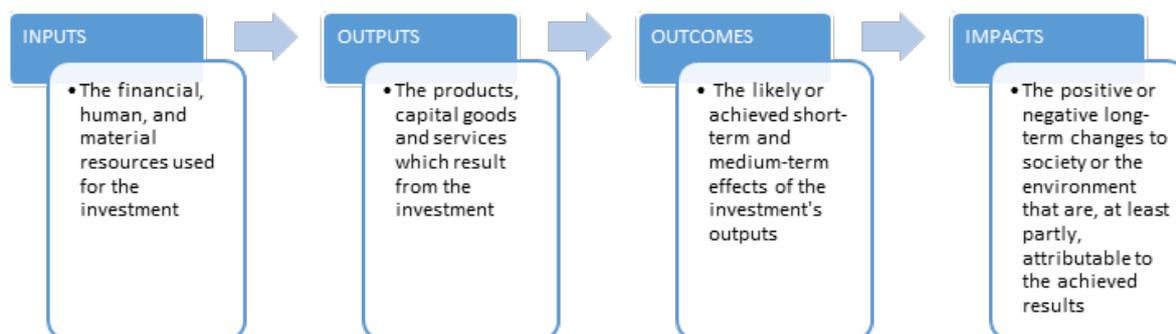
For all these reasons, through the years investors have been adopting individual frameworks and methodologies to measure impact.

IFC's Anticipated Impact Measurement and Monitoring (AIMM) (IFC, 2017^[30]), KfW DEG's Development Effectiveness Rating system (DERa) (KfW DEG, 2017^[31]) and the CDC Development Impact Grid (CDC, 2018^[32]) are all examples of frameworks and methodologies that individual investors use to measure their impact. IFC's AIMM system enables IFC to estimate the expected development impact of the investments, allowing to set targets and select projects with the greatest potential for financial sustainability and development impact. Similarly, KfW DEG's DERa helps the organisations in DEG's portfolio develop the theory of change, and to map the causal links from inputs, to outputs and impacts. The CDC Development Impact Grid is another investment screening tool, which scores every investment based on two factors: the difficulty in investing in the proposed country and the propensity of investments in the relevant business sector to generate employment.

In recent years a number of initiatives have been launched to standardise the impact measurement process and to build an overall impact measurement framework for investors. The starting point for these initiatives was either (i) to distil the basic elements of all impact measurement frameworks to create meta-frameworks that can be implemented using different methodologies, or (ii) to align a number of organisation behind a similar challenge, and to find a common solution.

In 2002, the DAC Working Party on Aid Evaluation (EvalNet) adopted a glossary of key terms in development co-operation evaluation and results-based management (OECD, 2002^[33]). On top of clear definition of key terms, the Glossary presents the definitions of the “results chain” of an investment or intervention. The causal sequence begins with inputs, moving through outputs and outcomes before culminating in impacts (see Figure 3). Another significant effort was made by the Network of Networks on Impact Evaluation (NONIE), which developed methodological guidance on impact evaluation (NONIE, 2006^[34]).

Figure 3. A visual representation of the Results Chain



Source: Adapted from (OECD, 2002^[33]) Evaluation and Aid Effectiveness No. 6 - Glossary of Key Terms in Evaluation and Results Based Management (in English, French and Spanish) <https://dx.doi.org/10.1787/9789264034921-en-fr>.

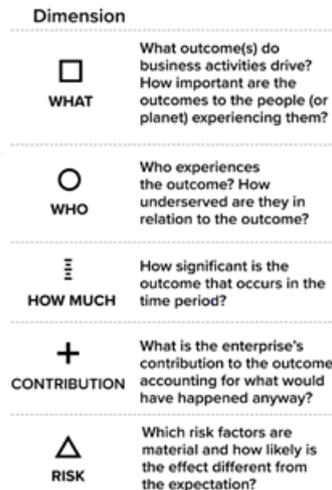
In the private sector, in 2013 the European Venture Philanthropy Association (EVPA) launched the five-step process to measure impact (Hehenberger, Scholten and Harling, 2013^[4]). The five steps are: 1) set objectives, 2) analyse and involve stakeholder, 3) measure results, 4) verify and value impact and 5) monitor and report. A slightly adapted version of the process was adopted by the European Commission Expert Group on Social Entrepreneurship (GECES) in 2014. The GECES five-steps are: 1) setting objectives, 2) engaging stakeholders, 3) measuring direct and indirect impact, 4) measuring and valuing impact and 5) reporting impact. The Social Impact Investment Taskforce established by the G8 also agreed on a process that is similar to the ones agreed upon by EVPA and the GECES.

The process approach proposed by EVPA and the GECES is supported by recent work by the European Commission and the OECD within the Better Entrepreneurship Policy Tool (OECD and EC, 2019^[35])³. In particular, the tool stresses how, while it is impossible for social enterprises to apply (and hence for social investors to impose) a single impact measurement methodology, there is broad consensus regarding the use of a common process to define one’s impact measurement and reporting approach.

In recent years, the Impact Management Project (IMP) tried to further refine the key elements of an impact measurement process, in an attempt to find dimensions that are relevant to all investors, not just social impact investors. These dimensions are presented in Figure 4.

³ <https://www.betterentrepreneurship.eu/en/node/47>

Figure 4. The IMP five dimensions of impact



Source: (IMP, 2018^[36]) "What is Impact?" (webpage), <https://impactmanagementproject.com/impact-management/what-is-impact/>.

The IMP dimensions are very closely linked to the five-step process approaches outlined above, with the addition of the "risk" dimension.

A second way to harmonise frameworks is to align a number of investors behind a common challenge, and find a common methodology to solve the issue. For example, some DFIs face the common challenge of observing and measuring indirect impacts. DFIs investments contribute to job creation, which in turn fosters economic growth and well-being, thus contributing to SDG 8 on inclusive growth and decent work for all. However, an investor cannot ask an investee to report on indirect impacts, as they might not be able to observe them. Hence, a group of DFIs⁴ have partnered to develop a system for modelling indirect impacts, the Joint Impact Model (JIM, 2020^[37]).

Impact measurement standards, certifications and ratings

Impact measurement standards, certifications and ratings are instruments used to define how an investor or enterprise should be reporting on the impact achieved or that the impact achieved by an investors meets a certain level of quality. As for the other categories, impact measurement standards, certifications and ratings can be directed either to investors and enterprises that aim to maximise their positive social impact or at investors and enterprises that rather want to manage the risks associated with negative social impact.

In recent years a number of standards have been launched, but despite a few attempts to standardise impact reporting there is no unique standard adopted by all investors and enterprises that allows to communicate impact results in a comparable and understandable way to all stakeholders. Standard setting is a slow-moving process, as it involves an extensive consultation process with a wide range of stakeholders.

Standard-setting often happens at the level of the corporate, as it is the corporate that collects, analyses and reports impact data. However, standards and certifications have a signalling effect toward investors, who can choose the corporates and projects to invest in, depending on the impact targeted or achieved.

⁴ At the moment of writing the group included: FMO (The Netherlands), Proparco (France), African Development Bank, FinDev Canada, BIO (Belgium) and CDC (United Kingdom). See <https://www.jointimpactmodel.com/> for an updated list.

The Sustainability Accounting Standards Board (SASB), has developed a set of corporate measurement and disclosure standards (SASB, 2018^[39]). SASB identified a set of measures that are financially material within a specific industry. By reporting on such metrics, a corporate can show its level of commitment towards disclosing financially-material sustainability information. Set at corporate level, the SASB standards allow investors to compare different potential investments within the same industry. Similarly, the Global Reporting Initiative (GRI) taxonomy “supports businesses understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being” (GRI, 2016^[40]).

DFIs have specific standards that are used to screen projects. Examples include the standards used by the International Finance Corporation (IFC), the Development Bank of Southern Africa (DBSA) and the European Investment Bank (EIB), which are aimed at client investees or project developers. Multilateral Development Banks (MDBs) have environmental and social standards which are designed to provide a base level of set of standards for projects or clients to meet before they are deemed investable. See, for instance, the DBSA Environmental and Social Safeguard Standards (DBSA, 2018^[41]) or the Evaluation Cooperation Group (ECG) Good Practice Standards for the Evaluation of Private Sector Investment Operations (ECG, 2012^[42]).

Standards of evaluation processes also exist. The DAC Quality Standards for Development Evaluation (OECD, 2010^[43]) describe the key pillars needed for a quality evaluation process. First approved in 2006, they are intended to contribute to a harmonised approach to evaluation in line with the principles of the Paris Declaration on Aid Effectiveness. Many institutions have developed their own quality standards and rating systems to rate the quality of evaluation reports / impact measures.

The issue of standardising impact reporting exists also at the level of investors, as clearly showed by a number of recent initiatives that aim to harmonise impact data collection and reporting.

In 2019, for example, the association of European Development Finance Institutions (EDFI) has launched the EDFI Harmonisation initiative, with the objective to harmonise the way in which DFIs measure their impact (EDFI, 2019^[38]). The ultimate goal of the EDFI Harmonisation initiative is to build credible impact standards for the SDGs that are relevant for DFIs, to facilitate consolidated reporting on core impact indicators. In addition, the SoDA Social Data Standards (SOCAP, 2015^[44]) and the EngagedX Investment STandards (EXIST) (EngagedX, 2013^[45]) are two initiatives that work towards interoperable and aggregated data via reporting standards.

Certifications like the Rainforest Alliance (Rainforest Alliance, 2020^[46]) and the B–Corp Certification (B–Corp, 2006^[47]) seek to target consumers/society at large and signal that companies or products meet sustainable standards. In order to obtain the Rainforest Alliance Certification, farmers must meet certain criteria and are externally audited by the Alliance. B–Corp Certification aims to provide a minimum standard for companies’ environmental and social performance. The certification is private and is issued based on the analysis of data obtained from operational staff and validated by the provider, B–Lab.

When it comes to minimising the risks connected with negative impacts, investors often refer to the application of “standard ESG practices”. Despite the popularity of ESG as screening criteria, no real standard exists on how to embed ESG considerations in the investment strategy and processes, leading a rising number of methodologies to calculate the “sustainability” of companies’ operations or of investors’ portfolios, culminating in sustainability indices, which rate corporates or investment portfolios on their ESG performance. A recent study by iShares estimates that there are over 1 000 ESG indices, each with its own methodology (iShare by Blackrock, 2019^[48]). Underlying the sustainability indices, there are a multitude of different ESG metrics, provided by a variety of private sector organisations (Berg, Kölbel and Rigobon, 2019^[49]). These metrics evaluate the portfolios of investments or the operations of companies and assign them a numerical performance value. The diversity of ESG metrics illustrates the difficulty of moving towards common metrics for the impact of sustainable investment more broadly. The OECD is

currently conducting research to deepen the understanding of the different standards and how they differ, and to see if and how a higher ESG rating is connected to a higher stock price.

Impact measurement metrics and indicators

The metrics and indicators category includes databases of indicators that (i) can be used by investors to measure outputs and outcomes, (ii) provide standardised definitions of measurements of outputs, outcomes and impacts which facilitate comparisons between investments and (iii) constitute data repositories that help build baselines in different sectors.

Although databases of indicators exist, investors often still use their own metrics. Standardised definitions for metrics used to measure impact and compare investments are still lacking, constituting a barrier to entry for investors and reducing the effectiveness of existing investors. The indicators used by investors are multiple, sometimes contradictory and often difficult to aggregate.

Two widely used databases of indicators are the Harmonized Indicators for Private Sector Operations (HIPSO) (IFI, 2013^[50]) and the Global Impact Investing Network (GIIN)'s IRIS Catalogue of Metrics (GIIN, 2020^[51]).

HIPSO is a catalogue of 38 indicators split over 15 sectors used by 25 international financial institutions (IFIs) to track development results. The GIIN's catalogue provides a broad range of metrics that investors can use to measure their outputs and outcomes, organised by sector.

In addition, a broad range of different indicators and metrics exist to measure ESG performance, focussing on mitigating negative outcomes of business operations and investments as opposed to attributable positive impacts.

4 Main findings and conclusion

This paper presents a two-axes approach to map the existing (i) principles, (ii) frameworks and methodologies, (iii) standards, certifications and ratings and (iv) metrics and indicators to *manage* and *measure* impact of sustainable investments targeting the SDGs. In addition, the paper applies the mapping approach to a series of existing initiatives, highlighting the complexity and alternative of principles, frameworks, methodologies, standards and metrics that exist to measure and manage impact – some overlapping, some contradicting each other.

The mapping provides interesting initial insights into the level of consensus in the space of sustainable investing.

- **Impact management principles have attracted signatories, the next challenge is implementation** – Comparing few examples, the paper highlights the important role played by existing *impact management principles*. By signing up to principles, investors can signal their commitment to maximising their positive impacts or minimising the risks associated with negative impacts. However, by nature, impact management principles are general and intended for broad use. Hence, they need guidance to be put in practice. Subscription to principles is voluntary, and most investors have been subscribing to one or another set of principles – often more than one – to signal their interest in “impact” and sustainability. However, enterprises and investors are not always held directly accountable for the implementation of principles in practice. The identification of strong Key Performance Indicators (KPIs), as well as third-party verification confirming that intentions have been converted into action, is helpful to demonstrate how investors implement principles and guidance in practice. In the absence of the right incentives and audit systems, self-reported data can generate SDG- and impact-washing. A concrete step in this direction has been taken by the signatories of the IFC principles, who have started publishing Disclosure Statements and Verification Statements on the website of the Operating Principles of Impact Management (OPIM).
- **Work is ongoing to create cohesion among existing impact management frameworks** – As outlined in the paper, although it is not possible to have one unique impact management framework, it is important to drive *cohesion* and harmonisation between the existing ones. One promising opportunity is provided by the current dialogue among standard setting organisations that are part of the impact management project (IMP).
- **The aim should not be to have a unique impact measurement framework, but a set of frameworks** – Various attempts have been made to standardise impact measurement frameworks and methodologies. However, it has become apparent that there is not one single methodology or framework that fits all purposes, for many reasons. Investors may require different information depending on their impact strategy, while the underlying assets (the companies that need to measure and provide the data) have different levels of capacity and budget to perform the assessments. In addition, the lack of data and data infrastructure in a country or sector hinders the use of complex modelling techniques and monetisation methodologies. Hence, we see the emergence of a set of frameworks that can be used in different contexts and for different purposes.
- **ESG frameworks are risk-mitigation frameworks** – ESG frameworks can be used by investors to mitigate the risks of harming people and the planet. Investors who want to go beyond risk

mitigation and towards impact maximisation should go beyond ESG and define an impact strategy as part of their investment strategy.

- **Investors should use standardised databases of *impact measurement metrics and indicators*, but only where possible** – A number of databases of metrics and indicators for measuring impact exist, providing standardised definitions of outputs and outcomes, for investors and companies to use, divided by sectors and sub-sectors. Investors should, where possible, use standardised indicators. However, in some cases investors might need to create new indicators to suit the needs of a specific underlying asset, in a new sub-sector or to answer a question that has important managerial implications.
- ***Impact measurement metrics and indicators* should be embedded in a robust *measurement framework*** – Although using indicators with standardised definitions is beneficial, because it increases the comparability of investments, picking a list of indicators to measure impact without first defining clearly the objectives for the measurement and a structured framework for measurement is not best practice.
- **It is still hard to go beyond outputs, and measure outcomes** – To date, investors and corporates tend not to go beyond output indicators, and do not measure outcomes. To be able to assess the real change they made on the lives of beneficiaries, investors should try, where possible, to set outcome targets and measure outcomes, not stopping at the level of outputs.
- **Define clear policy guidance** – Although number of actors have started harmonisation initiatives, such as the impact management project (IMP) and the recent EDFI Harmonisation Initiative as mentioned in this paper, to date policy guidance has not caught up to the existing initiatives led by the industry. The lack of clear and detailed policy guidance constitutes a gap that needs to be filled in order to avoid loss of credibility due to SDG-washing and impact-washing. In this context, the OECD can add value by driving a process of sharing and co-ordination, bringing together the best practices on the most credible principles, frameworks, standards and metrics for measuring and managing impact. Through the creation of policy guidance, policy makers can ensure that all investors that work on development follow best practice when it comes to managing and measuring their impact.

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Annex A. Summary table of all the initiatives mapped by function and category

CATEGORIES		Principles and guidance	Frameworks and methodologies	Standards, certifications and ratings	Metrics and indicators
FUNCTION	Impact Management	IFC Operating principles for Impact Management	CERISE-IDIA (Impact-Driven Investor Assessment)	SPTF Universal Standards for Social Performance Management	NA
		UNEP-FI Principles for Positive Impact Finance OECD Blended Finance Principles Kampala Principle for private sector engagement Principles for Responsible Investment (PRI) Equator Principles OECD Responsible Business Conduct for Institutional Investors	IMP guide to classifying the impact of an investment	UNDOP SDG Impact Practice Standards for Private Equity Social Value Certificate (1, 2, 3) Aeris Impact Management Ratings	

CATEGORIES		Principles and guidance	Frameworks and methodologies	Standards, certifications and ratings	Metrics and indicators
FUNCTION	Impact Measurement	DAC Principles for the Evaluation of Development Assistance	DAC Working Party on Aid Evaluation (EvalNet) – Glossary of key terms in evaluation and results-based management	SoDA social data standards	Global Impact Investing Network (GIIN)'s IRIS
		DAC Quality Standards for Development Evaluation	IFC's Anticipated Impact Measurement and Monitoring (AIMM)	EngagedX Investment Standards (EXIST)	Catalogue of Metrics
		Guiding Principles on Managing for Sustainable Development Results (MfSDR)	KfW DEG's Development Effectiveness Rating system (DERa)	Harvard Business School impact weighted financial accounting (<i>forthcoming</i>)	Harmonized Indicators for Private Sector Operations (HIPSO)
		European Expert Group on Social Entrepreneurship (GECES)	CDC Impact Grid	DBSA Environmental and social safeguard standards	OECD FDI Qualities Indicators
		Principles of impact measurement	JIM – Joint Impact Measurement (CDC, Proparco and FMO)	Evaluation Cooperation Group (ECG)	OECD measurement of corporates' impact on well-being
		Social Value International (SVI)	EVPA Five step process to IMM	Good Practice Standards for the Evaluation of Private Sector Investment Operations	
		Principles of Social Value	GECES Five step process to IMM	EU Technical Expert Group – sustainable finance taxonomy	
			Impact Management Project (IMP) Five core dimensions of impact	Rainforest Alliance Certification	
			Social Return on Investment (SROI) framework	B-Corp Certification	
			Impact Rate of Return (IRR)	Sustainability Accounting Standard Board (SASB) standards	
				EDFI Harmonisation initiative	

