SDG Impact

UNDP

SDG IMPACT STANDARDS

Private Equity Funds

Impact management for Private Equity, Debt and Venture Capital Funds committed to contributing positively to sustainable development and achieving the SDGs

Version 1.0

About UNDP

The United Nations Development Programme (UNDP) is the UN's global development network. It advocates for change and connects countries to knowledge, experience and resources to help people build a better life. UNDP aims to see our world radically changed for good and is the integrator of the United Nations Sustainable Development Goals (SDGs). UNDP is active in 176 countries and territories, working with governments and people on their own solutions to global and national development challenges and supporting country-level programs to achieve the SDGs.

About SDG Impact

SDG Impact is a global UNDP initiative, catalyzing investment to achieve the SDGs by 2030:

- **SDG Impact Management:** *Providing a means to better decisions that drive investment capital to where it is needed,* comprising SDG Impact Standards, an SDG Impact Seal and impact management education.
- **SDG Impact Intelligence:** *Producing data and insights needed for increasing financial flows to the SDGs,* offering SDG investor maps of investable business models via a searchable desktop platform.
- **SDG Impact Facilitation:** *Fostering matchmaking and collaboration to realize SDG investment opportunities,* focusing on investor and policy dialogue drawing on the UN presence in over 170 countries, deep sustainable development expertise and relationships with governments and other influencers.

Acknowledgements

UNDP thanks the SDG Impact team – SDG Impact Director Elizabeth Boggs-Davidsen, Sebnem Sener and Sara-Lisa Orstavik – and the expert advisers who have led and contributed to these Standards: Fabienne Michaux (lead author for the standards development), Carol Adams, Rosemary Addis, Susan De Witt, Jennifer Flynn, Ellen Maginnis, Liza Murphy, Jennifer Snape and Maria Laura Tinelli. UNDP also thanks the many organizations who have contributed time and valuable input through the development process including The Impact Management Project Team, IMP Structured Network Members, reference group members and all who contributed feedback through multiple rounds of consultation.

The **SDG Impact Steering Group**, chaired by the UNDP Administrator, Achim Steiner, comprises global champions and thought leaders from finance and industry from around the world. UNDP thanks these sustainability leaders for their critical role in authenticating SDG-enabling investment, signalling markets and driving adoption of these Standards: John Denton (Secretary-General, International Chamber of Commerce), Cheo Hock Kuan (Executive Director and CEO, Temasek Trust), Anna Ryott (Chair of Board, Summa Equity), Amy Jadesimi (CEO, Ladol), Ma Weihua (Chairman, China Alliance of Social Value Investment), Lisa Genasci (Founder and CEO, ADM Capital Foundation (ADMCF)), Daniel Hanna (Global Head of Sustainable Finance, Standard Chartered), Rajiv Lall (Chairman, IDFC First Bank), Ronald Cohen (Philanthropist and Chairman of the Global Steering Group for Impact Investment), Ken Shibusawa (CEO, Shibusawa and Company, Inc.) and Denise Hills (Global Sustainability Director, Natura). Thanks also to UNDP colleagues, other UN bodies for their insights and support in developing these Standards. Such leadership in embracing the SDGs and recognizing our collective responsibility is instrumental in realizing the SDGs by 2030.

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Foreword

The 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) are the world's *blueprint* to achieve a better and more sustainable future for all. They address the global challenges we face including poverty, inequality, climate change, environmental degradation, and peace and justice. These goals and the targets therein integrate economic, social and environmental aspects. They are also deeply interconnected: a lack of progress on one goal hinders progress on others. On the ground in 170 countries, the United Nations Development Programme (UNDP) assists the UN Resident Coordinator and UN Country Teams to facilitate more integrated analyses, planning and implementation -- to accelerate progress towards achieving the SDGs. A key part of this role is to actively engage with enterprises and investors and help them to fully *integrate* the SDGs into their business and investment decision making -- and ultimately to drive more capital to where it is needed most.

In every corner of the globe, the private sector is increasingly seeking new opportunities to make a positive impact – and to make *meaningful* contributions towards the achievement of the SDGs. However, they are lacking *concrete guidance* on how to translate intent to action -- a longstanding missing link. To this end, the new **UNDP SDG Impact Standards for private equity funds** are a practical contribution to provide a *common language* and a *clear system* to fully integrate the SDGs into all business and investment decision making processes.

The standards emanate from the important work being undertaken by **SDG Impact** -- a groundbreaking UNDP initiative to empower investors and businesses with the clarity, insights, and tools required to support and authenticate their contributions to achieving the SDGs. We are pleased to be supported in our SDG Impact endeavours by a Steering Group of global leaders.

Indeed, we saw the leadership role played by the private sector as a "first responder" to the COVID-19 pandemic -- as a provider of technology, innovation, skills, services, and employment. Now, as some countries start to recover from the devastating socio-economic impacts of the pandemic, the private sector will once again have a key role to play in helping the world not only to recover but to *build forward better*. I believe that the new UNDP SDG Impact Standards will serve as a practical tool to support the private sector in driving investment towards critical areas -- from taking decisive climate action to tackling widening inequalities. And crucially, the *Standards* are helping us to *reimagine* the role of enterprises and investments in our society. No longer can the world be driven by a zero-sum game of economy versus environment, or health versus economy, for instance. Rather, impact must be at the core of every consumption, employment, business, and investment decision that we make. I am delighted that, once again, the United Nations and UNDP are at the forefront of propelling this shift in thinking and doing.

Achim Steiner, Administrator, United Nations Development Programme (UNDP)

Contents

Introduction

UNDP SDG Impact is delighted to present version 1.0 of the *SDG Impact Standards for Private Equity Funds*. The Standards enter a rapidly changing context. COVID 19 and systemic risks associated with climate change affect all sectors. These factors underscore the urgency for action and inform renewed aspiration in the business, finance and investment community to commit to sustainable development and the SDGs. The SDG timeline and how much we still need to achieve by 2030 reinforces why we need these Standards now.

The Standards are for private equity, debt and venture capital fund managers (Private Equity Fund Managers) who want to make a positive contribution to sustainable development and achieving the SDGs through one or more of their Funds. They provide a roadmap and practical guidance to translate that intent to action.

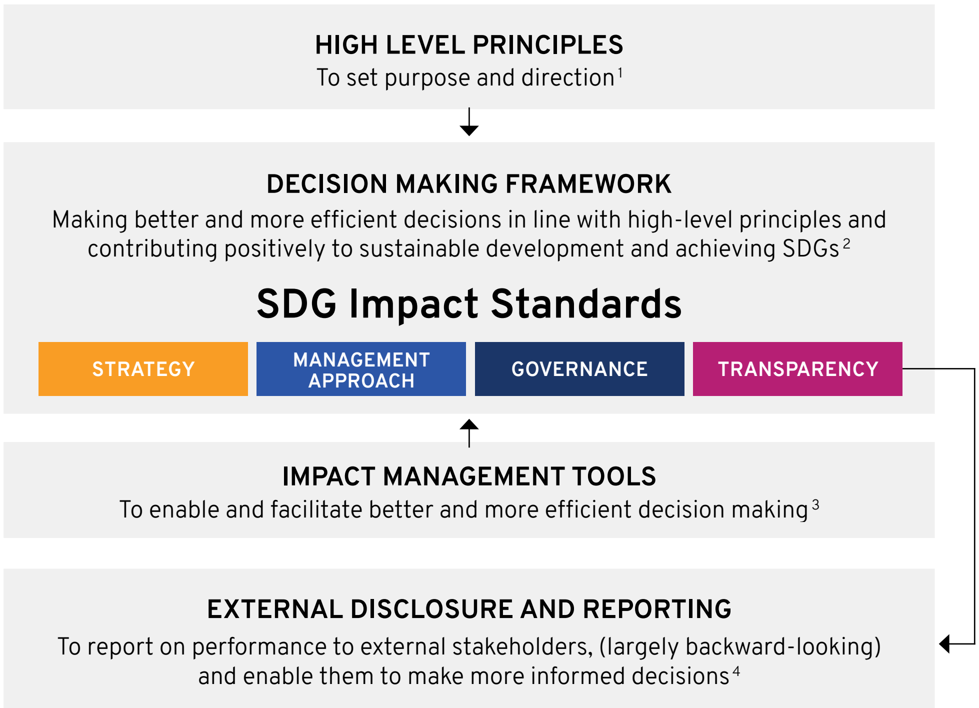
The Standards are provided as a public good. They are voluntary and freely available for all to use as best practice standards and a self-assessment tool. They are the first set to be released in what will be a harmonized suite of Standards for different actors across the capital and investment spectrum.

They are new and pioneering. Several stages of consultation, including two public consultations, provided critical practitioner and expert feedback. More lessons will come from fund managers putting them into practice, and these lessons will be reflected in future version releases.

How the Standards fit with existing principles, frameworks and tools

The Standards are grounded in high level principles of practice and provide the necessary context for integrating other tools and frameworks into decision making (see Figure 1).

Figure 1: SDG Impact Standards – transforming decision making to deliver the SDGs



Footnotes:

1 Including IFC's Operating Principles for Impact Management, UNEP FI's Principles for Positive Impact Finance and Responsible Banking Principles, Principles for Responsible Investment, Social Value International's Social Value Principles, and GIIN Core Characteristics of Impact Investors.

2 Integrating UN Guiding Principles for Business and Human Rights, Ten Principles of UN Global Compact and Impact Management Project shared norms, and contributing positively to sustainable development and achieving the SDGs.

3 For instance, metrics, taxonomies, valuation models, benchmarking tools e.g. IRIS+, GRI, UNCTAD metrics, Voluntary National Reviews (VNRs) on the implementation of the SDGs, SDG Impact Market Intelligence Investor Maps, Nationally Determined Contributions (NDCs) to the Paris Accord, OECD Guidelines for Multinational Enterprises, Capitals Coalition Natural and Social and Human Capitals Protocols, SVI Standards, Blab SDG Action Manager and UNEP FI Impact Analysis Tools.

4 For instance, Integrated <IR> reporting, SDG Disclosure Recommendations, GRI, SASB.

How the Standards work

The Standards promote a shift from reporting current activities differently (i.e. using the SDGs as another reporting filter) to doing things differently and making different decisions about what gets done and how it gets done.

The Standards are founded on contributing positively to sustainable development and achieving the SDGs. This cannot be done without demonstrating respect for human rights and other responsible investment practices, and is realized through effective impact management and decision making (see Figure 2).

The Standards provide a blueprint for a decision making and impact management system, which recognizes practice is evolving, some aspects of impact management remain challenging and decisions must be made amid uncertainty.

Broader adoption will encourage decisions that increasingly direct investment capital to activities and projects that will deliver the SDGs by 2030.

The Standards are designed to:

- Encourage Funds to start and/or accelerate activities that measure and manage progress towards addressing pressing economic, social and environmental challenges. By doing so, we can close gaps in current market practice to achieving SDGs by 2030, and leave no-one behind
- Reinforce respect for human rights and other responsible business practices as set out in the UN Guiding Principles for Business and Human Rights, and the Ten Principles of the UN Global Compact
- Generate trusted, credible and actionable impact information that informs investment decisions, in turn supporting sustainable development and optimizing contributions to achieve the SDGs
- Promote impact integrity and avoid impact washing, which includes: not over- or under-claiming; substantiating impact claims with reliable and relevant data, evidence and measurement; and accounting for all material impacts on people and the planet, assumptions made, gaps and limitations in understanding, trade-offs, and risks that impacts may not occur as expected
- Embed review and feedback loops to support continuous improvement and learning.

The building blocks for the Standards

The impact management system set out in the Standards has four building blocks:

- Putting the Fund's sustainable development operating context at the heart of purpose, investment strategy and decision making
- Aligning with IMP's Five Dimensions of Impact and ABC Impact Classifications, which provide a shared language of impact and promote standardization
- Making Stakeholder involvement central to impact management practice
- Establishing materiality in terms of sustainable development, informed by the SDGs and what matters most to Stakeholders.[1] This approach contrasts with the narrower lens of financial materiality, but is consistent with long term value creation of organizations and society, recognizing that organizations ability to create long term value for itself and others requires taking a broader, more holistic view of value creation (beyond financial value). It requires an appreciation for the interconnectedness of broader economic, social and environmental issues with financial performance – because value is created through the organization's relationships with others.[2] Material impacts include significant actual and potential, positive and negative, intended and unintended impacts on the economy, environment and people, including impacts on human rights. They relate to the Fund's own activities and those of its supply and value chains, or that are otherwise relevant to the Fund's (and its Investees') organizational and sustainable development context.

1 For instance, wealth inequality isn't an indicator under SDG 10, but may be considered a material sustainable development issue by Stakeholders.

2 The Sustainable Development Goals, integrated thinking and the integrated report, Adams, C., (2017), published by the IIRC and ICAS

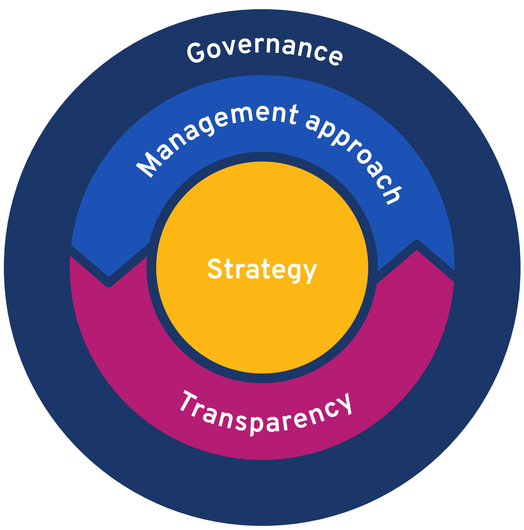
How the Standards are organized

The impact management system set out in the Standards is framed across four interconnected and interdependent themes familiar to all businesses and investors – strategy, management approach, transparency, and governance. (Figure 2).

Figure 2: SDG Impact Standards for Private Equity Funds

The foundational elements of the Standards are:

- **contributing positively to sustainable development and achieving the SDGs**
- which cannot be achieved without demonstrating **respect for human rights and other responsible business practices**
- and is realized through effective **impact management and decision making**



Standard 1 (Strategy): Embedding foundational elements into purpose and strategy

Standard 2 (Management Approach): Integrating foundational elements into operations and management approach

Standard 3 (Transparency): Disclosing how foundational elements are integrated into purpose, strategy, management approach and governance, and reporting on performance

Standard 4 (Governance): Reinforcing commitment to foundational elements through governance practices

What the Standards comprise

The Standards comprise:

I. Four Standards, one for each of the four themes – strategy, management approach, transparency and governance (the strategy and management approach Standards each comprise multiple components, three and six components respectively)

II. Practice Indicators that demonstrate what achieving each Standard (or the components of each Standard) looks like.

A Glossary supporting the suite of SDG Impact Standards is provided separately.

Guidance material, including guidance notes and resources to inform implementation of the Standards, is provided separately. This will be maintained as a dynamic resource for users.

Who can use the Standards

The Standards are for Private Equity Fund Managers committed to contributing positively to sustainable development and achieving the SDGs. They also provide useful guidance for other actors in the value chain to frame inquiry, assessment and decision making about a Fund's capacity and strategies to contribute to sustainable development and achieving the SDGs.

Fund Managers

All Private Equity Fund Managers can apply these Standards to one or more of their funds – irrespective of size, geography, or sector. The Standards can also be applied to private debt and venture capital funds.

They are equally relevant to impact and mainstream funds, and for Funds starting the process to actively transition to a more sustainable future by reducing negative impacts in its direct operations and its supply and value chains, or seeking to also deliver products and services that benefit Stakeholders and/or contribute to solutions in relation to the SDGs and/or other sustainable development outcomes.

Fund Managers can use the Standards to:

- Put sustainable development and contributing to the SDGs at the heart of the Fund's purpose, strategy, and investment decision making
- Map and design their Fund's internal impact management systems to support both internal decision making and external reporting requirements
- Undertake self-assessment and gap analysis, or engage consultants to guide them through that process
- Design and develop Private Equity Funds in line with the Standards to optimize their contribution to sustainable development and achieving the SDGs.

Investors

Investors can use the Standards to frame their investment guidelines, identify questions for Funds and Fund Managers about the SDG-enabling attributes of their Funds, or otherwise manage their internal work. Alternatively, they can use the Standards to push for greater standardization of practice and external assessment of Funds making SDG and other sustainability related claims.

Investees

Investees can use the Standards to design their responsible business and impact management practices to improve their impact performance and differentiate themselves with capital providers.

Analysts and advisers

Analysts, advisors and research houses can use the Standards to: map and determine the robustness of the responsible business and impact management practices of Funds; benchmark and compare those practices across Funds; and/or provide guidance on sustainable development and impact management practices.

Government and policymakers

Government and policymakers can use the Standards to align policy and regulations with the Standards. They can also support their adoption in line with policy priorities to promote sustainable development and achieving the SDGs by 2030.

Ways to use the Standards

Voluntary independent use

These Standards are provided to Funds as a benchmark for best practice and self-assessment. Funds can use them to align their internal processes, practices and decision making.

Funds are encouraged to use the Standards in their entirety as a gap analysis and self-assessment tool, and to fill gaps and improve practice over time.

Voluntary Assurance Framework and SDG Impact Seal

A voluntary external assurance framework and SDG Impact Seal are being developed in tandem with making the Standards available as a voluntary, self-assessment tool.

Complementary resources

UNDP is supporting these SDG Impact Standards with:

- A Glossary
- A compendium of guidance notes and links to useful resources
- Online training on impact measurement and management being developed through CASE at Duke University, and
- Assurer training (being developed by Social Value International) and accreditation to build additional capacity, capability and consistency within the assurance community.

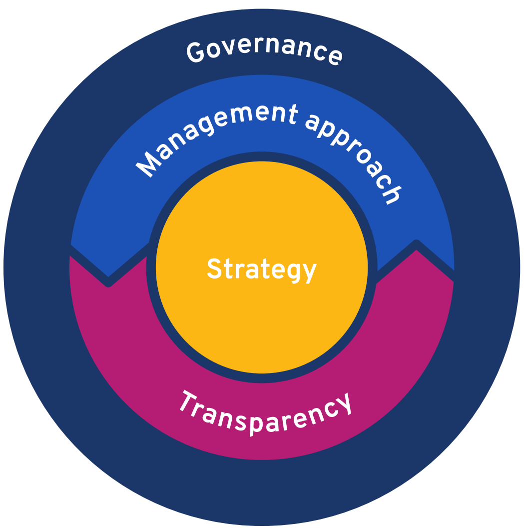
SDG Impact Standards for Private Equity Funds

I. The Standards at a glance

Figure 3: SDG Impact Standards for Private Equity Funds

The foundational elements of the Standards are:

- **contributing positively to sustainable development and achieving the SDGs**
- which cannot be achieved without demonstrating **respect for human rights and other responsible business practices**
- and is realized through effective **impact management and decision making**



Standard 1 (Strategy): Embedding foundational elements into purpose and strategy

Standard 2 (Management Approach): Integrating foundational elements into operations and management approach

Standard 3 (Transparency): Disclosing how foundational elements are integrated into purpose, strategy, management approach and governance, and reporting on performance

Standard 4 (Governance): Reinforcing commitment to foundational elements through governance practices

1. STRATEGY – The Fund embeds contributing positively to sustainable development and achieving the SDGs in its purpose and strategy:	
1.1	The Fund develops an impact thesis (or theses), embedding contributing positively to sustainable development and achieving the SDGs in its purpose and strategy.
1.2	The Fund sets realistic but ambitious portfolio level impact goals aligned with its strategy, including its impact thesis, to optimize contributing positively to sustainable development and achieving the SDGs.
1.3	The Fund periodically reviews – and refines – its impact thesis, investment strategy and portfolio level impact goals to ensure they remain fit for purpose over the Fund lifecycle and as the sustainable development context changes.

2. MANAGEMENT APPROACH – The Fund integrates impact management and contributing positively to sustainable development and achieving the SDGs into its operations and management approach:	
2.1	The Fund has effective mechanisms and processes to deliver on its strategy, including its impact thesis and portfolio level impact goals.
2.2	The Fund establishes criteria and pre-screens potential investments to assess strategic alignment with its purpose and strategy, including its impact thesis and portfolio level impact goals.
2.3	The Fund conducts ex ante impact assessments of potential investments that pass its pre-screening criteria, to assess relevant and material impacts, make informed choices between investment options, and so optimize its impact performance in line with its portfolio level impact goals.
2.4	The Fund engages openly, proactively and collaboratively with limited partners and potential Investees during the due diligence and investment structuring phase, to agree on how to embed impact considerations within the investment terms, and so optimize future impact performance.
2.5	The Fund systematically monitors and manages its ongoing impact performance overall and for each investment, and acts to optimize impact (including managing unexpected outcomes).
2.6	The Fund proactively manages its exits from investments to optimize impact on sustainable development and achieving the SDGs post exit.

3. TRANSPARENCY – The Fund discloses how it integrates contributing positively to sustainable development and achieving the SDGs into its purpose, strategy, management approach, governance and decision making, and reports (at least annually) on its performance.

4. GOVERNANCE – The Fund's commitment to contributing positively to sustainable development and achieving the SDGs is reinforced through governance practices of the Fund and the Fund Manager.

II. Standards and practice indicators

Standard 1 – STRATEGY

The Fund embeds contributing positively to sustainable development and achieving the SDGs in its purpose and strategy.

1.1 The Fund develops an impact thesis (or theses), embedding contributing positively to sustainable development and achieving the SDGs in its purpose and strategy.

Practice Indicators

The Fund:

1.1.1 determines how it intends to contribute positively to sustainable development and achieving the SDGs, including by engaging with the relevant local and national sustainable development context(s) and embedding respect for human rights and other responsible business practices in its approach

1.1.2 develops an impact thesis, or theses (see Impact thesis) specifying:

- 1.1.2.1 the SDG and/or other sustainable development outcome areas it intends to target
- 1.1.2.2 the type of impact it intends to achieve (see ABC Impact Classifications)
- 1.1.2.3 set in context of its impact risk appetite and tolerance (see Impact risk)

1.1.3 links its purpose and strategy with its impact thesis or theses (and its impact risk appetite and tolerance), including:

- 1.1.3.1 demonstrating compatibility with its investment strategy (including its financial return targets and its financial risk appetite and tolerance)

1.1.4 specifies how it intends to establish and promote alignment of interests among general and limited partners, Investees and other Stakeholders

1.1.5 ensures the magnitude (i.e. scale and/or depth) of the intended impact is commensurate with the size of the Fund

1.1.6 determines the resources it intends to allocate as part of its overall strategy.

Standard 1 – STRATEGY

The Fund embeds contributing positively to sustainable development and achieving the SDGs in its purpose and strategy.

1.2 The Fund sets realistic but ambitious portfolio level impact goals aligned with its purpose and strategy, including its impact thesis, to optimize contributing positively to sustainable development and achieving the SDGs.

Practice Indicators

The Fund:

1.2.1 draws on available evidence and relevant SDG impact data and information from reputable government and scientific and civil society organizations to set portfolio level impact goals that are:

- 1.2.1.1 realistic and ambitious (in context of current performance and relevant local or national SDG and/or other sustainable development outcome thresholds)
- 1.2.1.2 commensurate with the Fund's size
- 1.2.1.3 align with its purpose, impact thesis, investment strategy and the sustainable development context of the markets in which the Fund intends to operate

1.2.2 includes in its impact goals:

- 1.2.2.1 specific cross-cutting goals on creating gender equality, climate action, and decent work
- 1.2.2.2 specific goals 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)
- 1.2.2.3 specific goals to optimize its own investor contributions (see Investor contribution(s) to impact)

1.2.3 have a separation of roles between drafting and approval of impact goals, where those approving the goals recognize they are acting in both the interests of the Fund and those expected to be impacted

1.2.4 consider the potential for unintended consequences and seek to limit the potential for unintended negative or perverse outcomes in the framing of its portfolio level impact goals.

Standard 1 – STRATEGY

The Fund embeds contributing positively to sustainable development and achieving the SDGs in its purpose and strategy.

1.3 The Fund periodically reviews – and refines – its impact thesis, investment strategy and portfolio level impact goals to ensure they remain fit for purpose over the Fund lifecycle and as the sustainable development context changes.

Practice Indicators

The Fund:

1.3.1 employs a dynamic approach to ensuring its impact thesis, investment strategy and portfolio level impact goals remain fit for purpose

1.3.2 incorporates lessons from impact performance, including analysing deviations from expected outcome/impact performance

1.3.3 responds to current and anticipated changes in the sustainable development context including changes to in country SDG priorities or needs and accounting for sector advances and new and updated research/evidence, and lessons from its engagement with Investees, partners and other Stakeholders.

Standard 2 – MANAGEMENT APPROACH

The Fund integrates impact management and contributing positively to sustainable development and achieving the SDGs into its operations and management approach.

2.1 The Fund has effective mechanisms and processes to deliver on its strategy, including its impact thesis and portfolio level impact goals.

Practice Indicators

The Fund:

2.1.1 embeds in its policies and practices the UN Guiding Principles for Business and Human Rights and Ten Principles of the UN Global Compact, including:

2.1.1.1 establishing or participating in effective grievance and reparation mechanisms for affected Stakeholders (including for the avoidance of doubt, whistleblowing safeguards)

2.1.1.2 ensuring senior leadership's commitment to respect human rights and other responsible business practices is visible throughout the organization

2.1.1.3 promoting the same in its supply and value chains

2.1.2 integrates respect for human rights, other responsible business practices and impact management into day-to-day roles and decision making processes, including:

2.1.2.1 developing its integrated thinking and decision making capabilities using mechanisms such as appropriate culture, communication systems and training

2.1.2.2 making choices between different options, taking into account trade-offs and/or impact risks to optimize contributing positively to sustainable development and achieving the SDGs

2.1.2.3 allocating adequate budget and people resources (including capability, training and leadership) to deliver its strategy and impact goals

2.1.2.4 holding people at all levels accountable for operating in accordance with organizational culture and responsible business and impact management policies and practices

2.1.2.5 having sufficient diversity, sustainable development, Stakeholder engagement and impact management specialization at the appropriate level of seniority and authority to influence decision making

2.1.2.6 aligning its incentive mechanisms with its purpose and strategy, including by rewarding challenge and diversity of thought and reducing emphasis on short-term financial outcomes

2.1.3 implements mechanisms to proactively monitor its performance and conformance with its responsible business and impact management policies and practices, and embeds a culture of continuous improvement

2.1.4 complies with local and international laws and regulations, striving to comply with the highest possible level of industry best practice, particularly in cases where there is a lack of local regulation or the standard is comparatively low and identifying (and finding solutions for) where local and international lows and regulations are in conflict

2.1.5 has effective mechanisms to identify Stakeholders materially affected (or likely to be affected) by its (and its Investees) activities and promotes Stakeholder involvement in decisions that impact them, including:

2.1.5.1 having (and ensuring Investees have) transparent mechanisms for involving those Stakeholders and ensuring they have meaningful agency in decisions relating to the Fund and its' investments that impact them, including in identifying material impacts, designing solutions, developing impact data collection processes, selecting metrics, and participating in collecting and assessing impact data

2.1.5.2 transparently keeping Stakeholders informed of actions, progress and lessons through the lifecycle of the investment, directly or indirectly through its Investees

2.1.5.3 supporting Stakeholder involvement with adequate budget and resources (including capability and local leadership)

2.1.6 introduces robust, reliable and practical processes to collect, manage and use its impact data, including:

2.1.6.1 systematically capturing results from across its impact management activities

2.1.6.2 presenting its impact data and information in a way that it can be integrated with financial data and inform investment decision making

2.1.6.3 managing data ownership (i.e. Stakeholders) and privacy issues and ethical and commercial issues regarding data gathering, use and disclosure

2.1.6.4 taking a risk-based approach to determine external verification and assurance requirements for its impact data, impact assessments and evaluations, and external reporting, and following up findings with suitable rectification measures in a timely manner

2.1.7 employs a dynamic approach to ensuring its impact management practices remain fit for purpose by:

2.1.7.1 incorporating lessons from its impact management activities and impact performance, including analysing deviations from expected outcome/impact performance

2.1.7.2 incorporating sector advances, new and updated research/evidence and lessons from its engagement with partners and other Stakeholders

2.1.7.3 periodically reviewing and refining its impact management practices in light of changes in the sustainable development context and its impact performance, impact thesis, investment strategy, and/or portfolio level impact goals.

Standard 2 – MANAGEMENT APPROACH

The Fund integrates impact management and contributing positively to sustainable development and achieving the SDGs into its operations and management approach.

2.2 The Fund establishes criteria and pre-screens potential investments to assess strategic alignment with its purpose and strategy, including its impact thesis and portfolio level impact goals.

Practice Indicators

The Fund:

2.2.1 establishes investment pre-screening criteria to assess alignment with its purpose, impact thesis/theses, investment strategy, portfolio level impact goals (including its portfolio composition) and its responsible business and impact management policies and practices

2.2.2 pre-screens potential investments against its pre-screening criteria

2.2.3 for investments it intends to advance to the due diligence phase that have any material gaps or shortcomings against its pre-screening criteria:

2.2.3.1 communicates these to potential investees

2.2.3.2 documents these for rectification (as conditions precedent or over time post investment close) through negotiation of impact terms and plans.

Standard 2 – MANAGEMENT APPROACH

The Fund integrates impact management and contributing positively to sustainable development and achieving the SDGs into its operations and management approach.

2.3 The Fund conducts ex ante impact assessments of potential investments that pass its pre-screening criteria, to assess relevant and material impacts, make informed choices between investment options, and so optimize its impact performance in line with its portfolio level impact goals.

Practice Indicators

The Fund:

2.3.1 develops its impact thesis for each potential investment (see Impact thesis), informed by its ex ante impact assessment (see below)

2.3.2 develops impact assessment criteria for pre-screened investments that reflect its portfolio level impact goals, and assesses all material (positive, negative, intended, and unintended) impacts systematically and consistently, incorporating the Five Dimensions of Impact and associated data categories:

2.3.2.1 **What, Who, How much** – assessing future expected outcomes, including (i) establishing baselines, counterfactuals and relevant SDG and/or other sustainable development outcome thresholds, and (ii) assessing the potential impacts on different segments among Stakeholder groups separately (with a particular focus on the core SDG objective of "leaving no-one behind")

2.3.2.2 **Contribution** – estimating the expected impact of the investment by assessing its contribution to those outcomes

2.3.2.3 **Risk** – assessing material impact risks (see Impact risk), using sensitivity and scenario analysis to assess the likelihood that the actual impact may be different to what is expected, assess when impacts are likely to be realized, calculating expected impact risk adjusted impacts and considering risk mitigation measures that could be introduced

2.3.3 engages with the local context to substantiate the relevant local or national SDG and/or other sustainable development outcome thresholds, giving precedence to international norms where locally set thresholds are lower than international norms

2.3.4 assesses how the Investee is acting to avoid harm by preventing, reducing or mitigating all material negative impacts in its direct operations and supply and value chains (and if not the case, actions that can be introduced to do so)

2.3.5 determines the (positive and/or negative) contributions the Fund expects to make (through its own actions) to the impact performance of each investment (see Investor contribution(s) to impact)

2.3.6 considers which metrics to use and how much data is sufficient to make a decision:

- 2.3.6.1 accounting for the risk (including to Stakeholders) of uncertainty when impact data across the 15 data categories is unavailable or insufficient (see Impact data categories), taking into consideration risk mitigation measures that can be put in place, including the opportunity to fill data gaps (quality and completeness) and build the evidence base after investment close
- 2.3.6.2 selecting and using metrics that wherever possible include context and valuation and provide the required level of confidence that the impact is being achieved – using existing standardised metrics where appropriate but recognizing that management accounting and internal metrics will be needed
- 2.3.6.3 where activity or output (rather than outcome) metrics are used as proxies for outcomes, having a robust process for determining and explaining why those activity or output metrics are effective proxies for good outcomes
- 2.3.6.4 considering the potential for unintended consequences and seeking to limit the potential for unintended negative and perverse outcomes in the framing of its investment impact targets and the metrics it selects and how it uses them

2.3.7 seeking to define the results from its impact assessments consistently (e.g. using a common measure and defining outcomes in terms of wellbeing) to facilitate systematic, evidence- and risk-based valuation and decision making

2.3.8 makes (relative and absolute) choices between investment options accounting for trade-offs and impact risks to optimize impact performance and contribution to sustainable development and achieving the SDGs

2.3.9 determines whether comprehensive ex ante or ex post (independent third party) impact evaluations in line with international guidance are required for certain investments

2.3.10 captures the results from its impact assessments (including documenting its calculation methodologies and assumptions applied) in its impact management system so it can be connected to its decision making and ongoing impact management activities.

Standard 2 – MANAGEMENT APPROACH

The Fund integrates impact management and contributing positively to sustainable development and achieving the SDGs into its operations and management approach.

2.4 The Fund engages openly, proactively and collaboratively with limited partners and potential Investees during the due diligence and investment structuring phase, to agree on how to embed impact considerations within the investment terms, and so optimize future impact performance.

Practice Indicators

The Fund:

2.4.1 is transparent with potential Investees and limited partners about its investment strategy, impact thesis and portfolio level impact goals and communicates its expectations about impact management, impact reporting, transparency and governance

2.4.2 satisfies itself of potential Investees' commitment to sustainable development and impact management and their:

2.4.2.1 strategic alignment with sustainable long term value creation and the Fund's impact thesis relating to the investment, or where there are differences or gaps, these have been accounted for in the Fund's impact risk assessment

2.4.2.2 adequacy of systems in place (or to be put in place) to manage impact (including impact risk) appropriately

2.4.2.3 ability and willingness to improve, adapt and learn, including to rectify shortcomings and/or change direction based on results

2.4.2.4 governance practices, including independent oversight from a body comprising competencies concerning sustainable development issues and impact management

2.4.3 engages openly, proactively and collaboratively with potential Investees and limited partners throughout the impact due diligence and investment structuring phase to align and set shared impact and financial objectives, terms and expectations, including to:

2.4.3.1 agree on realistic but ambitious investment level impact target(s) based on a relevance and materiality assessment and linked to the Fund's portfolio level impact goals, as well as on associated relevant baseline(s), counterfactual(s) and SDG and/or other sustainable development outcomes threshold(s)

2.4.3.2 agree on clear impact terms and impact plans for the investment to optimize future impact performance, including clarifying roles and responsibilities

2.4.3.3 agree on appropriate rules of engagement for constructive dialogue and partnership post investment

2.4.3.4 agree when and how investments should be reviewed and independently evaluated, if relevant, and conditions for exit

2.4.4 documents agreed impact and financial objectives, terms and expectations within the legal documents of the investment agreement.

Standard 2 – MANAGEMENT APPROACH

The Fund integrates impact management and contributing positively to sustainable development and achieving the SDGs into its operations and management approach.

2.5 The Fund systematically monitors and manages its ongoing impact performance overall and for each investment, and acts to optimize impact (including managing unexpected outcomes).

Practice Indicators

The Fund:

2.5.1 develops an effective monitoring system to assess progress against its portfolio level impact goals and investment level impact targets and relevant SDG and/or other sustainable development outcome thresholds, baselines and counterfactuals to inform decision making

2.5.2 monitors and manages Investees' adherence to impact terms (including to embed Stakeholder involvement in impact monitoring and management activities) and progress against impact plans

2.5.3 uses data, results and evidence-based learning to inform its decision making and benchmark its impact performance

2.5.4 seeks to fill relevant and material impact data gaps and establish an evidence base to test the validity of any assumptions made and replace proxies used in its ex ante impact assessments with outcome measures

2.5.5 identifies and analyzes the reasons for deviations from expected impact performance, and where necessary, acts to optimize impact and manage negative impacts, emergence of additional impact risks and impact underperformance, including:

2.5.5.1 developing mitigation plans

2.5.5.2 addressing the immediate and sustained impact(s) on Stakeholders

2.5.5.3 where actual impact performance underperforms expected impact performance, giving precedence to actions that may improve impact performance ahead of considering early exit options

2.5.6 engages proactively with its Investees to share lessons and continuously improve their responsible business and impact management policies, practices and performance throughout the lifecycle of each investment

2.5.7 accounts for the positive and negative impacts from exited investments in its overall assessment of the Fund's impact performance

2.5.8 incorporates lessons into its strategy and management approach, and shares lessons with limited partners.

Standard 2 – MANAGEMENT APPROACH

The Fund integrates impact management and contributing positively to sustainable development and achieving the SDGs into its operations and management approach.

2.6 The Fund proactively manages its exits from investments to optimize impact on sustainable development and achieving the SDGs post exit.

Practice Indicators

The Fund:

2.6.1 monitors and reassesses its exit options and pathways throughout the investment's lifecycle to optimize impact on sustainable development and achieving the SDGs post exit

2.6.2 assesses the overall impact of each investment at exit relative to the Fund's portfolio level impact goals, investment level impact targets and contribution to sustainable development and achieving the SDGs, taking into account baseline performance and relevant SDG and/or other sustainable development outcome thresholds

2.6.3 where possible, follows up on investments post exit to understand drivers for sustaining and optimizing impact post exit, and incorporates lessons in its impact management practices and decision making.

Standard 3 – TRANSPARENCY

The Fund discloses how it integrates contributing positively to sustainable development and achieving the SDGs into its strategy, management approach, governance and decision making, and reports (at least annually) on its performance.

Practice Indicators

The Fund:

3.1 discloses relevant information about the Fund and the Fund Manager in its legal and offering documentation to enable potential Investees, limited partners and Stakeholders to make informed decisions, including:

3.1.1 how the Fund and Fund Manager (and any parent and/or holding company, including its ultimate holding company) implement and manage respect for human rights and other responsible business practices

3.1.2 its purpose and approach to long term value creation, impact thesis, investment strategy and portfolio level impact goals, including the level of ambition in its portfolio level impact goals relative to the Fund's size, established baselines and relevant SDG and/or other sustainable development outcome thresholds (using the ABC impact classifications and SDG and/or other sustainable development outcome targets to communicate the intended types of contribution to sustainable development and achieving the SDGs)

3.1.3 how it integrates contributing positively to sustainable development and achieving the SDGs into its strategy, management approach and decision making, and reinforces its commitment through its and the Fund Manager's governance practices

3.2 reports publicly at least annually on the Fund's impact performance including:

3.2.1 at the portfolio level against the Fund's impact thesis and portfolio level impact goals by showing changes in outcomes relative to baselines and SDG and/or other sustainable development outcome thresholds, and with other contextual information required to fully assess the impacts (see Five Dimensions of Impact); accounting for all material positive, negative, intended and unintended impacts

3.2.2 where feasible, at the investment level, performance against investment level impact targets by showing changes in outcomes relative to baselines and SDG and/or other sustainable development outcome thresholds, and with other contextual information required to fully assess the impacts (see Five Dimensions of Impact); accounting for all positive, negative, intended and unintended material impacts

3.2.3 using the 'ABC' impact classifications to communicate the type of contribution to SDG and/or other sustainable development outcomes, for instance, segmenting its investments by the 'ABC' impact classifications, and within each classification, the relevant and material SDG and/or other sustainable development outcomes (see ABC impact classifications)

3.2.4 disclosing material assumptions made, limitations and gaps in data and understanding, impact risks and trade-offs

3.3 considers and implements reporting mechanisms best suited to meeting the needs of Stakeholders affected by its activities and the civil society organizations that act on their behalf, including considering where appropriate to use additional non-public, tailored reporting or changes to existing public reporting to make it more relevant and accessible to a broader range of Stakeholders

3.4 makes publicly available the Fund's and Fund Manager's (and any parent and/or holding company's – including its ultimate holding company's) human rights and other responsible business policies.

Standard 4 – GOVERNANCE

The Fund's commitment to contributing positively to sustainable development and achieving the SDGs is reinforced through governance practices of the Fund and the Fund Manager.

Practice Indicators

The Fund:

4.1 has active oversight from its governing bodies (depending on structure, the board and/or the investment committee) of matters relating to:

4.1.1 organizational culture

4.1.2 its policies on respect for human rights and other responsible business and impact management policies, including its grievance and reparation mechanisms for affected Stakeholders (including for the avoidance of doubt, whistleblowing safeguards)

4.1.3 performance and conformance (including progress on and process for continuous improvement) with its responsible business policies and practices

4.1.4 process of Stakeholder identification and involvement in decision making

4.1.5 Stakeholder complaints and remedial actions taken (ensuring no instances of adverse findings without adequate remedies being in place)

4.1.6 relevant and material sustainable development issues, including risks and opportunities

4.1.7 its purpose and approach to creating sustainable long term value, impact thesis (including its impact risk appetite and tolerance), portfolio level impact goals and investment strategy and the compatibility of its impact thesis and portfolio level impact goals with its investment strategy (including its financial return targets, and financial risk appetite and tolerance)

4.1.8 performance and conformance with its impact management policies and practices, and progress against its portfolio level impact goals and investment level impact targets and related relevant SDG and/or other sustainable development outcome thresholds, baselines and counterfactuals

4.1.9 adequacy of budget and resources to manage Stakeholder involvement effectively and deliver its impact thesis and portfolio level impact goals

4.1.10 impact and sustainable development related disclosures and external reporting

4.2 has governing bodies (depending on structure, the board and/or the investment committee) that:

4.2.1 have competencies concerning sustainable development issues and impact management

4.2.2 prioritize gender and other dimensions of diversity (as demonstrated by composition and culture, including openness to hearing and including different voices and perspectives in decision making)

4.2.3 recognize the implications of low accountability to those impacted and the need to act on their behalf in decisions

4.2.4 hold the CEO/Managing Director accountable for the Fund positively contributing to sustainable development and the SDGs, including operating in accordance with its culture, responsible business and impact management policies and practices and delivering on its strategy, including its impact thesis and portfolio level impact goals

4.2.5 meets the national minimum corporate governance standards, as appropriate

The Fund Manager (and any parent and/or holding company – including its ultimate holding company):

4.3 has policies, practices, and performance relating to corporate governance, and respect for human rights and other responsible business practices that are consistent with the requirements set out in these Standards.

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