

SDG Impact Standards

Mapping Document

Mapping Operating Principles for Impact Management to UNDP's SDG Impact Standards for Private Equity Funds

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.

About the Operating Principles for Impact Management

The Operating Principles for Impact Management (the Principles) provide “a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle”. They provide an overarching architecture for best practices within impact management systems and require transparency through verification reports that is helping to advance the impact investing field.

The Principles have been designed from the perspective of an end-to-end process. The five elements of this process are: strategy, origination and structuring, portfolio management, impact at exit, and independent verification. The nine Principles that fall under these five main elements aim to ensure that impact considerations are integrated into investment decisions throughout the investment lifecycle.

About the SDG Impact Standards for Private Equity Funds

The *SDG Impact Standards for Private Equity* (the Standards) are for private equity, debt and venture capital fund managers who want to make a positive contribution to sustainable development and achieving the SDGs through one or more of their Funds. The Standards promote an approach which is increasingly purposeful by linking sustainable development and achieving the SDGs to core strategy, practice and decision making. They provide a blueprint for a decision making and impact management system, which enables fund managers to better facilitate contributing positively to sustainable development and achieving the SDGs. They provide a critical

missing link – the management framework that connects high level principles of practice with the relevant tools, taxonomies, and reporting frameworks.

About this mapping document

The *Operating Principles for Impact Management* were a core design aspect for the *SDG Impact Standards for Private Equity Funds*. The Standards have been developed to support the application of the Principles by providing specific practice guidance around how organizations can build systems to measure and manage impact and improve decision making. While the Standards provide a deeper level of guidance that can be used to operationalize the Principles, there are two key areas worth highlighting where there are different approaches including:

- The SDG Impact Standards for Private Equity apply to all funds seeking to contribute positively to sustainable development and the SDGs, not just to impact investment funds.
- The SDG Impact Standards provide the building blocks for the management systems for specific funds focused on the SDGs, but also cover certain governance practices at the Fund Manager level. This includes a commitment to human rights and other responsible business practices.

The SDG Impact Standards provide the building blocks for an internal impact management system that align to the Principles and other impact related initiatives. This document maps the specific guidance under the nine principles within the *Operating Principles for Impact Management* against the practice indicators within the *SDG Impact Standards for Private Equity Funds* illustrating how the application of the Standards can support the adherence to the Principles.

Note: This mapping was done based on publicly available documentation for both the Standards and the Principles. As part of the release of Version 1.0 of the *SDG Impact Standards for Private Equity Funds*, the guidance notes have been removed and will be included in a separate guidance document that will be released in late Fall 2020. These guidance notes provide additional context to the mapping of the Practice Indicators.

Mapping the practice indicators from the SDG Impact Standards for Private Equity Funds to the Operating Principles for Impact Management

Note: Guidance notes provide additional guidance in relation to the practice indicators	
Operating Principles for Impact Management	SDG Impact Standards for Private Equity Funds (the Standards)
1. Define strategic impact objective(s), consistent with the investment strategy	Practice Indicators
<ul style="list-style-type: none"> The Manager shall define strategic impact objectives (e.g. intended impact that contributes to financial, institutional, social, environmental or other benefits to a society, community, or group of people via one or more investments – adapted from OECD-DAC), which are aligned with the SDGs or other widely accepted goals; 	1.1.1 / 1.1.2 / 1.2.1, / 1.2.2
<ul style="list-style-type: none"> The impact intent does not need to be shared by the investee; 	2.4.1 The Standards set a higher bar and require the Fund to be transparent with investees about its investment strategy, impact thesis and impact goals – and the Fund’s expectations about impact management, impact reporting, transparency and governance
<ul style="list-style-type: none"> The Manager shall seek to ensure that the Impact objectives (of investee) and investment strategy (of Manager) are consistent; 	1.1.4 / 2.2.1 / 2.4.2 / 2.4.3
<ul style="list-style-type: none"> The Manager shall seek to ensure there is a credible basis for achieving the impact objectives through the investment strategy; 	1.1.3 / 1.1.6 / 1.2.1.3
<ul style="list-style-type: none"> The Manager shall seek to ensure that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio. 	1.1.5 / 1.2.1.2
2. Manage strategic impact and financial returns at the portfolio level	Practice Indicators
<ul style="list-style-type: none"> The Manager shall have a process to manage impact achievement on a portfolio basis with the objective of the process being to establish and monitor impact performance for the whole portfolio, while recognising that impact may vary across individual investments in the portfolio; 	2.5.1 / 2.5.2 / 2.5.3 / 2.5.4 / 2.5.5 / 2.5.6 / 2.5.7

<ul style="list-style-type: none"> As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance. 	<p>2.1.2.6</p> <p>The Standards set a higher bar, requiring incentive mechanisms to be aligned with the Fund's purpose and strategy (including its impact thesis and goals)</p>
<p>3. Establish the investor's contribution to the achievement of impact</p>	<p>Practice Indicators</p>
<ul style="list-style-type: none"> The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels (e.g. improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilisation, creating long-term trusted partnerships, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards. 	<p>2.3.5 / 2.3.7 / 2.3.10</p> <p>The Standards include consideration of both positive and negative investor contributions</p>
<ul style="list-style-type: none"> The narrative should be stated in clear terms and supported, as much as possible, by evidence 	<p>2.3.5 / 2.3.6 / 2.3.7</p>
<p>4. Assess the expected impact of each investment, based on a systematic approach</p>	<p>Practice Indicators</p>
<ul style="list-style-type: none"> For each investment, the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact (Impact is considered the material effect/s on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.) potential deriving from the investments. 	<p>2.3.1 / 2.3.2 / 2.3.3 / 2.3.4, / 2.3.9</p>
<ul style="list-style-type: none"> The assessment should use a suitable results measurement framework that aims to answer these fundamental questions (1) what is the intended impact? (2) who experiences the intended impact (3) how significant is the intended impact (adapted from IMP). 	<p>2.3.2</p> <p>The Standards require adoption of the SDGs and IMP's 5 dimensions of impact and associated data categories to promote a shared language for impact. This does not preclude Fund Managers additionally utilizing other approaches.</p>
<ul style="list-style-type: none"> The Manager shall seek to assess the likelihood of achieving the investment's expected impact. 	<p>2.3.2.3</p>
<ul style="list-style-type: none"> In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. 	<p>2.3.2.3</p>

<ul style="list-style-type: none"> In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. 	2.3.6 / 2.3.7
<ul style="list-style-type: none"> The Manager shall also consider opportunities to increase the impact of the investment 	2.4.1 / 2.4.2 / 2.4.3 / 2.4.4 As per Standard 2.4, an express outcome of these PIs is to optimize future impact performance
<ul style="list-style-type: none"> Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts; 	Implicit throughout. Impact is defined as a change in a social, environmental or economic outcome (i.e. often expressed as a change in wellbeing) caused by an entity (either partially or wholly, directly or indirectly). An impact can be positive or negative, intended or unintended.
<ul style="list-style-type: none"> Indicators shall, to the extent possible, be aligned with industry standards (e.g. HIPS0, IRIS, GIIRS, GRI, SASB) and follow best practice (SMART – specific, measurable, attainable, relevant and timely, SPICED – subjective, participatory, interpreted and communicable, cross-checked, empowering, and diverse and disaggregated, among others). 	2.3.6 / 2.3.7
5. Assess, address, monitor, and manage the potential negative effects of each investment	Practice Indicators
<ul style="list-style-type: none"> For each investment, the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage ESG risks (The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6). 	2.2.1 / 2.2.3.2 / 2.3.4 / 2.3.5 Note. The Standards integrate responsible business practices and ESG into impact management approach throughout
<ul style="list-style-type: none"> Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice (e.g. IFC's Performance Standards, IFC's Corporate Governance Methodology, UN Guiding Principles for Business and Human Rights, OECD Guidelines for Multinational Enterprises; 	2.2.3.1 / 2.4.3 / 2.4.4
<ul style="list-style-type: none"> As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events. 	2.5.1 / 2.5.2 / 2.5.6 Note. The Standards integrate responsible business practices and ESG into impact management approach throughout

6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	Practice Indicators
<ul style="list-style-type: none"> The Manager shall use the results framework from Principle 4 to monitor progress towards the achievement of positive impacts in comparison to the expected impact of each investment. 	2.5.1 / 2.5.2 / 2.5.3 / 2.5.4 / 2.5.5 / 2.5.7
<ul style="list-style-type: none"> Progress shall be monitored using a predefined process for sharing performance data with the investee. 	2.2.3.1 / 2.4.1 / 2.4.3 / 2.4.4 / 2.5.6
<ul style="list-style-type: none"> To the best extent possible, this process shall outline how often data will be collected, the method of data collection, data sources, responsibilities for data collection, and how, and to whom, data will be reported. 	2.4.1 / 2.4.3
<ul style="list-style-type: none"> When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action (e.g. active engagement with the investee, early divestment, adjusting indicators/ expectations due to significant, unforeseen, and changing circumstances, or other appropriate measures to improve the portfolio's impact performance 	2.5.5
<ul style="list-style-type: none"> The Manager shall also seek to use the results framework to capture investment outcomes (outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment). 	2.5.1 / 2.5.3 / 2.5.4
7. Conduct exits considering the effect on sustained impact	Practice Indicators
<ul style="list-style-type: none"> When conducting an exit (this may include debt, equity, or bond sales, and excludes self-liquidating or maturing investments), the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact. 	2.6.1
8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned	Practice Indicators
<ul style="list-style-type: none"> The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes 	2.1.7 / 2.5.5 / 2.5.8 / 2.6.2 / 2.6.3

9. Publicly disclose alignment with the Principles and provide regular independent verification of the extent of alignment	Practice Indicators
<ul style="list-style-type: none"> The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles. 	n/a
<ul style="list-style-type: none"> At regular intervals, the Manager will arrange for independent verification of this alignment. 	<p>Given complementarity, independent verification of alignment with OPIM and assurance against the SDG Impact Standards for PE Funds could be part of the one independent assurance/ verification process (subject to being completed by a UNDP accredited independent assurer)</p>
<ul style="list-style-type: none"> The conclusions of this verification report shall be publicly disclosed. 	n/a
<ul style="list-style-type: none"> These disclosures are subject to fiduciary and regulatory concerns. 	n/a

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