IMPACT

THE PRINCIPLES FOR POSITIVE IMPACT FINANCE

A COMMON FRAMEWORK TO FINANCE THE SUSTAINABLE DEVELOPMENT GOALS

UNEP FINANCE INITIATIVE

BACKGROUND

In September 2015, the UN General Assembly formally established 17 Sustainable Development Goals (SDGs) to be addressed by 2030, thus providing a common framework for public and private stakeholders to set their agendas and define their policies and strategies over the next 15 years.

An estimated $5-7 trillion a year until 2030 are needed to realize the SDGs worldwide, including investments into infrastructure, clean energy, water and sanitation and agriculture.

Blended finance, venture capital, impact investing, crowd funding and environmentally or socially oriented market instruments such as green bonds are among a range of mechanisms designed to bridge the gap, but none of the current approaches seem sufficient to reach the necessary scale.

While the urgency of meeting this challenge is becoming ever more tangible, and despite the general consensus on the need for collaboration between the public sector, the private sector and other stakeholders, making the connection between needs, business models and funds remains difficult.

In October 2015 UN Environment Finance Initiative's (the Finance Initiative) banking and investment members released the Positive Impact Manifesto, which calls for a new financing paradigm. As per the Manifesto, bridging the funding gap for sustainable development and the attainment of the SDGs requires a new, impact-based approach, based on a holistic consideration of the three pillars of sustainable development.

The development of a dedicated set of Principles for Positive Impact Finance to guide financiers and investors in their efforts to increase their positive impact on the economy, society and the environment, constitutes a central component of the Positive Impact Roadmap outlined in the Manifesto.

By providing a common language to the finance community and for a broader set of stakeholders, the Principles are expected to constitute an important step in unlocking the SDGs opportunity and overcoming the funding gap for sustainable development.

PURPOSE OF THE PRINCIPLES FOR POSITIVE IMPACT FINANCE

The Principles for Positive Impact Finance are a set of guidelines for:

- **financiers** to identify, promote and communicate about Positive Impact Finance across their portfolios;
- **investors** and donors to holistically evaluate the impacts of their investments and orient their investment choices and engagements accordingly;
- **auditors** and raters to provide financiers, investors and their stakeholders with the verification, certification and rating services needed to promote the development of Positive Impact Finance.

The Principles are also intended to help:

- **corporates** and other economic stakeholders structure SDG-focused business opportunities and business models, and identify financial institutions capable of accompanying their efforts;
- **governments** to leverage their interventions with the private sector (for instance by issuing impact-based tenders and requests for proposals and choosing its private sector implementation partners based on the Principles) and adjusting public policies strategically to maximise the leverage of public funds;
- **civil society** to identify and develop the kind of technical expertise that will be most helpful to the above parties as they seek to establish new, impact based business models.

The Principles are applicable to all forms of financial institutions and financial instruments. By jointly considering the three pillars of sustainable development and by basing themselves on an appraisal of both positive and negative impacts, they propose a holistic approach to sustainability issues.

In doing so the Principles build on and complement valuable existing frameworks such as the Green Bond Principles (instrument-specific), the Principles for Responsible Investment (sector-specific), the Equator Principles (risk focused), among others, to provide a broad, common framework to achieve the financing of sustainable development.

THE PRINCIPLES FOR POSITIVE IMPACT FINANCE

PRINCIPLE ONE
Definition

Positive Impact Finance is that which serves to finance Positive Impact Business.

It is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated.

By virtue of this holistic appraisal of sustainability issues, Positive Impact Finance constitutes a direct response to the challenge of financing the Sustainable Development Goals (SDGs).

Scope

- The Principles are intended to be applicable across all categories of financial instruments and the business activities that underpin them, including but not limited to:
  - Loans (corporate, retail, municipal, sovereign, inter-bank, project-related)
  - Bonds
  - Equity
  - Mezzanine
  - Notes and credit-linked-notes / obligations
- The Principles for Positive Impact Finance are not sector based.

Some sectors are in and of themselves carriers of positive impact but no sector is devoid of potential negative impacts and most sectors arguably carry at least some positive impact for one of the three pillars of sustainable development.

For instance, a renewable energy project will have a high environmental positive impact in terms of CO_2 emissions, and it may have positive social impacts (access to energy) and development impacts (jobs), but it can also carry negative impacts such as noise pollution for nearby communities, and threats to birdlife. Conversely, the construction of a road may have negative impacts such as the removal of biodiversity, the displacement of people, and noise pollution from increased traffic, but it is also likely to deliver positive impacts such as access, mobility, job creation and economic growth.

The Principles acknowledge the interconnectedness of sustainability issues and therefore base themselves on a global assessment of positive and negative impacts rather than on the singling-out of sectors.

PRINCIPLE TWO

Frameworks

To promote the delivery of Positive Impact Finance, entities (financial or non financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects, programmes, and/or entities to be financed or invested in.

Entities should, as applicable, depending on the type of financial instrument:

- Implement specific processes, criteria and methodologies to identify Positive Impact. The analysis should cover activities, projects and programmes but also underlying companies;
- Apply regular ESG risk management before determining Positive Impact eligibility;
- Implement specific processes, criteria and methodologies to monitor the achievement of intended impacts throughout the life-time of the financial instrument.

Entities should also:

- Allocate and equip staff with relevant mandates and skill sets to enforce the above processes;
- Seek second opinions and/or third-party assurances on the implementation of the above processes as appropriate;
- Review and update processes as appropriate on an on-going basis.

Positive Impact analysis:

- Can be undertaken alongside existing procedures, for instance, at on-boarding and during periodical reviews of products, project or clients;
- Can make use of existing and recognized tools, standards and initiatives where applicable (for instance, in the case of project finance, the Equator Principles provide a recognised risk management standard).

Specific case: Determining the positive impact of company's activities, projects and programs when only part of a company's activities can be qualified as Positive Impact Business.

Activities, projects and programs can be considered as in line with the Principles even when the underlying entities' overall activity are only partially in line (e.g. bond of a utility company providing both coal-fired and renewable powered electricity). However, the Positive Impact activity should be appropriately ring-fenced.

Ultimately, different financiers and investors will judge companies and their activities differently. Some might exclude certain companies and all of their activities while others might be willing to provide finance or invest in all or part of the company, depending on their Positive Impact frameworks. The Principles do not prescribe which methodologies and KPIs to use to identify, analyse and verify positive impact, instead they require that there be transparency and disclosure on both the assessment framework and its conclusions (see Principle 3).

PRINCIPLE THREE

Transparency

Entities (financial or non financial) providing Positive Impact Finance should provide transparency and disclosure on:

- The activities, projects, programs, and/or entities financed considered Positive Impact, the intended positive impacts thereof (as per Principle 1);
- The processes they have in place to determine eligibility, and to monitor and to verify impacts (as per Principle 2);
- The impacts achieved by the activities, projects, programs, and/or entities financed (as per Principle 4).

Intended Impacts

The intended use of funds released via financial instruments and their intended positive contribution should be clearly marked on the corresponding documentation.

Methodologies, KPIs and achieved impacts

The Principles do not prescribe which methodologies and KPIs to use to identify, analyse and verify positive impact, they only require that these be disclosed and transparent. Institutions require flexibility to develop their own approaches at their own pace and in accordance with their own corporate culture and business strategy. Nonetheless, positive impact frameworks as well as positive impact finance delivered may be assessed by third parties (see Principle 4).

Reporting

It is recommended that entities report regularly on their Positive Impact activities and business. This can be done in the context of the reporting tools already used by entities to report on sustainability issues.

PRINCIPLE FOUR

Assessment

The assessment of Positive Impact Finance delivered by entities (financial or non financial), should be based on the actual impacts achieved.

The assessment of Positive Impact Finance can be internally processed, i.e. for internal monitoring and evaluation purposes, or undertaken by qualified third parties (e.g. auditing companies, research-providers and rating agencies), for certification and/or rating purposes.

Criteria to rate Positive Impact Finance can include:

- Variety of positive impacts delivered;
- Magnitude of the impacts delivered;
- Scale of impacts delivered relative to amount of funds spent (i.e. efficiency of the instrument);
- Degree of leverage of private funds relative to public funds and/or donations (i.e. optimization of public funds and donations where applicable);
- Level of additionality (i.e. business and finance solutions that help address an unmet or underserved sustainable development need and hence constitute a significant step forward for the attainment of the SDGs).

Assessment of Positive Impact Frameworks

As per Principle 2, the delivery of Positive Impact Finance is reliant on the integration of impact analysis in financial institutions' existing business processes. These processes, whereby positive impact is identified, analysed and managed, can be the object of external assessments leading to certification by qualified third parties such as auditing companies.

Q&A

How will the Principles help shift business and finance away from harmful activity and contribute to creating more positive impact, as opposed to just identifying and communicating existing impact?

The Finance Initiative and its Positive Impact Working Group believe in the appetite of the financial market for Positive Impact Business and products. To be aligned with their sustainability strategies and to avoid unsustainable business, financial institutions will increasingly request their clients or the companies they invest in to be aligned with sustainability objectives. The Principles are expected to become a means to obtain such assurances and as a result to help create a shift in business, as Positive Impact Business gains in attractiveness for financiers and investors.

Notwithstanding, while the Principles are indispensable to the development of a Positive Impact market, they are insufficient by themselves to create it. That is why the Roadmap outlined in the Positive Impact Manifesto also includes a focus on solution-building and business model development.

Without a clear exclusion list, is there a risk that activities that could cause negative impacts be passed off as Positive Impact?

No. Principle 2 states that financing decisions and the deployment of financial instruments should hinge on the enforcement of dedicated processes and methodologies that take into account both positive and negative impacts. This means that information about the methodologies, and criteria underpinning the decision-making processes of entities claiming to deliver Positive Impact Finance will be made readily available to stakeholders.

Moreover, Principle 3 states the requirement of transparency and disclosure. This means that no funds can be certified as serving positive impact goals unless information about the criteria, factors and methodologies underpinning the financial instrument is made available to certifying entities.

In summary, the Principles provide the flexibility for market dynamics to develop while at the same time they carry the necessary checks and balances to ensure that they serve their end-goal and that is the bridging of the funding gap for sustainable development and the attainment of the SDGs.

Will the Principles make it possible to obtain a numerical picture of financiers', investor's, and companies' positive impact relative to the rest of their activities – and vice versa?

The Principles will produce an overview of positive impact over time. The delivery of Positive Impact Business and Finance necessarily involves the establishment of a number of processes and mechanisms, which, coupled with Principle 3 on transparency and disclosure, will over time make it possible to monitor and track businesses', financiers' and investors' performance.

Do the Principles imply that non-financial impacts such as social, environmental and developmental impacts, should take precedence over financial returns? Is Positive Impact Finance synonymous with concessionary finance?

No. At the heart of the Positive Impact Manifesto lies the proposition that sustainability objectives and the business constraints or risk and return need not be in opposition. It is based on the view that society's and the planet's needs can be met within commercial boundaries by developing new business models that are directly based on impacts and thereby create efficiencies and reduce costs to beneficiaries.

This means that while some financing solutions delivered at concessionary rates or with grant support might qualify as positive impact (especially when market growth potential is properly assessed), Positive Impact Business and Finance is in no way synonymous with concessionary finance and is not positioned in opposition with the quest for good returns.

Do the transparency and disclosure requirements under Principle 3 constitute a contradiction with lenders' and investors' need to retain a competitive advantage over their competitors?

No. Competitive advantages will be a function of the capacity and skills of businesses, lenders and investors to develop and deliver new solutions, and to demonstrate their success in achieving positive impact.

Moreover, increased transparency and disclosure should increase uptake by investors, which means that more transparent players should be more competitive on the market.

Is there a risk that the cost of second opinions and third party verifications defeat the business case for Positive Impact Finance?

No. The cost of second opinions and verifications relative to the scale of the business opportunity targeted by the Principles implies that there should be no contradiction between the two. Moreover, the greater the level of transparency and disclosure, the more second opinions and third party verifications should be diminished.

What is the governance for the Principles?

The Principles were developed by the Positive Impact Working Group, a group of UN Environment Finance Initiative banking and investment members, as the first key step in the implementation of the roadmap outlined in the Positive Impact Manifesto.

The governance of the Principles and further work to be undertaken in fulfilment of the Positive Impact Roadmap is to be established on a multi-stakeholder basis following the launch of the Principles. Until then the Finance Initiative's Positive Impact Working Group provides the interim governance for the Principles and related work.

It is anticipated that adhesion to the Principles and involvement in implementation and related work will be organised on a membership basis, open to institutions that are actively developing Positive Impact Finance and enabling the participation of all relevant stakeholders.

Who provides the Secretariat for the Principles and what is its role?

The Finance Initiative provides the Secretariat to the Principles and related work.

The responsibilities of the Secretariat include promoting the Principles and providing guidance on their implementation, managing the governance of the Principles and, going forward, coordinating the periodical review and update of the Principles.

The Secretariat is not to be a verification or certification body.

ABOUT THE PRINCIPLES FOR POSITIVE IMPACT FINANCE

The Principles were developed by the Positive Impact Working Group, a group of UN Environment Finance Initiative banking and investment members, as part of the implementation of the roadmap outlined in the Positive Impact Manifesto_released in October 2015.

As at 1st January 2017, the Positive Impact Working Group includes: Australian Ethical, Banco Itaú, BNP Paribas, BMCE Bank of Africa, Caisse des Dépôts Group, Desjardins Group, First Rand, Hermes Investment Management, ING, Mirova, NedBank, Pax World, Piraeus Bank, SEB, Société Générale, Standard Bank, Triodos Bank, Westpac and YES Bank.

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ABOUT UN ENVIRONMENT FINANCE INITIATIVE

The UN Environment Finance Initiative is a partnership between UN Environment and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. Over 200 financial institutions, including banks, insurers and fund managers, work with UN Environment to understand today's environmental challenges, why they matter to finance, and how to actively participate in addressing them.

FURTHER INFORMATION

unepfi.org/positive-impact

Careen Abb
e: careen.abb@unep.org

Elodie Feller
e: elodie.feller@unep.org

Elisa Vacherand
e: elisa.vacherand.affiliate@unep.org

www.unepfi.org
info@unepfi.org
/UNEPFinanceInitiative
@UNEP_FI

UN Environment Finance Initiative

International Environment House
15 Chemin des Amenomes
CH-1219 Chatelaine
Geneva, Switzerland