Finance United:
Impact Investors, Financial Service Providers and the SDGs

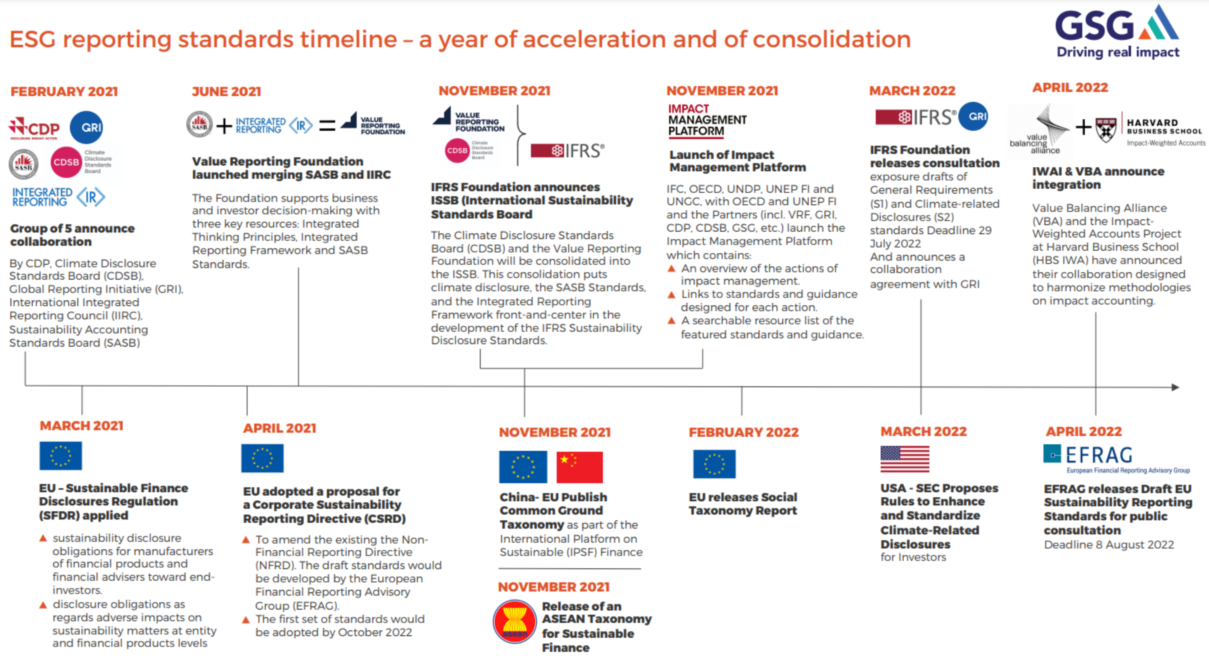
Conference co-hosted by OECD and Cerise+SPTF
30 September 2020
Session Notes

Name of session	**Panel Discussion: How standards can be a force for good**
Time	9:45 – 11:00 am
Moderator	**Krisztina Tora**, Chief Market Development Officer, Global Steering Group on Impact Investment (GSG)
Speakers	**Ben Carpenter**, CEO, Social Value International **Laura Foose**, Executive Director, Social Performance Task Force (SPTF) **Fabienne Michaux**, Director, SDG Impact Team, UNDP **Haje Schütte**, Head of Division, Financing Sustainable Development, OECD

NOTES FROM THE DISCUSSION:

Krisztina Tora (GSG):

Our challenge is how to increase the flow of capital devoted to impact. Investment decisions are being taken today with inadequate information about their social and environmental impacts. One mechanism to channel more resources to impactful investments is through the development of country-level platforms, such as the National Advisory Boards (NABs) created by the Global Steering Group on Impact Investment (GSG). The G7 Impact Task Force aims to address the barriers to funneling capital to achieving the SDGs by promoting standards and transparency and by mobilizing capital. See the graphic below showing the ESG reporting standards timeline:



We need to address culture and mindset in order to bring about changes in practice. In the last 12-18 months, the conversation has accelerated and there has been significant harmonization and consolidation among standard setters in regards to transparency and external reporting, leading to the establishment of EFRAG.

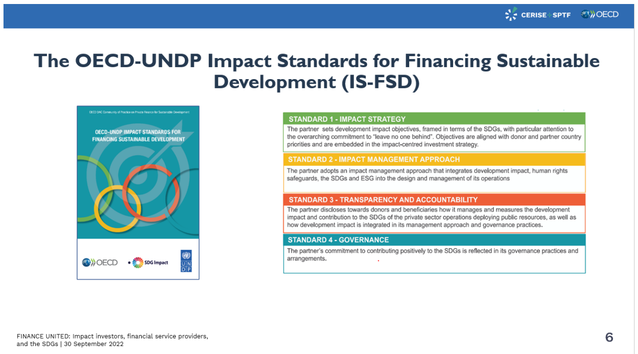
Question 1: Please give us one line on your organization's work on standards.

Fabienne Michaux (UNDP):

In our sustainability finance hub, we are working to engage the private sector toward achieving the SDGs. The impact standards are designed to be a universal approach for how investors make decisions. This focus on the internal decision-making process is less about metrics and reporting, and more about the mindset shift needed to bring impact into the decision-making process.

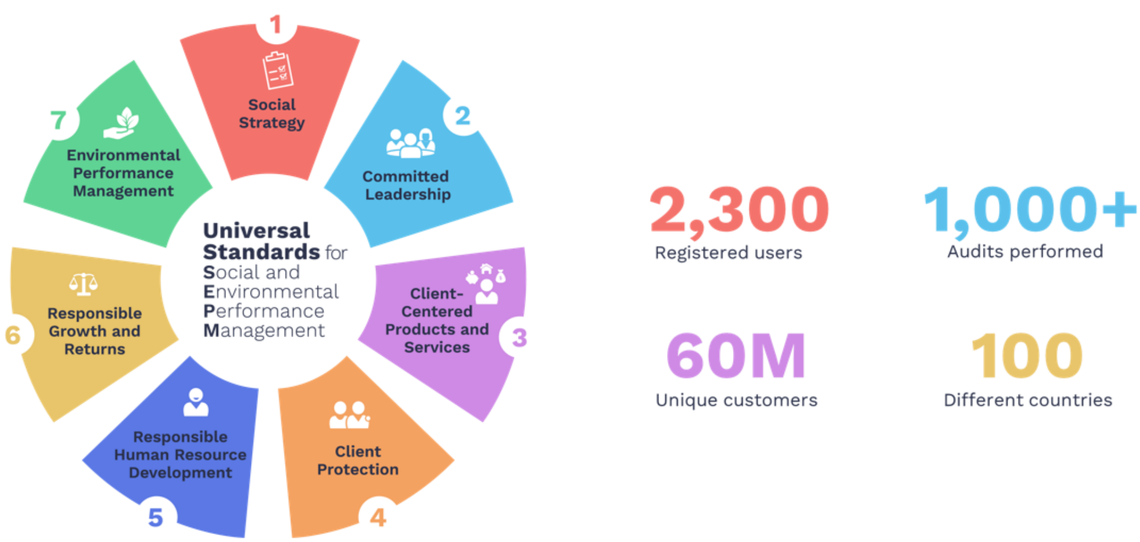
Haje Schütte (OECD):

At the center of today's deliberations is the development of impact standards. The standards were adopted by the Development Assistance Committee (DAC) in March 2021. This marked an important step towards greater public accountability amongst the organizations involved in financing sustainable development. They include assessment of the impact of investments on the SDGs, best practices, and a self-assessment tool to increase transparency and reduce impact-washing.



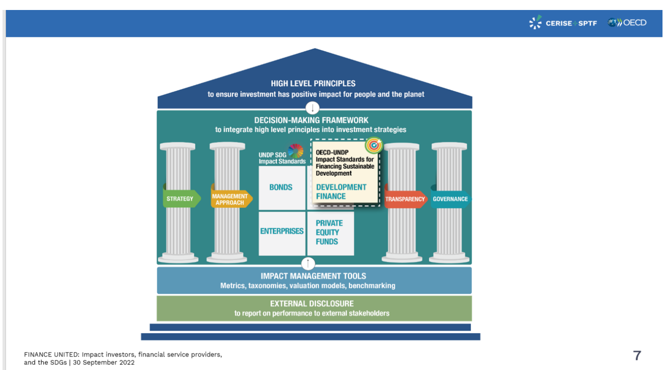
<u>Ben Carpenter (Social Value International)</u>:
Our mission is to change the way the world accounts for value. We are "measurement geeks" with members in 60 countries. Our framework of standards for accounting for value focuses on how to account for impact on well-being.

<u>Laura Foose (SPTF)</u>:
SPTF brought together FSPs in emerging markets to create the Universal Standards for Social and Environmental Performance Management ("Universal Standards"), so that there would be standards developed by them, for them, to help guide the work of purpose-oriented organizations in the financial sector. We think the value of the Universal Standards is demonstrated by the uptake of the SPI tool: there have been over 1000 audits in 100 countries serving 60 million clients.



Cerise+SPTF has engaged all stakeholders in the financial inclusion space: FSPs, networks, investors, regulators, etc. So, while the standards were developed FSPs, the Universal Standards are used not only by financial service providers all over the world, but also by other key stakeholders in the inclusive finance sector, such as investors who incorporate them into their due diligence and monitoring and regulators who develop regulation that protects and benefits consumers. We wanted the Universal Standards to be for social performance what GAAP or IFRS are for financial performance: objective, universal, comparable, transparent, rigorous. Many other initiatives, that reach beyond inclusive finance, have taken the Universal Standards as a model to develop their own standards, such as the GIIN/IRIS and the Impact Management Project.

Question 2: How can we further collaborate to create harmonization? How harmonized are we already? What types of impact you are looking at?
Haje Schütte (OECD):
Standards make higher level principles actionable. They align various elements of principles to make change tangible. OECD's standards focus on strategy, impact management, governance, transparency and accountability. They are applicable to our constituencies (e.g. donors, DFIs, private investors involved in blended finance). As a membership organization, we are obliged to bring various people to the table to develop joint solutions that will make a difference. While harmonization is important, it is also important to adapt to relevant contexts, such as to achieve greater emphasis on transparency and human rights. Next, we will focus on implementation of the standards.



Fabienne Michaux (UNDP):
Our engagement grew out of the Impact Management Project (IMP). We saw there were gaps between various principles and frameworks, and how these extended into the decision-making process. Our collaboration with OECD has been focused on finding standards for the SDGs and bringing the private sector proactively into development work. It is an umbrella to link the different sources of capital, bringing the same language to different actors who have operated in different ways and with different focuses. We have also collaborated in the development of impact standards, by identifying gaps in existing reporting on achieving the SDGs. We have been mindful of each other's work and have been increasingly converging in the various pieces of the puzzle. People see all these different initiatives and think there should be consolidation, but in fact different sets of principles are focused on specific groups of actors, with management frameworks, metrics, and taxonomies for different constituencies.

Ben Carpenter (Social Value International):

It is important to recognize that different players do different things. The Impact Management Project brings a lot together, but still different groups use different words and ideas (such as human rights, capital, sustainable development) yet we all use the word “impact” to describe what we seek to achieve. This is fine, but let’s be clear what we are referring to. The increasing cooperation and convergence – harmonization – is exciting. OECD has been the leading institution in saying, “it is possible to measure well-being.” This is an important model for going beyond measuring what is easy to measuring what matters. There is a cluster of organizations working on the issue of valuation (the Capitals Coalition), looking at non-monetary as well as monetary accounting. SVI and SDG Impact Standards are bringing what already exists into one integrated framework.

Laura Foose (SPTF):
Cerise+SPTF’s focus is on the inclusive finance sector. Within the hub of impact standards for various fields, SPTF has been the spoke for financial inclusion. Because we have been engaged in this for 17 years, we have been able to take a deeper dive, so we have more granularity on many topics, such as consumer protection. The Universal Standards are very aligned with other frameworks about “people and planet.” SPTF was asked by the GIIN to bring its expertise to the development of IRIS, which led to the Impact Management Project. So, a lot what we are seeing in different initiatives have their origins in the work of Cerise+SPTF.

Kristina Tora (GSG):
The Impact Management Platform created the basis for our ongoing collaboration and we are still building on it. We have also collaborated with Harvard’s Impact-Weighted Accounts initiative. There is a lot of data there.

Question 3: How do we best implement standards?
Fabienne Michaux (UNDP):
We recognize that some organizations are focused on making a profit. We know it is important to balance profit, people, and planet. This is an important moment in time relative to this balancing. Increasingly, the private sector recognizes an imperative to contribute to solving these problems collectively. The timeframe of short-term vs long-term is still an issue, and there is a lot more we need to do around awareness raising. Various working groups are focused on adopting standards and co-learning about how to put tools into practice. The standards are beginning to change the way people think and operate (for example, in some forward-thinking private equity funds).

Laura Foose (SPTF):
The Universal Standards for Social and Environmental Performance Management continue to evolve, based on learning from one another about what worked and what did not. We have an end-to-end approach that offers an entry point to meet people where they are.

From values to standards to results: our end-to-end approach

Our primary message is to START, and IMPROVE/BUILD over time. Cerise+SPTF offers a complete range of resources to support learning, assessing, improving practice, and then showing results.

AT-A-GLANCE GUIDE TO ASSESSMENT TOOLS FOR SOCIAL AND ENVIRONMENTAL PERFORMANCE MANAGEMENT

GUIDE TO TOOLS: ESK Risk: Measure compliance with basic environmental, social, and governance principles, and manage social and environmental risks; **ALINUS:** Conduct robust social and environmental due diligence and cultivate an inclusive and impactful investment portfolio; **SPI5 Entry:** Take the first step on your social and environmental performance management journey; **SPI5 Full:** Grow from good to great with a comprehensive social and environmental performance assessment; **FOCUS GREEN:** Concentrate on environmental performance assessment; **CLIENT PROTECTION COMMIT:** Start on the Client Protection Pathway; **CLIENT PROTECTION FULL:** Reduce risk to clients by conducting a full review of client protection practices.

To drive adoption of standards by financial service providers, it is very important for other types of stakeholders to confirm their importance. So, we work with investors and regulators. Raters are also aligning their process for evaluation with the standards.

Ben Carpenter (Social Value International):
"Culture eats policy for breakfast." This is true for standards too. It's all about the mindset, the underlying attitudes. We need to develop a different starting point of "How can we create more impact? Are we creating enough positive impact?" rather than, "How much impact have we created?" We need to collect data and build on that rather than making decisions based on no-data. It is a journey to build systems that stick.

Haje Schütte (OECD):
As fellow panelists have said, standards need to be tested and improved through a consultative process. We have a common practice on standards development, with multiple stakeholders represented, and a learning community to improve what we do individually and collectively. This helps us to challenge our members. The difference will only come if things actually change, which is based on intentionality and collectively learning as we progress.

We are harmonised at high-level, on the key messages, which is great. Now need to implement the Standards. On implementation there isn't harmonisation yet – organisations are not implementing consistently the Standards. This is why we have to move from standard setting to implementation – and during this event we will focus on case studies that will show how organisations are using and implementing the Standards, and the challenges they face and what they have learned so far.

Fabienne Michaux (UNDP):
Culture and intentionality are key. In terms of standards: do not ask whether you can or must adopt them. Ask yourself, do you want to adopt them? This is not about checking a box, but about whether you want to change how you think and make decisions.

Questions and Comments from the audience:

- The Universal Standards for SEPM were created bottom-up, by multiple stakeholders. They were also created with the mindset that customer-centricity, meaning what matters for end-customers, is crucial. How have others approached this?
    - Ben Carpenter (SVI): This kind of approach is at the heart of SVI's work and collaborations.
    - Fabienne Michaux (UNDP): Stakeholder engagement has led us to reframe how we think about impact risk – not just to the organization but also to those who are experiencing the impact.
- In the financial inclusion industry, we no longer have to fight the battle of developing standards. Now, the battle is that we have to harmonize. There are so many different principles and standards that we are asked to abide by. How can we integrate these to create a tool for investment managers to use to monitor

their investments? We need to be realistic that today it is still difficult to balance all of this with operations and realities in the field.

- Laura Foose (SPTF): There are important differences between principles and standards. Principles are big concept we agree to, like transparency, but a principle itself is not actionable. How you actually get it done is a different issue from "Yes, we agree with these principles." Standards are about trying to make principles operational.
- Haje Schütte (OECD): We need to recognize potentially unintended consequences of good intentions, and our need to collect data to monitor this. Collecting impact data should not be experienced as a burden, but as a form of necessary capacity building.
- Ben Carpenter (SVI): We need to push more on policy and regulatory efforts. Only when these kinds of standards and reporting are mandatory will they become the norm.
- Fabienne Michaux (UNDP): We need to look at the externalities that are relevant to the core economic analysis.

- **What is next? What is one big thing that is still missing? And what is one thing that makes you optimistic?**
  - Ben Carpenter (SVI): Assurance is the missing piece. Verification of social impact. We need to have more people talking about this – about SDG Impact – and more demand for it.
  - Laura Foose (SPTF): Our call to action to is to move beyond endorsement and to implement. If you are held accountable to it, you will do it. What's missing is that we are not holding all FSPs accountable to the same rules; there are those who want to do this versus those who don't care. We want to create a context where all are held to the same standards. Our causes for optimism: The Universal Stanards are influencing regulatory standards in several countries. Investors are using the standards in their due diligence and monitoring. There are now social performance management committees on boards. We've seen great progress in the last 10 years.
  - Haje Schütte (OECD): We need to advance more on transparency. We need robustly transparent data, monitoring ex post effects. We need to ensure that incentives are aligned with these standards. Our call to action: take this seriously and hold ourselves and the institutions we invest in accountable. I am optimistic that momentum is building in this direction.
  - Fabienne Michaux (UNDP): I agree that we need a level playing field, where intentions are transformed into action, with transparency and assurance. We also need capacity building. We are working with SVI to build a training of trainers program. I am optimistic, but we need to get on with our jobs. We need to take social and environmental consequences into account in our decision-making. In the end, it is not about metrics, but about changing mindsets.
  - Kristina Tora (GSG): I agree – we are seeing more changes at the board level and more data that social performance management helps companies perform better even in the short-term. **Thank you to everyone!**