UNEP FINANCE INITIATIVE

IMPACT

MODEL FRAMEWORK:
FINANCIAL PRODUCTS FOR CORPORATE WITH UNSPECIFIED USE OF FUNDS

A tool for holistic impact analysis

Principles for Positive Impact Finance
Implementation Guidance

Consultation Version – November 2018

ABOUT PI MODEL FRAMEWORKS

As per the Principles for Positive Impact Finance (hereafter the "PI" Principles), appropriate frameworks are required to implement the holistic impact analysis and management needed for financial institutions (FIs) to deliver their financial products and services in alignment with the definition of Positive Impact (PI) Finance.

The PI Model Frameworks are the tools through which the PI Principles are interpreted and implemented. They are developed by the PI Initiative to guide:

- Financial institutions or intermediaries (hereafter the Product Initiators) seeking to deliver PI financial products. The PI Model Frameworks will enable them to develop appropriate frameworks or adapt their existing frameworks to serve a number of purposes: for decision-making (i.e. on financing/investments); for the development of PI financial products, or for on-going analysis/monitoring of portfolios.
- Auditors, analysts and other third parties or stakeholders called on to verify and/or provide opinions on the PI nature of financial products.

The Models are not set in stone. They are designed as live tools to be trialled and tested for ongoing refinement and update over time.

This Model Framework covers Financial Products for Corporates with unspecified use of funds, i.e. where the funds raised or guarantees issued are used at the Corporate's discretion, without any specified use. For example:

- General corporate purpose (GCP) Loans/Overdraft
- Corporate Bonds with GCP use of proceeds
- Equity (primary & secondary issuance)
- Off-balance sheet corporate products (e.g. guarantees not related to a specific asset)

Financial institutions are invited to create their own Framework, using this Model as guidance, and to provide feedback to the Secretariat of the PI Initiative on any practical issues encountered. Please send comments to: positiveimpact@unepfi.org

With harmonized frameworks and a common understanding of impacts, the PI Initiative hopes to drive market practice towards increasingly impactful Financial Products, where Product Initiators fully use their influencing power to help companies and investors increase their contribution to achieving the Sustainable Development Goals (SDGs) and accelerate the emergence of an impact-based economy.[1]

This document was prepared by the Positive Impact Initiative thanks to the generous support of the European Commission.

1. Rethinking Impact to Finance the SDGs, UNEP FI, 2018. (http://www. http://www.unepfi.org/positive-impact/positive-impact/)

A. PERFORMING HOLISTIC IMPACT ANALYSIS

Holistic impact analysis means taking a holistic view of impacts linked to the Financial Product and the activities it funds – i.e. giving oneself an understanding of both positive and negative impacts, across the three dimensions of sustainable development (social, environmental, economic).

The purpose of this Model Framework on Financial Products for Corporates with unspecified use of funds is to guide the assessment of a Corporate's potential to generate positive impact through its activities. Since the use of funds from the Financial Product is unspecified and not tied to a particular activity, project or asset, the focus of the assessment and potential for positive impact falls on the Corporate itself.

Three distinct steps will be discussed: identification, assessment and monitoring.

Note: Product Initiators may have stronger or weaker influencing positions over the activities and behavior of a Corporate depending on the nature of the Financial Product provided and the overall relationship between the Corporate and the Product Initiator.[2] The expectation is that Product Initiators should use to the full the leverage they have in order to drive positive impact.

I. IDENTIFICATION

PURPOSE

This stage does not involve a detailed impact assessment but rather a high-level scoping to identify significant positive and negative impacts. At this stage, a choice is made of which positive impact(s) will be the 'intended positive impacts' of the Financial Product and therefore the focus of the assessment and monitoring stages.

Since the scope for identification of impacts is at the Corporate level,[3] it can take place before the financial product's inception (since there might be an ongoing or recurrent relationship between the Corporate and the Product Initiator), or at the latest at inception.

2. By way of illustration: where the Product Initiator's financial contribution to the Corporate's activity and/or funding sources is meaningful and/or the Corporate benefiting from the Product has limited ability to find alternative partners, it can be a major influencer (e.g. the Product Initiator is the sole lender, or is in a club deal where limited or no other liquidity is available to the Corporate). By contrast, where the Product Initiator's financial contribution to the Corporate's activity and/or funding sources is not meaningful enough to materially affect the Corporate's decisions, it is a minor influencer (e.g. a bank lending GCP debt to a Corporate client within a large syndicate in a liquid market). In some instances, the Product Initiator has limited options to exercise leverage on the Corporate other than its decision to select or not the Corporate's public securities in its portfolio (e.g. asset managers or asset owners with minor holdings in public bond or equity markets, directly or indirectly through indices, and with limited or no voting rights).
3. The exact legal entity (group, subsidiary, etc.) to which the Financial Product is provided and on which the assessment is conducted should be explicit.

POSSIBLE APPROACHES & TOOLS

Strategies for a preliminary identification of positive and negative impacts arising from a Corporate's activities include:

- Consideration of the operating context of the Corporate given its sector and type of activity, including the key relevant sustainability challenges in its operating location/countries of operations and whether the Corporate's activities contribute to these.
- Consideration of relevant market practices and standards (e.g. UN Global Compact Principles,[4] IFC Performance Standards;[5] World Bank Group Environmental, Health and Safety Guidelines;[6] OECD Guidelines for Multinational Enterprises,[7] local industry initiatives and standards, etc.) and whether the Corporate adheres to these.
- Consideration of the Corporate's strategic intent and/or commitments to deliver positive impacts and/or manage negative impacts, as publicly expressed in corporate social responsibility (CSR) reports, integrated reports or other public information.
- Use of taxonomies, as drawn up by global initiatives such as the Green Bond Principles[8] and Green Loan Principles,[9] or at the country level,[10] to identify *a priori* positive impact sectors or activities and/or geographic locations (e.g. low or middle income countries) or types of economic actors (e.g. small and medium size enterprises).
- Consideration of the Product Initiator's exclusion lists, if any.
- Consideration of the Corporate's involvement in sensitive activities, i.e. activities that can trigger significant negative impacts when not conducted in a sustainable way.[11]
- Screening of available information regarding possible controversies to identify possible negative impacts linked to the Corporate's activities, and/or apparent contradictions between its communicated intents and its actual practice (e.g. behaviour vis-à-vis stakeholders in its supply chain, or amongst its employees).

Should information or tools be lacking to apply the above strategies, the Product Initiator can resort to impact mapping using an impact-scoping tool such as the PI Impact Radar.[12] This enables users to "zoom out", i.e. to scope all possible impacts to avoid missing any significant ones; and subsequently, to "zoom in" in order to determine the intended positive impact(s). Impact-scoping tools can also be used in complement to the above strategies to provide a broader review of positive impacts.

OUTPUT

The key output from this initial identification phase is a list of significant intended positive impact(s), as well as significant negative impacts arising from the Corporate's activities. These impacts become the focus of the subsequent phase: assessment. Some Corporates may be disqualified at the identification stage (e.g. if no significant positive impacts are identified and/or one or more of the Corporate's activities is on an exclusion list).

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4. https://www.unglobalcompact.org/what-is-gc/mission/principles
5. https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards
6. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines
7. http://mneguidelines.oecd.org/guidelines/
8. https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/
9. https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/LMA_Green_Loan_Principles_Booklet-220318.pdf
10. E.g. the Green Funds Scheme in the Netherlands (https://www.rvo.nl/sites/default/files/bijlagen/SEN040%20DOW%20A4%20Greenfunds_tcm24-119449.pdf), the French Energy and Ecological Transition for Climate Label (https://www.novethic.com/french-green-public-label.html), the German FNG Label (http://www.fng-siegel.org/en/), and the unified EU classification system of sustainable economic activities (taxonomy under development) (https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance_en#investment)
11. Examples of sensitive sectors include: agriculture, power, construction, chemicals/petrochemicals, mining and metals, etc
12. Other impact mapping tools include the SDG wheel of the Cambridge Institute for Sustainability Leadership (CISL): https://www.cisl.cam.ac.uk/business-action/sustainable-finance/investment-leaders-group/images/sdgwheel.jpg/view

2. ASSESSMENT

PURPOSE

The assessment phase allows the Product Initiator to "zoom in" on the significant positive and negative impacts identified in the previous phase, so as to determine:

- Indicators for intended positive impacts, to enable periodic evaluation and reporting (as per the subsequent phase: monitoring).
- Appropriate actions to address any negative impacts..

POSSIBLE APPROACHES & TOOLS

Strategies for the assessment of the significant **positive impacts** arising from a Corporate's activities include:

- Reference to a **taxonomy** – this means that positive impacts are assumed based on the correspondence with a taxonomy; impacts are neither estimated nor measured.

  Illustration. In order to determine the significance of a Corporate's activities falling within a given taxonomy, the Product Initiator can seek to understand the share of the Corporate's revenues (or other aggregates such as total assets or EBITDA)[13] falling under the taxonomy, and choose a threshold under which the Corporate ceases to qualify as PI. For example, it might consider a company to qualify as PI only when 50% or more of its revenues are linked to activities that fall under the taxonomy. Additional criteria might be added for the rest of the business mix, for example the company could be required to have less than 30% of its revenues linked to sensitive activities (as defined above).

  The Product Initiator could also seek to understand the Corporate's position relative to its peers in the sector and/or defined geographic scope – i.e. whether it is a leader or laggard?

  The Product Initiator should be transparent on the taxonomies and thresholds used and present a credible rationale supporting its choices. In particular, it should seek to get a sense of the Corporate's strategic intent and direction of travel. For instance, a Corporate which does not meet a threshold or baseline but has a clear transition strategy (evidenced for instance by objectives to transform its business mix within a reasonable period), could also be considered as eligible because it is "on the path to PI".

- Use of **empirical data** – this means that estimations of impacts are derived from data on the Corporate's existing operations.

  Illustration. In some cases the Corporate is able to estimate the impacts related to its activities using data collected from its existing operations, its impact materiality matrix (if any), the environmental and social impact assessments of its existing activities (if any), and/or other relevant data collection mechanisms. This data can be used to develop targets, action plans, and/or 'key performance indicators (KPIs)', which in turn can then be used as a reference point for the Product Initiator – i.e. to assess whether a Corporate is meeting its targets and/or staying above a certain baseline. As above, beyond any numerical values, the Corporate's strategic intent and the context it operates in are important. For instance, a Corporate may be meeting its targets but have set these at a comparatively low level of ambition relative to its peers and/or applicable policies and regulations.

13. Earnings Before Interest, Taxes, Depreciation and Amortization; used an indicator of a company's financial performance.

- Use of **predictive models** – this means that estimations of impacts are derived from a predictive/statistical model.

  Illustration. In some instances Corporates may be using predictive models (as opposed to empirical data sets as described above), to set their impact targets, action plans and KPIs. An example of this would be a Corporate using the International Energy Agency (IEA) 2 degree scenario relevant for its industry and country.[14] These model-based KPIs and targets could be directly used by the Product Initiator for monitoring purposes.

Depending on the information available and on the Product Initiator's position, in some cases not all approaches will be relevant and/or applicable, while in others a combination of approaches or all the approaches will be relevant and applicable.

Product Initiators should aim to design approaches and tools that are both credible and forward-looking, i.e. analyzing the positive contribution of both the current and anticipated activity mix of the Corporate, in order to support Corporates in the transition towards a PI business mix.

Strategies for the assessment of the significant **negative impacts** arising from a Corporate's activities:

Based on the information gathered at the identification stage, each Product Initiator should determine the type of investigation needed, if any, to assess the Corporate's negative impacts.

For example, a Corporate with no sensitive activity (as defined above), geographically located in OECD countries and not subject to any controversies might be assumed not to require further analysis. When all or part of the Corporate's activities are in non-OECD countries and/or are identified as sensitive activities, specific evidence of negative impact assessment, mitigation and ongoing management by the Corporate is expected.

The following might constitute evidence of a Corporate duly managing its negative impacts:

- It has an **impact identification system** in place to identify where its activities have or could have negative impacts (e.g. via an impact matrix).
- It has a **risk management system** to identify, mitigate and monitor its negative impacts on an ongoing basis.
- Its targets and action plans for the management of negative impacts are consistent with or better than those of its **peers** in the sector and/or for a given geographic scope.
- It demonstrates **alignment with relevant market practices and standards** (e.g. national legislation and/or policies, industry guidelines, IFC Performance Standards;[15] World Bank Group Environmental, Health and Safety Guidelines;[15] OECD Guidelines for Multinational Enterprises;[16] etc.)

Further guidance on how to assess a Corporate's impact targets and monitoring is offered, among others, by the Impact Management Project.[18], the UN Global Compact[19] and the Global Reporting Initiative.[20]

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14. IEA predictive models and reference tables: https://www.iea.org/statistics/?country=WORLD&year=2016&category=Key%20indicators&indicator=TPESbySource&mode=chart&categoryBrowse=false&dataTable=BALANCES&showDataTable=false
15. https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards
16. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines
17. http://mneguidelines.oecd.org/guidelines/
18. https://impactmanagementproject.com/impact-management/how-enterprises-manage-impact/ and https://impactmanagementproject.com/impact-management/what-is-impact/what/
19. SDG Bonds and corporate finance, UNGC, 2018: https://www.unglobalcompact.org/library/5639
20. Measuring Impact - How Business Accelerates the Sustainable Development Goals: https://www.globalreporting.org/resourcelibrary/Meassuring%20Impact_BCtA_GRI.pdf

OUTPUT

At the end of the assessment stage, the Product Initiator should have confirmed the relevance of the impacts initially identified, qualified the nature and scope of the intended positive impacts and determined how significant negative impacts, if any, are mitigated. Finally, the impact indicators that will be monitored should have been identified (hereafter the Impact Indicators).

It is important to note that indicators on actual impacts may not always be available, in which case measurements should be established on elements leading to the materialization of these impacts, i.e. the best available "proxies" to impact, such as outputs or outcomes. For example, an electricity provider might not regularly report on its greenhouse gas (GHG) emissions, but may be able to provide the share of its electricity produced per type of power generation (coal-fired, gas-fired, renewable, etc.). The electricity production is the Corporate's output, while the intended outcomes could be the reduction of GHG emissions resulting from renewable power generation - the impact being the climate change mitigation. If some or all of the activities of the electricity provider are based in areas with low access to energy, another outcome from its activity could be access to power for underserved people and the resulting impact would be improved living conditions. The data for the latter two points may not be available, hence the need, in some cases, to rely on output data as Impact Indicators.

The Product Initiator should be transparent about the metrics it will be using, making it clear to stakeholders where these are actual impact measurements and where they are in fact proxies.

At the end of the assessment phase, the Corporate – and hence the Financial Product to the Corporate - may qualify as PI.

3. MONITORING

PURPOSE

Monitoring aims at controlling that the criteria set for the Corporate to qualify as PI at the inception of the financial product continue to be met.

The monitoring phase is expected to be ongoing during the whole lifetime of the financial product and in some cases, can inform remediation programs and exit strategies. Monitoring may even continue at the Product Initiator's discretion beyond the lifetime of the financial product, or beyond the exit of the Product Initiator, as part of the Product Initiator's relationship management practice for Corporate customers.

The monitoring tools should allow the following to be evaluated:

- That the intended positive impacts continue to arise from the Corporate's activities (i.e. for example, in the case of use of taxonomies, that the Corporate's mix of activities continues to meet the thresholds defined by the Product Initiator at the assessment phase).
- That significant negative impacts continue to be adequately avoided and/or mitigated.

The tools and approaches to be applied will depend on the level of cooperation of the Corporate, the position of the Product Initiator and the level of data available.

POSSIBLE APPROACHES & TOOLS

In addition to referring to public information sources, the role of the Product Initiator is to encourage monitoring and reporting by the Corporate to the extent possible, and to make use of other available information and contractual negotiation where possible:

- When the Corporate takes **an active part** in the impact identification/assessment process, on a best effort basis some indicators and/or covenants should be reflected in the legal documentation for the Financial Product (e.g. in a Revolving Credit Facility, the margin grid could refer to agreed Impact Indicators related to the targeted positive impacts).
- When the Corporate does **not take an active part** in the impact assessment process and/or when some indicators and/or covenants is solely an initiative of the Product Initiator, the latter may only rely on information provided by the Corporate and on third-party reviews, if any.

In any case, when engaging with the Corporate at the inception of the Financial Product and/or on an ongoing basis, the Product Initiator should use its position to:

- Obtain or update information on the Corporate's positive and negative impacts, both on a periodic basis (e.g. yearly or bi-annual assessment, in accordance with the life of the Financial Product) – as well as when exceptional events occur (e.g. significant incident or controversy related to the Corporate itself or its sector as a whole; a change in business model, acquisition/divestiture, etc.).
- Encourage the Corporate to publicly disclose information related to impacts. However, this information can also be released on a confidential basis to the Product Initiator (in this case third-party reviews at the Corporate and/or Product Initiator level are highly recommended to confirm the credibility and implementation of the frameworks in place).

OUTPUT

The monitoring phase allows the Product Initiator to confirm that the Financial Product continues to qualify as PI.

B. INVOLVEMENT OF THIRD-PARTIES

In the context of a Financial Product provided to a Corporate with unspecified use of funds, third-party assessment of PI (e.g. for second opinions, verification, audit, etc.) can be provided by external auditors or extra-financial rating agencies and can occur either at the Corporate or at the Product Initiator level.

Third parties can assess the frameworks established and/or the Impact Indicators used by a Corporate to manage its impacts, namely to comply with internal policies and/or external standards and norms. They can also assess the implementation of the frameworks and the accuracy of Impact Indicators.

Third parties can also assess the Product Initiator to confirm that it has properly used its PI framework to originate and execute the Financial Product.

While neither of the above are requirements per se for PI compliance, as explained in section C below, third-party involvement can play a critical role in meeting transparency requirements under the PI Principles.

C. TRANSPARENCY

Product Initiators are encouraged to publicly disclose as much relevant information as possible, and to use their position vis-à-vis the Corporate to encourage it to publicly disclose as much information as possible. This may be done via public documentation (e.g. bond prospectuses, Corporate and Product Initiator websites, sustainability/integrated reports, etc.) and/or restricted channels such as online data-sharing platforms.

When full disclosure is not possible for confidentiality reasons, third-party opinions are highly recommended to provide additional credibility to the PI qualification.

It is expected that transparency will enable a gradual convergence towards best practice amongst PI practitioners and Corporates when setting baselines and/or thresholds in a given context.

D. ADDITIONAL CONSIDERATIONS

SUSTAINABLE DEVELOPMENT GOAL (SDG) MAPPING

Many Corporates and their stakeholders are using the 17 SDGs to communicate on their positive contribution to sustainable development. While the focus of the PI Principles is specifically on impacts, it may be useful for Product Initiators to consider referring to the specific SDGs that such impacts are contributing to, in order to create connections and synergies with other initiatives or actors focusing on or using the SDGs.

IMPACT ATTRIBUTION

A recurring question is how to quantify the relative contribution of a Financial Product to the impacts delivered by the underlying assets that it funds.

Different methods exist, a couple of examples are:

- Identification of the total funds used by a Corporate or a project (equity & debt) and calculation of the ratio between (i) the nominal amount of funds brought by the product and (ii) the total funds used
- Use of "standardized data". For example, for CO_2 avoided by a power plant investment: the standard value of USD costs per MW installed (as supplied by the International Energy Agency), coupled with the methodology of the European Investment Bank to predict the CO_2 avoided per MW installed -the combination of the two provides an estimation of the CO_2 avoided per USD invested.

Product Initiators should use the most relevant methodology they believe is credible given the information available at the time of initiating/issuing the Financial Product and be transparent about the method used when claiming attribution.

PROOF OF ADDITIONALITY

Additionality can be defined in many different ways; there is as yet no standard definition. Therefore, where additionality is claimed, the definition used should be clearly specified.

Whatever the definition, quantifying additionality requires a clear understanding of the baseline figures relevant for a given investment in a given location before the investment is made. It is essential that the Product Initiator clearly references the baseline chosen and why, and explains the investment's anticipated additionality over and above that baseline.

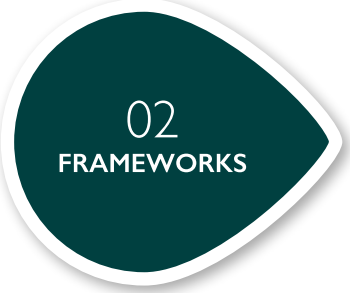
Importantly, the more a Corporate seeks additionality, the more prepared it will be to switch to an impact-based business model.[21]

SDG mapping, impact attribution and proof of additionality are not requirements for PI compliance.

21. For more information on impact-based business models, please refer to "Rethinking impact to finance the SDGs", UNEP FI, 2018: http://www. http://www.unepfi.org/positive-impact/positive-impact/

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).



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.

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).

PRINCIPLE FOUR: Assessment
The assessment[18] of Positive Impact Finance delivered by entities (financial or non financial), should be based on the actual impacts achieved.

22. Understood as rating

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. More than 200 financial institutions, including banks, insurers, and investors, work with UN Environment to understand today's environmental, social and governance challenges, why they matter to finance, and how to actively participate in addressing them.

www.unepfi.org

UNEP FI's Positive Impact Initiative explores solutions to the financing gap for sustainable development and the Sustainable Development Goals (SDGs). The Initiative helps move the financial sector towards a more thorough and deeper integration of impact analysis in decision-making. This improved understanding of impacts will ultimately also drive more impactful business models and investments. Based on the Principles for Positive Impact Finance, lenders and investors and a range of stakeholders are building on existing impact frameworks to develop guidance and tools for holistic impact analysis across a range of financing instruments. The Initiative is also engaging with the public sector to explore impact-based requests for proposals which can stimulate the private sector to develop impact-based business models. The initiative is championed by a core group of UNEP FI Members and a wide group of other stakeholders in the public and private sectors.

We invite all stakeholders to participate in UNEP FI's Positive Impact Initiative to collaborate on best practice and help build the impact ecosystem. For more information:

www.unepfi.org/positive-impact/positive-impact/

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