MODEL FRAMEWORK:
FINANCIAL PRODUCTS FOR
SPECIFIED USE OF PROCEEDS
PROJECT-RELATED FINANCE
(EQUATOR PRINCIPLES SCOPE)

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 Positive Impact 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 where the funds raised or guarantees issued are used for a specific purpose, in this case Project-related finance within the scope of the Equator Principles1 (“EP”). For example: Project finance transactions, Project-related corporate loans, bridge loans to Project finance, Project-related transactions supported by Export Credit Agencies.2

We have chosen Project-related transactions within the scope of the EP because these represent a material share of the Project finance market, and, financial institutions should be able to build on internal EP frameworks when considering originating Positive Impact Financial Products.

Products with other specified use of funds will be the object of separate Model Frameworks.

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 economy3.

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

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1 The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risks in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making.


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 with specified use of funds (Equator Principles Scope) is to guide the assessment of a Client’s potential to generate positive impact through its activities, in this case via involvement in a specific Project. Since the use of funds from the Financial Product is tied to a Project, the focus of the assessment and potential for positive impact falls on the Project itself.

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

Note: Product Initiators may have stronger or weaker influencing positions over the Project depending on the nature of the Financial Product provided and the overall relationship between the Client and the Product Initiator. 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 in order to identify potentially 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.

The identification of impacts related to a Project typically takes place at the inception of the Financial Product (i.e. during the period of conception and structuring of the Financial Product).

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4 As per the Equator Principles guidelines, the Client can be a Project Company (SPV) or a Corporate or a Public Entity having effective operational control of the Project. This includes both direct control (as operator or major shareholder) of the Project by the Client and indirect control (e.g. where a subsidiary of the Client operates the Project).

5 A Project is a development in any sector at an identified location. It includes an expansion or upgrade of an existing operation that results in a material change in output or function. Examples of Projects are: a power plant, mine, oil and gas Projects, chemical plant, infrastructure development, manufacturing plant, large scale real estate development. In the case of Export Credit Agency supported transactions, the new commercial, infrastructure or industrial undertaking to which the export is intended will be considered the Project.

6 The “position” of the Product Initiator designates the type of relationship between the Product Initiator and the Client controlling underlying a Project. In the case of EP scope funding, the Product Initiator is usually a major influencer, i.e. the Product Initiator’s contribution to the Project’s funding is meaningful and/or the Client benefiting from the Financial Product may have limited ability to find alternative partners (e.g. the Product Initiator is the sole lender, or is in a club deal where limited or no other liquidity is available to fund the Project). In some instances, the Product Initiator can be a minor Influencer, for example when its contribution to the Project’s funding is not meaningful enough to materially affect the decisions related to the Project (e.g. small participation in a project finance transaction).
POSSIBLE APPROACHES & TOOLS

Strategies for a preliminary identification of positive and negative impacts arising from the Project include:

- Consideration of the **operating context** of the Project given its sector and type of activity, including the key relevant sustainability challenges in its operating location/countries of operations and whether the Project’s operations and/or output contribute to these.

- Use of **taxonomies**, as drawn up by global initiatives such as the Green Loan Principles, or at the country level, 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 Client’s **strategic intent and/or commitments** to deliver positive impacts and/or manage negative impacts, as expressed in public sources (e.g. corporate social responsibility (CSR) reports, integrated reports, etc.) and/or via adhesion to relevant standards and initiatives.

- In addition, the Product Initiator could also resort to an impact mapping using an impact **scoping tool** such as the Impact Radar. 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).

- As regards the identification of negative impacts, this should be conducted using the **EP guidelines**.

- This should be complemented with screening of available information regarding possible **controversies** linked to the Project.

**OUTPUT**

The key output from this initial identification phase is a list of significant intended positive impact(s), as well as significant potential negative impacts arising from the underlying Project(s). These impacts become the focus of the subsequent phase: assessment. Some Projects may be disqualified as of the Identification stage (e.g. if no significant positive impacts are identified).

**2. ASSESSMENT**

**PURPOSE**

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

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

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POSSIBLE APPROACHES & TOOLS

Strategies for the assessment of the significant positive impacts arising from the financial product’s underlying Project(s) include:

- Reference to a taxonomy, i.e. positive impact(s) are deduced from correspondence with a taxonomy but are neither estimated nor measured.
- Use of an empirical data, as derived from E&S impact assessment, setting of E&S targets, action plans, Key Performance Indicators (KPIs) etc.

Illustration. In some cases, the impacts related to the underlying Project can be estimated using data collected from previous projects (if any), the environmental and social impact assessments (ESIA) of similar projects (if any), and/or other relevant research and data collection mechanisms. This data can be used to develop targets, action plans and KPIs, which in turn can be used as a reference point for the Product Initiator – i.e. to assess whether the underlying Project is meeting its positive impact targets. As above, beyond any numerical values, the Project’s performance should be analyzed within its particular context. For instance, a project might be meeting its targets but show low ambition compared to the local context (baseline) or fall short of applicable local policies and regulations.

- Use of impact predictive models i.e. estimation of impacts is derived from a model.

Illustration. In some instances, predictive models (as opposed to empirical data sets as described above), can be used to set impact targets, action plans and KPIs. (e.g. using direct and indirect job creation models for estimation of the total job creation of a construction of a production facility in a given country). These model-based KPIs and targets should be explicitly acknowledged by the Product Initiator.

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

The intended positive impacts should be significant vs. baseline that each Product Initiator would chose based on the information available on or before closing (i.e. the date on which all conditions precedent to initial drawing of the debt have been satisfied or waived). The Product Initiator should clearly reference the baseline chosen and explain the Product’s intended positive impact by presenting a credible narrative on the Project’s impact(s).

Strategies for the assessment of the significant negative impacts arising from the Financial Product’s underlying Project:

Using the information gathered at the Identification stage the Project will have been classified into one of the three EP categories (A, B and C in decreasing level of risks). Based on this as well as any other analysis applied to the Project, each Product Initiator should determine the type of investigation needed, if any, to assess the Project’s negative impacts.

10 For instance as per the Green Loan Principles: https://www.lma.eu.com/application/files/8415/2162/5092/LMA_Green_Loan_Principles_Bookletpdf.pdf
11 Environmental and Social Impact Assessment (ESIA) is a comprehensive document of a Project’s potential environmental and social risks and impacts. An ESIA is usually prepared for greenfield developments or large expansions with specifically identified physical elements, aspects, and facilities that are likely to generate significant environmental or social impacts.
Negative impacts must be assessed in a manner commensurate with the nature, scale and stage of the Project, as reflected by the EP category, and with the level of environmental and social risks and impacts. This might involve:

- **Environmental and Social Impact Assessment (ESIA):** the Client is required to conduct an assessment process to address the relevant environmental and social risks and impacts of the proposed Project that have been identified.
- **Grievance Mechanism:** the Client is required to establish a grievance mechanism designed to receive and facilitate resolution of concerns and grievances about the Project’s E&S performance.
- **Independent Review:** in some cases, an independent E&S Consultant, not directly associated with the Client, is required to carry out a review of the assessment documentation (e.g. ESIA, audit reports or relevant project specific environmental permits).

When applying the EP guidelines it is essential that the Product Initiator uses its influencing capacity to the full in order to maximize the thoroughness and transparency of the information collected and of the assessment conducted (internally and/or via external consultants).

The review of the data and reports can be undertaken in the light of the Impact Radar to identify further potential positive or negative impacts, and/or via other tools or methodologies relevant to the Project (e.g. the Product Initiator’s internal policies and systems or external methodologies such as IMP).

The Product Initiator should clearly describe the tools and approaches chosen and reference the sources of information used.

- **Environmental and Social Standards:** for Projects located in non designated countries, as defined in the Equator Principles, the assessment process evaluates compliance with the then applicable IFC Performance Standards on Environmental and Social Sustainability (Performance Standards) and the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines). For Projects located in designated countries, the E&S standards may have been considered robust enough at the Identification stage to justify lighter analysis.
- **Environmental and Social Management System:** the Client is required to develop corporate and, where relevant, Project-level E&S management plans / system. Gaps at the time of the assessment need to be addressed via an action plan detailed in the relevant covenants of the contractual documentation of the debt.
- **Stakeholder Engagement:** the Client is required to demonstrate effective engagement with stakeholders as an ongoing process.
- **Grievance Mechanism:** the Client is required to establish a grievance mechanism designed to receive and facilitate resolution of concerns and grievances about the Project’s E&S performance.
- **Independent Review:** in some cases, an independent E&S Consultant, not directly associated with the Client, is required to carry out a review of the assessment documentation (e.g. ESIA, audit reports or relevant project specific environmental permits).

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12 [http://equator-principles.com/designated-countries/]
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, a power plant’s output is the electricity generated, which can easily be measured. Its outcomes and impacts may be more difficult to measure: its intended outcomes might be reduction of GHG emissions (for instance in a case where the power plant displaces a more polluting form of power generation), and its intended impact would then be climate change mitigation. Other outcomes and impacts might be access to power for underserved people and the improvement of living conditions, respectively. 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 Project – and hence the Financial Product offered to the Client - may qualify as PI.

3. MONITORING

PURPOSE

Monitoring aims at controlling that the criteria set for the underlying Project to qualify as Positive Impact at the inception of the Financial Product continue to be met.

The monitoring phase is expected to be ongoing during the life 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 life of the Financial Product.

The monitoring tools should allow the following to be evaluated:

- That progress is being made towards achieving the intended positive impact(s) as planned (e.g., in case of use empirical data, the Clients’ estimated target Impact Indicators are met according to the set timeline).
- That significant negative impacts continue to be adequately avoided and/or mitigated.

The tool and approaches to be applied will depend on the level of cooperation of the Client, the position of the Product Initiator and the level of data available.
POSSIBLE APPROACHES AND TOOLS

In the context of a Financial Product provided to a Client for Project-related use of funds under the scope of the EP, the Product Initiator has some leverage on the Client to require information necessary for the monitoring of impacts since the Financial Product is conditioned on the respect of the EP. In relation to the negative impacts, the level of information and frequency with which it is required will be directly linked to the categorization of the Project (e.g. Category A requires a closer monitoring); in relation to the positive impact(s), it will depend on the ability of the Client to provide the necessary data.

- At the time of closing, the same approaches as at the inception stage will apply (see above), and the Product Initiator will verify that no material change has occurred since the assessment was performed.
- For monitoring during the life of the Product, the Product Initiator should set up a dedicated process tracking the evolution of both the positive impacts and negative impacts, based on the Impact Indicators determined in the previous phase.

Part or all of this monitoring process can be reflected in the legal documentation for the Financial Product (e.g. information covenant requiring to provide lenders with independent advisors’ monitoring reports on a periodic basis).

In addition to information provided by the Client and third-party advisors, the Product Initiator can check for any new public information (e.g. controversies) on a periodic basis. If new controversies are identified, the Product Initiator should assess their significance and the possible mitigation measures. Should this not be possible the Product Initiator should re-assess the PI qualification of the Project.

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 Financial Products with specified use of funds within the scope of the Equator Principles third-party assessment of PI (e.g. for second opinions, verification, audit, etc.) can be provided by technical experts (external consultants), external auditors or extra-financial rating agencies and can occur either at the Project, Client or Product Initiator level.

As per the EP, an independent review of the negative impacts of the Project must be provided by third party consultant(s) at Inception and on a periodic basis depending on the type of Project. In addition, the Project Initiator can seek to include the review of the intended Positive Impacts in the consultants’ scope of work.

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 Client to encourage them to do the same.

There are various channels via which information on the framework applied by the Product Initiator can be disclosed as well as the result of the analysis, ranging from the Financial Product documentation, to public materials released by the Project company and documentation intended for auditors and/or third parties. The channel(s) used and the level of confidentiality will depend on the nature of the Financial Product, the nature of project, the willingness of the Project company to disclose information and the regulations of the host country where the Project is located.

In some cases, the EP guidelines may be prescriptive as to the level and nature of disclosure required for certain Projects.\(^\text{13}\)

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

\(^{13}\) For Category A Projects and, as appropriate, Category B Projects, the Product Initiator is required to, at least, request that:

- The client will ensure that, at a minimum, a summary of the ESIA (as defined above) is accessible and available online.
- The client will publicly report GHG emission levels (combined Scope 1 and Scope 2 Emissions) during the operational phase for Projects emitting over 100,000 tons of CO\(_2\) equivalent annually.
  
  In addition, the EP also requires public disclosure of certain information from the Project Initiator.
D. ADDITIONAL CONSIDERATIONS

SUSTAINABLE DEVELOPMENT GOAL (SDG) MAPPING

Many companies 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 Client seeks additionality, the more prepared it will be to switch to an impact-based business model.14

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

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14 For more information on impact-based business models, please refer to “Rethinking impact to finance the SDGs”, UNEP FI, 2018 (http://www.unepfi.org/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 of Positive Impact Finance delivered by entities (financial or non financial), should be based on the actual impacts achieved.

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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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