UNEP FINANCE INITIATIVE

+IMPACT

IMPACT ANALYSIS FOR CORPORATE FINANCE & INVESTMENTS

TOOL PROTOTYPE

INTRODUCTION MANUAL

September 2019

CONTENT OVERVIEW

1. INTRODUCTION

What is the tool?

The tool is a unique resource to identify, assess and monitor corporate impact, with a view to determining companies' impact status and possibilities.

This document provides a narrative introduction and overview of the interactive prototype (available on request as of 1st November).

How did it come about?

In 2017 the UNEP FI Positive Impact Initiative (PII) released the Principles for Positive Impact Finance (PI Principles), a meta-framework for holistic impact analysis, management and delivery by financial institutions and their clients. In 2018, the Principles were complemented by two resources. An Impact Radar, which provides a taxonomy of impact areas and their definitions, and a set of Model Frameworks to guide banks, investors and their service providers interpret and implement the PI Principles.

A Working Group[1] of banks, investors and financial service providers was established in 2019 to test the PII approach and resources, and developed the tool prototype.

Who is the tool for?

The tool was designed for use by financial institutions (lenders and investors) in the context of their corporate finance and investment business with unspecified use of funds. It is intended to connect to KYC, credit, commercial and/or sustainability analysis systems to inform lending/investment decisions, to develop new lending/investment products, and/or to inform portfolio design and management. The tool may ultimately lend itself to be used by corporates themselves for self-assessment purposes, to inform business strategy and SDG strategy. Its outputs are also meant to be relevant to public and civil society stakeholders.

What are the intended benefits?

The aim is for users to benefit through improved KYC and credit analysis, as well as the identification of business opportunities. It is also meant to help users comply with regulatory or voluntary sustainability standards, such as the Principles for Responsible Banking or the EU Taxonomy of Sustainable Activities.

How can I use the tool prototype?

The prototype will be available on request as of 1st November 2019. This document provides an overview of the workflow, main data points and key concepts contained in the tool to help banks and investors identify, assess and monitor a corporate's significant impact areas. The tool will be consolidated based on user testing of the prototype.

What else do I need to know?

The overall structure of the analysis proposed in this tool (Identification, Assessment, Monitoring), follows the Model Framework for Financial Products for Corporates with Unspecified Use of Funds. As an implementation tool, it is, however, purposefully more specific and detailed than the Model Framework. Third party verifications and second opinions should continue to be performed on the basis of the Model Framework.

1. Working Group members – AXA, BMCE Bank of Africa, Bank of Montreal (BMO), BNP Paribas, CDG Capital, Deutsche Bank, Ernst&Young, Garanti BBVA, Impax Asset Management, Itaú Unibanco, Japan Credit Rating Agency (JCR), KPMG, Land and Agricultural Development Bank of South Africa, Mirova, National Australia Bank (NAB), Natixis, Nuveen, Piraeus Bank, Société Générale, Standard Chartered, SuMi Trust, Vigeo Eiris, Yes Bank.

2. KEY CONCEPTS

Company cartography

Overview of the company's business typology, sectors of involvement/activities, and countries of operation.

Type of company

For the purpose of this tool, a number of company categorizations are used. Definitions are cited for reference, however regional/local standard definitions can be used.

- **Micro, small and medium enterprises**
  IFC Definition:[2] An enterprise qualifies as a micro, small or medium enterprise if it meets two out of three criteria:

IFC MSME DEFINITION			
INDICATOR	**EMPLOYEES**	**TOTAL ASSETS US$**	**ANNUAL SALES US$**
Micro enterprise	< 10	<$100,000	<$100,000
Small enterprise	10–49	$100,000–< $3 million	$100,000–< $3 million
Medium enterprise	50–300	$3 million–15 million	$3 million–15 million

- **Cooperatives**
  ICA definition:[3] A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.
- **Multinational Enterprises**
  OECD Definition:[4] These enterprises operate in all sectors of the economy. They usually comprise companies or other entities established in more than one country and so linked that they may coordinate their operations in various ways. While one or more of these entities may be able to exercise a significant influence over the activities of others, their degree of autonomy within the enterprise may vary widely from one multinational enterprise to another. Ownership may be private, State or mixed."

Countries of operation

For the purpose of this tool, a number of country categorizations are used.

- **Low-income country**
  World bank definition:[5] for the current 2020 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $1,025 or less in 2018.
- **Least developed countries (LDCs)**
  UN definition:[6] LDCs are low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low levels of human assets. There are currently 47 countries on the list of LDCs which is reviewed every three years by the Committee for Development (CDP).

---

2. Definitions of Targeted Sectors, IFC, https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors
3. Cooperative identity, values & principles, International Co-operative Alliance, https://www.ica.coop/en/cooperatives/cooperative-identity
4. OECD Guidelines for Multinational Enterprises, OECD(2011), http://dx.doi.org/10.1787/9789264115415-en
5. World Bank Country and Lending Groups, World Bank, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups
6. About the LDC category, United Nations, https://www.un.org/development/desa/dpad/least-developed-country-category.html

Sectors

For the purpose of this tool, sectors are areas of activity as per the ISIC industry classification. A converter to other industry classifications (e.g.NACE, NAICS) will be available separately.

Impacts

An impact is the effect or influence of one person, thing or action on another (New Oxford Dictionary).

Impact Areas

Impact areas are the "themes" of the impacts, under the three pillars of sustainable development (economic, environmental, social). The impact areas used in this tool are based on the PI Impact Radar (PII, 2018).

Figure 1 Impact Radar

Source: Impact Radar, PII, 2018

Significant Impact Area

A significant impact area for a company is one where there is a strong correlation between the impact area and the company' s current and/or future business, as a function of the type of company, the sector/s it belongs to and the countries it operates in. Understanding a company's significant impact areas is key to ensure that actions are taken and targets are set in those areas where it can deliver the most positive impact and/or decrease the most negative impacts.

Impact Identification

In this tool, Impact identification is the process by which a company's significant impact areas are identified.

Impact management

Impact management covers all actions taken to drive positive impact and reduce negative impacts: identifying significant impacts, measuring them, setting appropriate targets, taking action to reach those targets, monitoring their attainment, constantly improving processes and outcomes/performance, communicating both on process and performance. Effective impact management is a function of the quality of the governance, resources and processes established by the company to reduce its negative impacts and increase its positive impacts.

Impact performance

A company's impact performance is its actual delivery of positive impacts and management of negative impacts. It can be quantitatively and/or qualitatively measured per impact area through indicators and metrics. It is judged relative to specific targets, and benchmarks (e.g. as set by policy goals and targets or in industry standards).

Impact Assessment

In this tool, Impact Assessment is the process by which a company's capacity to manage its positive and negative impacts, and its performance in delivering positive impacts and managing negative impacts is reviewed. This process builds on the Impact Identification process, and yields a conclusion on the company's PI status and possibilities.

Company impact status & possibilities

The determination of the company's impact status and possibilities (i.e. if and how it can increase positive impacts and decrease negative impacts), is the final outcome of the Impact Identification and Impact Assessment processes.

In this tool, there are three possible PI statuses:

- PI Company – the company has significant positive impacts on one or several of the three pillars, and its negative impacts are duly managed.
- PI Transition Company – the positive impacts of the company are not yet significant and/or negative impacts are not yet duly managed. Several scenarios are possible within this category: part of the company's activities are PI (as per above) but not all; the company has significant positive impacts but is still in the process of managing negative impacts; or the company is managing negative impacts but still building up positive impacts; or the company is managing neither its positive or negative impacts but the impacts are manageable (i.e. the company could do so going forward).
- PI Excluded Company – the company's core business has negative impacts that cannot be avoided, mitigated or compensated.

A company's impact status is a dynamic not a static qualification. It is determined not to exclude but rather to enable companies to "come under the tent" and progress on their impact journey. The tool aims to provide an objective basis on which to set clear action plans and targets to progress on the journey.

Company impact profile

The company impact profile is the final output of the tool. It shows the company's significant impact areas, as well as its current performance (where known), and any targets it has set itself, vis a vis these impact areas.

3. OVERVIEW OF PROCESS & OUTPUTS

The flow chart below provides an overview of the main steps and outputs of the tool prototype.

Figure 2: Corporate Impact Analysis - Workflow

MAIN STEPS AND OUTCOMES OF ANALYSIS

In-built resources:
- Sector to impact map
- Industry classification code converter

A. Identification

I. Company Cartography
- What is the type and size of company?
- What does the company do (business sector)?
- Where does it operate?

II. Impact Areas
- What are the positive and negative impacts associated to the company's activity?

Outputs:
*Corporate impact map
*PI status can already be established in some cases

In-built resources:
- Country -impact mapping tool
- EU Taxonomy navigation tool

B. Assessment

I. Impact Management
- How is the company organized to tackle positive and negative impacts?

II. Impact Performance
- What is the company's impact performance?

Outputs:
- *Corporate impact profile
- *PI status can now be established for all companies

C. Monitoring
- How is the company progressing relative to its set targets?
- Has anything changed in terms of the company's cartography and/or impact management capabilities?

4. TOOL CONTENT

NB. The proposed analysis covers a variety of data points, some of which may or may not be immediately available. For large, multi-sector and cross-border companies the volume of data may initially be somewhat intimidating. Recognising these challenges, "fall-back" options, and options to prioritise data points, are provided throughout. Where they cannot cover the data points for the full scope of the company's activities, users should prioritise as per the instructions. If they lack a point of information they should provide what comes closest, explain their constraints and choices, and move on.

A. IDENTIFICATION

I. Company cartography

Why is this important? *Impacts are linked to a corporates size, nature, activities and where these take place. The first step is therefore to understand what the corporate does and where.*

1. What is the type of company? (micro enterprise, cooperative, SME, large company, multinational[7])

Why is this important? *Entrepreneurs and small and medium enterprises are in and of themselves an important positive contribution to the economic pillar of sustainable development. Similarly, large multinational corporations may be undermining economic convergence between countries or within countries. This information is needed to properly map the company's impact areas. Furthermore, smaller enterprises should go through a lighter process in terms of the assessment of their impact management, than larger companies. So this information also determines what happens later on in the analysis ("assessment" phase).*

2. What are the sectors of activity of the company?

For companies involved in several sectors, what proportion of the business is involved in each sector? Turnover/revenues should be used as the default unit of measure, except where EBITDA or fixed assets are more relevant.

NB. The tool is based on ISIC. A converter to other industry classifications (currently - NACE, NAICS, GICS) will be available alongside the tool prototype.

3. Is the company within the top 10 companies of its sector/s globally, or top 5 companies regionally or locally?

Why do we ask this question and why is this important? *When a company is a local, regional or worldwide leader in a sector, it may be systemically important for the impact areas associated with its activities (e.g. climate in the case of oil & gas). The sheer size and impact of such companies imply they have a distinct role to play in achieving the SDGs and hence their actions and those of their financiers and investors are of particular relevance. This information will be of use at the stage of defining action plans and targets.*

7. IFC & OECD definitions are cited for reference (see annex), however regional/local standard definitions can be used

4. **Where is the company operating? (countries)**

For companies active in different sectors, and in various parts of the supply chain of a sector, which activities, and which type of activities (production, sourcing, sales), are taking place where?

Why is this important? *Originating or delivering certain products and services in certain geographies (e.g. in low-income countries / LDCs) is in and of itself an important positive contribution to the economic pillar of sustainable development. This information is needed to properly map the company's impact areas. Moreover, this information is critical to enabling impact assessment (next stage, see below), where the pertinence of the company's impacts vis a vis countries' impact needs is considered.*

NB. For large, cross-sector and/or cross-border companies: users can prioritise sectors that represent a significant portion of the company's business, and prioritise countries that represent a significant portion business in a given sector. Any sectors and countries where the company is a leading player (i.e. where the company is among the top 10 of its sector globally or top 5 of its sector at country-level, and where the company is among the top 10 companies of a given country), should also be included (see below).

5. **Is the company within the top 10 companies of any of the countries listed above? Is the company systemically important for any given country?**

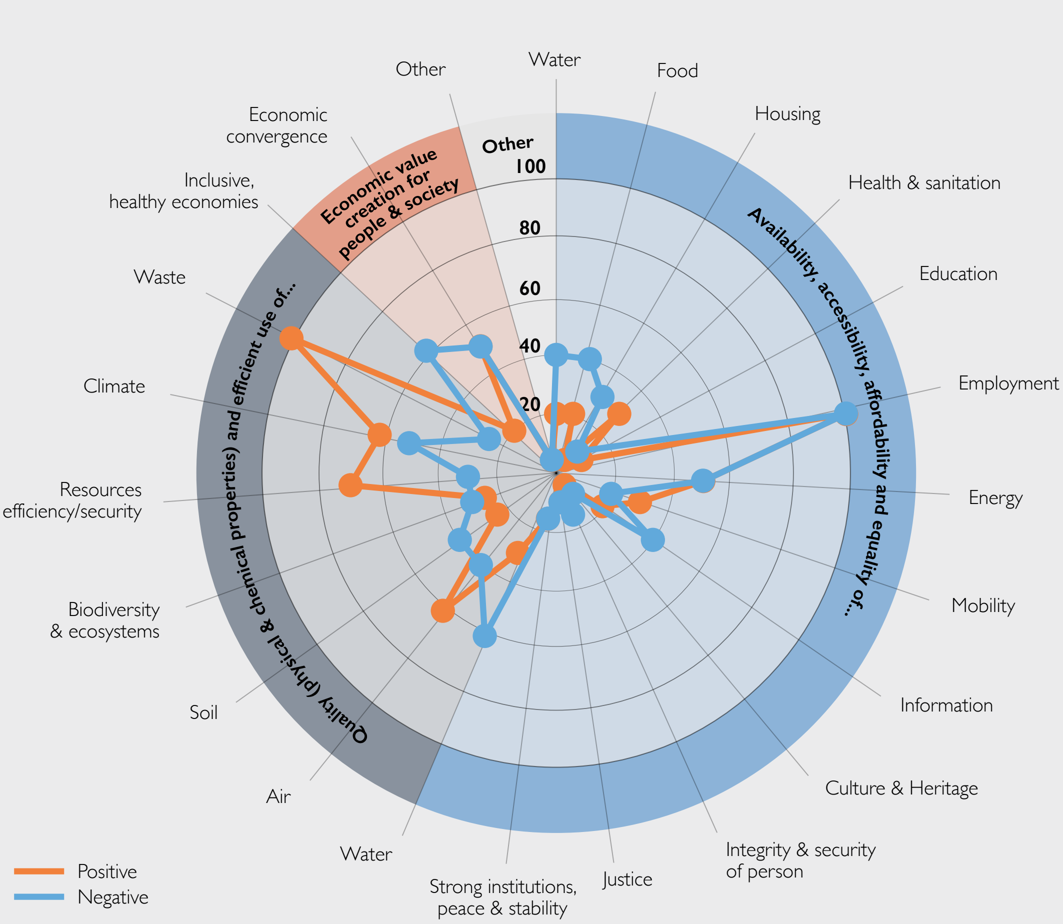
Why do we ask this question and why is this important? *When a company is among the largest in a given country, it may be systemically important for this country. I.e what the company does or what happens to the company has a direct incidence on that country. This information is important if/when you need to define the scope of this analysis when faced with a large, cross-sector and/or cross-border company (see above), as this helps avoiding an oversight of significant impacts of the company in smaller countries which generate little or no revenue to the company. This information will also be of use at the stage of defining action plans and targets.*

II. Impact Areas

Based on the above company cartography, the company's impact map will be automatically generated in the format of a sector-to-impact map that captures significant impact areas per sector. The impact map can be amended manually, thus leaving room for corrections, i.e. for positive and negative impact areas to be added or retrenched. All adjustments should be explained. A set of summary infographics (spider webs) will also be generated.

How does this work? *The map is generated on the basis of the tool's in-built sector/impact mapping (based on the PI Radar). The mapping will be refined and updated over time based on engagement with experts, as well as to take into account user experience.*

Figure 3: Example of a map of significant impact areas generated by the tool (sector-driven positive and negative impacts)



Conclusions

At this stage the first conclusions on the PI status of the company can already be drawn:

- Companies whose percentage of revenue generated by sector/s of activity that fall under a recognised exclusion list is >0.1% of turnover/revenue will automatically be qualified PI Excluded.

  NB. The IFC exclusion list is a widely recognised and used exclusion list, users are free however to apply their own exclusion lists.

- Companies whose percentage of revenue generated by sector/s of activity that fall under a recognised exclusion list is <0.1% of turnover/revenue, are potentially PI Excluded. The assessment phase will establish whether the company is PI Excluded or whether it qualifies as PI Transition.
- Companies for which 50% or more of turnover/revenue is generated by sector/s of activity that fall under a recognized taxonomy (e.g. EU taxonomy) will qualify as potentially PI companies. This status will be confirmed at the subsequent assessment phase if no contradicting information is revealed.
- Companies for which 50% or more of turnover/revenue is generated in low income countries or LDCs will qualify as potentially PI companies. This status will be confirmed at the subsequent assessment phase if no contradicting information is revealed.
- All other companies can be considered as a priori PI Transition. This status will be confirmed at the subsequent assessment phase if no contradicting information is revealed.

NB. All thresholds are indicative.

B. ASSESSMENT

I. Impact Management

Why is this important? *Companies' positive and negative impacts are a function of their impact management capabilities. Understanding the level of this capability is therefore important in determining or confirming a company's PI status.*

Based on the below data points, determine whether the company has advanced, passable or insufficient positive and negative impact management capabilities. Insufficient means no evidence of impact analysis and management; Passable means some evidence of impact analysis and management; Advanced means evidence of more advanced impact analysis and management (e.g. in governance, risk and supply chain management, R&D, commitments). An 'advanced' rating is necessary to qualify as PI, a 'passable' rating is need to qualify as PI Transition, while an 'insufficient' rating will lead to PI Excluded status.

NB. The above criteria can be used to assess large companies and multilaterals. A simplified version is pending for the assessment of SMEs and other small-sized enterprises.

1. **What is the organizational set-up of the company to manage its positive and negative impacts? Specifically: who are people in charge and what are their reporting lines?**

   What are we looking for here? *The organizational structure is revealing of the extent to which impact management has become mainstreamed and integrated in the company. The more impact considerations are integrated into business and strategy departments, the more mainstreamed it is.*

2. **Has the company sought to map out its positive and negative impact areas in any way?**

   Why do we ask? *Mapping out impacts suggests a level of awareness of impacts. The most common approaches are materiality assessments and SDG mappings.*

3. **Does the company have an E&S risk management system? If yes, is it applicable across the company's business activities?**

4. **Does the company perform an E&S analysis of its suppliers?**

5. **Does the company invest in impact-related R&D? If yes, are these investments significant and/or growing?**

6. **What is the level of the company's impact-related commitments? Do they involve individual or collective commitments with clear targets and KPIs?**

   What are we looking for? *The type rather than the mere existence of commitments is revealing of a company's impact management capabilities. Specific commitments, linked to the company's significant impact areas suggest more advanced impact analysis and management.*

7. **What is the level of the company's public disclosure on its impacts? Is impact related reporting disclosed in an integrated manner with financial disclosures (e.g. integrated reports)?**

   What are we looking for? *The type of disclosure can be revealing of the level of awareness and understanding vis a vis the business relevance of impacts and impact management. Integrated reporting leads company to thinking more closely about the linkages between their business and impacts.*

8. **What is the level of external assessment involved in the company's impact management strategies and procedures? Are 2nd opinions, and 3rd party verifications often solicited?**

   Why do we ask? *Companies may not be able to reveal all the impact-related information we seek. The existence of 2nd opinions and 3rd party assurances can provide an indication of proper impact management in these cases.*

9. **Is the company facing fines, law suits, or controversies?**

10. **Any other relevant considerations (e.g. specific question/s linked to sector of activity)?**

Conclusions

At this stage further conclusions on the PI status of the company can be drawn:

- Companies whose percentage of revenue generated by sector/s of activity that fall under a recognised exclusion list is <0.1% of turnover/revenue (as established in the previous identification stage), and whose impact management capabilities are poor are now confirmed as being PI Excluded. Those with advanced impact management capabilities now qualify as PI Transition.
- Companies for which 50% or more of turnover/revenue is generated by sector/s of activity that fall under a recognized taxonomy (as established in the previous identification stage), and with advanced impact management capabilities now qualify as PI - except in the case of the EU taxonomy, for whom PI status will be confirmed at the subsequent part of the assessment phase, providing that the required performance thresholds are met.
- SMEs not involved in an exclusion list sector and operating in OECD countries or in low income or least developed countries will automatically qualify as PI.
- Companies for which 50% or more of turnover/revenue is generated in low income countries or LDCs (as established in the previous identification stage), and with average or advanced impact management capabilities now qualify as PI.
- All other companies can be considered as PI Transition. This status will be confirmed at the subsequent assessment phase if no contradicting information is revealed.

NB. All thresholds are indicative.

II. Impact Performance

Why is this important? *Companies falling under a taxonomy, or presenting significant positive impacts, as well as advanced impact management capabilities will require evidence of impact performance to secure PI status.*

Moreover, the company's status of impact performance will serve to determine appropriate targets and action plans going forward.

1. **Where possible, provide the indicators, metrics and current value for the impact areas established at the identification stage. These can be either measurement based or predictive model based.**

2. **Where applicable, are these indicators, metrics and current values in line with any targets the company has set for itself (as per the information provided in the previous section)?**

3. **Where this can be assessed: are these indicators, metrics and current values aligned with policy goals and targets (e.g. Climate Agreement, as per IEA tables)?**

   NB - Alignment of values with the EU taxonomy can be checked via the above-referenced code converter.

4. **Where this can be assessed: how do these indicators, metrics and current values compare with the performance of the company's peers?**

5. **Where predictive models have been used, have these models been back-tested and adjusted accordingly?**

   What is this about? *Ex-post measurement will not always be possible. In these cases predictive, ex-ante models can provide the next best alternative. The accuracy of these models is however critical, therefore it is important that they be back-tested and continually improved and updated.*

Conclusions

At this stage final conclusions on the PI status of the company can be drawn:

- Companies for which 50% or more of turnover/revenue is generated by sector/s of activity that fall under a recognized taxonomy (as established in the previous identification stage), with advanced impact management capabilities (as determined in the previous assessment step), and who meet the EU taxonomy performance thresholds now qualify as PI.
- All other companies can be considered as PI Transition.

NB. All thresholds are indicative.

Based on the information provided above on the company's performance and targets, the company's impact profile will be automatically generated in the form of a set of sector infographics (spider webs).

Next steps

Depending on the status of the company options will vary:

- PI companies:

Further financing/investment services might offered if/as pertinent. Impact performance and target info and requirements (e.g. in loan covenants) can be included.

- PI Transition companies:

Establish an action plan to address negative impacts and/or increase positive impacts. Three types of consideration are proposed to inform which impact areas could or should be prioritised:

*Negative impacts (pre-condition for claiming positive impacts as per PI Principle n.1). Consider: i) Impact areas that are associated with the largest portions of the company's business, ii) Impact areas that are significant through positive impacts as well as negative impacts (note that some impact areas are cross-cutting: employment and resource efficiency).

*Impact needs in the company's country/ies of operation (companies should prioritise impact areas with the highest level of needs). The the in-built country/impact mapping tool can be used to determine if there is a high, medium or low level of coincidence between country impact needs and the company's significant impact areas.

*Impact performance. The company should prioritise any impact areas where its performance is poor (namely vis a vis international or local policy targets, and/or vis a vis its peers).

- PI Excluded companies

Exit/divestment strategy to be put in place.

C. MONITORING

Why is this important? *While Impact identification and assessment provides a picture of the current, targeted and potential impacts, it is key that information be monitored over time. The outcomes of this monitoring should be publically disclosed as much as possible.*

1. **How is the company progressing relative to its set targets?**

2. **Has anything changed in terms of the company's cartography and/or impact management capabilities?**

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.

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/

Follow #positiveimpactnews

positiveimpact@unepfi.org