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IMP comments to the Recommendations for SDG disclosure

October 2019

IMPACT MANAGEMENT PROJECT

Consultation questions

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• Are the disclosure Principles selected appropriate to encourage both the integration of SDGs into strategy and transparency in relation to risks, opportunities and impacts?

2 Disclosures **Are the recommended Disclosures appropriate and complete?**

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3 Enhancing the credibility of Disclosures

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• Are there further opportunities for aligning existing frameworks?

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1. Principles

Are the disclosure Principles selected appropriate to encourage both the integration of SDGs into strategy and transparency in relation to risks, opportunities and impacts?

Though the Principles selected are appropriate to guide general disclosures (such as in financial accounting), they do not seem to be specific enough to reflect best practices in impact disclosures, let alone the SDGs (see section 2 for SDG-specific comments). There is no sufficient clarity on what kind of impact should be reported (ideally, it should explicitly mention the obligation of disclosing both negative and positive impact), or how impact monitoring (and hence disclosure) should also include risk mitigations strategy.

Moreover, there is no clarity about what is meant by the terms "impact" and "outcome". There is a definitional debate about both terms that leads to different interpretations (and hence different indicators and strategies), and it would be helpful to provide a working definition at least for the purposes of these Principles and Recommendations.

With respect to the impact on an enterprise on the SDGs and an associated principle, we have noted that throughout the consultation paper and within the proposed definitions of the principles of SDG disclosure, the words "impact" and "outcomes" are used. Nowhere have these words been defined, which allows for significant interpretation to the user as to what is being referred to. Without clear indication of what is meant by "impact" and "outcome", the effort risks having clarity in exactly the efforts being disclosed as well as what impact is being had on the people and planet experiencing change as a result of the enterprise.

The IMP's consensus building effort to get the market to agree on what impact is a useful reference to address this gap. More than 2,000 practitioners have come together to build global consensus on how we talk about, measure and manage impact. By involving the whole value chain — from a policymaker in Argentina to a fund manager in East Africa to an asset owner in the UK — the IMP facilitated consensus about the definition of impact, across different perspectives, terminologies and logics.

After hundreds of in-person and virtual conversations, the IMP reached consensus that impact can be deconstructed into five dimensions: What, Who, How Much, Contribution and Risk. These can be understood as:

- What tells us what outcomes the enterprise is contributing to and how important the outcomes are to stakeholders.
- Who tells us which stakeholders are experiencing the outcome and how underserved they were prior to the enterprise's effect.
- How Much tells us how many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome for.
- Contribution tells us whether an enterprise's and/or investor's efforts resulted in outcomes that were likely better than what would have occurred otherwise.
- Risk tells us the likelihood that impact will be different than expected.

We would also recommend that there be a greater emphasis and priority on an Enterprise's negative intended and unintended impacts in relation to the SDGs acknowledged within the various principles in the disclosure principle listing.

2. Disclosures

A. Are recommended disclosures appropriate and complete?

- Practice vs. Performance

It is important to note that the recommendations in the document are related to the practice disclosure (i.e., the disclosure of processes put in place within an organisation to create an environment that is conducive to advancing the SDGs), but not performance disclosure (i.e., what the organisation actually did to advance the SDGs, and how to measure that). Though it is perfectly legitimate to do so, we suggest that the documents make that scope distinction clear to avoid the audience believing that this document encompasses all of the necessary guidance for SDG disclosure.

- Contextual data

We believe that the paper could be greatly strengthened with the addition of a key aspect of the SDGs. As per the 2030 Agenda, the Goals are about "*eradicating* poverty in all its forms and dimensions, including extreme poverty", and pledging that "no one will be left behind". The SDGs refer to a very specific segment of the population and the environment: the most underserved, and the most critical environmental effects.

As such, context is key to understand whether an organisation is really contributing towards advancing the SDGs: *what* outcome is being experienced, by *whom*, in what circumstance did that individual find him or herself before the outcome, etc.

A good example of the importance of contextual data to understand the SDGs is job creation. Let's assume an organisation limits itself to disclose that it has created 100 jobs in a given period. This tells us nothing about the quality of those jobs (are new employees receiving living wages or are they being underpaid, in which case they could possibly still live under the poverty line?), the importance of these jobs for the employees (were they poached from another organisation or had they been previously unemployed for a long time period?), or how deeply is this change affecting them (are individuals able to secure their jobs for a long time or are they laid off after just a few weeks?). If a company is creating 100 jobs for individuals from underserved areas, who would otherwise be unemployed and are now receiving living wages, a case could be made for it to claim that it is advancing SDG 8 (Decent Work and Economic Growth). If, on the other hand, these jobs were for investment bankers, who were poached from other institutions and who were never in a situation of vulnerability in the first place, it is hard to use this figure to justify the idea of advancing the SDGs.

The same may occur with environment-related outcomes. A company using a water-saving technology in the manufacturing of its products might as well be promoting environmentally friendly solutions. However, if the manufacturing plant is located in a region where water is not scarce, the company will not necessarily be contributing to SDGs 11 – Sustainable Cities and Communities (Target 11.5). Again, contextual data is key to demonstrate advancement of the SDGs.

- Negative impact

As per the comment about Principles, we believe that it should be more explicit when it comes to disclosing material negative impacts to the SDGs as a disclosure requirement. the

Organisations should be held accountable for negative impacts that naturally arise from their operation.

B. Are you aware of additional good practice examples?

For the abovementioned reasons, we believe that the diagrams examples portrayed in the document (Adams, Van Lanschot Kempen, and Unilever) are not appropriate, as they fail to provide the supporting data necessary to prove that companies are indeed contributing to advancing the SDGs.

We recommend that you review the paper "*In search of impact: measuring the full value of capital*" by the Investment Leaders Group lead by the University of Cambridge. This paper links the SDGs to indicators that, while not perfect, provide greater context and accountability of an organisations efforts to have impact on the SDGs.

3. Enhancing the credibility of disclosures

A. Are there additional sources of assurance evidence that could be included?

-UNDP is launching an Impact Management Practice Assurance for Private Equity that could provide helpful inputs to SDG-enabling practices

-Social Value UK Certificate - The Social Value Certificate looks at the systems and processes that you have in place for maximising your social value.

B. Do you foresee issues in the supply of assurance? Why?

The supply of assurance could be a challenge with respect to this framework. Given materiality is from both the perspective of shareholders and stakeholders, an assurance engagement would require a decision by the auditor as to which group to audit on behalf of – which group would have greater priority over the other? Financial materiality and what the impacts that stakeholders consider to matter are could be at odds. An example that details this issue could be as follows:

A local community communicates to an enterprise that the impact of their operations on the local fauna and animals is both significant and important to them. If the reporting enterprise does not consider this impact to be financially material, what would an auditor do given the noted definition of materiality?

C. Are there alternatives to assurance that could be included to enhance credibility of reporting?

We agree that assurance would be the route to increase credibility of reporting.

If assurance is not possible, credibility could be further enhanced with disclosure and discussion regarding the enterprise's efforts to engage with stakeholders (surveying etc.) to understand what impacts they consider to be important and to ensure that their voices are included to support the changes being claimed by the enterprise. The greater transparency disclosed regarding the ways in which stakeholders have been engaged, the more credible the report would be.

4. Alignment

Are there further opportunities for aligning existing frameworks?

- Closer tie and reference to the UNGC and GRI reporting on SDGs, Business Reporting on SDGs – Analysis of Goals and Targets. Though the paper (and GRI in general) focuses on ESG/negative metrics, rather than positive impact, this could be a helpful starting point to track contributions to the SDGs.
- Overall better alignment with the IMP norms? Please visit https://impactmanagementproject.com/
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5. Other matters

Are there additional matters which should be addressed prior to finalisation?

- No other matters of note.