Managing Negative Impact

A synthesis of the practices employed by investors who systematically identify, measure, and mitigate negative impact

January 2022

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About the Author

Pacific Community Ventures (PCV), a nonprofit social enterprise and community development financial institution (CDFI) based in Oakland, California, envisions a world of thriving communities where everyone has a fair shake. Our mission is to invest in small businesses, create good jobs for working people, and make markets work for social good. We achieve our mission through a "Good Jobs, Good Business" model that combines affordable loans with pro-bono advising; our BusinessAdvising.org platform, impact measurement, evaluation, and research; and tools and small grants to create good-quality jobs that address racial and gender wealth gaps. This report was developed by PCV's research and consulting team, which leads projects intended to foster the growth and increase the efficacy of the impact investing field.

About this Report

This report examines promising practices and resources that can support impact investors in understanding and managing the negative impacts of their investments.

Acknowledgments

We would like to acknowledge the many partners and colleagues who have provided extraordinary support to our work on this research project. We are deeply grateful for the financial support of the Surdna Foundation and the Piton Foundation at Gary Community Investments, without whom this research would not be possible. Special thanks to Leticia Emme and her colleagues at the GIIN for their encouragement and guidance throughout the project and their leadership in advancing the practice of impact measurement and management.

We would also like to thank Karim Harji, Program Director of the Oxford Impact Measurement Program, who offered valuable feedback during the course of our research. Last, but not least, a special thanks to our interview subjects: the fund managers, foundations, development finance institutions, institutional investors, consultants, and industry experts who helped us document emerging best practices in negative impact management. For a complete list of organizations that participated in this project, see Appendix A.

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Executive Summary

In order for the impact investing industry to grow responsibly, investors must identify and manage the negative outcomes along with the positive outcomes of their investments to holistically understand their impact. To do this effectively, investors can leverage lessons from development finance institutions and the sustainable investing industry, which have been systematically assessing and mitigating negative impact risks for decades. This report summarizes some of the most promising practices and resources that can help impact investors integrate negative impact management into their impact measurement and management (IMM) approach and identifies opportunities to further develop this practice.

This guide has been informed by extensive desk research on best practices in negative impact management. We conducted interviews with 35 leading practitioners, researchers, and consultants and leveraged the PCV team's experience developing impact due diligence systems for clients and with PCV's loan fund. During the desk research phase, PCV examined nearly 50 organizations, including investors and advisors, to understand practices they had developed for negative impact management.

Investors can more systematically manage negative impacts through a series of steps that integrate negative impact management within the investment process. To begin, investors can develop a customized negative impact risk assessment framework that reflects their unique investment strategy, drawing from the many publicly available resources, including the CDC ESG toolkit and IRIS+. They can then translate this framework into questions for potential investees within their due diligence processes and KPIs to assess during ongoing portfolio management. To comprehensively identify and mitigate negative impacts, impact investors engage with a range of stakeholders throughout the investment cycle and co-develop action plans to reduce or avoid negative impacts. Investors also need to consider the various ways they can use financial and legal incentives to encourage their staff as well as investees to avoid harm and maximize the positive potential of their investments.

By demonstrating systematic management of both positive and negative impacts, impact investors can highlight investment approaches that effectively balance the interests of investors alongside people and planet — furthering the broader stakeholder capitalism movement, which advocates for a new vision of markets that values the impact of investment and business decisions on all stakeholders. We hope this report is a useful resource for investors in deepening their impact management practices and helps contribute towards a reimagined role for capital markets in society.

Introduction

IN WHAT WAYS DOES IMPACT INVESTING MAKE A DIFFERENCE?

In the face of a global pandemic, widening inequality, and a looming climate crisis, impact investors have been leveraging their experience as investors committed to tackling some of our biggest societal problems. From supporting early-stage investments in vaccine developers to providing finance to sustain struggling businesses, to seeding companies that are decarbonizing our economy, impact investors can point to an impressive list in the ways they have contributed to meaningful change.

And yet, it remains easy to celebrate successes and highlight the positive outcomes of such investments without taking a closer look at the full spectrum of impacts that can be experienced — positive, negative, anticipated and/or unanticipated.

The practice of impact measurement and management (IMM) has become increasingly sophisticated in recent years. Numerous field-building efforts have converged to offer principles, frameworks, and tools that create greater consensus and standardization in impact management. More than a quarter of investors surveyed in the GIIN's second edition report on the *State of Impact Measurement and Management Practice* stated that significant progress has been made in the sophistication of IMM tools and frameworks and more than a third felt that significant progress has been made over the past three years in investor and/or donor understanding of IMM practice and reporting. Still, most impact investors focus primarily on the positive impacts of investee products and services while paying less attention to negative impacts.[7]

Why is this the case? Often IMM processes are designed around managing positive impacts, collecting data, and interpreting an investment's impacts on a select group of stakeholders as reflected by the investor's impact thesis or theory of change, rather than capturing the full spectrum of outcomes experienced by all the stakeholders that the investment touches. Impact investors surveyed by the GIIN cited that collecting quality data and analyzing that data remain significant challenges in managing the impact of their investments. As a result, investors may inadvertently focus only on the primary impact goals they target in their investments while ignoring the secondary impacts and negative outcomes they may create.

For example, investing in electric vehicles has helped reduce greenhouse gas emissions and combat climate change. It has also contributed to troubling labor practices in the extraction of minerals, including instances of child labor in cobalt mines in the Democratic Republic of Congo, where children are exposed to toxic chemicals and have been injured or killed. Investing in hydroelectric projects also helps tackle climate change, contributes to electrification in isolated areas, and creates good jobs. It can also destroy ecosystems, create issues with water quality, and cause wildlife and human displacement.

Managing impacts comprehensively is further muddied by the lack of a more explicit and universal definition for "negative impact" in the impact investing industry. What impacts investors deem material, or relevant to them, depends on their investment strategy: the time-horizons, geographies, sectors and asset classes they invest in. However, by ignoring negative outcomes, investors may inadvertently contribute to the challenges that the industry seeks to solve.

To help address this challenge, this report seeks to answer the following question:

HOW CAN INVESTORS SYSTEMATICALLY IDENTIFY, MEASURE, AVOID AND MITIGATE THE NEGATIVE IMPACTS OF THEIR INVESTMENTS?

The report includes the following topics which interviewees identified as the most important to effectively managing for negative impact:

- developing a risk assessment framework
- integrating negative impact risks into existing due diligence processes
- engaging stakeholders, including through the development of mitigation action plans[8]
- aligning incentives, both with investment staff and portfolio companies

This report intentionally does not explore how positive impacts and negative impacts can be compared or combined given the nascent state of practice we observed among investors with managing negative impacts. It is not safe to assume that negative outcomes can be outweighed or counterbalanced by the positive outcomes of an investment. The most critical step in advancing more holistic impact management is for impact investors to be able to more systematically identify, monitor, mitigate, and manage negative impacts over the life of their investment.

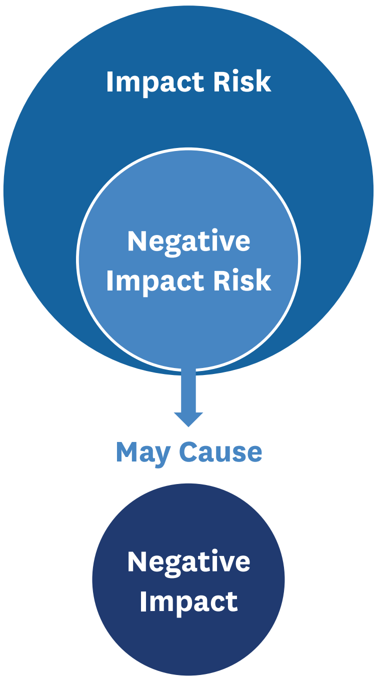
Findings and recommendations included in this report have been informed by extensive desk research on emerging best practices in negative impact management; interviews with leading practitioners, researchers, and consultants; the PCV team's experience developing impact management systems for clients and PCV's loan fund; and discussions at industry conferences and convenings. See Appendix A for details on our research methodology.

Who is this report for?

This report is primarily intended for asset owners and asset managers interested in identifying and managing the risks and negative impacts of their investments. Through utilizing the guidance in this report, investors can help build an impact investing industry where both the positive and negative impacts on all stakeholders are more comprehensively understood and accounted for. Asset managers will benefit from directly incorporating the guidance in this report in their IMM processes and will be responsible for the day-to-day activities required in managing negative impacts. Asset owners, on the other hand, will benefit from using the guidance in this report to assess, incentivize, and engage asset managers on their management of the negative impacts of their investments. The report will be most useful for investors deploying private equity and debt investments to companies and impact funds, but will also be helpful to investors with portfolios across asset classes.

Definitions

In working through this guide, it is helpful to have a clear understanding of the technical terms commonly used in IMM to address risk. In particular, we will be discussing terms related to negative impact risk. We offer the following definitions, drawing from the Impact Management Project, the World Economic Forum, as well as our own research.



- **Impact Risk:** the likelihood that impact will be different than expected *and* materially affect people or the environment.
  - This includes the risk that anticipated (positive) impacts are not delivered, as well as the risk that unanticipated impacts (negative) will occur.

- **Materiality:** the quality of being relevant or significant. Materiality traditionally only encompasses financially material risks and opportunities. It is important to note, there is an emerging consensus[3] among investors and governments that there is "double materiality" where businesses and investors should report on activities and events that are not only financially material but impact all stakeholders, including the environment. That said, for the purposes of highlighting the practices and tools investors use in managing negative impacts, materiality is understood as financially material risks and opportunities.

- **Negative Impact Risk:** the likelihood that people or the environment are negatively affected by an organization. This includes risks that affect an organization's financial performance (i.e. material ESG risks), as well as those that do not.

- **Negative Impact:** a negative effect on people or the environment. What is deemed a negative impact may sometimes be subjective and will vary among different stakeholders. In other cases, widely recognized standards or quantitative thresholds may exist that determine what may be considered a negative impact. Some examples include the U.N. Guiding Principles on Business and Human Rights, which outlines potential human rights violations, and the World Bank Group Environmental, Health, and Safety Guidelines, which provides various environmental, social, and governance (ESG) risks. As outlined in this report, investors will need to review various resources and engage stakeholders comprehensively to determine potential risks and what they look like should they materialize.

- **Stakeholders:** According to the World Economic Forum's Action Group 3, stakeholders are "persons or groups directly or indirectly affected by an intervention, including those who may have stakes in a project or the ability to influence its outcome, either positively or negatively." The stakeholders for any particular investment could include but are not limited to internal investment staff, investee staff, customers, users, suppliers, distributors, and impacted local people and communities.

Negative Impact Management is a Component of IMM

When reading the practices outlined in this report to identify, measure and manage negative impact risks, investors should consider them as core components of a comprehensive IMM system used to manage both positive and negative impacts. The diagram below highlights the core elements of impact management systems and illustrates how negative impact management is a part of a holistic IMM practice. These practices are described in detail in the following sections of the report.

Developing a Customized Negative Impact Risk Assessment Approach

HOW DO IMPACT INVESTORS KNOW WHICH NEGATIVE IMPACT RISKS TO ASSESS?

The most significant difference between assessing the negative and positive effects of an impact investment is that since negative impacts are mostly unintended and often not accounted for in an investor's impact thesis, they are typically more challenging to identify and measure. When investors clearly define their impact goals, they can use them to develop sophisticated impact management systems even while overlooking negative outcomes that are unrelated to their goals. How, then, can investors identify all of the negative impact risks of their investments?

Within IMM, while conventions are being developed to standardize practice, no universally applicable negative impact risk assessment system exists, so investors often develop customized approaches based on their unique investment strategy, industry focus, and region. This section summarizes the most commonly used resources and standards that investors use to identify negative impact risks, and offers guidance for investors seeking to develop their own approach.

FIGURE 1

GOALS AND STRATEGY	SOURCING AND DILIGENCE	STRUCTURING AND CLOSING	PORTFOLIO MANAGEMENT
▪ Setting impact goals ▪ Developing theories of change and logic models ▪ Creating a customized negative risk assessment approach	▪ Developing due diligence questionnaires ▪ Integrate risk assessment into sourcing and diligence ▪ Developing a stakeholder engagement plan	▪ Identifying and agreeing on key impact performance indicators ▪ Establish covenants and action plans with stakeholders ▪ Formalize impact terms in legal agreements	▪ Ongoing stakeholder engagement ▪ Source feedback and establish grievance mechanisms ▪ Gather data and report on impact

Existing Frameworks, Standards and Resources

Interviewees cited the following resources as most useful when developing their approach to identifying potential negative impacts. These resources have primarily been developed by development finance institutions (DFIs) committed to supporting sustainable economic development in low and middle-income countries, as well as various investors in the public equity sustainable investing space. These organizations have historically sought to account for and avoid the financially material negative impacts of investments through applying ESG factors within investment processes.

The following table summarizes the key attributes of the resources described below that investors can use to identify the negative impact risks associated with their investment strategy, including those that draw from ESG risk management.

TABLE 1: CLASSIFICATION OF THE MOST-CITED RESOURCES TO ASSESS NEGATIVE IMPACT RISKS

	DFI, IGO & IMPACT INVESTOR RESOURCES							ESG REPORTING STANDARD-SETTERS & DATA PROVIDERS			
ATTRIBUTES OF THE RESOURCE	IFC Performance Standards	CDC Group's Toolkit	UN Guiding Principles	SMART campaign	IMP	IRIS+	B Impact Assessment	SASB Standards	GRI	MSCI	RepRisk
Covers financially material negative impact risks only								X		X	X
Covers risks material to all stakeholders	X	X	X	X	X	X	X		X		
Offers practical guidance to investors	X	X		X	X	X		X		X	X
Free resources	X	X	X	X	X	X	X	Some	X	Some	
Web-based and interactive		X			X	X	X	X		X	X
Emerging markets- focused	X	X		X							
Global			X		X	X	X	X	X	X	X
Sector-specific guidance	X	X		Only financial inclusion		X	X	X	X	X	X
Company-specific analytics							X	X		X	X

International Finance Corporation's Environmental and Social Performance Standards

Long before launching the Operating Principles for Impact Management, the IFC has led field-building efforts to elevate the practice of investing for positive impact — and avoiding unintended consequences. The IFC's Performance Standards define the IFC's requirements for how investees, including fund managers and companies, should manage ESG risks. Despite last being updated in 2012, this resource was the most cited by interviewees as informing their approach to identifying negative impact risks, irrespective of it being tailored to private equity funds investing in emerging markets. The standards cover the following eight topics: risk management (i.e. how IFC investees should manage risk), labor, resource efficiency, community, land resettlement, biodiversity, indigenous people, and cultural heritage. Accompanying the performance standards are the IFC's Environmental and Social Management System (ESMS) Implementation Handbook, which offer guidance for fund managers and companies seeking to develop risk systems aligned with their standards, and the ESMS Toolkit, which includes worksheets, templates, and forms that investors can use and adapt to identify and assess negative impact risks. In addition to the IFC Performance Standards, the IFC also led the development of the Corporate Governance Development Framework toolkit, in partnership with 35 other DFIs, which helps investors assess the corporate governance of their investees. The toolkit contains a questionnaire and progression matrix that investors can use to assess the following corporate governance risk areas:

- Commitment to Corporate Governance
- Structure and Functioning of the Board of Directors
- Control Environment and Processes
- Transparency and Disclosure
- Rights of Minority Shareholders

FIGURE 2: IFC'S ESMS TOOLKIT, PAGE 15 - EXCERPT FROM THE RISK IDENTIFICATION WORKSHEET

ENVIRONMENTAL RISKS		
RISK FACTORS	**My company has the following conditions**	**Potential negative impact (A "yes" response means that there is a potential negative impact)**
Our operations require large quantities of fresh water.	Yes/No	Water resources depletion in the region. Contamination of ground or surface water sources in the region due to discharge of surface runoffs.
Our operations have high requirements for power supply.	Yes/No	High energy consumption.
We require large quantities of fuel (gas/diesel/etc.) for our operations.	Yes/No	Air emissions.
We have various processes and utility equipment, which may generate air emissions (e.g. boiler, diesel generator set, incinerator, grinder, etc.).	Yes/No	Air emissions. Solid waste (e.g. waste from equipment maintenance, fly and bottom ash from coal-based boilers). Hazardous waste (e.g. waste oil, oil-soaked filters and rags). Liquid waste (e.g. boiler blow-down, waste oil). Noise generation.
We generate large (or significant) quantities of solid or liquid waste from our manufacturing or production processes.	Yes/No	Solid waste. Liquid waste. Contamination of land, groundwater and/or surface water due to improper disposal of solid and liquid waste.
We dispose of our solid waste in our landfill or city's landfill facility.	Yes/No	Contamination of land, groundwater (due to leachate) and/or surface water (due to run-off).

FIGURE 3: IFC'S CORPORATE GOVERNANCE QUESTIONNAIRE - SECTION ONE

CORPORATE GOVERNANCE QUESTIONNAIRE*	
CG ATTRIBUTE/RISK	**QUESTIONS TO ASK**
Commitment to CG Key Risk: The company and its shareholders have not demonstrated a commitment to implementing high quality CG policies and practices	• Does the company have a charter or articles of incorporation according to local legislation, with provisions on: (i) the protection of shareholder rights and the equitable treatment of shareholders; (ii) distribution of authority between the Annual General Meeting of Shareholders, the Board of Directors and executive bodies, and (iii) information disclosure and transparency of the company's activities? • Are the Board of Directors and the senior management familiar with the voluntary code of corporate governance for the country (if such a code exists)? To what extent does the company comply with the provisions of this code? How is this compliance disclosed? • Does the company have a corporate governance code and/or policies? What are the procedures for monitoring compliance with these? Who does the monitoring? • Does the company disclose the extent to which it is complying with its corporate governance policies and procedures? • Does the company have a code of ethics? • Does the company have a designated officer responsible for ensuring compliance with the company's corporate governance policies and code of ethics? • Does the management/Board of Directors approve the annual calendar of corporate events (Board meetings, General Shareholder Meeting, etc.)?

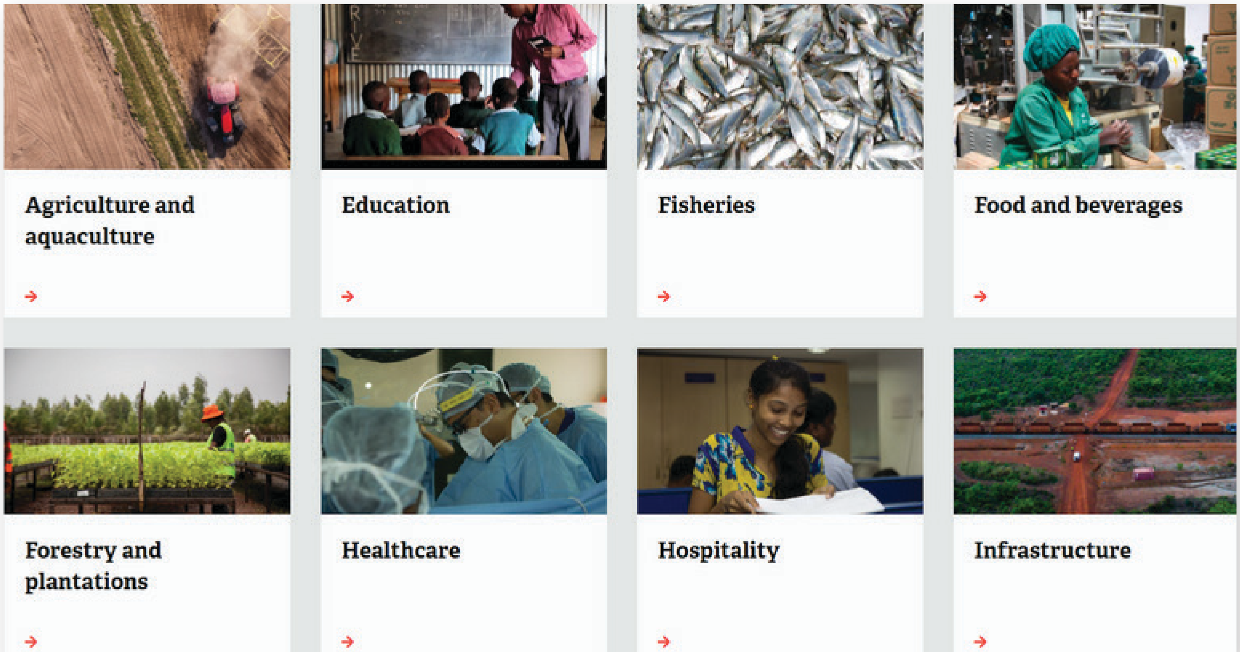
** Adapted by the DFIs Working Group on Corporate Governance from the IFC Corporate Governance Methodology ©*

Other DFIs have released similar environmental and social standards, such as the Inter-American Development Banks' Social and Environmental Policy Framework, which offers more guidance related to gender equity than the IFC performance standards.[4] Still, the IFC's standards have been the most widely used by impact investors who have developed rigorous risk management approaches. One disadvantage of the IFC performance standards and their guidance is that they are published in lengthy reports that are somewhat challenging to navigate.

CDC Group's ESG Toolkit

Last updated in 2019, the UK's development finance institution, the CDC Group, offers a web-based, interactive ESG toolkit. Based on interviewees feedback and the research team's assessment, the CDC Group's ESG toolkit is the most easy-to-use and comprehensive resource currently available for investors seeking to identify negative impact risks and create corresponding management systems.[5] These resources draw from the IFC's performance standards and include guidance on how to address ESG matters throughout the investment cycle, how to set up and improve ESG management systems, how to assess and manage governance and business integrity matters, sector profiles overviewing the most relevant sector-specific ESG risks, as well as useful checklists and templates. Like the IFC, the CDC Group's ESG Toolkit is intended primarily for private equity investors in emerging markets, but its guidance is valuable for impact investors in developed markets as well as investors focused on other asset classes. Some interviewees also mentioned an ESG toolkit offered by the Dutch development finance institution FMO, however, this resource was cited as not as user-friendly as the CDC Group's ESG toolkit.

FIGURE 4: THE CDC GROUP TOOLKIT - SAMPLE OF INDUSTRIES FOR WHICH SECTOR-SPECIFIC ESG RISKS ARE IDENTIFIED



The Value Reporting Foundation's SASB Standards and Materiality Map

The Value Reporting Foundation - formerly Sustainability Accounting Standards Board (SASB), which has developed industry-specific disclosure standards for companies across ESG topics, is used by some investors to identify ESG risks that are financially material to company and investment performance. Some interviewees cited the SASB Materiality Map, an interactive tool that identifies and compares disclosure topics across different industries and sectors, as a useful resource to identify the most relevant ESG risks for each of their investees. Other interviewees chose not to use SASB Standards or the SASB Materiality Map because they only identify risks that are financially material to businesses, not those that may be financially immaterial (at least, in the short term) but are material to companies' stakeholders or the environment.[1]

GRI Sustainable Reporting Standards

The most widely-used standards by companies worldwide to report on ESG topics, the GRI's standards comprehensively cover ESG issues for each industry and sector that materially affect people and the environment, not just those that affect financial performance. Some interviewees identified GRI as a valuable resource for investors seeking to identify the relevant ESG risks of their investments. The disadvantage of using GRI standards is that they are designed primarily for companies, and unlike SASB Standards, they do not offer guidance for investors. Thankfully, the Value Reporting Foundation, GRI and other global organizations whose frameworks and standards guide the majority of corporate ESG reporting (CDP, the Climate Disclosure Standards Board (CDSB) and the International Integrated Reporting Council (IIRC) announced in 2020 their intent to work together to develop comprehensive reporting on social and environmental topics. This joint effort, facilitated by the World Economic Forum, Deloitte, and the Impact Management Project (IMP), should enhance both companies' and investors' ability to identify potential negative impacts without choosing between or synthesizing a multitude of reporting standards.

MSCI ESG Ratings

Some institutional investors cited using the ESG ratings and industry analyses of MSCI, a global leader in ESG analytics, to assess potential negative impacts of public equity investments. While not named by interviewees, at least 70 other ESG data providers exist worldwide, including Sustainalytics, ISS ESG, Institutional Shareholder Services, and many others. Unfortunately, significant differences exist between ESG ratings due to differences in methodologies and metrics, so investors should select providers whose ratings most closely align with their own views on sector-specific ESG risks.

In late 2020, MSCI launched an ESG Materiality Map, similar to the SASB Materiality Map.[6] While using the ESG Materiality Map is free, access to MSCI's ESG research services ranges from $7,500 to $2,000,000 each year.

Impact Management Project (IMP) Risk Types and Classification Framework

Some impact investors use the IMP's nine risk types and classification framework to determine which impact risks to assess. The IMP offers frameworks and guidance for investors who want to manage negative impact risks, as well as impact investors seeking to contribute positively to global goals.

The IMP defines nine types of impact risks that investors should assess for each investment. Evidence risk, or the probability that insufficient, high-quality data exists to know what impact is occurring, should be assessed first and is typically the most important, because it often determines the assessments of the other risk categories.

To assess impact risks, the IMP recommends that investors consider both the likelihood of the risk materializing as well as the consequences to stakeholders should the risk materialize. Risks can be classified as low, medium, or high based on their categorization with these two factors.

FIGURE 5: ENTERPRISES AND INVESTORS FACE NINE TYPES OF IMPACT RISKS

Risk

	Impact Risk	Definition
1	Evidence risk	The probability that insufficient high-quality data exists to know what impact is occurring
2	External risk	The probability that external factors disrupt our ability to deliver the impact
3	Stakeholder participation risk	The probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account
4	Drop-off risk	The probability that positive impact does not endure and/or that negative impact is no longer mitigated
5	Efficiency risk	The probability that the impact could have been achieved with fewer resources or at a lower cost
6	Execution risk	The probability that the activities are not delivered as planned and do not result in the desired outcomes
7	Alignment risk	The probability that impact is not locked into the enterprise model
8	Endurance risk	The probability that the required activities are not delivered for a long enough period
9	Unexpected impact risk	The probability that significant unexpected positive and/ or negative impact is experienced by people and the planet

Source: Impact Management Project

IRIS+

Developed by the Global Impact Investment Network (GIIN), IRIS+ is a system that helps impact investors translate their impact intentions into an effective IMM approach and can be used to identify key impact risks. IRIS+ provides core metrics sets and practical, how-to guidance for a wide number of common investment themes and goals, and uses the IMP impact risk categories to qualitatively describe the specific risks associated with goals and impact themes, and some approaches to mitigate them. IRIS+ is the only resource identified in this research that describes the most common impact risks associated with specific impact goals or themes, so it is particularly useful to impact investors seeking to complement their existing impact management systems with impact risk assessments. An opportunity for further development will be the creation of generally-accepted impact risk metrics for each impact goal.

Two examples of the impact goal-specific impact risks identified by IRIS+

FIGURE 6: IMPACT RISKS ASSOCIATED WITH INVESTMENTS TARGETING SUSTAINABLE WATER MANAGEMENT

What is the Impact RISK?

IMPACT RISK	Risk factors for investments aiming to improve water quality via source water protection include: • **Execution Risk:** Water issues and risks vary by climate, geography, geology, population density, level of industrial and agricultural development, and maturity of water governance and regulation. Some of the possible execution risks include: (1) the scale of an individual investment may be too small to create meaningful improvements to water quality; (2) the timing required for measurable improvement of water quality (15 years or more in some cases) may not match investment expectations; (3) in a particular catchment, an investment under this strategy may prove impossible or nonviable in the parts of a catchment with the greatest water quality problems; and (4) since protecting catchment often requires working with many landowners, transaction costs can become prohibitive. • **Evidence Risk:** The availability of publicly accessible data and information on water varies enormously around the world, which can make it difficult to monitor and evaluate impact. • **Efficiency Risk:** The multiplicity of benefits derived from land use–based solutions and natural infrastructure increases the chances of mobilizing resources, but it also makes it more challenging to establish a reliable, replicable payment model. • **Drop-Off Risk:** Changes to land use outside the investment area could override positive impacts from the investment. Land-use history in a catchment could override current restoration or protection activities. Climate change could create new conditions under which planned models or scenarios no longer work. Finally, the necessary maintenance or oversight of the natural infrastructure in a catchment could be discontinued or unsustainable. For further details and suggested mitigation strategies, see the **Overview** tab.

FIGURE 7: IMPACT RISKS ASSOCIATED WITH INVESTMENTS TARGETING ACCESS TO QUALITY EDUCATION

What is the Impact RISK?

IMPACT RISK

Risk factors for investments aiming to improve early childhood care and education include:

- Stakeholder Participation Risk: Inappropriate tailoring of products—to address client needs, preferences, and local norms, misunderstanding of the objectives and experiences of those affected by poor early childhood care and education, or stakeholder mistrust in education or health service providers—can greatly reduce positive impact.
- External Risk: The lack of a supportive local regulatory agency for health could impede the development of early-childhood care and education.
- Execution Risk: Some solutions could benefit an unintended demographic in a given country or context, perhaps benefiting upper-middle classes or private schools, for example, and deepening inequalities.
- Evidence Risk: Efforts to assess impact may be hindered if a startup lacks the capacity to monitor and evaluate all of their outcome metrics. Inability to measure impact metrics or reliance on a third party to monitor progress introduces the risk for error.

For further details and suggested mitigation strategies, see the **Overview** tab.

The SMART Campaign

Investors focused on financial inclusion — particularly in emerging markets — cited the SMART Campaign as the "go-to" resource to identify the potential negative impacts of investing in financial services worldwide. Launched in 2011, the SMART campaign is a global effort to develop consensus around the practices financial service providers should engage in to protect and benefit low-income clients. They developed seven client protection principles covering product design, prevention of overindebtedness, transparency, responsible pricing, fair and respectful treatment of clients, the privacy of client data, and complaint resolution, as well as detailed guidance on the principles. As of 2020, the SMART campaign is now stewarded by the Social Performance Task Force (SPTF) and CERISE, which have integrated the client protection principles into their Universal Standards for Responsible Inclusive Finance. These standards outline a comprehensive set of management practices that financial service providers serving low-income and excluded customers should implement to create value for employees, customers, and the environment.

RepRisk

Some impact investors use Reprisk to identify industry and company-specific ESG risks. RepRisk uses machine learning to gather and analyze information from over 160,000 businesses worldwide to identify risks and controversies in real time. The advantages of this platform over ESG ratings is that Reprisk does not rely primarily on company disclosures, and allows the investor to efficiently identify emerging risks facing companies within the portfolios of the funds they finance. While not mentioned by interviewees, TrueValue Labs is another ESG data provider that uses AI and machine learning to identify ESG risks. TruValue is the first ESG data provider to deliver data based on the SASB Materiality framework.

UN Guiding Principles on Business and Human Rights

Some investors referenced the UN Guiding Principles on Business and Human Rights, which articulates government and corporate responsibilities to protect and respect human rights. The principles articulate the policies and processes that businesses need to have in place, including corporate policies, human rights due diligence to identify, prevent, and mitigate adverse impacts on human rights, and remediation approaches. However, the principles do not offer detailed guidance on how to develop and implement these systems.

B Impact Assessment (BIA)

The B Impact Assessment is a tool used by over 70,000 companies globally to assess their impacts on workers, communities, the environment, and customers. While no interviewees cited using the B Impact Assessment to identify negative impact risks, this tool can be used to identify how companies' and investors policies, practices, and associated negative impact risks compare to others. The questions used in the assessment change based on companies' location, industry, and size.

Given the diversity of resources available to identify negative impact risks, how should investors develop their own approach?

Interviewees acknowledged that the wide range of resources available to investors can be overwhelming, yet they must draw from these resources to develop their own negative impact management approach suited to their particular investment strategy. To begin, they can review Table 1 and answer the following questions.

1. **Which negative impact risks should be assessed for all potential investees?**

Certain negative impact topics are relevant to investments in most or all industries. These include labor standards, occupational health and safety, gender-based violence and harassment, diversity, equity and inclusion, pollution prevention, climate change, and many more. See the CDC Group's ESG Toolkit's ESG Topics for summaries of the most important environmental and social issues that investors should consider.

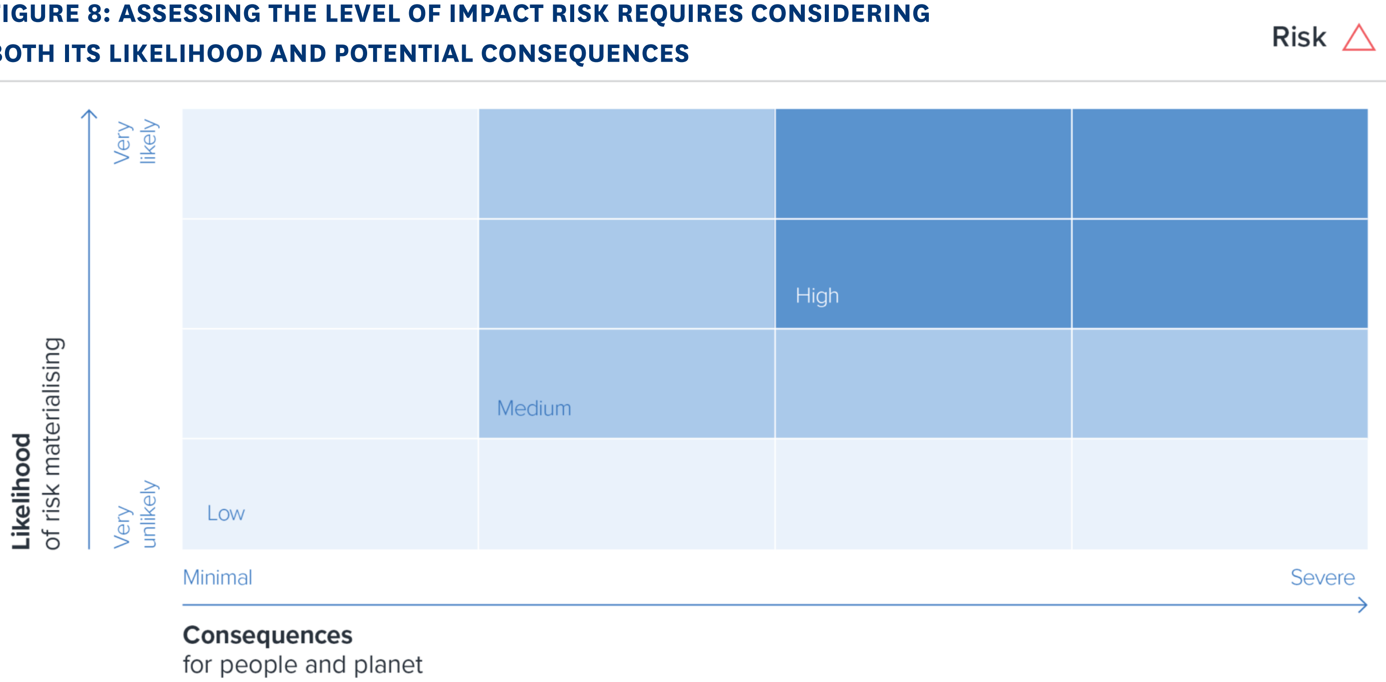
Additionally, assessing investees' risk management systems is essential to negative impact risk management, particularly for investors that finance intermediaries or invest in the securities of public companies rather than directly funding enterprises. To do this, investors should review the elements of an effective risk management system as described by CDC Group, IFC and IMP, and can use this CDC Group checklist to comprehensively assess the strength of these risk management systems.

To determine which negative impact risks to assess for all investments, investors can consider the following actions:

- Review existing portfolios to identify the impact risks associated with a majority of their investments, referring to the IMP's nine types of impact risk to determine key risks.
- Use IRIS+ to identify impact goals, and learn about the specific impact risks associated with those goals. This guidance is included in the "Core Metrics" section of the IRIS+ dashboard. The impact risks outlined here are aligned with the IMP's nine types of risk.
- Review the most relevant ESG topics summarized by the CDC Group's ESG toolkit to identify if any negative impact risks were missed in the portfolio review.
- If the investor is focused primarily on financial inclusion, they can review the SMART Campaign and Universal Standards for Inclusive Finance to develop their portfolio-wide assessment of negative impact risks.
- If the investor is focused exclusively on specific industries, they can review the sector profiles provided by the CDC ESG toolkit, which summarize the ESG risks and opportunities for each sector. This can also be supplemented by reviewing the SASB Materiality Map and MSCI ESG Material Maps to identify the most pressing ESG risks for each industry.
- Investors can complete the B Impact Assessment to better understand the negative impact risks associated with their own business practices, as well as identify negative impact risks that may be relevant to a majority of their investments. This resource is especially helpful for investors deploying capital to social enterprises.

- Once investors have used the above resources to determine the negative impact risks that are most relevant to their investment strategy, they can use the IMP's risk likelihood-consequence framework to determine which negative impact risks are most important. With this framework, investors can assess the importance of negative impact risks by asking two questions: (1) what is the likelihood that the negative impact risk will occur?; (2) how significant are the consequences should the risk materialize?

FIGURE 8: ASSESSING THE LEVEL OF IMPACT RISK REQUIRES CONSIDERING BOTH ITS LIKELIHOOD AND POTENTIAL CONSEQUENCES



Source: Impact Management Project

2. **Which negative impact risks should be assessed for only a subset of portfolio companies and potential investees?**

   - Investors can use guidance by the CDC Group, the Value Reporting Foundation, and other ESG data providers to determine the most relevant risks for each industry, in combination with the IMP's likelihood-consequence framework to prioritize negative impact risks.
   - Investors can also use IRIS+ to determine the key impact risks associated with specific impact themes, such as access to quality education, sustainable agriculture, climate change mitigation, financial inclusion, among others.
   - Investors able to pay for additional ESG analysis of companies can purchase subscriptions or membership to SASB Standards, MSCI, Reprisk, and others to access additional resources that help identify company-specific risks.

Once investors identify the negative impact risks they will assess within their investment process, they can then embed them into their due diligence and portfolio management processes.

CASE STUDY

responsAbility

BASED IN SWITZERLAND, RESPONSABILITY MANAGES A PORTFOLIO OF OVER $3 BILLION AND INVESTS ACROSS EMERGING MARKETS WITH A FOCUS ON FINANCIAL INCLUSION, SUSTAINABLE FOOD AND CLIMATE FINANCE.

To develop its ESG risk assessment approach, it drew primarily from the IFC Performance Standards, IFC Toolkit on Corporate Governance, the CDC Group's ESG toolkit as well as the SMART campaign for its investments in financial services funds and providers. While the risk assessment framework is adapted based on an investments' impact theme and sector, responsAbility assesses the financial materiality and magnitude of each risk for every investment. Equity investments with higher risks require more thorough assessments, so the responsAbility team utilizes a more detailed due diligence questionnaire (DDQ) for these as well as additional help from external ESG experts to assess risks.

Integrating Negative Impact Risk Assessments into Due Diligence

HOW CAN INVESTORS INCORPORATE NEGATIVE IMPACT RISK ASSESSMENTS INTO THEIR SCREENING AND DUE DILIGENCE?

After determining which negative impact risk topics are relevant to their investment strategy, investors must translate them into questions. To begin, investors should review two checklists developed by CDC Group (one covering environmental and social risks, and the other covering governance and business integrity risks), which include the questions they ask of all prospective investees about ESG risks (note that while some questions will be primarily relevant to equity investing in emerging markets, many are relevant to all impact investments).

In 2019, PCV published the **Impact Due Diligence Guide**, a how-to for engaging in impact due diligence. The report contains actionable advice and guidance for both newcomers as well as experts in IMM, covering topics such as building impact-focused due diligence questionnaires and quantitative tools, integrating impact due diligence into existing processes, and using impact due diligence to inform investment decision-making.

Investors can then leverage the guidance found in the other resources described previously (e.g. IRIS+) to identify additional factors that should be considered in assessing relevant risks and developing questions.

Once investors have developed a comprehensive list of questions, they need to determine which can be answered through the team's own research, an initial screen, and a more in-depth DDQ.

To do this, investors should seek to answer the following questions:

- Which negative impact risks, if present, would cause us to pass on the investment opportunity? (E.g. companies in certain industries, occupational health and safety, and other labor concerns)
- Which questions can be answered by conducting research internally by using existing resources and market studies on a particular risk topic? Which questions can only be answered directly by the prospective investee?
- How much time would we like prospective investees to spend on completing screening questionnaires?

Investors can also consider developing thematic or sector-specific screens and DDQs if they invest across a diversity of sectors and impact areas, as the negative impact risks will vary across each investment opportunity. If the investor does not develop sector or impact theme-specific DDQs, and instead embraces a general approach to negative impact risk assessment, they should be sure to ask sufficient questions related to each risk area to understand the extent to which the investee is mitigating the risk. Some investors rate each risk area on a three-point scale of "low-medium-high," while others embed these assessments into more comprehensive quantitative impact due diligence tools.

Like with all aspects of IMM, investors will need to weigh tradeoffs between the rigor and efficiency of their screening and due diligence approach and should seek input from existing and potential investees when refining questionnaires and impact tools to ensure they cover all material ESG risks.

During the due diligence process, investors should seek to identify quantitative metrics to track negative impact risks over the life of the investment, alongside metrics they use primarily to assess positive impacts (for positive impacts, investors can review IRIS+ core metric sets to ensure they measure positive impacts in a way that is clear, consistent and comparable). While focused on emerging markets, the IFC Environmental, Health and Safety Guidelines identify performance levels and measures of negative impact risks (e.g. air quality, wastewater quality, etc.) that are acceptable to the World Bank Group. These are disaggregated by industry and issue area and can be utilized for monitoring negative impact risks identified during due diligence.

CASE STUDY

LEAPFROG INVESTMENTS

LEAPFROG INVESTMENTS IS AN IMPACT ORIENTED INVESTMENT MANAGER THAT IS FOCUSED ON DEPLOYING CAPITAL IN HIGH-GROWTH BUSINESSES THAT DELIVER FINANCIAL AND HEALTH PRODUCTS AND SERVICES TO LOW-INCOME CONSUMERS IN EMERGING MARKETS.

The team at LeapFrog helped develop and is a founding signatory of the IFC's Operating Principles for Impact Management. As a pioneer in impact management, LeapFrog has a robust process for identifying and mitigating negative impact risks in the due diligence of its investments. In developing and implementing a risk assessment framework, they leverage multiple sources to identify material negative impact risks including the SASB Materiality Map, FMO Toolkit, and LeapFrog's Compliance Manual, as well as prior experience at LeapFrog with comparable investments. Incorporated in its due diligence process is an exclusion list that dictates a set of industries, practices, and policies that will disqualify a potential investment. In addition, Leapfrog uses industry-specific resources that outline material risk issues that it promotes among its investments. These include the SMART Campaign's Client Protection Principles for financial services and the *Social & Environmental Policy* of the Overseas Private Investment Corporation (now U.S. International Development Finance Corporation) for healthcare services. LeapFrog leverages the guidelines in these resources to ensure that investees are compliant with global best practices.

Leveraging Stakeholder Engagement for Negative Impact Risk Management

HOW CAN INVESTORS ENGAGE THEIR STAKEHOLDERS TO IDENTIFY AND MITIGATE BOTH ANTICIPATED AND UNANTICIPATED NEGATIVE IMPACTS?

Understanding the experiences of those affected by investments and experiencing impact is an essential and yet underutilized practice within impact investing. Stakeholder engagement and management, therefore, is a crucial component of any robust impact management system.

In our report on emerging best practices in impact due diligence, we highlight the core reasons for implementing stakeholder engagement processes, which draws from guidance found in the World Economic Forum report, Engaging All Affected Stakeholders. Among them, and reinforced by the perspectives of interviewees, is understanding and mitigating negative impact risk. By elevating the perspectives of those directly impacted by investments, managers and practitioners can more effectively identify potential risks pre-investment and identify and manage negative impacts as they materialize post-investment. The IFC, CDC Group, and the GIIN have published extensive guidance on how to approach and design an effective stakeholder engagement process. The most crucial steps highlighted across all these reports and reinforced by interviewees are identifying key stakeholders and developing and implementing engagement plans. This section details how investors can employ these strategies to aid in mitigating negative impacts in their investments. Note that while fund-of-funds may not be able to feasibly engage with the key stakeholders of intended beneficiaries, they can at minimum assess the extent to which their investees have implemented stakeholder engagement practices.

Identification and Mapping

The first step in stakeholder engagement is stakeholder identification: determining who the relevant stakeholder groups are, how they will be affected by the investment, and what influence they could have on the investment's impact. To start, investors should develop a systematic and comprehensive approach to identifying relevant stakeholder groups for each investment during due diligence. The process should consider all possible stakeholders who might directly or indirectly be affected by or contribute to an investment's impact. In only considering an investment's direct impact, investors may inadvertently exclude key stakeholder groups, leading to an incomplete risk assessment. The IFC's Economic Impact Estimation Framework considers an investment's direct effects, upstream and downstream effects in the enterprise's supply chain, and induced economy effects when assessing material stakeholders. The IFC and other interviewees utilize the following general categories in their engagement efforts: asset owners/limited partners, investment staff, potential investee staff, customers, users, suppliers, distributors, impacted local people and communities, NGOs and civil associations, and local governments. While some groups may be consistent across all investments, investors should consider each investment individually to capture all relevant stakeholders.

From this initial list, investors can then organize and map stakeholder groups based on geography, relationship to investment activity, level of influence, and level of impact experienced to determine which groups to prioritize for engagement (See Table 2 that follows). It is not feasible, nor practical to connect and form relationships with all potential stakeholder groups, so by prioritizing and sequencing the most relevant stakeholders, investors can develop an optimal plan for engagement. Investors should put significant thought into which groups are prioritized, as stakeholders who are not deemed necessary to engage with may face serious negative outcomes, unknowingly to the investor. In considering which groups to prioritize, investors should focus engagement efforts with those who have the most influence in the outcome of an investment's impact as well as those that are the most severely affected by the investment's impact. Guidance from the GRI and the United Nations, and the IFC highlight that historically marginalized groups, such as indigenous people and people of color, are most affected by the consequences of materialized risks and have limited opportunity to engage or participate in the decision-making that affects them. By prioritizing these groups in their engagement efforts, investors can elevate their voice and gain better insight into the negative and positive effects they experience, allowing them to identify risks that might not otherwise be apparent. It is also important to understand and be mindful of the level of interest a stakeholder group may have in their involvement with an investment's activities and impacts and how much influence they would like to have. The IFC outlines the following questions that investors can use in their assessment:

- What type of stakeholder engagement is mandated by law or other requirements?
- Who will be adversely affected by potential environmental and social impacts in the investment's area of influence?
- Who are the most vulnerable among the potentially impacted, and are special engagement efforts necessary?
- What are the various interests of project stakeholders and what influence might this have on the investment?
- Who is it critical to engage with first, and why?

TABLE 2: HYPOTHETICAL EXAMPLE OF STAKEHOLDER PRIORITIZATION MAPFOR INVESTMENT IN A HYDROELECTRIC PROJECT

STAKEHOLDER GROUP	GEOGRAPHY	RELATIONSHIP TO INVESTMENT ACTIVITY	LEVEL OF INFLUENCE	LEVEL OF INTEREST
Customers	Tanzania	Expected to receive lower cost, more reliable electricity	High	High
Investee staff	Tanzania	Will receive increased benefits; staff size will increase	Moderate	Moderate
Suppliers	Vietnam	Will obtain increased demand for resource inputs	Low	Low
Community members	Rural Tanzania	Project may affect riparian ecosystem	Low	High
NGOs and civil associations	Tanzania; Global	Primarily concerned about ecological effects	Moderate	High
Government agencies	Tanzania	Primarily concerned with electric grid and employment effects	High	Moderate

Developing and Implementing a Stakeholder Engagement Plan

After identifying the key stakeholders with whom to engage, investors need to create an engagement plan by determining what activities and processes are required to gather their input. This process will allow investors to identify potential negative impact risks that may have otherwise not surfaced during due diligence.

Investors will need to consider the methods, techniques, and frequency that make the most sense for each stakeholder group with whom they want to engage. This will depend on geography, the group's vulnerability, influence, interest, the level of input desired, and the investor's capacity. Communication channels can range from in-person surveys, online surveys, text messages, phone calls, mobile apps, in-depth interviews to focus groups. Services like those provided by 60 Decibels, ULULA, and Laborlink can help establish connections between investors and their stakeholders for continuous consultation and collaboration.

Establishing and leveraging communication channels with key stakeholder groups prior to investment can help illuminate additional negative impact risks during due diligence. However, interviewees cited that engagements should not be a single conversation, but rather a series of ongoing check-ins after investments are deployed to understand how stakeholders' interests and priorities may have changed. Furthermore, consultations should facilitate a two-way dialogue between investors and stakeholders. Doing so allows investors to keep stakeholder groups informed of risks they may not know and provide them with opportunities to add insight on effective mitigation strategies. This back-and-forth process is key to productively identifying risks and managing potential negative impacts as they materialize. In developing their engagement plans, investors should determine the frequency, level of engagement, and most appropriate communication channel required for each stakeholder group. Investors can do this by leveraging their initial stakeholder maps to prioritize establishing relationships with those that are deemed most important or vulnerable first. Stakeholder groups that have a high level of influence over the investment's activities or experience its impacts to a greater degree should be met with more frequently. One interviewee, Lightrock (formerly LGT Lightstone), sets milestones with the management and staff of their investments and reviews progress on an ongoing basis with check-ins every six months. In considering the most appropriate channel for their engagement plan, investors should also consider the context of each investment. Some investments, such as those in financial intermediaries, may have stakeholder groups with whom meaningful connections are difficult to establish. In addition, some investors may not have the capacity to identify and engage with all stakeholder groups for every investment. In these scenarios, technology platforms that screen and aggregate public stakeholder feedback and grievances, such as Accountability Counsel and RepRisk, can be used as an indirect channel to gather input. These platforms can help identify past and current sentiment that may reveal material negative impact risks from stakeholder groups that investors otherwise would not have been able to reach. Additionally, investors can assess whether investees have the appropriate processes and policies in place to identify and engage stakeholders effectively in lieu of direct contact.

While these approaches are useful for proactive stakeholder management, investors should also consider mechanisms that are reactive. Such systems can account for stakeholders not initially identified during due diligence and can also provide a channel for all stakeholders to provide feedback outside of formal engagements. Grievance mechanisms are one such process investors can implement as a formal method that allows stakeholders to report red flags or negative impacts as they occur in real-time. Such processes are commonplace in development finance and can potentially carry legal consequences for accountability purposes. Grievance mechanisms are best suited to be implemented in public channels such as website forms or surveys, which are easy to locate and use by stakeholders who are not in direct contact with the investor or investee. This also allows investors to collect feedback from stakeholders who may not have been identified in their initial assessment. In developing the right balance of proactive and reactive engagement channels, investors should reference their stakeholder prioritization maps and consider their constraints on staff and resource capacity.

While it is best to develop an engagement plan that encompasses a representative sample of stakeholder groups materially impacted by an investment, this is not always feasible. To begin, an organization can focus on a small number of key stakeholders and expand over time and with more experience. For some stakeholder groups, a small sample may be all that is required to ensure that representative feedback is heard. Nevertheless, it is important to remember that not all stakeholders in a particular group will share the same concerns or have unified opinions or priorities.

Investors can leverage the following matrix from the World Economic Forum report on Stakeholder Engagement to structure their stakeholder assessment and engagement process:

<table>
<tr><th rowspan="2">STAKEHOLDER TYPE</th><th rowspan="2">INFLUENCE (HIGH, MEDIUM, LOW)</th><th rowspan="2">EFFECT (HIGH, MEDIUM, LOW)</th><th colspan="3">ENGAGEMENT TIMELINE</th><th rowspan="2">ENGAGEMENT TOOLS</th><th rowspan="2">FREQUENCY</th></tr>
<tr><th>PLANNING</th><th>DELIVERY OF ACTIVITIES</th><th>EXIT/ RENEWAL OF INVESTMENT</th></tr>
<tr><td>Beneficiary</td><td>Low</td><td>High</td><td colspan="3">Info sharing, consult, and receive consent</td><td>Focus groups, survey, face-to-face</td><td>Very frequent</td></tr>
<tr><td>Staff</td><td>High</td><td>Low</td><td>Consult</td><td>Info sharing</td><td>Consult</td><td>Interviews, mobile app</td><td>Frequent</td></tr>
<tr><td>Suppliers</td><td>Medium</td><td>Low</td><td>Consult</td><td>Info sharing</td><td>Info sharing</td><td>Survey</td><td>Occasionally</td></tr>
<tr><td>Local community representative</td><td>Low</td><td>Low</td><td>Consult</td><td>Info sharing</td><td>Info sharing</td><td>Face-to-face</td><td>Occasionally</td></tr>
<tr><td>Investors</td><td>High</td><td>High</td><td colspan="3">Info sharing, consult, and receive consent</td><td>Face-to-face, calls, reports</td><td>Frequent</td></tr>
</table>

Source: Engaging All Affected Stakeholders (the World Economic Forum)

CASE STUDY

Triodos Bank

TRIODOS BANK, BASED IN THE NETHERLANDS, IS COMMITTED TO PROVIDING SUSTAINABLE BANKING SERVICES. IT ALSO SERVES AS AN INVESTMENT MANAGER AND FINANCES COMPANIES WHICH IT BELIEVES ADD CULTURAL VALUE AND BENEFIT BOTH PEOPLE AND THE ENVIRONMENT.

Across all of its banking products, Triodos Bank is focused on delivering impact alongside financial return. Triodos Bank credits its resiliency to its proactive stakeholder engagement practices. The bank identified three broad groups of stakeholders to prioritize in its efforts: individuals and organizations engaged in economic transactions with Triodos Bank, third parties who are socially or environmentally affected by the bank's activities, and a group of advisors who provide influence, insights, and knowledge. Every year the bank follows a formal process to analyze the issues that are most important to its stakeholders. In 2019, Triodos Bank distributed a survey among stakeholders in all the countries in which it is active to receive input on negative impact topics including social inclusion, climate neutrality, and sustainable supply chains. Using this feedback, Triodos Bank then mapped topics based on their importance to stakeholders and their importance to the bank itself. This allowed them to determine which topics are the most relevant and require the most attention. The bank also engages in ongoing consultations through client days that connect hundreds of customers in all the countries where they work, public debate events, depository receipt holder meetings and surveys.

Utilizing Action Plans to Mitigate and Manage Negative Impacts:

HOW CAN INVESTORS EFFECTIVELY MANAGE NEGATIVE IMPACT RISKS AND MITIGATE NEGATIVE IMPACTS THROUGHOUT THE INVESTMENT LIFECYCLE?

When due diligence and stakeholder engagement unearths negative impact risks and compliance gaps with the potential to create negative impacts, investors should work with the relevant stakeholder groups to develop mitigation or negative impact action plans.

This will require investors to seek input from relevant stakeholders on what steps need to be taken to reduce the likelihood and severity of the risks to an acceptable level. Investors should then discuss with the investee how they can implement these changes and what additional actions need to be taken to adequately prepare should negative impacts materialize. The resulting action plan is an agreement between the investor and the investee that details the necessary process changes they both must take to reduce the likelihood or severity of the risks. These agreements can help to clarify objectives between asset owners and their asset managers as well as between asset managers and the organizations they invest in. Interviewees who focus on emerging markets emphasized the importance of using action plans to reduce the magnitude of risks early on and help better manage negative impacts should they materialize during the investment lifecycle. In addition, they also cited the value action plans have in capitalizing on opportunities as they relate to ESG factors that can help create new or enhance positive impact.

Developing an Initial Action Plan

After conducting thorough due diligence, including initial engagement with relevant stakeholders, investors should have a comprehensive understanding of what the negative impact risks are for an investment. Investors can then discuss findings with the potential investee to identify which risks the organization already has mitigation strategies for and which risks the organization has yet to consider. This process will help investors identify gaps where the investee will need to make improvements or implement new processes to track and minimize relevant negative impact risks. Investors can then prepare action items requesting that investees take the necessary steps to make these improvements.

In developing the action items, investors should work with investees to determine what steps are feasible, the specific criteria required and deadlines by when they will need to fulfill them. The CDC Group's ESG Toolkit includes guidance on developing a thoughtful and pragmatic action plan. Action plans should include very clear context and expectations for what negative impact or positive impact is at risk, what steps need to be taken, what constitutes success, and the timeline in which the items need to be fulfilled. It is key to include concrete, actionable steps the investee needs to make to fall under the fund's compliance. Actions can include specific process changes, implementation of new risk management procedures and/or practices, training programs, or the purchase of required safety and protection equipment. It is important to work with management to align on costs, resource implications, and timelines in order to get their explicit agreement on the final action plan.

Discuss and Establish Key Performance Indicators (KPIs)

It is important for investors to discuss the KPIs that will be used to monitor both negative impact risks and the criteria outlined in the initial action plan. As discussed above in Integrating Negative Impact Risk Assessments into Due Diligence, these indicators help establish concrete signals of negative impact and help investors keep track of progress in their investments. These metrics can also help focus management and employees on negative impact risks, and help build commitment as well as monitor performance and efficacy of action plans. Investors should discuss KPIs during due diligence and incorporate them within action plans for investees to report on during check ins.

Ongoing Monitoring, Reporting and Management

After developing and agreeing upon an action plan with the investee, investors should continue ongoing consultations to assess progress. These check-ins should be used to ensure that negative impact risks are being managed as discussed and that the investee is making meaningful progress in their action plans. Investors should work with investees to establish an appropriate channel or method, frequency, and content for these check-ins. Scheduled check-ins will also help investors keep apprised of any negative impacts or new ESG risks should they arise. This allows investors to amend and refine action plans to address these new areas. Investors can leverage their process for engaging stakeholders to establish a framework for these meetings as well.
As one potential channel for monitoring investments, investors can request that investees periodically provide reports detailing their progress. The frequency, content, and format of such monitoring reports are typically set out in the investment agreement and can blend in with existing impact reporting processes. Similar to impact reporting, these reports should summarize the company's efforts to mitigate negative impacts, such as progress against their action plan and KPIs. The frequency of the reports can be adjusted according to the level of negative impact risks, with higher risk enterprises reporting more frequently. In many cases, as investees implement their action plans and build capacity for risk management, this can be done less frequently.

Ongoing consultations and periodic reporting will help investors stay apprised of the activities of their investees and will help them identify events that may require new action items for appropriate risk management. In addition, investors should ensure there is a system in place to require investees to promptly report any risks that have materialized into negative impacts, especially if they include serious incidents where there is loss of life, severe injury, severe impact on local communities or ecosystems, and/or a breach of low or regulation. This process will allow investors to revise action plans for remediation of any adverse outcomes by dictating specific steps investees need to make to comply with the investor's policies. Furthermore, investors can implement legal agreements to enforce these action items such that should the investee fail to come into compliance, the investor can pull their investment or withhold additional funds. The following section, Aligning Incentives on Impact, describes how investors can implement such legal agreements.

CASE STUDY

lightrock

**formerly LGT Lightstone*

LIGHTROCK IS A GLOBAL PRIVATE EQUITY PLATFORM INVESTING IN SUSTAINABLE BUSINESSES BUILT BY PURPOSE-DRIVEN ENTREPRENEURS COMMITTED TO INNOVATION FOR SYSTEMIC CHANGE AT SCALE. SINCE 2007, LIGHTROCK HAS INVESTED IN COMPANIES THAT PURSUE SCALABLE AND TECH-DRIVEN BUSINESS MODELS AROUND THE KEY IMPACT THEMES OF PEOPLE, PLANET, AND PRODUCTIVITY/TECH FOR GOOD.

Lightrock is backed by the Princely House of Liechtenstein and LGT, the international private banking and asset management group. LGT is an impact investing initiative driven to build a global multi-billion dollar direct investing platform focused on scalable businesses that provide access to improved livelihoods, information and services for underserved consumers around the world, or promote sustainable resource utilization.

As a direct private equity growth investor, Lightrock provides patient capital, takes active ownership and engages in deep partnerships with entrepreneurs to collectively grow the business and drive value creation throughout the investment lifecycle. Prior to any investment, investment teams conduct comprehensive impact due diligence. One of the key outputs of due diligence are standardized action plans that record all identified actions and activities to mitigate material risks and drive value creation opportunities across relevant impact and negative impact areas. To ensure alignment and buy-in from company management, Lightrock agrees upon risk management processes, required resources and timelines for implementing the individual actions prior to deploying capital.

During the portfolio management phase, investment managers are actively involved with supporting portfolio companies in implementing agreed upon actions plans, and adapting plans as other potential negative impacts emerge. Lightrock closely monitors the implementation of action plans during the first one or two years of the investment in order to make sure that all significant negative impact risks that surfaced during due diligence are being addressed. Lightrock also has regular reviews of action plans to iterate upon them to include new risks that may have been identified.

Aligning Incentives on Impact

HOW CAN INVESTORS ALIGN INCENTIVES SO THAT KEY STAKEHOLDERS ARE WORKING TOWARDS MITIGATING OR REDUCING NEGATIVE IMPACTS?

Aligning incentives is imperative in ensuring that all parties involved in an investment (asset owners, asset managers, and investees) work together to achieve impacts that benefit all stakeholders. Investors will need to consider the most appropriate incentive structures given their investment strategy, existing impact management processes, and governance models.

Compensation Structures

In traditional investment funds, compensation for general partners and managers tend to be driven by incentives linked to the funds' fundamental objective of maximizing financial return. Many impact-oriented funds have adopted this compensation structure as well, where investment staff take a share of their investments' profits. However, they must also balance achieving social and/or environmental impact in addition to generating financial returns. In the State of Impact Measurement and Management Practice Report, the GIIN found that only 10% of respondents consider achievement of impact goals in determining staff members' compensation. While financial returns and impact are often correlated and mutually-reinforcing, maximizing financial returns can inadvertently cause externalities that negatively affect people and the environment.

Some interviewees attempt to address this potential source of negative impact risk by tying a portion of partner and associate compensation to social and environmental performance, thereby raising the team's financial stake in their fund's non-financial performance. This provides staff with a strong incentive to properly weigh impact considerations — both positive and negative — in investment decisions and in developing fund administration. The most appropriate approach to developing such a compensation structure will depend on the investment strategies that the fund manager employs, the impact themes they target, and the negative impact risks that are relevant to them.

One direct method is to tie compensation to key impact and risk performance indicators identified during due diligence. This approach may be most appropriate for investors in asset classes with greater visibility and a higher touch point in investee activities, such as private equity. MDIF's Emerging Media Opportunity Fund employs this model by using five impact factors to determine its carry: country portfolio fit, investee mission fit, increased scale, impact on society, and sustainability of the investment's exit. Here both positive and negative impacts are considered. Impact on society is assessed during the investment's lifecycle, and the sustainability of an investment's exit is evaluated on its potential to sustain impact. Each category is worth 20 points for a total of 100 points. The fund has a standard base carry of 20% multiplied by the proportion of points scored. For instance, if the fund scored a full 100 points, they would earn 100% of their carry, or 20%. Likewise, if they only scored 40 points they would receive 40% of their base carry, or 8%. In the case that MDIF does not earn the full amount, the unearned funds are distributed among its limited partners. Fund managers can go further by incorporating specific impact factors related to managing and mitigating negative impact risks at either the portfolio level or individual investment level. For investors targeting specific sectors or impact themes, factors can be based on actively mitigating known risks such as greenhouse gas emissions or worker displacement. The right incentive structure can help align staff towards the fund's purpose, maximizing positive impact, and mitigating negative impact risk.

However, this can be challenging to implement as managers may be responsible for multiple investments across asset classes and with different impact objectives. The Global Impact Fund at KKR addresses this challenge by ensuring that the impact performance of all investments is correlated with its financial performance. This often means that the product or service offered by the enterprise is the primary driver of impact and the customer is the primary benefactor. As the business scales, so does their breadth of impact. This allows the Global Impact Fund to structure compensation around financial performance while also considering impact.

The GIIN's issue brief provides guidance and case studies on how funds can develop impact performance-aligned incentives. While published in 2011, many of the same principles still apply today as the practice of embedding impact in compensation has yet to be widely adopted. Funds can strike the right balance in their compensation structure by answering the following questions identified in the brief:

- Should incentives address the portfolio's short-term or long-term impact performance, or both?
- Should incentives penalize and/or reward GPs for the extent to which impact targets are met?
- What is the appropriate amount of compensation linked directly to social and environmental performance? What should be done with any monetary proceeds not distributed to GPs due to inability to meet impact targets?
- How and by whom are social and environmental performance metrics and targets defined?
- How can social and environmental performance be effectively monitored?

Furthermore, fund managers and investors should consider how compensation structures for investors could be contributing to rising inequality. High corporate executive compensation receives significant attention, yet asset manager compensation is largely overlooked. Similarly, in the impact investing community, investors may seek to tackle economic inequality and narrow the wealth gap with their investments, yet may not consider whether high fund manager compensation could undermine their ability to do so.

The Predistribution Initiative is a multi-stakeholder effort seeking to address this issue, focused on improving investment structures so that workers and communities share more of the gains of economic growth and have greater influence within governance structures. They work with asset managers to identify and implement incentive structures that encourage stronger ESG consideration in investment decisions, and compensate all stakeholders fairly according to the value they create and risks they take. Potential solutions include equity ownership and profit-sharing models where portfolio company employees receive a share of the financial return for their contribution to the business' success.

CASE STUDY

KKR

A POTENTIAL STEP TO REDUCING THE NEGATIVE IMPACT OF CARRIED INTEREST IN PRIVATE EQUITY IS IMPLEMENTING BROAD-BASED AND MEANINGFUL EMPLOYEE OWNERSHIP INITIATIVES AS PART OF STRUCTURING TRANSACTIONS.

Such programs can help employees share in the wealth created from an enterprise's growth. The Industrials team at KKR uses a simplified buyout structure that makes all employees of the portfolio company part-owners. Employees who choose to co-invest share in the returns generated from the transaction. The employee ownership model extends to every employee at KKR's portfolio companies and includes, importantly, all hourly workers, which tend to make up the majority of the workforce at a manufacturing company. This model also allows the KKR team to engage with the workforce more effectively beyond the management and executive teams.

NEGATIVE INVESTOR CONTRIBUTION

While compensation structures are one type of negative impact risk factor to consider within a fund, there are other dimensions of investment governance and management that can contribute to systemic risk and inequality. Additional potential issues identified by the Predistribution Initiative include financial engineering and the use of leverage, the use of tax havens, lobbying and political spending at the asset manager level, and investment valuation methods. While this area of risk assessment is still developing, fund managers should engage with stakeholders and subject matter experts and conduct additional desk research to evaluate how their existing investment management and governance processes are negatively contributing to portfolio companies or otherwise driving systemic risk.

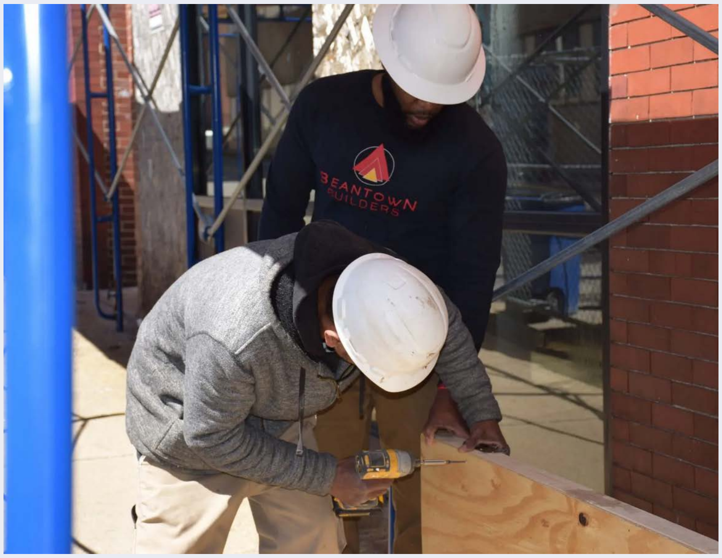
The Predistribution Initiative and the Impact Management Project solicited feedback on the topic of negative investor contribution from the Impact Management Project's community of practitioners and published a paper, Negative investor contribution, that synthesizes the community's perspectives and offers examples of metrics with which investors can measure, manage, and disclose potential negative investor contribution. These draft metrics and examples are intended to serve as a starting point that others can expand and improve upon in the future for managing negative investor contribution.

Impact Covenants and Incentives

Incentives tied to investment structuring and performance can also drive alignment between investees and fund managers on impact objectives. For example, managers can develop deal structures that are centered around reaching impact milestones. Aunnie Patton Power, an Associate Fellow at the University of Oxford's Saïd Business School, an Entrepreneur-in-Residence at the Skoll Centre for Social Entrepreneurship, and an advisor to the Bertha Centre for Social Innovation at the University of Cape Town's Graduate School of Business, founded her advisory firm, Intelligent Impact, as a vehicle to innovate on such deal structures for impact and catalyze their adoption. Aunnie's research describes how funds can release tranches of equity, or resell or release ownership to an enterprise after the investee reaches a particular milestone.[2] Funds can also develop agreements where failure to meet a milestone or the materialization of a negative impact can trigger a facilitated exit, default, or increase in interest rate.

Furthermore, funds can also align the cost of their investments against various ESG factors. In 2020, Neuberger Berman became the first U.S. asset manager to sign a credit facility linked to a set of ESG metrics. Pricing on the loan can increase or fall by up to four basis points on the drawn margin depending on whether or not the asset manager meets those metrics. One metric is based on increasing the proportion of equity holdings that Neuberger Berman engages with the intention to influence ESG practices and/or improve ESG disclosures. Other measures include maintaining an A or higher rating as scored by the United Nations-backed Principles for Responsible Investment (PRI), expanding employee ownership, and increasing diversity within senior leadership.

BOSTON IMPACT INITIATIVE
INVESTING FOR JUSTICE



BOSTON IMPACT INITIATIVE (BII) IS AN INTEGRATED CAPITAL FUND THAT DEPLOYS DEBT, EQUITY AND GRANTS TO ENTERPRISES WORKING TO CLOSE THE RACIAL WEALTH DIVIDE IN MASSACHUSETTS.

They work to provide low-income entrepreneurs with an opportunity to build credit, access capital, and mentoring and technical support, and aim to create a robust ecosystem to support the entrepreneurs they invest in.

To ensure that their investments are avoiding negative impacts, generating positive ones, and that those impacts persist, BII develops a set of impact targets. These targets are developed in conjunction with the investee after due diligence has been completed. Targets are quantifiable, measurable metrics determined based on what the enterprise wants to accomplish and believes they can reasonably achieve. The fund may set targets that tie wage growth to revenue growth to ensure that employees are being compensated equitably. These targets help to frame ongoing assessments and consultation with the investee.

BII uses these targets to set impact covenants that adjust the interest rate on a loan depending on the progress made towards the target. Setting impact targets and covenants are a part of the term negotiation and the fund will not close a deal until those are agreed upon. In instances where BII cannot get in alignment with the investee on impact covenants, they mutually decide not to move forward with the investment. This process brings the impact of investments on equal footing with financial terms at BII. If an investee exceeds a threshold set for a target, they can benefit from a decrease in the interest rate on their loan. Likewise, if the investee misses a benchmark, it could result in an increase in their rate. These covenants work as a guideline to inform the enterprise's strategy such that they prioritize the creation of impact in their activities. This incentivizes firms to actively monitor risks and avoid actions that could result in negative impacts to stakeholders. The use of covenants helps BII align investees with their mission of generating economic equity in eastern Massachusetts communities.

Legal Agreements

The legal documents involved in the creation and management of an impact fund (e.g. the prospectus, private limited partner agreements, private placement memorandums, term sheets, and operating agreements) can help foster alignment on impact creation and risk mitigation strategies.

Impact-motivated asset owners and limited partners can use these provisions as assurance against impact washing. Terms can involve requirements on impact management, including conducting the appropriate due diligence prior to investment and assessing impact performance post-investment. The agreements should also contain language describing the expected negative impact risks and consequences should they arise. Consequences can include covenants or clauses that allow limited partners to withdraw investments or withhold additional investment into the fund. The details outlined in the agreement are useful in establishing the fund's goals and aligning asset owners and managers towards the same purpose.

Investment agreements between the fund and portfolio companies should also foster alignment on the balance between financial and impact performance. The fund manager can negotiate requirements based on ongoing impact management and action plans set prior to investment. Legal agreements in investment documentation are essential to ensuring that investees are aligned with the fund's impact intentions. If monitoring is to be effective, the fund manager must work out what information they require and feed these requirements into the relevant legal agreements. This is an effective way for the fund to confirm the findings of its due diligence, since the company or its directors will have to reveal any significant non-compliance to ensure they have no legal liability to the fund. Furthermore, legal agreements can work to enforce negative impact action plans set by the investment manager during the investment agreement. This additional layer can help to ensure alignment between all parties on intended impacts.

One method a fund can take is to incorporate warranties, or written guarantees, in legal agreements that outline the negative impact risk requirements of the fund that all investees need to meet. These warranties can incentivize disclosure from companies and their managers on all known negative impact risks. If the warranty or representation is untrue, it can give the fund the right to claim for damages and refuse to make further disbursements. This legal practice, however, depends on legislation from country to country and the nature of the transaction. Furthermore, legal agreements do not guarantee that investees will be in legal compliance. The CDC Group provides the following examples of warranties in their ESG Toolkit:

(a) 'Each Group Company complies with all applicable ESG Laws and with the requirements set out in paragraph [x] of Party of Schedule [z] (Working conditions and labor rights)'.

(b) 'No ESG Claim has been commenced or (to the best of its knowledge and belief) is threatened against any Group Company'.

(c) 'No written notice or other allegation has been received by, or brought to the attention of, any Group Company to the effect that a Group Company has breached any ESG Laws'.

Additionally, investors can reference the guidance published by the Toniic Institute's Impact Terms Project in developing appropriate contractual terms for various impact management requirements. These terms can be leveraged to structure agreements between asset owners and asset managers, as well as between asset managers and portfolio companies.

Conclusion

The practice of managing negative impact within the impact investing industry is still in its infancy. With most impact investors focused on developing robust systems to determine whether, and to what extent, their impact goals have been achieved, understanding unintended consequences has mostly been an afterthought.

While investors work to elevate negative impact management to the level of sophistication and widespread adoption of positive IMM or financial management systems, they can draw upon the tools and lessons of the sustainable investing and international development finance fields, as well as other examples highlighted in this report to integrate negative impact management within their investment process.

By effectively managing both positive and negative impacts, impact investors can help demonstrate impactful investment practices and advance the concept of stakeholder capitalism where markets value the impact of investment and business decisions on all stakeholders. Regulation will play a key role in this shift, but investors must look beyond practices mandated by law and adopt more holistic impact management systems to understand and consider their effects — both positive and negative — on society and the environment. We hope this report can support investors in deepening their impact management efforts to account for negative impacts and ultimately shift broader investment practice towards one that appropriately values people, communities, and the planet.

Appendices

Appendix A:

RESEARCH METHODOLOGY

This guide has been informed by extensive desk research on best practices in negative impact management; 33 interviews with 35 leading practitioners, researchers, and consultants; and the PCV team's experience developing impact due diligence systems for clients and with PCV's loan fund. During the desk research phase, PCV examined nearly 50 organizations, including investors and advisors, to understand practices they had developed for negative impact management.

Based on this review, PCV created a list of practitioners and advisors for the interview phase; the GIIN also provided input to the list of potential interviewees. Interviews took place from July to September 2020 and were 60 minutes in length.

INTERVIEWEES		
NAME	**ROLE AT TIME OF INTERVIEW**	**ORGANIZATION**
Adam Bendell	CEO	Toniic
Aliana Piniero	Director of Impact	Boston Impact Initiative
Amir Amel-Zadeh	Associate Professor of Accounting	Said Business School
Amy Orr	Director, Integrated Capital	Heron Foundation
Caitlin Rosser	Senior Officer, Impact & Communications	Calvert Impact Capital
Christina Gotfredson	Former Impact Manager	Gary Community Investments
David Parham	Director of Research	The Value Reporting Foundation (formerly SASB)
Delilah Rothenberg	Founder	Development Capital Strategies, Predistribution Initiative
Elizabeth Seeger	Managing Director, Sustainable Investing	KKR
Elizabeth White	Principal Strategist, Sector Economics & Development Impact	International Finance Corporation (IFC)
Ellen Carey Maginnis	Independent Consultant	Formerly the Global Impact Investing Network (GIIN)
Hannah Schiff	Director of Impact	Developing World Markets
Henry Gonzalez	Senior Consultant/Advisor	World Bank Group
Jelena Stamenkova van Rumpt	Director of Responsible Investment	Anthos Fund
Jennifer Signori	SVP, ESG & Impact Investing	Neuberger Berman
Joanne Bauer	Co-Founder	Rights CoLab
Jonathan Bailey	Head of ESG Investing	Neuberger Berman
Karim Harji	Programme Director	Oxford Impact Measurement Programme, Saïd Business School, University of Oxford

INTERVIEWEES		
NAME	**ROLE AT TIME OF INTERVIEW**	**ORGANIZATION**
Katharina Neureiter	Executive, Impact Management (Former)	CDC Group
Kirsty Jenkinson	Investment Director, Sustainable Investment & Stewardship Strategies	CalSTRS
Lindsay Smalling	Head of US Business Development	60 Decibels
Leticia Emme	Senior Manager, Head of Impact Standards & Engagement	The Global Impact Investing Network (GIIN)
Marc Moser	Associate Director, Impact & ESG	Lightrock, LGT Lightstone
Mark Berryman	Managing Director, Impact Investments	CapRock Group
Mark Gustafson	Co-Founder, Managing Director	CapRock Group
Mike McCreless	Head of Investor Collaboration	Impact Management Project (IMP)
Milena Levicharova	Investment Analyst	Anthos Fund
Pedro Fernandez	Head of Sustainability	ResponsAbility
Pierre-Laurent Macridis	Associate, Impact Investing & Blended Finance	Fondaction
Rachel Bass	Director, Research	The Global Impact Investing Network (GIIN)
Rodolfo Stucchi	Head of Development Effectiveness, South America	IDB Invest
Samer Araabi	Research Director	Accountability Counsel
Siobhan Cleary	Director, Sustainability Solutions	Global Reporting Initiative (GRI)
Tom Adams	Co-Founder	60 Decibels
Ursula Nitschke	Global Head Marketing and Investor Relations	INOKS Capital
Zack Young	Associate	Boston Impact Initiative

Appendix B:

RESOURCES REVIEWED

NAME	PUBLISHING ORGANIZATION
Accountability Counsel Database	Accountability Counsel
Environmental and Social Due Diligence: mitigating risks, identifying opportunities	CDC Group
CDC ESG Toolkit	CDC Group
ESG Slides	Impact Management Project
Impact Investors Fail to Measure Negative Outcomes	Financial Times
Net Contribution Lens	Heron Foundation
Investor Perspective Document	Impact Management Project
Impact Due Diligence: Emerging Best Practices	Pacific Community Ventures
Impact Risk	Impact Management Project
Impact Washing Gets a Free Ride	2 Investing Initiative
Improving Corporate Transparency with New Materiality Standards	Rights CoLab
Investor Contribution	Impact Management Project
Investor Contribution HBR Idea Lab Huddle (public online forum)	Impact Management Project
Moving Forward with Sustainable Investing: A Roadmap for Asset Owners 2019	The Forum for Sustainable and Responsible Investment (US SIF)
Moving Forward with Sustainable, Responsible, and Impact Investing: A Roadmap for Money Managers 2018	The Forum for Sustainable and Responsible Investment (US SIF)
MSCI Sustainable Impact Index Methodology	MSCI
Negative Investor Contribution	Impact Management Project and the Predistribution Initiative
Neuberger Berman Case Study	Impact Management Project
Partners Group Case Study	Impact Management Project
Principles for Responsible Investing	UN PRI
Social Responsibility in Capital Markets: A Review and Framework Theory and Empirical Evidence	Amir Amel-Zadeh at Oxford
The State of Impact Measurement and Management Practice	GIIN
Toward Sustainable Impact Through Public Markets	MSCI
When Can Impact Investing Create Real Impact?	Stanford Social Innovation Review
Why and How Investors Use ESG Information: Evidence from a Global Survey	Amir Amel-Zadeh at Oxford

Endnotes

1 Some of these ESG risks are, in fact, ultimately financially material to companies and investors over the long term. For example, companies offering low-wage jobs without benefits causes workers to lack financial security, which can exacerbate the negative economic and social effects of a recession.

2 Aunnie's research is briefly summarized and highlighted in the ImpactAlpha article: "Incentives for driving impact in deal and fund structures"

3 In June 2019, the European Commission introduced the "double materiality perspective" in its Guidelines on non-financial reporting: supplement on reporting climate related information. In September 2020, the IFRS Foundation, which sets global standards in financial accounting, launched a Consultation Paper on Sustainability Reporting questioning whether global standards should be set to account for issues material to multiple stakeholders beyond shareholders. Furthermore, the GIIN's Roadmap for the Future of Impact Investing envisions a future where all investors integrate environmental and social factors into investment decisions by default — and not only those that affect financial value. https://roadmap.thegiin.org/

4 See Environmental and Social Performance Standard 9: Gender Equality, Page 99. https://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-2131049523-16

5 The CDC Group and other DFIs recommend that investors develop separate environmental and social management systems (a.k.a. impact measurement and management systems within the impact investing industry) from corporate governance and business integrity management systems. This is due to the fact that while corporate governance influences the ESG risks and impacts created by investors and companies, the approach to assessing strong governance differs from the other approaches to assessing material environmental and social risks.

6 The primary difference between these two resources is that MSCI assigns a weight to each material ESG topic which they use to determine companies' ESG scores for each industry and sector, while the SASB Materiality Map indicates whether an ESG topic is likely financially material for over 50 percent or less than 50 percent of all companies within the sector.

7 This is despite the fact that the importance of systematically assessing and managing negative impacts has been highlighted by the IFC and UN in their principles and standards for impact management.

8 Note that while these topics loosely correspond to the sequential stages of the investment cycle, they are not mutually exclusive since some cover different aspects of the same investment stage. For example, stakeholder engagement occurs across multiple investment stages, including due diligence.

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