



Framework for SDG Aligned Finance

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INITIATIVE – where has this work come from?

At France’s G7 in 2019, Development Ministers commended the OECD and UNDP joint initiative to define a common framework for aligning finance with the Sustainable Development Goals (SDGs):

“Recalling that global private savings amount to trillions of US dollars per year, we stress the need to catalyse private sector support for the Sustainable Development Goals (SDGs) and to increase transparency on financial flows. In that respect, we commend international initiatives conducted by relevant organizations including the Organisation for Economic Co-operation and Development (OECD) and the United Nations Development Programme (UNDP) aimed at promoting SDG-compatible finance. We take note of their efforts to take stock of existing initiatives in view of defining a robust common framework for SDG-compatible finance with all relevant stakeholders, and of their intention to present their findings from 2020 on in Paris.”¹

Since this meeting, the OECD and UNDP have been working, with the support of France’s Ministry of Foreign Affairs (MoFA), and an expert group of 80+ individuals from across the public and private sector to develop a framework, produce a stocktake of initiatives and help identify common challenges, themes, and solutions to improve SDG alignment of finance. The work has also supported, and benefited from, the UNSG-Canada-Jamaica ‘Financing for Development in the Era of COVID-19 and beyond’ consultations, which highlighted this initiative and aligning finance to the SDGs as key, stressing the need to use crisis as an opportunity to “align to the SDGs and Paris Agreement”.²

One year on from the G7, this paper sets out the framework’s progress: a critical stocktake of existing initiatives, and a matrix of identified objectives, recommended actions, building blocks and progress indicators for SDG alignment. The framework is a living document that will be updated on regular basis to reflect progress. In particular, recommendations should be translated into concrete community action plans matching the priorities and comparative advantages of the different actors and groups of actors along the investment chain.

The framework focuses on mobilizing and enhancing development impact of private finance through alignment to the SDGs. To this end, the scope of the framework encompasses private actors (asset managers, pension funds, credit rating agencies, commercial and investment banks, etc.) but also public authorities (governments, central banks, development finance institutions, etc.) - given their role to provide the right environment and set the right incentives to allow the private sector to achieve SDG alignment. As Covid-19 demonstrates, the role of governments and public resources are critical to achieving alignment. The public sector can play a role in shaping market forces, correcting market failures, through providing regulatory forward guidance and bringing transparency and accountability to end SDG washing, and stepping into the market directly as investors and providers of public goods. In addition, given the development ministers mandate, the framework gives particular attention to the structural challenges of countries most in need, including LDCs and SIDS.

GOAL – what does SDG aligned finance look like?

The 2030 Agenda is a plan of action for people, planet and prosperity. It provides, with the SDGs, universal goals and targets -or a blueprint- to achieve a better and more sustainable future for all. It is supplemented by the Addis Ababa Action Agenda that deals with the means required for the implementation of the SDGs, which include the mobilization of financial resources. It recognizes the role of all actors -public and private- along the investment chain to implement the Agenda, and the need to better align private sector incentives and practices with the SDGs to foster long-term quality investment.

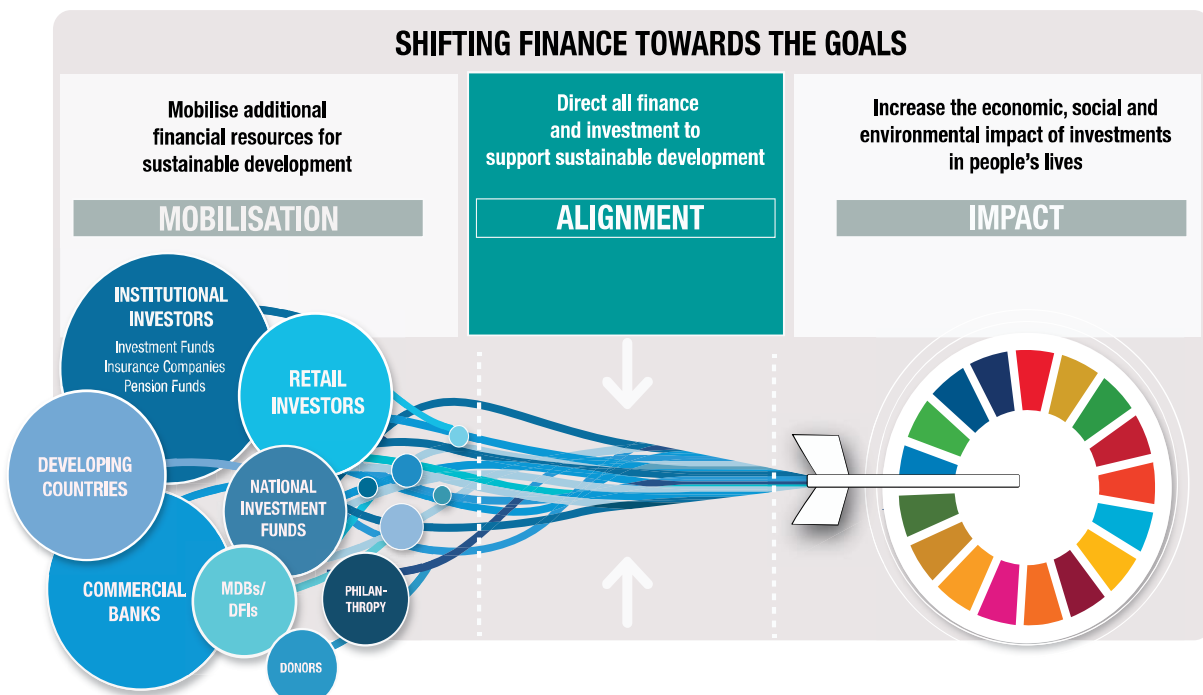
SDG alignment is both a means to mobilize resources for the implementation of the 2030 Agenda and a value proposition for private sector to preserve the long-term value of assets by doing no harm and contributing solutions to sustainable development challenges, thereby reducing risks and enhancing resilience of the global financial system. This double materiality (financial and non-financial) of the SDG alignment agenda relies on the achievement of two objectives:

1. **Equality**: resources should be mobilised to leave no one behind and fill the SDG financing gaps, and
2. **Sustainability**: resources should accelerate progress across the SDGs.

With regard to the definition of alignment, the Global Investors for Sustainable Development Alliance (GISD) suggested, “sustainable development investing refers to deploying capital in ways that make a positive contribution to sustainable development, using the SDGs as a basis for measurement”.³ Yet beyond creating a net positive impact over the life of the investment, our ambition should also be to aim that investment does no harm across the SDGs.⁴

Recognising that SDG alignment is just a means of enhancing the likely sustainability impact of mobilized resources, it is the central part of a three-step approach to shifting finance towards the SDGs (see Figure 1) on stages of Mobilisation – Alignment – Impact. SDG alignment allows for the better use of each resource’s leverage power, the reduction of leakages and distortions in resources transmission channels, and the increase the quality of resources for greater sustainability impact.

Figure 1. A three-step approach to shifting finance towards the SDGs



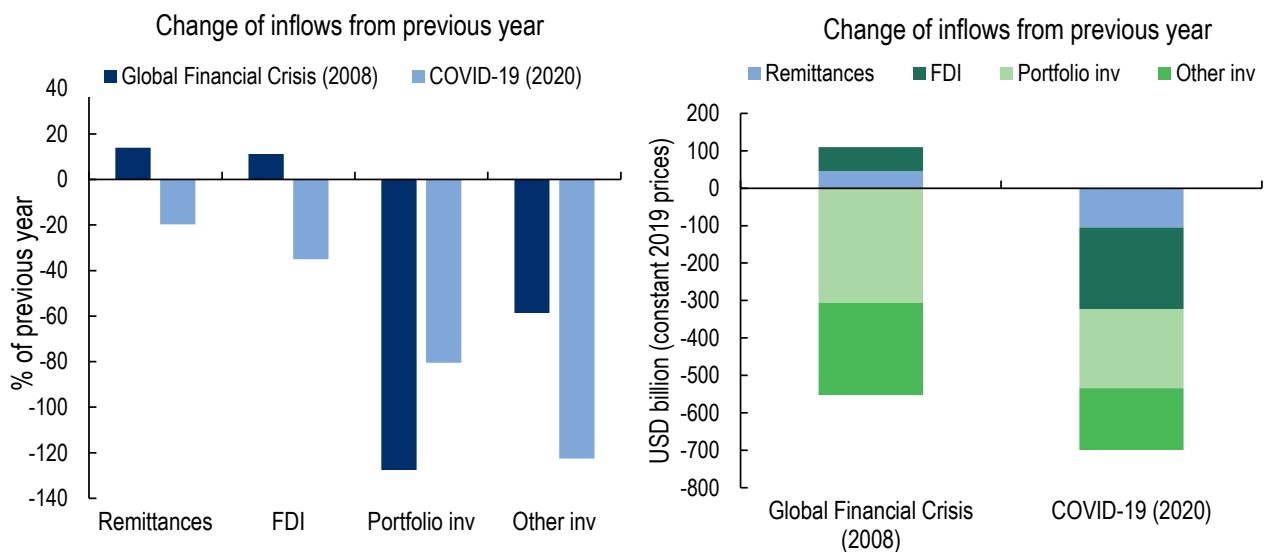
Note: Multilateral development bank (MDB) and development finance institutions (DFIs) Source: (OECD, 2018[26]), Global Outlook on Financing for Sustainable Development 2019: Time to Face the Challenge, <https://www.oecd.org/development/global-outlook-on-financing-for-sustainable-development-2019-9789264307995-en.htm>.

RATIONALE – why should we care about SDG alignment?

As a result of the COVID-19 crisis, the gap to achieving a number of SDGs, including SDG 1 on poverty, is increasing again. The COVID-19 crisis threatens to set back decades of progress made towards development across countries. The 2030 agenda and Paris Agreement, as well as means to respond to the crisis, are under strain. The crisis magnified the ‘scissors effect’ of SDG financing:

1. **Declining resources** – pre-crisis USD 2.5 trillion that were missing annually to achieve the SDGs by 2030 widened with the crisis with an estimated USD 1 trillion gap in COVID-19 emergency and response spending in developing countries compared to OECD countries. This, together with an estimated a USD 700 billion loss of external private financing to developing countries, means 2020 risks a collapse of development finance. See Figure 2 below.
2. **Increasing needs** – COVID-19 crisis, climate related disasters⁵, and famine are hitting the most vulnerable and worsening gender gaps. It is expected that poverty will rise for the first time since 1998 with about 100 million people expected to be pushed into extreme poverty and at least twice as many into poverty, and with hundreds of millions of jobs lost.⁶ Inequality is rising across many groups as they are disproportionately affected.⁷ For example, people from low and middle-income countries are seven times more likely to die from natural disasters,⁸ and the financial burden associated with rising debt levels in those climate-vulnerable countries are expected to double over the next decade.⁹

Figure 2. COVID-19 will set external private finance back by USD 700 billion, a 60% greater drop than after the 2008-09 financial crisis



Note: All data refer to ODA-eligible countries. The sudden stop of capital flows in 2015 is not shown here, as it would have included a USD 556-billion drop relating only to China. Other investment excludes IMF lending and Special Drawing Rights allocations. Source: OECD 2020, *Global Outlook on Financing for Sustainable development 2021* based on KNOMAD (2020[7]), Remittances inflows (database), <https://www.knomad.org/data/remittances>. Historical FDI, portfolio investment and other investment data refer to net incurrence of liabilities and are from IMF (2020[8]), Balance of payments (database), <http://data.imf.org/bop>, and national central bank data. COVID-19 projections are based on combining historical data with projections on remittances and FDI by the World Bank (2020[25]), “COVID-19 Crisis through a migration lens”, <https://openknowledge.worldbank.org/handle/10986/33634>, with portfolio and other investment data by the Institute of International Finance (2020[24]), *IF Capital Flows Report: Sudden Stop in Emerging Markets*, https://www.iif.com/Portals/0/Files/content/2_IIF2020_April_CFR.pdf.

The COVID-19 crisis provides a stark wakeup call to the importance of aligning our economies to the SDGs and the Paris Agreement for building resilience. The ignorance of systemic risks, poor risk governance and underinvesting in disaster risk reduction, linked to poor sustainability and equality management across countries, comes at a high price for all: the IMF forecasts a 4.4% decline in global GDP in 2020, with -5.8% in advanced economies and -3.3% in emerging markets and developing economies. The pandemic has also

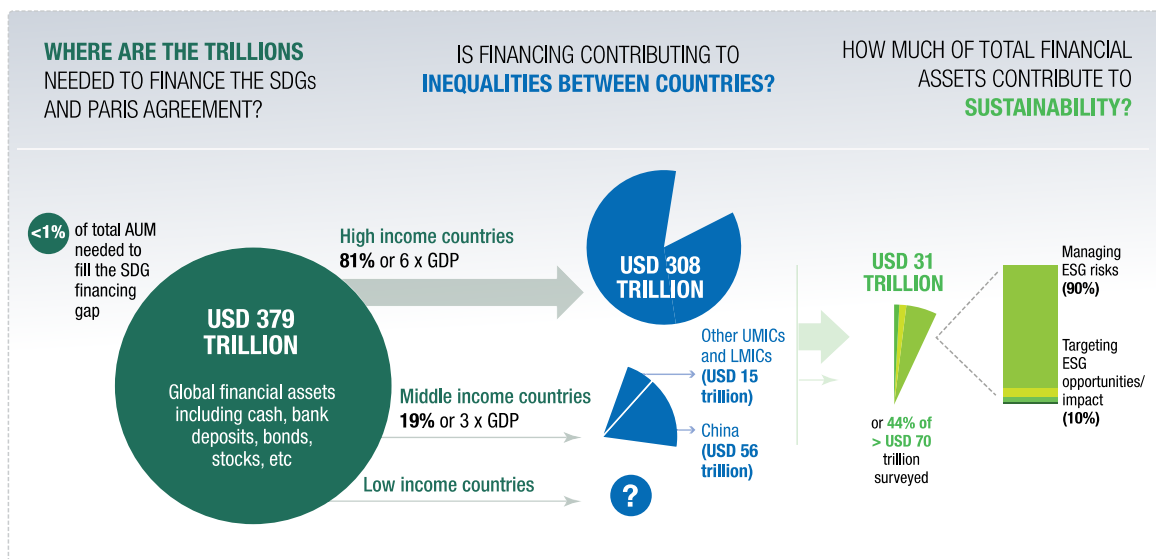
underlined the interdependence of countries towards achieving public goods and has demonstrated that, as UN Deputy Secretary-General highlights, “no one is safe until we are all safe”¹⁰. Finally, it has exposed the interlinkages between the SDGs such as the links between health, eradication of poverty and continued degradation of nature. A failure to meet one SDG will be to the detriment of the others and will affect us all. The world is already at a tipping point with nature declining globally at unprecedented rates in human history.¹¹ With more than half of global GDP (55%) depending on high-functioning biodiversity and ecosystem services (BES)¹², failure to adapt and mitigate climate change, extreme weather events, loss of biodiversity and ecosystem collapse, food crises, and water crises will cause irreversible catastrophic damage to people and planet. In fact, the OECD estimates that the total annual financial allocation for global biodiversity conservation was between USD 78 and 91 billion per year (2015-17 average)¹³, a mere fraction of the economic impact on the global economy from COVID-19, already estimated in the tens of trillions of dollars.¹⁴ Hence, the imperative to explore nature-related risks and dependencies to which our economies and financial systems are exposed and redirect flows of finance towards nature-positive activities.¹⁵

Mitigation and reduction of these and other risks is a paramount concern to realise the transformative potential of the 2030 Agenda and the Paris Agreement. **It underlines why SDG alignment is critical. SDG alignment unlocks the resources, directs them towards needs, and builds a more sustainable and inclusive economy, which protects against risks, builds resilience and generates financial returns and economic growth. The case for alignment has never been stronger:**

1. **Economic case. Alignment builds resilience and generates economic growth opportunities.** Incorporating SDG into business strategies could result in efficiency gains and new economic opportunities worth at least USD 12 trillion by 2030 (more than 10% of global GDP)¹⁶ and closing the gender gap in the workforce would add another USD 28 trillion to the global GDP¹⁷. Transition to a green economy could lead to a net increase of approximately 18 million jobs across the world¹⁸ and achieving the 2030 Agenda could generate up to 380 million jobs¹⁹. Besides, it will reinforce macroeconomic stability by decreasing systemic risk due to climate change, biodiversity loss or global pandemics, thus also saving assets and output losses (e.g., business and supply-chain interruptions, production, and tax-revenue losses, etc.). In addition, alignment has the potential to match up public sector objectives with private sector assets to solve negative externalities, such as its capacity for innovation and more efficient capital allocation.
2. **Investment case. There is not necessarily a trade-off between financial and non-financial return, and alignment can preserve the long-term value of assets by mitigating systemic risks.**²⁰ The crisis has shown that the depreciation of assets linked to global shocks, such as epidemics, climate change, or forced displacements of populations, is not a distant threat. While the effectiveness of sustainable strategies to achieve superior financial and extra-financial returns is still debated in academic literature (partly due to incomparable reporting) and can come up against legal obligations of institutional investors, researchers agree that there are strong theoretical foundations to the fact that the twin goals of higher non-financial and financial return mutually reinforce²¹ and that ESG-aligned finance has shown more resilience during crises.²² In addition, there is an increased pressure on aligning finance to the SDGs as both individual savers and asset owners urge asset managers to make their money consider people and planet alongside profit. Both the recognition of long-term value preservation through mitigation of transition risks and physical risks and the increase in the number of commitments and mandates to asset managers has led to an increase in thematic bond issuance, which for green bonds is already 12% higher compared to Q3 2019.
3. **Funding case. Alignment can unlock the volumes of finance needed to meet the SDGs** which public resources could never achieve alone – the yearly USD 2.5 trillion SDGs financing gap in developing countries²³, which could increase by USD 1.7 trillion (i.e. about +70%) in 2020 due to global economic uncertainty and an estimated USD 1 trillion gap in COVID-19 emergency and response²⁴, is over 25x total ODA (over 35x G7 ODA) but only 1.1% of global financial assets. Total financial assets are valued at more than USD 378.9 trillion having grown at 5.9% year on year since 2012.²⁵

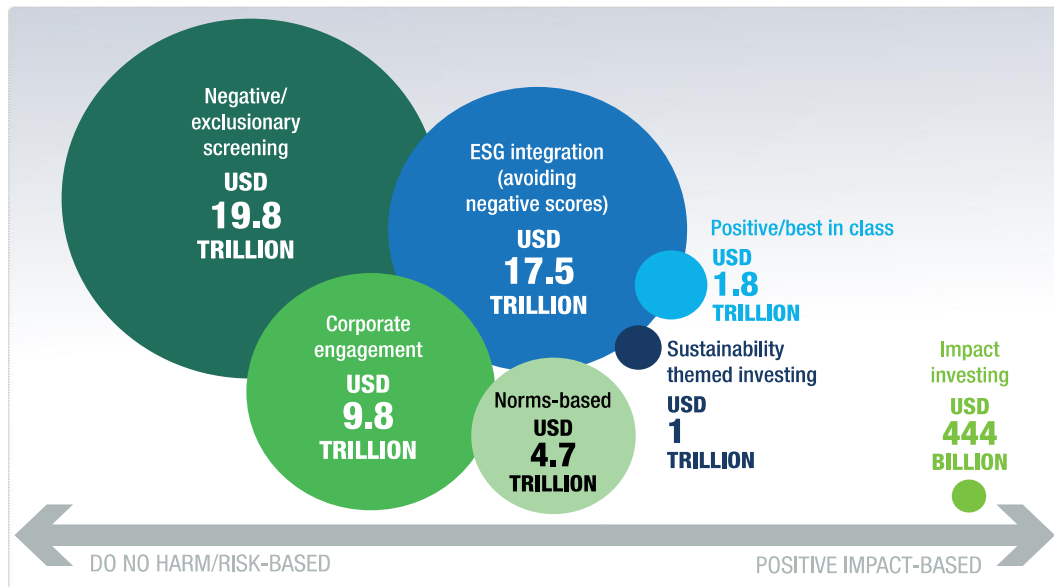
However, despite these sound benefits, and additional ones that cannot be captured by financial metrics, **SDG alignment is not happening spontaneously**. Recent announcements by investors to align portfolios to sustainability objectives estimates of sustainable finance market increasing from USD 13 trillion to USD 31 trillion in 7 years masks issues that are acting as a brake on alignment, and risks setting back progress. Figure 3 below shows that out of USD 379 trillion in the financial system only USD 75 trillion - or less than 20% - are directed at developing countries (80% of which are held by China) and USD 3.1 trillion at proactively pursuing impact. Figure 4 details the broad spectrum of what is considered sustainable finance – ranging from funds that simply operate an exclusionary screening to those that seek positive impacts based on thematic or geographic focus. It is also not enough to just ‘re-label’ existing investment, an additional shift in beneficiary projects and countries is needed, hence the need for a review of incentives and policies along the investment chain.

Figure 3. How much of the trillions in the system are contributing to equity and sustainability?



Source: OECD, *Global Outlook on Financing for Sustainable development 2021* – based on *Financial Stability Board (2020[27])*, *Global Monitoring Report on Non-Bank Financial Intermediation 2019*, <https://www.fsb.org/2020/01/global-monitoring-report-on-non-bank-financial-intermediation-2019/> and *Global Sustainable Investment Alliance (2018)*, *Global Sustainable Investment Review 2018*, http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

Figure 4. The wide spectrum of practices behind sustainable finance



Note: The amounts in the figure do not add up to the estimated USD 30-trillion estimate sustainable investments due to double-counting across several categories.

Source: OECD, 2020, *Global Outlook on Financing for Sustainable development 2021*, based upon *Global Sustainable Investment Alliance (2018)*, *Global Sustainable Investment Review 2018*, http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf; *European Sustainable Investment Forum (2018)*, *European SRI Study 2018*, <http://www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study.pdf>; *Responsible Investment Association Australasia (2019[36])*, *Responsible Investment Benchmark Report: Australia 2019*, <https://responsibleinvestment.org/wp-content/uploads/2019/07/RIAA-RI-Benchmark-Report-Australia-2019-2.pdf>.

FRAMEWORK – what is the framework seeking to achieve?

SDG alignment requires a framework to:

1. **Identify issues preventing alignment and actions to achieve alignment.** The past year consultations with an expert group of more than 80 individuals from across private and public sector have assessed market inefficiencies that are limiting alignment. The framework presents a menu of options to tackle these broad range of issues under three buckets: i) policies, ii) standards and iii) tools.
2. **Build consensus around an action plan that capitalises on and channels momentum.** The framework aims to cut through the proliferation of initiatives to help public and private actors identify individual and collective actions along the investment chain. Proposed actions are underpinned by building blocks and existing initiatives towards which efforts can be channelled ensuring political momentum is taken - for example, ensuring that work to develop social non-financial reporting does not hold up existing efforts on green. The framework is supported by proposed steps for a roadmap, which identifies recommendations for specific communities across private, and public sector, and means for those communities to leverage expertise, prioritise, and implement those recommendations.
3. **Ensure holistic approach across the SDGs and the developing world.** The framework offers a holistic approach underlining the interdependence of countries and SDGs. It provides a developing country focus to address the ‘equality’ dimension of alignment and leave no one and no SDG behind as investment portfolios, in theory, could be fully aligned and still benefit very few SDGs in very few countries. Without a specific attention paid to developing countries constraints, some actions (e.g., a rigorous mandatory reporting when data is not equally available across countries) could shift finance even further away from developing countries in the short term, as companies would de-risk portfolios or seek benefits from conditional stimulus packages. The framework gives attention to the structural challenges and solutions to support countries most in need.

ISSUES – what is preventing SDG alignment?

Lack of SDG alignment starts with a lack of a common language and interpretation of the objectives underlying the SDGs in the public and private sectors. The SDGs never were properly translated into simple metrics of relevance to investors. Too high-level goals or targets, and insufficiently ambitious definitions of SDG-alignment, run the risk of SDG washing – for example, any economic activity contributes to at least one or more SDGs through job creation. While Environmental, Social and Corporate Governance (ESG) is more popular among investors, this framework is also criticised and does not fully reflect SDG alignment.²⁶ Even among the signatories of the Principles for Responsible Investment (PRI), only half mention the SDGs in reporting, and as little as 10% of them provide details on how they actually integrate the SDGs in their investment strategy.²⁷ There is a need to jointly: renew the set of policies to offer efficient levers for SDG alignment, and support businesses with necessary adjustments (e.g., middle sized firms' difficulty to comply with the same reporting requirement than large ones). Framing a clearer landscape can help in this regard.

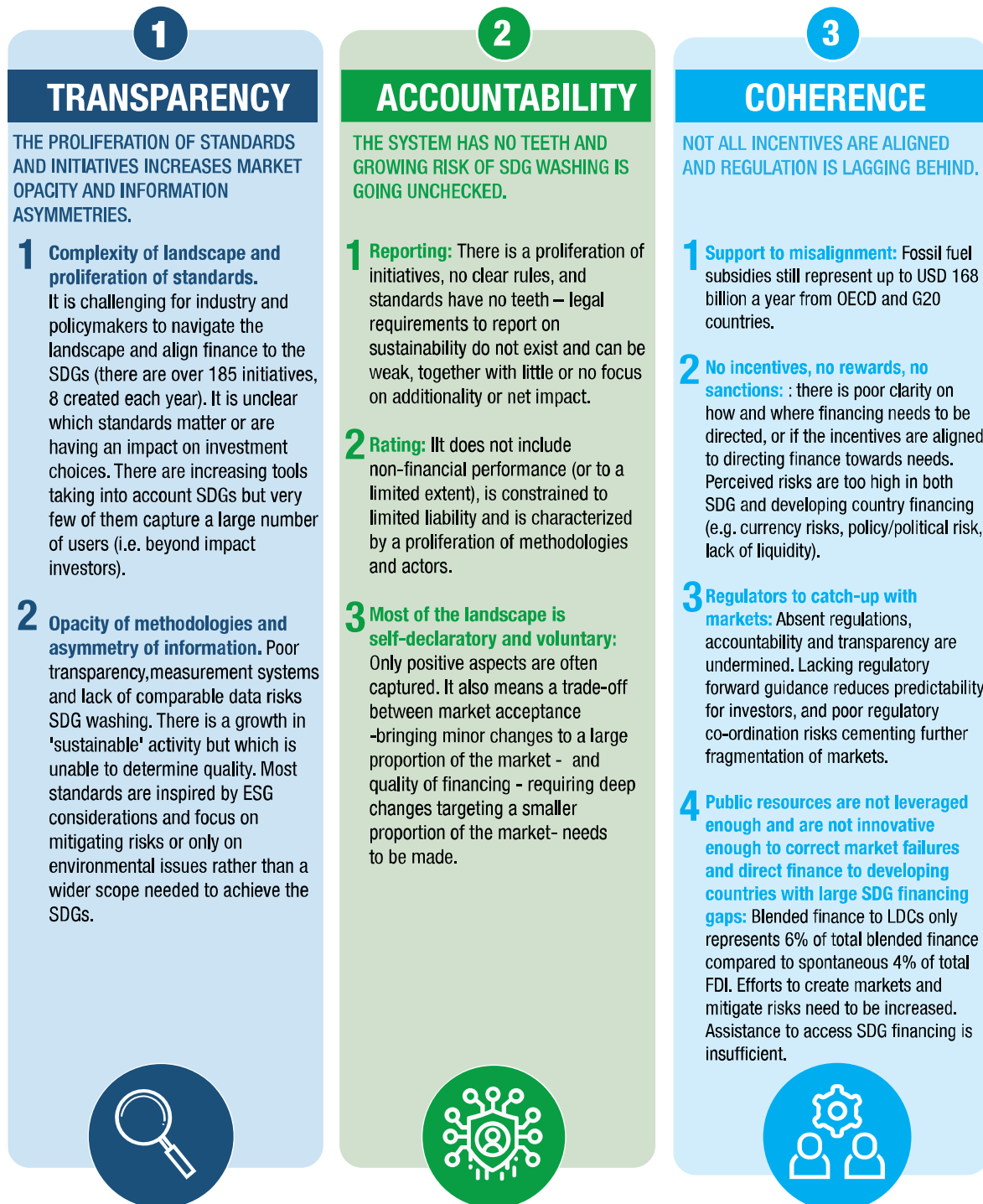
The consultations have identified **three interlinked sets of issues** that are preventing alignment (See Figure 5 below):

1. **Lack of transparency.** The proliferation of market-based standards without clear rules for disclosure or assessment of definitions and methodologies (e.g. Impact measurement metrics) could mislead investors and contribute to market distortions and SDG-washing. Over 185 sustainable financing initiatives could be identified, growing at rate of 8 per year²⁸ (see annex 2 – stock-take of standards for private finance sustainability). Ensuring transparency and comparability of standards is a first step towards consolidation and eventually harmonization.
2. **Lack of accountability.** Weak accountability and monitoring of financial intermediaries and companies with regard to non-financial returns (e.g., due to weak or heterogeneous standards, or the inability to enforce them) have potential adverse effects on the drive for sustainable investment. Risk of SDG washing could undermine the credibility of the sustainable finance market and divert potential investors from it.
3. **Lack of coherence.** Lack of (or wrong) incentives and fragmented regulations lead to a sub-optimal allocation of assets – helped by information asymmetries, failure to factor in risks associated with negative environmental and social externalities, or long-term sustainability objectives. Government subsidies sometime support misalignment and fail to guide finance towards existing SDG financing needs. For example, fossil fuel subsidies still represent up to USD 178 billion a year from OECD and G20 - blended finance to LDCs only represents 6% of total blended finance compared to spontaneous 4% of total FDI in developing countries and LDCs. High-perceived risks coupled with small-sized investment projects can stifle investor demand from developing countries even as improvements are registered in absorptive capacity and policy constraints. Any effort to better align incentives and adjust policies along the investment chain should avoid creating further fragmentation of markets.

Addressing these three sustainable finance related issues will not necessarily unlock mobilization of capital to LDCs, SIDSs and developing countries. For example, since the crisis, developing countries have experienced large capital outflows. Meanwhile, sustainable investment has increased, partly from markets anticipating stricter environmental and social rules – including via conditionality of stimulus packages, but also due to the possibility of higher financial returns, or lower losses observed for some sustainable investments. The lack of absorptive capacity in some recipient countries may be an issue. Measures aimed at increasing transparency and accountability could divert financial resources away from countries with limited resources and capacities to measure SDG alignment and impact, and we may end up reducing, rather than increasing flows to countries most in need of SDG financing. Taking externalities due to climate change into account may increase the risk or premium of investment in developing economies, adding to a potential additional real or perceived risk due to governance or corruption issues, and make emerging market sovereign issuers

potentially vulnerable to negative rating actions²⁹. Furthermore, some relevant solutions for high-income economies might not fit others with shallower or less mature markets. To ensure both sustainability and equality, there is a need for a specific focus on capacity building, knowledge transfer and financial innovation to address developing countries additional constraints. For example, digital finance, while raising several challenges, which need to be better framed and mitigated, is an opportunity with potential benefits ranging from enhanced data accessibility, risk assessment and reporting, to reduced financing costs or facilitated innovation in new sources of finance, investment configurations and business models

Figure 5. The three issues preventing alignment



RECOMMENDATIONS – what actions can be taken to achieve alignment?

The framework lays out actions to remove obstacles to the alignment of finance to the SDGs and allows for informed investment choices. It articulates around **three mutually reinforcing sets of actions** (see Figure 6 and Annex 1):

1. **Policies** to set-up fit-for-purpose governance mechanisms that creates appropriate incentives, promote accountability, and prevent market fragmentation.
2. **Standards** to raise the bar on sustainability and strive for transparency, accountability, and harmonization.
3. **Tools** to better leverage existing resources for quantity and quality, and leave no one behind. Those three sets of actions may overlap. For instance, voluntary standards may become regulatory requirements, or taxes may at the same time be considered as policies or as tools (e.g., tax incentives). They could be refined as implementation progresses, priorities are identified by different communities, and possible feedback loops and conditions for virtuous or vicious cycles on the investment chain are mastered.

The detailed framework (Annex 1) also includes ‘building blocks’ with illustrative examples and initiatives that can support the achievement of each action. Finally, it offers an initial set of indicators that could serve as a basis for the international community to track progress in aligning finance to the SDGs. It is important to consider that, as different jurisdictions consider the uptake of these recommendations, special consideration should be given to structuring them in such a way that leaves no one behind (i.e., understanding the distributional implications, as well as the interrelation and potential trade-offs with other policies).

Figure 6. Three sets of solutions to enable alignment



ROADMAP – what needs to be done to move this agenda forward?

This framework sets an ambitious agenda for aligning finance with the SDGs. The post-pandemic reconstruction creates a unique opportunity to catalyse change and put people and planet back at the heart of our economic model:

1. **This framework builds on existing processes and initiatives.** It serves as an incubator as well as an accelerator of solutions for SDG alignment. It attempts to help navigate the landscape of existing initiatives by identifying and promoting support to “building blocks”, which provide the platform towards achieving full SDG alignment. It also shows how those building blocks articulate for optimized progress in the three areas for action identified in the framework.
2. **The framework rests on pragmatism.** The COVID-19 crisis has made it clear that countries and SDGs were intertwined, and no one and no goal should be left behind. Progress already made in some areas, like green finance, should not distract from the objective of promoting alignment with all SDGs. However, green finance could be one of the building blocks of SDG alignment, providing a number of lessons and regulatory advances on which to build for the integration of social and other goals (e.g., on non-financial reporting).
3. **This is an agenda for all, from consumers to global regulators.** Change will only occur with the revision of incentives and policies all along the investment chain, as well as with a coordinated action of all actors involved in the private sector, such as asset managers, banks, institutional investors, credit rating agencies, stock markets, etc. All should take concrete actions to improve transparency, accountability, and incentives for SDG alignment.
4. **This framework is a living document.** It should be revised as the crisis unfolds and progress is made on the implementation of the different recommendations. The world is changing very fast, and technology will just increase the pace of change. The framework should remain flexible and adjust to specific country contexts. It must allow for real-time learning so innovation can surface and then spread, in a contextually appropriate way, across the world. The framework must carry on identifying new areas for intervention, and new recommendations on a continuous basis.

The implementation of this framework will require a clear roadmap to continue building political momentum, among public and private actors, hold them accountable of progress made, build capacity in developing countries, and ensure effective prioritisation. It should be emphasized that no single exiting initiative is capable to advance the agenda alone. Success will depend on the ability to implement a combination of solutions that mutually reinforce each other. The roadmap could include the following milestones (see figure 7):

1. **Adoption of community action plans and prioritization of actions according to each group’s comparative advantages.**

In the context of the UN financing for development process and other international conferences e.g., G7, G20, COP 26, OECD, UNDP (See figure 8 for roadmap of upcoming events), it will be important to promote the implementation of the framework’s recommendations and bring different communities behind the SDG alignment agenda – as is done for instance with private actors through the GISD. Political momentum should be seized to deliver **first results by the COP26 in 2021**, and have most **recommendations translated into concrete possible outcomes within a year** (i.e., refine progress indicators in the framework). The whole agenda should not be embraced at once by each actor – on the contrary, prioritization and appropriation of certain recommendations by different communities according to their comparative advantages will be key to success. **Champions of SDG alignment, including the OECD and UNDP, should engage various public and private communities to translate recommendations into individual community plans of action and**

roadmaps (e.g., Development Assistance Committee, Business for Inclusive Growth, etc.). The OECD's Global Outlook on Financing Sustainable Development 2021³⁰ provides examples of alignment community action plans ([Public Development Banks](#), [Central Banks](#), [Sovereign Wealth Funds](#), [Asset managers](#), [Commercial and investment banks](#), [Pension funds](#), [Insurers](#), [Rating agencies](#), [Stock exchanges](#), [Philanthropies](#)) Given the cross-sectoral nature of SDG alignment, vast efforts of coordination in governments will also be needed – and in particular between finance and development ministers. **The Italian presidency of G20 and UK's presidency of G7 and COP26 provide unique opportunity to achieve progress towards SDG alignment.**

Examples of community engagement: the G7 and G20

Joint finance and development ministers' meetings at G20 and G7 levels could help agreeing on recommendations to be implemented in priority. This framework lays the foundation for a concerted action plan on SDG alignment that could be further developed in consultation with relevant stakeholders during the UK Presidency of the G7, with the involvement of the Italian Presidency of the G20. Joint meetings of Finance and Development Ministers could lead to a G7 or a G20 action plan for SDGs financing alignment. Success will indeed depend on the ability of governments to provide regulatory forward guidance and align the incentives for all actors to better understand and manage the systemic nature of risk and to incorporate non-financial considerations into their economic decisions.

A few potential deliverables from menu of options for G7 or G20 could include: A **commitment to fight SDG washing** - introduce agreed minimum requirements for mandatory disclosure and identify a global institutional home for non-financial reporting (e.g. IFRS), with a third party verification system; a **commitment to ensure public finance 'does no harm'** – commitments to repurpose / phase out subsidies that are harmful to SDGs towards areas of positive impact; a **commitment to better leverage public finance to 'leave no one behind'** – agreement to mobilise finance towards needs and increase the levels of private finance mobilized, in particular in countries most in need.

The B7 or B20 could play the role of coordinating consultations on SDG alignment and prepare action plans at community level. This being a stakeholders' agenda, **civil society has a key role to play in shaping the G7/G20 action plan**, ensuring protection of investors against SDG washing. Progress towards alignment of finance and the implementation of the framework would be updated every year.

2. Convergence of multiple initiatives into the financing for development process, towards a companion framework to the Addis Ababa Action Agenda.

The 2030 Agenda and the SDGs remain the best blueprint to successfully build back better after the crisis, and the AAAA the best framework to finance the goals. However, even if the AAAA called on bringing all actors along the investment chain to align their activities behind the SDGs, it had some shortcomings, including with regard private sector engagement and linking domestic and international SDG financing strategies. This is precisely what this framework and other initiatives, such as the UNSG Strategy and Roadmap for financing sustainable development, including the creation of the Global Investors for Sustainable Development (GISD) Alliance, aim to address. **A companion framework to the AAAA could be adopted through the financing for development process to adjust the means to implement the 2030 Agenda to the COVID-19 context and beyond.**

3. Review of progress made in the different areas of action and accountability mechanism.

Progress in the implementation of the framework and SDG alignment at large should be monitored. This could be mainstreamed in the agendas of the various forums adopting plans of action (as part of their accountability mechanism), and/or be subject to an annual meeting on SDG alignment to be articulated with other relevant events. The objective would be to track progress on the implementation of recommendations identified in the framework, channel efforts and identify new issues and solutions for SDG alignment. Champions identified in building blocks could help industry, and policymakers identify how they could

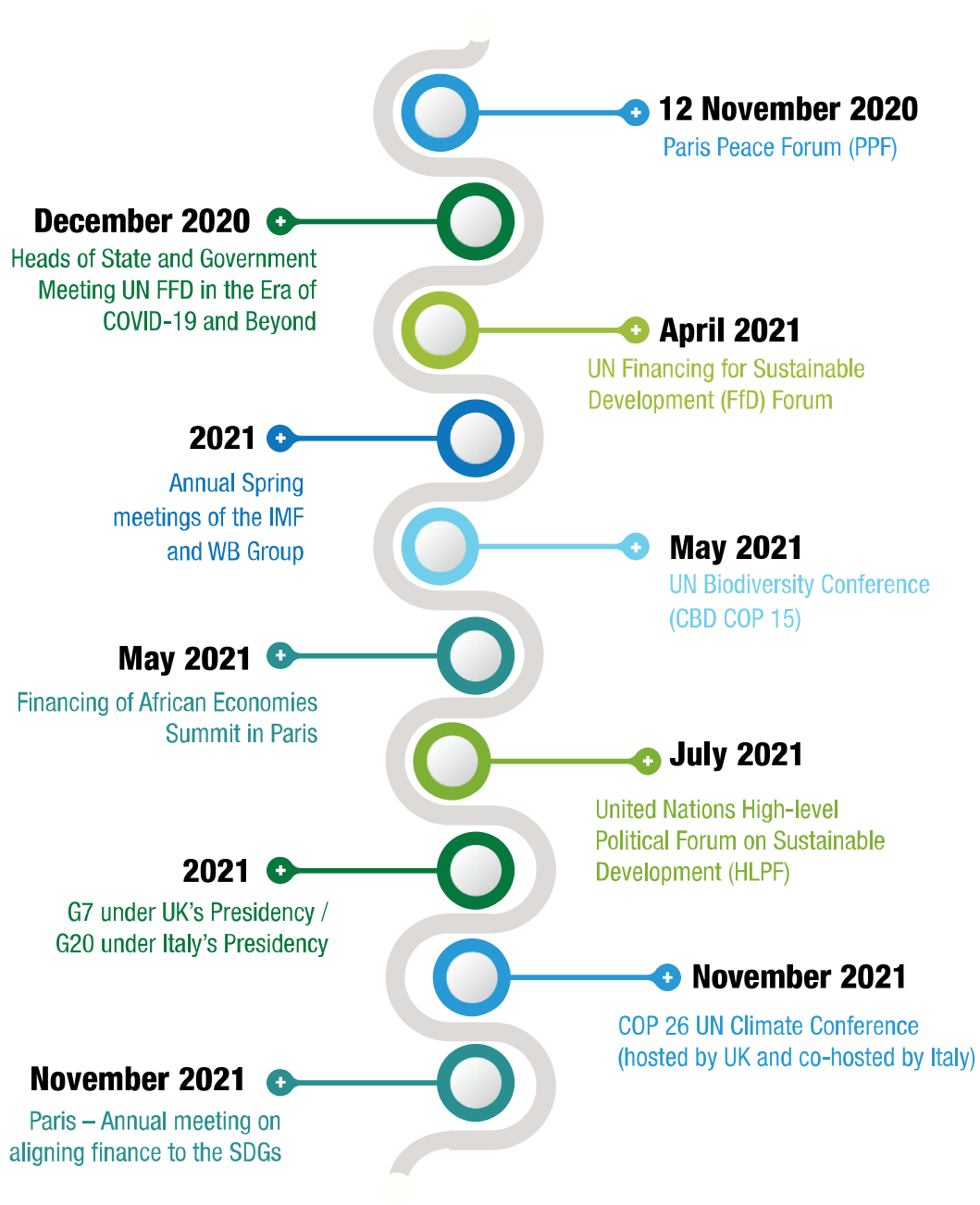
support this agenda. **This review process could also help identify new emerging issues, and shepherd efforts towards finding and implementing solutions at an annual event in Paris, as originally commissioned at the G7 development ministers meeting in 2019.**³¹

Figure 7: Roadmap towards SDG alignment



Figure 8. Roadmap of upcoming events

ROADMAP OF UPCOMING EVENTS



ANNEX 1. DETAILED FRAMEWORK

Guidance: The building blocks presents some illustrative and non-exhaustive examples of initiatives and ongoing efforts that can support the achievement of related objectives and actions. Progress indicators offer metrics to monitor the advancement on each recommended action. Some of them include quantified targets that should be agreed between relevant actors. In the meantime, they are marked as "XXX".

Policies – Align incentives and avoid fragmentation of markets

	Recommended actions	Building blocks	Progress indicators
<p>- Objective 1 -</p> <p>Restore coherence of policies and phase out support for misalignment</p>	<p>Phase out and repurpose public subsidies to SDG-harmful activities</p> <ol style="list-style-type: none"> 1) mapping of subsidies and aid with negative impacts on SDGs 2) cataloguing current policies pathways to phase out 3) advance country policy reforms to repurpose public subsidies 4) Provide support to developing countries to ensure smooth transition that does no harm to the poor (e.g., sequencing of phasing out activities, diversification) 	<ol style="list-style-type: none"> 1) Existing mappings of fossil-fuel subsidies, such as the International Energy Agency (IEA) systematic measurement, International Monetary Fund (IMF) reports, OECD work on Fossil fuels Support, etc. 2) Policy examples aiming at phasing out subsidies to brown activities includes: EU work on carbon activities, UK commitment to end coal aid, Zambia elimination of consumption subsidies on petroleum products, brown subsidies reform and reallocation to green energy (Rep. of Korea Green New Deal, Mexico, Indonesia, etc.) 3) Technical assistance provided by MDBs and other stakeholders). Ex. Asian Development Bank (AsDB) technical support for energy subsidy reform in Thailand and Indonesia, Inter-American Development Bank (IADB) support to various countries plans to streamline energy subsidies, etc. 	<ol style="list-style-type: none"> 1) A map of harmful subsidies and aid, including but not limited to brown activities, publicly available by XXX 2) cataloguing current policies pathways to phase out by XXX covering XXX 3) Reform agenda defined in x no of countries, in particular: <ul style="list-style-type: none"> • G7 countries agree on thresholds for public subsidies and aid to SDG harmful activities • Phase out fossil fuel subsidies and swap 30% of savings to renewable energy and energy efficiency • Decrease by 50% subsidies harmful to biodiversity by 2025 and 100% by 2030 and redirect funds to support positive incentives for the conservation and sustainable use of biodiversity and systemic alternatives to harmful economic activities

	<p>Condition public support (stimulus packages, bailouts, subsidies) to sustainability performances and commitments while monitoring impact on global allocation of assets</p>	<p>Ex. Canada announced that businesses with revenues of USD 300 million or more requesting COVID-19 economic aid would be required to disclose their climate impacts and commit to making environmentally sustainable decisions. OECD Green Recovery Task Force database on the greenness of support measures.</p>	<p>Share best practices and assess impact of conditionality on SDG alignment and allocation of resources across countries.</p> <p># of countries conditioning public support to sustainability performance and commitments</p> <p>% of total amount of public support capital Conditioned to sustainability performance and commitments</p> <p>No free riders – agreed threshold for conditionality of stimulus packages</p>
	<p>Promote the adoption of action plans by communities of actors along the investment chain</p>	<p>Ex. building on existing efforts to align finance with the SDGs, including in the UN financing for development process, G7, G20 and other public and private relevant forums such as:</p> <ul style="list-style-type: none"> • Declaration of the national public development banks • Central banks NGFS initiative • Development Assistance Committee plan of action on building back better and SDG alignment • Sustainable Insurance Forum • Global Investors for Sustainable Development Alliance • Sustainable Banking Network 	<p>Action plans are adopted by communities of actors along the investment chain (see Annex 3 for examples).</p> <p># number of public actors that have introduced SDG alignment in their strategies, including IFI's, central banks, national development banks, development agencies, sovereign wealth funds, and other national supervisory and regulatory bodies in insurance and asset management sectors</p>
	<p>Review tax issues relevant to SDGs</p> <p>(1) map and review current taxation incentives for SDG</p> <p>(2) advance country tax policy reforms</p>	<p>Ex. On-going work on taxation incentives related to SDGs:</p> <ul style="list-style-type: none"> • UN Committee of Experts on International Cooperation in Tax Matters: issues specific guidance on environmental taxation and taxation of the extractives industries, brings a sustainable development perspective across its work • Platform for Collaboration on Tax (IMF, OECD, UN, World Bank) • Paris Collaborative on Green Budgeting convened by the OECD 	<p>1) A map of taxation incentives for SDG is available by XXX covering XXX countries</p> <p>2) Reform agenda defined and implemented in XXX countries</p>

<p>- Objective 2 -</p> <p>Enhance accountability on SDG aligned business & financial firms' liabilities</p>	<p>Promote new business liability or legal status supportive of the SDGs</p>	<p>Ex. Examples of legal status incorporating social and environmental liabilities, or enabling the adoption of a self-defined and legally binding purpose:</p> <ul style="list-style-type: none"> • France "PACTE" law (redefines corporate purpose to include social and environmental stakes at the heart of company's management) and "entreprise à mission" (i.e., profit-with-purpose company) • United-States benefit corporation and social purpose companies <p>RBC and OECD Guidelines for Multi-national Enterprises, and related due diligence processes³²</p>	<p># of countries adopting (or removing) legal enterprise status which enable and reward (or constitute an obstacle to) the integration of SDG aligned non-financial outcomes alongside financial ones.</p>
	<p>Expand business and financial sector reporting and fiduciary duties to include non-financial result</p>	<p>Ex. Recently adopted mandatory reporting and disclosure requirements:</p> <ul style="list-style-type: none"> • EU mandatory disclosures • TCFD and TNFD frameworks for disclosures (e.g., New Zealand, UK, Switzerland and Hong Kong) • Disclosure required by PRI, PRB, pension funds (ex. Previc), etc. <p>Standards that can support such non-financial result reporting are addressed in the next section</p>	<p>By (insert date) X countries have enacted mandatory reporting across SDG issues, in particular green and social, and threshold disclosure</p> <p>% of jurisdictions that mandate scope 3 reporting in financial institutions</p> <p># fiduciary codes reviewed and adjusted to include SDG considerations and promote governance structure with board accountability on non-financial results</p> <p># of stock exchanges that:</p> <ul style="list-style-type: none"> • are implementing SDG-aligned finance mechanisms • makes disclosure and good performance mandatory for listing

<p>- Objective 3 -</p> <p>Address risks of fragmentation of markets and restore predictability for investors</p>	<p>Ensure comparability and consistency of newly adopted regulations at all levels and across countries</p>	<p>Ex. Examples of existing taxonomies³³:</p> <ul style="list-style-type: none"> • EU sustainable finance (green) taxonomy and upcoming extension to social objectives and a “brown” taxonomy (i.e., for emissions-intensive activities). • wider EU revised Sustainable Finance Strategy • China taxonomy • G7 principles for taxonomy 	<p># Green and social taxonomies are adopted by (insert date) and are included on a global platform (e.g., IPSF) to ensure comparability between systems.</p>
	<p>Signal regulatory intent to increase investor predictability</p>	<p>Ex. PRI’s regulation database, Sustainable Stock Exchanges Initiative Securities Regulators database, Green Finance Measures Database (Green Finance Platform)</p>	<p>Laws and regulations pertaining to SDG alignment are published and easily accessible to actors along the investment chain</p>

Standards – Improve Market Efficiency

	Recommended actions	Building blocks	Progress indicators
<p>- Objective 1 -</p> <p>Harmonize existing standards and converge towards common principles-based global standards taking into consideration national and regional contexts and SDG investment priorities</p>	<p>(1) Develop common measurement and assessment metrics related to SDG, ESG, and impact</p> <p>(2) Work towards harmonization of reporting standards</p> <p>(3) Develop an international standard for impact adjusted accounting, coherent with SDG reporting</p>	<p>Considerable work underway as shown in the stock-take of standards for private finance sustainability in Annex 2</p> <p>GRI/SASB/CDP/CDSB/IIRC September 2020 joint statement to harmonize non-financial reporting (among which natural & human capital) and work for their inclusion into IFRS (IFRS foundation has launched a consultation)</p> <p>Ex. Initiatives to develop common definitions, performance metrics and reporting frameworks related to SDG, ESG, and impact:</p> <ul style="list-style-type: none"> • GSD standards navigator • Impact Management Project (IMP) • WEF common metrics and Consistent Reporting of Sustainable Value Creation • UNDP SDG impact standards for private equity, bonds and enterprise. • OECD Impact initiative and proposal of financing for sustainable development Impact standards (FSD-IS) • UNEP FI Positive Impact Initiative (including impact radar) • Harvard Impact-Weighted Accounts Project and Global Steering Group for Impact assessment (GSG impact) accounting project • World Bank’s Sovereign ESG Data Portal 	<p>Joint Declaration by (G20- APEC)</p> <p>Joint Declaration by (business and standard setter community (IFRS, GRI, etc)</p> <p># of institutions piloting impact adjusted accounting methodology</p> <p>% of global market capitalization</p> <p># of consolidation of initiatives on harmonization of standards and metrics</p>
	<p>Review ratings to include SDGs and non-financial results and adopt common guidelines on transparency and methodologies</p>	<p>Ex. International Organization of Securities Commissions (IOSCO) sustainable finance network</p> <p>Existing SDG ratings:</p> <ul style="list-style-type: none"> • MSCI • Vigeo Eiris • Trucost SDG Evaluation Tool 	<p>Credit rating Agency regulators acting together have set a timeline for the development and adoption of common guidelines</p> <p># of rating agencies that systematically include SDG-alignment and non-financial results</p> <p># of listed companies that have an SDG-alignment rating from service providers</p>

			Amount of debt covered by SDG-alignment rating service providers / Total Debt Outstanding
<p>- Objective 2 -</p> <p>Increase transparency on SDG alignment practices to enhance accountability</p>	<p>Improve disclosure and evaluation of SDG alignment and impact measurement methodologies by:</p> <p>(1) Make methodology disclosure mandatory</p> <p>(2) Establish an independent evaluation and audit mechanism</p>	<p>Ex. Existing guidance regarding evaluation</p> <ul style="list-style-type: none"> The SRI (Social and Responsible Investment) label created and supported by the French Finance Ministry is issued at the end of a strict process of labelling led by independent bodies Market authorities of more than 30 jurisdictions require an independent third-party verifier for bonds issuance (30% from developing countries) 	<p>AUM of [insert targeted financial actors] that disclose impact measurement methodologies / Total AUM</p> <p># of financial regulators requiring third party evaluation / opinion for listed equity instruments</p> <p># of financial regulators requiring third party evaluation / opinion for listed fixed income instruments</p> <p>Creation of independent evaluation mechanisms / financial actors' commitment to independent evaluation mechanism by xxxx</p>
	<p>Develop and scale a publicly available benchmarking tool:</p> <p>(1) of financial products and standards</p> <p>(2) of corporate SDG performance for use by financial actors</p>	<p>Ex. of corporate SDG performance benchmarking tools:</p> <ul style="list-style-type: none"> World Benchmarking Alliance developing free, publicly available benchmarks ranking the world's 2,000 most influential companies on their contributions to achieving the SDGs. 	<p>A tool for benchmarking is publicly available by (insert date) endorsed by G7 countries</p>

	<p>Enhance availability and quality of SDG related data by:</p> <p>(1) Standardize, scale and improve databases with science-based indicators</p> <p>(2) Facilitate data sharing through use of new technologies</p> <p>(3) Develop national data standards/guidelines for the financial sector</p>	<p>Ex. Initiatives related to bridging the gap in SDG related data includes:</p> <ul style="list-style-type: none"> • Global Partnership for Sustainable Development Data • Future of Sustainable Data Alliance • OECD SDG financing lab • Machine readable reports (e.g. XBRL) <p>SDG data can also build on various index (ex. UNCDF, UNDP and UN Women co-developed the women’s economic empowerment index, used to identify the gender-responsiveness of public and private investments) and on ESG data. Ex. Recent recommendation related to ESG-data includes:</p> <ul style="list-style-type: none"> • GISD 2020 proposal to create an ESG data platform and promote ‘alternative’ data sources and new technologies related to sustainability data. • NGSF 2019 recommendation on bridging data gaps and sharing data of relevance for Climate risk assessment 	<p>SDG related data is made available Stocktake</p>
<p>- Objective 3 -</p> <p>Raise the bar on corporate and financial sustainability</p>	<p>Promote adoption by business networks of SDG alignment action plans</p> <p>Business and portfolio managers to include SDG in their decision-making processes, set objectives and report on SDG alignment</p>	<p>See annex 3 – communities to contribute to the effort to include: stock exchanges, pension funds, asset managers, sovereign funds, etc.</p> <p>Ex. of existing communities includes: GISD, Buisness for Inclusive Growth (B4IG), UN global compact, Sustainable Development Investment Partnership (SDIP), World Economic Forum, International Business Concl</p> <p>Supporting tools includes:</p> <ul style="list-style-type: none"> • UN Global Compact SDG Ambition • BctA impact (for businesses, investors, accelerators, incubators) • UNEP FI Holistic Impact Analysis Tools (for banks and investors) • SDG Impact encouragement of independent assurance against the standard and development, with industry, of an SDG impact seal and associated governance • UN Financing for Development in the Era of COVID “Menu of Options” 	<p># of international and country level enterprise forums pledging to align/increase sustainability efforts.</p> <p>Individual community action plans adopted in 2021</p> <p>AuM managed by financial institutions/asset owners/banks/insurance compagnies that have established a clear governance structure with board accountability SDG-aligned finance / total AuM</p> <p>% market cap and/or AUM of private and financial institutions implementing and reporting on SDGs alignment objectives and results</p>

Tools – Increase & better leverage resources

	Recommended actions	Building blocks	Progress indicators
<p>- Objective 1 – Mobilize resources and capacity building to leave no one behind</p>	<p>Increase levels of financing to SDGs, especially in developing countries, LDCs and SIDs, through:</p> <p>(1) scale-up blended finance</p> <p>(2) identify new sources of finance, innovative instruments and digital solutions</p> <p>(3) Commit to INFFs development</p>	<p>(1) Ex.</p> <ul style="list-style-type: none"> • OECD/UNCDF work • OECD Blended finance principles • GISD call to create an SDG Blended finance fund <p>(2) Take action, building on discussions taking place in existing platform of cooperation such as:</p> <ul style="list-style-type: none"> • Leading group on innovative financing for development • UN forums on global sustainable development agenda and FFD (ex: Digital Financing Taskforce) • UN Global Compact Action Platform on Financial Innovation for the SDGs • Gender • Tax/development cooperation community dialog <p>Relevant recommendations of:</p> <ul style="list-style-type: none"> • the UN report on digitalization of finance and SDGs • Inter-agency Task Force on Financing for Development 2020 report • GISD <p>(3) Diagnostics (e.g. development finance assessments, transition finance country diagnostics, country roadmaps), to determine sources of development financing in countries and to proffer recommendations for countries to establish INFFs.</p> <p>Joint database (country diagnostic platform) or the GISD platform for mapping sustainable investment opportunities in developing countries and matching projects with investors, etc.</p> <p>SDG financing strategies ensuring support/technical assistance is available for capacity-constrained countries such as SIDS and LDCs.</p>	<p>(1) Commitments to a minimum share of blended finance directed to LDCs and SIDS in areas of underinvestment / key themes aligned with SDGs and national priorities, respecting national ownership and without leading to a decline in the overall share of development finance received by LDCs and SIDSs</p> <p>(2) mapping of innovative (private, public or mixed) sources of financing for the SDGs</p> <p>(3) Number of INFFs completed</p> <p>Number of countries that have conducted Development Finance Assessments</p> <p>Number of countries with SDG Impact maps developed involving a public-private collaboration, mapping investment opportunities and matching and crowding in private capital investment (100 SDG Impact Maps by 2030)</p> <p>Number of countries that have established a transition pathway with the support of academic research</p>

	Support the development of a viable pipeline of scalable, bankable and replicable SDG compatible projects and help match making with investors	Ex. Supporting tool produced at national level: "SDG investor maps" (UNDP existing SDG Investment Map methodology). Ex: facilitation of close collaboration between a development bank and private investor to scale-up green investment (Amundi-IFC green bond fund partnership)	number of countries with a pipeline of SDG compatible projects that are bankable, at scale and replicable
	Provide technical assistance to help build local sustainable financial markets and related new hubs	Ex. FC4S regional program for Africa	number of new sustainable financial markets Hubs in developing countries or emerging markets
	Support research, training and public-private collaboration on SDG aligned finance	Ex: <ul style="list-style-type: none"> International Network for Sustainable Financial Policy Insights, Research, and Exchange (INSPIRE) support to the central banks and supervisors of the NGFS GISD recommendation to leverage research vehicles such as Horizon 2020 	# structured networks # of universities that includes modules of sustainable finance in their finance curriculum
	Increase resources to manage global public goods, including through support and reform for greater efficiency of the multilateral system	Ex. proposal of Global Fund for Social Protection, UN SDG Fund	Financing in support of GPGs from x billion to y billion Financing of major global risks is secured
- Objective 2 - Better leverage public resources for SDG alignment	Use development cooperation, trade and investment tools to increase the qualities of trade, investment and infrastructure	Ex. Levelling the playing field on qualities of FDI (OECD FDI quality toolkit), qualities of Infrastructure (MCM - Compendium of Policy Good Practices for Quality Infrastructure Investment adopted in October 2020), Green Banks Revise aid for trade and increase related efforts to address post-COVID-19 crisis problems: consolidation and resilience of GVCs, upgrading of SMEs, trade finance, etc.	Objectives terms of aid for trade, investment policies (treaties and domestic frameworks), infrastructure (definition of sustainability and conditionality)

	Use innovative financing tools to promote a more resilient, greener and fairer growth path	<p>Ex:</p> <ul style="list-style-type: none"> debt-swaps in green and development projects for part of potential upcoming debt restructurings to be considered on a case-by-case basis and within a multilateral framework agreed by the Paris Club and the G20. scalable and replicable targeted bonds (green, blue, social, gender, SDG linked) innovative financing mechanisms focused on impact such as outcomes-based funds for development (ex. France G7). 	<p>Objectives in terms of SDG (and alike) bonds issued</p> <p>number of scalable instruments making SDG/green bonds appealing to investors - i.e. guaranteed returns or first loss coverage</p>
	Build capacity and enhance use of de-risking tools	<p>Ex. local currency loans and other private sector instruments (equity investments, mezzanine finance and guarantees incl. policy de-risking –e.g., UNDP DREI (Derisking Renewable Energy Investment), Multilateral Investment Guarantee Agency (MIGA))</p> <p>Leverage DFIs' capacity on markets (ex: South Africa DBSA Climate finance facility (2018))</p> <p>OECD work on de-risking and transaction-enabling interventions to mobilise investment in sustainable infrastructure</p>	Objectives for different tools
- Objective 3 - Reduce leakages and rent captures	Increase support to tax reforms and domestic resource mobilization, fight against illicit financial flows (IFFs), profit shifting in support of national SDG strategies	<p>Ex. OECD work on tackling Illicit financial flows (IFF), IMF Tax Diagnostic Assessment Tool (TADAT)</p> <p>BEPS (OECD/G20/developing countries implementing a set of actions on Base erosion and profit shifting), UNDP TIWB (Tax Inspector Without Borders)</p> <p>International tax cooperation and related capacity building (UN tax Committee providing sustainable development perspective)</p>	<p>Objectives for DRM, tax programs</p> <p>Corresponding indicator for UN work</p>
	Reduce the cost and better leverage remittances	<p>Previous international commitments to reduce the cost of remittances.</p> <p>Introduce innovative tools to leverage remittances and diaspora</p>	The cost of transmitting remittances reduced to less than 3% as a proportion of the amount remitted (SDG 10 target by 2030)

ANNEX 2. DRAFT STOCK-TAKE OF STANDARDS FOR PRIVATE FINANCE SUSTAINABILITY

We conducted a stocktaking of the main existing standards defining sustainable investing³⁴ mapping them against a range of criteria – e.g., SDGs targeted, geographies, actors targeted, influence, progress and issues they are trying to address. This annex, which has also been informed by consultation, provides its main takeaways.

What is the current landscape of standards for private finance sustainability?

There has been a proliferation of standards, principles and frameworks to assess the responsible nature of investments over the past few years. More than 185 multi-stakeholder initiatives exist, involving 5 181 constituent members (FC4S, 2020). Average new initiatives per year have more than quintupled in the last decade.³⁵ Most of these initiatives are international in scope (60%) and the regional (10%) and national (30%) ones are generally based out of high-income countries, especially in Europe, showing there is still a need of geographic diversification.

Depending on the frameworks and definitions of sustainable investments, the amounts of private finance defined as sustainable or responsible varies. The Global Sustainable Investment Alliance (GSIA) reported that, by the beginning of 2018, assets under management targeting sustainable development stood at USD 30.7 trillion when other estimations suggest USD 3 trillion.³⁶

Among the 185 considered initiatives, 59 were classified as “standards”³⁷. Their growth rate has also been impressive: average new standards per year have more than tripled in the last decade (compared to the previous one). Considering their geographic distribution, standards were also found to be mostly based in high income countries and especially Europe.

FC4S analysis also shows that only 21% of the identified standards required alignment to TCFD. This set of standards fully overlaps with standards with compulsory reporting requirements (55% of the total), suggesting a gradual requirement process (i.e., first requiring reporting, then TCFD alignment) which could be undertaken by the industry.

Analysis done by FC4S also shows that most standards consider environmental issues (95%) although only 44% of them have climate/environmental metrics.³⁸ This suggests that compliance might not be effectively controlled, or might be to some degree arbitrary, or vague.

When analyzing the environmental coverage of standards, 57% have multiple environmental focuses and 33% are climate change centered (i.e., mostly Paris aligned), leaving only 5% of standards focused on other environmental issues (i.e., deforestation, clean energy, biodiversity conservation, natural disaster and oceans). This shows most standards are considering climate change and decarbonization, but very little attention is given to other aspects of environmental finance.

Regarding the social dimension, the standards’ analysis shows that only 52% of standards declare considering social aspects of finance. In addition, only less than 18% of all standards has a “gender focus”.

It is clear **there is a spectrum of standards which make a judgement on market acceptance (quantity of finance) vs. requirements (quality of finance)** which are informed by the objectives of the particular initiative – where we find the type of actor is the most defining factor in determining what standards are adopted.

1. Standards for investors

1.1. *Impact investors*

Among standards designed for investors, the highest level of standards has been designed by and for impact investors (e.g., by the Global Impact Investing Network – GIIN). They include performance measurement tools which allow for measuring impacts of investments. These tools are increasingly aligning with the SDGs (e.g., IRIS+ tool of the GIIN which links impact measurement to SDGs targets). Impact investing practices set the course for how traditional finance can be sustainable, but these practices are often perceived to be too stringent for mainstream investors to implement. **Only investors whose business model is built around social return – even at the expense of other returns – opt for this level of standards.** The size of the impact investing market is estimated to amount around USD 502 billion worldwide, managed by over 1 340 organizations (GIIN, 2019) representing less than 1% of total global assets under management.

1.2. *Other investors*

Considering the lack of common definition of “sustainable investment”, standards designed for more traditional investors are on a spectrum of ambition, perspective and details. Some standards work towards the objective of making a positive contribution to sustainable development, while others simply adopt a “do no harm” approach or risk mitigation with environmental, social and governance (ESG) criteria integration. Some are also supported by reporting tools. **Some standards are targeting the broadest possible set of actors to achieve a universal ‘raising of the bar’, however these have lower requirements and, in some cases, do not lead to significant additional shifts and make a minimal contribution to the financing of the SDGs.**

Among the most used in the world (3 000 companies’ assets representing around USD 100 trillion under management), applied by half the world’s institutional investors, the UN Principles for Responsible Investments (PRI) defines responsible investment as a strategy and practice to incorporate ESG factors in investment decisions and active ownership, with a framework for reporting. While ESG considerations are well integrated in business practices, prioritisation of ESG criteria can be complex. For example, for some ESG rating providers, high E or environmental scoring in ESG scores positively correlate with high carbon emissions.³⁹ Recent research also showed that being a member of initiatives such as PRI does not guarantee a strong approach to responsible investing.⁴⁰ In terms of supporting SDGs, only half of all companies subscribing to the PRI mention the SDGs in their reporting, and as little as 10% of them provide details on how they actually integrate the SDGs in their investment strategy.⁴¹ The lack of SDG takeover by businesses and investors is in part due to the lack of widespread, clearly identified and harmonized SDG reporting metrics.

More recent frameworks are ESG inspired but have adopted a more ambitious scope to seek positive impact on the economy, society and the environment. For example, the [Positive Impact Initiative](#)⁴² of the United Nations Environment Programme Finance Initiative (UNEP FI) has provided in 2017 principles to be able to mainstream impact analysis and management in finance, based on a distinctive holistic approach that demands the systematic consideration of both positive and negative impacts across the economy, society and the environment. The approach is based on a theory of impact whereby holistic impact analysis and management is key to addressing and leveraging the interconnected and indivisible nature of the SDGs.

A set of Tools for Holistic Impact Analysis (released in 2020) operationalize these Principles. These are built on the 2018 Impact Radar which translates the SDGs into meaningful terms for business and finance (health, education, resources efficiency-security; climate, availability of water, etc.).

Building on the PI Principles, UNEP FI’s Principles for Responsible Banking have included impact analysis, target-setting and reporting at the heart of the requirements of their signatories. This represents a huge step forward in the mainstreaming of impact and alignment objectives in the finance sector. The PRB currently

count 197 Signatories, representing more than USD 53 trillion in assets (over 40% of the banking industry). **Mandated to provide an “integrator function” on the 2030 Agenda as a service to countries and the wider development system⁴³, UNDP is developing a set of SDG Impact Standards for the financial industry (SDG Bond standards and SDG Private Equity Standards).** These standards are being developed as a public good in line with the best practices for credible sustainability standards established by the ISEAL Alliance. They will help investors manage, evaluate and authenticate their SDG-enabling investments. These standards, together with the SDG Impact Standards for Enterprise referenced below in section 1.3 will be the first standards enabling auditors to ensure that an investor’s impact management practice is of sufficient quality to be considered “SDG-enabling” thereby driving consistency, comparability and transparency.

Certification against the Standards will be provided by independent, UNDP accredited certifiers. Assurance will recognize where each Practice Indicator is not yet observed, developing, or developed, guided by suggested evidence.

UNDP SDG Impact Standards bring logic, clarity and transparency to understanding, measuring, managing and reporting on the nature and depth of SDG impacts of businesses and investments.

The standards are flexible and build on the many excellent frameworks and principles already in place for facilitating sustainable investment (e.g., Principles for Responsible Investment, Principles for Responsible Banking, Operating Principles of Impact Management of the IFC and others).

There have been a number of recent frameworks that seek positive contribution as well as aiming for no negative side effect on defined objectives, but do so through adopting narrower goals than the SDGs, particularly amongst initiatives focusing on environmental issues.

Mainly focused on environmental issues – and social safeguards – the EU Sustainable Finance taxonomy has been designed to provide to businesses and investors practical tools for identifying environmentally sustainable economic activities and investment opportunities. It sets performance thresholds for economic activities that can make a substantial contribution to six environmental objectives⁴⁴, while avoiding significant harm to the other five objectives, in addition to meeting minimum safeguards (e.g., the OECD Guidelines and the UN Guiding Principles on Business and Human Rights) (EC, 2020). It is a self-reporting and measuring tool that enables investors and companies to assess their contribution (or lack thereof) to the green transition. It introduces a new disclosure requirement for companies already required to provide non-financial statements under the reporting directive above.

The EU Sustainable Finance taxonomy

The Taxonomy provides a list of economic activities that are aligned with **six environmental objectives**: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, waste prevention and recycling, pollution prevention and control, and protection of healthy ecosystems.

The technical screening criteria for 67 economic activities in the Taxonomy are set based on three principles: to be eligible, an economic activity must

- i/ make substantial contribution to at least one or more of the six environmental objectives,**
- ii/ does no significant harm (DNSH)** to the other five, - and
- iii/ meet the requirements of the minimum Social Safeguards** (e.g., OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights), including the principles and rights set out in the eight fundamental conventions identified in the International Labour Organization’s declaration on Fundamental Rights and Principles at Work and the International Bill of Human Rights.

Other standards for performance measurement exist for corporates or portfolios. Some of them are designed and used by rating agencies to assess companies’ contribution to achieving the SDGs through behavior and product (especially by agencies specialized in sustainability rating such as Vigéo-Eiris); or consist

in stock market indexes integrating ESG criteria. MSCI has for instance developed the MSCI ACWI Sustainable Impact Index to identify listed companies whose core business addresses at least one of the world's social and environmental challenges, as defined by the SDGs. To be eligible for inclusion in the Index, companies must generate at least 50% of their sales from one or more of eleven defined sustainable impact categories and must maintain minimum ESG standards. Another example is the Trucost SDG Evaluation Tool which provides a quantitative analysis of corporate performance on the SDGs across the value chain, taking into account companies geographic operations. It aims to provide a holistic set of SDG metrics that quantify both SDG-linked risks and opportunities. More recently the World benchmarking Alliance is working on creating free and publicly available benchmarks that will measure and compare 2 000 corporate performance on the SDGs by 2023, through focusing on transformation in 7 areas: social, agriculture and food system, decarbonization and energy, circular, digital, urban, financial system.

2. Standards for non-financial corporates

Standards designed for traditional corporates are historically more geared toward mitigating risks (e.g., ESG considerations), although are slowly compelled to adopt standards to assess and encourage positive impact on sustainable development.

The integration of ESG factors was primarily used to enhance traditional financial analysis by identifying potential risks and opportunities. While there is often a will to be more “responsible”, the main objective of ESG integration and valuation remains financial performance.

Building on ESG criteria, some standards have adopted a larger scope to guide corporates in their willingness to adopt sustainable business practices. For instance, The UN Global compact principles were designed to meet fundamental responsibilities in the areas of human rights, labor, environment and anti-corruption. Used by over 9 500 companies based in over 160 countries, it is a **voluntary-based initiative which requires self-reporting. These types of standards focus on specific areas which are ESG linked.** They only focus on the SDGs that are easier to finance through private capital than others, missing those that are more challenging (e.g., education, health, peace and security).

Standards that assess the impact of companies' activities on the world exist. While they are mostly used by the largest companies, they still rely on voluntary reporting that allows reporting only on positive impacts, ignoring negative impact. Standards developed by the Global Report Initiative (GRI) for instance provide a framework for assessing organizations' impact. They are widely used by the largest companies to report on their impacts on "economic, social and environmental" issues (93% of the world's largest 250 corporations report on their sustainability performance and 82% of these use GRI's Standards to do so) but very little by SMEs. Companies using these standards can choose on what topics they want to report.

UNDP is also innovating in this space by developing, in line with the aforementioned standards, a set of SDG Impact Standards for Enterprise. These standards will be available for public consultation in November and are also being developed to describe and encourage best practice, promote better decision making, and improve accountability and transparency about the positive, negative, intended and unintended economic, social and environmental impacts of businesses on people and the planet.

As for investors, frameworks to report on corporate sustainability performance exist such as GIIN's IRIS for sustainable business, or the sustainability accounting standards from the Sustainability Accounting Standards Board (SASB) which helps businesses to identify, manage and report on multiple sustainability topics⁴⁵ and how it affects the company and its financial performance. The GRI toolkit also provides tools to disclose on sustainability issues. The recommended disclosures of the Taskforce on Climate Related Financial Disclosures (TCFD) provide guidance for businesses reporting on the financial impacts of climate change risks and opportunities, on the areas of governance, strategy, risk management and metrics and targets.

Main findings and conclusions

- 1. The current landscape is confusing** - It is extremely challenging to navigate the landscape of standards on responsible or sustainable finance. **There are too many standards to define “sustainable”, “responsible” or “SDG aligned” investments.** There are different perspectives, terminologies and analytical approaches (including measurement and metrics). This fragmented approach is making it extremely challenging for actors to engage and align with the SDG agenda and leads to information asymmetries and SDG washing.
- 2. There is a mix of standards that lack teeth or don’t capture a broad enough set of actors.** While they lack ambition and do not contribute enough to sustainable development, standards aiming at mitigating ESG risks are the most widely used nowadays. Other more complete frameworks, such as the EU taxonomy, ensure a contribution to environmental objectives, but do not cover all of the aspects of sustainable development (SDGs). Finally, frameworks ensuring impact, especially in the impact investing industry are demanding but are constraining and costly and therefore drag a small number of investors. We need to trade off market acceptance against quality of financing. As it has been shown, there are already many standards globally, which is why improving existing ones (which already possess the organizational structure and could be geographically expanded), rather than establishing many new ones, should be considered. Political appetite will also determine the depth and breadth of financing trying to shift.
- 3. Weak accountability** - Requirements to report on sustainability (e.g., non-financial reporting legislation) are extremely weak both in terms of quantity and quality: they concern few private actors - sustainability reporting is largely voluntary - and afford poor accountability and transparency - corporates are free to disclose only their positive actions leaving out negative impacts. Furthermore, since companies can choose from a variety of different frameworks, it results in different information being disclosed and these inconsistencies create challenges (and costs) for investors and other stakeholders in interpreting and comparing data.
- 4. Finance and Corporate Impact Practice Assurance Standards can play a bridging role to increase alignment of investments to the SDGs.** Impact Practice Assurance Standards ensures that the finance sector can have the right information to align portfolios to the SDG’s and corporates can report the right information to increase investor confidence in SDG investments. There are currently no defined standards that enable auditors to ensure that an investor’s impact management practice is of sufficient quality to be considered SDG-enabling. The ability to audit and assure investing practices against a standard responds to identified market-led acknowledgment that investors require more beyond reporting on current activities, and corporates require a way to assure their investors that their expected/desired impact is being achieved.
- 5. In terms of geography, standards for sustainable investment are more widely used and designed by developed countries.** Yet, assessing the contribution of a private investment to the SDGs also necessitates an understanding of where companies operate and who they serve, in particular whether they target countries and people most in need.

Recommendations on standards

Regarding the main issues identified above, recommendations can be formulated on standards to help private investments align with SDGs:

Raise the level of ambition of business and investment on sustainability: private companies and investors should favour standards and principles adopting the SDGs as a framework, including social considerations along environmental ones. This should apply to all investment. Mitigating ESG risks or pursuing environmental objectives is not ambitious enough and does not allow the private sector to do its share in achieving the SDGs. We need to collectively extend the scope of what is currently meant by sustainable, and further clarify targets and accomplishments. Frameworks which are mostly focused today on environmental considerations should evolve through adopting a wider scope.

Governments and investors should encourage the adoption of SDG Impact Practice Standards, which support the integration of SDG into decision making processes, to further promote the alignment of business practices and finance to the SDG's.

The integration of the SDGs as part of investments objectives and strategies of companies and investors should be encouraged. Considerations to the potential harm that can be done concurrently to other SDGs should also be embedded.

Improving both transparency and accountability will be essential to allow informed decisions of investors and to ensure SDG alignment:

- **The quality of disclosure needs to be enhanced. Disclose on the negative effects of investments on the SDGs, and not only report on positive effects is a prerequisite to avoid SDG washing.** Signing up to responsible principles should be backed – when possible - with third-party verification to ensure demonstrated goodwill is converted into action. Without the right incentives, self-reporting can generate SDG washing. IFC has for example introduced among its operating principles for impact management a requirement to provide regular and independent verification on the public disclosure alignment with their principles.
- **Harmonization of reporting standards is also needed in order to reach some comparability.** Non-financial reporting standards' harmonizing initiatives (as the recent *Statement to work together towards comprehensive corporate reporting* between CDP, CDSB, GRI, IIRC, and SASB through IMP Structured Network) should be encouraged, as well as the integration of those standards to financial reporting, or the extension of legislation for companies on non-financial reporting for potential investor to have access to a comparable and minimum level of disclosure.
- **Benchmarking is also a way to clear the landscape for investors and motivate the private companies.** It can be improved through the support to initiatives like WBA – with publicly available and transparent methodologies. **Incentivize rating agencies to include long-term sustainability/SDG criteria ratings** and try to enlarge conventional ratings that focus largely on short-term risks could also be a useful tool to help investors align their activities to the SDGs.

Acronyms and abbreviations

AAAA	Addis Ababa Action Agenda
BTCA	Better Than Cash Alliance
COVID-19	Coronavirus Disease 2019
ESG	Environment, Social, Governance
FC4S	Financial Centres for Sustainability
FDI	Foreign direct investment
FFD	Financing for Development
G7	Group of Seven
G20	Group of Twenty
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standard Group
GDP	Gross domestic product
GIIN	Global Impact Investing Network
GISD	Global Investors for Sustainable Development Alliance
GPG	grain per gallon
GRI	Global Reporting Initiative
EU	European Union
IFC	International Finance Corporation
IFI	International Finance Institution
IFRS	International Financial Reporting Standards
INFF	Integrated National Financing Framework
IIRC	International Integrated Reporting Council
IMF	International Monetary fund
LDC	Least Developed Countries
MDB	Multilateral development bank
NGFS	Network of Central Banks and Supervisors for Greening the Financial System
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PACTE	Plan d'Action pour la Croissance et la Transformation de l'Entreprise
PRB	Principles for responsible banking
PRI	Principles for responsible investment
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals
SIDS	Small Islands Developing States
SME	Small and Medium-Sized Enterprise
SRI	Social and Responsible Investment
TCFD	Task Force on Climate-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosure
UN	United Nations
UNCDF	UN Capital Development Fund
UNDP	United Nations Development Programme
UK	United Kingdom
WEF	World Economic Forum
XBRL	eXtensible Business Reporting Language

End notes

- ¹ France G7 (2019), Development Ministers Meeting Declaration – Financing for Sustainable Development: Improving measurement, mobilising resources, and realizing the vision of the 2030s agenda and the SDGs. https://www.gouvernement.fr/sites/default/files/locale/piece-jointe/2019/07/g7_financing_for_sustainable_development_declaration_cle0973b7.pdf
- ² United Nations (2020), Financing for Development in the Era of COVID-19 and Beyond Menu of Options for the Consideration of Heads of State and Government. Discussion groups I (external finance) and II (recovering better) highlighted SDG alignment. Discussion group II called on countries to develop comparable frameworks built on initiatives such as this G7-OECD-UNDP alignment initiative, stating frameworks should be promoted through fora including G20 and the International Platform on Sustainable Finance. https://www.un.org/sites/un2.un.org/files/financing_for_development_covid19_part_ii_hosg.pdf
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- ⁷ WEF (2020), COVID-19 is increasing multiple kinds of inequality. <https://www.weforum.org/agenda/2020/10/covid-19-is-increasing-multiple-kinds-of-inequality-here-s-what-we-can-do-about-it/>
- ⁸ UN (10/10/2018). <https://news.un.org/en/story/2018/10/1022722>
- ⁹ Climate risks have cost debt-issuing V20 countries over USD 62 billion in higher interest payments across the public and private sector. Climate risks estimated to increase debt interest costs for developing countries by between \$146bn and \$168bn over the next decade. Source: UNEP (2018), Climate change and the cost of capital in developing countries
- ¹⁰ <https://www.un.org/development/desa/en/news/sustainable/no-one-is-safe-until-everyone-is.html>
- ¹¹ Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) <https://ipbes.net/news/Media-Release-Global-Assessment>
- ¹² Swiss Re Institute (2020), Biodiversity and Ecosystem Services. A business case for re/insurance. <https://www.swissre.com/dam/jcr:a7fe3dca-c4d6-403b-961c-9fab1b2f0455/swiss-re-institute-expertise-publication-biodiversity-and-ecosystem-services.pdf>
- ¹³ OECD (2020), A Comprehensive Overview of Global Biodiversity Finance. <https://www.oecd.org/environment/resources/biodiversity/report-a-comprehensive-overview-of-global-biodiversity-finance.pdf>
- ¹⁴ Dobson, A. P. et al. (2020), Ecology and economics for pandemic prevention. Science 369, 379-381 https://www.researchgate.net/publication/343345826_Ecology_and_economics_for_pandemic_prevention
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⁴² <https://www.unepfi.org/positive-impact/principles-for-positive-impact-finance/>

⁴³ General Assembly Resolution 72/279

⁴⁴ Climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, waste prevention and recycling, pollution prevention and control, and protection of healthy ecosystems.

⁴⁵ Environment; social capital; human capital; business model and innovation; leadership and governance