Impact Finance Belgium

2022/2023

IFB presents ‘ESG and Impact’:

How to navigate through these two approaches, their principles, standards, labels and tools

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Foreword

In November of 2022, IFB released its Inception Report: 'The size and opportunities for growth of the impact investing landscape of Belgium'. This report shared an insight in the state of the Belgian market and the opportunities to scale up impact financing in Belgium. The report showed that (early 2022) of all assets under management in Belgium, between 1% and 2,5% was explicitly dedicated towards impact. That wide range was a clear indication that there is no good, complete market information on this, and that not all definitions are clear. What is Impact to some is ESG financing to others. Definitions may change with different users (public or private). Definitions may also change over time. Right after the start of IFB, during the first months of 2023, we talked to many actors in Belgium about their impact finance work. Almost all raised the definition question: not only 'what is impact', also 'how does it relate to the many other terms used around ESG and Sustainability'.

This document is meant to provide some clarification. It gives background and context to many terms and acronyms used. It does not take position on what is good or bad. It aims to clarify such that each user can determine what is relevant or useful for you. Two main parts of the document are built around the ESG approach and the Impact approach. The last part makes the link to rapidly evolving EU regulation, both SFDR and CSRD. We hope this report will provide clarity to you, that it will help you to identify which approaches, which terms, which definitions, which tools, are most relevant to your work.

Please note, this field is highly active, developing with more experience, with more players, with more regulation. As parties experiment and learn, the content will improve. Whilst this is happening, we need to be respectful of this development, to jointly learn, not to criticize the parties that aspire and promote something that later needs to be adapted to align with other market parties. Clarity is ever more crucial in all steps, from fund raising to deployment, from monitoring to reporting. Clear standards and definitions will contribute to good understanding and aligned expectations. That clarity is needed whilst we all aim for the same: more and better impact.

IFB hopes that all parties will contribute their part, will experience in their work, will discover for themselves how impact will contribute to your operations, to the benefit of your company, your funders, your clients, your colleagues. If we all contribute, we will get there more rapidly. Thank you for reading. Thank you for contributing.

Frederik van den Bosch and the IFB team

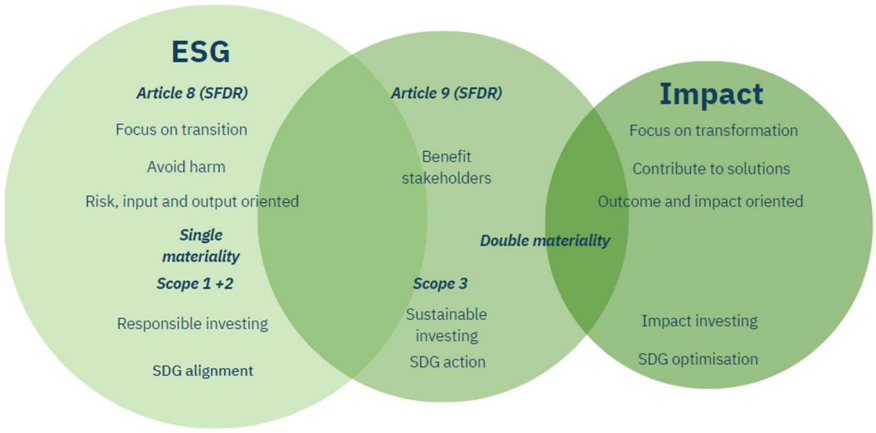
Executive summary

Impact investing is not a new concept as it traces its roots back to the early 1970s, but its prominence continues to rise. It represents an investment strategy that seeks to yield not only financial returns but also quantifiable, positive social or environmental benefits.

Amidst this surge of interest, questions naturally arise: What exactly constitutes impact? Can it be measured, and if so, how? These inquiries are actual within the discourse of the impact investing community. In the meantime, the concept of impact is evolving, with a plethora of definitions, frameworks and perspectives emerging. There is a growing call for transparent, comprehensive, and standardized sustainability metrics, demanded by stakeholders ranging from Financial Institutions and Regulatory Bodies to Consumers and Civil Society.

The link with the Environmental, Social and Governance (ESG) narrative is often made and adds to the confusion. Both ESG and Impact intend to contribute to a more sustainable society but place different emphases. ESG starts from the company's activities and looks at potential risks. Emphasis is also more on transition within companies and organisations. Impact, on the other hand, focuses specifically on contributing to solutions in the wider society. Transformation of existing practices is central to this. Both approaches complement each other and both are necessary for a more sustainable society.

The various definitions, frameworks, classifications linked to the concept of 'impact' focus on 1 or more aspects. For a better understanding, we bring them together in the framework below. For more information on the SFDR, scope 1-3, materiality, the ABC framework, the different forms of investments, ... we refer you to the IFB publication[1].



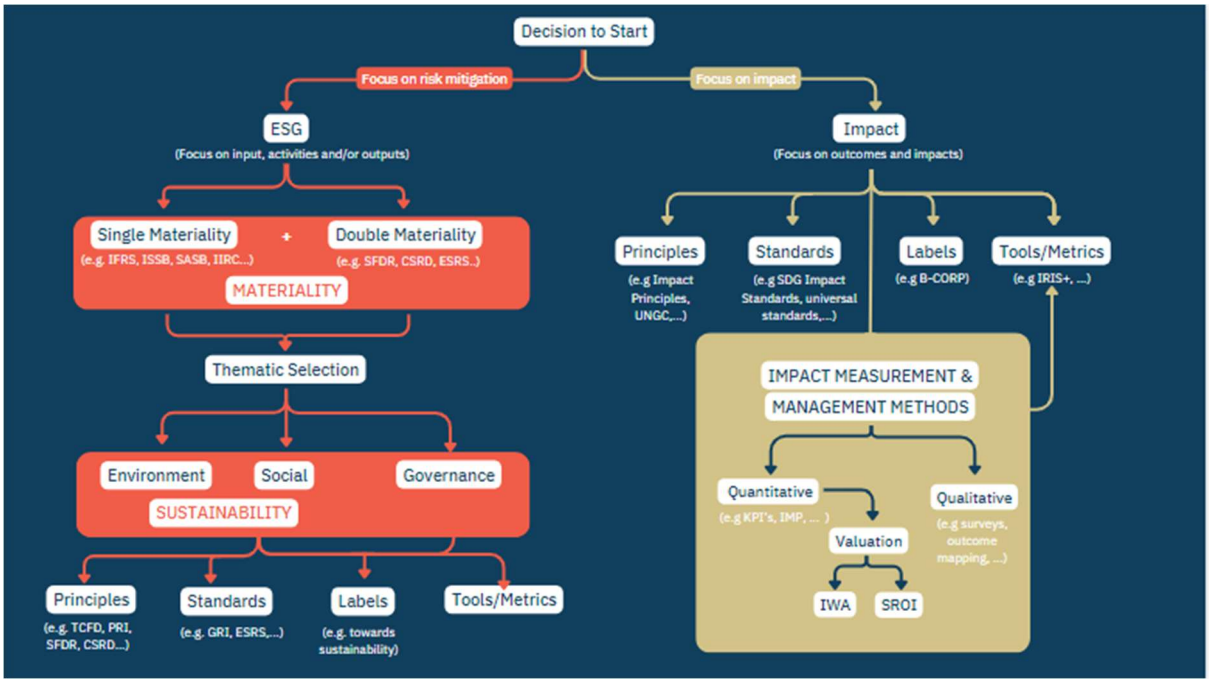
The aim of this publication is two-fold: firstly, to provide a navigational guide through the lexicon of impact investing for the curious, and secondly, to furnish advocates of particular approaches with a deeper understanding of the various facets of impact investments. Depending on your role as an actor, your perspective, your focus, certain principles, standards, tools, labels will be more of interest to you than others. To support you in

[1] IFB (2023) '*IFB presents: 'ESG and Impact': How to navigate through these two approaches, their principles, standards, labels and tools*. IFB

making more focused decision in this, IFB developed the following decision tree which is described in more detail in the publication, as well as its various components.

The two important questions to ask yourself in this regard are:

- Is my focus on transitioning within my own operations, or am I aiming to maximize the impact of my activities/organisation?
- Are there specific topics that I like to address: single/double materiality; environment, social or both, ...?



At the end, your starting point does not really matter, there are several options, ranging from the choice of principles (broad framework based on values), standards (more detailed guidance and often used as bar for best practices), tools (practical instruments and methods) and labels (particular standards to be recognised). Experience shows that perfection does not exist either; for all actors it is a learning process. IFB, as a member organisation, likes to facilitate this learning process in an interactive way between its members and beyond to make the process of Impact Measurement and Management accessible and fun for all.

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List of Abbreviations

AI	Artificial Intelligence
AI	Appreciative Inquiry
BIA	B Impact Assessment
CBA	Cost-Benefit Analysis
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
CLA	Central Labelling Agency
CSDR	Corporate Sustainability Disclosure Regulation
DEI	Diversity, Equity and Inclusion
DCSDD	Directive on Corporate Sustainability Due Diligence
EMS	Environmental Management System
EP&L	Environmental Profit & Loss
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
EVPA	European Venture Philanthropy Association
GIIN	Global Impact Investing Network
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IS-FSD	Impact Standards for Financing Sustainable Development
IMP	Impact Management Project
IP&L	Integrated Profit and Loss
IS-FSD	Impact Standards for Financing Sustainable Development
ISO	International Organization for Standardization
ISSB	International Sustainable Standards Boards
IWA	Impact-Weighted Accounts
KPI	Key Performance Indicators
LCA	Life Cycle Analysis/Assessment
OESO-DAC	OECD Development Assistance Committee
MDGs	Millennium Development Goals
NFRD	Non-Financial Reporting Directive
IFB	Impact Finance Belgium
IMM	Impact Measurement and Management
IR/IIRC	Integrated Reporting
PRI	Principles for Responsible Investment
PPP	People, Profit, Planet
SASB	Sustainability Accounting Standards Board

SBTi	Science Based Targets initiative
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
SME	Small and Medium sized Enterprises
SROI	Social Return On Investment
SRI	Socially Responsible Investing
SVI	Social Value International
TCFD	Task Force on Climate-related Financial Disclosures
TOC	Theory of Change
UNGC	United Nations Global Compact
WRI	World Resources Institute
WWF	World Wide Fund for Nature

Introduction and guidance for reading this report

In his groundbreaking book, 'Impact: Reshaping Capitalism to Drive Real Change,' Ronald Leonard astutely points out ‘we cannot change the world by throwing more money at old concepts that no longer work- we need new concepts and approaches’. Instead, Leonard advocates for a paradigm shift towards fresh concepts and innovative approaches. This call to action has been resonating with a growing movement towards impact and impact investing, which has been quietly gaining momentum for some time.

Impact investing is not a new concept as traces its roots back to the early 1970s, but its prominence continues to rise. It represents an investment strategy that seeks to yield not only financial returns but also quantifiable, positive social or environmental impact.

However, amidst this surge of interest, questions naturally arise: What exactly constitutes impact? Can it be measured, and if so, how? These inquiries are actual within the discourse of the impact investing community. In the meantime, the concept of impact is evolving, with a plethora of definitions and perspectives emerging. There has been a growing clamour for transparent, comprehensive, and standardized sustainability metrics, demanded by stakeholders ranging from Financial Institutions and Regulatory Bodies to Consumers and Civil Society.

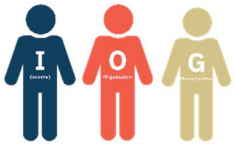
In this publication, we embark on the mission to address these pressing questions. Our aim is two-fold: firstly, to provide a navigational guide through the lexicon of impact investing for the curious, and secondly, to furnish advocates of particular approaches with a deeper understanding of the various facets of impact investments. In doing so, we hope to illuminate the challenges faced and insights gained, ultimately enhancing mutual understanding and enabling fruitful exchanges among stakeholders.

To accomplish this, we start by dissecting the very essence of the **term 'impact’** and the different contexts wherein it is used before delving into the diverse methodologies and definitions prevalent in the world of impact investing. We also provide a **brief history and evolution of impact investing**. A **summary** of these different approaches, can be found in the **conclusions**.

Subsequently we scrutinize two primary approaches: the ESG approach and the impact investing approach. Each is explored in detail, focusing not only on their foundational principles but also on the standards and labels associated with them. This section can be read through in different ways. You can limit yourself to getting to the bottom of 1 of the 2 approaches, turning to **chapter 2 for ESG** and **chapter 3 for the impact investing approach**. The difference between both is clarified in **chapter 1.3.**

Another way to go through this report is **to start from your own position and/or interest**. If you are looking for frameworks with a specific function (e.g. scoring, management,

disclosure) or looking for tools that can support you in your role as an investor and/or organisation, the following **symbols** will quickly guide you.

SYMBOLS	EXPLANATION
	This symbol refers to the ***underlying approach*** which can vary from ESG, impact (I) and/or SDGs. If only one topic in the ESG approach is addressed (e.g. environment), only one letter will appear.
	This symbol indicates to ***which actor*** this info is relevant, ranging from financier/investor (I), organisation (O) or government/civil society (G).
	This symbol indicates the ***kind of framework*** is involved, which can range from reporting, assessment, disclosure, scoring and management frameworks.
	This symbols refers to **single or double materiality**, an important distinction within the ESG approach.

For more explanation of the above classification, please refer to **chapter 1.4** and to **annex 3** for a full overview of the different frameworks across approaches.

In **chapter 4** we present the latest developments within the **EU** to ensure everyone remains abreast of the field's recent progress. The framework developed by the EU, will have an important impact in the coming years in the development of a more sustainable society. It may also provide answers to a better alignment between impact and ESG investing. We return to this in the **conclusion**.

Finally, we conclude this report with an **orientation for the reader**, about the path you yourself can take in terms of sustainability. We also indicate which initiatives you can contact our network for.

1. Impact explained

1.1 The evolution of 'impact' within impact investing

As indicated before, impact-investors pursue '*a beneficial* ***social or environmental impact*** *alongside a financial return*'. Let's clarify this a bit further.

In general, **social impact** comes down to '*any significant or positive change that solve or at least addresses social injustice and challenges. Businesses or organizations achieve these goals through conscious and deliberate efforts or activities in their operations and administrations'.* Social changes can encompass a wide range of issues, such as poverty alleviation, access to education, healthcare, affordable housing, gender equality, job creation to community development.

In practice, 'social impact investing' can include environmental issues as well. **Environmental impact** refers to the effect or consequence that various activities, projects, policies, or events have on the natural environment. It involves assessing how human actions and interventions, such as industrial processes, construction projects, deforestation, pollution, and more, influence ecosystems, landscapes, air and water quality, biodiversity, and overall ecological balance.

The main **difference between social and environmental** impact lies in the focus of the impact being created. Social impact addresses issues related to human well-being, quality of life, and community development, while environmental impact focuses on addressing ecological challenges and promoting sustainable stewardship of natural resources.

It's important to note that these **social and environmental impact are often interconnected**. For instance, improving access to clean energy (environmental impact) can also have positive social outcomes by providing affordable energy to underserved communities (social impact). Similarly, efforts to combat climate change (environmental impact) can lead to improved health outcomes and better living conditions for communities affected by pollution and environmental degradation (social impact). For impact reporting, it is important to keep this distinction in mind.

This interconnection is also reflected in the concept of **'People, Profit, Planet' (PPP)** a phrase often used to highlight the need for businesses and organizations to balance their focus on financial profitability (profit), social well-being (people), and environmental stewardship (planet). The term, which originates from 'business or corporate sustainability' is often referred to as the **triple bottom line**. The triple bottom line takes a broader view and involves the coordination and management of environmental, social and financial demands to ensure a business is responsible, ethical and continually successful and lets companies meet present needs without compromising the ability of the business to meet its needs in the future.

The emphasis on longevity also appears in the concept '**sustainable impact**' *referring to positive and enduring changes that are achieved through actions, initiatives, or investments and are designed to be maintained over the long term*. Sustainable impact goes beyond short-term benefits or superficial changes and focuses on creating lasting improvements in social, environmental, or economic conditions.

1.2. The history of sustainable investing

The different terms illustrate the **underlying evolution** that took place within and around the 'impact investing' world. The history of including environmental, and social factors in business and investing is relatively long and has evolved over time as societal and investor perspectives on corporate responsibility changed.

The origins can be traced back to the **1960s and 1970s** when certain religious groups and ethical investors started to consider social and moral criteria in their investment decisions. This marked the beginning of what would later be known as **socially responsible investing (SRI)**. Concerns about environmental pollution, social justice, and corporate governance issues gained prominence. Activism around civil rights, women's rights, and the environment influenced the development of a more comprehensive approach to assessing corporate behaviour. Investors began to express concerns about the social and environmental impacts of their investments.
It was also in that period during which one of the early examples of impact investing was created. Pioneers like Muhammad Yunus and the Grameen Bank in Bangladesh demonstrated in the **1970s and 80s** that small loans to impoverished individuals could have a significant social impact by poverty reduction trough entrepreneurship.

The term 'socially responsible investing' (SRI) gained popularity during the **1980s.** Investors started to **exclude** companies from their portfolios based on certain ethical criteria, such as avoiding investments in tobacco, alcohol, and weapons manufacturers. The focus was more on avoiding 'bad' companies rather than actively seeking positive social and environmental outcomes.

The focus of SRI expanded beyond negative screening to include **positive screening in the 1990's**, where investors actively sought out companies with strong social and environmental performance. It marked a turning point in the evolution, and it formed the beginning of efforts to integrate sustainability and corporate responsibility into investment analysis.

In **1992** the United Nations Conference on Environment and Development was held in Rio de Janeiro, Brazil, also known as the Earth Summit. During the conference, the international community adopted the **Agenda 21**, a comprehensive plan of action to address global environmental and developmental challenges in developing countries. This resulted in the establishment of the **Millennium Development Goals (MDGs)** in 2000 as a set of eight international development goals to be achieved by 2015, addressing issues such as poverty, hunger, gender equality, education, and health in developing countries.

The term '**impact investing**' itself began to gain traction in the **early 2000s**. The Rockefeller Foundation, in collaboration with others, played a pivotal role in popularizing the term and the concept. They organized a series of meetings and discussions that led to the development of the impact investing field. In 2000, the **Global Impact Investing Network (GIIN)** was founded to promote impact investing and provide resources for investors and organizations in the field. The nonprofit organization played a key role in advancing the field by providing research, data, and best practices. More investors, including institutional investors and foundations, began to allocate capital to projects and companies with the explicit intention of generating measurable social and environmental impact alongside financial returns. The concept of a 'double bottom line' (financial return and social/environmental impact) gained prominence. The Omidyar Network, established by eBay founder Pierre Omidyar in 2004, became one of the early pioneers of impact investing by investing in both for-profit and nonprofit ventures with a focus on social impact. Some governments started offering tax incentives and regulatory support to encourage impact investing. Examples include the UK's Social Investment Tax Relief and the U.S.'s Opportunity Zones program.

From **2004 till 2006**, a **legal framework for factoring Environment Social Governance (ESG)** information into investment decisions was outlined, and a set of six ESG investing principles still used today was published by the United Nations. Organizations such as the **Principles for Responsible Investment (PRI)** were established to encourage signatories to integrate ESG considerations into their investment practices. ESG metrics, reporting frameworks, and disclosure standards began to develop more systematically and facilitated the rapid increase in ESG awareness and adoption. Organizations like the **Global Reporting Initiative (GRI)** and the **Sustainability Accounting Standards Board (SASB)** emerged to provide guidelines for companies to report their ESG performance. The **Task Force on Climate-related Financial Disclosures (TCFD)** was established to address climate-related risks and opportunities.

As the deadline for the MDGs approached, discussions began within the United Nations about creating a new set of goals to continue addressing global challenges beyond 2015. The United Nations General Assembly formally adopted the 2030 Agenda for Sustainable Development, which included the 17 **Sustainable Development Goals (SDGs)** committing world leaders to an ambitious and universal agenda for ending poverty, protecting the planet, and ensuring prosperity for all by 2030. The 17 SDGs cover a wide range of interconnected issues, including poverty, hunger, health, education, gender equality, clean water, climate action, sustainable cities, and more. They aim is to address both social and environmental challenges and promote economic growth that is inclusive and sustainable, not only in the developing world but globally.

Today, **ESG** considerations have become mainstream in the investment world, with many investors recognizing that understanding and managing ESG risks can contribute to long-term financial stability and better outcomes for society and the environment. ESG integration has expanded beyond equities into fixed income, real estate, and other asset classes, and there is growing demand for standardized ESG data and reporting. However, significant

hurdles remain when it comes to providing consistent, comparable, and high-quality sustainability information for investors and lenders.

In the meantime, the **SDGs** have become a global framework for guiding policies, initiatives, and investments to achieve a more equitable and sustainable world. As the SDGs must be implemented in all countries, the SDGs have influenced international cooperation, national development strategies, and local initiatives, involving governments, businesses, civil society organizations, investors and individuals to all play a role in working towards the achievement of the SDGs.

The evolution described is still visible in today's **financial 'instruments'** (see figure 1) expanding the spectrum from traditional investment approaches with an exclusive financial goal, to impact-driven approaches emphasising investments in measurable high-impact solutions, passing instruments using a more responsible and/or sustainable approach.

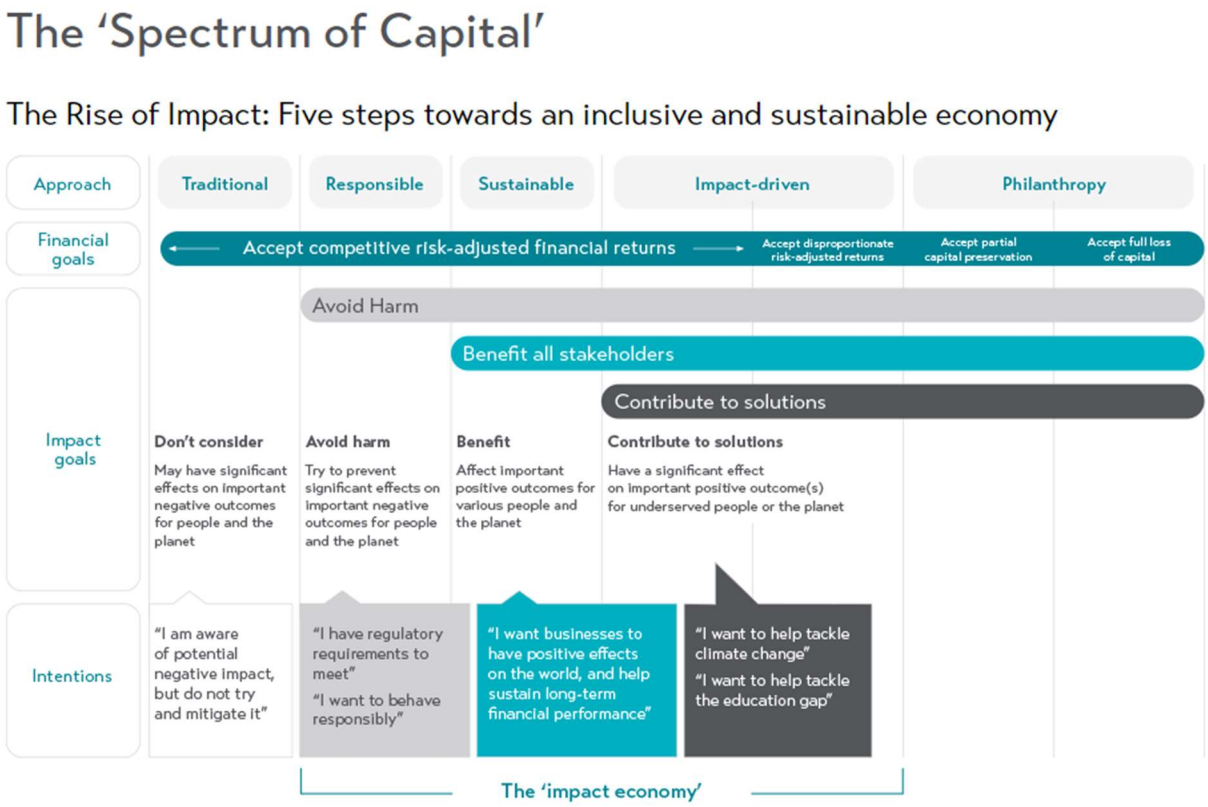


Figure 1. The spectrum of Capital of the Impact Management Project

Despite their growth, responsible, sustainable and impact investing faces challenges, such as defining impact metrics, balancing financial returns with impact goals, and maintaining transparency. Efforts to standardize impact measurement and reporting continue, as we develop further in the next chapters. Let's us first have a look at the term' impact' itself.

1.3. 'Impact' unravelled

We talked already a lot about 'impact', time to have a look at the term 'impact' itself. In general, the term '**impact**' is understood as '*the powerful effect that something, especially something new, has a on a situation or a person'* as found in the Cambridge dictionary[2]. This definition assumes a direct link between one action and the other and refers to a simple, linear relationship between the two. In reality, the link between cause and effect is more complex.

This became clear when in 1991 the **OECD Development Assistance Committee (DAC)** developed in 1991 the first criteria for evaluating impact. By looking at 'what difference does an intervention make', the OECD came to the conclusion that impact refers to '*positive and negative, primary and secondary, long-term effects produced by development interventions'*. The definition initially drafter for the development cooperation sector formed the basis for the general definition of 'impact' used as the basis for impact measurement as reflected in, for instance the definition of impact formulated by the Global Reporting Initiative (GRI): '*impact refers to the effect an organization has or could have on the economy, environment, and people, including effects on their human rights, as a result of the organization's activities or business relationships. The impacts can be actual or potential, negative or positive, short-term or long-term, intended or unintended, reversible or irreversible.* Questions that are looked at, are for instance the following:

- *'Has the intervention caused a significant change in the lives of the intended beneficiaries?*
- *How did the intervention cause higher-level effects (such as changes in norms or systems)?*
- *Did all the intended target groups, including the most disadvantaged and vulnerable, benefit equally from the intervention?*
- *Is the intervention transformative – does it create enduring changes in norms – including gender norms – and systems, whether intended or not?*
- *Is the intervention leading to other changes, including 'scalable' or 'replicable' results?*
- *How will the intervention contribute to changing society for the better?[3]'*

Impact is often referred to as '**effect**', but there is some ambiguity related to it, especially when it comes to the short and/or long term. The term 'impact' is sometimes confused with outputs, but 'output' and 'impact' differ in their nature and focus. **Output** refers to '*the tangible or measurable results produced as a result of a process, activity, or system*' and it is often associated with the quantity or volume of goods, services, or information that is generated or produced. Output is a straightforward measure of what has been produced and can be quantified in terms of units, volume, or other relevant metrics. **Impact**, on the other hand, refers '*to the effect, influence, or consequence that the output or a certain action has on people, systems, the environment, or society as a whole*'. Impact goes beyond mere numbers and delves into the qualitative changes and value created as a result of the output. It involves

[2] Cambridge dictionary
[3] OESO-DAC criteria for evaluating development assistance

assessing the difference or change brought about by the output in terms of value, positive or negative effects, or transformative outcomes.

The following diagram provides further clarification on this topic and indicates the direct link between activities and outputs, and the fact that outcomes and impacts are located further down the chain. It also gives interpretation to the continuous process that every organization goes through going from inputs-activities-outputs-outcomes-impact and restarting the process again at inputs . This continuous process, often referred to as Theory of Change, is discussed more in detail in impact measurement and management later in this report (see chapter 4).

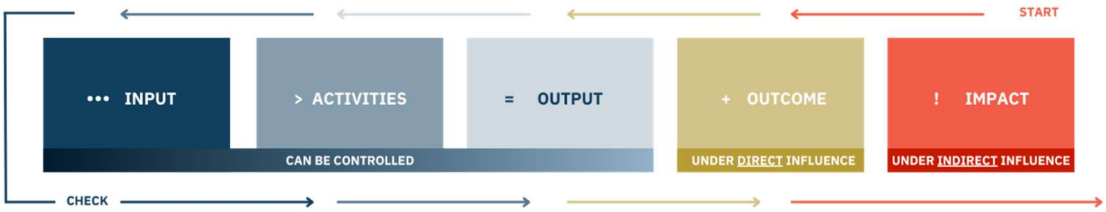


Figure 2. the IOOI Diagram

While the diagram above provides a more 'technical' explanation of the concept of impact, a more **substantive explanation** of the concept 'impact' can be found in the **five dimensions of impact** from the **Impact Management Project (IMP).** The IMP is a global initiative that aims to promote and facilitate the effective measurement and management of impact in investments and businesses. Their framework is widely used and helps investors and organizations to better understand and evaluate the multifaceted nature of impact and to optimize their impact efforts. The dimensions facilitate the alignment with values and intentions of the organisation and explicitly articulates the intended positive social and environmental change.

IMPACT DIMENSION	IMPACT QUESTIONS EACH DIMENSION SEEKS TO ANSWER
What	- What outcome is occurring in the period? - Is the outcome positive or negative? - How important is the outcome to the people (or planet) experiencing them?
Who	- Who experiences the outcome? - How underserved are the affected stakeholders in relation to the outcome?
How much	- How much of the outcome is occurring – across scale, depth and duration?
Contribution	- Would this change likely have happened anyway?
Risk	- What is the risk to people and planet that impact does not occur as expected?

Table 1. The 5 Dimensions of Impact

Impact investors are not only interested in creating impact, but they focus on a specific kind of impact. According to the definition of the **Global Impact Investing Network (GIIN**) investments are only considered as '**impact investments'** if they are *made with the intention to generate positive, measurable social and environmental impact alongside a financial return*. We follow the GIIN in considering that investments are only impact investments, when **three criteria** are met: intentionality, additionality and measurement. These criteria are understood as:

- *Intentionality:* 'a conscious and deliberate search for social and/or environmental impact, with the aim of pursuing a (net) positive result for a defined community';
- *Additionality:* is the quality of an investment to create added value, that would not have happened without the investment;
- *Measurement:* requires the businesses to identify measurable impact objectives and to assess the business idea per these objectives from the get-go.

When we talk about impact, the term **'materiality'** often comes up. It is one of the explicit criteria used in the Environmental, Social, and Governance (ESG) reporting and analysis approach, which we discuss in more depth further on in this report. In the context of ESG it refers to '*the significance or relevance of specific ESG factors or issues to a company's financial performance, operations, and overall business strategy'*. Some standards go further and request '**double materiality'**, referring to the importance of including 'impact materiality' AND 'financial materiality'. While 'impact materiality' refers to the impact of the company on the people and the environment, including an analysis of the whole value chain; 'financial materiality' refers how sustainability matters for the company itself. The first is often referred to as 'impact outwards', the latter as 'impact inwards'.

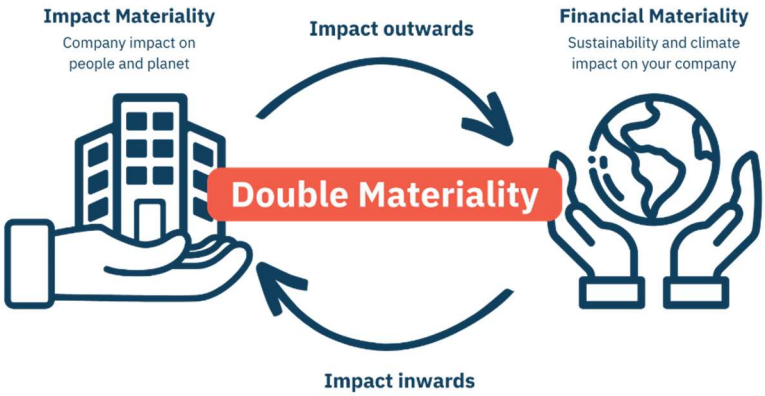


Figure 3. Double Materiality

The importance given to stakeholders is strongly emphasized, among other things, in investments linked to social impact. In those cases the term '**social value'** is often used. It puts the emphasis on engaging people to understand the impact of activities on their lives whereby the people's perspective is critical. One of the promotors of this approach is **Social Value International (SVI).**

Another way of looking at impact is the **classification** of certain impacts in a framework. One classification that is often used, is the **ABC framework**, where impacts are classified from 'act to avoid or reduce harm', and 'benefit stakeholders' to 'contribute to solutions' (see exhibit 3). For the GIIN, impact-investing is only considered when it falls under category C 'contribute to solutions'.

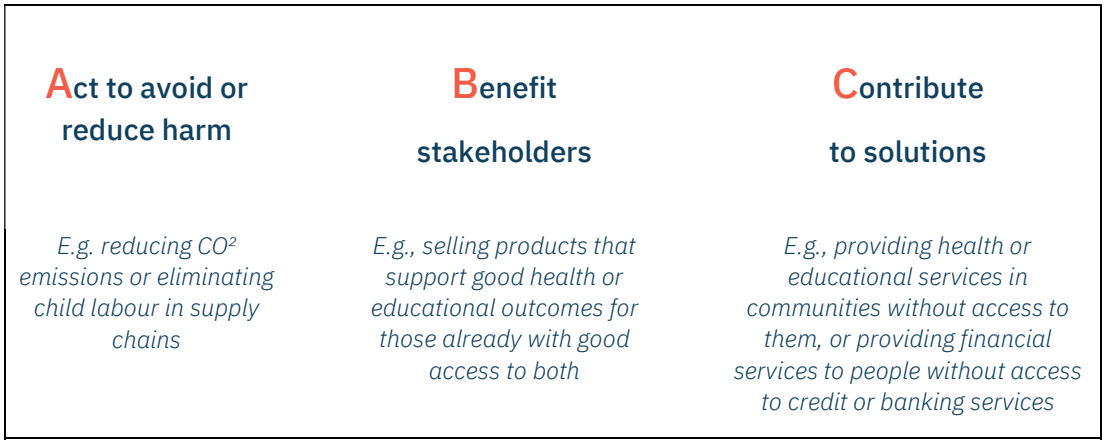


Figure 4. The ABC Framework

A similar categorization is the one, applied on the impact of CO2 emissions, varying from **scope 1 to 3**, whereby:

- *Scope 1 emissions* are those that are directly generated by the company, such as an airline emitting exhaust fumes.
- *Scope 2 emissions* are those that are created by the generation of the electricity or heat needed by the company to sell its main products or provide its main services.
- *Scope 3 emissions* are those caused by the entire value chain, including the end-user of the product over its life cycle, and are much more difficult to measure.

The use of scopes for this classification is important, as it allows investors to identify the true causes of emissions and suggest means of reducing them through engagement.

So far, we looked at the term '**impact**' from various perspectives. Central to all these approaches is the fact that impact ***refers to 'changes, both positive and negative, intended and unintended, realized by the intervention' that go beyond the direct outputs.***

1.4 Different approaches, principles, standards, towards one goal

Now the term impact is clear, we can have a closer look at the different approaches, **ESG and impact investing**, where the interconnectivity between environmental, social and economic impacts and their importance is reflected.

Both approaches aim to generate positive outcomes beyond financial returns and seek to make a difference and create a more sustainable and equitable world. They are value-driven

approaches with a long-term perspective, often requiring collaborations among various stakeholders. Dialogue and engagement are fostered to drive positive change.

The **differences** are situated in the core objectives, methodologies and target audience. The **impact approach** often targets specific sectors or issues, such as clean energy, affordable housing, or healthcare access with a focus on **achieving measurable and positive social or environmental outcomes**, making it a powerful force in the intersection of finance and social responsibility. The focus is on the search for solutions and transformations in the society.
The ESG approach, on the other hand, is concerned with processes within the companies and the business community. The focus is on analysing a company's **overall sustainability and risk profile by assessing ESG performance and practices** and on incorporating these factors into traditional financial analysis (single materiality) and/or their value chain (double materiality). The ESG analysis helps investors to identify companies that exhibit responsible business practices.

While the impact and ESG approach are practices concerned with transition and transformation within the organisation or society, **the SDGs** provide a **worldwide framework** on sustainable actions for a broader public, including financiers, organisations but also countries and the general public.

	Impact	ESG	SDG
In common	- Emphasis on sustainability and long-term value creation - Holistic and multi-dimensional approach - Stakeholder engagement to gather input and understand concerns - Encouragement of transparency and reporting and integration into decision-making processes.		
Differences are situated at the level of:			
Purpose	Generating positive, measurable social and environmental impacts alongside a financial return.	Analysing a company's ESG performance and practices, to assess its overall sustainability and risk profile.	Involve all actors for the achievement of a more equitable and sustainable world.
Target audience	Impact organisations and investors	Large companies and investors	Countries, civil society
	Focus on **external** impact	Focus on **internal** processes	Measure **global** impact

The different investment approaches use **established frameworks** to assess and report on their impact. These frameworks can be divided in frameworks related to principles, standards, and labels. In this report we make the following distinction:

- **principles,** are often based on and refer to ethical, moral, or philosophical values;

- **standards** provide more detailed guidance and help establish expectations for compliance, consistency, and excellence. Standards often set the bar for best practices, and they can be used to assess and evaluate performance against predetermined criteria;
- **labels** on their turn, set particular standards to be recognized as compliant. And finally,
- **tools and methods** are practical instruments or techniques that are used to achieve specific goals or tasks, providing a structured approach to implementing principles and standards. They can vary from metrics, methodologies, templates, software, to other resources.

Standards and principles often interfere with each other, with principles indicating the context and standards giving quantifiable objectives to the latter.

Common **frameworks of impact and ESG investing** include the Global Reporting Initiative (GRI) and IRIS +. Frameworks related to impact comprise the Impact Management Project's (IMP) Five Dimensions of Impact and the Sustainable Development Goals (SDGs) impact standards, while SASB and TCFD are more linked to the ESG approach. In the next chapter we deep dive into the frameworks related to ESG, and chapter 3 we do the same for the impact investing approach.

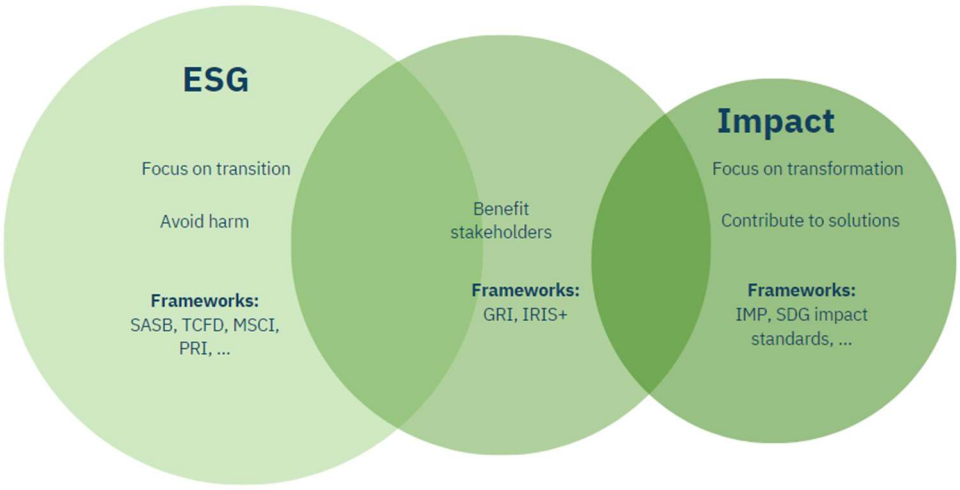


Figure 1. An Overview of Measurement Frameworks and Standards within ESG and Impact

Before doing so, we conclude with the distinction between **disclosure, reporting, assessment, scoring and management frameworks**, a distinction often made between different ESG frameworks, as their characteristics are different.

DIFFERENT TYPES OF (ESG) FRAMEWORKS				
Disclosure or regulatory frameworks	Reporting frameworks	Assessment frameworks	Scoring frameworks	Management frameworks
Guide business compliance with (ESG) regulations and requirements	Guide organizations in (ESG) strategy and reporting efforts	Evaluate materiality or risk up front as part of (ESG) strategy	Assist ESG benchmarking through measurable ratings	Guide organisations to integrate sustainable practices into their operations, strategies, and decision-making processes
E.g. SFDR, GRI, SASB, TCFD	E.g. GRI, UN Global Compact	E.g. B-Corp, Towards sustainability	E.g. CDP, S&P Global	E.g. UN Global Compact, SDG impact standards, ISO 14001/26000

2. The ESG investing approach

Let us deep dive into the **ESG Approach** standing for Environmental, Social, and Governance, with a focus on reporting and less on impact measurement and management. Developed in the 1990's the focus lies on 'avoiding harm'.

2.1. ESG in brief

The ESG approach promotes a holistic and integrated perspective that seeks to balance financial performance with social and environmental responsibility. Central to the approach is the **quantifiable assessment of sustainability and business practices** focusing on reaching certain performance metrics, setting measurable goals and conducting audits to verify that the metrics and related disclosures are accurate, especially regarding topics related to environment, social and governance.

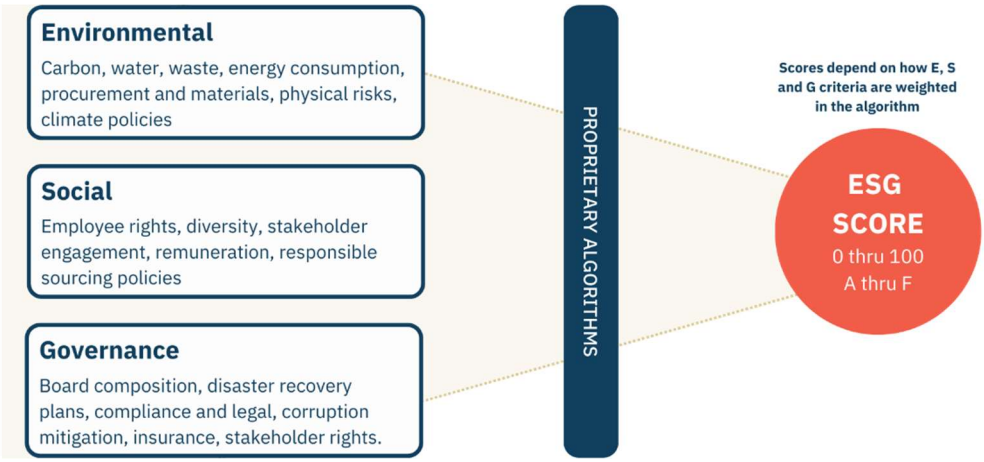


Figure 2. ESG Calculation

The **primary goal of the ESG approach** is to **identify and manage potential risks and opportunities** that can impact a company's financial performance and long-term viability. Different ratings agencies like Bloomberg, MSCI, S&P Global and Morningstar's Sustainalytics **assess** how a company's operations and practices impact the environment, its stakeholders and its overall corporate governance structure by giving a score in the form of a number or other variable. Despite the fact that there are explicit criteria surrounding ESG, the various third party agencies may rate ESG criteria differently based on their own priorities, goals, values and industry context. The lack of uniformity between the different frameworks, leads to different scores which can be very different for a specific company. On the one hand, this complicates the interpretation of ESG scores; on the other, it entails risks for greenwashing.

ESG metrics can be quantitative and/or qualitative and, by using both, businesses can gain a more comprehensive understanding of ESG issues and work to improve in the areas in which they fall short. **Quantitative metrics** such as greenhouse gas emissions, energy usage, employee turnover rates, reported HR violations, board composition are based on numerical data that often can be directly measured and compared. These metrics are useful for benchmarking and tracking performance over time. **Qualitative metrics** on the other hand**,** are for instance a company's commitment to diversity, equity and inclusion (DEI), its labour practices, its impact on local communities and plans for corruption mitigation within the company. They are based on non-numerical data, are harder to measure and are more subjective. They require more interpretation but they can provide valuable insights into a company's culture and values.

The second central concept, **materiality** refers to the fact that not all ESG issues are equally relevant or impactful to every organization. It involves identifying and prioritizing the ESG issues that are most significant and relevant to a particular company, industry, and stakeholder group such as investors. Reporting frameworks like the Global Reporting Initiative (GRI) and the International Financial Reporting Standards (IFRS) provide guidelines on how to determine materiality. The concept of **double materiality** is an extension that acknowledges the dual responsibility of organizations to report on both their material impacts on the environment and society (outward-facing impacts) and their financial dependencies on environmental and social factors (inward-facing impacts) (see also chapter 1).

STRENGTH AND WEAKNESSES OF THE ESG APPROACH in brief	
Strengths	- Long-term value creation and focus on risk management - Stakeholder engagement by putting materiality in front
Weaknesses	- Lack of standardization which complicates the comparison between organisations - The complexity of obtaining reliable ESG-related data which demand often significant resources - The possibility to overemphasis reporting - Risk of greenwashing, by promoting misleading or superficial ESG initiatives

Studies show that **most large companies have ESG programs** applying different ESG standards and frameworks. The frameworks differ in terms of their character, focus, scope, and target audiences. We categorize a non-exhaustive list of the prominent frameworks which we explain in more depth beneath. These frameworks are supplemented by other, less well known frameworks in Annex 3.

ESG INVESTING			
Principles	Standards/labels	Measurement methods	Tools/Metrics
INVESTORS AND ORGANISATIONS			
TCFD: Recommendations on climate-related financial disclosures		*KPI setting by standards*	***CDP:*** system for disclosing information on business risks and opportunities related to climate change, water security and deforestation
	SBTi: transition to a net-zero economy		*AI driven reporting platforms*
INVESTORS			
PRI: Promoting ESG practices in the financial world	***SASB/IFRS:*** sustainability-related financial information		
ORGANISATIONS			
	GRI standards: sustainability topics	Various reporting and assurance organizations	
	CDSB: presentation of environmental and social information in mainstream reports		
	Towards sustainability label: for financial products		

Thus far, organizations may choose to adopt one or more of these frameworks based on their industry, reporting goals, and stakeholder expectations.

The landscape of ESG reporting and standards continues to evolve, with efforts to **harmonize and streamline reporting initiatives** in order to reduce complexity and promote consistent and meaningful disclosure. The European Union's Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) are concrete examples (see also chapter 4).

2.2 Principles

As indicated in chapter 4 we make a distinction between principles with a broader scope and standards with more concrete guidance. Within the ESG approach we present 2 well known frameworks: the recommendations of the Task Force on Climate-related Financial Disclosure and the principles for Responsible Investments.

2.2.1. Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) is an initiative that aims to **encourage businesses and financial institutions to disclose information related to their climate-related financial risks and opportunities**. It was established in December 2015 by the **Financial Stability Board,** an international body that monitors and makes recommendations about the global financial system's stability.

The TCFD was formed in response to concerns about the potential financial risks associated with climate change, including physical risks (such as damage from extreme weather events) and transition risks (such as shifts in market preferences toward low-carbon technologies). The TCFD published **a voluntary set of recommendations** in June 2017, structured around four thematic areas:

- *Governance:* How climate-related risks and opportunities are managed at the board and executive levels.
- *Strategy:* How climate-related risks and opportunities are integrated into an organization's overall strategy.
- *Risk Management:* How an organization identifies, assesses, and manages climate-related risks.
- *Metrics and Targets:* How an organization measures and reports its climate-related impacts and progress.

TCFD in brief	
Focus	Encouraging ***businesses and financial institutions*** to disclose information related to their *climate-related financial risks* and opportunities
Target groups	***Investors,*** lenders, insurers, and other stakeholders
Key Features	Voluntary set of recommendations; Widespread support from various stakeholders and large adoption across different industries

2.2.2 Principles for Responsible Investment

The PRI, or **Principles for Responsible Investment**, are a set of global standards promoting responsible investing practices by encouraging the incorporation of ESG factors into investment decision-making processes and ownership practices. The PRI framework was developed by the **United Nations** in collaboration with international financial institutions and launched in 2006. Signatories commit to integrate the six core principles related to ESG considerations into **their investment processes** and report on their progress annually. The PRI encourages collaborative engagement on ESG issues by facilitating collective action among signatories. This can involve engaging with companies, regulators, and other stakeholders to drive positive ESG outcomes.

The PRI **provides research, tools, and resources to assist signatories** and engages in policy advocacy to promote responsible investment practices globally. It seeks to influence

regulatory frameworks and standards that support sustainability and ESG integration in the financial industry.

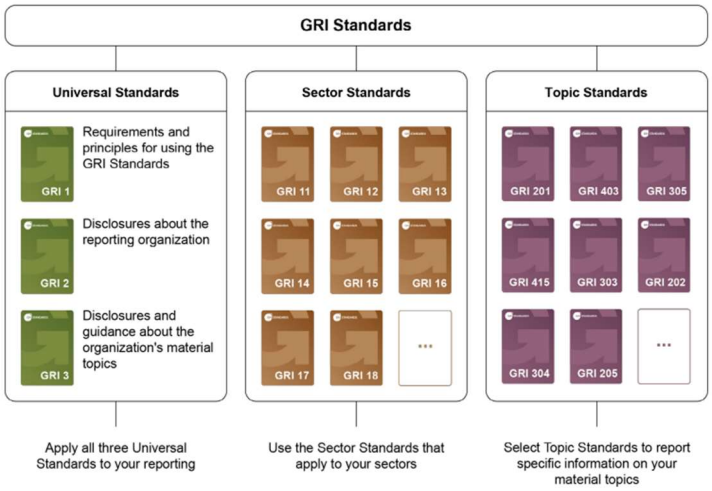
PRI in brief	
Focus	Promotes incorporating ESG factors into ***investment decision-making processes*** and ownership practices
Target groups	***Institutional investors***, asset managers, and other financial industry stakeholders.
Key Features	Global network of signatories from various regions around the world

2.3 Standards

Within the ESG approach several standards are developed. The guiding standards differ at the level of purpose, content, target groups on their focus on materiality. In the next chapter we present the most common standards, currently applied. Some of the previous standards, e.g. SASB merged with new standards and are only presented in relation to these new standards.

2.3.1 Global Reporting Initiative Standards

Established in 1997, the **Global Reporting Initiative (GRI)** is the **independent, international organization** that helps businesses and other organizations take responsibility for their impacts by providing them with a global common language to communicate on those impacts.



The GRI standards are **reporting standards** developed with the **intention** of being applied on a globally consistent basis, providing stakeholders with the ability to compare the impacts of reporting on a broad range of topics. By creating a global common language, GRI enables informed dialogue and decision making around those impacts. The Standards are **designed as an easy-to-use modular set,** consisting of **3 sets of standards**. The *Universal Standards* support the company in identifying its material topics by laying out important principles when preparing a report. They also contain disclosures on the organization's specific context, such as its size, activities, governance and stakeholder engagement. The *Sector Standards*, when available and applicable to the reporting organization, support companies within specific sectors to determine their material topics and what to report on for each topic. And finally, the *33 Topic*

Standards contain disclosures that organizations use to report their impacts in relation to a topic and how it manages these impacts.

GRI in brief	
Focus	***Promoting responsible corporate citizenship*** and encourage businesses to contribute to societal goals
Target groups	***Companies, governments,*** NGOs, and other stakeholders across different industries and regions and reporting experience
Key Features	- World's most widely used standards - The comprehensive range of topics allowing organizations to report on various issues relevant to their operations and stakeholders - The modular structure, the possibility to use them for free, which makes the standards very accessible. - Aligned with other sustainability frameworks including the SDGs.

2.3.2 International Financial Reporting Standards (IFRS) and the standards of the International Sustainability Standards Board (ISSB)

The IFRS Foundation is a **not-for-profit, public interest organisation** established to develop **high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards**. The standards are developed by two standard-setting boards, the International Accounting Standards Board (IASB) and International Sustainable Standards Boards (ISSB). On June 2023, the ISSB issued the IFRS S1 and IFRS S2 aiming to capture the environmental and social dimensions of business practices**.**

IFRS S1 requires companies to communicate the *sustainability-risks* and opportunities they face over the short, medium, and long term. **IFRS S2** sets out specific *climate-related disclosures* and is designed to be used with IFRS S1. In order to support their mission, IFRS developed a free 'sustainable Standards navigator'

ISSB/IFRS in brief	
Focus	***Accounting and sustainability disclosure standards*** aiming to capture the environmental and social dimensions of business practices alongside financial statements
Target groups	*Investors*
Key Features	- Globally accepted and required for use by more than 140 jurisdictions. - Very recently updated (June 2023) to align with the TCFD recommendations, the SASB standards, CDSB Framework, Integrated Reporting Framework and the CSRD of the EU. Interoperable with the GRI standards.

2.3.3 Science Based Targets initiative (SBTi)

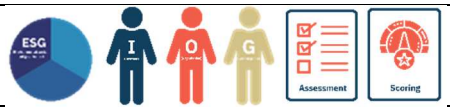
The Science Based Targets initiative (SBTi) is a **partnership** between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). The SBTi was the lead partner of the Business Ambition for 1.5°C campaign and

supports organisations to **the transition to a net-zero economy by setting emissions reduction targets grounded in climate science**. The science-based targets show **companies and financial institutions** how much and how quickly they must decarbonize to prevent the worst impacts of climate change.

The initiative developed various (free) tools and standards in order to:

- define and promote best practice in emissions reductions and net-zero targets in line with climate science;
- provide technical assistance and expert resources to companies who set science-based targets in line with the latest climate science; and
- bring together a team of experts to provide companies with independent assessment and validation of targets.

The SBTi has also launched the world's first **Corporate Net-Zero Standard**, to ensure that companies' net-zero targets translate into action that is consistent with achieving a net-zero world by no later than 2050.

SBTi in brief	
Focus	*Setting emissions reduction targets* grounded in climate science to a net-zero economy
Target groups	*Companies and financial institutions*
Key Features	Promote best practices in emissions reductions and provide technical assistance; Corporate Net-Zero standard to translate targets into action plans

2.3.4 CDSB Framework

The Climate Disclosure Standards Board (CDSB) is an **international consortium of business and environmental NGOs**. The CDSB Framework for reporting environmental and social information is designed to help organisations **prepare and present environmental and social information in mainstream reports for the benefit of investors**. CDSB guide reporting and disclosure in accordance with the **TCFD recommendations** with specific guidance for climate, water, biodiversity, and social initiatives. The CDSB allows investors to assess the relationship between specific environmental and social matters and the organisation's strategy, performance and prospects. In 2022, CDSB was consolidated into the new ISSB (International Sustainability Standards Board).

Objectives of the CDSB Framework are to:

- help companies translate their sustainability information into long-term value;
- provide clear, concise and consistent information to investors, connecting the organisation's sustainability performance to its overall strategy, performance and prospects;
- enable and encourage informed investor-decision making on the allocation of financial capital; and

- add value to an organisation's existing mainstream report, while minimising the reporting burden and simplifying the reporting process.

CDSB in brief	
Focus	**To help organisations prepare and present environmental and social information** in mainstream reports for the benefit of investors
Target groups	Organisations
Key Features	Supports compliance with regulatory reporting requirements Aligns with the recommendations of the Task Force on Climate-related Financial Disclosures and builds on the most widely used reporting approaches, such as CDP, GRI, SASB, IFRS; Helps prepare assurable reports on environment and social issues

2.3.5 Labelling by 'Towards sustainability'

In November 2019, the Central Labelling Agency (CLA) of the **Belgian SRI label vzw/asbl,** awarded the first 'Towards Sustainability' labels to financial products that were compliant with the Towards Sustainability Quality Standard for sustainable and socially responsible financial products. The Towards Sustainability label is a broad label developed in Belgium, which aims to make its impact by appealing to a large group of diverse financial institutions on the one hand and being suitable for retail and institutional investors with different profiles on the other hand.

The expectations are formulated on **three axes**:

- *a. having explicit sustainability related (ESG) characteristics and/or objectives* (positive angle). This axe includes the exclusion of sectors related to weapons, tobacco, coal, unconventional oil & gas and laggard oil & gas and electricity utilities and the non-violation of high-level normative frameworks like the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the ILO Conventions;
- *b. avoiding harm* (negative angle) by going beyond the minimal requirement of 'do no harm', the product manager shall invest in projects, companies or governments with a positive contribution to society by using at least one sustainable investment strategy (see below).
- c. *being transparent* about the implementation of a. and b. by publishing on its website how and which harmful activities are avoided, and how positive impact is pursued.

The label can be given to an individual product or on the level of the product provider by becoming a Signatory which is a voluntary additional commitment. Signatories commit that all products they market in Belgium as 'sustainable', have obtained or are in the process of obtaining the Towards Sustainability label.

TOWARDS SUSTAINABILITY LABEL in brief	
Focus	*Certification of investment funds*, index products, insurance funds and saving products distributed on the Belgian market or in the rest of Europe
Target groups	*Investors*
Key Features	Most comprehensive and inclusive labelling initiative for sustainable financial products in the Belgian market and increasingly active in other European countries.

2.4 Measurement methods

The setting of standards is of little use if they are not measured. Within the ESG approach, external reporting and auditing agencies are often called upon to take care of the reporting and measurement. An instrument like 'Key Performance Indicators' is frequently used in this context. However, this tool can also stand alone, as will become apparent from the first description.

2.4.1 KPI Setting

The most common method and tool for measurement within ESG investing is the method of **Key Performance Indicators (KPI) setting**. Key Performance Indicators (KPIs) are metrics employed to assess the performance of an organization, project, or specific activities. Establishing KPIs entails a methodical process and aids organizations in enhancing performance and attaining strategic goals (see also chapter 3). There are different ways to identify the KPI's. Some organisations develop their KPI's by using standards, guidelines or preset benchmarks (e.g. the SBTi initiative).

2.4.2 Reporting and assurance organisations

As there is no single universally accepted framework for ESG reporting and assurance, organizations may choose to work with entities based on their needs, reporting requirements, industry standards, and the preferences of their stakeholders.

ESG reporting and auditing involve a range of actors, including third-party assurance providers, accounting firms, specialized ESG rating agencies, and regulatory bodies. Some of the main players in the ESG **auditing space** include:

- *ESG Rating and Data Providers:* Companies such as MSCI, Sustainalytics, ISS ESG, and Bloomberg offer ESG ratings and data analysis services. While not auditors in the traditional sense, they assess and rate companies' ESG performance based on publicly available information and proprietary methodologies.
- *Accounting Firms:* Many of the world's major accounting firms, known as the 'Big Four', offer ESG audit and assurance services. These firms are Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and KPMG. They often provide ESG assurance alongside traditional financial audits, helping organizations verify the accuracy of their ESG disclosures.
- *Specialized ESG Assurance Providers:* Some firms specialize in ESG assurance and provide independent verification of ESG disclosures. They evaluate organizations'

adherence to reporting frameworks, assess data accuracy, and provide an external validation of ESG claims. Examples include DNV GL, Bureau Veritas, and SGS.

- *Regulatory Bodies:* Depending on the jurisdiction, regulatory bodies may set guidelines or requirements for ESG reporting and auditing.
- *Independent Auditors and Consultants:* Beyond the major firms and specialized providers, various independent auditors and consultants offer ESG assurance services to organizations seeking to validate their sustainability reporting.

2.5 Tools and metrics

In terms of concreteness, 'tools' go even further then standards. Some of these tools were discussed earlier, in relation to their standards. These tools are linked to the guidelines of these standards. Other tools, such as the Carbon Disclosure Project, have developed measuring instruments that can be used in a more overarching manner. It are these tools that we present below.

2.5.1. Carbon Disclosure project

The Carbon Disclosure Project (CDP) is a **nonprofit organization** and was launched in 2000 in the United Kingdom. Originally focused solely on carbon emissions, it expanded its scope over the years to encompass other environmental concerns. The organization's primary purpose is to **provide a platform for organizations to disclose their environmental data**, which can then be used by investors, governments, and the general public to make informed decisions.

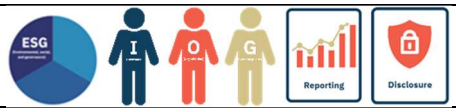
In order to encourage transparency and accountability among organizations regarding their environmental impacts and actions, CDP invites companies, cities, states, and regions to respond to its annual questionnaires covering topics such as greenhouse gas emissions, water usage, climate change strategies, and more. The responses are collected, verified, scored, and the resulting data is made available by rankings covering several categories. CDP releases annual reports and insights based on the data it collects, providing trends, analysis, and case studies that showcase best practices and areas where improvements are needed.

CDP in brief	
Focus	*Global disclosure system* to measure, disclose, manage, and share environmental information Main focus is on climate change, water security, and deforestation.
Target groups	*Companies, investors, cities, states, general public*
Key Features	- CDP has grown significantly encouraging thousands of companies and hundreds of cities to disclose their environmental data through the platform; - The data provides a valuable resource for policymakers, businesses, and organizations to track progress toward environmental goals; - CDP collaborates with various stakeholders to drive action on climate change and is engaged in initiatives like the Science Based Targets initiative (SBTi); - Companies use CDP as a tool to understand their environmental performance compared to their peers and to improve their sustainability strategies

2.5.2 AI driven tools

To facilitate the complex process of reporting, several tools have already been developed on the market. Several of them make use of **Artificial Intelligence (AI).** The majority of these platforms are linked to ESG standards and/or **sustainability reporting platforms** for CSRD, the EU Taxonomy, and/or the SFDR.

On the **Belgian market**, there are several of these tools available with all their specific characteristics. ***Greenomy*** is e.g. a Belgian platform funded by Belgian public participation companies at the federal, Brussels, Flemish and Walloon levels to streamline the collection, sharing, and analysis of ESG data. The platform enables the connection of companies and financial institutions in a common infrastructure. ***Wequity*** focuses on AI-driven ESG reporting, as well as the automatic extraction of data from various sources/documents. ***Sweep*** includes carbon accounting, … . All of these tools are evolving very rapidly and contribute to a more accessible and potentially more standardized approach to ESG measurement.

AI DRIVEN TOOLS in brief	
Focus	Provide a sustainability reporting platform linked to ESG
Target groups	Corporates, credit institutions and asset managers
Key Features	Facilitating the collection, sharing, and analysis of ESG data between companies and financial institutions.

2.6 Sustainable investment strategies

Based on the ESG data, different sustainable investment strategies can be applied by the financial institutions. Some practices are more common than others and have already a long track record. The connection with the evolution of sustainable investing, presented in the 'history of sustainable investing' in 3.2 will become clear. We provide you with a non-exhaustive list.

An overview of SUSTAINABLE INVESTMENT STRATEGIES	
Best In Class	This strategy selects companies from each sector that earn the highest ESG scores. Portfolio managers set thresholds, only allowing companies that meet a certain sector ranking into the portfolio, or they reweight portfolio positions against an index according to these scores. The best-in-class methodology has become a standard sustainable investment approach, the % can vary.
Ethical and negative exclusions	This is an approach used for a long time. In modern investment management, portfolio managers exclude companies engaged in activities deemed unethical or that are contrary to international conventions or agreements. Exclusions vary greatly by investment management institutions, though some of the most frequently excluded products and practices are alcohol, tobacco, pornography, weapons, nuclear power, gross violations of human rights, or companies doing business in or with sanctioned countries. Exclusions

	can be based on any ethical consideration or on global or regional agreements such as the UN Global Compact, ILO standards, or the Paris Climate Agreement.
Sustainability themed investing	Investing in companies or sectors related to a specific sustainability theme, e.g., clean energy, health, sustainable agriculture, diversity.
Impact investing	Investing in companies or projects dedicated to creating concrete and measurable positive social or environmental impact through their products or services.
Outperforming a benchmark	Building an investment portfolio in such a way that it scores better than a benchmark on one or more ESG indicators, e.g. carbon intensity.
Engagement	Engagement is having an active dialogue with the companies invested in, offering investors the opportunity to discuss sustainability risks and opportunities with companies and provides them with insights into investors' expectations of corporate behaviour. This way, investors encourage companies to adopt more sustainable practices.

The ESG standards, which have been around for a long time, gave input to some important EU directives, of which the Corporate Sustainability Disclosure Regulation (CSDR) and the Sustainable Finance Disclosure Regulation (SFDR) are the main ones on this matter. Taking into account the difficulties in the past regarding the lack of a uniform standard, the EU worked closely with ISSB and GRI to develop the ESRS, the new European standard to be implemented from 2024 onwards. Before delving deeper into the standard itself, we briefly provide a general picture of the existing EU regulations in the next chapter.

3. Impact investing with a focus on impact management and measurement

Let us return to the 3 criteria of impact investing, namely intentionality, additionality and measurement, put forward by the Global Impact Investing Network (GIIN). These are clearly reflected in the 4 characteristics the GIIN prioritizes when **distinguishing impact investing** against from forms of investing. These four characteristics are:

INTENTIONALITY	MEASUREMENT	ADDITIONALITY
(1) Intentionality: The intentional desire to contribute to measurable or environmental benefit aiming to solve problems and address opportunities. This is at the heart of what differentiates impact investing from other investment approaches.	(2) *Evidence and Impact data in Investment Design :* making use of evidence and data to drive intelligent investment design. *(3) Manage Impact Performance :* the specific intention that investments are managed towards that intention by having feedback loops in place and communicating performance.	(4) *Contribute to the growth of the industry:* Investors use shared industry terms, conventions, and indicators for describing their impact strategies, goals and performance and share learning where possible to enable others to learn from their experience as to what actually contributes to social and environmental benefit.

What stands out, is the emphasis on **impact management and measurement (IMM)**, by putting 'evidence and impact data in investment design', and 'manage impact performance' **at front**. Impact management and measurement are related to each other, but they have a different focus.

	IMPACT MEASUREMENT	IMPACT MANAGEMENT
Focus	Quantifying the social or environmental outcomes of an investment	Active process of setting impact goals, making strategic decisions, and taking actions to maximize the social or environmental impact of investments (encompasses impact measurement but goes beyond it)
Purpose	To provide a detailed and quantitative understanding of the impact an investment has generated, helping investors and organizations track progress, compare different investments, and make data-driven decisions	Ensuring that investments are effectively designed, implemented, and adjusted to achieve their intended social or environmental goals
Questions to answer	- 'How much positive change has been achieved?' and - 'What difference did the investment make?'	- How can we optimize impact?' and - 'What actions can be taken to enhance outcomes?'

While the goal of impact measurement is to install a process to make impact visible, managing impact occurs continuously and is facilitated by integrating impact measurement in the investment management process. For proper impact measurement it is important to identify which information is needed for impact management and for maximising social impact. That is the reason why **managing impact is the core of the impact measurement process** and goes beyond counting metrics.

A regular cadence of analysis and review is necessary to conduct high quality Impact Measurement and Management (IMM). According to the **5 step approach**[4] of the **European Venture Philanthropy Association** (EVPA) the following are covered:

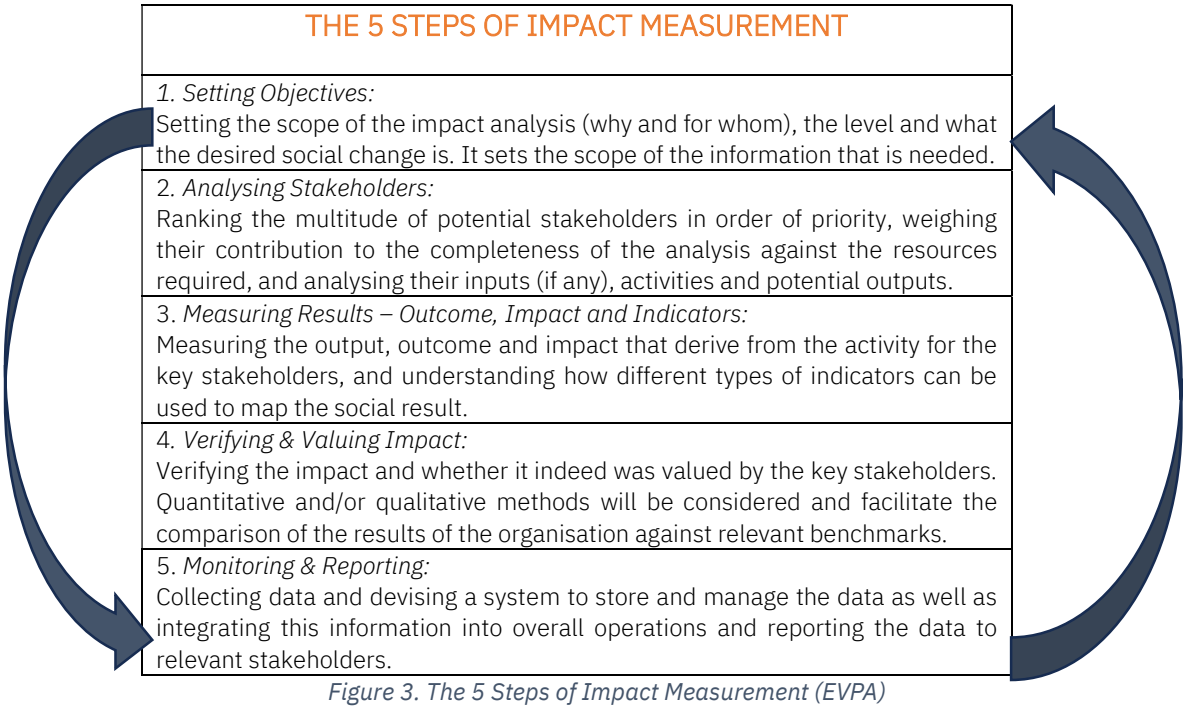


Figure 3. The 5 Steps of Impact Measurement (EVPA)

The different steps follow a sequential order and it's recommended that organisations go through the steps in this presented order. However, within the process it is possible to go back and revise previous steps when more information and familiarity is gained.

Investors' approaches to impact management and measurement **will vary based on their objectives and capacities**. The choice of what to measure usually reflects investor goals and, consequently, investor intention. Besides the 5 step approach, **some practices are common** in the world of impact investing :

- *Continuous Improvement:* Impact management is an iterative process that involves ongoing assessment and adjustment of strategies to enhance impact. This may include refining investment approaches, reallocating resources, or learning from past successes and failures.
- *Alignment with Stakeholders*: Impact investors engage with stakeholders, including beneficiaries and communities, to ensure that investments align with their needs and

[4] For more information see : European Venture Philanthropy Association (EVPA) (2015). A practical Guide to Measuring and Managing Impact. EVPA

preferences. This participatory approach helps ensure that impact is genuinely beneficial.

- *Reporting and Communication*: Effective impact management includes regular reporting and communication with stakeholders. Investors share insights, lessons learned, and progress updates to maintain transparency and accountability.

While IMM is central and going through the 5 steps is crucial, there are various IMM frameworks that help investors and organizations assess and quantify their impact, helping them to select metrics and set targets.

In the following part, we briefly discuss the **various standards, methods and techniques** that currently exist within the world of 'impact investing', without attempting to offer an exhaustive list. We make thereby a distinction between *principles* (broader framework), *standards* (more specific requirements), *measurement methods* (addressing measurement needs) and *tools/metrics* (practical instruments).

IMPACT INVESTING			
Principles	Standards/labels	Impact Measurement Methods	Tools/Metrics
INVESTORS AND ORGANISATIONS			
	SDG impact standards: promoting integration of SDG in management	*Quantitative methods:* IMM by targets/KPI's	*IRIS +:* metrics system
		Valuation methods such as Impact Weighted Accounts, SROI: focus on putting financial values to impact	*Other tool*
		Qualitative approaches: discovering more in-depth insights on impact	
INVESTORS			
GIIN: criteria on impact investing (see introduction of chapter 4)	*Universal standards for Social and Environmental Performance Management: focus on dimensions of a financial institution's operations used in the sector of microfinance*		
Impact principles of IFC: guidance on IMM systems for impact investors			
ORGANISATIONS			
UN Global Impact: implementation of principles related to sustainability	*ISO 14001 and ISO 26000*: establishing systems linked to sustainability		

	B-Corp: standards related to a label		…

In what follows we go quickly through the different frameworks presented here above.

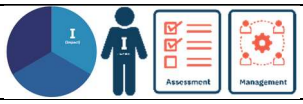
3.1 Principles

Besides the principles stipulated by the GIIN which we discussed at the start of chapter 5, we present here 2 well-known frameworks with broader principles, often cited in the context of impact investing, the 'impact principles' and the principles put forward by 'UN Global Impact'.

3.1.1. The Operating Principles for Impact Management ('impact principles')

The 9 Impact Principles is a framework for **investors** regarding the **design and implementation of their impact management systems**, ensuring that impact considerations are integrated throughout the investment lifecycle. Developed by the **International Finance Corporation (IFC) of the World Bank Group**, the Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. The elements of the process are: strategy, origination and structuring, portfolio management, exit, and independent verification. The Principles have been formulated based on two fundamental concepts: core elements of a robust impact management system; and transparency of signatories' alignment with the Principles.

The Impact Principles may be **adopted at the corporate, line of business, fund, or investment vehicle level**. Asset managers with a diverse set of investment products may decide to adopt the Impact Principles for only specific funds or vehicles that they consider impact investments. As well, asset owners that invest in bonds, funds, and other investment vehicles may apply the Impact Principles to their own investment processes. The way in which the Impact Principles are applied will vary by type of investor. Asset owners and their advisors may use them to screen impact investment opportunities. Asset managers may use the Impact Principles to assure investors that impact funds are managed in a robust fashion.

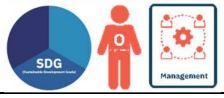
The IMPACT PRINCIPLES in brief 	
Focus	*Design and implementation* of *impact management systems* ensuring that impact considerations are integrated throughout the investment lifecycle.
Target groups	All types of *impact investors* and sizes of investment portfolios, asset types, sectors, and geographies.
Key Features	Focus on investment lifecycle Flexible approach

3.1.2. UN Global Compact

The United Nations Global Compact (UNGC) is a **voluntary initiative** launched by the **United Nations** in 2000 **to encourage businesses and organizations to adopt sustainable and**

socially responsible policies and practices. Companies and organizations that wish to participate in the Global Compact are expected to commit to 10 principles and integrate them into their business strategies, operations, and culture. The ten principles of the UN Global Compact are divided into four categories: human rights, labour, environment, anti-corruption.

While participation is voluntary, members are expected to make continuous efforts to improve their performance in the areas covered by the principles. The initiative is not legally binding, and it relies on transparency, accountability, and public reporting to ensure that participating organizations follow through on their commitments. The production of an annual Communication on Progress (COP) is in that sense central. Furthermore, the UN Global Compact provides a platform for sharing best practices, collaborating on projects, and engaging in dialogues to address global challenges.

UN GLOBAL COMPACT in brief	
Focus	*Promoting sustainable* and socially responsible *policies and practices*
Target groups	*Companies and organizations*
Key Features	UNGC has an outreach of 23 000 participants and is active in 166 countries and supports 62 local networks mainly in developing countries

3.2. Standards/labels

In the world of impact investing, different standards are developed to give more detailed guidance. In the following section we present some of the most known standards without presenting an exhausting list. Some of these standards (cfr. labels) set bars to assess and evaluate performance against predetermined criteria. The most worldwide known linked to impact-investing is the B-corp label.

3.2.1. SDG Impact Standards and the Impact Standards for Financing Sustainable Development IF

As the **SDG** are a set of 17 global SDG goals and 169 associated targets, they include (measurable) objectives related to ending poverty, ensuring clean water and sanitation, promoting gender equality, reducing inequality, and combating climate change. The SDGs themselves can be integrated in **different ways into IMM**, going from SDG alignment to SDG optimisation. The impact of the SDGs in the IMM system increases step by step in the following diagram.

Impact measurement	SDG Alignment	SDGs are used as - a reporting framework - to target sectors - to identify secondary indicators
	SDG Action	SDGs are used to identify impact gaps
Impact management	SDG Optimisation	SDGs are used to reach thresholds and targets

SDG alignment is commonly used in different standards. For example, GRI refers in the various topics to the specific link between that particular topic and the SDG that is linked to it.

Integration of the SDGs in impact management is facilitated by the **SDG impact standards**. These standards were developed in order to accelerate private sector activity and investment towards achievement of the SDGs. They are **voluntary internal management standards** guiding **businesses and investors** through 12 enterprise actions to decide which SDGs impacts are important and relevant, all the while informing organizations on how those impacts should be managed.

Figure 4. SDG Impact Standards

There are **3 different SDG impact standards** addressing the specific needs of **enterprises, private equity funds and bond issuers** and a fourth standard, the Impact Standards for Financing Sustainable Development (IS-FSD), providing a framework for **donors, and private sector partners**. Each set of SDG Impact Standards is based on four standards, which relate to strategy, management approach, transparency and governance, defining the requirements for a sound management practice that places sustainability and the SDGs at the core of value creation.

SDG IMPACT STANDARDS and IS-IFD in brief	
Focus	Provide a common language and *framework for collaboration*
Target groups	*Governments*, (non-profit, for-profit, …) *organizations, businesses, investors* (and specific SDG impact standards for enterprises, private equity funds and bond issuers, donors)
Key Features	SDGs are put central in management to prioritise which impacts are important and relevant for the organisation

3.2.2. Universal Standards for Social and Environmental Performance Management

Figure 5. Universal standards

The Universal Standards for Social and Environmental Performance Management ('the Universal Standards') are developed by **Cerise+SPTF**, a joint venture between two of the global leaders in social and environmental performance management. The standards provide **a comprehensive manual of best practices** and a clear roadmap that **financial service providers** can follow to achieve their goals.

The Universal Standards cover seven different dimensions of a financial institution's operations—strategy, governance, client-centric product design, client protection, responsible human resource development, responsible growth and profits, and environmental performance management, which financial service providers can implement at their own pace and according to their own priorities. Whether an organisation wants to implement one dimension, or a few, or all of them, the universal standards performance journey follows four basic steps going from learning, to assess, to improve and to show.

UNIVERSAL STANDARDS for Social and Environmental Performance Management in brief	
Focus	Providing a clear roadmap and ***manual of best practices***
Target groups	***Financial service providers*** in the sector of micro-finance
Key Features	Putting low-income customers and the environment at the centre of strategic and operational decisions and are built based on the different dimensions of financial institution's operations.

3.2.3. ISO Standards 14001 and 26000

ISO 14001 and ISO 26000 are both international standards developed by the **International Organization for Standardization (ISO)**. The are **voluntary in nature**, **certification can be sought** from independent certification bodies with the exception of ISO 26000. The standards are designed to be globally applicable allowing organizations operating in different parts of the world to adhere to the same best practices. The importance of defined processes, procedures, and practices that contribute to achieving specific outcomes is emphasized and the standards **guide organizations in establishing effective systems** to meet their goals and provide a basis for performance evaluation.

ISO 14001 is a standard that outlines the requirements for an Environmental Management System (EMS), a framework that organizations can use to manage their environmental impacts more effectively and systematically to prevent pollution, to reduce an organization's environmental footprint and to be compliant with relevant environmental regulations. **ISO 26000** standard provides a roadmap for organizations to develop their social responsibility strategies and practices and make well-informed decisions. It covers a broad spectrum of issues related to organizational governance, human rights, labour practices, the environment, fair operating practices, community involvement and development and consumer issues.

ISO 14001 and 26000 in brief	
Focus	ISO 14001: Environmental Management System; ISO 26000: Social Responsibility : ***share best practices*** and providing base for performance evaluation
Target groups	All kind of ***organisations*** worldwide regardless of their size, industry or location
Key Features	Guidance on establishing effective systems, globally applicable and possible certification

3.2.4 Labelling by B Corp

B Corp certification, or Benefit Corporation certification, is a designation awarded to businesses that meet certain **rigorous standards of social and environmental performance, transparency, and accountability.** The B Corp movement aims to redefine success in business by encouraging companies to consider their impact on not only shareholders, but also on employees, communities, and the environment.

To become a B Corp, a company must undergo a comprehensive assessment administered by the **non-profit organization B Lab.** This assessment evaluates a company's performance across a range of areas, including governance, workers, community, environment, and customers. B Corps are required to meet high levels of transparency and accountability and must make their B Impact Assessment (BIA) score publicly available. Companies must meet the standards on an ongoing basis and are recertified every three years. Certificated 'B Corps' become part of a community that share a commitment to create positive social and environmental change and that offers networking opportunities, shared resources, and a platform for collaboration.

B CORP CERTIFICATION in brief 	
Focus	Encouraging ***companies*** to consider their impact on shareholders, employees, communities, and the environment.
Target groups	*Companies* worldwide which can be found in over 70 countries and across various industries, including manufacturing, technology, retail, finance, and more.
Key Features	*Certification* on an ongoing basis based on evolving standards; Possible to compare performance to other businesses that have taken the B Impact Assessment; Certified organisations make part of a community; B Impact Assessment and SDG Action Manager are a free digital tools that support measure, manage, and improve positive impact performance.

3.3. Impact measurement and management methods

The world of standards is very diverse, this is even more the case for the world of IMM methods. It is impossible to give an exhaustive list of these methods, which is the reason for limiting ourselves to the **presentation of a number of approaches** and a brief discussion of some of the tools they use. We make a first distinction between quantitative and qualitative approaches. Within the quantitative approaches we also take a closer look at some (financial) 'valuation' methods, a method that tries to put value on the different types of impact.

3.3.1. Quantitative approaches

Within the quantitative approaches, the collection and analysis of numerical data is central. Not all data are of equal importance in this regard. As indicated at the beginning of this chapter, for impact investors and/or organizations, it is important that these data inform management about the decisions to be made regarding the maximization of impact.

A common approach within IMM, is the **Key Performance Indicator (KPI) setting**. It is an approach which is broader applied than the impact investors scene. As earlier mentioned, KPIs are metrics used to measure the performance of an organization, project, or specific activities and involves a systematic process to define, track, and evaluate performance against predetermined objectives (see also the 5 steps process for impact measurement). Some organisations develop their KPI's by using **standards, guidelines or preset benchmarks.**

Other organizations use a more 'theoretical based approach' by outlining a specific Theory of Change. The **Theory of Change (TOC)** specifies the expected pathway to achieve impact and helps to guide investment decisions and the measurement of outcomes. It is a common approach within impact investing.

The **TOC** helps to articulate the logic behind how and why a particular intervention or program is expected to lead to desired outcomes going thought the different steps of input - activities-outputs-outcomes and impact. The strength of a TOC is making explicit assumptions that are often implicit during the choice-making process. These assumptions can relate to the context, the target population, and the causal pathways. A good theory of change acknowledges that the real world is complex and dynamic and knows that it is only a model to represent the complex reality. Based on this simplified reality and the defined outputs and outcomes, KPI's can be selected and defined.

Another framework often used in this regard, are the **5 dimensions of Impact**, developed by the Impact Management Project which we discussed earlier on page 8. While some dimensions can be directly correlated with quantitative data, other dimensions such as 'what' and 'who' require some conversion into metrics.

QUANTITATIVE METHODS, in brief	
Focus	Quantitative methods can be used to plan, evaluate, and communicate about initiatives, projects or programs.
Target groups	They are widely used in various fields, including social sciences and by different actors such as companies, small business, investors
Key Features	Translation of priorities in specific targets
Strengths	- KPIs and TOCs provide a clear and specific focus on what is most important for the organization's or activities success and support aligning effort towards common goals - They help in tracking performance and identifying areas for improvement over time, across different departments, or against industry benchmarks and provide valuable data for informed decision-making. - KPIs can serve as early warning allowing for timely intervention before a situation escalates.
Weaknesses/points of attention	- As KPIs primarily rely on quantitative data, qualitative aspects of performance can be overlooked - A strong focus on KPI's led in some cases, to a temptation to manipulate data to meet KPI targets, which can lead to misleading information - KPIs can be misinterpreted without proper context, neglecting the underlying factors that contribute to KPI performance - Common mistakes :

	* focusing solely on short-term KPIs * one-size-fits-all approach neglecting the specificities of different departments or industries; * not periodically reviewing and updating KPI's, * setting overly ambitious KPI targets leading to demotivation and discouragement * and having too many KPIs leading to information overload and dilute focus.

3.3.2. Methods linked to (financial) valuations

At the core of this approach is the assignment of value to the achieved impacts. Most of the approaches below go even a step further and also assign a financial value to the realized impact. These financial valuations methods are based on the belief system behind the **Cost-Benefit Analysis (CBA)**, a systematic approach used to evaluate the potential benefits and costs associated with a project, program, or policy. CBA has a long history, and several impact measurement methods and tools are developed based on this thinking, such as the Social Return on Investment method, the impact weighted accounts and the Life Cycle Assessment.

A. Impact weighted accounts and Kering's Environmental Profit & Loss account

Impact-Weighted Accounts, or IWAs, started from the fact that a lot of current financial value is created at the expense of society and the environment. Therefor businesses need to be able **to factor into decision-making the consequences of their actions not only for financial and physical capital but also for human, social and natural capital**. The method is developed by Ronald Cohen and followed-up by the **Harvard Business School.**

The goal of IWAF is to guide organisations on creating their own Impact-Weighted Accounts, allowing them to meaningfully steer on impact within their organization. Impact-Weighted Accounts supplement traditional **financial accounts *with positive and negative impacts* and includes the financial consequences of *all stakeholders*** (customers, suppliers, employees, broader society) AND account for the impact of an organisation on ***all capitals*** (financial, produced, intellectual, natural, social and human) and on **all stakeholders.**

Figure 6. Different capitals within IWA

To make impacts comparable, **all impacts are quantified and monetized in an Integrated Profit and Loss (IP&L),** allowing the organisation e.g. to choose whether it is more impactful to reduce biodiversity impact or to reduce climate impact by showing the value creation for all stakeholders. While organisations obtain tools to quantify, measure and manage their impact, investors get the sustainability information they want or need to make informed decisions in some figures**, what makes comparability possible.**

A variation of this methodology can be found by **Kering** and his **Environmental Profit & Loss (EP&L) account.** A similar methodology is applied and the impact is translated into monetary

values. Only the focus is narrower by placing emphasis on measuring the environmental footprint in the own operations and the entire value supply chain.

B. The Social Return on Investment method (SROI)

The Social Return on Investment (SROI) is based on the same underlying idea. The method, developed by **Social Value International**, is a method used **to assess the social, environmental, and economic value** created by an organization, project, or program going beyond just financial metrics. The difference with IWA's lies in the fact that the SROI **emphasis on the estimated value that society and/or involved stakeholders places on various social and environmental benefits by taking their opinion into account** by identifying the 'social value'. To enable this, SROI **encourages strongly the engagement with (different) stakeholders** for the identification and prioritization of outcomes helping organisations to increase positive change, and decrease the negative outcomes as perceived by the different stakeholders.

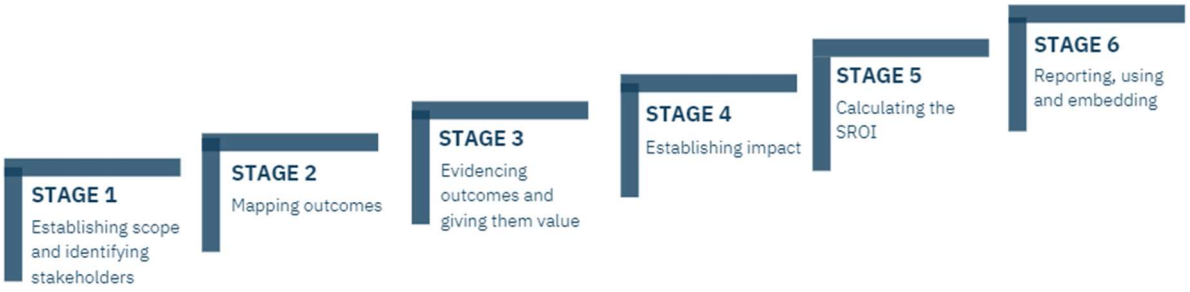


Figure 7. The Stages of SROI

The **social value map** facilitates in an accessible way the calculations of different scenarios in terms of impact, showing how costs and benefits are distributed across different stakeholders. In the calculation, attention is given to the changes that can be attributed to the initiative being evaluated (attribution) and those that would have occurred anyway (deadweight). Similar to attribution and deadweight, SROI considers whether the initiative causes any negative effects (drop-off) or shifts a problem from one area to another (displacement).

SROI typically involves looking at **impacts over the long term,** as many social and environmental benefits may not become apparent immediately. The calculation of the Net Present Value and the expression in a ratio is not mandatory, but it is a useful tool to compare the effectiveness of different initiatives or programs and to benchmark against industry or sector standards. Similar to the CBA, SROI considers a project to create additional value when the ratio is greater than 1 and when the Net Present Value (the difference between created value and costs) is positive.

C. Life cycle approach

The Life Cycle Analysis (LCA), also known as Life Cycle Assessment, is a comprehensive method for **evaluating the environmental impacts of a product, process, or service over**

its entire life cycle. This process includes the extraction of raw materials, production, transportation, use, and disposal or recycling. This includes the 'cradle-to-grave' or 'cradle-to-cradle' assessment. LCA focusses on **environmental impact** including but not limited to climate change, resource depletion, air and water pollution, ecosystem quality, and human health. The Data Collection and Inventory Analysis involves collecting data on all inputs and outputs at each stage of the life cycle, including energy consumption, material usage, emissions, and waste generation. During the impact assessment, the collected data is analysed to quantify the environmental impacts in the chosen impact categories. Although not mandatory, **monetary valuation** is used in LCA to aggregate environmental impacts expressed in order to facilitate the communication and the use of LCA results in decision-making processes.

LCA promotes considering trade-offs between different impact categories and identifying areas for improvement. Calculation can be done twofold focusing on an attributional LCA (which assigns impacts directly to the product or process) or/and a consequential LCA (which considers the broader system impacts of changes in demand). The internationally recognized standards (ISO 14040 and ISO 14044) provide guidance on conducting LCAs.

VALUATION APPROACHES in brief	
Focus	Facilitate decisions based on the costs associated with different options or actions. By using monetization, different options can be compared. Stresses the fact that financial and social impact can and should be measured and compared.
Target groups	The methods are used in various fields, including economics, accounting, and business management, policy making, ecolabeling (only LCA)
Key Features	Conversion of (ecological and social) costs and benefits into financial valuations, in monetary terms. Attention for including direct and indirect impacts *Impact Weighted Accounts* : concentration on the financial consequences of all stakeholders (customers, suppliers, employees, broader society) AND account the impact of an organisation on all capitals (financial, produced, intellectual, natural, social and human); *SROI:* concentration on social value, the value perceived by the different stakeholders; *Life Cycle Assessment* :focus on the evaluations of the environmental impacts of a product, process, or service over its entire life cycle
Strengths	- All approaches rely on quantifiable data; - The methods help organizations to be more transparent and accountable for the use of resources and the value they add to the lives of different stakeholders. - CBA methods can support price-setting - The methods provides a strong communication tool for organizations to showcase their social and environment impact to stakeholders
Weaknesses/points of attention	See also KPIs and TOC Only quantifiable data is considered The methods make the financial logic visible, but do not promote change in the system. The methodologies can be very time consuming.

3.3.3. Qualitative approaches which can support the development of indicators for IMM

Besides the different methods with a focus on quantifying impact, there are numerous qualitative approaches and methods used in evaluation practices to identify impact. They all can help to identify measurable indicators. We limit ourselves to the most commonly used methodologies namely outcomes mapping and harvesting, and appreciative inquiry. The different approaches can be used individually or in combination to provide a comprehensive understanding of the outcomes and impacts. Each approach brings its own unique perspective and methods to the evaluation process.

A. Outcome mapping

Outcome Mapping is primarily **used for planning, monitoring, and evaluating initiatives in complex environments**. The method distinguishes between changes that an initiative **directly influences** (i.e., outcomes) and those **made by secondary parties** (i.e., boundary partners' outcomes). The boundary partners refer to individuals, groups, or organizations that are directly engaged with the initiative. Outcome Mapping emphasizes **understanding and influencing their behaviours.**

The method uses progress markers and outcome challenges. Progress markers are specific, observable indicators of changes in behaviour or relationships that signal progress toward outcomes. Outcome Challenges are the specific challenges that boundary partners face in bringing about change. The initiative seeks to address or mitigate these challenges. The systematic documenting of changes in boundary partners' behaviour and relationships over time, is called outcome journaling and the 'harvest of outcomes' is used to collect evidence of outcomes by engaging with boundary partners and stakeholders.

B. Outcome harvesting

The methodology of 'outcome harvesting' builds on the insights of the methodology 'outcome mapping'. It is an evaluation method used to identify and **gather evidence of outcomes and impacts that have occurred** as a result of a program or initiative and is typically conducted after the intervention has taken place. It involves identifying and documenting specific outcomes that have occurred, often focusing on unintended or unanticipated results. **The evidence is gathered from various sources, including interviews, documents, and other records**. It often involves talking to stakeholders and beneficiaries to understand their experiences. The information collected is typically presented as 'outcome stories' that describe the changes that have taken place. Outcome Harvesting is particularly useful for programs where it's challenging to predict in advance what outcomes will occur or when **outcomes are expected to be largely unpredictable**.

C. Appreciative Inquiry

Appreciative Inquiry (AI) is an approach to organizational development and evaluation that emphasizes **focusing on an organization's strengths, successes, and positive experiences**. The method starts by identifying and appreciating what has worked well in an organization, rather than focusing on problems or deficiencies. Open-ended, positive

questions used to guide the inquiry process. They **encourage reflection, sharing of experiences, and envisioning of positive futures.** AI typically follows a four-phase process – Discovery (identify strengths and successes), Dream (envision a desirable future), Design (create strategies and plans), and Destiny (implement and sustain positive change). Promoting collaboration and collective visioning, appreciative inquiry involves engaging all stakeholders in the inquiry process. The collaborative processes for generating new knowledge and ideas, can lead to innovative solutions. Appreciative Inquiry is used in **organizational development, strategic planning, and evaluation** to foster positive change, innovation, and transformation within an organization or community.

QUALITATIVE APPROACHES in brief	
Focus	Identifying impacts by questioning stakeholders
Target groups	Very broad : *organisations, policymaking,* ...
Key Features	Qualitative and in-depth approaches
Strengths	Give in-depth insights in realized impact
Weaknesses/points of attention	- Sufficient resources are needed - More difficult to quantify impacts

3.4. Tools/metrics

Despite the importance the impact investing world attaches to impact measurement, there are currently no uniform measurement tools/metrics for the sector. Only a few tools have made an attempt to integrate multiple frameworks and/or standards into their metrics. Iris+, a free tools developed by the GIIN is an example in this regard.

3.4.1 IRIS+

IRIS+ is a generally accepted **impact accounting system** underpinned with over 50 standards including the SDGs and the Global Reporting Initiative (GRI) Standards. It is **created by the Global Impact Investing Network (GIIN) to support IMM**. The taxonomy includes commonly deployed Strategic Goals backed by best practices and evidence and guidance in order to help organisations to select the Strategic Goals that are most relevant to their impact activities.

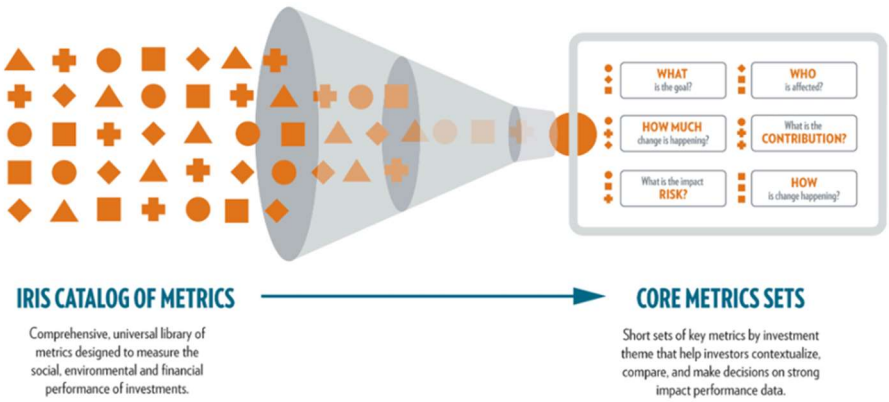


Figure 8. Presentation of IRIS+

Investors can use IRIS+ data within each stage of the investment process allowing them to take into account positive and negative effects. IRIS+ data can also be used to compare performance between similar investment strategies, within similar Impact Categories and Themes or SDGs. **Companies** use the IRIS+ system to identify, measure and manage social and environmental impact and report their impact to investors in a consistent and standard way.

IRIS+ in brief	
Focus	Providing a ***central set of metrics*** linked to social, environmental and financial performance including contextualize impact information and guidance for selection to support the use of comparable impact data
Target groups	***Investors, companies,*** researchers
Key Features	Links to SDGs, GRI and the five dimensions of impact; Broad coverage of impact categories and impact themes.

A Flemish/French tool that works further on the Iris+ metrics is the Social Innovation Factory's **impact track**. It is a paying tool that integrates several indicators, including these from Iris+, the SDGs, the 5 dimensions of the Impact Management Project, ... The tool facilitates the preparation of a TOC both for investors and organisations.

3.4.2 Other tools

Besides the free tool IRIS+, there are numerous other tools and metrics, whether or not linked to a methodology and/or standard. For example, there's the impact map (SVI) and the IP&L sheet (impact weighted accounts), the B impact assessment tool by B lab for B corp certification, and so on. These tools can be supplemented with regularly used techniques such as surveys, impact stories, case studies,... .

Providing a detailed description of the diversity of tools is beyond the scope of this report. When using a tool, it's worthwhile to ascertain which standard, methodology, or principle it is associated with. This way, you gain a clearer understanding of the underlying focus and objective.

4. Existing and upcoming EU regulations

The European Union (EU) paved the way for more sustainable investments in fields including renewable energy, biodiversity, and circular economy by passing the **Green Deal** in 2019. The ultimate objective is to achieve climate-neutrality in Europe by 2050. However, the EU depends on the support of the private sector to achieve the Paris climate agreement and therefor the European Green Deal emphasizes the importance of sustainable finance.

As part of the European Green Deal, the EU has outlined the **Sustainable Finance Framework,** which is intended to help embed sustainability factors at various levels of the economy. The Sustainable Finance Framework represents a comprehensive set of initiatives and regulations and is designed to align financial activities with **ESG objectives**.

The **key components** of the EU's Sustainable Finance Framework include:

- *Taxonomy Regulation:* establishing a classification system for environmentally sustainable economic activities. (see further).
- *Disclosure Regulation:* part of the broader EU Sustainable Finance Disclosure Regulation (SFDR), mandating transparency and disclosure requirements for financial market participants and financial advisers regarding the integration of ESG factors into their investment decision-making process.
- *The Corporate Sustainability Disclosure Regulation (CSRD) replacing the Non-Financial Reporting Directive (NFRD):* requiring large EU companies to disclose certain non-financial information related to ESG matters.
- *Sustainable Finance Strategy:* outlining the broader vision and goals for sustainable finance in the EU.
- *EU Green Bond Standard and Green Bond Framework:* establishing voluntary standards and guidelines for issuing and reporting on green bonds.
- *Benchmarks Regulation:* including provisions for creating and maintaining low-carbon and positive-carbon impact benchmarks. These benchmarks are designed to help investors track and compare the carbon intensity of their investments.

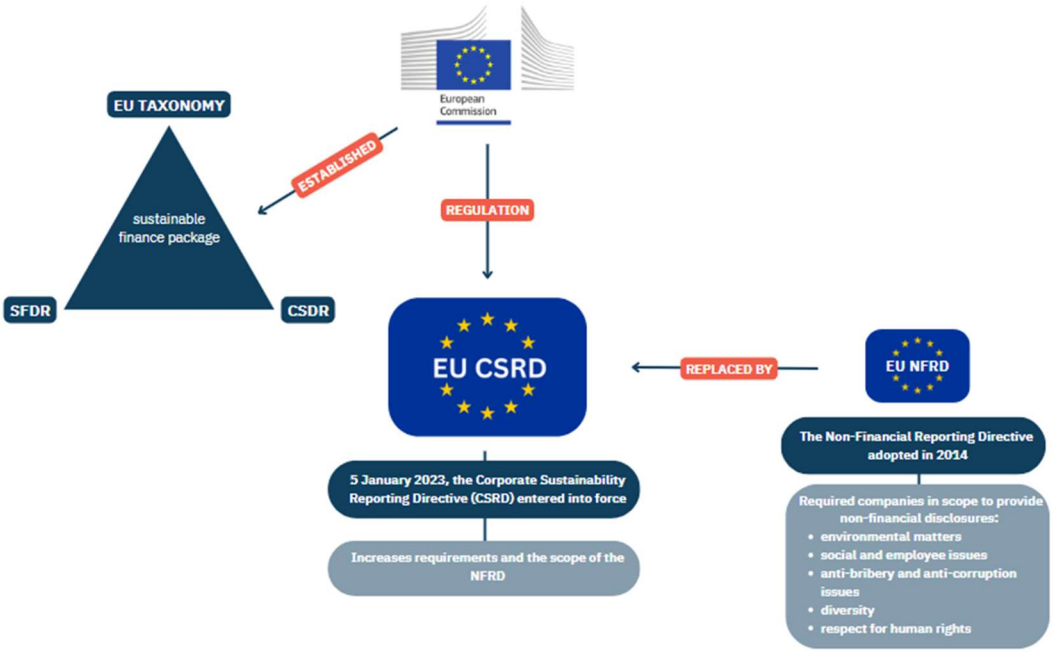


Figure 9. Presentation of the EU Sustainable Framework

The three most important regulations (**EU Taxonomy, CSRD and the SFDR**) of the Sustainable Finance Framework, are closely interlinked but have different accents.

REGULATIONS	EU TAXONOMY	CORPORATE SUSTAINABILITY DISCLOSURE REGULATION[5] (CSRD)	SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)
Focus	**Classification** framework for sustainable **activities**	Regulates sustainable **reporting**	Regulates **disclosure requirements** for selling financial product
Target group	All activities	Companies	Financial market

The combination of these regulations **affects** all major players along the entire investment value chains, from companies that demand capital to investors that provide funding to those companies, and everyone in between.

[5] Also known as the accounting directive.

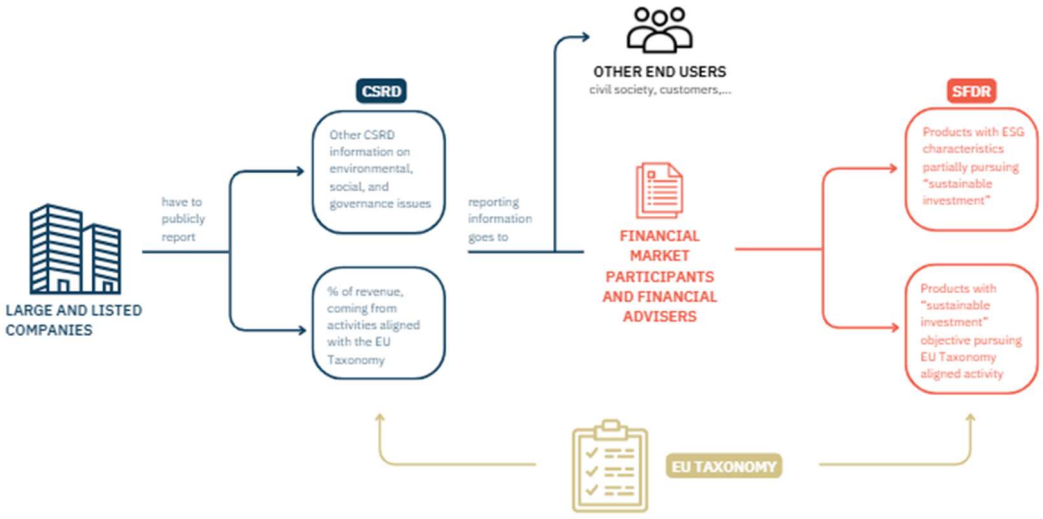


Figure 10. EU Taxonomy, CSRD and SFDR

4.1 The EU taxonomy

The EU Taxonomy Regulation is a crucial component of the EU's Sustainable Finance Framework. It establishes a classification system, that determines which economic activities contribute substantially to environmental objectives without causing significant harm to other environmental objectives. The **primary goal** of the Taxonomy Regulation is to provide a common language between investors, businesses, and policymakers facilitating direct capital towards these activities.

The EU Taxonomy Regulation focuses on **six key environmental objectives:**

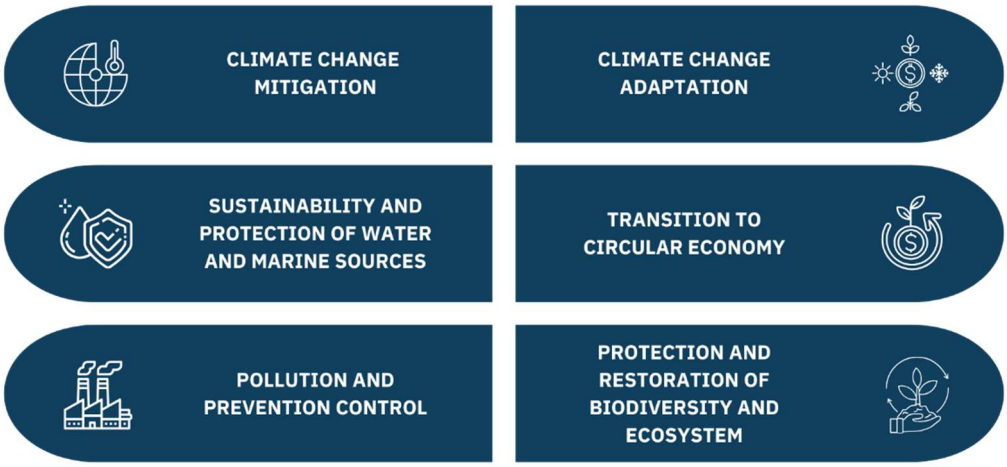


Figure 11. EU Taxonomy's Six Environmental Objectives

While other environmental objectives are considered, the initial focus of the Taxonomy lies on **climate-related activities**. Other aspects do not receive the same level of attention or detail.

The major **strengths** of the Taxonomy is the clarity it brings to help investors and businesses understand what activities are considered green, reducing the risk of greenwashing. With its alignment with international standards and initiatives, the taxonomy facilitates global consistency in sustainability reporting and investing practices. Often used as a guide, the Taxonomy encourages innovation in technologies, practices to more sustainable economic activities and innovation in technologies and practices within existing economic activities.

While the taxonomy brings several benefits, it also faces some **challenges**. The complexity of the technical criteria and the set thresholds is the most important. Understanding and applying the criteria is demanding, especially for smaller companies and investors. Some sectors even face difficulties in meeting the Taxonomy criteria initially, particularly those that are heavily carbon-intensive or resource-dependent. For a lot of **companies** the request of additional resources and expertise to continually monitor and report on their alignment with the Taxonomy criteria forms a burden. The variability of the availability and quality of data on the environmental performance of companies and investments affects the accuracy of Taxonomy assessments, and presents a major challenge for **investors**.

THE EU TAXONOMY in brief 	
Focus	Providing a **standardized framework** for identifying environmentally sustainable economic activities (focus on climate-related activities)
Target groups	Investors, businesses, and policymakers
Key Features	- A classification system, providing a common language; - Alignment with international standards and initiatives (GRI, ISSB, TCFD, ...)

4.2 The Sustainable Finance Disclosure Regulation (SFDR)

The **Sustainable Finance Disclosure Regulation (SFDR**) focusing on the financial market, promotes the integration of ESG considerations into **investment decisions of financial actors.** With the requirement to disclose information about (1) how ESG factors are integrated into their investment decisions, (2) how the impacts of these factors is assessed, and (3)how adverse sustainability impacts (negative effects on sustainability) are considered in their investment processes, the SFDR standardizes and improve the transparency of ESG-related disclosures.

The regulation came into effect in 2021 and classifies financial products into **three categories** based on their sustainability characteristics:

- *Article 6 Products:* Products that do not promote ESG characteristics.
- *Article 8 Products:* Products that promote ESG characteristics, known as 'environmental and socially promoting'. They are often referred to as 'light green'

- *Article 9 Products:* Products with sustainable investment as their main objective. The term 'dark green' is often applied to.

The different articles have different requirements as shown in figure 16.

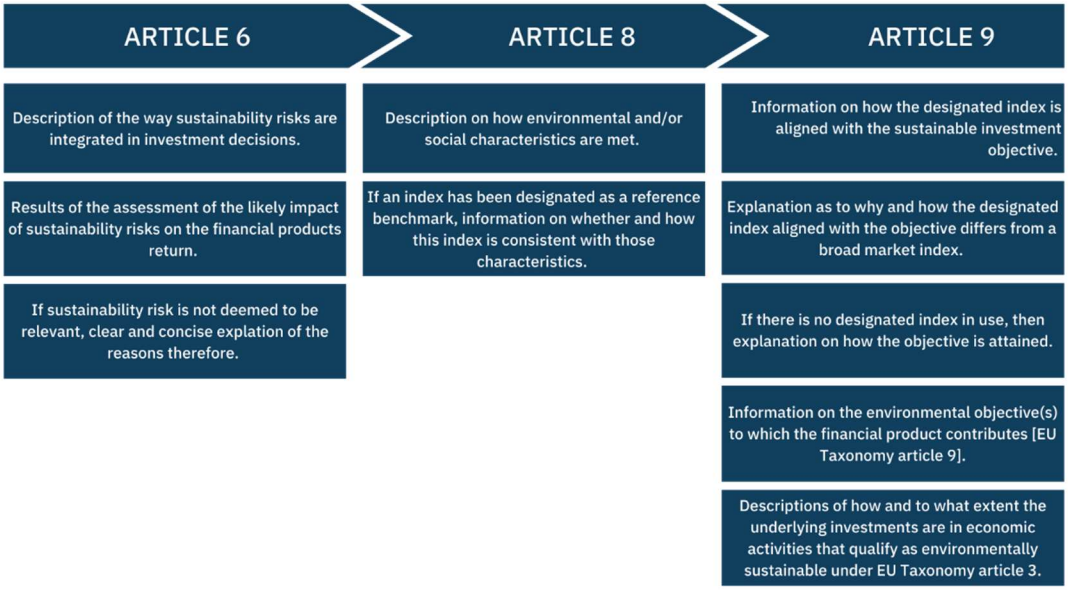


Figure 12. SFDR Classification

The standardized framework **enhances** transparency and accountability and helps investors, asset managers, and financial advisors understand and compare the sustainability characteristics of different financial products and allows investors to choose products that align with their specific preferences and objectives.

The **SFDR meant a lot** for the promotion of sustainable finance and led to a growing demand among investors. It encouraged financial market participants to integrate ESG considerations and the development of comprehensive and holistic investment strategies. As one of the first comprehensive regulatory frameworks of its kind, the SFDR positioned the EU as a leader in sustainable finance and sets a precedent for other jurisdictions.

As for the EU Taxonomy, the challenges of the SFDR are linked to the **complex set** of requirements and technical standards which are difficult to address by smaller companies and for investments in certain regions or sectors where such data are less standardized or readily available. The complexity complicates the effective comparison between products and result in variations across different stakeholders. Addressing this complexity requires ongoing collaboration between regulators, financial entitites, and other stakeholders.

SFDR in brief	
Focus	*Promoting the integration of ESG considerations into investment decisions*
Target groups	*Investors*, asset managers, and financial advisors
Key Features	Standardization of ESG-related disclosures about how ESG factors and the impact of these factors are integrated and assessed into the investment decisions

4.4 The CSRD

Almost two years later (2023) the Corporate Sustainability Reporting Directive (CSRD) entered into force enhancing the transparency of companies' non-financial reporting related to ESG matters. The directive aims to provide investors and stakeholders with consistent and comparable information about companies' sustainability performance and risks and facilitate the application of the SFDR.

The CSRD followed-up on the **Non-Financial Reporting Directive (NFRD)** which will remain in force until the first deadline set by the CSRD in 2024. Under the NFRD, approximately 11700 large companies across the EU already have to publish information related to ESG matters.

Compared to SFDR, the scope of CSRD is broader, as it is applicable not only to the financial sector but to a wide range of companies. The CSRD **will be applicable to more than 50,000 companies, both based in the EU and outside**, including large listed companies, banks, insurance companies, listed European mid-sized companies, listed European SMEs, large private European companies and non-European companies with significant business in the EU. The Accounting Directive imposes no new reporting requirements on SMEs, except listed SMEs for whom a proportionate reporting regime is foreseen. The European Financial Reporting Advisory Group (EFRAG), an independent, multistakeholder independent advisory body, is currently developing the draft versions of the proportionate standards for listed SMEs. Nonetheless, it is expected that the pressure for ESG reporting for smaller companies will increase since larger companies will have to report on their entire value chain, including SME production.

CSRD in brief	
Focus	*Enhancing the transparency and comparability of companies' non-financial reporting* related to ESG matters
Target groups	*Investors and stakeholders*
Key Features	- CSRD is mandatory; - Scope of CSRD is broader than the SFDR and will be applicable for more than 50.000 companies based in the EU; - Follow up of the Non-Financial Reporting Directive (NFRD)

4.5 The ESRS

In order to meet the requirements of the CSRD, the European Sustainability Reporting Standards (ESRS) have been developed and were adopted on the 31/7/2023. Both the CSRD and ESRS are legally binding and are mandatory for use by companies falling under the CSRD Accounting Directive. The European directive is directional and still needs to be transposed into local legislation. For Belgium, this process is still ongoing. The ESRS is formally transmitted in the second half of August to the European Parliament and to the Council for scrutiny. The approval is expected by the end of 2023. The reporting requirements will be

phased in over time for different companies. The first companies will have to apply the new rules for the first time in the 2024 fiscal year, for reports published in 2025.

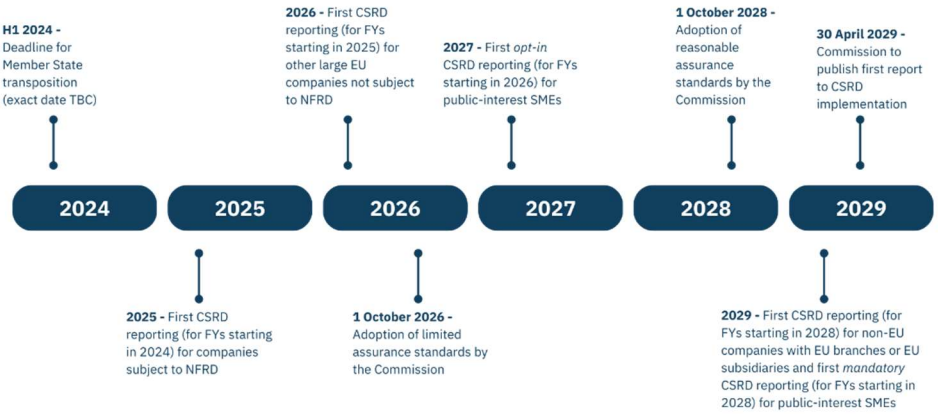


Figure 13. Timeline on the EU's Corporate Sustainability Reporting

As for the CSRD, the **ESRS standards** were **developed by the EFRAG**. The Commission has worked to ensure a **very high level of alignment** between ESRS and the standards of the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI) in order to promote one common standard. The standard is likewise consistent with the EU's own political ambitions regarding to sustainable finance and the European Green Deal.

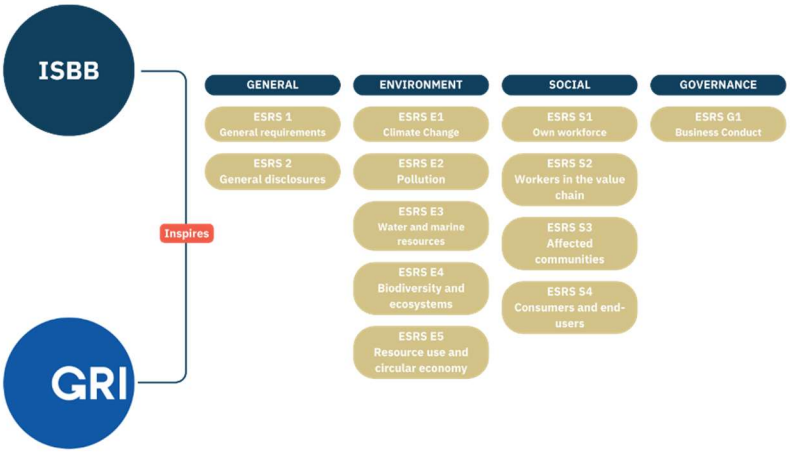


Figure 14. The ESRS

There are **12 ESRS,** covering the full range of sustainability issues and containing a series of clearly identified datapoints that correspond to specific information that financial market participants, benchmark administrators and financial institutions need for their own reporting purposes. Only ESRS 1-'General Requirements' and ESRS 2-'General Disclosures' are **mandatory**. All the other standards are subject to a materiality assessment. This means that the company will report only relevant information and may omit the information that

they consider not relevant for its business model and activity. However for the topics which are considered as material, disclosure requirements are not voluntary and the assessment process is subject to external assurance. Elements related to Climate which are not considered as material, need to be justified.

The other 10 ESRS are clearly linked to environment, social and governance issues, and are therefore clearly linked to the ESG approach. Interesting to see, is the importance given to 'affected communities' and 'consumers and end-users' in ESRS S3 and S4, which may open doors for collaboration between ESG and impact investors.

One of the main differences compared to other standards is the requirement that reporting must be done from a '**double materiality'** perspective, meaning that both of the following need to be assessed:

- *Impact materiality*: companies' / groups' impact on the people and the environment (including an analysis of the whole value chain)
- *Financial materiality*: how sustainability matters impact companies' / groups' business.

It should be noted that impact materiality for the EU regulations, extends to the whole supply chain, **even if there is no direct contact or engagement with the supplier**. For example, modern slavery in the supply chain can be considered as a material aspect, even if the organisation has no direct link with it. Impacts can be either positive or negative, or both, depending on the risks and opportunities surrounding the matter.

ESRS in brief	
Focus	*Corporate standards* covering sustainability issues related to environment, social and governance
Target groups	*Investors*, benchmark administrators and financial institutions
Key Features	- ESRS 1 and ESRS 2 are mandatory for companies falling under the CSRD - Double materiality perspective - Very high alignment with standards of ISSB and GRI; - ESRS is expected to be approved by the end of 2023.

4.6 The DCSDD

The ESRS will be complimented with the Directive on Corporate Sustainability Due Diligence (DCSDD). The aim of this Directive is to go **further than reporting and to foster sustainable and responsible corporate behaviour**. The new rules will ensure that businesses address adverse impacts of their actions and establish a corporate due diligence duty. The core elements are identifying, ending, preventing, mitigating and accounting for negative human rights and environmental impacts in the company's own operations, their subsidiaries and their value chains. In addition, certain large companies need to have a plan to ensure that their business strategy is compatible with limiting global warming to 1.5 °C in line with the Paris Agreement.

The Directive also introduces duties for the directors of the EU companies covered, including setting up and overseeing the implementation of the due diligence processes and integrating due diligence into the corporate strategy. In addition, directors must take into account the human rights, climate change and environmental consequences of their decisions.

DCSDD in brief	
Focus	*Foster sustainable and responsible corporate behaviour* within organisation
Target groups	*Companies*
Key Features	Introduces duties for directors of EU companies

4.7 Overview of differences and similarities between GRI, ISSB and CSRD/ESRS

In order to link the ESG standards, described in the previous chapter, with the upcoming EU regulation we conclude with a **brief overview of the differences and similarities between the 3 main standards for organisations within the EU**, i.e. the GRI, the ISSB and the CSRD/ESRS.

	GRI	ISSB	CSRD/ESRS
Commonalities	Enhancing transparency and standardization regarding sustainability		
Differences			
Character	Voluntary	Can be mandated and combined with jurisdiction-specific requirements	Mandatory (for activities in EU)
Scope and coverage	Modular system providing a wide range of reporting options and disclosures (general, sectors and specific topics) for a wide range of organisations	Focuses on general reporting requirements (IFRS S1) and climate-related disclosures (IFRS S2) for profit-oriented entities, including public-sector business entities	12 standards (general, environment, social and governance), addressing 50.000 corporates
Materiality	Impact materiality	Financial materiality	Double materiality
Focus	Addressing stakeholders needs + support decisions making and goalsetting processes within organisations	Unified set or rules for financial reporting	Reporting on financial and non-financial performance
ESG coverage	Environmental, Social and Governance disclosure requirements	Climate-related risks and opportunities	Environmental, Social and Governance disclosure requirements
Focus group	External and internal stakeholders	Existing and potential investors, lenders and other creditors'	- Existing and potential investors, lenders and other creditors"

			- ‘Users’ including undertaking’s business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics

5. Conclusion: ESG and impact, where do we meet each other?

With this report we aimed to provide a clear and accessible overview of the current landscape in the investment world, encompassing both the perspectives of impact and ESG investors. It underscores that both approaches share similar intentions and contribute significantly to advancing a more sustainable society.

The **complementary nature** of ESG and impact investor approaches is evident, particularly when viewed through the ***input-output-outcome-impact diagram*** on page 8. The ESG approach concentrates on input, activity, and output, while impact investors focus more on outcomes and impact. The diagram vividly illustrates their interconnectedness, even if the initiatives start from different starting angles. At a certain point they meet each other, and they can draw inspiration from one another in the continuum of the diagram. A similar complement can be found when looking at the ***ABC model***. While ESG focuses on 'do not harm,' impact investors go further and focus on 'contribute to solutions' for the broader society. The focus on 'benefit stakeholders' lies in between and is an aspect also considered within 'double materiality'.

The increased focus on ***impact measurement and management also contributes to this mutual complementarity*.** While for impact investors the focus of impact measurement and management is mainly on the concern to continuously improve activities from the impact achieved, IMM is gaining an important place within the ESG investor groups. From the demand and attention to continuously score better on sustainability, the various ESG approaches offer tools to map and further optimize their own operations. The existing EU frameworks and the ones in development can have an inspiring and binding effect in this regard. The standardization of definitions and concepts to which the EU taxonomy and the CSRD provides a first impetus within the climate domain may have a sequel in the area of social impact.

The complementarity is also apparent when looking at the ***GIIN's definition of 'impact investing***,' where 3 criteria are put forward, namely intentionality, additionality and measurement. The criteria of 'measurement' and 'intentionality', appear in both approaches (ESG and impact) through the focus on the continuous will to increase one's own social and/or environmental impact and the subsequent need to clearly map and continuously monitor realizations. **Differences lie primarily in the realms of ‘additionality’ and ‘materiality’**. For impact investors, it’s crucial that investments create value that wouldn’t have occurred otherwise. Within ESG, the focus is currently on making ongoing activities and initiatives more sustainable. However, the reflection offered by ESG frameworks can encourage consideration of ‘additionality’. ‘Materiality’ serves as a first step, inviting companies and investors to ponder which activities truly matter. **EU regulations extend this**

concept to 'double materiality', considering not only financial materiality but also impact materiality.

As indicated above, both approaches are in line with and can complement each other on several elements, which is presented in the **following diagram**. Likewise this diagram presents the interconnectedness of the various definitions, frameworks, classifications linked to the concept of 'impact'.

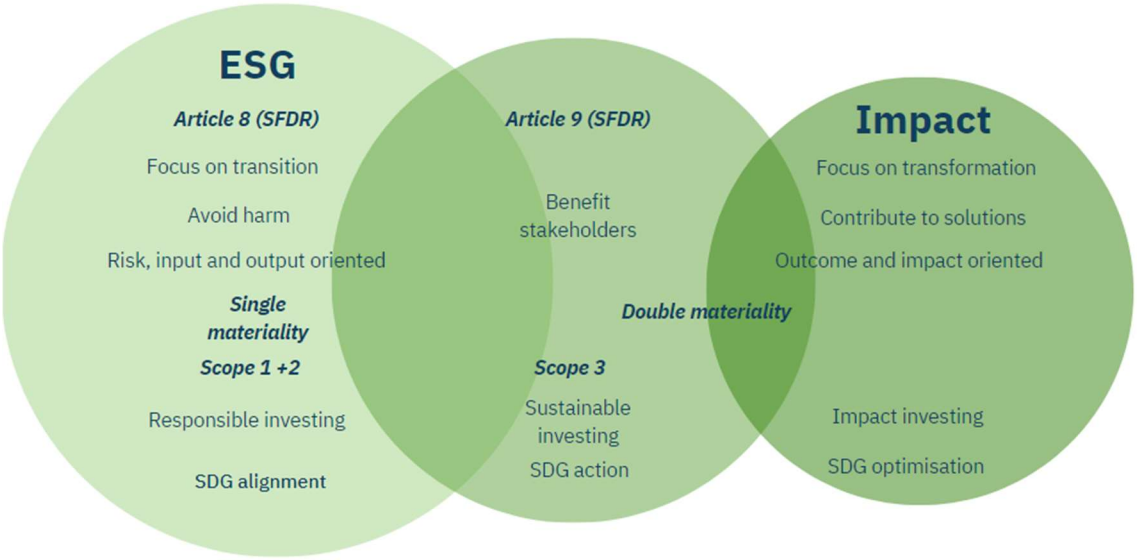


Figure 15. Impact unravelled

The **evolving EU regulation** is steering 'sustainable investing' and 'operations' toward **mainstream acceptance**. The pioneers who initiated this movement from the 1970s onwards will soon be joined by those mandated by regulations to integrate sustainability into their operations. While 'sustainable investing' gains traction, 'impact investing' remains innovative and niche.

No matter how you look at it: **sustainability will become more and more prominent** in organizations and investors alike. There are many reasons for it. The consequences of unsustainable behaviour are becoming increasingly visible. The demand for action is therefore growing, not only from the point of view of avoiding risks for one's own actions, but also from concern for the living environment of current and future generations. Both investors and organizations/companies have a role to play here. Those who are unwilling to do so, will soon face questions both from the regulations that are becoming increasingly mandatory and from customers who will increase the demand.

6. Next steps

6.1. Within your organisation

The previous chapters contain a lot of information. And now that you have reached the end, you may be wondering: 'So what next'. While the direction is clear, the **path toward it is not defined** and challenging for many, given the multitude of principles, standards, frameworks, and tools. With this publication, we tried to give the reader not only an overview, but also some tools to make the choice easier, by providing the reader with the following **decision tree**.

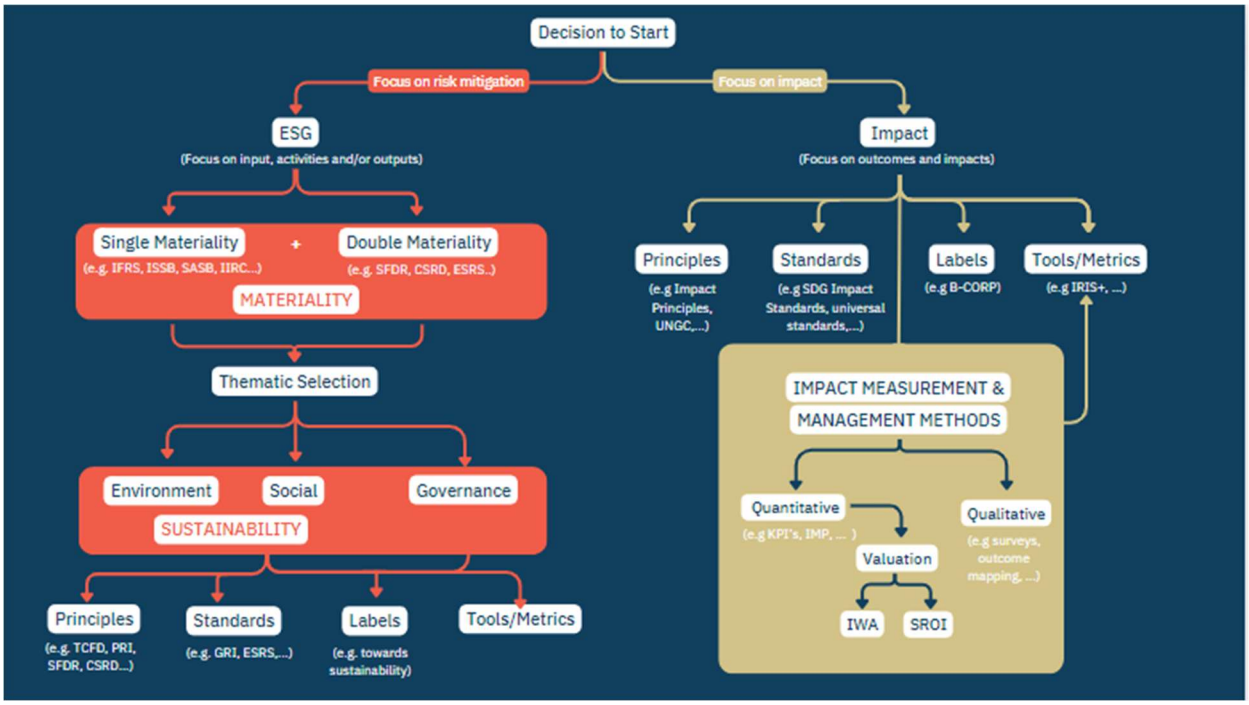


Figure 16. Decision tree

In this three, the following process can be followed. For each actor, both investor and/or organization, the ***first choice is the choice of approach and focus***, whereas both the ESG approach and the 'impact investor' approach are useful and valuable. If the question is related to 'how can I make my existing operation and/or organisation more sustainable', the ESG frameworks offer important guidance. If the emphasis is more on 'maximizing one's own impact', whereby the existing organisation and/or activities are critically examined for their added value in terms of social and environmental impact, then the standards and tools within the framework of 'impact investing' are worth looking at.

Within each approach, the next step is to choose ***which aspects you, as an investor and/or organization, want to focus on and from with angle***. Do you prefer to focus on the disclosure of financial information, on 'impact materiality' or a combination of both emphasizing double materiality? Do you focus on improvement of the environment or of the social aspects or is it

a combination of both? For each topic a standard or label can be chosen, in particular within **the ESG scope**. The overviews in chapter 2, page 16 provide you a first oversight within the ESG scope.

At the side of **impact investing,** there are fewer standards, which makes the choice more broad: do you prefer ***to start from a standard, a metrics or tool or a measurement method***? As the 5 continuous steps of social impact measurement of EVPA indicates, where you start is not that important, as the cycle goes on and on. The most important decision is the choice to start. In chapter 3, page 28 a first overview is provided. A general overview can be found in **annex 3**.

All beginnings are challenging, and the **first step** is often the hardest. As the history of 'impact investment' shows, for many, it started with taking that initial step and continuously improving from there. Each step provided direction for the process. Likewise it is important to recognize that there are multiple paths to the same destination. While the smaller paths may be more picturesque, the highway gets you there faster, but each leads to more sustainable impact. Let's view the different paths as mutually inspiring, and through shared experiences, enrich our chosen path with fresh insights from our own experiences or those of others. There's no wrong choice, only one that's not made with thoughtful consideration.

6.2. At the level of IFB

The support of Impact Finance Belgium (IFB) does not stop with the release of this report. IFB will further disseminate the content of this report and use it in its different operations. Information sessions will be planned for a wider audience, and be tailored to member organisations, supporting IFB activities under **'enable, inspire, connect and catalyse'.**

IFB will also link this publication to the group of **academics** and several **consultancy firms** that support IFB. Outside Belgium, IFB is in close contact with a group of 40 organisations doing similar work globally, of which about 10 in the EU. Many of them are eager to use this document and to help us update it in the months and years to come.

To any reader, we would like to extend the invitation to share your observations, improvements and additions that can help IFB make a better version of this document. Thank you for reading and enjoy using it.

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Annex 1: Overview of concepts/frameworks related to 'impact investing'

Concepts	Definition
Impact investing *(GIIN, 2009)*	Investments made with the intention to generate positive, measured social and environmental impact
SDG investing	Investing which aims to contribute towards the UN Sustainable Development Goals while generating both financial and social or environmental returns
Social Investing	Investment into social purpose organisation. These organisation can be enterprises, charities or similar kinds of organisations whose primary purpose is to address social or environmental challenges.
Socially responsible investing *(**SRI**)*	Also known as social investment, is an investment that is considered socially responsible due to the nature of the business the company conducts (Investopedia)
Corporate social responsibility (CSR)	Is a self-regulating business model that aims to improve society and the environment. It's a looser, general framework for corporate behaviour that can vary in terms of its implementation. The nature of CSR is qualitative, although the ISO 26000 voluntary standard does help companies define social responsibility and provides practical guidance for achieving it.
Corporate sustainability	Encompasses the business practices that keep a business going and perpetuate its success. More specifically, it involves the coordination and management of environmental, social and financial demands to ensure a business is responsible, ethical and continually successful. Sustainability lets companies meet present needs without compromising the ability of the business to meet its needs in the future
Business sustainability *(Harvard Business school)*	In business, sustainability refers to doing business without negatively impacting the environment, community, or society as a whole. Sustainability in business generally addresses two main categories: (a) the effect business has on the environment; (b) the effect business has on society. The goal of a sustainable business strategy is to make a positive impact on at least one of those areas.
People, profit, planet (1994, John Elkington)	Also referred to the triple bottom line. It is a business concept that states firms should commit to measuring their social and environmental impact—in addition to their financial performance—rather than solely focusing on generating profit, or the standard "bottom line."
Sustainability themed investing	Investing in companies or sectors related to a specific sustainability theme, e.g. clean energy, health, sustainable agriculture, diversity.

Annex 2: Overview of concepts/frameworks related to 'Impact'

Impact (GRI)	impact refers to the effect an organization has or could have on the economy, environment, and people, including effects on their human rights, as a result of the organization's activities or business relationships.
Output	the tangible or measurable results produced as a result of a process, activity or system
Social Impact	any significant or positive changes that solve or at least address social injustice and challenges. Businesses or organizations achieve these goals through conscious and deliberate efforts or activities in their operations and administrations
Environmental Impact	refers to the effect or consequence that various activities, projects, policies, or events have on the natural environment. It involves assessing how human actions and interventions, such as industrial processes, construction projects, deforestation, pollution, and more, influence ecosystems, landscapes, air and water quality, biodiversity, and overall ecological balance.
Sustainability impact	refers to positive and enduring changes that are achieved through actions, initiatives, or investments and are designed to be maintained over the long term
Intentionality	a conscious and deliberate search for social and/or environmental impact, with the aim of pursuing a (net) positive result for a defined community
Measurability	refers to the possibility of identifying measurable impact objectives and to assess the business idea per these objectives from the get-go.
Additionality	is the quality of an investment to create value add, that would not have happened without the investment
Materiality	the significance or relevance of specific ESG factors or issues to a company's financial performance, operations, and overall business strategy
Financial materiality	how sustainability matters the impact of organisations or business, also referred to 'outside in'
Impact materiality	the impact on the people and the environment (including the whole value chain) of an organisation or company, also referred to 'inside out'
Double materiality	a company report both on how its business is affected by sustainability issues (or financial materiality) and how their activities impact society and the environment (impact materiality)
Greenwashing	investments are marketed as more socially or environmentally beneficial than they actually are and can mislead investors.

Annex 3: An overview of frameworks and standards

Standards/frameworks	*Focus*	*Target groups*	*Adoption within Sectors/companies*	*Related to ESG/SDG/impact investing*	*More information can be find on*
ESG					
Principles					
TCFD *(Task Force on Climate-related Financial Disclosures)*	Disclosure of climate-related financial risk	Investors, lenders, insurers and other stakeholders	Worldwide	E,G	
PRI *(Principles for responsible investments)*	Possible actions for incorporating ESG issues into investment practice.	Institutional investors, asset managers, and other financial industry stakeholders	Worldwide	ESG	
Equator Principles	Financial sector	risk management framework for determining, assessing, and managing environmental and social risk	Worldwide	ESG	https://equator-principles.com/
SFDR *(Sustainable Finance Disclosure Regulation)*	Promotion to integrate ESG consideration into investment decisions	Investors, asset managers and financial advisors	EU	ESG	
CSRD (Corporate Sustainability Reporting Directive)	Enhancing the transparency and comparability of companies	Investors and stakeholders	EU	ESG	
Standards					
GRI standards *(Global Reporting Initiative)*	Promoting responsible corporate citizenship and the contribution to societal goals	Companies, government, NGO's and other stakeholders	Worldwide	ESG, link to SDG (link with ESRS)	
IFRS *(International Financial Reporting Standards)* /**ISSB**	Accounting and sustainability disclosure standards	Investors	Worldwide	ESG (base for financial reporting for EU ESRS), link with TCFD	

(International Sustainability Standards)					
SASB *(Sustainability Accounting Standards Board)*	Financially material sustainability information	Investors	77 industries	ESG	Are integrated within the IFRS standards
IIRC Framework *(Integrated Reporting)*	Financially material sustainability information	Investors	Worldwide	ESG, reference to SDG	Are integrated within the ISSB standards
CDSB *(Climate Disclosure Standards Board)*	Guide reporting and disclosure on environmental and social information	Investors and organisations	Worldwide	ESG	Is consolidated into the new ISSB
ESRS (*European Sustainability Reporting Standards)*	Corporate standards	Investors	Organisations active in Europe	ESG (Impact)	
Label					
Towards sustainability	*Certification of investment funds, index products, insurance funds and saving products*	Investors	Worldwide (Belgian label)	ESG	
Tools/metrics					
CDP *(Carbon Disclosure Project)*	Disclosure system for environmental information	Companies, investors, cities, states, general public	Worldwide	EG	
WDI (*Workforce Disclosure Initiative)*	Disclosure system focused on workforce practices and management	Companies, investors, cities, states, general public		SG	
AI driven tools	Reporting and disclosure of ESG data	Companies, investors, cities, states, general public		ESG	
IMPACT MANAGEMENT					
Principles					
Operating principles for Impact Management	Design and implementation of IMM	Impact investors	All types of impact investors	Impact	

	systems in the investment lifecycle				
UN Global Compact Principles	Promoting sustainable and socially responsible policies and practices	Companies and organisations	Businesses worldwide	SDG	
Standards					
SDG Impact Standards	Common language and framework for collaboration	Governments, non-profit and profit organizations, business, investors, bonds issuers, private equity fonds, donors	Globally and amongst a broad range of stakeholders	SDG	
Impact Standards for Financing Sustainable Development	Common language and framework for collaboration	Donors, private sector partners	Globally	Impact	
Universal standards for Social and Environmental Performance Management (Universal standards)	Providing a clear roadmap and manual of best practices	Financial service providers	Micro-finance	Impact	
ISO 14001 (Environmental Management) - ISO 26000 (Social Responsibility	*Share best practices and providing base for performance evaluation*	All kind or organisations	Worldwide	Impact, ESG	
Label					
B-corp	*Encouraging companies to consider impact on stakeholders, employees, environment and communities*	Companies	Worldwide	Impact, ESG, SDG	
Tools/metrics					
IRIS +	Metrics set and guidance for selection	Investors, companies, researchers	Worldwide	Impact, ESG links to SDG, GRI and 5 dimensions of impact	

Impact Finance
Belgium