CFO TASKFORCE FOR THE SDGS

CFO PRINCIPLES ON INTEGRATED SDG INVESTMENTS AND FINANCE

Draft, July 15, 2020

Today, the CFO Taskforce for the SDGs and its partners are introducing the *Principles for Integrated SDG Investments and Finance.* These principles are designed to supplement the UN Global Compact Principles and stem from our common vision and ambitions to support companies in the transition to sustainable development and to leverage corporate finance and investments toward the realization of the SDGs.

As members of the CFO Taskforce, we commit to implement these principles and to share our experience and learnings with others. We also commit to set and report against ambitious targets on SDG investments and finance that can substantially accelerate our companies' transition to a sustainable development.

Our goal is to inspire a new meaning for the role of CFOs as architect of long-term sustainable value creation. We also aspire to create a market for SDG investments and finance that is sufficiently diverse and transparent to channel trillions in corporate financing and investments towards effective private-sector solutions for the SDGs.

We invite CFOs of all our peer Global Compact companies to join us in adopting the principles and starting on the journey to implement them in our operations. We also invite other actors in the investment value chain – investors, market intermediaries – to leverage the principles as a tool to dramatically increase the sourcing of sustainable investments and unleash the full potential of private investments for the 2030 agenda.

CFO TASKFORCE PARTICIPANTS

[Add name, title, organization, and signature of all participants in the Taskforce, with an asterisk and footnote for the two co-chairs.]

CFO TASKFORCE PARTNERS

[Add name of key partner organizations and initiatives that endorse the principles and commit to work with the CFO Taskforce to help with the technical guidance and broad dissemination of the principles.]

OUR GOALS AND VISION

INTEGRATE THE SDGS IN CORPORATE FINANCE

Our goal is to **engage the global CFO community** to align corporate investments and finance with the SDGs, and to **leverage trillions of dollars in annual corporate investments**, including in developing countries. Together we hope to:

- Promote the growth of sustainable corporate finance in technologies, sectors and geographies that are critical for the SDGs;
- Finance innovative private-sector solutions for the SDGs and promote competition for investors;
- Translate ambitious corporate commitments into corporate investments to transform or adapt business models[1], enable longer-term corporate strategies and maximize corporate impact on sustainable development;
- Elevate SDG impact measurement from process-based to performance-based methodologies[2] and support investors looking to shape real-world outcomes in line with the SDGs[3]; and
- Define consistent and comparable metrics to assess SDG-aligned strategies and investmentsand ultimately measure their contribution to the SDGs, its targets and indicators.[4]

A BROAD MARKET FOR SDG INVESTMENTS

Our goal is to **work with the investment value chain**, including investors, banks, development finance institutions and credit rating agencies to **create a broad, liquid and efficient market for SDG investments.** Together we hope to:

- Develop a wide-range of solutions to finance corporate SDG strategies – including both capital markets and banking products and building upon existing sustainable finance solutions and frameworks[5];
- Contribute to the identification and pricing of the most effective business solutions to the SDGs, including methods to price positive and negative externalities and integrate sustainability in traditional investment analysis and metrics (ROI, P/E ratio);
- Leverage transparency and accountability mechanisms in capital markets to maximize the credibility of SDG-linked corporate finance; and
- Ensure that sustainable finance frameworks – including taxonomies, standards and verification methodologies – promote a balance between (i) ensuring credibility and comparability and (ii) encouraging private sector experimentation and innovation.

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[1] Recent research, including from Mckinsey & Company, points to a strategic evolution of the role of CFOs and shows that CFOs that can successfully align investments with strategy can contribute to creating more adaptive companies, including in the sustainability transition.

[2] Recent research from Mckinsey &Co suggest that CFOs are increasingly seen as "value architect for the long term", telling the story of long-term value creation, and establishing proof points along the way.

[3] See Investing with SDG Outcomes: A Five-part Framework, PRI, 2020.

[4] The SDGs consist of 17 goals, 169 targets and 232 indicators.

[5] These include the ICMA principles for Green, Social and Sustainability Bonds and Sustainability-linked Bonds, the Impact Management Project, the Positive Impact Principles (UNEP-FI), the Responsible Banking Principles (UNEP-FI) and SDG Impact (UNDP).

OUR COMMITMENT

Implementing the Principles

We commit to work with other member of our executive management team, the board of directors and relevant departments (including strategy and sustainability) to implement the Principles for Integrated SDG Investments and Finance within our organization.

Creating a Blueprint

Over the next 18 months, we commit to work with peers on the CFO Taskforce, partner organizations[6], and key actors in the investment value chain to develop, test, refine further guidance and recommendation to implement the Principles, including;

- industry-specific guidance,
- examples of best practices and
- new research into areas that require further conceptual development.

Setting Ambitious Targets

We commit to set targets[7] and a timeline for implementing these Principles inside our organizations.

While recognizing differences in geographic and economic contexts, we will strive to set ambitious individual targets that not only maximize our collective impact as a CFO Taskforce but also inspire leadership for the rest of the CFO community to accelerate the transition of corporate finance and investments to sustainable development.

To facilitate individual target-setting and aggregation of our collective impact, we commit to work together inside the Taskforce on the definition of common key performance indicators for each area:

- Alignment of corporate strategies and investments with the SDGs
- Linking issuance financial products to SDG-aligned strategies and investments
- Integrated reporting and communications on SDG-aligned strategies and investments

Transparency and Accountability

We commit to publicly disclose annually our progress in implementing the principles, including the setting of individual targets and results on key performance indicators. We will strive to maximize the credibility of our reporting though self-assessment or independent third-party verification.

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[6] This will include leveraging relevant resources from our key partners, including the work of A4S CFO Leadership Network on strategic planning, budgeting, and forecasting, sustainable finance framework, debt finance, and investor engagements.

[7] This is in-line with recommendations by the Global Investors for Sustainable Development (GISD) to (i) challenge companies to make credible and ambitious transition commitments and (ii) reward companies striving for sustainability outcomes and creating sustainable shareholder value.

CFO PRINCIPLES FOR
INTEGRATED SDG INVESTMENTS AND FINANCE

1. SDG IMPACT THESIS AND MEASUREMENT

- Business[8] should develop a **specific SDG impact thesis[9],** which maximizes their unique capabilities and assets, promotes the most effective private-sector solutions to sustainable development and is updated or expanded over time;
- Identify and mitigate **significant[10] negative impacts** on all SDGs – both **current and potential,** based on an analysis of the corporate portfolio[11] and the supply chain and benchmarked against impacts generally associated with comparable assets or activities in similar industries and operating contexts;
- Align impact theses with **countries' own priorities for SDG investments** (climate and SDG gap analyses and investment plans[12]), and where relevant, focu on priority sectors in **less developed markets**, considering the unique characteristics of each market, and respecting a common but differentiated approach to the sustainability transition[13]; and
- Set **goals, targets, and indicators** that promote and credibly measure the company's contribution to specific SDGs and its mitigation of significant negative impacts, using consistent and comparable metrics that are based on the **official SDG targets and indicators**[14].

2. INTEGRATED SDG STRATEGY AND INVESTMENTS

- Business should **translate their SDG impact thesis into strategic objectives and initiatives** that build upon the existing corporate strategy and business model;
- Determine **specific internal resources, investments** (R&D, capex, M&A, FDI) **and funding needed** to implement the SDG impact thesis and integrated strategy and analyze the financial risk-return profile (IRR) of SDG investments;
- Adopt **investment criteria and decision-making processes** based on SDG impact, alongside financial risk and return investment criteria; and
- Leverage and strengthen **corporate governance mechanisms** to incentivize and monitor the implementation of the SDG strategy (board oversight, internal controls & audit, executive remuneration, disclosure).

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[8] For consistency with the Global Compact Principles, the term "business" here refers to individual companies committing to the principles.

[9] The term "impact thesis" here is used as a corollary to an investment thesis, which is a reasoned argument for an investment strategy designed to attract potential investors.

[10] Significant impacts refer to important or prominent impacts of the company – in relative and absolute terms. It relates to the financial concept of "materiality", which refers to information necessary for investors to make informed decisions. It also relates to the concept of "salience" in Human Rights, which is defined in the UN Guiding Principles Reporting Framework as most severe, potential and negative.

[11] Corporate portfolio refers to the various divisions or units of a diversified company with multiple product or services lines.

[12] These include Nationally Determined Contributions (NDCs) to the Paris Accord and Voluntary National Reviews (VNRs) on the implementation of the SDGs.

[13] Common but Differentiated Responsibilities and Respective Capabilities (CBDR–RC) is a principle within the United Nations Framework Convention on Climate Change (UNFCCC) that acknowledges the different capabilities and differing responsibilities of individual countries in addressing climate change.

[14] The 17 sustainable development goals each include a list of 169 targets and 232 indicators to measure their implementation. Further guidance can be found in "An Analysis of the Goals and Targets, developed by GRI and the UN Global Compact as part of their collaboration on Business Reporting on the SDGs.

3. INTEGRATED CORPORATE SDG FINANCE

- Business should develop a **comprehensive corporate SDG finance approach** to support their contribution to the SDGs, and raise **SDG-linked finance** commensurate with the nature of SDG investments and the degree of their strategic integration;
- Leverage a **full range of financial instruments** for SDG-linked finance, including debt (loans and bonds) and equity, whether privately placed or publicly traded, and ranging from short- to long-term maturities;
- Structure **financial instrument based on the nature of SDG investments and the degree of their strategic integration**, starting with **specific-purpose** instruments for isolated assets and activities with generally-accepted impact theses (e.g. EU Taxonomy) , and evolving towards **general-purpose and performance-based** instruments for more integrated SDG strategies and investments[15];
- **Maximize credibility of SDG-linked financial products** through a combination of **contractual mechanisms** (use of proceeds, covenants, pricing) and **corporate governance oversight** (board of directors, internal controls, accounting, audit & verification, reporting); and
- **Leverage blended finance** from development finance institutions, philanthropic foundations and impact investors to subsidize corporate investments (**subsidized corporate finance**) for technologies, sectors and geographies that are critical for the SDGs but currently underfunded.

4. INTEGRATED SDG COMMUNICATION AND REPORTING

- Business should engage in **proactive investor communications** about their SDG impact thesis, strategy and investments, including through investor calls and engagement, annual and quarterly financial disclosures and integrated financial and sustainability reports;
- **Enhance integrated reporting practices** with key elements of integrated SDG investments and finance, including impact measurement and valuation, alignment of investments with strategy, and accounting and monitoring performance;
- Work with **rating agencies, external auditors and second-party opinion providers**[16] to ensure the relevance and accuracy of publicly disclosed information and data related to SDG impact, investments and finance; and
- Work with peer companies and standard setters to **harmonize practices and maximize the utility** of integrated reporting, by promoting simplification, readability and comparability.

[15] Specific-purpose instruments include use-of-proceed bonds and loans; general-purpose and performance-based instruments include SDG-linked bonds or loans and equity.
[16] Second-party opinions are used for the issuance of green, social or sustainability bonds to ensure that use-of-proceed frameworks are in line with market expectations and industry best practices.