Impact Frontiers
info@impactfrontiers.org

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Re: Comments on the draft Norms for Impact Performance Reporting

To the Impact Frontiers team,

Accountability Counsel commends your important work to compile norms for impact reporting. As an organization that amplifies the voices of communities who bear the environmental and social risks of internationally financed projects, we advocate for fully accountable impact investing models that proactively respond to unintended harm caused or enabled by projects and programs supported by investments.

I. Community-accessible accountability mechanisms should feed into impact reporting.

We commend the decision to include language on the value of accountability processes available to community stakeholders discretely impacted by projects and activities supported in a given portfolio. The norm is not only rooted in legal expectations, but also the prerogative to actively monitor for impact and verify how key stakeholders experience outcomes. For example, the European Sustainability Reporting Standards (ESRS) will require companies, including financial sector actors, to report on their community-accessible grievance redress mechanisms and their policies for providing or cooperating in remedying adverse impacts to communities affected by their operations. Reporting must detail the number of grievances that raise "severe" human rights issues, and the law encourages disclosure of how lessons from complaints have influenced operational and decision making processes. The financial sector's provisional exemption from civil penalties under the EU's forthcoming Corporate Sustainability Due Diligence Directive will not bear on the expectations of the ESRS.

The reporting norm also honors the guidance of the Operating Principles for Impact Investment to (a) "assess, address, monitor, and manage potential negative impacts of each investment," including by engaging with their investees to address gaps and unexpected events (*see* Principle 5), and (b) "monitor the progress of each investment in achieving impact against expectations and respond appropriately" (*see* Principle 6). Reporting on community accountability provides insight not only into the efforts to promote positive change, but also the efforts to avoid and react to negative impacts.

We fully agree that installing accountability mechanisms at the fund-level specifically can be one way to collect information from stakeholders to ascertain and respond to impact risks. We would caveat that having a sufficiently independent mechanism positioned higher at the firm level may be more efficient in situations where an asset manager offers a variety of impact funds. Additionally, smaller funds may wish to participate in shared mechanisms should they have concern about their ability to design and host a grievance mechanism on their own. We therefore suggest the following edit under the section on **Verifiability**:

> *Installing a fund- or firm-level accountability mechanism, or participating in a mechanism shared with peer institutions, ~~is one~~ are all ways to collect material information directly from stakeholders. Reporting entities are recommended to follow evolving industry practice, including establishing effective grievance mechanisms and corresponding complaints registries, to monitor and verify the impact risk and performance of investees and engage with them to address unexpected events related to impact.*

II. Complaints registries supplement reporting on unintended or negative impacts.

Considering impact investing's status at the top of the sustainability investing hierarchy, impact investors should strive to surpass baseline reporting requirements, like those articulated by the ESRS. Impact reporting should apply a less stringent threshold than "severe" when reporting human rights issues raised by grievances, and they should disclose more nuanced and relevant details than simply the amount of human rights issues raised in general. Indeed, doing so would help discourage understating and underreporting adverse risks and impacts.

We therefore commend the inclusion of norms based on well-grounded expectations that preparers describe (a) the existence of effective accountability mechanisms, including fund-level mechanisms, to identify and manage adverse environmental, social, and human rights impacts (Impact Performance Reporting Norm 2.3), and (b) both positive and negative impacts, and actions actions taken to remedy negative impacts and/or avoid similar impacts in the future (Impact Performance Reporting Norms 3.1 and 3.2). To support the verifiability of the actual use of accountability mechanisms and the effectiveness of remedial actions, preparers should provide a link to complete and updated complaint registries.

In our work researching complaints submitted to the independent accountability mechanisms of major development finance institutions, we have come to learn that complaints registries are essential for pulling and sorting comparable data concerning the nature and severity of issues raised, the percentage of complaints responded to, and the status of pending, completed, and closed grievance redress efforts. A good example of how this could be done effectively is the complaints registry of the Amfori Supply Chain Grievance Mechanism,[1] which

[1] *Available at* https://amfori-.foleon.com/speak-for-change/scgm/reporting-information.

was developed to ensure accountability for human rights impacts throughout the supply chains of Amfori's sustainability-focused members. Not only does the registry offer aggregated data on the types of grievances raised, the sectors implicated, and the status of response efforts, but it also aims to include high level summary reports at the conclusion of of reviews[2]. The information provided through this information stands to provide shareholders more context to consider whether they are satisfied with the impact performance of their investments. We therefore suggest the following additional language under the guidelines for Impact Management Framework, Process, and Systems:

> *2.4. Describe how the entity collects, manages, and uses impact data, including how data ownership, privacy issues, and ethical and commercial issues regarding data gathering, usage, and disclosure are managed. Include any predefined processes for sharing data between the entity and its investees, including responsibilities for data collection and how, and to whom, data are reported. Include any links to complaints registries detailing information about the number and nature of complaints received, and summarizing the status and outcomes of remediation processes.*

III. Looking toward the long-term stewardship of the impact reporting norms.

With the understanding that Impact Frontiers has filled a vital role to build upon the work started by the now-dissolved Impact Management Project, we find it prudent to consider the long-term stewardship of these reporting norms. Because GIIN and GRI are mentioned as potential options for stewards, we would like to offer some perspective on their responsiveness to our calls for community-accessible accountability.

We have long urged the Global Impact Investing Network (GIIN) to recognize community-accessible accountability mechanisms as essential for impact investors to avoid unintended harm and deliver on net positive intended impacts. However, after many years the GIIN has yet to recommend impact management practices related to grievance redress and remedy under its IRIS+ standards. While it has developed indicators to consider whether feedback channels exist for employees, and how many formal grievances are registered through those channels, its failure to acknowledge the need for community-accessible accountability in impact investing is worrisome. Unless Impact Frontiers is able to break some ground on that issue, we would advise against trusting the network managers with preserving the reporting norms.

The Global Reporting Initiative (GRI), on the other hand, has embraced more detailed reporting for all sustainability-minded organizations, including those discreetly focused on impact. GRI also appears to be working to stay relevant by building interoperability with legal

[2] *Available at* https://amfori-.foleon.com/speak-for-change/scgm/reporting-cases.

reporting frameworks such as the ESRS. As a standard-setter, GRI seems better positioned to potentially advocate for enhanced sustainability reporting by impact investors, and to proliferate norms into the mainstream.

IV. Conclusion

Thank you for the opportunity to comment as you further develop these impact reporting norms. We understand the development of norms is an iterative process, and we hope to be a resource going forward. We applaud the recognition that accountability and verifiability go hand-in-hand, and we urge even deeper visibility into data that would be the most important for investors to consider whether their money is truly meeting its intended mark.

Wishing you all the best finalizing this work in the new year,

Margaux J Day

Margaux Day
Policy Director
margaux@accountabilitycounsel.org
accountabilitycounsel.org

Gregory Berry

Gregory Berry
Policy Associate
gregory@accountabilitycounsel.org