



Briefing Paper

**Selected human rights indicators in the
context of current EU regulation:
Towards more social sustainability in
the financial and economic system**

Part II: Substantial Contribution

About the institutions

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The views expressed in this paper are those of the German Institute for Human Rights and the Fair Finance Institute and do not necessarily reflect the views of other institutions that are associated with or have funded the research.

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Contents

Executive Summary	6
1 Introduction	8
2 Background: EU Sustainable Finance and Corporate Sustainability Reporting Regulation	10
2.1 Social taxonomy	10
2.2 EU sustainable finance and corporate governance landscape	11
2.3 EU Taxonomy Regulation	12
3 Perspectives on substantial contributions by companies	16
3.1 The State obligation to fulfil human rights	16
3.2 A corporate obligation to fulfil economic, social and cultural rights?	17
3.3 A human rights perspective on substantial contributions by companies	19
3.4 Selection of topics	22
3.5 Two systems for the conceptualisation of substantial contributions	23
3.6 Alignment of both systems: “The best of both worlds”	31
4 Existing sets of Indicators for Social Outcomes and Impacts: A Brief Assessment	33
5 Applying the Indicators	41
5.1 Basic Elements and Logic of the IRIS+ Approach	41
5.2 Our Assessment	42
5.3 Overall Findings	57
5.4 Thresholds, Baselines and Scales	58
6 Matching the Selected Indicator Approach with the Requirements of the Broader Regulatory Framework	60
6.1 Social Taxonomy and Green Taxonomy	60
6.2 Corporate Sustainability Reporting Directive (CSRD) and Proposed Legislation on Corporate Sustainability Due Diligence (CSDDD)	60
6.3 Sustainable Finance Disclosure Regulation (SFDR)	61
6.4 Conclusion	61

7	Summary and Recommendations	61
8	Annexes	65
8.1	The System of Future Fit Business and “Enabling Activities”	65
8.2	Comparison: Types of Substantial Contribution and Impact Classes	66
8.3	Example: Asset Manager “WaterEquity” Applying IRIS+ for Improved WASH Access through Affordable Household Financing	67

Figures and Tables

Figure 1: Impact dimensions and related questions	28
Figure 2: Impact dimensions and data categories	29
Figure 3: Classification of different kinds of impacts	30
Figure 4: Classifying the impact of an enterprise	31
Figure 5: Example: Set-up of the “What” dimension of IRIS+ Core Metrics Set for the objective “Improving access to WASH through affordable housing financing”	42
Figure 6: Classification of different kinds of impacts	66
Table 1: Schematic representation of human rights indicators	25
Table 2: Alignment of AAAQ-Scheme and IMP-5 Impact Dimensions	32
Table 3: Evaluation of indicator frameworks	35
Table 4: Connecting AAAQ- and IMP questions with IRIS+ indicators for “Improving access to WASH through affordable household financing”	44
Table 5: Connecting AAAQ- and IMP Questions with IRIS+ indicators for “Increasing housing affordability”	47
Table 6: Connecting AAAQ and IMP Questions with IRIS+ indicators for “Improving equitable access to education and learning for all”	51
Table 7: Connecting AAAQ- and IMP Questions with IRIS+ indicators for “Improving health and well-being across the workforce”	54

Abbreviations

AAAQ: Availability, Accessibility, Acceptability, Quality
CCPR: Committee on Civil and Political Rights
CESCR: Committee on Social, Economic, and Cultural Rights
CHRB: Corporate Human Rights Benchmark
CSDDD: Corporate Sustainability Due Diligence Directive
CSR: corporate social responsibility
CSRD: Corporate Sustainability Reporting Directive
DNSH: do no significant harm
EFRAG: European Financial Reporting Advisory Group
ESA: European Supervisory Authorities
ESG: environmental, social and governance
GRI: Global Reporting Initiative
ICCPR: International Covenant on Civil and Political Rights
ICESCR: International Covenant on Economic, Social and Cultural Rights
IMP: Impact Management Project
ISS: Institutional Shareholder Services group of companies
LkSG: Lieferkettensorgfaltspflichtengesetz
NFRD: Non-Financial Reporting Directive
OHCHR: Office of the High Commissioner for Human Rights
PSF: Platform on Sustainable Finance
RTS: Regulatory Technical Standard
SDGs: Sustainable Development Goals
SFDR: Sustainable Finance Disclosure Regulation
SMEs: Small and medium sized enterprises
UNGC: UN Global Compact
UNGPs: UN Guiding Principles on Business and Human Rights
WASH: Water, sanitation and hygiene
WDI: Workforce Disclosure Initiative

Executive Summary

In March 2018, the European Commission published its Action Plan on Financing Sustainable Growth. Part of the plan calls for the EU to develop classification systems for environmentally and socially sustainable activities to help direct private sector financing to such activities.

This is the second briefing paper of a research project aimed at discussing and developing concepts and indicators for the standardised measurement of socially sustainable activities in alignment with international human rights.

The first briefing paper (Duscha et al 2022) produced in the course of this research project took as its starting point the EU Taxonomy (2020), which sets out conditions that an economic activity needs to meet for this activity to be considered environmentally sustainable. The Taxonomy Regulation requires that the economic activity must, in particular, fulfil environmental standards set out in the technical screening criteria, and, additionally, the executing company must ensure that it has procedures in place to fulfil minimum social and human rights safeguards. The first briefing paper developed sound criteria for developing and selecting strong indicators to measure compliance with these minimum safeguards, and suggested 15 central indicators. The proposed indicators covered key human rights and key due diligence processes and were drawn from sets of indicators that are already in wide use.

This second briefing paper builds on the report published in February 2022 by the Platform on Sustainable Finance (PSF), which proposes a structure for a social taxonomy. It is envisaged as tool for determining which investments are social investments through which companies can make substantial contributions to human rights and towards the Sustainable Development Goals. While the first briefing paper was able to build on a large number of existing indicator frameworks intended to measure the existence of and compliance with minimum human rights safeguards, this paper draws on a smaller number of existing frameworks developed to measure positive, substantial contributions to human rights by the private sector. The overarching goal of this briefing paper is therefore to sketch a way to arrive at indicators for “substantial contributions”.

This briefing paper focuses on one of the three different types of substantial contribution proposed by the Platform on Sustainable Finance in its February 2022 report, specifically, that of “enhancing inherent positive impacts of basic goods and services”. Unlike what we found with regards to minimum safeguards, there are no established frameworks measuring substantial contributions by private actors towards the realisation of human rights.

We therefore used an analytical approach that combines two measurement tools. One of these is drawn from the realm of human rights, where it is used to measure states’ progress towards the realisation of social, economic and cultural rights – the “availability, accessibility, acceptability and quality” (AAAQ) framework. The other is the Impact Management Project (IMP) framework, a measurement tool used to measure the social impacts of investments in the financial sector.

We conclude that the AAAQ framework and the five impact dimensions of the IMP approach are largely compatible with one another. Used in combination, they could serve as a means to identify aspects of economic activities that enhance inherent positive impacts of basic goods and services, i.e. activities constituting a sustainable contribution as proposed by the Platform on Sustainable Finance.

In a next step, we assess indicator sets used to measure social impact. We argue that IRIS+, which follows the IMP five impact dimensions, is a promising framework with respect to its potential for identifying economic activities that make substantial contributions to human rights in the sense of enhancing inherent positive impacts of goods and services, since it measures the outcomes of a single economic activity. In applying IRIS+ to four selected focus areas (water, housing, healthcare, and education), we conclude that IRIS+ aligns in large parts with both the AAAQ and IMP measurement tools.

While this briefing paper makes some suggestions with regards to the revisions needed in order to fully cover all aspects of AAAQ, IRIS+ is, in principle, suited to measure this type of substantial contribution as envisioned by the Platform on Sustainable Finance in its February 2022 report. More research is needed, however, to arrive at definitions of thresholds, since this has considerable potential to further improve indicators. The indicator framework we propose would fit well not only with a social taxonomy but also with the relevant EU regulations already in place or currently under development (CSRD, CSDDD, SFDR). But only a social taxonomy would have the unique feature of incentivising corporate action that goes traceably beyond minimum standards regarding social objectives.

1 Introduction

Recent data makes it clear that we have fallen far behind in our efforts to ensure that everybody enjoys the rights to an adequate standard of living and to the continuous improvement of living conditions, as is enshrined in the International Covenant on Economic, Social and Cultural Rights.¹

This raises various questions: Where do we get the money to change that? How do we make sure that sufficient investment is channeled towards socially beneficial economic activities, activities which do no harm and have positive human rights outcomes? And how do we measure progress, given that indicators for social change cannot be based on the same kind of science as for example environmental change, and that measurements of change have to be highly context specific in order to do justice to outcomes for rights-holders? These are the thorny questions that we will attempt to tackle in this briefing paper.

“According to the 2021 OECD Global Outlook, shifting only 1% of ... financial assets [held by banks, institutional investors and asset managers] (i.e. 3.8 trillion dollars) could be enough to fill the growing gap in financing for sustainable development.”² Investments by private actors can be part of the solution, but they also involve risks that need to be foreseen and addressed by policymakers. The growing demand for investments with positive impacts, e.g. social bonds, shows that investors see the financing gap as an opportunity and are ready to direct some their capital towards socially valuable activities.³ To maximise the positive impacts of their investments, financial institutions need reliable information as to which business activities actually contribute to positive change.

At present though, investors do not tend to have this kind of information. A social taxonomy has the potential to help fill this information and transparency gap. Designed in a way that puts right-holders – the potential beneficiaries – front and centre, a social taxonomy would constitute the first comprehensive policy tool to incentivise investment in activities that produce positive social change where it is most needed.

This briefing paper is a product of research on conceptual issues of relevance to the development of a social taxonomy. The research project is funded by the German Federal Ministry of Labour and Social Affairs (BMAS). A first report, published in February 2022, developed about 15 central social indicators which could be incorporated into in the existing Taxonomy and would measure the implementation and effectiveness of the corporate procedures serving as minimum social safeguards under that legislation. In other words, the aim was to propose indicators that could be used to measure a company's actual human rights performance. We presented

¹ Since there is no global data on the fulfilment of social and economic rights, data on SDG financing are used as proxy, see: OECD / UNDP (2021): Closing the SDG Financing Gap in the COVID-19 era. Scoping note for the G20 Development Working Group. <https://www.oecd.org/dev/OECD-UNDP-Scoping-Note-Closing-SDG-Financing-Gap-COVID-19-era.pdf>

² <https://www.oecd.org/about/secretary-general/global-outlook-on-financing-for-sustainable-development.htm#:~:text=According%20to%20the%202021%20OECD%20Global%20Outlook%2C%20shifting%20only%201,in%20financing%20for%20sustainable%20development>

³ Platform on Sustainable Finance (2022): Final Report by Subgroup 4: Social Taxonomy, p. 6. https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf

criteria for developing and selecting strong indicators and suggested a number of “signpost” examples.⁴

This second briefing paper shifts the focus away from the Taxonomy Regulation and onto a social taxonomy as envisaged by Subgroup 4 of the Platform on Sustainable Finance in its February 2022 report (referred to below as the PSF Report). Specifically, it looks at what constitutes substantial contributions towards achieving social objectives. Given the lack of indicator sets for measuring substantial contributions, the overarching goal of this briefing paper is to sketch a way to arrive at indicators for identifying “substantial contributions”.

In the following sections, we describe the European Union regulatory context within which the development of a potential social taxonomy is currently being discussed (section 2). Then in section 3, we examine the criteria for qualification as a substantial contribution, discuss the duties and responsibilities of states and businesses in this context, and pose and address a number of key questions that arise from a human rights perspective. We focus on the type of substantial contribution that enhance inherent positive impacts of basic goods and services and introduce an analytical approach that combines measurement tools drawn from the field of human rights – the “availability, accessibility, acceptability and quality” (AAAQ) framework – and from the financial world – the Impact Management Project (IMP) framework.

In section 4, we derive key criteria from the combined AAAQ and IMP approach with which to test the suitability of existing sets of indicators for the measurement of this type of substantial contribution. We then turn to examine the most promising indicator framework – IRIS+ – in greater detail in section 5. In order to evaluate IRIS+ “in action”, we apply it to a selection of focus areas, namely, water, housing, healthcare, and education, chosen on the basis of their key relevance to an adequate standard of living. We argue that IRIS+ is, in principle, suited for measuring corporate substantial contributions enhancing inherent positive impacts of social goods and services on the level of business activities. Still, the framework would need some revision in order to fully cover all four AAAQ aspects and the five impact dimensions of the IMP.

Section 6 relates the approach we propose - a version of IRIS+ revised to cover all AAAQ aspects and IMP impact dimensions - to the requirements of the broader EU regulatory framework. It concludes that a revised version IRIS+ fills a gap in the current regulatory landscape. We summarise our findings and present recommendations on the further process in the final section.

⁴ Duscha, Markus et al (2022): Selected human rights indicators in the context of current EU regulation: Towards more social sustainability in the financial and economic system, Part I: Minimum Standards. Deutsches Institut für Menschenrechte & Fair Finance Institute, Berlin, Heidelberg. https://www.institut-fuer-menschenrechte.de/fileadmin/Redaktion/Publikationen/Weitere_Publikationen/Briefing_Paper_Selected_human_rights_indicators_in_the_context_of_current_EU_regulation.pdf

2 Background: EU Sustainable Finance and Corporate Sustainability Reporting Regulation

The objective of this briefing paper is to develop concepts and explore indicators suitable for use in the standardised measurement of social sustainability, especially (but not only) with respect to a possible EU social taxonomy (see section 2.1). Such a structure would be part of the landscape of EU sustainable finance and corporate governance legislation, which includes the EU Taxonomy Regulation, the Corporate Sustainability Due Diligence Directive (CSDDD), the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR) (see section 2.2). Coherence of a possible social taxonomy with these measures is therefore imperative.

2.1 Social taxonomy

The EU Platform on Sustainable Finance proposes a structure for a social taxonomy in its **Final Report on Social Taxonomy**, published in February 2022. The report aims at creating a framework to provide guidance for private market participants, helping them to recognise investments contributing to greater social sustainability (standard of living, labour rights). This framework should complement the Taxonomy Regulation, which focuses primarily on environmental aspects of sustainability.⁵ It would provide an important tool for investors and could help redirect investment flows into socially sustainable economic activities.

Whereas the environmental taxonomy bases its definition of what qualifies as “environmentally sustainable” on international frameworks like the Paris Agreement, criteria defining “socially sustainability” in a social taxonomy would be based on internationally agreed social norms and principles, including the International Bill of Human Rights, the eight Fundamental Conventions of the ILO, the SDGs and the UN Global Compact, as well as the international soft-law standards contained in the UNGPs, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, and the OECD Guidelines for Multinational Enterprises, as well as European norms and principles, including the European Social Charter and the European Pillar of Social Rights.⁶

The PSF recommends that the structure of a social taxonomy should be based as far as possible on the structure of the already existing taxonomy for environmentally sustainable economic activities. It should also ensure congruence with already existing legislation, like the SFDR, and legislative initiatives already underway, such as the proposed CSRD.

The proposal for a social taxonomy defines stakeholder groups, for each of which it defines one objective along with a set of subobjectives:

- workers, with the objective of decent work, for the company’s own workers and those in its value chain,
- consumers, with the objective of a decent standard of living, and

⁵ See below at 2.2.1.

⁶ Platform on Sustainable Finance (2022), p. 30, 32.

- communities and society, with the objective of inclusion and sustainability.

The PSF Report identifies three possible types of substantial contribution towards the objectives (and subobjectives) named above.

1. Avoiding and managing negative impacts running counter to one or more the three objectives, especially in high-risk sectors in which a high risk of human and labour rights violations has been documented.
2. Enhancing inherently positive impacts of social goods and services and basic infrastructure, with a focus on sectors that provide products and services serving basic human needs and basic economic infrastructure needed to realise the right to an adequate standard of living.
3. Enabling activities, which refers to economic activities that offer the potential to enable substantial contributions in other sectors.

The PSF Report additionally proposes the inclusion of “do no significant harm” (DNSH) criteria in relation to social objectives in the social taxonomy (comparable to the DNSH criteria in the Taxonomy Regulation). These DNSH criteria, which would be structured along the same objectives and subobjectives, would help ensure that an activity that harms any of the objectives could not qualify as socially sustainable, even if the activity also made a substantial contribution to one or more other (sub-)objectives.⁷

The PSF Report also offers some provisional ideas on the inclusion of environmental or social minimum safeguards.⁸

Last but not least, the PSF Report describes two possible paths towards the legislative implementation of a social taxonomy, one being the addition of a new, separate social taxonomy to stand along the environmental taxonomy, the other being the replacement of the current Taxonomy Regulation with a single taxonomy covering both dimensions. The report suggests that the next steps should be to analyse the potential impacts of a social taxonomy and to develop both, concrete criteria for determining whether an activity qualifies as making a substantial contribution, as well as DNSH criteria relating to each of the social objectives and subobjectives.

2.2 EU sustainable finance and corporate governance landscape

The discussion of human rights indicators in this report is directly relevant to the further development of the EU Taxonomy Regulation, but it also bears, directly or indirectly, on a number of other legal acts and ongoing legislative initiatives at the European level. These are:

- Corporate Sustainability Due Diligence Directive (CSDDD)
- Corporate Sustainability Reporting Directive (CSRD), which revises the current Non-Financial Reporting Directive (NFRD)
- Sustainable Finance Disclosure Regulation (SFDR)

⁷ Platform on Sustainable Finance (2022), p. 42-43.

⁸ Platform on Sustainable Finance (2022), p. 45-46.

As there have been no significant changes to these laws or legislative initiatives since our first briefing paper⁹ was written, we only provide a brief summary of them, making a note of relevant developments since the first paper was released.

2.3 EU Taxonomy Regulation

The **EU Taxonomy Regulation**, which entered into force on 12 July 2020, is the centrepiece of the EU sustainability package. It defines environmentally sustainable economic activities.¹⁰ To be considered sustainable under the Taxonomy Regulation, an economic activity must

- make a significant contribution towards one or more of the six environmental objectives of the EU,
- not cause significant harm to any of the environmental objectives (DNSH),
- be carried out in compliance with given minimum safeguards relating to social aspects, and
- meet technical screening criteria specified in delegated acts.

On 1 January 2022, new disclosure requirements were introduced to the EU Taxonomy. These include requirements that apply for financial market participants offering financial products in the EU and requirements applying for companies required to report non-financial information under the NFRD.¹¹ Financial market participants who market a financial product as sustainable are now required to specify the proportion of the investments in their portfolio that is considered taxonomy-eligible in their reporting. Companies that fall under the NFRD must provide information in their non-financial reports on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation.

After the EU Commission had already issued a delegated act establishing screening criteria for climate change mitigation and adaptation targets, the PSF published technical screening criteria for the remaining four EU environmental targets in the Taxonomy Regulation in March 2022, as well as recommendations for improving the design of the taxonomy and the taxonomy criteria.¹²

For the time being, the EU Taxonomy focuses only on the EU's environmental objectives. However, there is widespread recognition that the ecological transformation of the economy can only succeed if social and labour standards are also taken into account ("just transition"). For this reason, the EU Taxonomy Regulation also calls for a regular review of implementation with regard to expanding its scope, including to social objectives (recital 59).¹³ The addition of social objectives

⁹ Duscha et al. (2022), pp. 7-10.

¹⁰ Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (Taxonomy). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>

¹¹ Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R2139>

¹² Platform on Sustainable Finance (2022a): Technical Working Group: Part A: Methodological report. https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/220330-sustainable-finance-platform-finance-report-remaining-environmental-objectives-taxonomy_en.pdf

¹³ European Commission (2020): REGULATION (EU) 2020/852, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>

would in turn require the adoption of an appropriate set of indicators, such as those as presented in this briefing paper.

2.3.1 Corporate Sustainability Due Diligence Directive (CSDDD)

After individual EU member states had introduced or announced regulations on due diligence - e.g. France's Loi de Vigilance (2017) and Germany's Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains (LkSG, issued in June 2021) - the EU Commission proposed its own directive on corporate sustainability due diligence (proposed CSDDD), on 23 February 2022. The directive would introduce an EU-wide due diligence obligation requiring companies to address negative impacts on human rights and the environment.¹⁴

The new due diligence requirements would apply for EU companies with more than 500 employees that generate a net-turnover of or above 150 million euros (Group 1) and for companies with at least 250 employees that operate in high-risk sectors such as textiles and generate a turnover of at least 40 million euros (Group 2). The requirements would also apply for non-EU companies that have operations in the EU that generate a turnover meeting the relevant threshold. Small and medium-sized enterprises (SMEs) would not fall directly within the scope of the proposed CSDDD. The proposed directive relates to negative impacts arising from the company's own operations, those of its subsidiaries and established business relationships in their value chains (direct and indirect business relationships).

In order to comply with corporate due diligence, companies must:

- make due diligence an integral part of their corporate policy,
- identify actual or potential negative impacts on human rights and the environment,
- prevent or mitigate potential impacts,
- eliminate or reduce real impacts to a minimum,
- establish a complaints procedure,
- monitor the effectiveness of due diligence policies and measures, and
- communicate publicly the exercise of their due diligence responsibilities.

Group 1 companies must also demonstrate that their corporate strategy is compatible with the aim of limiting global warming to 1.5 C degrees in line with the Paris Climate Agreement.

The proposal would require that the directors of companies falling under the directive take action to ensure the implementation and monitoring of due diligence measures and the integration of sustainability efforts into the corporate strategy. Furthermore, it would require directors to consider the impact of their decisions on human rights, climate change and the environment in addition to acting in the best interests of the company. If the remuneration of company executives is variable, the remuneration package should include incentives for contributing to climate change mitigation.

¹⁴ European Commission (2022): Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937, COM(2022) 71 final. The proposal and its annex are accessible here: https://ec.europa.eu/info/publications/proposal-directive-corporate-sustainable-due-diligence-and-annex_en

The proposed CSDDD would also provide for the designation of national supervisory authorities with the power to impose turnover-based sanctions in cases of non-compliance and for member states to lay down rules establishing civil liability for violations of the directive.

The process presented in this briefing paper could facilitate the development of indicators for use in CSDDD reporting (through CSRD, to which the CSDDD refers) and their integration into management processes in the form of key performance indicators.

2.3.2 Corporate Sustainability Reporting Directive (CSRD)

In April 2021, the EU Commission adopted the proposal for a Corporate Sustainability Reporting Directive (CSRD),¹⁵ amending existing reporting requirements under the Non-Financial Reporting Directive (NFRD).¹⁶ The proposed directive aims at significantly expanding the group of companies subject to reporting requirements and would introduce binding European reporting standards (not yet developed).

The EU Commission has commissioned the European Financial Reporting Advisory Group (EFRAG) to develop the future European Sustainability Reporting Standards (ESRS). In April 2022, the EFRAG Project Task Force (PTF-ESRS) submitted draft standards for public consultation and intends to submit the first set of draft ESRS to the European Commission by November 2022.

The CSRD proposal is currently (as of May 2022) being negotiated at the EU Parliament and the European Council and is expected to enter into force in 2022. EU member states will then have to transpose the directive into national law. According to the European Commission's proposed timetable, the regulations should apply from 1 January 2024, i.e. for reporting on the 2023 financial year. However, this looks unlikely given that both the EU Parliament and the European Council have proposed delaying the directive's introduction.

The indicator approach presented in this briefing paper is potentially relevant to the implementation of the CSRD, since the addition of substantial social contribution indicators to the reporting standards currently developed by EFRAG could support CSRD implementation.

2.3.3 Sustainable Finance Disclosure Regulation (SFDR)

The EU's Sustainable Finance Disclosure Regulation (SFDR), which entered into force 31 December 2019, regulates the disclosure of sustainability aspects associated with investment decisions in the financial services sector.¹⁷ Most of the SFDR's provisions became applicable for financial service providers on 10 March 2021. This means that EU fund managers as well as investment firms that offer portfolio management services or investment advice have an obligation to disclose how they take sustainability risks into account in their investment processes and products and

¹⁵ Proposal for a Corporate Sustainability Reporting Directive - COM(2021) 189 final 2021/0104(COD) (CSRD). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>

¹⁶ Directive on the disclosure of non-financial and diversity information (EU)537/2014. Directive on the disclosure of non-financial and diversity information (EU) 537/2014). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0095>

¹⁷ Regulation (EU) 2019/2088 on sustainability-related disclosure requirements in the financial services sector (SFDR). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02019R2088-20200712>

how they deal with the “principle adverse impacts” (PAI) on sustainability factors resulting from their investment decisions.

Furthermore, Article 9 of the SFDR describes disclosure measures that come into effect for “sustainable investments”, i.e. investments in an economic activity that contributes to an environmental or social objective. A socially sustainable investment is defined in Article 2(17) of the SFDR as “an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities”. The information on the financial product geared towards sustainable investment must include, for instance, an explanation of “how that objective is to be attained” (Article 9(2)).

Through the Joint Committee, the European supervisory authorities (ESAs) developed draft regulatory technical standards (RTS) detailing the presentation and content of the information to be disclosed under the SFDR, including under Article 9 of that regulation (JC 2021-50).¹⁸ In these draft RTS, which were released in October 2021, the ESAs proposed that pre-contractual information for financial products of the type referred to in Article 9 of the SFDR should contain ... “a description of the sustainable investment objective of the financial product, a list of the sustainability indicators used to measure the attainment of the sustainable investment objective ...” (Article 21(a), p. 137). However, the draft standards did not specify what those indicators should be.

The draft standards would also require for article 9 products “a description of how the sustainable investments contribute to a sustainable investment objective ... , including an explanation of ... whether the sustainable investment is aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.” (Article 21(d), p. 137–138).

Pre-contractual information for these financial products should contain a “description of the type of investment strategy used to attain the sustainability investment objective of the financial product, the binding elements of that strategy to select the investments to attain that objective and how the strategy is implemented in the investment process on a continuous basis ...” (Article 23(a), p. 138). The draft RTS would not require this description to include indicators for these financial contribution aspects.

On 6 April 2022, the EU Commission adopted technical standards based on the final draft RTSs submitted by the ESAs in a Delegated Regulation¹⁹. These standards are to be applied by financial market participants when disclosing sustainability-related information under the SFDR.

¹⁸ Joint Committee (2021): Final Report on draft Regulatory Technical Standards. (JC 2021-50), https://www.esma.europa.eu/sites/default/files/library/jc_2021_50_-_final_report_on_taxonomy-related_product_disclosure_rts.pdf

¹⁹ EU Commission (2022): Delegated Regulation supplementing Regulation (EU) 2019/2088. [https://ec.europa.eu/finance/docs/level-2-measures/C_2022_1931_1_EN_ACT_part1_v6%20\(1\).pdf](https://ec.europa.eu/finance/docs/level-2-measures/C_2022_1931_1_EN_ACT_part1_v6%20(1).pdf)

The indicators for substantial contributions to social sustainability objectives presented in this briefing paper are also potentially relevant for the further operationalisation of the SFDR.

3 Perspectives on substantial contributions by companies

3.1 The State obligation to fulfil human rights

States have to respect, protect and fulfil human rights. With respect to economic and social rights, states have to take steps towards the full realisation of the rights (“progressive realisation”), and to use the maximum of their available resources to do so. States also “undertake to guarantee that the rights enunciated in the present Covenant will be exercised without discrimination of any kind...” (ICESCR, Art. 2 (1)). In practice this means that states have to mobilize resources to provide public services, protect human rights from infringements by private actors, and create the environment necessary to enable rights-holders to exercise their rights, without discrimination.²⁰

Although states have to devote the maximum resources they have available towards the progressive realization of social and economic rights and must not allow the extent of fulfilment to decrease (“non-retrogression”), they have considerable policy space with respect to the means of economic and social rights fulfilment.

Regardless of what contribution the private sector makes or might make in the future, the state obligation under international law to provide key public services remains unchanged: a state can outsource service provision but doing so does not free it of responsibility for the procedural and substantive results.²¹

How the state realises this obligation, i.e. through the use of public funds, private funds or a combination of both, whether in a capitalist system or socialist system, is at its discretion, as long as the measures it uses to do so are democratic and respectful towards human rights and as long as the outcomes of those measures further human rights and the purpose of human rights: the equal dignity of every human being. In fulfilling its obligation, states should give priority to improving the situation of groups who have traditionally been marginalised or disadvantaged²² – a principle that found an echo in the Agenda 2030’s pledge to “endeavour to reach the furthest behind first”.²³

Although the state obligation to fulfil human rights applies in all circumstances, it is undeniable that there is a considerable funding gap with respect to the realisation of

²⁰ For the cross-cutting character of the obligation of non-discrimination, see CESCR, General Comment No. 20, Non-discrimination in economic, social and cultural rights (art. 2, para. 2), UN Doc. E/C.12/GC/20, para 7; states have to take measures to make sure that prohibited discrimination does not occur in the private sphere, para 11.

²¹ De Schutter, Olivier (2018): The rights-based welfare state: Public budgets and economic and social rights. Friedrich-Ebert-Stiftung, Geneva, pp. 8-13. <https://library.fes.de/pdf-files/bueros/genf/14943.pdf>

²² The treaty body monitoring the ICESCR has issued 215 recommendations to states with respect to “vulnerable persons/groups” between 2013 and 2022. Given that the treaty body issues Concluding Observations to between 10-15 states per year, it is evident that recommendations to address “vulnerable persons/groups” are an important part of all Concluding Observations. Search string: Mechanism: CESCR; Concerned persons/groups: Vulnerable persons/groups at <https://uhri.ohchr.org/en/search-human-rights-recommendations>

²³ UN, General Assembly (2015): Transforming our world: the 2030 Agenda for Sustainable Development. A/RES/70/1, Declaration, para 4.

social and economic rights and the corresponding SDGs.²⁴ While “private investments have a role to play”²⁵ in financing a just transition, there are obviously other relevant sources of funding as well, the most important of these being taxes. Taxes can (and should) be designed in such a way as to reduce inequalities in society,²⁶ and substantial resources for governments could be generated by closing tax havens.²⁷ With corporations improving their tax practices, states would have more means at their disposal to finance for fulfilling social and economic rights and reaching the SDGs.

From a human rights perspective, private investment in public services should not be allowed to trump democratic decision-making and thus endanger the “primacy of politics”.²⁸ The conditions governing the use of private capital for the fulfilment of human rights must therefore be carefully designed and monitored. Among other things, this requires thorough evaluations, using stringent and target-oriented indicators. One has to take into account that private investment decisions may be largely arbitrary from a general welfare perspective. From a human rights perspective, this can become problematic in case a state, should become reactive and confine itself to filling in the “gaps” that private investments fail to fill, rather than actively using its “maximum available resources” to progressively realise human rights.²⁹

3.2 A corporate obligation to fulfil economic, social and cultural rights?

There is long-standing debate over whether and to what extent corporations are subject to international human rights law. However, there is international consensus on the view that corporations have a duty to respect human rights, i.e. to refrain from abusing human rights through their business operations and to provide remedy for persons whose rights are harmed when abuses do occur. The UN Guiding Principles on Business and Human Rights (UNGPs), unanimously adopted by the Human Rights Council in 2011, outline these responsibilities. They have been mirrored by other international guidelines and lately also in national legislative frameworks.

There are also some scholars who consider corporations to have duties reaching beyond the responsibilities detailed in the UNGPs, arguing that corporations have an obligation to protect and fulfil human rights as well as respect them.³⁰ Neither the social taxonomy nor this briefing paper are intended to contribute to this debate. Rather, the purpose of this paper is to explore the question of how one could create

²⁴ Platform on Sustainable Finance (2022): p. 10, 20; OECD / UNDP (2021).

²⁵ Platform on Sustainable Finance (2022): p. 20.

²⁶ See Platform on Sustainable Finance (2022): p. 66; de Schutter (2018), p. 22 ff.

²⁷ On the costs of corporate tax avoidance, see Shaxson, Nikolas (2019): Tackling Tax Havens. In: Finance & Development 56 (3), <https://www.imf.org/external/pubs/ft/fandd/2019/09/tackling-global-tax-havens-shaxon.htm>; see also the regular report by the Tax Justice Network: <https://taxjustice.net/reports/the-state-of-tax-justice-2021/>

²⁸ There is considerable debate among – mostly – development economists about privatization of public services and its effects (see e.g. with respect to education: <https://www.cgdev.org/blog/have-public-private-partnerships-education-lived-their-promise-contributions-maryam-akmal>) which we cannot address here; for the debate on privatization and democratic policy-making see Harel, Alon (2019): Why Privatization Matters: The Democratic Case Against Privatization. *Nomos* 60, pp. 52–78. JSTOR, <https://www.jstor.org/stable/26786102>.

Human rights bodies have consistently acknowledged states’ arguments for privatization (where states alleged them) but also pointed to risks of privatization, e.g. with respect to lack of quality controls and discriminatory effects – in particular with respect to economic and social rights such as health and education. E/C.12/PAK/CO/1, para 81-82; E/C.12/UKR/CO/7, para 42; E/C.12/IDN/CO/1, para 37; E/C.12/ISR/CO/3, para 24 but also with respect to prison privatization, e.g. CCPR/C/NZL/CO/6, para 41.

²⁹ See De Schutter (2018) on the general debate.

³⁰ De Schutter, Olivier (2014): Corporations and Economic, Social, and Cultural Rights. In: Riedel, Eibe /Giaccia, Gilles / Golay, Christophe (eds.): Economic, Social, and Cultural Rights in International Law: Contemporary Issues and Challenges. Oxford Scholarship Online. DOI:10.1093/acprof:oso/9780199685974.003.0007

policy incentives encouraging investments that contribute to the realisation of social and economic human rights and the corresponding SDGs.

A social taxonomy will necessarily build on the UNGPs, since the corporate obligation to respect human rights is a precondition for any corporate contribution towards the realisation of human rights. As the OHCHR (and others) has stated:

“Business implementation of the Guiding Principles is not simply about ensuring “do no harm”, or just a starting point towards making a positive contribution to sustainable development. Implementing the Guiding Principles in itself has tremendous potential to contribute towards positive change for the hundreds of millions of the poorest and most marginalised people across the world, for whom the term “sustainable development” would otherwise ring hollow.”³¹

The attempt to operationalise the notion of corporate contributions towards the fulfilment of social and economic rights may benefit from attention to debates on how development finance institutions can support the fulfilment of human rights in third countries. These debates were being waged long before the UNGPs were adopted. Obviously, the analogy between such institutions and private economic enterprises is limited because international development finance institutions have a public mandate. However, there is a fairly broad consensus, rooted in the respect-protect-fulfil dimensions of the state’s obligation mentioned above, that development finance institutions should avoid doing harm in connection with the financing of projects in non-OECD-DAC countries, even if the local government is not living up to its own obligation to protect its population from such harm. In addition, it is argued that development finance institutions should support these governments in fulfilling their respective human rights obligations, for example, by refusing to invest in projects or programmes that undermine human rights.³² This notion of “support to fulfil human rights” is useful for our purpose as it both underlines the state’s obligation to fulfil and at the same time refers to the possibility that private entities, in this case companies, can make a contribution.

Moreover, it can be helpful to take a look at how the Agenda 2030 and its SDGs link government commitments and corporate sustainability contributions. The logic for corporate contributions to the SDGs is similar to corporate contributions towards human rights: since states cannot alone muster sufficient financial resources to finance the realisation of the SDGs, contributions by the private sector are necessary. Assessment tools, such as the SDG Action Manager, help companies to “match” their products and services with the SDGs and, ideally, to orient them better towards achievement of the SDGs, through up-scaling or innovative solutions.³³ Integrating human rights due diligence to avoid negative impacts on rights-holders is key to corporate contributions to the SDGs.³⁴ The PSF incorporates this view into its

³¹ OHCHR (2017): Information Note: The business and human rights dimension of sustainable development: Embedding “Protect, Respect and Remedy” in SDGs implementation, p. 3. https://www.ohchr.org/sites/default/files/Documents/Issues/Business/Session18/InfoNoteWGBHR_SDGRecommendations.pdf

³² Commission on Human Rights (2005), Report of the Special Rapporteur on the right to food, Jean Ziegler, UN Doc. E/CN.4/2005/47, para 47-48.

³³ <https://www.unglobalcompact.org/take-action/sdg-action-manager>

³⁴ Danish Institute for Human Rights (2019): Responsible Business Conduct as a Cornerstone of the 2030 Agenda – A Look at the Implications, p. 9.

proposal for a social taxonomy, by classifying “avoiding negative impacts”, particularly for high risk sectors, as one type of substantial contribution (see above, section 2.1).

However, the PSF also makes clear that mere compliance with national legal requirements, for example by conducting a risk analysis as part of a company’s due diligence process, does not qualify as a substantial contribution. Rather, measures to avoid negative impacts must go considerably beyond the minimum action that can be expected of companies (“best in class” examples) in order to qualify as a substantial contribution.

3.3 A human rights perspective on substantial contributions by companies

As discussed in more detail above, the definition of what constitutes a substantial contribution in a social taxonomy must be carefully designed. In what follows we discuss the main theoretical design aspects from a human rights perspective, that is if the substantial contribution by a company is to be seen as part of the realization of specific social and economic rights.

The PSF Report defines three criteria for an economic activity to be considered making a “substantial contribution”: Firstly, the economic activity must be clearly linked to a specific (high-risk) sector. Secondly, it must be possible to quantify the amount of the investment in the economic activities linked to the objectives of the taxonomy. Lastly, in order to qualify as a substantial contribution, an economic activity needs to go considerably beyond “business as usual” due diligence processes or any minimum standards laid out in applicable legislative texts.³⁵

The second and third criteria also apply to substantial contributions of the type that enhance the social benefits inherent in certain economic activities. For this type of substantial contribution, it is especially important to distinguish between “business as usual” activities – e.g. the development and provision of life-saving drugs by a pharmaceutical company – and an extra effort made by the company to create an additional social benefit, e.g. making the drugs accessible and affordable for people with low incomes.³⁶ Were the social taxonomy not to require an extra effort of this kind, its potential impact would be significantly smaller and it would fail its purpose of directing capital to under-financed activities with sizable social benefits.

The necessity that inherent benefit and extra effort need to come together is also a key factor in impact investment. Although the perspective of impact investment is different from that of the social taxonomy – looking at investments rather than at economic activities as such – there is a similar understanding of contributions. Investments which are not intended to create an additional positive impact – social

https://www.humanrights.dk/sites/humanrights.dk/files/media/document/~%2019_02922-15%20responsible_business_conduct_as_a_cornerstone_of_the_2030_agenda_dihf_2019%20-%20fd%20461990_1_1.pdf

³⁵ Platform on Sustainable Finance (2022), p. 14, 40. It is not clear to the authors whether the “beyond business-as-usual” criterion also applies to the third type of substantial contribution “enabling activities”.

³⁶ Platform on Sustainable Finance (2022), p. 30.

or environmental – cannot be considered as an investor’s contribution to a just transition and the realisation of the SDGs.³⁷

The PSF Report points out that the purpose of the substantial contribution criteria in a social taxonomy would be “to develop granular criteria on outcomes for rights-holders, setting the bar higher than existing legislation” and that “the objectives of a social taxonomy include ensuring that everyone has access to social products and services needed for an adequate standard of living”.³⁸

In other words, economic activities would have to meet two more criteria to count as substantial contributions: they would have to benefit rights-holders, especially those currently under-served (a logical conclusion of “ensuring that everyone has access”), and they need to change outcomes for them. The PSF report suggests to employ the human rights framework of “availability, accessibility, acceptability and quality” framework (AAAQ framework) for the social taxonomy: “... public and privately offered products and services with inherent social benefits can qualify for the social taxonomy if they meet the criteria based on the AAAQ concept”.³⁹ (see more on the AAAQ framework below, 3.5.1). Referencing the AAAQ framework in this fashion poses the question of whether only activities which accrue to those right-holders who are most marginalised and under-served qualify as a substantial contribution or, alternatively, whether it is sufficient that the economic activity with inherent benefit is more than business-as-usual, has demonstrable positive outcomes for right-holders and does not cause any harm.⁴⁰

The following examples illustrate the question:

- A company installs indoor water connections in a certain neighbourhood and thereby improves the accessibility of clean and safe drinking water for those households. A nearby informal settlement, in which the poorest part of society lives, does not benefit from this activity however, as the dwellings there are not connected to the water supply system. In human rights terms, it would be preferable if the benefit of an improved accessibility to clean and safe drinking water also accrued to the most marginalised people.⁴¹
- An investor plans soup kitchens for the homeless in a city. The plan is to set up the soup kitchens on the top floors. Since there are no elevators in the buildings in question, the soup kitchens would be inaccessible to persons living with a physical disability – a non-negligible share of the homeless. Again, in human rights terms, equipping the buildings with elevators, or changing the location such

³⁷ There is no agreed definition of impact investment; we work with the following definition: “Für uns bedeutet Wirkung oder Impact von Geldanlagen, dass die Geldanlagen dazu führen, dass transformative Realinvestitionen durchgeführt werden, die einen Beitrag zur Erreichung eines Nachhaltigkeitsziels leisten, indem sie beispielsweise den CO₂-Ausstoß reduzieren. Die finanzierten Realinvestitionen sind Teil einer Transformation in Richtung einer nachhaltigen Wirtschaft, die Geldanlagen haben eine „transformative Wirkung“, wenn sie dazu führen, dass diese Realinvestitionen durchgeführt werden. Das bedeutet, dass diese Realinvestitionen sonst nicht realisiert worden wären („Additivität“).” Wilkens, Marco / Klein, Christian (2021): Welche transformativen Wirkungen können nachhaltige Geldanlagen durch Verbraucherinnen und Verbraucher haben? Gutachten für den vzbv. p. 104, https://www.vzbv.de/sites/default/files/downloads/2021/02/11/gutachten_wilkens_und_klein_nachhaltige_geldanlagen.pdf

³⁸ Platform on Sustainable Finance (2022), p. 18.

³⁹ Platform on Sustainable Finance (2022), p. 42.

⁴⁰ For the latter reading, see Platform on Sustainable Finance (2022), p. 43.

⁴¹ See footnote 22 on the relevance of realizing rights for vulnerable and marginalized groups in the Concluding Observations by the treaty bodies.

that it accommodated the needs of persons living with physical disabilities would be preferable.

A human rights perspective on substantial contributions requires two more qualifications. The first relates to the human rights requirement of non-discrimination and the second relates to the difference between substantial contributions and charitable activities.

Substantial contributions and the principle of non-discrimination

Non-discrimination is a right enshrined in international human rights treaties and is a cross-cutting obligation in the guarantees of economic, social and cultural rights.⁴² The PSF Report references the AAAQ framework, which explicitly addresses non-discrimination as part of the “Accessibility”-test, highlighting the relevance of non-discrimination for an analysis of a corporate substantial contribution to economic, social and cultural rights.⁴³

The principle of non-discrimination means that “comparable situations should not be treated differently and that different situations should not be treated in the same way, unless such treatment is objectively justified”.⁴⁴ It relates to both direct discrimination – discrimination on its face – as well as indirect discrimination – discriminatory effects.⁴⁵ The EU Fundamental Rights Charter contains a non-exhaustive list of prohibited grounds for discrimination that includes “sex, race, colour, ethnic or social origin, genetic features, language, religion or belief, political or any other opinion, membership of a national minority, property, birth, disability, age or sexual orientation”.⁴⁶ International Human Rights Treaties enumerate similar grounds of discrimination (e.g. the ICESCR Art. 2) and there are other instruments that underscore specific grounds of discrimination, such as discrimination against women⁴⁷ and discrimination based on race.⁴⁸

Questions relating to discrimination under the social taxonomy arise at least on two levels:

- Projects that are aimed at one particular target group inherently exclude other groups. In some cases, this can constitute prohibited discrimination, e.g. projects that are explicitly reserved only for members of one specific religious group without justification, and would need to be covered under DNSH.⁴⁹
- A project that is available to everyone in terms of its design can still be discriminatory in effects if socio-economic or physical barriers nonetheless make it inaccessible to some population groups (see the above examples). While this may

⁴² ICESCR Art 2(2); CESCR, General Comment No. 20, Non-discrimination in economic, social and cultural rights (art. 2 para. 2), UN Doc. E/C.12/GC/20, para 7.

⁴³ See CESCR, General Comment No. 13, The Right to Education (Art. 13), UN Doc. E7C.12/1999/10, para 6; CESCR, General Comment No. 14, The Right to the Highest Attainable Standard of Health (Art. 12), UN Doc. E/C.12/2000/4, para 12.

⁴⁴ CJEU Case C-930/19 / Judgment, para 57.

⁴⁵ See e.g. CESCR, General Comment No. 20, Non-discrimination in economic, social and cultural rights (art. 2 para. 2), UN Doc. E/C.12/GC/20, para 10.

⁴⁶ Article 21 (1).

⁴⁷ Convention on the Elimination of All Forms of Discrimination against Women (CEDAW).

⁴⁸ International Convention on the Elimination of All Forms of Racial Discrimination (CERD).

⁴⁹ In other cases, differential treatment between population groups might be justified, e.g. a project that focuses on providing education to girls might be justifiable if girls face more obstacles to education than boys.

be covered under DNSH, “ensuring that everyone has access” may also be a criterion for a substantial contribution.

Thus far, non-discrimination figures as a sub-objective (“Promoting equality and non-discrimination at work”) under the “Decent work” objective in the PSF-report. The questions we flagged above suggest that non-discrimination could be addressed broadly, as part of DNSH and by incorporating the principle of non-discrimination into the definition of “substantial contribution”.

Substantial contribution or act of charity?

A charitable or philanthropic project or investment on the part of a company that is not clearly linked to the company’s business activities cannot be considered as constituting a substantial contribution. Where corporate social responsibility (CSR) activities are not related to the company’s core business activity (e.g. when a company that extracts minerals also builds classrooms for children), they may even serve to conceal or white wash adverse impacts on human rights.⁵⁰ Obviously, companies are free to undertake charitable activities, but these should not be considered substantial contributions in the sense envisaged by the social taxonomy. Though this is not directly addressed in the PSF Report, it is implicit due to the report’s reference to the UNGPs.

The social taxonomy should provide guidance and incentives to all companies, regardless of size and sector or whether they are organised as private, public companies or cooperatives, to implement their responsibility to respect human rights within their own business operations. Hence, any economic activity to be counted as a substantial contribution must go along with the company’s implementation of the UNGPs.

3.4 Selection of topics

As mentioned above, in section 2.1, the PSF proposes three types of substantial contributions in its recent report. In this briefing paper, we deal primarily with contributions of the second type, namely those through which a corporation enhances inherent positive impacts of the social goods, services and/or basic economic infrastructure that it provides.⁵¹ In our view, this category holds great potential for funnelling funds to where they are needed from a human rights perspective.

As envisioned by the PSF, this second type of substantial contributions “enhancing inherently positive impacts” has particular relevance for the objectives of “adequate living standards and wellbeing for end users” and “inclusive and sustainable communities and societies”. This selection of objectives is neither random nor subjective. Quite the contrary, as the selection is firmly grounded in the Universal Declaration of Human Rights (UDHR), the International Covenant on Social, Economic and Cultural Rights (ICESCR), and the EU Social Pillar. More specifically, these

⁵⁰ Niebank, Jan-Christian (2018): Bringing Human Rights into Fashion. Issues, challenges and underused potentials in the transnational garment industry. Berlin, German Institute for Human Rights, p. 17. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-61194-6>

⁵¹ We discuss one example for the first type of substantial contribution - avoiding and addressing negative impacts – in section 5.2.4, to fill gaps in existing methodologies and in order to determine whether our proposed indicator approach could be applied with respect to this type of substantial contribution as well. Regarding the third category - enabling activities - see discussion of Future Fit Program in Annex 8.1.

objectives are linked to Article 11 of the ICESCR. The ICESCR spells out the key aspects, adequate food, clothing and housing, contributing to an “adequate standard of living” in Article 11 and then underlines the right to the enjoyment of the highest attainable standard of physical and mental health and the right to education in Articles 12 and 13. All these objectives are also found in the twenty principles of the European Pillar of Social Rights.

These core documents are the agreed standard on social, economic and cultural rights. It follows, then, that substantial contributions directed at enhancing the positive impact inherent in an economic activity should be those that contribute to the following social objectives:

- food (and water)
- housing
- healthcare
- education (including professional training).

In addition to these four objectives, the PSF Report proposed the recognition of substantial contributions made through activities that provide basic economic infrastructure. The sectors of transport; telecommunications (including the Internet), financial services, and electricity fulfil this role according to the PSF Report.⁵² Describing this selection as based primarily on SDGs 9 and 16, the PSF Report reasons that these sectors contribute to adequate living conditions. However, we do not examine this second group of substantial contributions with inherent positive impacts in further detail in this briefing paper. Our aim here is to use a limited selection of examples to demonstrate, how the human rights perspective and the financial market perspective can be combined in order to develop meaningful indicators for all aspects of substantial contributions. For this reason, we decided to confine our research to those sectors and objectives that are well-grounded in and covered by human rights treaties.

3.5 Two systems for the conceptualisation of substantial contributions

Having set out these initial considerations on substantial contributions from a human rights perspective, we will now turn to examine two different systems that can be used to gain an understanding of and operationalise the concept of substantial contributions.

One of the systems has its origins in human rights work: the availability, accessibility, acceptability and quality framework (AAAQ framework). This framework is also used in the PSF Report. Thanks to its provenance⁵³ and the uses it has been put to in the

⁵² Platform on Sustainable Finance (2022), p. 51.

⁵³ The AAAQ framework (also known as the 4 A scheme) was developed by the Committee on Economic, Social and Cultural Rights, originally with respect to the rights to housing (UN Doc. E/1992/23), food (UN Doc. E/C.12/1999/5), education (UN Doc E/C.12/1999/10), and health (UN Doc. E/C.12/2000/4) as well as by the former Special Rapporteur on the Right to Education, Katarina Tomasevski. It has become one of the key analytical approaches the Committee has used since the 1990ies to describe the obligations incumbent on state parties, see also OHCHR (2012), p. 32.

past,⁵⁴ there is a very good chance that it would be readily accepted by the human rights community.

The other system we introduce is based on an “impact logic” developed by investors. In principle, this impact logic fits in well with the concept of “substantial contribution”. The Impact Management Project (IMP)⁵⁵ framework employed by investors was developed with the input of numerous organisations, it is very well thought out and it has already found its way into practice. We therefore believe that it has excellent chances of meeting with acceptance in the financial world.

We describe these two systems in the next two sections and then turn to describe how the human rights perspective and the impact logic of the IMP framework can be combined. We argue that the potential for extensive integration of the two systems is high, due to the large overlaps between them. The combination of the human rights perspective and the impact logic employed by the IMP would greatly increase the chance that the resulting concept and measurement of substantial contributions would be well accepted in both professional worlds (human rights and investor world).

3.5.1 System I: AAAQ framework

The PSF suggests that an analytical approach commonly used in the human rights community, known as the AAAQ framework, should be used to develop criteria for substantial contributions that enhance inherent social benefits of economic activities.

In assessing the fulfilment of economic, social and cultural human rights, individual rights tend to be conceptualised in terms of their “attributes”, derived from the General Comments. One attribute of economic, social and culture rights usually relates to the goods and services necessary to exercise a human right. The AAAQ framework analyses whether these goods and services are

- available, e.g. schools and qualified teachers or health centres are available in all regions of the country,
- accessible, e.g. schools and other educational infrastructure are accessible to all children and youth, regardless of their social status, ethnic background, (dis)ability or any other status. Accessibility includes different dimensions, such as non-discrimination, physical accessibility, and financial affordability.⁵⁶
- acceptable to the target group, e.g. educational material is adapted to cultural backgrounds, where applicable,
- of good / safe quality, e.g. education offers the qualifications needed to make a decent living and thus has the necessary quality.

Availability, accessibility, acceptability and quality are thus the key criteria for planning and monitoring the outcomes of state policies and programmes, and the concept of AAAQ was developed for exactly this purpose (see footnote 53). Although the UN

⁵⁴ For example, the Danish Institute for Human Rights has developed an AAAQ-Toolbox to help translate international principles and standards on two economic and social rights (water and health) into practical guidance. See: <https://www.humanrights.dk/projects/aaaq-toolbox>

⁵⁵ Impact Management Project (2021): Mainstreaming the practice of impact management, <https://impactmanagementproject.com/>

⁵⁶ CESCR, General Comment No. 13: The Right to Education (Art. 13), UN Doc. E/C.12/1999/10, para 6 (b); CESCR, General Comment No. 14: The Right to the Highest Attainable Standard of Health (Art. 12), UN Doc. E/C.12/2000/4, para 12 (b).

treaty body for the International Covenant on Social, Economic and Cultural Rights developed the AAAQ framework in connection with its General Comments to help guide states in fulfilling their obligations under the Covenant, the AAAQ “lens” can also be used to examine substantial corporate contributions towards the fulfilment of human rights. As the PSF Report puts it:

“The aim of these criteria developed using the AAAQ concept would be to direct capital flows to situations where goods and services for basic human needs and basic economic infrastructure: (i) are not met; (ii) are not accessible to certain target groups; or (iii) are in danger of not being met in the future (for example, because finance for maintenance is lacking).”⁵⁷

The AAAQ framework captures two things: firstly, the “goods and services” attribute of human rights, e.g. provision of basic services and infrastructure for education, health, water etc., and, secondly, which rights-holders can access these goods and services and thus exercise the human right in question. It should be pointed out, however, that most human rights consist of more than “goods and services”, e.g. effective protection from specific violations of the human right in question. While this is less relevant for the concept of substantial contribution, it is nevertheless important for understanding the AAAQ framework: The provision of goods and services is necessary but not sufficient for human rights realization. Moreover, while the attributes of a human right structure the contents of the right, the AAAQ aspects structure most attributes. This means that, as Table 1 suggests, capturing all aspects contributing to the fulfilment of a human right tends to necessitate a great many indicators.⁵⁸

Table 1: Schematic representation of human rights indicators

	Attribute 1	Attribute 2	Attribute 3	Attribute 4	
Structural Indicators					Available, Accessible, Acceptable, Quality
Process Indicators					Available, Accessible, Acceptable, Quality
Outcome Indicators					Available, Accessible, Acceptable, Quality

⁵⁷ Platform on Sustainable Finance (2022), p. 41.

⁵⁸ See e.g. the 38 indicators for the right to social security in OHCHR (2012): Human Rights Indicators: A Guide to Measurement and Implementation, p. 96. https://www.ohchr.org/sites/default/files/Documents/Publications/Human_rights_indicators_en.pdf. See pp. 88-101 of the same publication for a list of illustrative indicator sets for a number of human rights.

The fulfilment of most human rights depends in part on structural factors, among them regulation, policies or programmes and training/awareness raising. As we argue below in section 5, some of these structural factors need to be integrated as risks for impacts when measuring whether an economic activity makes a substantial contribution to human rights fulfilment. For example: Lack of regulation or bad (sectoral) governance constitute impact risks for economic activities that may have inherent benefits for social objectives. If risks of this kind are not reflected in the assessment, the provision of goods and services in itself would, erroneously, be considered as sufficient to ensure the realisation of human rights.

As discussed above, the human rights framework is not fundamentally at odds with the notion of corporate “contributions” to the fulfilment of human rights. It does however pose a challenge for the notion of what is “substantial” in a contribution: how to define the threshold beyond which a contribution can be considered “substantial” with respect to increasing the accessibility, affordability, acceptability or quality of goods and services in a manner consistent with human rights standards and principles? The following example illustrates the problem:

- Based on its human rights risk analysis, a pharmaceuticals company finds that its pricing policy poses a risk that one of its products, e.g. a vaccine, will not be affordable to some persons who are among those in greatest need of it. The company revises its pricing policy in such a way that the product becomes accessible to a significantly larger group of persons.⁵⁹ This would be a substantial step in the sense that the company would be doing more than just mitigating the risk identified in the human rights risk analysis: by changing the pricing policy, it creates a sustainable solution to the problem of the product’s limited accessibility. While the company might have achieved the same outcome in terms of who could benefit from its products by donating a large portion of its medicines or vaccines, it would not be making a substantial contribution by doing so because a one-off donation is not a sustainable solution to the problem of limited accessibility of the product.

The problem of identifying the threshold for substantial contributions remains, however, as defining a threshold would necessitate the quantification, either in absolute or relative terms, of just how much larger the “significantly larger group of persons” needed to be. One has to bear in mind that, from a human rights perspective, no person’s access to the goods and services necessary to realise a human right is less (or more) important than anyone else’s. In certain areas, such as access to essential medicines, it should be possible to address the threshold problem through rigorous monitoring,⁶⁰ in other areas, though, it will be much more difficult, consider e.g. monitoring titles to land (for more on thresholds, see below, section 5.4).

Different but related to the question of thresholds is the question of non-discrimination. As mentioned above, the PSF Report deals with non-discrimination primarily under the objective of “decent work”, though it does also discuss it with regard to the objective of “adequate living standards and well-being for end-users”, an area where indirect discrimination often impedes accessibility. As we noted in

⁵⁹ See Platform on Sustainable Finance (2022), p. 30.

⁶⁰ As suggested by Platform on Sustainable Finance (2022), p. 58: “monitoring of the % patient group, which needs the medicine, and which is reached”.

section 3.3, this can be addressed under DNSH or by including non-discrimination in accessibility as criterion for substantial contributions.

3.5.2 System II: Impact Management Project (IMP) framework

More and more investors are interested in measuring and managing the impact of their investment portfolios on people and the planet. In parallel with the efforts in the human rights community, a practitioner community (made up principally of “impact investors” but including some foundations and civil society organisations as well) started the multi-stakeholder Impact Management Project (IMP)⁶¹ in 2016. The aim was to build a global consensus on how to measure, assess and report impacts on people and the natural environment. The funding and strategic direction for the project was provided by a consortium of financial sector actors and social organisations. The project was also supported by what it called its Structured Network, whose members provided comprehensive standards and guidance related to impact measurement, assessment and reporting.

In its search for consensus on “shared fundamentals” for how to describe and classify impact goals/performance across the chain of capital (asset owners, fund managers, enterprises, people and planet), the project came up with a process for moving from impact measurement to impact management. This process consists of the following steps:

- defining intentions and constraints
- setting specific financial and impact goals
- understanding the experience of people and planet
- measuring and managing impact
- delivering and improving impact

In addition, the IMP community reached consensus on the idea that impact can be measured across five dimensions, and agreed on 15 categories of impact data that operationalise these dimensions (see details below). The impact data categories are intended to extend, rather than to replace existing frameworks and standards. Based on these five dimensions, the IMP developed a classification system that groups investments with similar impact characteristics on the basis of their impact performance data, or in the case of new investments, of their impact goals.

The facilitation work of the IMP ended at the end of the project’s five years term in 2021. It supported the development of four initiatives for the mainstreaming of impact management. These four initiatives provide all organisations that use the IMP methodology with the resources they need to improve their sustainability impacts:

- The **Impact Management Platform**, which evolved out of the Structured Network facilitated by the Impact Management Project from 2018 – 2021.
- The **Impact Frontiers**, a peer learning and market-building collaboration, developed with and for asset managers, asset owners and industry associations.
- The **International Sustainability Standards Board (ISSB)**, which was launched in 2021 under the oversight of the IFRS Foundation to develop – in the public

⁶¹ Impact Management Project (2021): Mainstreaming the practice of impact management, <https://impactmanagementproject.com/>

interest –a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs.

- The **Impact Classification System (ICS)** developed by the IMP+ACT Alliance and managed by the Global Impact Investors Network (GIIN), a self-assessment and reporting tool for investment practitioners who wish to disclose how and to what degree their financial products meet sustainability goals.

In the following, we briefly explain how the IMP framework measures investment impacts and how it classifies investments accordingly.

Measurement

The organisations working with the IMP reached a consensus that impact can be measured across five dimensions: **What, Who, How Much, Contribution and Risk**. The questions in Figure 1 below help to operationalise these five dimensions:

Impact dimension	Impact questions each dimension seeks to answer
□ What	<ul style="list-style-type: none"> •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	<ul style="list-style-type: none"> •Who experiences the outcome? •How underserved are the affected stakeholders in relation to the outcome?
≡ How Much	<ul style="list-style-type: none"> •How much of the outcome is occurring - across scale, depth and duration?
+ Contribution	<ul style="list-style-type: none"> •Would this change likely have happened anyway?
△ Risk	<ul style="list-style-type: none"> •What is the risk to people and planet that impact does not occur as expected?

Figure 1: Impact dimensions and related questions⁶²

Answering these questions and operationalising impact performance measurement requires the collection of data across all five dimensions. The IMP created a classification system for this impact data made up of 15 categories, shown in Figure 2

⁶² Impact Management Project (2021): Five Dimensions of Impact, <https://impactmanagementproject.com/impact-management/impact-management-norms/>

Enterprises and investors can assess their impact performance by assessing and reporting 15 categories of data		
Impact dimension	Impact data category	Description
□ What	1. Outcome level in period	The level of outcome experienced by the stakeholder when engaging with the enterprise. The outcome can be positive or negative, intended or unintended.
	2. Outcome threshold	The level of outcome that the stakeholder considers to be a positive outcome. Anything below this level is considered a negative outcome. The outcome threshold can be a nationally or internationally-agreed standard.
	3. Importance of outcome to stakeholder	The stakeholder's view of whether the outcome they experience is important (relevant to other outcomes). Where possible, the people experiencing the outcome provides this data, although third party research may also be considered. For the environment, scientific research provides this view.
	4. SDG or other global goal	The Sustainable Development Goal target or other global goal that the outcome relates to. An outcome might relate to more than one goal.
○ Who	5. Stakeholder	The type of stakeholder experiencing the outcome.
	6. Geographical boundary	The geographical location where the stakeholder experiences the social and/or environmental outcome.
	7. Outcome level at baseline	The level of outcome being experienced by the stakeholder prior to engaging with, or otherwise being affected by, the enterprise
	8. Stakeholder characteristics	Socio-demographic and/or behavioural characteristics and/or ecosystem characteristics of the stakeholder to enable segmentation
▯ How Much	9. Scale	The number of individuals experiencing the outcome. When the planet is the stakeholder, this category is not relevant.
	10. Depth	The degree of change experienced by the stakeholder. Depth is calculated by analysing the change that has occurred between the "Outcome level at baseline" (Who) and the "Outcome level in period" (What).
	11. Duration	The time period for which the stakeholder experiences the outcome
+ Contribution	12. Depth counterfactual	The estimated degree of change that would have happened anyway - without engaging with, or being affected by, the enterprise. Performance of peer enterprises, industry or local benchmarks, and/or stakeholder feedback are examples of counterfactuals that can be used to estimate the degree of change likely to occur anyway for the stakeholder.
	13. Duration counterfactual	The estimated time period that the outcome would have lasted for anyway - without engaging with, or being affected by, the enterprise. Performance of peer enterprises, industry or local benchmarks, and/or stakeholder feedback are examples of counterfactuals that can be used to estimate the duration likely to occur anyway for the stakeholder.
△ Risk	14. Risk type	The type of risk that may undermine the delivery of the expected impact for people and/or the planet. There are nine types of impact risk.
	15. Risk level	The level of risk, assessed by combining the likelihood of the risk occurring, and the severity of the consequences for people and/or the planet if it does.

Source: Impact Management Project

Figure 2: Impact dimensions and data categories⁶³

⁶³ Impact Management Project (2021): Five Dimensions of Impact, <https://impactmanagementproject.com/impact-management/impact-management-norms/>

The use of this standardised description of impact can create a consistency in disclosures, helping asset owners in search of impact investment opportunities.

Classification

To better manage impacts on people or the planet, whether they are the direct impact of a company's economic activities or the indirect impacts of an investment or investment portfolio, activities or investments can be grouped in “impact classes” that display similar impact characteristics. For this purpose, the IMP has agreed on the following “A, B, C classification” which relies on a globally accepted approach that compares the detailed impact of individual enterprises:

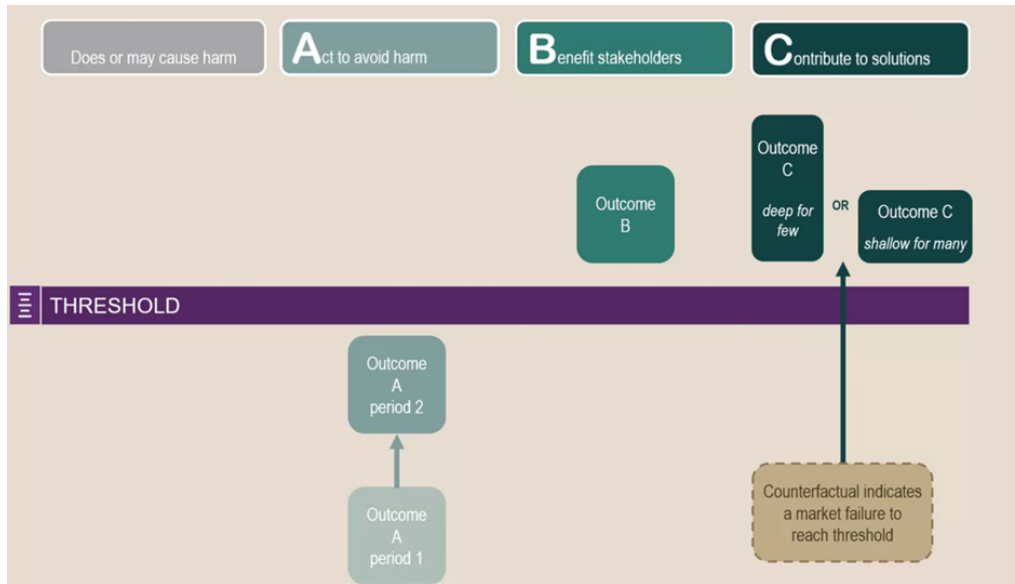


Figure 3: Classification of different kinds of impacts⁶⁴

The overall “impact” of a company is the combination of all its impacts on people and the planet. Once a classification has been determined for each important impact, the overall impact of the entire company can be evaluated according to the scheme shown in Figure 4.

⁶⁴ Impact Management Project (2021): Five Dimensions of Impact, <https://impactmanagementproject.com/impact-management/impact-management-norms/>

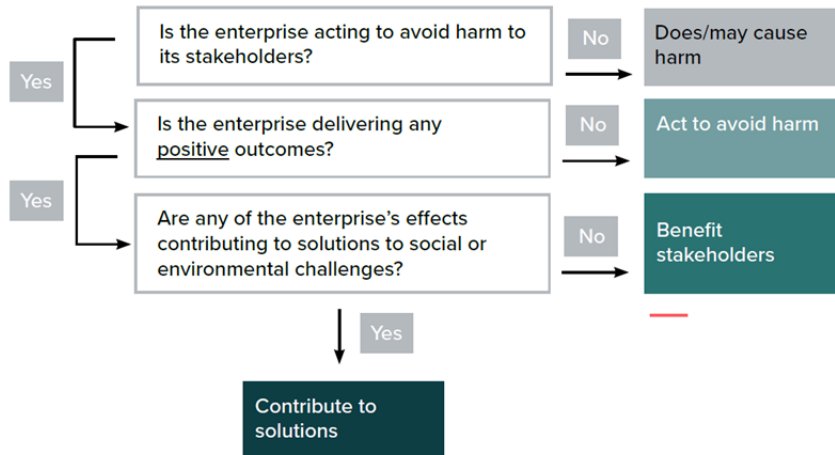


Figure 4: Classifying the impact of an enterprise⁶⁵

Whether the impact (positive or negative, intended or unintended) that the stakeholder experiences when engaging with the enterprise constitutes a substantial contribution is dependent on the level of a positive outcome that the stakeholder considers “good enough”. The threshold may be a nationally or internationally agreed upon standard. In addition, the stakeholder's view of whether the outcome they experience is important to them, is also relevant.

3.6 Alignment of both systems: “The best of both worlds”

The two systems described above were developed from different perspectives and for different areas of application. In what follows, we attempt to connect them. To do so, we compare the three types of substantial contribution described by the PSF Report on the social taxonomy to the Impact Classes of the IMP system (see annex 8.2). We also, and this is of greater relevance for the development of indicators for substantial contributions, compare the main measurement questions implied in these two systems. Table 2 shows overlaps between the four aspects of the AAAQ framework and the 5 impact dimensions of the IMP framework.

⁶⁵ Ibid.

Table 2: Alignment of AAAQ-Scheme and IMP-5 Impact Dimensions

Aspect(s) of AAAQ	Measurement questions AAAQ	Measurement questions of "5 Impact Dimensions"	Aspect(s) of 5 Impact Dimensions	Comment
Availability	Is a certain good /service available in a sufficient quantity?	What outcome is occurring in the period?	What	
(also aspects of Quality ...)	Is a certain good /service of sufficient (safe, standardised) quality?	Is the outcome positive or negative?	What	
		How important is the outcome for people or planet?	What	
		How much of the outcome is occurring (scale, depth, duration)?	How much	
		Would this change likely happen anyway?	Contribution	May touch all 4 aspects of AAAQ
Accessibility	Is a product or service economically affordable and physically accessible without any discrimination, and is related information about this product or service also provided?	Who experiences the outcome?	Who	Aspects of non-discrimination might be missing: see text below
		How underserved are the affected stakeholder in relation to outcome?	Who	
Acceptability	Is the provision of goods and services ethically and culturally appropriate (respectful of minorities and vulnerable groups, sensitive to gender, ability and age requirements)?	What is the risk to people and planet that impact does not occur as expected?	Risk	
Quality	Is a good or service safe and does it meet internationally recognised quality standards?	What is the risk to people and planet that impact does not occur as expected?	Risk	Aspect of risk might be missing. product or service information (see under "accessibility" of AAAQ)

The two systems do not match in all details, which is only to be expected given the different usage and histories of the two systems. However, there is sufficient overlap, allowing a combination of the two:

- **Availability** can be evaluated in a differentiated way through the questions associated with the **What**, **How much** and **Contribution** dimensions of the IMP approach.
- **Accessibility** can be well covered by the questions associated with the **Who** dimension of the IMP approach.
- Conversely, the **Risk** dimension of IMP system can be rendered more concrete by the questions associated with the **Acceptability** and **Quality** aspects of the AAAQ framework.
- The question “Would this change be likely happen anyway?” associated with the **Contribution** dimension of the IMP framework creates the important transparency as to whether the contribution goes beyond “business as usual”. This aspect is not addressed by the core questions associated with the AAAQ framework but it is important for the concept of substantial contribution, as we mentioned above.

Therefore, by combining the questions listed in Table 2, one can arrive at a workable combination of the AAAQ framework and the five impact dimensions of the IMP approach. The advantages this offers are obvious, as the AAAQ framework is well known and has been well tested in the human rights field, while the IMP is an approach widely used in the investment world that deals with questions of impact (contribution). For this reason, we include in our description of existing indicator sets in section 4 an assessment of the extent to which each set refers to at least one of these two systems. We also take up this interlinkage in section 5, when selecting indicators.

4 Existing sets of Indicators for Social Outcomes and Impacts: A Brief Assessment

While there is a plethora of approaches that measure positive corporate contributions to environmental topics, the list for social topics is much shorter. As we did with indicators for minimum safeguards in our earlier briefing paper (Duscha et al (2022)), we will now examine a number of indicator sets for contributions to social topics. The sets we chose to examine were developed from different perspectives and in different communities. In our assessment, we also take into account the SDG indicator framework and the UNDPs Human Development Index (addressed by CHRB), both of which are mentioned in the PSF Report as examples of quantitative indicator sets.

We analyse these frameworks with respect to their suitability for measuring positive corporate substantial contributions to human rights, as outlined in section 3. In our discussion and evaluation of these frameworks, we apply the following criteria. In order to be suitable in our context:

- an indicator framework should primarily⁶⁶ focus on outcomes and impacts rather than on inputs, activities, and outputs. The reason for this is simple: The contribution of inputs, activities, and outputs to substantial positive outcomes is

⁶⁶ Many investors need information around inputs and outputs, too, to contextualize and get an insight in “how is change happening”.

unclear or, to be more precise, determining whether corporate efforts have contributed towards a positive outcome would require comparisons of changes to the status quo over time in order to pin down the effects on human rights attributable to those efforts.

- an indicator framework should focus on economic activities rather than trying to cover the company as an entity.
- approaches should provide a set of indicators for the areas of health, food and water, housing, and also education, and they should be aligned with IMP criteria and the AAAQ framework.

The following table describes the indicator frameworks we looked at; the most promising of these are explained in more detail at the end of this section and in section 5.

Table 3: Evaluation of indicator frameworks

Name of the approach	Developer, institution	Year of (latest) publication	Short description	Suitability for measuring substantial corporate contributions to human rights
Not suitable approaches (mostly effort-based indicators)				
GRI Standards ⁶⁷	Global Reporting Initiative (GRI)	2021	GRI aims to support the decision-making of stakeholders through ESG disclosure. Its indicators for the social dimension include those directly focusing on the effect of the company on specific human rights as well as those referring to risk analysis and preventive measures.	GRI is less suitable to measure positive contributions because it mainly employs effort-based indicators. Although, the rather wide-spread application by businesses in their sustainability reporting allows an intertemporal comparison and hence effects could be derived.
Measuring Stakeholder Capitalism ⁶⁸	World Economic Forum (WEF)	2020	The set of indicators in the WEF report “Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation” includes 21 core and 34 expanded metrics and disclosures focused on four themes, People, Planet, Prosperity and Principles of Governance.	Less suitable, because primarily focused on effort. Living wages could be interesting but would require the definition of a living wage in a form suitable for universal application.
The Women's Empowerment Principles: Reporting on Progress (aligned with GRI G4) ⁶⁹	United Nations Global Compact UN Women	2014	WEP “sets out the benefits of measuring and reporting on progress and how businesses can go about it. In addition, this guidance makes the link with the most prominent sustainability reporting framework, the Global Reporting Initiative”.	Mostly effort-based indicators and thus less suitable, though questions about living wage might be interesting but would require defining generally applicable living wages. Pregnancy/maternity leave indicators could be interesting though focus would be on own employees. Otherwise,

⁶⁷ GRI (2021): Consolidated Set of the GRI Standards 2021. <https://www.globalreporting.org/standards/>

⁶⁸ World Economic Forum (2020): Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation. <https://www.weforum.org/stakeholdercapitalism/our-metrics>

⁶⁹ United Nations Global Compact & UN Women (2014): The Women's Empowerment Principles: Reporting on Progress (aligned with GRI G4). <https://www.empowerwomen.org/en/resources/documents/2016/10/the-womens-empowerment-principles-reporting-on-progress-aligned-with-gri-g4?lang=en>

Name of the approach	Developer, institution	Year of (latest) publication	Short description	Suitability for measuring substantial corporate contributions to human rights
				intertemporal comparisons or threshold definition necessary to measure positive contributions.
SDG Action Manager ⁷⁰	B-lab / Global Compass	n.d.	“... the SDG action manager is a dynamic self-assessment tool that helps all businesses take action for the UN's Sustainable Development Goals” ⁷¹	Somewhat stronger focus on effort indicators and thus less suitable. However, the clear mapping to SDGs of this approach is a plus point as is its inclusion of some suitable ‘substantial’ impact indicators.
Oxfam Poverty Footprint ⁷²	Oxfam	2009	Companies can use the Poverty Footprint to identify their footprint and to improve their impact on society - as well as to identify opportunities for their own business. It is interesting that external perspectives (e.g. from local authorities, industry experts, NGOs) are also asked.	Oxfam-PF is clearly aimed at supply chains and specifically those part of supply chains in the Global South. It is tool that NGOs can use to help them prepare studies on companies’ (positive and negative) impact on their supply chains. Most of the indicators refer to efforts and they are predominantly “narrative” or “yes/no” indicators, which are only suitable for sustainable contributions to a limited extent.
Business Reporting on the SDGs: An Analysis of the Goals and Targets ⁷³	UNGC&GRI	n.d.	Provides a methodology for SDG reporting for companies, including a mapping of SDG indicators to the company level. It also offers indications for corporations to progress towards their goals and targets.	While the goals of the framework are potentially suited for our purpose, it focuses primarily on actions (and hence, efforts). Most of the indicators are drawn from the GRI framework, meaning that their fundamental purpose is for use in reporting rather than impact investing.

⁷⁰ <https://app.bimpactassessment.net/login>

⁷¹ <https://www.bcorporation.net/en-us/programs-and-tools/sdg-action-manager>.

⁷² Oxfam (2009): Oxfam Poverty Footprint - Understanding Business Contribution to Development. Briefings for Business No. 4. <https://www.oxfam.org/en/research/oxfam-poverty-footprint>

⁷³ UN Global Compact & GRI (n.d.): Business Reporting on the SDGs: An Analysis of the Goals and Targets. <https://www.unglobalcompact.org/library/5361>

Name of the approach	Developer, institution	Year of (latest) publication	Short description	Suitability for measuring substantial corporate contributions to human rights
Workforce Disclosure Initiative (WDI) ⁷⁴	ShareAction	2017	The WDI provides companies with a comprehensive online reporting platform to disclose data on the workforce policies and practices underpinning the management of their employees and wider workforce. The WDI survey is designed to capture information that companies already collect and disclose as well as new information of importance to investors	WDI is only partly suitable for our approach as it focuses on only one of the three stakeholder groups: workers. It is also mainly effort-based and aims at improving companies' human rights due diligence processes and thus their performances in avoiding negative impacts.
Less suitable approaches (various reasons)				
Econsense ⁷⁵	Econsense	2020	Categorisation of human rights issues according to how they can be influenced by companies. It provides a selection of result-oriented, quantitative indicators from freely accessible sources, from which companies should select the relevant indicators and develop them further rather than an exhaustive catalogue of indicators.	The approach is not directly applicable as it tends not to refer to economic activities but relates to the entity level instead. However, some of the indicators (occupational health and safety, water) are interesting.
B Corporation Impact Assessment ⁷⁶	B Corporation with the Standards Advisory Council (SAC)	n.d.	In general, the B Impact Assessment provides a judgement (via an objective, comprehensive rating) on how significant a company's current impact is. It focuses mainly on indicators for specific human rights,	Indicators of B Impact Assessment varies with the sector the company is active in, meaning that not all companies are asked the same questions. However, scoring and comparison within one sector might be interesting. Community-related indicators as well as select other

⁷⁴ ShareAction (2017): Workforce Disclosure Initiative. <https://api.shareaction.org/resources/reports/WDI-2021-survey-guidance.pdf>

⁷⁵ Econsense (2020): Menschenrechte messbar machen. Eine umfassende Zusammenstellung quantitativer Menschenrechtsindikatoren für Unternehmen. Diskussionspapier, pp. 7–10. https://econsense.de/app/uploads/2020/09/2020_econsense_Menschenrechtsindikatoren_Diskussionspapier.pdf. English version available at: https://econsense.de/app/uploads/2020/09/2020_econsense_Paper_Human_Rights_Indicators.pdf. The accompanying spread sheet is available at: https://econsense.de/app/uploads/2020/09/2020_econsense_Menschenrechtsindikatoren_final-DE.xlsx (in German) or https://econsense.de/app/uploads/2020/09/2020_econsense_Human_Rights_Indicators_final-EN.xlsx (in English).

⁷⁶ B Corporation (n.d.): B Corporation Impact Assessment. <https://bcorporation.net>

Name of the approach	Developer, institution	Year of (latest) publication	Short description	Suitability for measuring substantial corporate contributions to human rights
			but also includes questions regarding the company's risk analysis.	indicators may be suitable. However, the approach follows neither the AAAQ nor the IMP logic.
Corporate Human Rights Benchmark (CHRB) Methodology ⁷⁷	World Benchmarking Alliance - Corporate Human Rights Benchmark	2021	The benchmark was developed to compare the HR performance of globally leading companies (in general and across sectors). The goal is a race to the top, rankings are published annually.	The set of indicators addresses the UNGP but includes only qualitative indicators, there is no (quantitative) impact measurement. Moreover, indicators are sector-specific which detracts from comparability for investment decisions.
Guidance on Core Indicators for Entity Reporting on Contribution Towards Implementation of the Sustainable Development ⁷⁸	UNCTAD	2019	Tool to assist government in sustainability ratings. Practical guidance on how key indicators can be measured. These core indicators are a limited number of SDG indicators selected from main reporting frameworks and company reporting practices.	The approach is less suitable due to its focus on harm prevention rather than positive contributions to human rights. In general, it contains only a few indicators focusing on the selected themes of health, water/food, and living standards.
SDG Compass ⁷⁹	GRI, UN Global Compact and the World Business Council for Sustainable	2015	The SDG Compass offers inventories of frameworks to measure impact and report on it and it allows filtering by sector and SDGs. It also offers an inventory of indicators (more than 1,500), with a brief description of the indicator and referencing the frameworks using the respective indicator, the relevant business theme, the relevant SDGs, and brief info on the metrics.	Database of indicators from other approaches, but not an indicator framework itself. It contains two indicators from the AAAQ framework. It does not differentiate between indicators on economic activities vs. indicators on entity-level. The choice of indicators to include in the inventory is

⁷⁷ CHRB & World Benchmarking Alliance (2021): CHRB 2020–2021 methodology review. Second public consultation. https://assets.worldbenchmarkingalliance.org/app/uploads/2021/05/Overview-of-the-CHRB-Methodology-Review-Process_2021.pdf

⁷⁸ UNCTAD (2019): Guidance on Core Indicators for Entity Reporting on Contribution Towards Implementation of the Sustainable Development Goals. https://unctad.org/system/files/official-document/diae2019d1_en.pdf

⁷⁹ GRI, UN Global Compact & WBCSD (2015): SDG Compass. <https://sdgcompass.org/business-indicators/>

Name of the approach	Developer, institution	Year of (latest) publication	Short description	Suitability for measuring substantial corporate contributions to human rights
	Development (WBCSD)			based on selection criteria. The set has been criticised as being too complex for SMEs. ⁸⁰
Most suitable approach				
IRIS+ ⁸¹	GIIN	2019	IRIS+ provides Core Metrics Sets for a variety of “impact themes”, mapping them onto SDGs and following IMP’s 5 Dimensions logic. Thus, it provides a system for measuring, managing and optimising business impact.	Impact focused, measuring at the level of economic activity/investment. See explanation below.

⁸⁰ Dalton, Valerie (2020): The challenge of engaging with and reporting against the SDGs for SMEs such as Sydney Theatre Company. *Journal of Management & Organization* 26 (6), pp. 975-994.

⁸¹ GIIN (2019): IRIS+. <https://iris.thegiin.org>

IRIS+ appears to be the best fit for our purpose, while the other indicator frameworks tend to rule themselves out for one reason or another, as noted in the table above. To summarise our argument in favour of the IRIS+ framework:

- IRIS+ offers two approaches to tackling “impact”: SDGs and impact categories. Unlike most of the frameworks presented in Table 3, which map their indicators to the SDGs, the IRIS+ approach takes both strategies into consideration and provides indicator sets for measuring the positive corporate contributions to human rights. In addition to being extremely helpful in practice, this is also in line with the suggestions put forth by the PSF.
- The IRIS+ Core Metrics Sets are structured according to “impact categories” and “impact themes”, and they are aligned with SDGs, as well as with a variety of other frameworks.⁸² This makes interoperability with other data platforms easier and feasible. For this reason, IRIS+ is used by leading impact investors.⁸³ It is considered useful for evaluators, as well as for commissioners/managers of evaluation⁸⁴ and it has evolved with the needs of its users.
- IRIS+ is used by impact investors to maximise the positive and minimise the negative impacts of their investment activity, by enabling them to incorporate environmental and social impact considerations into their decision-making rather than just focussing on returns and risks.⁸⁵
- IRIS+ Core Metric Sets are developed by the Global Impact Investing Network (GIIN), which updates the website and the list of indicators regularly. Additional IRIS+ Core Metrics Sets for more impact themes are regularly introduced, and additions are made to the list of outcome indicators. This makes the IRIS+ a living and learning instrument, characteristics which appears necessary for the development of the social taxonomy.
- The IRIS+ Core Metrics Sets contribute to data clarity and comparability by proposing key indicators that measure outcomes that contribute to certain impact objectives. They are also evidence-backed and based on best practices. Most indicators ask for the input of standardised data and offer calculation guidance and information about the usefulness of the indicator.
- The indicators are attributed to the five dimensions of impact⁸⁶ plus one additional area captured by the question “How is the change happening?”. Furthermore, it is possible to employ additional metrics and use the IRIS+ indicators catalogue to create custom-built indicator sets. This allows users to adjust the indicator sets according to their specific needs and situation, which will be of prime importance.

⁸² The IRIS+ developers relied on some of the frameworks mentioned in table 3, such as “Business Reporting on SDGs: An Analysis of Goals and Targets” and the “SDG Compass”, when developing the IRIS+ Core Metrics Sets, see IRIS (2021): IRIS+ and the SDGs: Draft for public comment Q2 2021. https://s3.amazonaws.com/giin-web-assets/iris/assets/files/iris/2021-06-03_IRIS-FND_SDG%20Paper-DRAFT.pdf

⁸³ Notable users of the IRIS+ framework are the Bill & Melinda Gates Foundation, the Rockefeller Foundation, J.P. Morgan, the Inter-American Development Bank and UBS, see GIIN & IRIS (2011): Investor Letter of Support for IRIS. <https://s3.amazonaws.com/giin-web-assets/iris/assets/Investor%20Letter%20of%20Support%20for%20IRIS.pdf>. BlackRock has mentioned IRIS+ as one of the approaches they rely on: BlackRock (2021): Operating Principles for Impact Management - BlackRock Disclosure Statement. <https://www.blackrock.com/corporate/literature/continuous-disclosure-and-important-information/operating-principles-impact-management-disclosures.pdf>

⁸⁴ <https://www.betterevaluation.org/en/resources/iris>

⁸⁵ “Credible, comparable impact data are needed to inform impact investment decisions and drive greater impact results. IRIS+ solves for this by increasing data clarity and comparability, and it provides streamlined, practical, how-to guidance that impact investors need, all in one easy-to-navigate system.” <https://iris.thegiin.org/about/>

⁸⁶ IRIS & GIIN (2018): Rules of Alignment: The IMP Five Dimensions and IRIS+ [Draft for Public Comment Sept-Nov 2018]. https://pdf.usaid.gov/pdf_docs/PA00TJ51.pdf

Essentially, the idea behind the IRIS+ system is “to help investors measure, manage, and optimize their impact” (GIIN (n.d.): “About IRIS+”). As the indicators have proven themselves in practice, the IRIS+ Core Metric Sets appear to be the best fit for our criteria for selecting indicators. Section 5 discusses this system’s application to a few, exemplary specific impact themes, and examines the appropriateness of the indicators in detail.

5 Applying the Indicators

5.1 Basic Elements and Logic of the IRIS+ Approach

In the preceding section, we identified IRIS+ as the approach best suited overall to the purpose of measuring corporate substantial contributions (outcomes and impacts) on the level of economic activities. In what follows, we describe IRIS+ in more detail.

- IRIS+ proposes IRIS+ Core Metrics Sets for a given objective that are linked to a certain “impact theme” and identifies the SDGs to which the indicator set contributes. There are already sets for a variety of impact themes, and new sets are continually being developed. The indicators are grouped according to the IMP’s five impact dimensions, “What”, “Who”, “How much”, “Contribution” and “Risk”. In addition, an indicator category “How is the change happening”, explains the mechanism that results in an impact (or rather, outcome). IRIS+ allows its users to build their own indicator framework from its large database of indicators or select additional indicators to depict the project, its efforts and effects more precisely.
- In each of the categories of “What”, “Who”, “How much” and “How”, one or multiple outcome indicators are proposed for a given strategic goal, and their significance is explained. The standardised IRIS+ data needed in order to measure the outcome concerned is identified, and “calculation guidance” provides information on how to collect this kind of data, e.g., what formulas must be used, if any, and what alternative indicators exist, if any. The calculation guidance provided for each “What” outcome indicator explains that it is necessary to determine a baseline and current period level of outcome, as well as to define a threshold that accords with the impact objective, in order for the indicator to be meaningful (see below Figure 5).
- The layout of the sections relating to the “Contribution” and “Risk” dimensions is slightly different, because only descriptive data is requested in these sections. IRIS+ provides example risks and investor / enterprise contributions that might be relevant to the achievement of the selected objective. Users can also report additional metrics from the IRIS+ catalogue.

Figure 5 illustrates how the “What” dimension of the IRIS+ Core Metrics Set is structured for the objective of “Improving access to WASH⁸⁷ through affordable household financing”, which is discussed in detail in section 5.2.1.

⁸⁷ WASH stands for “Water, sanitation and hygiene”.

□

WHAT is the goal?

STRATEGIC GOAL

🕒 Objective of intervention

🕒 Outcome indicator: Number of client households with increased access to water and sanitation

Why Is This Important?
To understand how many additional households benefited from water supply and sanitation improvements, as well as how significant the change was.

IRIS DATA NEEDED	FORMULA / CALCULATION GUIDANCE
<ul style="list-style-type: none"> ★ Client Households: Provided New Access (PI2845) ★ WASH Facilities Type (PD3668) ★ Service Level Type (PD5205) 	<p>Calculate the number of client households with increased access to water and sanitation using the following steps:</p> <ol style="list-style-type: none"> 1. Identify the relevant facilities and service levels using WASH Facilities Type (PD3668) and Service Level Type (PD5205). See notes for details on data collection to enable this disaggregation. 2. Identify the number of Client Households: Provided New Access (PI2845) for each relevant facilities and service level (PD3668, PD5205). <p>Notes:</p> <ul style="list-style-type: none"> • These data are available through household or client surveys. See metric usage guidance in Service Level Type (PD5205) and WASH Facilities Type (PD3668) for further details and definitions. • Level of outcome (both for baseline and for current period) for the target stakeholder group must be noted. Threshold (outcome objective level) must also be noted. For more on thresholds, see the Impact Management Project. • For organizations working directly with target stakeholders/end clients, consider using Client Individuals: Provided New Access (PI2822) instead of Client Households: Provided New Access (PI2845). • Data must be collected at the most granular, intersectional level – for example, the organization should capture the number of a) drinking water facilities that provide service at a basic level, b) drinking water facilities at an advanced level, c) sewerated sanitation facilities at a basic level, and so on.

🕒 Importance of outcome to stakeholder

Why Is This Important?

Figure 5: Example: Set-up of the “What” dimension of IRIS+ Core Metrics Set for the objective “Improving access to WASH through affordable housing financing”

5.2 Our Assessment

In each of the following four subsections (5.2.1–5.2.4), we set out a table presenting the IRIS+ Core Metrics set for the topics chosen as focus areas in section 3.4 (the relevant “impact theme” in IRIS+ terminology). The tables show how indicators can be used to answer the questions associated with the AAAQ framework and the five impact dimensions of the IMP approach. We also note where questions can be addressed only in parts.

The set-up of the tables follows that of Table 2, aligning the AAAQ questions with the Impact Management Project’s questions, but has a third column that shows the indicators from IRIS+. Descriptions of the necessary data which are provided by IRIS+ are in quotation marks. Because IRIS+ largely overlaps with the IMP, the task of assigning the indicators to one of the 5 dimensions is straight-forward. There is an area in each table relating to IRIS+ question “How is change happening?”. IRIS+

added this question to ensure a positive contribution is made with respect to the outcome indicator(s) by rendering them more precise while essentially explaining the impact logic.

Aligning the AAAQ questions with the IRIS+ indicators proves more difficult. To reflect partial (mis)matches in this respect, the first column of the following tables identifies the (part of the) AAAQ question(s) addressed by the IRIS+ indicators. Different colours are used in order to indicate **how fully the indicator addresses the AAAQ** questions: Those parts of a question printed in **black** are answered by the relevant indicator, the parts printed in **darker green** are partially answered by it, and parts of a question that are printed in **lighter green** are not answered by the indicator. To bridge gaps of this kind, it will be necessary either to take up additional indicators from other approaches or to formulate “Do no significant harm” criteria and minimum safeguards that serve this purpose. In turn, the IRIS+ indicators that do not (fully) answer AAAQ main questions constitute useful additions in that they shed light on other relevant (impact) aspects.

According to the PSF Report, individual indicators should meet the following criteria:

- “The indicator should relate to a norm, process or goal in internationally recognised standards.
- The indicator must be a good proxy for the objective it addresses.
- The indicator should be specific enough to relate it to an economic activity.
- The indicator must have a clear direction.
- The indicator should be precise so that there is no doubt whether an activity fulfils it or not.
- Indicators should all be at a similar level of detail.
- Indicators should avoid driving perverse incentives or unintended consequences
- Data should be available at reasonable cost. Differences between larger and smaller companies should be considered. The principle of proportionality should apply.”⁸⁸

Due to the genesis of IRIS+, its indicators generally meet these requirements. As our focus in this paper is on the usability of the IRIS+ approach as a whole, we do not attempt to examine whether every indicator used in IRIS+ complies with all the criteria listed by the PSF Report here. A closer examination of this kind may become necessary in the future if consensus emerges on the suitability of IRIS+.

In the following sections, we consider the IRIS+ indicators that we deem suitable for measuring the social taxonomy objective “Adequate living standards and well-being for end-users” and its subobjectives.

5.2.1 Access to good-quality drinking water

This section considers IRIS+ indicators that fit the social taxonomy objective “Adequate living standards and well-being for end-users” and can be used to measure part of its subobjective “Improving access to good-quality drinking water” (PSF Report, p. 37). Table 4 summarises the IRIS+ Core Metrics indicators for the strategic goal of “Improving access to WASH through affordable household financing” under the

⁸⁸ Platform on Sustainable Finance (2022), pp. 69-70.

“Sustainable water management” impact theme. The indicators measure progress towards contributions to SDG 6 and also touch upon SDGs 1, 3, 5, 8, 10 and 11.

Table 4: Connecting AAAQ- and IMP questions with IRIS+ indicators for “Improving access to WASH through affordable household financing”

Questions AAAQ	Questions IMP “5 Dimensions”	IRIS+ indicator(s)
Is a certain good available in a sufficient quantity?	What outcome is occurring in the period?	Number of client households with increased access to water and sanitation “Client Households: Provided New Access” “WASH Facilities Type” “Service Level Type”
	Is the outcome positive or negative?*	There are no indicators for this question in IRIS+
Is a certain good available in a sufficient quantity?	How important is the outcome for people or planet?	“Importance of Outcome to Stakeholders”
Is a certain good available in a sufficient quantity?	How much of the outcome is occurring (scale, depth, duration)?	Scale: Number and percent of client households with increased access to WASH services and facilities “WASH Facilities Type” “Service Level Type” “Client Households: Provided New Access” “Client Households: Total” Depth: Percent change in “Client Households: Provided New Access to Water and Sanitation Services” “WASH Facilities Type” “Service Level Type” “Client Households: Provided New Access”
Not covered by AAAQ	Would this change likely [have] happened anyway?	Enterprise Contribution Investor Contribution: As noted by the Impact Management Project, investors can use a range of strategies to contribute to impact, often in combination: - Signal that measurable impact matters - Engage actively - Grow new or undersupplied capital markets - Provide flexible capital
Is a product or service economically affordable and physically accessible without any discrimination, and is essential information about this product or service provided?	Who experiences the outcome?	Stakeholder type “Target Stakeholders”
Is the product or service economically affordable [...] without any discrimination [...]? Is the provision of goods and services [...] respectful of minorities and groups, sensitive to	How underserved are the affected stakeholders in relation to outcome?	Stakeholder characteristics “Target Stakeholder Demographic”, “Target Stakeholder Socioeconomics”, “Target Stakeholder Setting” “Target Stakeholder Geography”

Questions AAAQ	Questions IMP "5 Dimensions"	IRIS+ indicator(s)
gender and age requirements?		
Is the provision of goods and services ethically and culturally appropriate (<i>respectful of minorities and vulnerable groups, sensitive to gender, (dis)ability and age requirements</i>)?	What is the risk to people and planet that impact does not occur as expected?	<p>Risk factors for investments aiming to improve access to WASH in through affordable household financing aim to:</p> <ul style="list-style-type: none"> - Evidence Risk: Potential market demand for water and sanitation loans and services could be under- or overestimated, and investors might have difficulty ensuring that household investments were indeed made to improve access, availability, or the sustainable service delivery of water and sanitation. To mitigate these risks, investors should carefully study market demand in regions in which they have interest, and investees' loan staff should conduct follow-up visits with borrowers to ensure that loans were properly spent. This may require the development of a management information system (MIS). - Stakeholder Participation Risk: Terms offered by investees and accepted by a large share of those without access to water and sanitation may be misaligned. Investors and enterprises should engage with target stakeholders to ensure the products offered are aligned with the needs and preferences of the target audience, including accessible and appropriate pricing.
Is a good or service safe and does it meet <i>internationally recognised quality standards</i> ?	What is the risk to people and planet that impact does not occur as expected?	- External Risk: Unexpected changes in currency exchange rates, high interest rates, and inflation could all disrupt the expected impact. Investors can mitigate this risk by ensuring that the financing and lending environment of the investee's country is stable and favourable.
Is a certain good available in a sufficient quantity? Is a product or service economically affordable [...] <i>without any discrimination</i> [...]?	<i>How is the change happening?</i>	<p>Number of client households: "Client Households: Total"</p> <p>Financing details for microfinance institutions: "Number of Loans Disbursed", "Average Loan Size Disbursed", "Effective Interest Rate (EIR)"</p> <p>Target stakeholder engagement: "Stakeholder Engagement"</p>

* This question is not represented by a specific indicator in relation to any of the other themes discussed below. In our opinion, the answer to this question is provided by the other indicators and follows from the baseline and project comparison. We therefore omit the question "Is the outcome positive or negative?" in the following tables.

Discussion/Findings

Four relevant issues for discussion emerge from Table 4:

- While the outcome indicator "Number of client households with increased access to water and sanitation" appears straightforward at first, a relevant baseline and threshold comparison are necessary in order to identify a human rights relevant

outcome. A baseline-oriented indicator aimed at answering the AAAQ question would try to capture the “client” population and the “target stakeholders” as part of a larger unit (geographically, socially) in order to gauge the relative scale and depth of the human rights impact. In particular, monitoring against a baseline can capture whether the project target group consists of or includes the most marginalised, in line with the principles of human rights and the 2030 Agenda. Moreover, indicators must distinguish the effect from the business-as-usual case in order to denote an economic activity’s substantial contribution. Given that IRIS+ origins lie in impact investing, one might expect that the “stakeholder type” and “stakeholder characteristics” must indicate that the target group is underserved and/or vulnerable. However, this is neither directly inherent in the indicators nor is it specified in the calculation guidance for IMP’s “Who” dimension.

- The indicators do a better job of capturing access to WASH facilities through affordable household *financing* – and for this reason the “How” dimension focusses on this financial aspect, just as the “Risk” dimension focuses on financing conditions. This makes it more difficult to match the indicators up with AAAQ questions, because they are only (partially) addressed through IRIS+ indicators from the “Risk” and “How” sections, as mentioned in section 3.6 This is especially the case for those indicators associated with the “Quality” and “Acceptability” dimensions.

However, the indicators relating to “Stakeholder characteristics” may answer part of the “Acceptability” question, assuming that if certain stakeholder groups are targeted, the good or service is adapted to the needs of that target group. There are other IRIS+ Core Metrics Sets in which the “Risk” dimension is used effectively to describe problems that might arise from an ethical and cultural point of view when marketing a certain good or service.⁸⁹ However, this is not the case with the set for this specific strategic objective.

This indicator set leaves the AAAQ aspect of “Quality” essentially unaddressed, unless we consider hedging against market risks (termed “external risks” by IRIS+) to be an indicator of quality and safety. It is possible that quality considerations are included in the “Service level type” and “WASH facilities type” indicators.⁹⁰ For other impact topics, quality considerations may be addressed through the question “how is the change happening?” by covering non-financial support indicators such as training events on hygiene in food preparation. Otherwise, more indicators would be necessary to address the AAAQ question “Is a good or service safe and does it meet internationally recognised quality standards?”, as mentioned in section 3.6 These could be easily drawn from SDG indicators.

- Non-discrimination is potentially inherent to the “stakeholder characteristics” description, which might reveal whether or not certain groups of people are excluded from access to a good or service, either by design or in effect. The financing details, which are collected in the “How” section, could also shed light on this question. However, as we pointed out above, in the absence of explicit indicators, it is essential that the question of non-discrimination be covered by DNSH and minimum safeguards. The same holds with respect to physical accessibility.

⁸⁹ For instance, the IRIS+ Core Metrics Set depicted in Table 6: Connecting AAAQ- and IMP Questions with IRIS+ indicators for “Improving Equitable Access to Education and Learning for All” below considers such risks.

⁹⁰ For quality indicators in WASH, particularly in drinking water, see <https://washdata.org/monitoring/drinking-water>

- Information on use of products or services is typically not covered by the proposed IRIS+ indicators.

An exemplary case study of asset manager “WaterEquity” applying the IRIS+ Core Metrics Set for Improved WASH Access through affordable household financing is included in annex 8.3.

5.2.2 Access to good-quality housing

In this section, the selected set of indicators is used to measure part of the subobjective “Improving access to good-quality housing”.⁹¹ Table 5 summarises the IRIS+ Core Metrics Set indicators for the strategic goal of “Increasing housing affordability” under the impact theme “Affordable quality housing”. Projects that fall under this impact theme contribute especially to SDG 11 and also touch upon SDGs 1 and 3.⁹²

The calculation guidance for the outcome indicator “Client satisfaction ratio” in this set states that metric should be obtained by conducting a survey of residents, the results of which are then used as a proxy for residents' satisfaction with their standard of living.

Table 5: Connecting AAAQ- and IMP Questions with IRIS+ indicators for “Increasing housing affordability”

Questions AAAQ	Questions IMP “5 Dimensions”	IRIS+ indicator(s)
Is a certain good available in a sufficient quantity?	What outcome is occurring in the period?	Outcome indicator: Client Satisfaction Ratio “Target Stakeholder Satisfaction Ratio”
	How important is the outcome for people or planet?	Importance of outcome to stakeholders
Is a certain good available in a sufficient quantity?	How much of the outcome is occurring (scale, depth, duration)?	Scale: Number and percent of residents satisfied with housing “Client Individuals: Total”, “Target Stakeholder Satisfaction Ratio” Depth: Percent change in Client Satisfaction Ratio “Change in Client Satisfaction Ratio”
Not covered by AAAQ	Would this change likely [have] happened anyway?	Enterprise Contribution: To assess the depth and duration of the outcome relative to what would have happened anyway.

⁹¹ Platform on Sustainable Finance (2022), p. 37.

⁹² It should also be noted that this IRIS+ Core Metrics Set is closely related to the one aiming at “Increasing housing quality”. Their indicators are identical except for “risk” (for which suggestions are not actually reported in the set itself but are taken from the dimension's explanation under “Overview”) and “How is the change happening?”.

Questions AAAQ	Questions IMP “5 Dimensions”	IRIS+ indicator(s)
		<p>Investor Contribution: As noted by the Impact Management Project, investors can use a range of strategies to contribute to impact, often in combination:</p> <ul style="list-style-type: none"> – Signal that measurable impact matters – Engage actively – Grow new or undersupplied capital markets – Provide flexible capital
<p>Is a product or service economically affordable and physically accessible without any discrimination, and that related information about this product or service is also provided?</p>	<p>Who experience the outcome?</p>	<p>Stakeholder type “Target Stakeholders”</p>
<p>Is the product or service economically affordable [...] without any discrimination [...]?</p> <p>Is the provision of goods and services [...] and vulnerable groups, sensitive to gender and age requirements?</p>	<p>How underserved are the affected stakeholder in relation to outcome?</p>	<p>Stakeholder characteristics “Target Stakeholder Demographic”, “Target Stakeholder Socioeconomics”, “Target Stakeholder Setting” “Target Stakeholder Geography”</p>
<p>Is a product or service economically affordable [...]?</p>	<p>What is the risk to people and planet that impact does not occur as expected?</p>	<ul style="list-style-type: none"> - External Risk: Fluctuation in property values can impact housing affordability for tenants, especially for short-term real estate investments. Organisations and investors can mitigate this risk by diversifying their investment strategies and by looking at long-term investment options. - Efficiency/Alignment Risk: The costliness of land acquisition for new developments affects design and specification decisions and can create trade-offs between financial and impact goals. Organisations and investors can mitigate this risk by seeking investees with competitive advantage in land negotiations and proposal development to prevent impact being “left on the table” as it is traded off against return requirements. - Drop-off Risk: At exit, long-term affordability of housing can face risks if follow-on capital is not mission aligned or if return expectations change significantly. Investors can mitigate this risk by:

Questions AAAQ	Questions IMP “5 Dimensions”	IRIS+ indicator(s)
		<p>(i) setting a required rate of return to allow for an exit with debt or other mission-aligned capital,</p> <p>(ii) including terms or contractual restrictions on exits that allow the next owner to acquire equity interest consistent with long-term affordability, or</p> <p>(iii) exploring models for evergreen and aggregator funds that provide exit mechanisms for existing funds and provide long-term, mission aligned finance at scale.</p>
Not covered by AAAQ	What is the risk to people and planet that impact does not occur as expected?	<p>- External risk: Revenue models can be dependent on government revenue support and subsidy for low-income tenants. Regulatory and policy changes leave investees with long-term lease obligations with a reduction in incoming revenue support, threatening the financial sustainability of investees and suppressing demand for lease-based finance. Organizations and investors can mitigate this risk by understanding the policy environment and exploring mechanisms within lease structures to share policy risk with investees (such as break clauses).</p>
<p>Is a good or service safe and does it meet internationally recognised quality standards?</p> <p>Is a product or service economically affordable and physically accessible?</p> <p>Is the provision of goods and services ethically and culturally appropriate (respectful of minorities and vulnerable groups, sensitive to gender, (dis)ability and age requirements)?</p>	What is the risk to people and planet that impact does not occur as expected?	<p>- Stakeholder participation risk: A focus purely on affordability can lead to unacceptable compromises in terms of quality or in terms of appropriateness regarding other tenant needs (e.g. far from work and services, or because of the specific needs of vulnerable groups).</p>
<p>Is a good or service safe and does it meet internationally recognised quality standards?</p> <p>Is the product or service economically affordable [...] without any discrimination [...]?</p> <p>Is the provision of goods and services ethically and culturally appropriate [...]?</p>	<i>How is the change happening?</i>	<p>HOUSING UNIT DETAILS: Housing type, Percent of housing units improved, Percent of housing units constructed, Percent affordable housing</p> <p>RESIDENT SAVINGS PREMIUM: Savings on housing unit compared to similar housing units</p> <p>RESIDENT FEEDBACK AND PROTECTION: Resident feedback system, Resident engagement with</p>

Questions AAAQ	Questions IMP “5 Dimensions”	IRIS+ indicator(s)
		development and delivery of supportive services, Social responsibility resident policies

Discussion/Findings

This IRIS+ Core Metrics Set dealing with housing affordability provides indicators or suggestions for all five IMP dimensions but only fully covers the “Availability” aspect of the AAAQ framework. While the indicators themselves do not fully cover the other AAAQ dimensions, they leave room for interpretation by the users that might shed more light them. For instance, the “Risk” section of the IRIS+ set focuses on investment risks that might transfer to client risks (such as higher prices, uncertainty, and/ or changes in the legal/political setting which would impair affordability) – this could contribute to an understanding of the risks for the economic accessibility of the provided housing.

On a more positive note, the “drop-off risk” consideration could indicate that the business activity is more than just business-as-usual and hence could be considered a substantial contribution. Moreover, the “stakeholder participation risk” touches upon the quality, accessibility and acceptability aspects of the AAAQ framework, i.e., unfavourable compromises must be avoided to ensure that these dimensions can be fulfilled simultaneously. Here again, the “Quality” aspect is taken up in the “How” dimension, as the reporting on housing unit details would shed light on the quality of the (affordable) housing. However, whether these housing unit details comply with internationally recognised quality standards will only be evident from users’ responses, and is not explicitly queried by IRIS+.

The “client satisfaction ratio” is approximated on the basis of client satisfaction surveys. Here, it is important to ensure representativeness of the survey. Furthermore, although the resident feedback and protection part of the “How” section further specifies the client satisfaction (which appears to relate more to Minimum Safeguard process indicators asking about grievance systems and/or risk prevention), it must be ensured that the client satisfaction survey reports the satisfaction with the strategic goal (i.e., affordable housing, measured for example as percentage of income spent on rent) and not, for instance, only with the overall housing management.

5.2.3 Access to education and lifelong learning (incl. vocational training)

The following table maps the IRIS+ Core Metrics Set indicators for the strategic goal of “improving equitable access to education and learning for all” to the questions associated with the AAAQ framework and IMP’s five dimensions. This strategic goal is associated with the impact theme of “access to quality education” and predominantly addresses SDG 4, though it also touches on SDGs 1, 3, 5, and 10. In the context of the social taxonomy, this indicator set relates to the subobjective “improving access to education and lifelong learning”. Moreover, the specifications under the “How” section enables capturing information relating to contributions towards “inclusion of people with disabilities”, with is part of the subobjective “Promoting equality and inclusive

growth” under the objective “Inclusive and sustainable communities and societies” in the PSF Report (p. 37).

The calculation guidance for the outcome indicator mentions a higher average student test score as the impact objective. Combined with information from the “How is change happening?” section, this indicator is “a directional indicator of student learning outcomes.”⁹³ Another note states that sometimes “Student transition rate – which measures the number of students transitioning from one level of schooling to the next – may be a more appropriate measure.”

Table 6: Connecting AAAQ and IMP Questions with IRIS+ indicators for “Improving equitable access to education and learning for all”

Questions AAAQ	Questions IMP “5 Dimensions”	IRIS+ indicator(s)
Is a certain good available in a sufficient quantity?	What outcome is occurring in the period?	Outcome indicator: “Average Student Test Score”
	How important is the outcome for people or planet?	“Importance of Outcome to Stakeholders”
Is a certain good available in a sufficient quantity?	How much of the outcome is occurring (scale, depth, duration)?	Scale: Number of students with improved test scores “Client Individuals: Total”, “Average Student Test Score” Depth: Percent change in Average Student Test Score “Average Student Test Score”
Not covered by AAAQ	Would this change likely [have] happened anyway?	Enterprise Contribution: To assess the depth and duration of the outcome relative to what would have happened anyway. For further details, refer to Contribution. Investor’s Contribution: As noted by the Impact Management Project, investors can use a range of strategies to contribute to impact, often in combination: - Signal that measurable impact matters - Engage actively - Grow new or undersupplied capital markets - Provide flexible capital
Is a product or service economically affordable and physically accessible without any discrimination, and that related information about this	Who experience the outcome?	Stakeholder type “Target Stakeholders”

⁹³ Where no other source is mentioned, the following quotes stem from the calculation guidance of the respective IRIS+ indicator set.

<p>product or service is also provided?</p>		
<p>Is the product or service economically affordable [...] without any discrimination [...]?</p> <p>Is the provision of goods and services [...] and vulnerable groups, sensitive to gender and age requirements?</p>	<p>How underserved are the affected stakeholder in relation to outcome?</p>	<p>Stakeholder characteristics “Target Stakeholder Demographic”, “Target Stakeholder Socioeconomics”, “Target Stakeholder Setting” “Target Stakeholder Geography”</p>
<p>Is a product or service [...] physically accessible without any discrimination, and that related information about this product or service is also provided?</p>	<p>What is the risk to people and planet that impact does not occur as expected?</p>	<p>- STAKEHOLDER PARTICIPATION RISK: Inappropriate tailoring of products to address needs across types of equity and local norms, misunderstanding of the objectives and experiences of those affected by educational inequity, or stakeholder mistrust in education service providers can greatly reduce positive impact.</p> <p>- EXTERNAL RISK: The lack of a supportive local regulatory framework—or inappropriate government intervention—could impede the development of inclusive education. Additionally, investors should consider regulatory risks to scale or operations.</p>
<p>Is a product or service economically affordable and physically accessible without any discrimination, and that related information about this product or service is also provided?</p> <p>Is the provision of goods and services ethically and culturally appropriate (respectful of minorities and vulnerable groups, sensitive to gender, (dis)ability and age requirements)?</p>	<p>What is the risk to people and planet that impact does not occur as expected?</p>	<p>- EXECUTION RISK: Some families cannot afford to have all their children attend school due to financial constraints; in such cases, they therefore prioritize attendance based on gender or perceived ability. Teachers managing disproportionately large classes will have limited resources to properly integrate inclusive, learner-centered approaches that recognize individual student differences. Some solutions could benefit an unintended demographic in a given country or context, perhaps benefiting upper-middle classes or private schools and thereby deepening inequalities.</p> <p>- UNEXPECTED IMPACT RISK: In some cases, when traditionally marginalized populations—women or disabled people—receive educational services, traditionally more privileged populations may feel threatened or resentful of their educational empowerment. This may embolden privileged populations to take action against educational service delivery, which sometimes escalates to minority- or gender-based violence.</p>

<p>Is the product or service economically affordable [...] without any discrimination [...]?</p> <p>Is a good or service safe and does it meet internationally recognised quality standards?</p> <p>Is a certain good available in a sufficient quantity?</p>	<p>How is the change happening?</p>	<p>Student Enrolment and Participation: Number and percent of enrolled minority or previously excluded students, Number and percent of enrolled students with disabilities, Number and percent of enrolled low-income students, Number and percent of students enrolled who are female</p> <p>Teacher Participation and Qualifications: Student to teacher ratio, Number and percent of teachers meeting standard qualifications, Number of teachers trained</p> <p>Student and Teacher Engagement</p>
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Discussion/Findings

This IRIS+ Core Metrics Set shows the great value of the “How is the change happening?” section of IRIS+. In this case, this section substantially contributes to an understanding of the target group and can provide grounds for arguing that the business activity results in a substantial contribution rather than in a business-as-usual scenario. The in-depth description of both the target group and the risks (dealing mostly with accessibility and acceptability risks) and the multiple questions about underserved and vulnerable groups in the “How” section ensure that this set matches the accessibility and acceptability dimensions of the AAAQ framework (incl. discrimination concerns) rather well.

The “How” section deals with quality, asking for the “Number and percent of teachers meeting standard qualifications” as well as the “Student to teacher ratio”. It also touches upon the “Availability” dimension by asking for the “Number of teachers trained”.

Overall, the IRIS+ Core Metrics Set on “improving equitable access to education and learning for all” provides a sound and comprehensive set of indicators addressing all questions associated with AAAQ and the IMP’s five dimensions. A comparison of these indicators to those developed by the OHCHR for the right to education⁹⁴ reveals large areas of overlap.

5.2.4 Access to quality healthcare (here: health and safety for workers)

The following table maps the IRIS+ Core Metrics Set indicators for “Improving health and well-being across the workforce”. Here, the selected set of indicators can be used to measure a part of the subobjective “providing excellent health and safety for workers, with high levels of worker representation in formal committees on health and safety that are jointly composed of management and workers.” (PSF Report, p. 36). Thus it falls under the “Promoting decent work” objective of the social taxonomy (PSF Report, p. 35).

⁹⁴ OHCHR (2012), p. 93.

The following table aligns the IRIS+ Core Metrics Set indicators for the strategic goal of “improving health and well-being across the workforce” under the “access to quality health care” impact theme with the questions associated with AAAQ framework and those of the IMP’s five dimensions. Projects that fall under this impact theme primarily contribute to SDG 8, though they can also address SDGs 1, 3, 5, 6, and 10 as well.

Specifically, the IRIS+ calculation guidance for this impact theme’s outcome indicator, “number of occupational injuries and fatalities”, specifies that “[t]he threshold is a number at which outcomes are ‘good enough’ or meet a minimum acceptable standard. Thresholds may reflect industry standards or peer benchmarks.” The IRIS+ Evidence database, moreover, gives the user the option of identifying the reported projects as targeting “improved occupational safety” or “improved mental health and well-being”. The latter metric, however, is not provided in the IRIS+ Core Metrics Set for this goal and also not covered by the suggestions under “Additional Metrics”.

This IRIS+ Core Metrics Set was chosen by the authors specifically to discuss the “Avoiding harm” impact category proposed by the IMP. As a result, it is more difficult to distinguish whether an improvement in the metrics represents a genuine contribution towards improving workers health beyond the scope of “business as usual”.

Table 7: Connecting AAAQ- and IMP Questions with IRIS+ indicators for “Improving health and well-being across the workforce”

Questions AAAQ	Questions IMP “5 Dimensions”	IRIS+ indicator(s)
Is a certain good available in a sufficient quantity?	What outcome is occurring in the period?	Outcome indicator: Number of occupational injuries and fatalities “Occupational Injuries”, “Occupational Fatalities”
	How important is the outcome for people or planet?	Importance of outcome to stakeholders
Is a certain good available in a sufficient quantity?	How much of the outcome is occurring (scale, depth, duration)?	Scale: Number and percent of employees experiencing occupational injuries or fatalities “Occupational Injuries”, “Occupational Fatalities”, “Permanent Employees: Total”, “Temporary Employees” Depth: Percent change in Occupational Injuries and Fatalities “Occupational Injuries”, “Occupational Fatalities”
Not covered by AAAQ	Would this change likely [have] happened anyway?	Investor Contribution: As noted by the Impact Management Project, investors can use a range of strategies to contribute to impact, often in combination: - Signal that measurable impact matters

		<ul style="list-style-type: none"> - Engage actively - Grow new or undersupplied capital markets - Provide flexible capital
Is a product or service economically affordable and physically accessible without any discrimination, and that related information about this product or service is also provided?	Who experiences the outcome?	Stakeholder type "Target Stakeholders"
Is the product or service economically affordable [...] without any discrimination [...] ? Is the provision of goods and services [...] and vulnerable groups, sensitive to gender and age requirements?	How underserved are the affected stakeholder in relation to outcome?	Stakeholder characteristics "Target Stakeholder Demographic", "Target Stakeholder Socioeconomics", "Target Stakeholder Setting" "Target Stakeholder Geography"
Is the provision of goods and services ethically and culturally appropriate (respectful of minorities and vulnerable groups, sensitive to gender, (dis)ability and age requirements)?	What is the risk to people and planet that impact does not occur as expected?	<p>- EXECUTION RISK: Lack of financial, human, and program resources could hinder implementation of measures aligned with this Strategic Goal. Investors can support investees to focus on key impact areas when resources are limited or even leverage other external resources that could be available for interventions (26).*</p> <p>In another aspect of execution risk, investors could, in trying to replicate the same measures for different investees, yield unpredictable or unintended results.</p> <p>- EXTERNAL RISK: Lack of strong social and regulatory frameworks supporting occupational health and safety or lack of enforcement measures by local actors present risks to intended impact. Other external risks include local traditions that perpetuate the primacy of work over private life or encourage social sanction of the needed workplace measures. These risks could lead to poor management of health and well-being measures in the workplace.</p>
Is a certain good available in a sufficient quantity?	What is the risk to people and planet that impact does not occur as expected? How much of the outcome is occurring (duration)?	- EVIDENCE RISK: Positive outcomes from investments in this Strategic Goal may require time to become evident, especially in cases related to new programs and trainings targeting occupational health and safety or mental health and well-being. The resulting lengthy

		timelines can create tension with or disappointment for investees.
Is a certain good available in a sufficient quantity?	How much of the outcome is occurring (duration)?	- ENDURANCE RISK: True benefit for companies and target stakeholders from improved workers' health and well-being requires a long-term perspective, which means funding risks discontinuation.
Is the product or service economically affordable [...] <i>without any discrimination</i> [...]?	How is the change happening?	EMPLOYEE DEMOGRAPHICS: Number and percent of employees by demographic EMPLOYEE SAFETY, BENEFITS, AND VOICE: Employee grievance mechanisms, Number of occupational illnesses, Employment benefits provided, Employment benefits uptake DECENT JOBS POLICIES JOBS SUPPORTED AND CREATED: Number of direct jobs supported, Number of jobs created EMPLOYEE ENGAGEMENT
Is a good or service safe and does it meet internationally recognised quality standards?	<i>No IMP Question</i>	No indicator

Discussion/Findings:

Particularities of this IRIS+ Core Metrics Set relate primarily and most strikingly to the type of impact that it intends to measure. Especially given that the threshold guidance asks for “outcomes [that] are ‘good enough’ or meet a minimum acceptable standard”, the impact of a project applying this set of indicators will tend to fall under the “Avoiding Harm” category of the impact classification depicted in Figure 3 above. In order to fall under the “B” or “C” impact classification type, projects which relate to the human right to occupational health and safety must surpass the “good enough” or “minimum acceptable standard” threshold.

As was the case for the other impact themes discussed in the preceding sections but is even more pronounced here, users’ description of their “contribution” will be indicative of whether the project provides a (substantial) contribution or only reflects a business-as-usual scenario.

Different from the IRIS+ Core Metrics Sets discussed in the preceding subsections, two risks are suggested by IRIS+ here that touch on the “duration” which is relevant to the “how much” dimension. First, the “endurance risk” addresses duration, by noting that the benefits associated with this strategic goal require a long-term perspective. Similarly, the “evidence risk” addresses the risks related to delayed effects, thereby providing further information about a product or service’s availability in a sufficient quantity. This risk could potentially also be partly mitigated by providing relevant

information about the good or service that explains the (potentially) delayed occurrence of the benefits.

One shortcoming of this indicator set relates to the “How is the change happening section?” section. While it requests specification of “employee demographics” and thus contributes to an assessment of whether there is any form of discrimination inherent to the project, the other indicators deal more with aspects that would be addressed in the social taxonomy through DNSH criteria or minimum safeguards. These indicators might also be considered as measuring the “quality of the working environment” and thus be associated with the social taxonomy subobjective of promoting decent work (PSF Report, p. 35). Other than that, though, the “Quality” dimension of AAAQ is not addressed by this indicator set.

5.3 Overall Findings

As the examples from the previous sections show, the IRIS+ approach and its proposed indicator sets appear to be applicable, in principle, to two of the types of substantial contributions defined by the PSF: substantial contributions “inherent in economic activities” and substantial contributions “avoiding and addressing negative impact”.

This holds true only when the IRIS+ indicators are considered a connected set: as stand-alone indicators they do not reflect the complex requirements of the combined IMP and AAAQ approach. While users of the IRIS+ Core Metrics Sets have the freedom to adjust these sets according to their needs, it is essential that the chosen set covers all relevant dimensions of IMP and AAAQ in order to measure substantial contributions in a meaningful manner.

The fact that duration of an outcome/impact is not explicitly captured in the IRIS+ Core Metrics Sets is a disadvantage, as this is obviously of great importance for rights-holders. Duration can be derived from the temporal difference between baseline and reporting period, though further clarifications may be necessary to ensure that the existence of a (long-term) impact can be confirmed (see as an example section 5.2.1 on WASH facilities with respect to spare parts).

Comparing project outcomes with the baseline situation also makes it possible to arrive at an answer to the IMP question “Is the outcome positive or negative?” Last but not least, change relative to a predefined threshold in combination with the user’s answer in the Contribution section would enable verification as to whether the impact goes beyond business-as-usual, thereby constituting a significant corporate contribution to human rights.

As shown in the sections above, the IRIS+ Core Metrics either omit the Quality aspect of the AAAQ framework or address it to only a limited extent. One possible explanation is that the “internationally recognised quality standards” of the AAAQ have not been sufficiently defined in all sectors and, therefore, need to be further specified in the context of IRIS+ as well. It is particularly important to ensure quality considerations in order to avoid unfavourable trade-offs (see section 5.2.2 on housing). The Quality aspect of the AAAQ framework can be addressed either within the Risk section or in the “How” section, where information about the safe provision of products and services could be queried. Moreover, the “related information about the

product or service” could be covered in the “How” section; only providing the information without any implementation measures with respect to the product or service, does not constitute a substantial contribution.

In its current design, the IRIS+ “Risk” section focusses mainly on investor risks; but this could be easily amended to make it fit with the social taxonomy. To this end, the “Risk” dimension should be revised to emphasise to risks related to the business activity itself, i.e., the product or service. More specifically, the Risk question(s), as well as the “How” section and their respective indicators in IRIS+, could be systematically supplemented by adding questions relating to quality, accessibility, and acceptability.

Accessibility questions (“Is the product or service economically affordable [...] without any discrimination”) may be covered by DNSH in many cases. Due to the relevance of non-discrimination in human rights law, it would be preferable, however, if there were indicators that can verify whether the product or service is inherently non-discriminatory, and enable verification as to whether outcomes are accruing also to the most vulnerable and underserved populations. Equally important is the question of meaningful thresholds, to be discussed in the next section. The indicators addressing the “scale” aspect of the “How much” dimension need to be related to a larger population unit, one that is not made up solely of the “total clients” of the executing enterprise but, for instance, of the total number of under-served/marginalized people in the geographic area under consideration.

5.4 Thresholds, Baselines and Scales

The definition of indicator thresholds plays a decisive role in ensuring that indicators in fact measure substantial contribution. In our view, the following aspects are important with regard to the definition of thresholds:

- In general, an economic activity is only considered socially sustainable in the sense of the substantial contribution concept of the (social as well as green) taxonomy, if the values on all indicators are in the targeted range beyond the defined thresholds. This must apply to all indicators used for the assessment of an economic activity, as well as to the DNSH indicators and the minimum safeguards.
- Given the complexity of social change and respective goals, we think that thresholds cannot be defined in isolation from the political, economic and social conditions in the national, regional, local and, if applicable, project-specific context.⁹⁵ This contextuality makes it difficult to compare investments and their impacts in different thematic fields and geographical contexts.
- Due to this contextuality, the indicators and targets would ideally first have to be determined and agreed upon within the framework of a multi-stakeholder process, which would include public consultations with rights-holders. With these participatory safeguards, the contextualized indicators and thresholds could be applied at any level, e.g., national, regional, local or project level.⁹⁶ Comprehensive safeguarding of this kind is not feasible in the context when assessing whether

⁹⁵ See OHCHR (2012), p. 44 ff.

⁹⁶ See Danish Institute for Human Rights (2014): AAAQ and the right to water contextualising indicators for availability, accessibility, acceptability and quality, p. 32 ff.
https://www.humanrights.dk/sites/humanrights.dk/files/media/migrated/aaaq_contextualising_indicators_2014.pdf

investments make substantial contributions in terms of human rights, though. Thus, simpler processes must be devised instead. National legislation or policies could be a starting point, for example (the national definition of social housing, for instance, or the results of collective bargaining), and thresholds could be built on this basis.⁹⁷ For internationally oriented economic activities, the thresholds used would then depend on the target region. In general, the development of standards to determine thresholds remains an important topic, in need of more research.⁹⁸

Excursus: Zero line and threshold in the impact classes of IMP and the different types of substantial contribution

In the IMP's scheme of impact classes (see Figure 3), the definition of a zero line (= minimum standard) for an impact indicator is important in order to distinguish between different types of substantial contribution:

- a) The impact class "Act to avoid harm" (corresponding to the PSF "Substantial contribution for avoiding and addressing negative impact") has an impact threshold under or equalling the zero line;
- b) The impact classes "Benefit Stakeholders" and "Contribute to Solutions" (corresponding to PSF "Substantial contribution inherent in economic activities") have an impact threshold above the zero line (see the comparison of both impact / substantial contribution classifications in Appendix 8.2).

Target group, scale and relation

In our view, the following aspects are of particular importance for the indicators of the categories "How much" and "Who experiences the outcome":

- From a human rights perspective, the thresholds relating to target groups represent high proportions of vulnerable and poorly served segments of the population.
- When operationalising the indicators, a reference should be chosen that shows a relationship to the size of the relevant region, the target group living in it and the potential of the targeted economic activity.
- Alternatively, a comparison with average values of an industry or sector in the same region could be used, with a value above the average required. In human rights, everyone's access is equally important. This could be advantageous for small-scale activities in particular, as it would mean that smaller actors like SMEs would not be at a disadvantage in the assessment for necessary financing or their ability to deliver substantial contributions.
- The baseline must not refer only to the previous outcomes of the company in question since this would disadvantage companies just starting out.
- A significant contribution does not necessarily have to be expressed in large numbers or large shares among the target group: a very deep effect for a small number of people in the target group can still represent a significant contribution ("depth instead of scale").

⁹⁷ Platform on Sustainable Finance (2022), p. 27; OHCHR (2012), p. 87.

⁹⁸ See Duscha et al (2022), p. 45.

To the extent that these aspects are not yet a consistent part of the proposed IRIS+ thresholds and baseline recommendations, appropriate additions should be considered.

6 Matching the Selected Indicator Approach with the Requirements of the Broader Regulatory Framework

In the following, we will discuss how the selected indicator approach can be related to the various European laws and legislative projects described in section 2.

6.1 Social Taxonomy and Green Taxonomy

The focus of this briefing paper is on substantial contribution in social issues, which is not a topic of the green taxonomy. However, the logic underpinning the concept of substantial contribution is the same in both taxonomies, as the concept was taken up directly from the green taxonomy into the social taxonomy as proposed in the PSF Report.

The system we propose and the indicators associated with it are compatible with the recommendations of the PSF Report 2022. This applies to the logic of the substantial contribution and to the consideration of the two social contribution types “enhancing benefits inherent in products and services” and “avoiding harm”. It also applies to the AAAQ framework which was proposed by the PSF. As our discussion in the previous sections has demonstrated, the IRIS+ indicators can also be applied to the objectives and subobjectives that the PSF suggested for a social taxonomy, albeit with some lacunae and room for refinement.

6.2 Corporate Sustainability Reporting Directive (CSRD) and Proposed Legislation on Corporate Sustainability Due Diligence (CSDDD)

Both the Corporate Sustainability Reporting Directive and the Proposal for a Directive on Corporate Sustainability Due Diligence (CSDDD) focus primarily on risk avoidance. Substantial contributions are not a key element in these legislative approaches, which is why there is basically no substantive overlap with and thus no friction with the approach we are proposing.

However, substantial contribution aspects are touched on, in a rather general and descriptive manner, in the Exposure Drafts⁹⁹ of EFRAG’s recommendations on the future standards for corporate sustainability reporting. A case in point is the explanation of outcome-oriented targets that a company may have in relation to advancing positive impacts on the different stakeholder groups (own workforce, workers in the value chain, affected communities, consumers and end users). There are also individual indicators in the ESRS-S1 standard that relate to the topics of training and skills development, health and safety management system, fair remuneration, employment of persons with disabilities. But as described above, these are not sufficient to measure all aspects of substantial contributions.¹⁰⁰ In this respect,

⁹⁹ See https://efrag.org/lab3?mc_cid=2775de3b98&mc_eid=002dc64221#subtitle5

¹⁰⁰ https://efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2Fsiteassets%2FED_ESRS_S1.pdf

our recommendations may have the potential to help make these standards more concrete.

6.3 Sustainable Finance Disclosure Regulation (SFDR)

“Sustainable investments” falling under Article 9 of the SFDR are defined with reference to the Taxonomy Regulation. Therefore, a future social taxonomy in line with the proposals of this briefing would be relevant to the definition of socially sustainable products under Article 9 of the SFDR. Our considerations are not relevant for the requirements for Article 6¹⁰¹ and are relevant only to some extent for Article 8¹⁰² of the SFDR, as the financial products covered by those articles are not explicitly advertised as financing activities making substantial contributions to sustainability goals.

The proposals of this briefing could already inform the Regulatory Technical Standards of the SFDR. The indicators proposed in the current draft version of the Regulatory Technical Standards are rather unspecific and require further specification.

6.4 Conclusion

Apart from the possible EU social taxonomy, none of the legal acts and initiatives mentioned above impose requirements relating to substantial contributions to social issues on companies. Thus, in the absence of an EU-level social taxonomy, there would be no binding framework for defining substantial contributions to human rights in the context of sustainable finance. Also, the current wording of Article 9 of the SFDR is not specific enough with regard to social substantive contributions.

If a social taxonomy (or parts thereof) along the lines of the proposal by the Platform Sustainable Finance is implemented, and also Article 9 of the SFDR rendered more specific, our recommendations could contribute to effective further operationalisation and would be compatible with the EU regulations mentioned above.

7 Summary and Recommendations

With this briefing paper, we hope to have contributed to the ongoing conversation on why and under which conditions a social taxonomy would be an important and useful tool to incentivise businesses to scale up their engagement for the realization of social and economic rights.

After clarifying that making substantial contributions does not absolve companies from corporate due diligence obligations, we shed light on critical questions that come to mind from a human rights perspective when elaborating what may or may not constitute a corporate substantial contribution. The state obligation to respect, protect and fulfil human rights must remain beyond question, and contributions by businesses to basic social services must therefore be orchestrated and monitored by states; a social taxonomy can be an important instrument to do that.

Contributions by companies are desirable, as long as they do not jeopardize the primacy of democratic policymaking. Thus businesses can play the role in “supporting

¹⁰¹ “Traditional financial products without specific sustainability references”.

¹⁰² “Product promotes social and/or environmental characteristics”.

to fulfil human rights”, as has long been the case for development finance institutions and has also been debated in the context of SDG fulfilment.

More importantly, however, businesses can have a tremendous positive impact by implementing human rights due diligence as defined by the UNGPs. Therefore, taking their responsibility to respect human rights seriously should remain the first priority for businesses. Any contribution to the SDGs or social and economic rights needs to consist in the first instance in integrating human rights due diligence into business operations and value chains and thus avoiding negative impacts on rights-holders.

We also discussed the criteria for substantial contributions. We discussed aspects of discrimination against and the exclusion of certain rights-holders from substantial contributions and argued that the under-served and marginalised parts of society should, in principle, be the ones to benefit most from these contributions. We have suggested that this can be captured by appropriately defined thresholds. Furthermore, a substantial contribution should require an additional effort from companies, i.e. an effort that goes beyond “business-as-usual” activities, creating positive impacts which would otherwise not have occurred. Moreover, substantial contributions should be distinct from companies’ charitable activities, which are usually unrelated to the core business activity and sometimes serve to conceal or white-wash adverse impacts on human rights.

Turning towards ways to operationalize substantial contributions and measure them using indicators, we singled out two mutually complementary approaches, with a view to bringing the human rights and financial worlds together: 1) the “availability, accessibility, acceptability and quality”, in short AAAQ framework, one of the key analytical approaches used by the UN Committee on Economic, Social and Cultural Rights to describe the obligations incumbent on state parties; and 2) the Impact Management Project (IMP) approach with its five impact dimensions - What, Who, How Much, Contribution and Risk – which has already been implemented by some of the largest investors in the world.

We have taken this approach because there are no well-established human rights methodologies for measuring substantial contributions to human rights fulfilment by private actors through enhancing inherent positive impacts of social goods and services. In our view, however, this type of substantial contribution holds great potential for directing funds to where they are needed from a human rights perspective. This means that it will be necessary to attempt to fill gaps in existing methodologies. We have shown that the AAAQ framework and the five impact dimensions of the IMP are largely compatible. In combination, they are suitable for capturing all aspects of this type of sustainable contribution and have the added benefit of being widely known and thus acceptable in their respective professional “worlds” (of human rights and of investors).

In a next step, we tested existing indicator sets intended to measure social impact with a view to their suitability for assessing positive corporate substantial contributions to human rights. The following criteria were decisive: indicator frameworks should focus on outcomes and impacts, they should look at individual economic activities rather than covering the entire corporation, and they should be largely aligned with both with the IMP impact dimensions and the AAAQ framework. Lastly, they should provide a

set of indicators for our focus areas of health, food and water, housing, and education. One single framework largely met our standards: IRIS+ is an approach already widely used in the financial world that fully suits the purpose of measuring corporate substantial contributions (outcomes and impacts) on the level of business activities. Built on the IMP logic, the IRIS+ approach already integrates many AAAQ and impact dimension aspects. Its current form also provides Core Metrics Sets for our focus areas and names the SDGs to which outcomes and impacts contribute. Its metrics are being continuously expanded to include additional social and environmental topics.

By applying IRIS+ Core Metrics sets to the focus areas selected for this briefing paper, we found that the indicators are in principle able to answer the questions associated with the AAAQ framework and IMP's five dimensions with respect to two of the substantial contribution types defined by the PSF, namely those enhancing inherent positive impacts and those avoiding and addressing harm. This only holds true, however, if the IRIS+ indicators are considered as an indivisible set, since they do not manage to catch the complexity as stand-alone indicators. It is important to note too, that the AAAQ's *Quality* aspect is either completely absent or is only partly addressed in the IRIS+ Core Metrics Sets, and the duration/sustainability of an outcome and impact is not explicitly considered. If the sets are to be used to measure substantial contributions, these shortcomings will have to be addressed to ensure that all relevant AAAQ aspects and IMP impact dimensions are covered. Further developing IRIS+ in this direction presents a unique opportunity to contribute to the measurement of substantial contributions.

With regards to the definition of thresholds, we argue that there is need for refinement and more research in view of the considerable potential that thresholds have for the fine-tuning of indicators. We found that it is important to select and set thresholds in a way that does not disadvantage neither small and medium-sized companies nor "best in class" companies, which have traditionally placed greater importance on social sustainability than their peers. In addition, from a human rights perspective, thresholds should be defined in a way that ensures that a significant share of the persons who benefit represents marginalized and under-served parts of society. Thresholds ideally should capture scale and depth of outcomes for right-holders. Lastly, given the complexity of social change and respective goals, we think that thresholds cannot be defined in isolation from the political, economic and social conditions in the national, regional, local and, if applicable, project-specific context. .

When analysing whether our proposed indicator framework would fit well with the relevant EU regulations already in place or currently under development, we argued that a social taxonomy would have the unique feature of incentivizing corporate action. Its social impacts would go above and beyond what is required in terms of minimum standards. It would also be a valuable addition to the relevant regulatory initiatives in the EU like the CSRD, SFDR, or CSDDD. If there is no social taxonomy, there is no binding framework for measuring substantial contributions of economic activities towards social objectives. Demand for such a framework is steadily growing among businesses, investors, and other stakeholders.

If a social taxonomy (or parts thereof) as envisaged by the PSF does come into existence, the findings and recommendations laid out in this briefing paper could prove helpful for substantiating and operationalizing this regulation, but also for

rendering Article 9 of SFDR more specific. The recommendations are in line with and built on the recommendations put forth by the PSF and thus can provide a useful way forward.

Our key recommendations are thus:

- Follow the recommendations of the PSF Report and continue with development of a social taxonomy;
- Integrate more voices and insights from different fields of expertise and different parts of society into the discussion on the “how” of the social taxonomy;
- Clarify how best to anchor non-discrimination, given its importance in human rights and in the “accessibility” dimension of the AAAQ-framework – either in the concept of substantial contribution or – probably more feasible - at the level of DNSH, in connection with the rules ensuring that the contribution does not harm the other objectives;
- Invest more research into the question of thresholds. How to define thresholds in order to take into account the widely differing standards of living across countries and regions, while at the same time advancing standardization and comparability, and setting off a race to the top?
- Set into motion a dialogue with IRIS+ on addressing the questions of “Quality” and “Acceptability” derived from the AAAQ framework. A full incorporation of these aspects could unlock the full potential of both of frameworks – and their combination – discussed in this paper. A dialogue on this topic and the adaptation of the IRIS+ Core Metrics would be desirable irrespective of a possible future development of a social taxonomy.

8 Annexes

8.1 The System of Future Fit Business and “Enabling Activities”

Another approach to Substantial Contribution is offered by Future Fit Business.¹⁰³ We briefly present the main idea here, because we think that it could contribute to further development especially of the substantial contribution type of “enabling activities” – which is not the focus of this briefing paper.

“Substantial contribution” is defined slightly differently by Future Fit Business than it is in the PSF report or by the IMP. The difference lies mainly in the fact that no substantial contribution in the “Avoiding harm” area is possible within one’s own organization. But the substantial contribution in the “Enabling” area is also more comprehensive. It concerns both the scope of the company’s products, and substantial contribution opportunities in the supply chain and in society at large. These are always linked to the company’s business, however.

And this is how substantial contribution, or “Positive Pursuits” in Future Fit terminology, is defined there:

Positive Pursuits in relation to operations: A company has complete control over its own operational activities, so gradual reduction of its own negative impacts toward break-even do *not* count as a Positive Pursuit. However, a company may achieve positive outcomes through its own activities if it goes beyond break-even, and begins to reverse environmental impacts, or if it increases social inclusion by actively seeking to employ people from underserved groups.

Positive Pursuits in relation to suppliers: A company cannot be considered Future-Fit with respect to its suppliers until it has effectively avoided or addressed all negative impacts that occur within its supply chains. However, there is a big difference between waiting for a supply chain to improve, and actively intervening to improve it. Hence any action a company takes *to enable* a supplier to reach break-even constitutes a Positive Pursuit.

Positive Pursuits in relation to products: A company may achieve a positive outcome by enabling its customers to eliminate their own negative impacts – or even to have a positive impact themselves. There are two ways to increase the chances that products really will have a measurable positive impact. The first is to offer goods or services whose use actually reverses past environmental impacts. The second is to enable underserved groups to meet their basic needs, thus overcoming barriers to social inclusion and wellbeing.

Positive Pursuits in relation to society: There is no magic button to reorient our economic system in pursuit of future-fitness. But a new growth paradigm can emerge if we work together to transform social norms, global governance, shared infrastructure, and market mechanisms. Any company may actively contribute to this shift, through the application of its corporate and/or brand influence, its core

¹⁰³ Future Fit Business Benchmark (2022): Positive Pursuit Guide.
<https://benchmark.futurefitbusiness.org/pp.html#pp>

competencies and technical know-how, and how it chooses to invest its financial capital.

This expanded definition of substantial contributions not only addresses some human rights concerns, but also provides additional opportunities for companies and investors to make positive contributions in the social sphere and could therefore also be considered in the further development of a social taxonomy.

8.2 Comparison: Types of Substantial Contribution and Impact Classes

Here we match the logic of the types of substantial contribution as defined in the PSF Report 2022, p. 8, with the logic of IMP's classification of impact:

- Substantial contributions which focus on the additional inherent social benefits of the activity itself (as of the PSF Report) can be assigned to impact classes B (“benefit stakeholders”) or C (“Contribute to solutions”) (cf. Figure 3). In both cases, the desired result is above the threshold (which, here, is the minimum value to be met).
- Substantial contributions which focus on avoiding and addressing negative impacts on workers, consumers and communities as of PSF Report: This is to be assigned to impact class A (“act to avoid harm”)
- Substantial contribution enabling activities which enable other activities to provide social benefits (as of PSF Report): This type of substantial contribution can be assigned to any of the three impact classes, depending on the concrete design and use case of the impact activity.

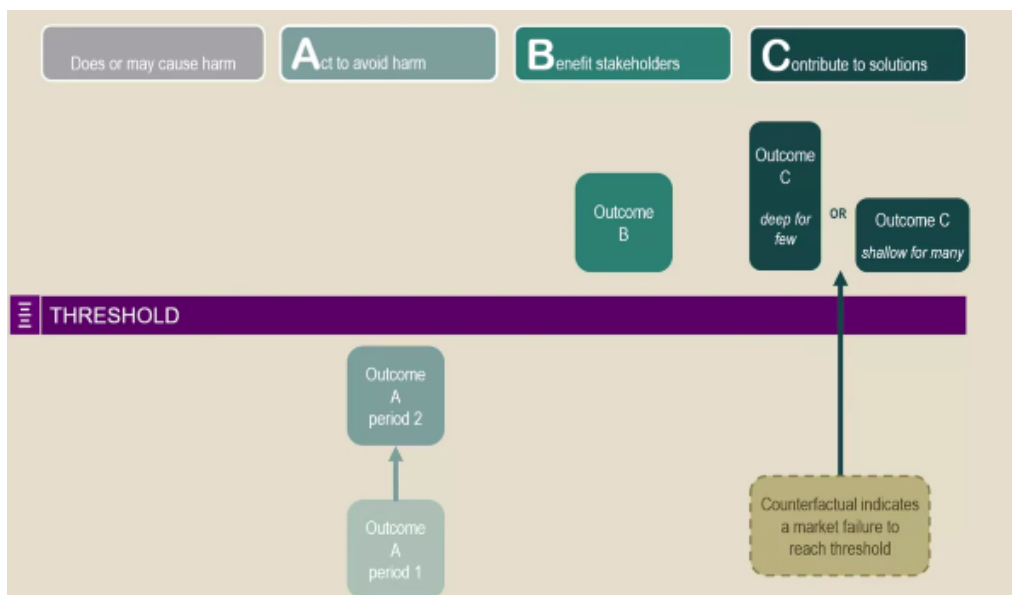


Figure 6: Classification of different kinds of impacts¹⁰⁴

¹⁰⁴ Impact Management Project (2021): Five Dimensions of Impact, <https://impactmanagementproject.com/impact-management/impact-management-norms/>

8.3 Example: Asset Manager “WaterEquity” Applying IRIS+ for Improved WASH Access through Affordable Household Financing

WaterEquity is an asset manager with the purpose of increasing the share of WASH facilities in emerging economies for low-income households through microloans. WaterEquity evaluate their activities and management with the help of IRIS+ (WaterEquity & GIIN, 2021: “IRIS+: Use Case: WaterEquity”).

Within the “What is the goal” section the following outcome indicators are reported from the IRIS+ Core Metrics Set: “Client households: provided new access”. Through the Fund II investment, 18,750 client households were provided new access to sanitation facilities (i.e., toilets) and 3,750 with access to drinking water facilities (i.e., piped water connections and rainwater harvesting systems). The strategic goal of the project was to reach 20,000 households with WASH facilities over three years.¹⁰⁵ Hence, the target was actually exceeded.

“WASH Facilities Type”: For the baseline, the company reported that roughly 70% of past microloan disbursement were used to acquire sanitation facilities and the remaining 30% to obtain drinking water facilities. According to the data collected after three years, the microloans of Fund II resulted in new drinking water facilities in only one out six cases while most microloans were used to obtain sanitation facilities (75%) and other installations (5%).¹⁰⁶

“Service Level Type”: While this was not recorded by the company prior to investment, during the investment project period all new installations lead to basic drinking water/ sanitation access.¹⁰⁷

“Importance of Outcome to Stakeholders” is stressed by market research done by the company for the baseline which indicated that “50% of their clients said improving their WASH access was very important; of those 77% said the reason they hadn’t was the up front cost of construction.” (WaterEquity Example) This was confirmed by 70% of client households indicating the significant positive impact WASH facilities had in their lives.

With respect to “How much change is happening”, the investee is scored along three dimensions - scale, depth, and duration. For the scale part, the client households with increased access to WASH services and facilities are investigated in absolute and relative numbers. During the reporting period the executing company had 25,000 client households, 22,500 (or 90%) of which were provided new access to WASH facilities. Similarly, for depth, the change in the percentage in client households with new access to WASH can be further detailed by reporting on the WASH facilities type and service level. Because the company did not track the number of client households

¹⁰⁵ This information was reported under “HOW is the change happening?”.

¹⁰⁶ According to what was reported under “HOW is the change happening?”

¹⁰⁷ According to the Joint Monitoring Programme (JMP), the custodian of monitoring SDG 6, the quality of WASH facilities is classified by service level. For example, in safely managed drinking water service, households must use an improved source that is accessible on premises, available when needed, and free from contamination. If the improved source does not meet any one of these criteria but a round trip to collect water takes 30 minutes or less, then it is classified as a basic drinking water service. The same service “ladder” has been devised for sanitation: if “excreta from improved sanitation facilities are not safely managed then people using those facilities are classed as having a basic sanitation service”. <https://washdata.org/monitoring/drinking-water> and <https://washdata.org/monitoring/sanitation>. IRIS+ references the quality standards of the JMP.

that were provided new access to WASH at the baseline, the percent change (i.e., depth) could not be computed. Regardless, with this information, the question of the “availability” dimension of the AAAQ can be answered and is considered fulfilled. However, the duration of the impact is also considered, while there was no separate indicator provided by the IRIS+ Core Metrics Set, the time horizon between the baseline due diligence and investment management report spans three years. [Authors’ remark: duration matters as it can provide information regarding the economic sustainability of the installed system and whether the client households can find financing to acquire spare parts, etc.]

As to “Who is affected”, the “target stakeholders”, their demographic and socioeconomic characteristics, setting and geography are to be reported on. WaterEquity reports the clients of the executing company to be “poor and low-income, mainly in rural settings” in India. [Specifically,] 65% of their portfolio is located in regions of India that have worse access to water and sanitation than the national average. 95% of clients are women.” This self-reporting was confirmed by a household survey during investment management. This shows that the investment project aimed at a variety of underserved groups and shines a light on the accessibility dimension of AAAQ. While this example does not report information about minorities, ages, or disabilities of their (target) stakeholders, it addresses social and economic marginalisation based on sex/gender, income and location.

Under “How is the change happening”, information about the financial nature of the project can be added, such as the nature and number of loans disbursed and/or what kind of non-financial measures are implemented. The “average loan size” during the baseline was \$375, with an “average effective interest rate (EIR)” of 28%.¹⁰⁸ Over the course of the project, the average loan size slightly increased to \$410. This adds to general picture of availability and (economic) accessibility. Moreover, on the real economy level, the absence of information about the usage of product or service (i.e., part of “accessibility”) can entail the risk of improper or non-usage. As the example case study is however provided by an investor, this risk has not been identified by them to be material. Potentially, more indicators would be required to cover such risks since missing indicators for service and product information is common in many other examples.

“Acceptability” according to the AAAQ concept focuses on the ethically and culturally appropriate provision of goods and services. In the IRIS+ framework, the question “what is the impact RISK” can include such considerations but can also be of financial nature as indicated by the risk suggestions in Table 4 in section 5.2.1 above. The main risks identified by WaterEquity were of this nature.¹⁰⁹ WaterEquity reported an overall medium risk for the executing company at the baseline. After three years, little of the identified potential risks had materialised, and misuse of funds was negligible. Furthermore, the executing company conducted market research and regularly surveyed client satisfaction. While the results are not reported, it can be assumed that

¹⁰⁸ On the discussion about interest rates for microfinance loans: see: Basharat, Benazir / Nawaz, Ahmad / Hudson, Marek (2015): Does Efficiency Lead to Lower Prices? A New Perspective from Microfinance Interest Rates. In: Strategic Change 24, pp. 49–66, DOI: 10.1002/jsc.199.

¹⁰⁹ “Risk that disbursement targets will not be met; Risks that disbursements won’t reach target microloan clients; Risk that end-clients utilize loans for non WASH purposes; Risk that end-clients do not improve WASH service levels through a microloan as they may already have access to a safely managed service.”

their corporate action is “accepted” – even though “acceptance” by customers is not completely overlapping with “acceptability” as defined in the AAAQ framework.

Last but not least, the “Contribution” step of the IRIS+ and IMP system are not reflected in the AAAQ approach as discussed in section 3.6. The more qualitative reporting on the investor’s and the (executing) enterprise’s contribution to achieving the overarching goal of increasing WASH access aims at identifying the investment contribution on top of what would have happened in a status quo/ business-as-usual scenario. For instance, the WaterEquity’s contribution is reported to be “signal[ing] that measurable impact matters, engag[ing] actively to encourage growth of the water and sanitation microloan product, [and p]rovid[ing] capital allocated specifically to this product”. On the enterprise level, household surveys conducted as part of this project have found that only 17% of households knew of an alternative to the executing company. In our opinion, this is the essential feature to attest “impact” of the investment but also of the business activity at the real economy level.

Imprint

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