The Swedish National Advisory Board for Impact Investing

Guiding Principle: Classification of Regular, Responsible, Sustainable and Impact investments

Last updated: 15 November 2021

Introduction

The purpose of this Guiding Principle is to help investors, asset managers and other actors in the financial industry to differentiate between Regular, Responsible, Sustainable and Impact investments.

Impact has become a buzzword – often used for anything that is susceptible of having any kind of positive result in the near or far future, directly or indirectly.

It is important to distinguish between Impact investments and Sustainable or Responsible investments. Primarily for transparency reasons; investors and other stakeholders should know and understand what they invest in in each of those categories, what they can expect in terms or results or outcomes and what demands that can be made on measurement and reporting. Differentiating between these investment categories is also important in order to preserve impact integrity and avoid green and social washing.

The aim of this Guiding Principle is to strengthen impact integrity in our ecosystem, increase transparency and make sure that more and more capital flows to investments that can demonstrate true and measurable impact.

Our Guiding Principles are always work in progress. We will continue to refine them as the knowledge and experience in the impact space grow. We welcome feedback from users of the Principles and we actively seek thoughts and suggestions from users.

This Guiding Principle was last updated on November 15th 2021, and represents, in our opinion, the best approach to differentiating between these investment categories that we know of to date.

We hope you will find it useful in your investment and impact strategies. Please do not hesitate to send feedback, thoughts and questions to our Secretary, Jenny Carenco: jenny@swedishnab.se.

Stockholm, November 15th 2021

The Board of The Swedish National Advisory Board for Impact Investing

The **Swedish**
National Advisory Board
for **Impact Investing**

Overview of impact classification of investments

Organisation's impact class / Instrument	May Cause Harm	Responsible	Sustainable	Impact
Equity or equity like instruments	Regular	Responsible	Sustainable	Impact
General corporate purpose bond or loan	Regular	Responsible	Sustainable	Impact
Green or social bond or loan	Sustainable	Sustainable	Sustainable	Impact
Green or social bond or loan with purpose and outcomes that fulfil impact cirteria	Impact	Impact	Impact	Impact

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The founding principles

Investments into instruments – such as equity or General Corporate Purpose Bonds - where the proceeds are not earmarked to an activity with green or social purposes, will have the same impact class as the emitting organisation.

Investments into instruments that have clearly defined green or social purposes – such as Green or Social Bonds - but that do not fulfil the criteria for impact, are Sustainable investments for organisations in the categories May Cause Harm, Responsible and Sustainable. For Impact organisations, such bonds would qualify as Impact investments.

Investments into instruments that fulfil the criteria for Impact, are Impact investments, irrespectively of the emitting organisation's impact classification.

Encouragement for transparency in subjective assessments

This Guiding Principle is based on assessments of the emitting organisation's classification on the impact scale: from May Cause Harm, to Responsible, Sustainable and Impact organisations.

The assessment of the emitting organisation's impact class is the base for the classification of the investment instrument emitted.

Therefore, we encourage the users of this framework, to be transparent with regards to the assessment they make on an organisation's impact class and that this assessment should be based on objective common, specific or scientific knowledge.

We also encourage the users of this framework to try to stay true to the framework's *intention*. For example, even if new equity is likely to be used for purposes that might qualify as Sustainable, equity is never earmarked, and equity in a 'May Cause Harm' or Responsible company should never be classified as a Sustainable or Impact investment through explanations of possible use of the actual capital.

We are aware that subjective assessments will sometimes be difficult and that not all users of this framework will do these assessments the same way.

We hope that the users of this Guiding Principle will join us in our strive for improved impact integrity in order for capital to increasingly flow to organisations, investments and activities that generate *true* impact.

Determining the impact class of an emitting organisation

	May Cause Harm	Responsible	Sustainable	Impact
In short	Main activities may cause harm on people, animals or planet	Acts to minimize harm	Acts for improved green and social footprint	Main purpose to create measurable change that fulfils criteria for impact.
Explanation	Significant parts of the organisation's economic activity may cause avoidable or unavoidable harm. No specific efforts to minimize or avoid the harm are made.	Organisations that act to minimize harm from their activities by following laws, regulations, ethical standards and industry standards, but that do not actively intend to create positive change on the sustainability goals that are mainly affected by their activities.	Organisations that act to create a positive change on the sustainability goals that are mainly affected by their or their industry's activities.	The whole purpose of the organisation is to create significant, positive and measurable change on one or several sustainability goals, fulfilling the criteria for impact.

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How to identify an organisation that May Cause Harm

Criteria	Examples
Unwillingness to act	Organisations with a market position that allows them to continue harmful activities without loss of customers, users or revenue. This could be companies in the energy sector, the tobacco sector, the transport sector, the textile sector or consumer goods sector among many more.
Lack of substitution technology	Many organisations can not avoid harm from their main activities, even if they wish they could, because there is no satisfactory substitution technology available at scale. This could be industries such as airlines, concrete and metal industries, some energy providers, some industrial and technical components among many more.
Severity of risk to cause harm	Many organisations *could* cause some kind of harm if something out of the ordinary happens. It is important to assess the risk of harm to occur. A boat full of chemicals *could* leak those into the ocean. This is unlikely and does not make the shipping company necessarily a harmful company.
Share of activities causing harm	For an organisation to be considered in the May Cause Harm category, it should be the main activities and processes that are harmful. The fact that employees take the car to work does not make a company fall into this category.

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How to identify a Responsible organisation

Criteria	Examples
Try to maintain the industry's status quo	Responsible organisations try to avoid increased harm by keeping to industry standards and practices. The organisation's processes are using the amount of resources they have always done, and their activities are not causing significant harm to people or planet.
Comply with industry practices, laws, rules and regulations	Responsible organisations complies with laws and regulations, but do not actively try to do more and better than what is required. Either because they can't, there is no other alternative, or because they lack motivation to do so. Many public sector organisations are required by law to provide a certain set of services and are therefore often to be considered Responsible rather than Sustainable organisations.
Do not act to improve green or social footprint compared to peers	Responsible organisations do not actively try to move their industry's position forwards on reduction of green and social footprints, but they try to avoid increased harm.
Are in an industry with no green or social footprint from the start	Professional services firms and other similar industries may have a very limited green and social footprint from the start. There is little room for improvement from baseline, why these organisations will generally fall under the Responsible category.

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How to identify a Sustainable organisation

Criteria	Examples
Actively works to improve green and social footprint of their core processes	Sustainable organisations differ from Responsible organisations in the sense that they, in their core processes, continuously strive to reduce their green and / or social foot print. They actively select suppliers based on green and / or social criteria, they opt for production and distribution processes that significantly reduces any negative impacts stemming from their activities. The share of their processes that have a clear sustainability strategy is high. It is not enough to simply buy an organic fruit basket for the office kitchen.
Do not quantify or measure the outcomes of their sustainable activities	Sustainable organisations differ from Impact organisations in two main ways. First, the sustainable organisation's main purpose does not have to be to solve or reduce a problem linked to the sustainability goals. Their main purpose can simply be to produce a good or a service that customers want. Second, if the organisation does not quantify and measure the outcomes that they generate, they do not fulfil the criteria for impact and do not qualify as an Impact organisation. An organisation that provides electrical bicycles, produced in a sustainable manner, could qualify as a Sustainable organisation. An organisation that has quantified the problem of unnecessary car use, identified electrical biking as the solution to the main root causes of that problem, and that is actively monitoring and reporting on number of car kilometres reduced as a result of the electrical bicycle use and in other aspects fulfil the criteria for impact, would qualify as an impact organisation

How to identify an Impact organisation

Criteria	Examples
The main purpose of the organisation is to address a problem linked to the sustainability goals	As previously mentioned, a Sustainable organisation may have many purposes other than solving or reducing a problem linked to a sustainability goal. Providing food products, clothes and transportation services are essential to the citizens of a society, and we need Sustainable organisations delivering those products and services to us. An Impact organisation's main purpose, however, is to address a prioritised problem for people and / or planet, complying with the criteria for impact. (See Guiding Principle: Defining impact).
The intention of the organisation is to generate outcomes that fulfil the impact criteria.	The main intention of an Impact organisation is to generate outcomes that fulfil the impact criteria (See Guiding Principle: Defining impact). This means that they address a prioritised societal problem, that they deliver outcomes, that they quantify the problem and measure the outcomes, that their target group is underserved, that the outcomes have significant scale, depth and duration and that they represent a counterfactual improvement.

Extract from the Guiding Principle: Defining Impact Overview of impact criteria

WHAT	The problem that is addressed is *prioritised* for people, society and/ or planet	The activity or investment is delivering *outcomes* not outputs	The problem addressed can be quantified and outcomes can be *measured* using relevant indicators
WHO	The target group, area or planet experiencing the problem is *underserved* with regards to the outcomes		
HOW MUCH	The outcomes delivered have sufficient *scale*	The outcomes delivered have sufficient *depth*	The outcomes delivered have sufficient *duration*
CONTRI-BUTION	The outcomes delivered represent a *counterfactual* improvement, i.e. are better than what would likely have occurred anyway		

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Investment classification of equity or equity like investments

Organisation's impact class / Instrument	May Cause Harm	Responsible	Sustainable	Impact
Equity or equity like instruments	Regular	Responsible	Sustainable	Impact
Examples	Equity is rarely earmarked towards special purposes. The company deploys the capital to develop the economic activities in various ways. Therefore, if an organisation falls under the May Cause Harm, Responsible or Sustainable category, the equity investment will have that same category.			Equity into a company who fulfils the criteria for impact is considered an Impact investment. This is because the purpose of the whole organisation is to generate impact, and equity is therefore considered to make that purpose possible.

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Investment classification of General Corporate Purpose bonds or loans

Organisation's impact class / Instrument	May Cause Harm	Responsible	Sustainable	Impact
General Corporate Purposes bonds or loans	Regular	Responsible	Sustainable	Impact
Examples	In these types of bonds or loans, the proceeds are not earmarked towards special purposes. The company deploys the capital to develop the economic activities in various ways. Therefore, if an organisation falls under the May Cause Harm, Responsible or Sustainable category, the bond investment will have that same category.			A General Purposes bond or a loan to a company who fulfils the criteria for impact is considered an Impact investment. This is because the purpose of the whole organisation is to generate impact, and the proceeds are therefore considered to make that purpose possible.

Investment classification of Green or Social bonds or loans

Organisation's impact class / Instrument	May Cause Harm	Responsible	Sustainable	Impact
Green or social bonds or loans	Sustainable	Sustainable	Sustainable	Impact
Examples	In green or social bonds, the proceeds are earmarked towards sustainable activities with the clear intention of achieving improvements in the organisation's green or social footprint. No matter if the organisation as a whole is not Sustainable, this will still qualify as a Sustainable investment. If a company in the May Cause Harm-category, wants to invest in a new production line with less ecological foot print and less energy use, then this is definitely a Sustainable activity that should be encouraged. In green or social bonds, the problem addressed is not always quantified and outcomes are not always measured. The investment might also in other ways not meet the criteria for impact, which is not required for a green or social bond either. If the activity financed by the bond fulfils the criteria for impact, then such a bond would qualify as an impact investment, irrespective of the impact class of the emitting organisation.			A green or social bond or a loan to a company who fulfils the criteria for impact is considered an impact investment. This is because the purpose of the whole organisation is to generate impact, and the proceeds are therefore considered to make that purpose possible.

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Investment classification of Green or Social bonds or loans where purpose and outcomes fulfil impact criteria

Organisation's impact class / Instrument	May Cause Harm	Responsible	Sustainable	Impact
Green or social bonds or loans	Impact	Impact	Impact	Impact
Examples	If the activity financed by the bond fulfils the criteria for impact, then the bond would qualify as an impact investment, irrespective of the impact class of the emitting organisation. If an organisation in the May Cause Harm category has calculated the yearly CO2 emissions from their truck fleet (they have quantified the problem) and they want to finance an investment in electrical trucks through a green bond, then this would qualify as an impact investment if they will measure and report on the outcomes (reduced CO2 emissions) and make sure that these outcomes have sufficient scale, depth and duration and represent a counterfactual improvement (i.e. fulfil the criteria for impact). It is important that financing of activities and investments that generate true and measurable impact are classified as impact investments, despite the fact that they might occur in an otherwise polluting industry. We need to attract capital to the green and social shift and probably the biggest impacts will come from pivoting in May Cause Harm industries.			

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Investments on secondary markets

Investments on the secondary markets are to have the same impact classification as when the instrument was newly emitted.

Despite the fact that the capital does not directly benefit the purpose when an asset is bought from another investor, changing the impact class of an asset when the asset changes hand would be extremely complex and complicated and undermine the very important secondary market for sustainable and impact assets.

Impact classification of funds

Funds that want to be classified as Responsible, Sustainable or Impact funds, should have 100% of their assets in at least the category they claim to be.

A Sustainable fund can therefore be composed of Sustainable and Impact assets whereas an Impact fund can only hold assets that qualify as Impact.

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