United Nations
Global Compact

INTRODUCING

CFO PRINCIPLES KPIS AND DEFINITIONS FOR PROGRESS MEASUREMENT AND TARGET SETTING

CFO TASKFORCE FOR THE SDGs

FOREWORD

USHERING AN ERA OF CFO ACCOUNTABILITY

Today, we are proud to launch a set of key performance indicators (KPIs) to measure our progress towards the implementation of the CFO Principles on Integrated SDG Investment and Finance.

We launched the CFO Principles one year ago, to guide companies in aligning their sustainability commitments with credible corporate finance strategies to create real-world impact on the Sustainable Development Goals (SDGs).

The CFO Principles focus on four key areas that are relatively underserved but critical for SDG-aligned investments:

- SDG impact and measurement;
- Integrated SDG strategies and investments;
- Integrated corporate SDG Finance; and
- Integrated SDG communication and reporting.

They build upon and supplement the overarching Ten Principles of the UN Global Compact on human rights, labor, environment, and anti-corruption and are supported by implementation guidance, case studies and working groups. The new KPIs serve as a benchmark on the integration of the SDGs in corporate finance.

In due course the KPIs will become an integral part of the accountability mechanism in the implementation of the UN Global Compact Principles and combined with the CFO Principles, represent an important step.

> WE CALL ON CFOS TO USE THE KPIS TO SET TARGETS ON WHAT THEY WANT TO ACHIEVE, BOTH INDIVIDUALLY AND COLLECTIVELY AS MEMBERS OF THE CFO TASKFORCE FOR THE SDGs.

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INTRODUCTION

PROGRESS AND ACCOUNTABILITY

At the UN Global Compact, we are very excited to be spearheading the CFO Taskforce for the SDGs, a lab of 58 companies with more than $1.6 Trillion in market cap that have committed — through their CFOs — to a set of principles to integrate the SDG in corporate investments and financing. These CFO Principles — and the guidance that we are creating to support them — represents framework and set of best practices for companies everywhere to incorporate the SDGs in corporate investments and financing.

Today we are launching a set of corresponding KPIs that CFOs and their team can use to measure their progress toward the implementation of the principles. These KPIs are an integral part of the accountability mechanisms that we require of our companies in the implementation of the Global Compact principles, and therefore we see the CFO principles and KPIs as a welcome innovation for furthering the integration of sustainability in company practices everywhere.

Starting with their own companies, CFOs in the Taskforce will use these KPIs to calculate a baseline of where they stand today on these important metrics and set targets on where they want to go tomorrow. Our hope is that such leadership will inspire the rest of the Global Compact community, with more than 13,000 companies and non-business participants in over 170 countries.

KPIS FOR PROGRESS MEASUREMENT AND TARGET SETTING

After the launch of the CFO Principles on Integrated SDG Investments and Finance in September 2020, the UN Global Compact CFO Taskforce for the SDGs have been working with participating companies and partners on a set of KPIs for progress measurement based on the four CFO Principles on Integrated SDG Investments and Finance:

1) SDG impact thesis and measurement;
2) Integrated SDG Strategy and Investments;
3) Integrated Corporate SDG Finance;
4) Integrated SDG Communication and Reporting.

The three Expert Working Groups of the Taskforce tested the KPIs from March to May 2021, and at the same time provided substantial feedback to the Definitions used as reference for the KPI measurement exercise.

PRINCIPLE 1. SDG IMPACT THESIS AND MEASUREMENT

KPIS AND TARGETS FOR SDG PERFORMANCE

- Does the company set KPIs and targets for SDG performance (SDG-linked KPIs and targets[1])? Yes/ No
  If yes, please provide a summary of the KPIs and targets for SDG performance.

- Are SDG-linked KPIs and targets publicly disclosed? Yes/ No
  If yes, please provide link to where the information is reported in more details.

- Are SDG-linked KPIs audited?[2] Yes/ No
  If yes, please provide methodology (type and level of audit). List which SDG KPIs are audited, if different.

[1] The link between SDG and KPIs and targets can be direct (e.g., explicitly targeting or mentioning a specific SDG) or indirect (e.g. KPI and target to reduce CO_2 emissions considered as linked to SDG 13 even if SDG 13 is not explicitly mentioned).
[2] The audit process refers only to the SDG-linked KPIs, not the annual report that may contain such KPIs.

PRINCIPLE 2. INTEGRATED SDG STRATEGY AND INVESTMENTS

SDG-ALIGNED CORPORATE INVESTMENTS

- Provide your baseline and target SDG-aligned Corporate Investment, as follows:

SDG-aligned corporate investment	Baseline	Target
Fiscal year(s) of reference[3]:		
Total annual SDG-aligned investments ($)[4]:		
Percent of total annual corporate investment (%):		

- Describe your method to calculate SDG-aligned Corporate Investments; describe the categories of investments included.

GOVERNANCE OF SDG INVESTMENTS

- Is SDG impact used as a criterion for corporate investments? Yes/ No
  If yes, please describe how corporate investments are screened through SDG criterion.

- Are SDG-linked KPIs and targets factored in executive remuneration? Yes/ No
  If yes, please provide details, including short- and long-term compensation, and for what level of executives.

- Is SDG impact subject to corporate governance monitoring (board, controls)? Yes/ No
  If yes, please describe governance structure / mechanisms used to monitor SDG impacts.

[3] **Baseline year(s)** can be most recently closed fiscal year, or average of three most recently closed fiscal years. **Target year(s)** can be current fiscal year or future ones. If long-term targets, please include shorter, interim targets.
[4] See *Annex 1 – Definitions for SDG-aligned investments*.

PRINCIPLE 3. INTEGRATED CORPORATE SDG FINANCE

CORPORATE SDG FINANCING

- Details of SDG corporate finance issued and outstanding, as follows:

Corporate SDG finance[5]	**Issued LTM**[6]	**Total Outstanding**[7]	**Target Outstanding**[8]
Fiscal year(s) of reference[9]**:**			
Total SDG corporate finance ($)[10]**:**			
Percent of total corporate finance (%):			
Percent use-of-proceed (%)[11]**:**			
Percent performance-based (%)[12]**:**			
Corporate blended finance ($)[13]**:**			

- Provide a list, description and $ amount outstanding for all corporate SDG financing.

[5] See *Annex 2 – Definitions for SDG corporate finance*.
[6] Last 12 months.
[7] For revolving credit facilities, include total amount drawn and outstanding. Include note on the total borrowing capacity.
[8] Companies can use quantitative or qualitative targets depending on their ability to forecast their need for external financing vs internal financing and the uncertainty of market conditions.
[9] Baseline fiscal year(s) of reference can be the most recently closed fiscal year, or an average of three most recently closed fiscal years. Target year(s) can be current fiscal year or future ones. If long-term targets, please include shorter, interim targets.
[10] See *Annex 2 – Definitions for SDG corporate finance*.
[11] Please indicate in a footnote if this number includes transition bonds, and if yes, the amount of transition bonds included.
[12] Derivatives and hedging contracts should not be included in the calculations for this KPI. However, they can be included in the following KPI as part of the list, description and $ amount outstanding for all SDG corporate finance products, under "Others".
[13] Project-based financings should not be included in the calculation of this KPI. However, they can be included in the following KPI as part of the list, description and $ amount outstanding for all SDG corporate finance products, under "Others".

PRINCIPLE 4. INTEGRATED SDG COMMUNICATION AND REPORTING

INVESTOR RELATION

- Details of Investor Relation events focused on SDGs[14], as follows:

Investor Relation (IR) events encompassing the SDGs	FY2020	Target
Standalone SDG IR events		
SDGs integrated in traditional IR events[15]		
Total		
% of total IR events		

- List and describe the main type of IR events where SDG-aligned strategy and investments is discussed (analyst calls, roadshows, investor days, investment forums, standalone event focused on SDGs).

SUSTAINABLE FINANCE FRAMEWORK

- Published a Sustainable Finance Framework[16]? Yes/ No
  If yes, what is the thematic focus of the framework (green, SDG, sustainability, other)? What aspects of SDG investments and finance does it cover (value creation, investments, financing)? What SDGs does it cover?

INTEGRATED REPORTING

- Is your SDG reporting integrated with annual or financial reporting? Yes/ No
  If yes, what aspects of SDG investments and finance does it cover (value creation, investments, financing)?

AUDIT

- Is your publicly reported SDG information audited[17]? Yes/ No
  If yes, please provide methodology (type and level of audit) and the scope of information audited.

[14] Investor relation event focused on SDGs include events focused on different but related concepts, including green, social, sustainability, and ESG (environmental, social and governance).
[15] This includes quarterly analyst calls, roadshows, investor days, participation in Investment forums.
[16] Sustainable Finance Framework is a generic term that encompasses green, SDG, transition and other finance or bond frameworks related to sustainable development. It provides accountability for the company's overall sustainable finance strategy, including the link between financing and investments, eligible projects to which capital is being allocated, and accountability on KPIs and targets used in performance-based products.
[17] This KPI is related to, but broader than, the KPI on audit of SDG-linked KPIs under Principle 1, as it includes all qualitative and quantitative information publicly disclosed about the SDGs.

ANNEX 1 – DEFINITIONS OF SDG-ALIGNED INVESTMENTS

- **SDG-aligned investments are broadly defined** to include diverse ways that companies can invest in the SDGs, to promote all types of solutions which contribute to the SDGs and to encourage all industries to participate. This is consistent with the concept of **multiple capitals** — accounting for integrated investment should include not just investments in physical or financial assets but also investments in people (human capital), community development (social capital), protection of the environment (natural capital), and innovation (intellectual capital). The key is for companies to be **transparent** on what they count as SDG-aligned investment and demonstrate the **causal link** between the investment and the strategy and its impact on performance on SDG targets.

- **SDG-aligned corporate investments** refer to internal resources, investments and funding needed to implement or enable the company's SDG impact thesis and integrated SDG strategy.[18] They include corporate investments over the strategic plan time horizon, including longer-term investments.

- **Corporate investments** refer to longer-term investment in productive capacity of the company and typically include capital expenditure (CAPEX), capitalized expenses (e.g. R&D), acquisition of assets or companies (M&A and FDI), and joint ventures, depending on the amount of control, the nature of the industry and their contribution to sustainability. They can also include operating expenditures (OPEX) in certain circumstances where those expenses are not capitalized for accounting purpose but nonetheless contribute to a longer-term environmental and social benefit.

- **Acquisition of assets or companies (M&A)** should be included at cost, to the extent that they support the company's impact thesis and further the company's integrated SDG strategy, and therefore that their contribution to the SDGs is captured in the company's KPIs and targets. This includes acquisitions of companies that are classified as business combinations (50 per cent ownership and higher) as well as those accounted for using the equity method (between 20 per cent and 50 per cent ownership). Investments of less than 20% of the shares of other corporations are generally considered financial — rather than strategic — investments and therefore should not be included in the calculation of SDG investments. However, these investments can be included if they specifically support the company's impact thesis and further the company's integrated SDG strategy.

- **Foreign Direct Investments (FDI)** should be included in the calculation of corporate SDG investments when they are in an industry or geography relevant for the company's SDG impact thesis or strategy. This includes FDI through the construction of new facilities (greenfield) or via mergers and acquisitions (M&A) with an existing company. Generally, calculation should only FDI through M&A when it represents an acquisition of at least 20% of the shares of the acquired company. However, FDI between 10 per cent and 20 per cent can be included if it specifically supports the company's impact thesis and further the company's integrated SDG strategy.

- **Operational expenditure (OPEX)**. Corporate SDG investments can include operating expenditures that are considered short-term for accounting purpose but that create longer-term and important social and environmental benefits. This includes expenditures to build the company's human capital (employee

[18] As defined in the CFO Principles for Integrated SDG Investments and Finance.

benefits, share-based compensation, training) in service- or human capital-based industries. It also includes expenses for research and development (R&D) that lead to improvement in the sustainability performance of operations, products, or services, even when they are not capitalized.

- Joint Ventures (JVs). Investments in JVs can be included in the calculation of SDG investments to the extent that they support the company's impact thesis and further the company's integrated SDG strategy.

ANNEX 2 – DEFINITIONS OF CORPORATE SDG FINANCE

- Corporate SDG finance refers to the full range of debt issued and other borrowed funds (bonds, loans, credit) whether privately placed or publicly traded, short- to long-term maturities. It also includes quasi-equity products that have elements of debt, including tax equity and variable interest equity. It is an umbrella concept that includes performance-based (SDG-linked) and use-of-proceed-based products, as well as corporate blended finance. It includes debt and other financing incurred by the parent company or consolidated entities, based on financial consolidation rules.

  The measurement of SDG corporate finance can include financial instruments denominated with different but related concepts, including green, social, sustainability, and ESG (environmental, social and governance), provided that the link with SDG strategy and investments is established.

- Performance-based financing refers to financial products structured around the issuer's commitment to predefined performance targets linked to the SDGs, and monitoring through key performance indicators. It typically includes debt products such as SDG- or sustainability-linked bonds, loans, credit lines and commercial paper programs. It can also include derivatives and hedging contracts to de-risking or reduce the risk of SDG investments or projects.[19]

- Use-of-proceed-based financing refers to financial products structured around strict accountability for the use of proceeds for the financing of predefined assets or activities. It typically includes debt products such as green, social, transition, and other sustainability bonds and loans that are linked to SDG-related assets and activities. It also includes green ABS (asset backed securities) and green bonds issued as Islamic Finance (green Sukuk).

- Corporate blended financing refers to corporate financing partnerships that blends commercial financing[20] with concessionary finance, loans or guarantees by governments,[21] development finance institutions, philanthropic foundations and impact investors to de-risk or subsidize corporate investments for technologies, sectors and in geographies that can create impact for the SDGs but are currently underfunded because of excess risks. It includes both corporate-level and project-based financing.

[19] While the definition of performance-based products includes derivatives and hedging contracts to de-risking or reduce the risk of SDG investments or projects, these products and contracts should not be included in the calculation of the KPI on Percent of SDG Corporate Finance which is performance-based (see page KPIs under Principle 3. Integrated Corporate SDG Finance).
[20] Typically, debt financing.
[21] This includes partnership arrangements with corporate cash or in-kind contributions matched by a government or a development agency.

ANNEX 3 – NOTE ON RECONCILIATION OF SDG INVESTMENTS AND FINANCING

While Investments and Financing should be related to each other, they will likely be different based on several factors:

- Time horizon: SDG financing could be larger than SDG investments because financing typically covers multi-year investments, whereas SDG investments are measured on an annual basis.

- Internal funding: SDG financing could be smaller than SDG investments if the company uses internal resources (e.g. retained earnings) to finance SDG investments.

- Performance-based financing: performance-based financing is not directly tied to specific investments and therefore may finance a broader range of assets or activities that are strictly defined as SDG investments. However, this source of difference should dissipate over time as the definition of SDG investments continues to evolve beyond CAPEX and other measures based purely on assets and activities that directly contribute to the SDGs.

THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

HUMAN RIGHTS

1 Businesses should support and respect the protection of internationally proclaimed human rights; and

2 make sure that they are not complicit in human rights abuses.

LABOUR

3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

4 the elimination of all forms of forced and compulsory labour;

5 the effective abolition of child labour; and

6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

7 Businesses should support a precautionary approach to environmental challenges;

8 undertake initiatives to promote greater environmental responsibility; and

9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

10 Businesses should work against corruption in all its forms, including extortion and bribery.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

ABOUT THE UNITED NATIONS GLOBAL COMPACT

As a special initiative of the UN Secretary-General, the **United Nations Global Compact** is a call to companies everywhere to align their operations and strategies with Ten Principles in the areas of human rights, labour, environment and anti-corruption. Our ambition is to accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the Sustainable Development Goals through accountable companies and ecosystems that enable change. With more than 12,000 companies and 3,000 non-business signatories based in over 160 countries, and 69 Local Networks, the UN Global Compact is the world's largest corporate sustainability initiative — one Global Compact uniting business for a better world.

For more information, follow **@globalcompact** on social media and visit our website at **unglobalcompact.org**.

United Nations Global Compact

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