



Gold Standard[®]

Climate Security & Sustainable Development

TERMS OF REFERENCE

Date

07 January 2022

Description

**Terms of Reference for development of Gold Standard
Requirements for Certification of Impact Funds**

1. BACKGROUND

Gold Standard is a standards body and thought leader that promotes the best that can be achieved in climate and development projects. It was established in 2003 by [WWF](#) and other international NGOs as a best practice standard to ensure projects that reduced carbon emissions under the UN's Clean Development Mechanism (CDM) also delivered sustainable development benefits. Gold Standard now has a portfolio of 2000+ certified projects in over 80 countries, creating billions of dollars of shared value from climate and development action worldwide. Gold Standard has developed a broad NGO Supporter and Stakeholder network and is a Code-Compliant member of ISEAL.

The Gold Standard Foundation, in partnership with [R20](#) and [IUCN](#), has received funding from the Green Climate Fund (GCF) to provide technical assistance to support the development of a pipeline of projects for the Global Subnational Climate Fund Initiative (SCF-Global). The SCF-Global is a blended finance special purpose vehicle that includes an equity and technical assistance grant component. SCF-Global aims to deploy \$750 million across approximately 25 projects in multiple renewable energy generation, energy efficiency, water & sanitation, waste optimisation and restorative agriculture sectors in Africa, Asia-Pacific, Latin America and Mediterranean region over the next 12-15 years. Gold Standard is developing a new standard that draws on the [Gold Standard for Global Goals](#) (GS4GG) that will facilitate certification of Impact Investment Funds like SCF-Global.

As part of this work, Gold Standard is undertaking a rigorous and transparent technical process to develop these new Standard requirements. Gold Standard has commissioned a lead author for developing the Requirements for Certification of impact funds in line with Gold Standard principles. Gold Standard has also convened a group of experts to review and provide inputs after first draft of the requirements are developed. This would be an iterative process where the lead author in discussion with the Expert working group (WG) will work to update the draft till it reaches a satisfactory level of quality as per the group to launch for public consultation.

2. SCOPE

Standard Requirements will be developed for fund managers who want to make a positive contribution to sustainable development and towards achieving the SDGs

through one or more of their funds. These Standard Requirements will provide a roadmap for fund design and implementation and practical guidance to users on achieving this objective.

Typically, a fund will require both disclosure and impact outputs, for different parts of their reporting. For example, the fund may need to disclose emissions as part of their ESG or Scope 3 inventories but will also seek to use impact-based metrics to support their sustainable development narrative claims associated with the funds successful implementation. The system design will therefore be able to deliver on both these objectives and manage the interface between the two.

3. GEOGRAPHIC APPLICATION

The Gold Standard Fund requirements will be open for use by Funds and projects anywhere in the world.

4. NEED FOR A STANDARD FOR IMPACT FUNDS

4.1 Need for tools and frameworks to quantify and credibly report impacts

Investors worldwide are facing growing pressure to invest sustainably, ensure that their investments do no environmental/social harm and to measure the positive environmental and social impacts of their portfolios.

Non-financial data, including social and environmental aspects, has become key in assessing and managing risks, as well as an important contributor to the investment decision-making. These trends have triggered an increased need for sophisticated ways to accurately measure the positive impact of investments and their contributions towards the Paris Climate Agreement and the Sustainable Development Goals (SDGs).

The SDGs are a powerful framework to align impact objectives among a broad group of stakeholders. Yet there remains a risk that they could also hinder meaningful progress if the SDGs are interpreted loosely or if investors oversimplify their impact measurement practice. 'SDG-washing', like 'green washing' before it, can be mitigated through robust but practical impact measurement supported by credible standards and tools.

Whilst there are some new standards for equity or investment funds (i.e. UNDP Standard¹, IFC Principles², OECD Sustainable Finance standards³) only the IFC Principles requires independent verification of alignment with their principles, and whilst the UNDP is working to develop third party assurance, at present impact fund managers self assess compliance with their standard. Gold Standard sees the need for third party assurance for sustainable development claims, to ensure real contributions to sustainable development. The new standard will address this need.

4.2 Standards can de-risk investment and improve outcomes

To mobilise private capital and scale deal flow in climate-smart and impact investments, it is critical to lower risk profiles, particularly in emerging economies where the exposure to climate change is greatest but risks for investors are higher. Beyond financial returns, impact investors also seek to maximise the positive impacts that a well-designed intervention can deliver, and to report on those impacts in a credible way.

Standards, when designed and implemented robustly, can ensure that investments are de-risked and the outcomes can be designed appropriately and reported in a manner that averts green washing and provides credibility.

¹ <https://sdgimpact.undp.org/practice-standards.html>

²

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/principles/opim

³ <https://www.oecd.org/publications/oecd-undp-impact-standards-for-financing-sustainable-development-744f982e-en.htm>

Impact Risks are reduced using GS management tools



– Which risks reduced?

- *Evidence risks*
- *Stakeholder participation risk*
- *Drop-off risk*
- *Efficiency risk*
- *Execution risk*
- *Alignment risk*
- *Endurance risk*
- *Unexpected impact risk*

Making good better.

Gold Standard

Gold Standard for the Global Goals can be customised to be applied at a fund level, embedding the standard requirements into a fund’s investment criteria and due diligence process. Requirements while robust can be simple for early-stage assessment of risks and estimation of development outcomes. The standard will also provide a pragmatic approach for monitoring, reporting and verification (MRV) of project performance within an investment portfolio. This delivers an integrated approach that streamlines the certification process and optimises costs at the portfolio level.

5. Social, environmental and economic outcomes that the standard seeks to achieve

Gold Standard Fund requirements are open for use to demonstrate outcomes towards all SDGs. This is also in line with Gold Standard’s impacts framework which states that Gold Standard certified projects must help contribute and accelerate progress towards the 2030 Agenda for Sustainable Development.

6. RISKS IN IMPLEMENTING THE STANDARD

The following risks are identified –

- The Standard is required to be made suitable for impact reporting at portfolio level, which essentially means that not all individual investments can be subjected to certification. To address this risk, assurance process for the Fund will be defined such that this risk can be mitigated.
- Gold Standard intends to follow IFC’s [Operating Principles for Impact Management](#) in developing this new standard. This could increase the transaction costs for the Fund Managers in complying with the requirements. Gold Standard aims to provide full support to funds in implementing the Gold Standard requirements during the pilot phase.
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7. TIMELINES FOR DEVELOPMENT OF THE STANDARD

The timelines for the development of this new standard are presented in the following table -

Schedule	Action	Status
Q3, 2021	Issue first draft of Standard requirements to ExpertAction Working Group (WG)	completed
	1 st WG call to discuss the draft	Action completed
Q4, 2021	2 nd WG call to discuss the updated draft following WGAction comments	completed
	3 rd WG call	Action completed
Q1, 2022	4 th WG call Public consultation and one-to-one interviews (as required) on draft requirements	
Q2, 2022	5 th and final WG call Release the requirements for piloting on SCF-Global Fund	

8. DECISION MAKING

The new Standard is being developed in active consultation with the Expert Working Group. The WG discussions will happen on the basis of an agreed agenda and supporting materials, following suitable discussion and debate. The Expert WG may decide to break into smaller working groups or have an individual to review key points to summarise/make recommendations for the wider group. Key recommendations from the WG will be based on consensus.

9. OPPORTUNITIES FOR COMMENTING

Comments can be submitted at any point during the development of the Standard by emailing – help@goldstandard.org

The Fund requirements will also be put up on Gold Standard’s website for public consultation in early 2022. Notifications for the public consultations will be sent out to all stakeholder groups.

10. GRIEVANCE + FEEDBACK MECHANISM

Stakeholder grievances on Standard setting can be submitted as per the [Gold Standard Grievance Procedure](#).