

Introduction

Sustainable investing emphasizes creating long-term value by integrating profitability with broader societal benefits, ensuring full commercial returns while considering the wider impact of investment decisions. Over the past decade, a paradigm shift has occurred in the investment landscape, giving rise to various investing methods that integrate sustainability and social responsibility into financial strategies.

Innovative approaches to investing, such as impact investing and environmental, social, and governance (ESG) integration in responsible investing, have gained traction among investors seeking to align their returns with environmental and societal value considerations. These methods aim to generate economic returns while creating positive social and environmental impacts.

This good practice note, developed jointly by the National Investment and Infrastructure Fund Ltd (NIIF) and the New Development Bank (NDB), discusses how sustainability benefits from investments can be achieved by integrating ESG aspects for measuring impact and creating value.

The importance of measuring impact and value creation

Climate change and lack of environmental sustainability pose significant economic risks to society, translating into tangible losses across multiple sectors. Natural disasters—intensified by climate change—cause billions of dollars in damages annually. According to the World Bank projection, global disaster-related well-being losses could reach \$520 billion annually.¹ The World Health Organization estimates climate-related health impacts could cost \$2–\$4 trillion annually by 2030, including healthcare costs surging due to heat-related illnesses, respiratory diseases from pollution, and vector-borne diseases.² Supply chain disruptions from extreme weather events increase businesses' operational costs, while stranded assets risk trillions in lost investments. These cascading effects undermine

economic stability, erode productivity, and exacerbate inequality, underscoring the urgent need for proactive sustainability measures to mitigate long-term financial risks.



Financing plays a crucial role in tackling these issues by directing capital toward initiatives that promote sustainable development. According to the United Nations, achieving the Sustainable Development Goals (SDGs) requires an additional \$4 trillion for developing countries³, underscoring the need for innovative financing solutions. Investing in projects that address these global challenges, investors can contribute to a more sustainable future while also generating competitive returns. For instance, investments in renewable energy not only help mitigate climate change but also create jobs and stimulate economic growth. This alignment of financial and societal interests is essential for fostering a resilient and equitable global economy. In the same way, by embedding ESG criteria into investment decisions, institutions ensure that capital flows toward solutions addressing poverty, inequality, and ecological crises. This alignment transforms investors into catalysts for systemic change.





How investors can look for impact and value creation

To achieve risk-adjusted returns in impact investment, balancing potential risks against expected returns within environmentally and socially responsible sectors is essential. Through strategic planning and a balanced investment approach, investors can optimize risk-return balance for greater impact. Further, evaluation of the financial implication of the ESG risks from the

operability and the reputational risks perspective of a project gives a better understanding to the investors from the risk assessment and management of the investment. The benefits of such investments include creating positive social impact, promoting sustainable practices, reducing environmental footprint, aligning with ethical values, and providing measurable outcomes.

To effectively track the impact of investments, it is essential to quantify ESG values and impacts. Several key tools and frameworks facilitate this process, enabling investors to incorporate ESG metrics into their decision-making processes.

List of impact reporting standards

			
IRIS+ is a globally recognized database of metrics used to measure social, environmental, and financial performance, enabling investors and companies to standardize impact data across sectors.	SASB Standards (Sustainability Accounting Standards Board) provide industry- specific guidelines for disclosing ESG information material to investors, focusing on financial impacts and decision-usefulness.	GRI Standards (Global Reporting Initiative) offer a comprehensive framework for reporting economic, environmental, and social impacts to a broad range of stakeholders, emphasizing transparency and accountability.	IFRS Sustainability Disclosure Standards aim to establish globally consistent reporting for sustainability-related financial risks and opportunities. The core contents consist of four key pillars: Governance, Strategy, Risk Management, and Metrics and Targets.

IMPACT INVESTING. Financing for impact involves the strategic allocation of capital to generate measurable social and environmental value/ impacts alongside figures of financial returns. Various instruments of impact investments are being developed that cater to different sectors and objectives. Examples of targeted investments include social impact bonds, which fund social programs with the promise of returns based on the achievement of predetermined outcomes, and green bonds, which finance projects aimed at environmental sustainability.

The rise of these innovative financial instruments reflects a growing recognition of the importance of impact investing in driving positive change. According to the Global Impact Investing Network, the impact-investing market has grown significantly, with assets under management reaching \$1.6 trillion in 2024, indicating a robust demand for investments that prioritize both financial returns and social outcomes.

Integrating ESG factors into investment and decision-making processes leads to identifying risks and making better-informed investment decisions. ESG integration in the investment cycle begins right from the pre-investment phase, which involves preliminary screening and detailed due diligence for gap assessment to identify the potential ESG risks, followed by corrective action plans with timely resolution, and the post-investment phase that includes key performance indicators (KPI) or ESG objectives identification and regular review and monitoring of the identified risks and impacts and implementation of the management processes.

Common challenges

However, ESG integration is not without its challenges. Key obstacles include difficulties in setting ESG objectives and accurately measuring ESG impacts, as well as the complexities involved in reporting metrics.

- **Lack of ESG objectives:** Establishing ESG objectives is essential for responsible business practices, allowing organizations to measure and manage social and environmental performance while pursuing profitable investments. However, challenges arise due to regulatory gaps—such as inconsistent definitions, lack of mandatory reporting, weak enforcement, and limited regulatory scope—along with market limitations that favor short-term profits over long-term sustainability, insufficient investor demand for granular ESG data,

asymmetrical information, and inadequate market incentives.

- **Overlooking inherent risks:** Many inherent risks – environmental, social, regulatory, reputational, operational, technical, and financial – are often neglected when identifying KPIs and setting objectives. This oversight can result in significant financial and reputational losses.
- **Data collection and integration challenges:** Seamless integration of ESG principles in investing requires precise data collection, analysis, and interpretation. Disparities in assessment criteria and methodologies across multinational corporations and industries complicate the evaluation of ESG performance, leading to common issues in data acquisition and quality, including inconsistent information, lack of baseline data, regulatory uncertainty, and limited understanding of ESG values.
- **Challenges in measuring impact:** Measuring sustainability impacts—both positive and negative—is crucial for investment managers to ensure transparency, accountability, stakeholder communication, and regulatory compliance. Key challenges in measuring impacts include:
 - Defining and quantifying impact meaningfully.
 - Attributing specific outcomes to individual investments.
 - Addressing time horizons (long-term effects and delayed financial impacts complicating assessments).
 - Overcoming data collection issues and lack of standardized metrics, leading to concerns about “impact washing” or “greenwashing”, where investee companies may exaggerate their claims, costs, and subjectivity.
- **Skill gaps in ESG implementation:** Implementing ESG principles in investments is frequently hindered by a lack of specialized ESG skills within organizations. This underscores the need for targeted skill development and

capacity building to navigate the complexities of ESG integration effectively.

The above challenges are often faced by the corporates, investors and even by the ESG rating agencies while providing ESG ratings to the companies, which is an important tool for investors to assess the sustainability and societal impact of their investments.

All these challenges demand investee companies integrate ESG in accordance with their business strategy, which will lead to designing a plan to improve their sustainability impact, taking action to meet their sustainability ambitions, and incorporating their ESG impact in their reporting.

How can investors achieve impact and value creation while overcoming challenges?

Adhering to ESG principles significantly mitigates operational risks for financial institutions by identifying potential issues through a comprehensive analysis of ESG risks. This averts unsustainable factors in investments and derives enormous impact through these investments. The positive impacts, like reduced carbon emissions, improved social infrastructure, and economic benefits to large number of stakeholders, lead to ESG resilience and performance improvement, boosting investors' confidence.

To overcome the challenges of ESG integration in investments, proactive steps such as strategic planning, standardized frameworks, stakeholder engagement, and regular monitoring of ESG objectives and KPIs are essential. The challenges mentioned in the previous section can be overcome with the following actions:

- **Setting up ESG objectives and targets:** Setting ESG objectives and targets for investments is crucial for aligning them with sustainability goals and measuring progress. These objectives should be based on a materiality assessment to identify the most relevant industry-specific risks and opportunities, ensuring alignment with the investment strategy. Engaging stakeholders to understand their perspectives is vital in finalizing

objectives. The focus should be on measurable outcomes while considering short-, medium-, and long-term time horizons, and then establishing the baseline and conducting peer reviews of best practices and benchmarks. The objectives selected by the organization should adhere to SMART criteria—specific, measurable, achievable, relevant, and time-bound—using both quantitative and qualitative metrics and indicators.

- **Identification of inherent ESG risks:** Involvement of the investors right from the investment stage through gaps identified in the environmental and social due diligence (ESDD), framing corrective actions, guiding investee companies to identify inherent risks and linking them to KPIs, helps anticipate potential problems or challenges that may arise, improve project performance through proactive measures to mitigate risks, keep the project on track, and enhance the likelihood of success in achieving project objectives. Robust risk management frameworks – including risk identification, assessment, mitigation, monitoring, and governance – should be prepared and integrated into the investment process.
- **Uniform and standard methodology for ESG data integration:** One of the most challenging aspects of ESG integration is data collection, analysis, and reporting, particularly due to the lack of standardized frameworks for calculating and reporting ESG performance indicators. Therefore, a standard methodology needs to be developed, incorporating clear definitions of impact and materiality, along with frameworks for specific outcomes and desired impacts. Appropriate and robust improved data collection and analysis techniques like advanced data analytics and artificial intelligence tools that help in determining the investment attribution and contribution in evaluating the impacts should be used.
- **Reporting and transparently:** Reporting the findings should be done in a clear, transparent, and accessible manner to

avoid "impact washing" or "greenwashing" while also detailing methodologies, limitations, and references or adherence to recognized reporting standards/ framework.

- **Stakeholder engagement** is a key aspect that should consider seeking feedback and sharing learnings. Further continuous improvement can be achieved through regular review of impact measurement and reporting practices and key learnings from the experience. This also can sometimes help to overcome regulatory and market barriers by proper advocacy, policy engagement, market development, and incentivization.

Collaboration among investors, investee companies, and other stakeholders can facilitate the development of good practices for identifying and measuring ESG objectives. Additionally, ESG training and capacity building for the organization's team can enhance effective ESG implementation and improve system efficiency.

Frameworks and Tools for Measuring Impact

The UN Sustainable Development Goals (SDGs)⁴ are a universal set of 17 goals that provide a framework for impact investors to align their investments with global priorities and measure their contributions toward achieving these goals. The goals aim to be applied universally to all countries and include specific targets and indicators, making it easier to define measurable targets. Similarly, the UN Principles for Responsible Investment (PRI) encourages investors to adopt sustainable and responsible investment practices and provides a framework for integrating ESG factors into investment decision-making.⁵ PRI also provides investment tools as resource hubs that contain a range of PRI and external resources to help investors develop strategies and integrate focused nature and climate aspects in their investment practices. The Global Impact Investing Network (GIIN) provides helpful information and resources for impact investing.⁶ GIIN has also developed a comprehensive tool available for impact measurement and management system - IRIS+.

IRIS+ provides a catalog of impact metrics linked to the SDGs, enabling clear reporting on social and environmental outcomes.

List of UN Sustainable Development Goals (SDGs)

Theme	Key Focus Area	Theme	Key Focus Area
1 NO POVERTY 	Eradicating extreme poverty, social protection	2 ZERO HUNGER 	Ending hunger, sustainable agriculture, nutrition
3 GOOD HEALTH AND WELL-BEING 	Universal healthcare, disease prevention	4 QUALITY EDUCATION 	Inclusive education, digital literacy
5 GENDER EQUALITY 	Ending discrimination, women's leadership	6 CLEAN WATER AND SANITATION 	Safe drinking water, sanitation, ecosystem
7 AFFORDABLE AND CLEAN ENERGY 	Renewable energy access, energy efficiency	8 DECENT WORK AND ECONOMIC GROWTH 	Job creation, labor rights
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	Resilient infrastructure, technological advancement	10 REDUCED INEQUALITIES 	Income equality, social inclusion, migration
11 SUSTAINABLE CITIES AND COMMUNITIES 	Affordable housing, cultural heritage	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	Waste reduction, circular economies
13 CLIMATE ACTION 	Mitigation, adaptation, climate finance	14 LIFE BELOW WATER 	Ocean conservation, marine pollution reduction
15 LIFE ON LAND 	Biodiversity, forest management, desertification	16 PEACE AND JUSTICE 	Strong institutions, access to justice
17 PARTNERSHIPS FOR THE GOALS 	Global cooperation, financing, technology transfer		

Conclusion

Methods like impact investing, socially responsible investing, and ESG integration have

emerged, aligning financial goals with sustainability and social responsibility. Addressing significant economic risks from ESG risks, these approaches direct capital toward activities promoting sustainable development, which is crucial for achieving the SDGs. Innovative financial instruments, such as social impact and green bonds, support measurable social and environmental outcomes. The impact-investing market is growing substantially, highlighting the increasing demand for investments that deliver both financial returns and positive societal impact.

With the increasing demand for sustainable investing, the field of ESG performance measurement is continuously evolving. There are ongoing efforts to develop more standardized and robust methodologies for disclosure, and the use of advanced technologies such as data analytics and artificial intelligence, which are playing an important role in improving impact measurement practices.

ESG integration helps investors make better-informed decisions that generate both financial returns and positive social and environmental change, protect capital, and enhance stakeholders' confidence. At the same time, the investee companies benefit from improved financial performance, enhanced reputation, and reduced risk associated with ESG factors. ESG integration in the investment cycle needs to be done for the entire lifecycle of the investment. Also, the investors need to actively engage with companies on their impact performance and demand greater transparency and accountability.

Investing with a focus on ESG factors offers significant societal and environmental benefits. By emphasizing risk-adjusted returns, ESG integration in investments represents a crucial step toward responsible investing. This approach benefits not only investors and the companies they invest in but also society as a whole.

Investors can systematically measure and report their impact by utilizing frameworks like the UN SDGs, responsible investing, and methodologies such as IRIS+. The following resources offer guidance, tools, and insights into good practices to help further strengthen impact measurement.

Useful Tools and Resources

SDG Actions Platform	
https://sdgs.un.org/partnerships/browse	
By: United Nations(UN)	The SDG Actions Platform is a global registry of voluntary policies, commitments, multi-stakeholder partnerships and other initiatives made by governments, the UN system and a broad range of stakeholders to support acceleration of the UN SDGs.
SDG Impact Assessment Tool	
https://www.unsdnsn.org/resources/sdg-impact-assessment-tool-guide/	
By: Sustainable Development Solutions Network	This online learning tool visualizes the results from a self-assessment of how an activity, organization, or innovation affects the SDGs. It aims to stimulate the user to better understand the complexity of sustainable development and the different aspects of the SDGs.
Investing for Nature: Resource Hub	
https://www.unpri.org/investment-tools/investing-for-nature-resource-hub	
By: Principles for Responsible Investment (PRI)	This Resource Hub contains a range of PRI and external resources to help investors understand the importance of nature, to develop nature-related strategies, and to integrate nature in their investment practices.

Investing for Climate: Resource Hub	
https://www.unpri.org/investment-tools/investing-for-climate-resource-hub	
By: PRI	This climate hub curates resources designed to help investors integrate climate mitigation, adaptation and resilience considerations into their investment practices. It also highlights key climate initiatives, such as the Investor Agenda for Climate Change and the Climate Bonds Initiative.
Impact Reporting and Investment Standards (IRIS+)	
https://iris.thegiin.org/	
By: Global Impact Investing Network	It is a generally accepted system for impact investors to measure, manage, and optimize their impact. IRIS metrics are designed to measure the social, environmental, and financial performance of an investment.
IFC Operating Principles for Impact Management	
https://www.ifc.org/content/dam/ifc/doclink/2019/operating-principles-for-impact-management.pdf	
By: International Finance Corporation (IFC)	The IFC Operating Principles for Impact Management establish a common discipline around the management of investments for impact, and promote transparency and credibility by requiring annual disclosures of impact management processes with periodic independent verification.

References:

- 1 World Bank. Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/512241480487839624/unbreakable-building-the-resilience-of-the-poor-in-the-face-of-natural-disasters>
- 2 World Health Organization. Fact Sheet: Climate Change and Health. <https://www.who.int/news-room/fact-sheets/detail/climate-change-and-health>
- 3 United Nations. Financing for Sustainable Development Report 2024. <https://www.un.org/sustainabledevelopment/financing-for-development/>
- 4 United Nations. <https://sdgs.un.org/goals>
- 5 PRI. <https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment>
- 6 GIIN. <https://thegiin.org/publication/post/about-impact-investing/>

The New Development Bank is a multilateral development bank established by Brazil, Russia, India, China and South Africa with the purpose of mobilising resources for infrastructure and sustainable development projects in emerging markets and developing countries.

National Investment and Infrastructure Fund Limited (NIIF) is a sovereign-linked alternative asset manager, anchored by the Government of India. NIIF operates across four strategic verticals: Sustainable Infrastructure, Private Equity, Climate Investments, and Credit. With USD 4.4 billion in equity capital commitments, NIIF's global investor base includes sovereign wealth funds, pension funds, private equity firms, and development banks.

NDB website: <https://www.ndb.int>
ESG Department: esg@ndb.int
NDB Headquarters: 1600 Guozhan Road, Pudong New District, Shanghai 200126, China

NIIF website: <https://www.niifindia.in>
E-mail: info@niifindia.in
NIIF Headquarters: UTI Tower, GN Block, 4th Floor, BKC, Mumbai – 400 051, India

NDB Sustainability

