



impak Analytics
Enabling sustainable change™

iSA Methodology

September 2024



IMPACT
MANAGEMENT
PROJECT



iSA Methodology - September 2024

Table of Contents

1. Introduction	3
2. Methodology	3
2.1 Potential Negative SDG Contributions	5
2.2 Positive SDG Contributions	9
2.3 The Potential Impact Indicator	13
2.4 The SDG Alignment Graph	15
3. iSA for Private Companies	16
4. Conclusion	19
5. Useful Definitions	20



iSA Methodology - September 2024

1. Introduction

This document aims to complete impak’s impact rating methodology document and further clarify the iSA (impak SDG Alignment) methodology.

impak’s SDG Alignment (iSA) product is a ground-breaking, science-based tool that can be used in various use cases including portfolio construction, risk assessment & mitigation, engagement, benchmarking, etc.

The iSA methodology is based on the following core principles:

- **Complete and holistic approach**: Assessing the full spectrum of contributions generated by corporate activities, including both positive and negative impacts.
- **Materiality**: Relating positive impacts to the total activities of a company and selecting negative impacts based on a double materiality approach. This reduces the risk of overstating positive contributions and understating negative ones.
- **Based on internationally recognized standards**: The iSA methodology is based on widely accepted standards, including GRI and SASB, and is mapped to the UN’s Sustainable Development Goals (SDGs).
- **Objectivity**: Reducing subjectivity as much as possible by consistently referencing international standards and consensus where applicable.
- **Comparability**: Ensuring the methodology applies to all asset types and classes—whether private or listed equity, for-profit or nonprofit, bonds, etc.—to serve as a true catalyst for change.
- **Transparency**: Providing clients with the methodology behind our products and offering a high level of detail to the public. Our ongoing goal is to continuously enhance transparency, challenging the industry’s status quo.

2. Methodology

One of the core principles of impact analysis is that all economic activities generate negative side effects (externalities) that affect both the environment and people. The first step in the

iSA Methodology - September 2024

analysis is to identify which of the organization’s activities are misaligned with the Sustainable Development Goals (SDGs), meaning those that hinder progress toward the SDGs.

To achieve this, a **materiality assessment** is essential. impak uses a dynamic double materiality approach (see the "Useful Definitions" section below), as recommended in the Corporate Sustainability Reporting Directive (CSRD).

Once negative externalities on the SDGs have been identified through the materiality assessment, the focus shifts to **mitigating these externalities**. This involves analyzing the measures the organization has implemented to reduce its negative impact on the SDGs.

The next step is to **identify the positive contributions**. This is done by reviewing the organization’s annual reports to determine how activities deemed "positively aligned" correspond to the outcomes outlined in the United Nations' 17 Sustainable Development Goals (SDGs). Any positive contributions that cannot be clearly linked to an SDG target are excluded from further analysis.

The result of the iSA analysis is illustrated through "SDG alignment," as shown in the image below. SDG alignment represents the proportion of revenue associated with both positive and negative contributions. The detailed steps for selecting these contributions and calculating their associated revenue share are explained in sections 2.1 and 2.3.

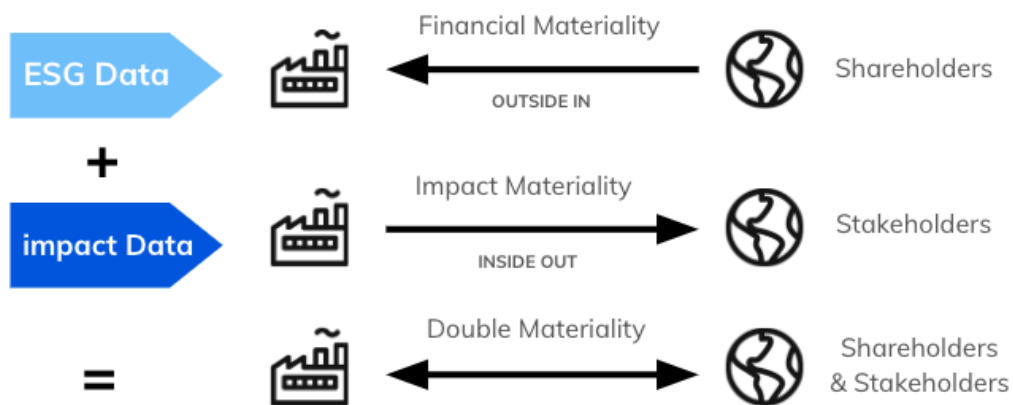


iSA Methodology - September 2024

2.1 Potential Negative SDG Contributions

The iSA analysis is built on a double materiality approach, meaning that impak identifies both the risks that the environment and society pose to an organization (financial materiality), as well as the impacts that the organization has on people and the environment (impact materiality).

ESG + impact data : the Double Materiality approach



Assessing Sector Materiality

To conduct a materiality assessment for a specific organization, we analyze the sector it belongs to, which we refer to as sector-based materiality. Sector-based materiality reflects SDG-related outcomes that are common to a sector, based on its idiosyncratic characteristics such as production processes, supply chain, and final products or services. For example, the mining industry typically faces risks related to heavy water consumption and community relations, while the garment and footwear sectors are often linked to issues like respect for trade union rights, occupational health and safety, and low wages.

This process identifies and prioritizes material outcomes for companies across 173 sectors, using the Industry Classification Benchmark (ICB). It takes a life-cycle approach, assessing significant impacts throughout the company's entire value chain. For some organizations, the most important impacts may occur upstream or downstream in their value chain rather than within their direct operations. Each material outcome is linked to a specific SDG and its target.



iSA Methodology - September 2024

Sector-based materiality is founded on credible data to ensure objectivity, robustness, and relevance. It draws on multiple **international norms and standards**¹ as well as market-driven frameworks², including initiatives such as the Global Reporting Initiative (GRI), the UN Principles for Responsible Investment (UNPRI), the UN Global Compact, the Value Reporting Foundation (the VRF, formerly the Sustainability Accounting Standards Board or SASB), and UNEP FI.

To represent the distribution of negative contributions to SDGs as a percentage, impak uses ICB sectors at level 4 (the most granular level), linking them to the company's business lines and their respective revenue shares.

For example :

A company operates two business lines: Gold Mining (40% of total revenue) and Life Insurance (60% of total revenue). Its negative contribution to SDG 6 (Clean Water & Sanitation) is solely related to its mining activities, which are associated with the outcome "water pollution." Therefore, the company's contribution to SDG 6 is 40%.

Another company has one business line representing 30% of its activities, which is linked to the outcome "water pollution," and a second business line representing 40% of its activities, associated with "water withdrawal and consumption." Both outcomes are tied to SDG 6 (Clean Water & Sanitation). Therefore, the total share of the company's activities contributing to SDG 6 is 30% + 40% = 70%.

As mentioned above, each sector is associated with material negative social, environmental, and governance-related SDG outcomes. Each outcome is linked to a specific SDG and relevant sectors, as illustrated in the image above.

To do this, impak has developed an automated tool called the iMAT (impak Materiality tool), based on its Materiality Score called the iMS (impak Materiality Score).

¹ Including, but not limited to the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the European Convention on Human Rights, the European Social Charter, the Sustainable Development Goals (SDGs), the UN Guiding Principles on Business and Human Rights, The Ten Principles of the Global Compact of the United Nations, The OECD Guidelines for Multinational Enterprises, the Paris Agreement on Climate Change, the United Nations Framework Convention on Climate Change, the WHO Air Quality Guidelines for Europe.

² Including, but not limited to the International Finance Corporation: IFC Performance Standards, the World Benchmarking Alliance Social Transformation, the KnowTheChain benchmarks, Living wage financials, Encore Natural Capital, the Access to Medicine Foundation.



ISA Methodology - September 2024

impak Materiality tool: iMAT

Based on the standards mentioned above and updated regularly, the iMAT is used to generate the list of material negative impacts and risks that the analysis should focus on, split between impact materiality and financial materiality, and linked to SDGs and the CSRD ESRS. Material negative impacts are prioritized using the impak Materiality Score (see below).

Materiality Assessment				Name of the company	
Outcomes	Double Materiality (IMPAK methodology)	Financial Materiality (according to SASB)	CSRD ESRS	impak materiality score (IMS)	SDG target
Air pollution	Yes	No	ESRS E2 – Pollution	1.67	3.9 By 2030, substantially reduce the number of road deaths
Energy consumption	Yes	Yes	ESRS E1 – Climate change	2.00	7.3 By 2030, double the global rate of improvement in energy efficiency
Water withdrawal and consumption	Yes	No	ESRS E3 – Water and marine resources	2.33	6.4 By 2030, substantially increase water-use efficiency in all sectors
Biodiversity loss and ecosystem degradation	Yes	No	ESRS E4 – Biodiversity and ecosystems ESRS E3 – Water and marine resources	1.67	15.5 Take urgent and significant action to reduce global biodiversity loss of terrestrial and marine ecosystems
Customer privacy and data security	Yes	Yes	ESRS S4 – Consumers and end-users	3.67	16.10 Ensure public access to information and data
Poor labour and working conditions	Yes	Yes	ESRS S1 – Own Workforce ESRS S2 – Works in the value chain	2.83	8.8 Protect labour rights and promote safe and sound working conditions
Workers' health and safety	Yes	No	ESRS S1 – Own Workforce ESRS S2 – Works in the value chain	1.67	8.8 Protect labour rights and promote safe and sound working conditions
Diversity and inclusion	Yes	Yes	ESRS S1 – Own Workforce ESRS S2 – Works in the value chain	3.67	Diversified Retailers
Product or service lifecycle management	Yes	Yes	ESRS E5 – Resource use and circular economy	2.33	10.3 Ensure equal opportunity and reduce inequalities in and among countries 12.4 By 2020, achieve the environmentally sound management of all chemicals and hazardous waste
Anti-competitive practices	Yes	Yes	ESRS G1 – Business Conduct	2.50	16.3 Promote the rule of law at the national and international levels
Critical incidents and systemic risk management	Yes	Yes	ESRS G1 – Business Conduct	1.83	-

impak Materiality Score: iMS

$$iMS = \frac{2 \times StakeholderScore}{3} + \frac{FinancialScore}{3}$$

The impak Materiality Score (iMS) is an aggregate score based on the financial and impact materiality of negative outcomes from each ICB sector.

- **Stakeholder Materiality Score:** focuses on the external impacts an organization's activities have, including impacts on society and the environment. It comprises three criteria:



iSA Methodology - September 2024

- Sector Expertise Value (SEV): gathers the impak industry’s lead’s knowledge
- External databases: gathers data from hundreds of media, academic, NGO, regulatory and government sources to ensure an objective materiality assessment. Our databases include but are not limited to The Science-Based Targets Network sector materiality tool; The European Union list of sectors that highly contribute to climate change; and Transparency International’s Bribe Payers’ Index.
- Value drivers:
 - The SASB research department publishes a dataset that evaluates the potential effect of each identified sustainability factor on these indicators. While these value drivers are purely financial, some of them can constitute proxies to evaluate the risk of negative impacts for certain outcomes.
 - For example, the outcome “Anti-Competitive Practices” is a governance outcome, whose materialization is based on the existence of a controversy. At a minimum, impak only retains serious and substantial allegations in the media or before a court to conclude that a risk has materialized.
 - Some value drivers related to the risk of Anti-Competitive Practices include: Contingent Liabilities & Provisions, and Extraordinary Expenses both deal with the risks for a Company to face a controversy and/or legal/regulatory action.
- **Financial materiality Score:** focuses on economic value-creation, external issues that impact a company’s financial performance and its ability to create economic value for investors and shareholders

The financial materiality score was created based on the methodology developed by Consolandi, Eccles, and Gabbi (2020)³. These authors published several papers aiming to assess the exposure of different sectors to various ESG factors. Using the value drivers dataset produced by SASB, they have developed the financial relevance indicator (FRI) to evaluate the level of financial relevance of any given sustainability risk for any given sector.

An outcome will be considered “material” (i.e. retained for analysis) if both the following cumulative conditions are met:

³ <https://doi.org/10.1080/20430795.2020.1824889>

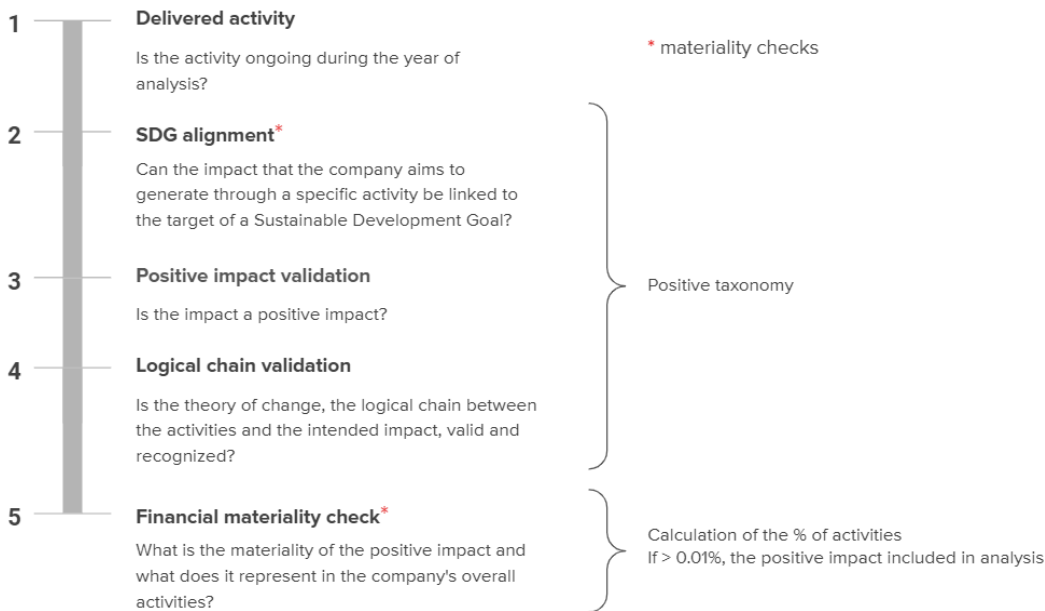
iSA Methodology - September 2024

$$iMS \geq 2; StakeholderScore \geq 2$$

2.2 Positive SDG Contributions

An organization can have one or more activities that align positively with the Sustainable Development Goals (SDGs). Linking corporate activities to SDG targets depends on the organization providing sufficient information for analysis. Our team of expert analysts has mapped each SDG target to one or more outcomes.

To validate an organization’s positive contribution(s), the following criteria must all be met (for more details, refer to the impak Methodology document, section 3.1):



Criterion 1: Is the activity generating a positive impact ongoing?

The positive impact must result from an activity that was carried out during the year of analysis. Planned or unrealized activities are excluded.

iSA Methodology - September 2024

Criterion 2: Can the activity's goal be linked to an SDG target?

Each activity must be clearly linked to a specific SDG target. impak relies on the global consensus around the SDGs to define positive impacts. If an activity cannot be linked to an SDG target, it is excluded from the analysis. Additionally, the activity must address the conditions outlined in the SDG target, such as the relevant stakeholders.

Criterion 3: Do the activities meet the threshold between negative impact mitigation and positive impact generation?

Positive change for stakeholders does not automatically indicate a positive SDG contribution. The Impact Management Project (IMP) Norms, now hosted by Impact Frontiers, identify a "threshold" that distinguishes genuine positive impacts from activities that mitigate negative impacts.

Criterion 4: Is there a valid Theory of Change?

The organization must demonstrate that its activities can achieve the intended positive and lasting outcomes for stakeholders. A Theory of Change (see Useful Definitions) is valid if each causal link is clear and supported by evidence. The organization must provide sufficient information to assess these links; otherwise, the activity will be excluded.

Criteria 5: What is the financial materiality of the activity generating a positive impact?


The contribution must be material in relation to the organization's overall activities (revenues, assets, opex). If the percentage of activity contributing to the positive impact is less than 0.01%, it is not considered material. impak has also developed qualitative criteria to evaluate materiality when financial data is unavailable or insufficient, minimizing the risk of overestimating positive impacts (impact-washing).

impak Positive Impact Taxonomy

To guide this process, we have developed a unique **positive impact taxonomy**. This classification reflects scientific consensus on the effectiveness of specific activities in generating positive outcomes linked to SDG targets. The taxonomy outlines the criteria and conditions that must be met (reflecting the steps above) for an activity to be considered as generating a positive impact. Our taxonomy consolidates the best-known and most robust sector consensus for qualifying positive impacts, notably based on the SDGs, IRIS +, the World Health Organization, the European Taxonomy activities, and the International Energy Agency.

iSA Methodology - September 2024

To this day, our positive taxonomy contains more than 180 positive activities, including social and environmental impacts.



Positive Activity Example	SDG	Target	Criteria 2: SDG alignment	Criteria 4: Logical chain validation
Implementing solutions for the retention of health professionals in developing countries in order to strengthen local health systems		3.c Increase in health financing and solutions to strengthen local health systems in developing countries	Is the initiative taking place in a low or developing country as per the UN country classification?	Does the initiative address proven local needs for which there is an identified gap?

Considered vs. Retained Positive SDG Contributions

Activities that do not meet all five criteria and that are excluded from the positive contribution selection still appear in the iSA, alongside why they were excluded.

Activities that meet all five criteria are classified as **retained positive SDG contributions**. These retained contributions form the basis of the **Potential Impact Indicator**.

Considered positive SDG contributions

SDG	Activity	Outcome	Criteria	Criteria justification(s)
	- Generating and selling power and heat from biomass	Increase in the use and production of renewable energy in the energy mix	<ul style="list-style-type: none"> ✓ Delivered activity ✓ Linked to SDG target ✓ Validated Theory of Change ✓ Reached threshold ✗ Reached financial materiality 	Considered as positive impact, but lack of information to calculate % of activities
	-Collaborating with the municipalities in Germany by sponsoring the decommissioned lightship to provide tourists with information about the history and habitat of the Wadden Sea	Promotion of sustainable tourism that creates jobs and promotes local culture and products	<ul style="list-style-type: none"> ✓ Delivered activity ✓ Linked to SDG target ✗ Validated Theory of Change ✓ Reached threshold ✗ Reached financial materiality 	The organization does not provide sufficient proof the activities can turn into the desired outcome



iSA Methodology - September 2024

Actual positive SDG contributions

SDG	Activity	Part of activities addressing SGD	Outcome	Stakeholders
	Providing sustainable energy solutions to customers through the manufacturing and installation of wind turbines	100%	Facilitation of the transition from fossil fuel energy to renewable energy	Direct: Local ecosystems Indirect: Citizens Indirect: National governments Direct: Utility companies, power plant/energy developers, and Independent Power Providers (IPP) for community and national, on-grid solutions.

2.3 The Potential Impact Indicator

The Potential Impact Indicator (PII) is a key feature of the iSA. It provides users with an indication of the potential impact an organization may have, and it correlates with the **impak Score™**. The PII is measured on a scale of 1-4 points, divided into four potential impact categories:

- **1. Potentially causes harm**
- **2. Potentially avoids harm**
- **3. Potentially benefits stakeholders**
- **4. Potentially contributes to solutions**

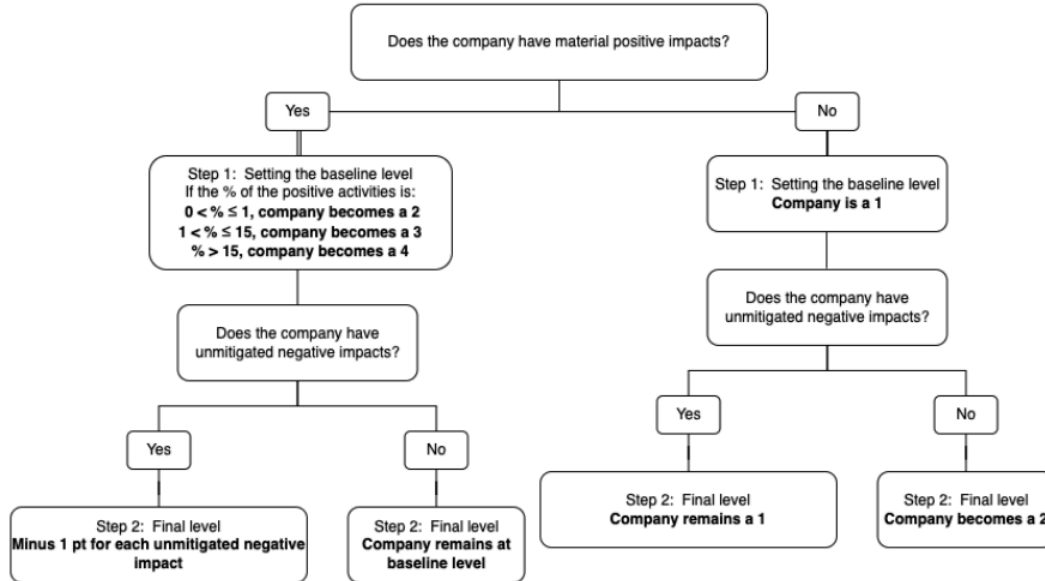
It is calculated using a simple formula based on 3 factors:

- **Boolean (True/False):** Does the company have one or more retained positive SDG contribution(s)?
- **Percentage of activities:** The percentage of the company’s activities (revenues, opex or assets depending on the impact model) that have a considered positive contribution to SDGs.
- **Mitigation of potential negative contributions:** The percentage of mitigated potential negative SDG contributions.

The PII is calculated based on this **decision tree**:



iSA Methodology - September 2024



2.4 The SDG Alignment Graph

The full methodology assessment is summarized on the impak Analytics platform through the SDG Alignment overview, an easy-to-read graph that represents a company’s alignment or misalignment to the SDGs.

A company can be compared to its sector, and is scored on each SDG using the same variables as in the Potential Impact Indicator, resulting in a rating from “strongly misaligned” to “strongly aligned”.



iSA Methodology - September 2024



3. iSA for Private Companies

Assessing a company's contribution to the SDGs presents distinct challenges depending on whether the company is listed or private.

- **Listed companies** typically provide detailed sustainability reports that describe their negative and positive impacts, as well as their mitigation activities.
- **Private companies** rarely communicate publicly about their impacts and mitigation efforts.

To address this, impak has designed two distinct processes to assess both types of companies. For private companies, impak uses a questionnaire known as the **impak Data Collection Platform (iDCP)**, which is linked to its iMAT tool and therefore adapts to companies' reality, making it easy to fill in. It requests the following information:




iSA Methodology - September 2024

Survey IN PROGRESS / SDG Alignment questionnaire

SDG Alignment questionnaire

[Expand All](#)

This section evaluates the main positive and negative outcomes generated by your organization. They are collectively referred to as SDG alignment.

-  Business profile *
-  Negative Outcomes *
-  Positive Outcomes *

Business Profile Section

This section consists of three questions that gather general company information.

Pre-filled Negative Outcomes Section

In this section, impak's analysts pre-fill the material negative SDG contributions based on sector materiality. However, companies can add more information if necessary.

- A maximum of 20 material negative SDG contributions are identified, with each linked to specific negative outcomes.
- Organizations are required to describe their activities contributing to each outcome.
- If companies disagree with the assessment or identify discrepancies, they must provide evidence to explain why the potential negative SDG contribution does not apply. A lack of evidence will result in the original materiality assessment being used.

Mitigation Activities

Organizations must explain the measures they have in place to mitigate the identified negative SDG contributions. Examples include:

- Improved procedures through new technologies.
- Implementation of supplier audits.

NB: Mitigation activities must be specific, measurable (either qualitatively or quantitatively), and implemented by the company (or in a partnership) during the year of analysis.

iSA Methodology - September 2024

Stakeholders

Any entity, including individuals, organizations, or environmental systems (e.g., ecosystems, species), affected by the organization's outcomes. One activity may generate more than one outcome, and hence impact multiple stakeholders.

- Each outcome is tied to a specific SDG target, which often indicates the relevant stakeholders.

Example: If the masks a company manufactures for lumberjacks malfunction, this would negatively affect the health and safety of the lumberjacks, i.e. the company would generate a negative impact on the “Consumer Welfare, Health, and Safety” outcome.

- Other outcomes, such as Water Pollution, Energy consumption, and Biodiversity Degradation, may also be linked to the production process, with stakeholders like local ecosystems, communities, and suppliers being impacted.

Positive Outcomes

This section consists of approximately five questions for each positive outcome, with a focus on the five most significant positive outcomes of the organization.

To validate a company's positive contributions to the SDGs, it is necessary to meet all the validation criteria (refer to section 2.2). Companies must provide sufficient evidence to show a causal link between their activities and the intended positive SDG outcomes.

- If the link between an activity and an SDG target is unclear or lacks expert consensus, the activity will not be considered to generate a positive contribution.

4. Conclusion

The iSA analysis serves as an introductory assessment of a company's **potential impacts**. It can also be enhanced with additional modules, such as those related to SFDR (Sustainable Finance Disclosure Regulation) or Controversies.

A stand-alone iSA can be useful to:



iSA Methodology - September 2024

- **Identify Potential Positive Impacts:** The iSA helps assess the potential impacts across an investment universe.
- **Assess & Mitigate ESG and Impact Risk:** The iSA is used in multiple risk assessment use cases, thanks to its unique negative impact mitigation activity assessment and double materiality lens.
- **Portfolio Construction:** It assists in building portfolios and identifying companies based on their alignment with specific SDGs.
- **Engagement:** thanks to its detailed negative impact mitigation assessment and considered positive impacts, the iSA is a great tool to engage with portfolio companies
- **Benchmarking:** The iSA allows for the benchmarking of portfolio companies' potential positive and negative impacts relative to a reference index.



iSA Methodology - September 2024

5. Useful Definitions

Double Materiality: This perspective identifies the risks posed by the environment and society to an organization's development, financial performance, and value creation (financial materiality), as well as the impact the organization has on the economy, environment, and people (impact materiality). iSA applies a life-cycle approach to assess significant SDG contributions across the entire value chain.

- Example: An organization may face risks from climate change (e.g., weather events affecting its sites), while also contributing to GHG emissions that harm the environment and livelihoods.

EU Taxonomy: A regulatory system to classify economic activities considered environmentally sustainable under specific conditions, guiding investors and companies.

Impact: A long-lasting change in stakeholders' lives resulting from an organization's actions.

Materiality Assessment: The evaluation of an organization's sector, business model, activities, and geographical context to identify relevant SDG impacts.

Potential Negative SDG Contribution: When an organization has the potential to induce negative change based on SDG priorities.

- Warning: Actions like installing NOx filters or safety training are considered mitigation measures and not positive contributions.

Considered Positive SDG Contribution: A potential positive change in alignment with SDGs that does not meet all five validation criteria and is excluded from the final selection.

Retained Positive SDG Contribution: A validated positive change aligned with SDG priorities that passes all five criteria, qualifying as a positive contribution.

Stakeholder: Any entity, including individuals, organizations, or environmental systems (e.g., ecosystems, species), affected by the organization's outcomes.

Sustainable Development Goals (SDGs): The 17 global issues identified by the UN, with associated targets aimed for achievement by 2030. Every negative and positive impact is linked to one or more of the 169 SDG targets.



iSA Methodology - September 2024

Theory of Change: A framework outlining the logical steps connecting an organization's activities to their intended outcomes. It explains how short-, medium-, and long-term results emerge from specific activities, emphasizing the link between outputs and outcomes.

Threshold: The point distinguishing between the mitigation of negative impacts and the generation of positive impacts.

- Example: A company producing renewable energy may be seen as mitigating its energy consumption (negative impact) or contributing to the global energy mix (positive impact).



impak Analytics

Enabling sustainable change™

Paris, Montréal, Toronto
impakanalytics.com

Contacts :

Boris Couteaux
Chief Strategy Officer
Boris.couteaux@impakanalytics.com

Cédric Livet
Head of Impact Methodology Committee
cedric.livet@impakanalytics.com

© impak Ratings 2024