Characteristics of the impact measurement and management process

"Our ambition is to create accounting statements that transparently capture external impacts in a way that drives investor and managerial decision making."

– George Serafeim[45]

In contrast to traditional reporting models focused on capturing and presenting the financial value generated by companies (shareholder view), there is a trend towards the integration of both positive and negative impacts generated by their activities into the reporting.

Guided by this trend, and as mentioned in the previous section, accounting bodies are revising their principles and standards to incorporate the sustainability variable, with the aim of reporting in a consistent and standardized manner to all stakeholders on the value of the externalities generated by the company's activity (Stakeholder Theory[46]). Insofar as these standards are still under development, this measurement exercise is still an incipient practice among large organizations, although its development and integration into internal processes is leading to a major transformation.

The purpose of this section is to describe the characteristics of the process, starting with an analysis of the reasons for the exercise, and then highlighting all the key elements of its implementation.

Reasons and usefulness

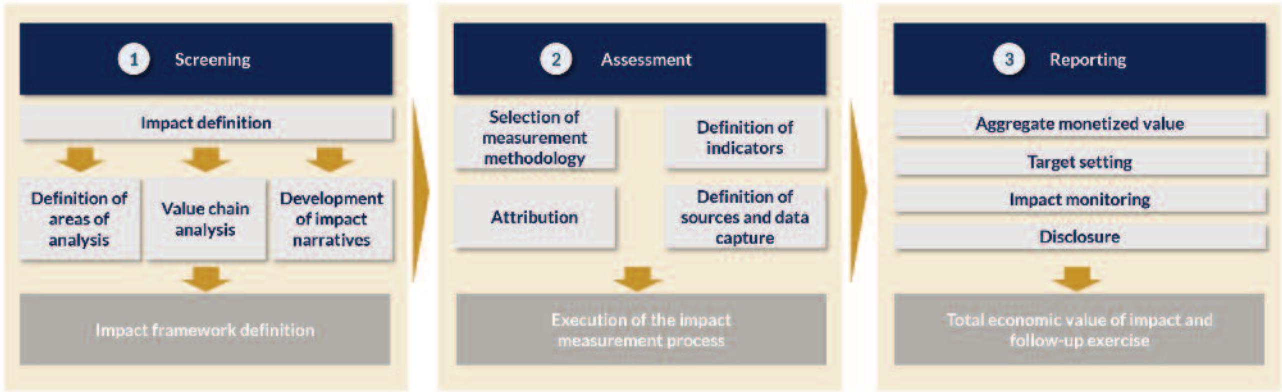
Companies have always tended to disclose the various philanthropic investments or initiatives made through their Corporate Social Responsibility departments or corporate foundations. However, it has not been until recent years that organizations have begun to invest resources and dedication to measuring their extra-financial impact, with the aim of considering this information as a key input for the management and reorientation of their business models.

The reasons behind this change in trend on the part of business organizations are basically the following:

- Demand for information from investors and customers on sustainability and the impact generated by organizations, in addition to demanding business strategies and production processes that are more respectful of people and the environment:
    - Some of the world's leading investment funds (e.g. BlackRock[47]) have already announced their investment policies and put sustainability at the center of their decisions, identifying climate risk as an investment risk, as well as promoting the good governance initiatives of the organizations in which they invest.
    - And there have been public-private initiatives to promote the development of cities with more sustainable forms of consumption, transportation, education and services from civil society (e.g. Madrid Futuro[48]).
- Opportunities in business actions with sustainability criteria
    - Cost savings as a result of ESG risk mitigation.
    - Capturing market value from new financing opportunities (green and social bonds, better financing conditions as a result of ESG ratings, etc.).
    - Public concessions weighted by sustainability criteria (e.g. Next Generation Funds in the EU ecosystem).
    - Innovation developments allowing firms to anticipate changes in customer demand and concerns regarding sustainability, leading to increased market share and number of customers.

[45] George Serafeim is a professor of Business Administration at Harvard University and one of the precursors of the Impact Weighted Account Initiative.
[46] The World Economic Forum 2020 Manifesto (Davos) specifically supported this model, inviting companies to develop strategies aimed at generating value for all stakeholders.
[47] BlackRock (2020).
[48] Madrid Future (2022).

Figure 3. Impact measurement methodology process



Source: own elaboration

Despite these obvious benefits, many companies are not being able to incorporate the sustainability factor into their strategy, among other reasons because they do not have an effective mechanism for evaluating the ESG impacts of their projects or investments.

Therefore, the construction of an impact assessment model can become an effective transformational lever, allowing organizations to manage their impact (by quantifying and analyzing the results obtained and integrating these data in their decision making), improve their performance (by establishing control and monitoring measures on the objectives set, through benchmarking against past results and competition) and, ultimately, to transform their businesses.

Approach

Many frameworks establish procedural approaches for managing and measuring the social and environmental impacts of organizations.

All these methodologies have three fundamental steps in common:

- Firstly, the identification of both positive and negative impacts generated by the activity of the organization or specific project to be analyzed.
- Secondly, the qualitative and/or quantitative assessment of each impact analyzed individually.
- And finally, the aggregation of the value measured according to the previously defined classification, so that the impact generated by the company, or by the particular project, can be communicated.

Management Solutions has analyzed and compiled best practices for the management and measurement of these impacts, developing an approach that addresses the issue holistically, responding to the needs of the organization, while also considering its limitations and targeting those elements that most concern it (figure 3).

1. Approach

The impact measurement exercises carried out by organizations differ depending on whether they are aimed at a specific investment or project[49], or whether they seek to assess the company's global activity and quantify the monetary value represented by the total social, environmental and good governance impacts generated by the organization, beyond its economic-financial profitability.

Despite the particularities of each of these two approaches, there are some common elements in the structure, methodological model or tools used in the impact measurement exercises.

2. Screening

The above measurement exercise begins with the construction of an impact framework that will serve as a reference map and facilitate the remaining process:

- Definition of impact: in this first phase, the organization must agree and define what it understands by social and environmental impact (does it include positive and

[49]This resource is currently being used for the development of projects within the framework of the extraordinary recovery package under the Next Generation EU instrument for the period 2021-2027, mentioned above.

Figure 4. International Social Impact Measurement Frameworks (not exhaustive).

Initiative	Institution	Detail
ODS	United Nations	• A blueprint of 17 goals set up by the UN comprising 169 outcome targets for eradicating poverty and inequality, promoting economic development, improving education and health, and reducing the impact of climate change.
IMP	Impact Management Project	• A framework to determine how impact should be measured, managed and reported. Classification consisting of five dimensions organized into 15 impact categories (what, who, how much, contribution and risk).
Theory of Change	Donald Kirkpatrick (Wisconsin University)	• A diagram using causal logic to graphically represent the objectives that an intervention seeks to achieve and the specific way in which it intends to achieve them.
Social and Human Capital Protocol	United Nations	• Decision-making framework that serves as a reference map to guide organizations that want to measure and assess impacts related to social and human capital. Four stages: Purpose, scope, measurement and assessment.
EVPA	European Venture Philanthropy Association	• Develops standards for managing and measuring impact. The aim of this framework is to maximize and optimize the social and/or environmental impact of organizations.

Source: own elaboration

negative impacts that affect society and the planet, does it include tangible as well as intangible impacts, does it include only external impacts generated by the organization or also the internal impacts of some stakeholders - human resources, shareholders, etc.?). This delimits the criteria to be applied in the analysis and conditions the methodology.

- Definition of the axes of analysis: identifying the impacts arising from the organization's activity requires defining a number of axes of analysis that make up the structure of the so-called impact framework. These axes are determined by the impact elements considered:

  - Material typology of impacts (social, economic, environmental, etc.).

  - Types of stakeholders impacted (customers, local communities, public administrations, supply chain, etc.).

  - Corporate values of those companies that, beyond their mission and vision, have shown a firm commitment to structuring their strategy around a series of principles that take into account the impact generated on society and the planet.

In addition, this phase can take as a reference the use of some of the frameworks suggested by international standards, such as the Theory of Change, the Impact Management Project or the SDGs (Fig. 4).

- Value chain analysis: a company can measure the impact generated by a specific project or investment, or carry out this exercise on a general basis, for the entire activity of the company as a whole. In the latter case, the company must analyze its value chain in order to identify which key processes are related to the previously defined impact axes.

- Development of impact narratives: the link between the definition of impact, the axes of analysis and the project/investment/activity of the value chain to be measured is developed on the basis of the so-called impact narratives ("impact pathways"). These narratives are detailed descriptions of how the project or activity positively or negatively affects the axis under consideration. The narratives make it possible to understand how the impact is made, over what period of time (bearing in mind that, by their very nature, many of the effects identified will take place in the long term), which stakeholders are impacted, etc.

To this end, the different elements of the impact value chain should be considered, consisting of:

- the so-called financial and non-financial inputs or resources used by an organization (e.g. use of renewable energy).

- the activities or actions carried out to achieve the objectives (e.g. construction of an infrastructure that respects the biodiversity of the ecosystem).

- the outputs, products or services resulting from the activities, (e.g. development of a technology product that meets the criteria of social inclusion of people with disabilities).

- the outcomes, which are the social or environmental transformations resulting from all of the above (e.g. increase in access to quality education for a given population as a result of the creation of new jobs and the reactivation of the local economy) that ultimately make it possible to identify the impact generated by the activities or projects of the organization in question.

Figure 7. Axes for the segmentation of a financial institution's loan portfolio according to its impact (non-exhaustive)

ACTIVITY FOCUS

Activities directly eligible due to their social orientation: manufacture of medical equipment and supplies, manufacture of vehicles for people with disabilities, R&D&I activities related to social issues, activities of employment or HR agencies.

On the other hand, the rest of the activities should be analyzed by evaluating a series of ad-hoc social KPIs: manufacture of pharmaceutical products for therapeutic purposes, construction of subsidized housing, energy or telecommunications activities aimed at vulnerable populations, etc.

CUSTOMER FOCUS

- Foundations and NGOs.
- Social economy enterprises.
- Micro-SMEs operating in regions with lower GDP per capita and/or higher unemployment or start-ups.
- Entrepreneurs and startups that incorporate R&D&I.
- Self-employed operating in regions with lower GDP per capita and/or higher unemployment rate or because they are <35 years old.
- Exclusive financing.

PRODUCT FOCUS

- Microloans.
- Mortgages for purchasing a first home or for home rehabilitation for vulnerable groups.
- Financing aimed at improving the accessibility of premises or dwellings for people with reduced mobility.
- Financing for socially and economically vulnerable tenants.
- Free basic payment accounts created for customers in vulnerable situations.
- Advance payment of unemployment benefits.

Source: own elaboration

The materiality analysis (a complementary tool for listening to the different stakeholders to identify and prioritize their concerns and their relevance to the business) can be used at this stage of the exercise, and enables priorities to be established in relation to what impacts to measure and to set objectives for them. The impact framework and materiality matrix should reflect consistent and homogeneous information.

It should be noted that the multiplicity and diversity of the possible impacts may significantly complicate the exercise, so it will be necessary to apply the criterion of proportionality, prioritizing the direct and most relevant impacts included in the materiality matrix.

In the case of the banking activity, the social impact generated is intrinsically linked to the impact generated by the activity financed. In this sense, the measurement can be enriched by the prior definition and implementation of a social taxonomy[50] that allows segmentation of the portfolio and granular analysis of the impact generated (Fig. 5).

The implementation of this segmentation exercise based on social taxonomy, beyond its use in the area of measuring the institution's social impact, has uses in terms of disclosure and transparency, marking and control of potential underlying sustainable or social emissions and is the basis for setting strategic objectives. Its consideration for social impact purposes can range from incorporating enriched information on segments and impact metrics of the portfolios (without economic quantification of the impact) or evolving the model towards an exercise that allows a differentiated economic

[50]It should be noted that the criteria established by this social taxonomy cannot yet be based on any existing regulations (the European Commission is working on the report it plans to publish in the near future (end of 2021), and should be inspired by the criteria defined by international standards.

Figure 6. Most widespread methodologies for measuring social impact (non-exhaustive)

Initiative	Institution	Detail
Impact weighted Accounts Initiative	Harvard University	• It aims to promote the creation of accounting statements that transparently capture external impacts by reflecting a company's financial, social and environmental performance.
SROI	Social Value International	• Methodology to measure and quantify monetarily the social value of an organization, project or initiative. It considers social, environmental and economic costs and benefits. Based on the economic indicator ROI.
B-Impact Assessment	B- Lab	• It allows to evaluate the impacts through answers to a given form and then compare the results with other companies in order to create improvement plans based on tools and guidelines.
LBG	London Benchmarking Group	• Provides data on the contributions, achievements and impacts of Corporate Social Action. Focused on the management, measurement and communication of the activities that companies carry out with a social and environmental focus.
NYU STERN ROSI ™	New York University	• Methodology that identifies material sustainability strategies and changes in practices resulting from those strategies and then quantifies and monetizes the resulting benefits.

Source: own elaboration

quantification of social impact financing, taking into account the characteristics of the sector or recipient of the financing.

3. Assessment

Once the impacts to be evaluated have been identified and described, their quantification is addressed.

To this end, the organization must focus on selecting the best tools to articulate this exercise:

- Selection of the quantification methodology. Bearing in mind that there are currently numerous alternative methodologies for measuring social and environmental impact, the company must analyze which of them is best suited to the type of specific impact it intends to measure, also taking into consideration the information available for the calculations.

  Some of the methodologies most widely recognized by the ecosystem, and whose recurrent use favors the comparability and standardization of results, are: Impact Weighted Account Initiative of Harvard University, Social Return on Investment (SROI) of Social Value, or London Benchmarking Group (LBG), among others (Fig. 6).

- Definition of indicators: additionally, an exercise is carried out to define the variables, both qualitative and quantitative, that will be used as a reference to measure the impact. The indicators, as well as the methodologies, are selected according to the type of impact, as well as the data available to carry out the measurement exercise. There are also a multitude of indicators that can serve as a reference for organizations to select the most appropriate ones (SDG indicators[51], INE[52] metrics, IRIS + indicators[53], etc.) (Figure 7).

- Attribution: in the case of certain impacts, especially indirect impacts, it is advisable to establish criteria to isolate the transformations (outcomes) derived from the activity or project on society or the environment from what would have occurred naturally without its implementation.

[51]United Nations (2015).
[52]INE. Instituto Nacional de Estadística español (2022).
[53]The GIIN (2021).

Materiality matrix

Materiality analysis has become a process used by all types of organizations to identify those economic, environmental and social impacts that most concern each of the different stakeholders and relate them to their respective business strategies.

The result of this analysis is the so-called materiality matrix, a map that classifies and prioritizes each of these elements (e.g. diversity, climate change, local economy, product affordability, etc.) according to the relevance that these stakeholders (customers, suppliers, employees, shareholders, etc.) attach to each one, and the impact they have on the organization's business strategy and performance.

This information is used by organizations as an input for restructuring and designing their respective strategies and making decisions, becoming a fundamental link between financial and non-financial information.

The analysis is based on a process of dialogue with the different stakeholders and the review and prioritization of the information gathered:

- Identification of stakeholders.
- Definition of a listening and relationship methodology.
- Selection of dialog tools.
- Identification and analysis of material issues.
- Prioritization and categorization of such information.

Illustrative example of a materiality matrix

Thresholds

The organization shall define thresholds (criteria) that identify an aspect as material.

These thresholds are key to the analysis, so the thresholds and criteria used must be clearly defined.

A qualitative or quantitative approach can be used with the aim of defining how significant a particular aspect is.

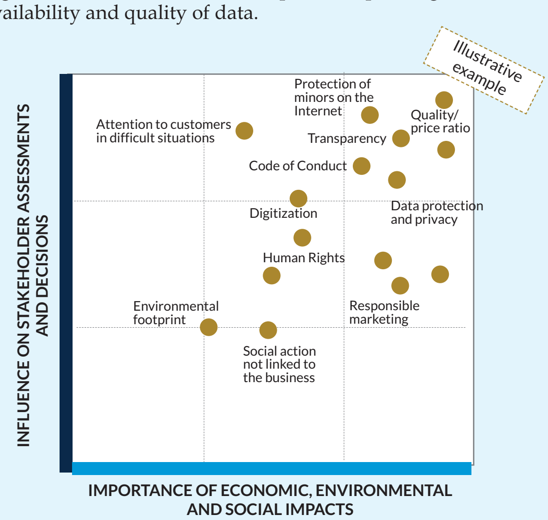
There will be aspects that are not significant at the present time, but that may become so.

Coverage level

Coverage refers to the prominence, amount of data and narrative explanation provided by the organization about a material aspect of the organization.

Depending on the priority of certain aspects, they will be included in the reports with a different level of detail. Aspects that are a high regulatory priority should be reported in detail.

In cases where there are material aspects occurring outside the organization, indicators will be reported depending on the availability and quality of data.



- Definition of sources to feed the indicators and data capture: the credibility of the data provided by the model depends on the soundness of external information, especially that used as a conversion factor to monetize the selected impact indicators. In this sense, it is necessary to analyze the publications based on scientific evidence and which generate the greatest consensus. On the other hand, it is necessary to have sufficient internal data in relation to the project or activity whose impact is to be measured. It should be noted that, on occasions, the existence of insufficient non-financial information in the organization is a stumbling block, so it is advisable to establish actions to ensure the availability and quality of the data

4. Reporting

Finally, once the measurement exercise has been carried out by calculating the economic value of the different impacts, the third and last phase of the process will be addressed:

- Aggregation of the monetary value of the total impacts measured previously. To do this, and responding to the predefined structure through the impact framework, the monetized value of all the variables in the same category is added up.

- Setting objectives: based on the results achieved, the organization establishes a series of objectives that will allow it to mitigate negative impacts and increase the positive impacts generated by its activity or project.

- Impact monitoring: in addition, and as part of the continuity of the exercise, it is advisable to define a governance model and a results monitoring process to facilitate the process of following up on the impact and evolution of the established objectives[54]. In this way, an iterative process is developed that allows decision making to be updated.

- Disclosure: the integration of the measurement process in decision making requires a prior transparency exercise of all the elements used in the process (objectives, deadlines, frameworks, methodologies, sources, data, etc.). In this way, the exercise can be verified by third parties as a guarantee of the model's credibility.

Finally, once the organization's situation has been analyzed from the point of view of the extra-financial impact it generates, decisions can be made and the results obtained can be reported to the different stakeholders.

[54]In this section, operational issues related to the updating of the information used (inputs), data capture processes, traceability, validation of the quality of the information to feed the defined indicators, etc. must be considered.

Figure 9. International standards on sustainability indicators (non-exhaustive)

Initiative	Institution	Detail
SASB	Sustainability Accounting Standards Board	• Indicators developed to provide investors and other market participants with a visual representation of their portfolio's exposure to specific sustainability risks and opportunities. The organization proposes 77 different standards for sustainability management in a variety of organizations.
GRI	Global Reporting Initiative	• Indicators that help measure the social, environmental and governance impact of organizations. These indicators are grouped by type of impact and, in turn, by other subgroups. They aim to make organizations transparent through the reporting of non-financial information to generate real impact.
SDG Indicators	United Nations	• The 17 Sustainable Development Goal framework is linked to 232 indicators that use statistical data provided by the Office for National Statistics or other sources to measure the progress made.
IRIS+	Global Impact Investment Network	• Catalog of benchmark performance indicators that guide and assist impact investors in understanding the social, environmental and financial impact of an organization.

Source: own elaboration

Strand 3: Social Taxonomy of the European Union

Achieving each of the social and environmental goals pursued by the global economy requires significant capital investments[1].

The European Commission is developing a series of taxonomies to define the set of activities that can be categorized as environmentally and socially sustainable. This effort aims to harmonize the definitions associated with these concepts, favoring the uniformity of disclosure exercises and, consequently, facilitating decision-making for investors interested in this type of investment, who must ensure that these companies really implement sustainable practices.

Following the publication of the Environmental Taxonomy in June 2020, the Sustainable Finance Platform under the mandate of the European Commission has been working on the development of a proof of concept for a Social Taxonomy.

The Final Report of Sub-Working Group 4, published in February 2022, contains the main recommendations and preliminary and tentative characteristics of this Social Taxonomy, which in no way reflects an official position of the European Commission itself, whose work could end up having different objectives.

Firstly, the report presents the main differences between this social taxonomy and the environmental taxonomy:

- While many economic activities may have detrimental impacts on the environment from a social point of view, it can be argued that most economic activities can be considered inherently beneficial to society (e.g. creation of decent jobs, payment of taxes, production of goods and services, etc.). Social taxonomy must therefore distinguish between inherent benefits and social benefits that can be considered additional.

- On the other hand, environmental objectives and criteria can be based on scientific criteria, while social taxonomy must be based on authoritative international standards, such as the International Bill of Human Rights, among others.

- Finally, although a priori it might be more difficult to develop quantifiable criteria for a social taxonomy than for an environmental taxonomy that is based on scientific research whereby quantitative criteria can be attributed to economic activities, social sustainability is making promising progress in the quantification and measuring of social impacts. The EU Social Scoreboard, which represents examples and recommendations relevant to the 20 principles of the European Pillar of Social Rights, and contains a set of impact indicators, or the United Nations Development Program's annual Human Development Report are two good examples.

The foundations on which the social taxonomy is built are the following international standards and principles: the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, the International Covenant on Civil and Political Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, the European Pillar of Social Rights and associated action plan, the European Social Charter, the EU Charter of Fundamental Rights, the European Convention on Human Rights, the SDGs, the UNGPs, the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

These documents cover a wide range of social issues that fall within the scope of this social taxonomy, including: labor rights, social protection and inclusion, non-discrimination, the right to health, housing, education and food, assistance in the event of unemployment or self-employment, consumer protection, peaceful and inclusive societies, and the fight against corruption and tax evasion.

Considering this starting point, the agreed approach to articulate the objectives of this type of taxonomy, based on the identification of the stakeholders impacted by the different economic activities, is included:

- The workforce, including workers in the value chain.
- End users or consumers.
- And the communities affected through the value chain, directly or indirectly.

Based on this allocation of the material issues and the different stakeholders, the following three objectives are defined that should determine the social taxonomy:

- **Decent work, including for workers in the value chain:** focused on people's working lives. Its pillars are: job creation, social protection, rights at work and social dialogue.

- **Adequate standards of living and well-being for end users:** focused on people as consumers of products or services and activities that meet their needs and provide health and safety

[1]According to the latest estimates, to meet the Sustainable Development Goals (SDGs) of the 2030 Agenda, an annual investment of between \$5 trillion and \$7 trillion is needed between now and then.

Relationship between social issues and stakeholders

Social Issues	Stakeholders
Labor rights and working conditions	Labor Forcel
Social protection and inclusion	Workforce, communities and societies
Non-discrimination	Workforce, communities and societies
Right to health, housing, education and food	End user, communities and societies
Assistance in case of unemployment or self-employment	Labor Force
Consumer protection	End user
Peaceful and inclusive societies	Communities and societies
Fight against corruption and tax evasion	Companies

coverage. Sub-objectives refer to issues such as consumer protection and economic and social rights, including housing or education.

- **Inclusive and sustainable communities and societies:** this is an objective that emphasizes respect and support for human rights by focusing on the management of negative impacts and the provision of economic infrastructure to certain stakeholders. Some of the sub-objectives addressed are land rights, indigenous peoples' rights, human rights advocacy, and maintaining accessibility and availability of basic economic infrastructure such as access to water, electricity, etc.

In addition, and inspired by the methodological structure developed by the environmental taxonomy, a series of structural elements have also been constructed to allow the development of this social taxonomy:

- **Development of sub-objectives:** each of the three objectives will require development to address the prioritization of the sectors, the different substantial contributions and the different "Do No Significant Harm" criteria. These sub-objectives should cover all the essential issues of each objective without any overlap between them. A non-exhaustive list of sub-objectives has been developed for each of the three objectives. For example, for the decent work objective: the promotion of equality and non-discrimination at work, ensuring respect for human rights and workers' rights by avoiding precarious working conditions, etc.

- **Types of substantial contributions:** a structure has been developed that classifies and credits the substantial contribution generated by three different types of economic activities:

  - Those reporting substantial contributions that focus on avoiding and addressing negative impacts.

  - Those that generate additional social benefits inherent to the activity.

  - Enabling activities that allow other activities to provide social benefits (see table 1).

- **"Do Not Significant Harm (DNSH)" criteria:** are a set of criteria that ensure that activities that contribute substantially to one social objective are not harming the other objectives. These criteria, unlike those established by the environmental taxonomy, must:

  - Be more granular, responding at the sub-objective level, as the substantial contribution criteria in the social taxonomy will be developed and evaluated at the sub-objective level.

  - The second characteristic of these criteria is that they can play an important role in developing substantial contribution criteria to prioritize sectors and/or activities in relation to some social issues and sub-objectives for which this action could be a challenge.

  - Finally, it is critical to note that it is a challenge to build a meaningful case for a substantial contribution to objectives such as "preventing and addressing" child labor or forced labor. This is because these issues are generally subject to zero tolerance by law and are sometimes subject to import bans and exclusion criteria

- **The minimum safeguards of the social taxonomy:** The EU recognized the importance of key international standards on social issues by including them as minimum safeguards in the environmental taxonomy regulation (Article 18). This was deemed necessary when creating a taxonomy focused on environmental sustainability to avoid a situation where certain activities are categorized as environmentally sustainable despite the fact that the entity conducting them violates: (i) fundamental human rights; (ii) workers' rights; or (iii) good governance principles such as anti-bribery measures or non-aggressive tax planning. Article 18 does not include information on its practical operation or application, and therefore, the Sustainable Finance Platform has been asked to advise the Commission on the operation of this Article 18.

- **Justification for the selection of sectors:** a justification is needed to prioritize the sectors for each objective and sub-objective, for which a methodology has been developed based on the use of the sectors and economic activities framework determined by the NACE industrial classification system and considering the selection of relevant sectors according to the

Table 1. Explanation of substantial contribution types

Type of substantial contribution	Explanation
Avoiding and addressing negative impact	(i) High-risk sectors with documented human rights and labor rights abuses of relevance to the objective; or (ii) sectors that are less likely to contribute to the objectives of the European social pillar.
Improving the inherent positive impacts of: (i) social goods and services; and (ii) basic economic infrastructure.	Target social goods and services sectors that provide: (i) goods and services for basic human needs; and (ii) basic economic infrastructure of direct relevance to the right to an adequate standard of living. In doing so, it helps to make progress towards the SDGs and the objectives of the European social pillar.
Enabling activities	Where economic activities have the potential to reduce risk in other sectors, these activities should also be classified as such (economic activities that, by the provision of their products or services, allow a substantial contribution to other activities).

criteria defined to determine the substantiality of the activities: sectors that avoid negative impacts, those that enhance positive impacts and sectors enabling such positive impacts.

- **Linking substantial contribution to capital expenditures (CapEx), operating expenditures (OpEx) or revenue:** the way to link CapEx, OpEx and revenue to social activities is based on the differentiation between "reducing negative impacts" and "enhancing inherent social benefits":
  - For activities that reduce a negative impact, the investment made by a company can be counted as a social contribution. For example, spending on training, as defined in the social taxonomy, will be counted as a socially sustainable investment reflected in the OpEx.
  - If it is an activity that inherently generates social impact, such as the sale of a fair trade product or a mineral from a mine with an approved social certificate, the turnover will be counted as socially sustainable.
  - Finally, enabling activities consist mainly of services that address and avoid negative impacts. Here it is suggested that the company selling the product or service that enables the other company to address and avoid negative impacts should count the turnover as socially sustainable.

The table 1 is a non-exhaustive example related to the decent work objective and the training sub-objective:

According to the views of Sustainable Finance Platform members who have been working on the preparation of this final preliminary conclusions report, the next steps in developing the Social Taxonomy should be the following:

1. Clarify the minimum safeguards in accordance with the scope note.
2. Conduct a study on the impacts of a social taxonomy considering different application options and designs.
3. Develop a rationale for prioritizing objectives and sub-objectives.
4. Prioritize the objectives according to the justification.
5. Define substantial contribution criteria and DNSH for the first objectives and sectors.

Although this report is not an official European Commission document, nor an official position of the European Commission, these tentative recommendations can be considered a proof of concept for the social taxonomy, on which the European institutions can begin to build

Table 2

	Justification for the selection of sectors
Sector selection	High-impact NACE codes could be selected across 1) sectors with skills shortages, according to OECD and EU data; 2) sectors negatively affected by the green transition or digitalization with risks of layoffs and therefore in particular need of training certain groups of workers; 3) sectors with general skills shortages.
Tipo de contribución sustancial	**Reducing negative impacts on workers**
Substantial contribution	The company has extensive training and continuing education/upskilling/requalification programs for workers in vulnerable situations. There are high levels of worker participation in the development of these programs (OpEx for training).

	Decent work	Adequate standards of living and welfare for end-users	Inclusive communities and societies
DNSH	Workers must be paid at least the national minimum wage, where available, or in accordance with negotiations and collective bargaining agreements of the social partners. ILO core labor standards must be complied with.	N/A	Non-discrimination in training offers