



APPLYING AN IMPACT LENS TO CORPORATE FINANCE & PORTFOLIOS WITH UNSPECIFIED USE OF FUNDS

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SPEAKERS



- **Careen Abb**, Lead, Positive Impact Initiative, UNEP FI



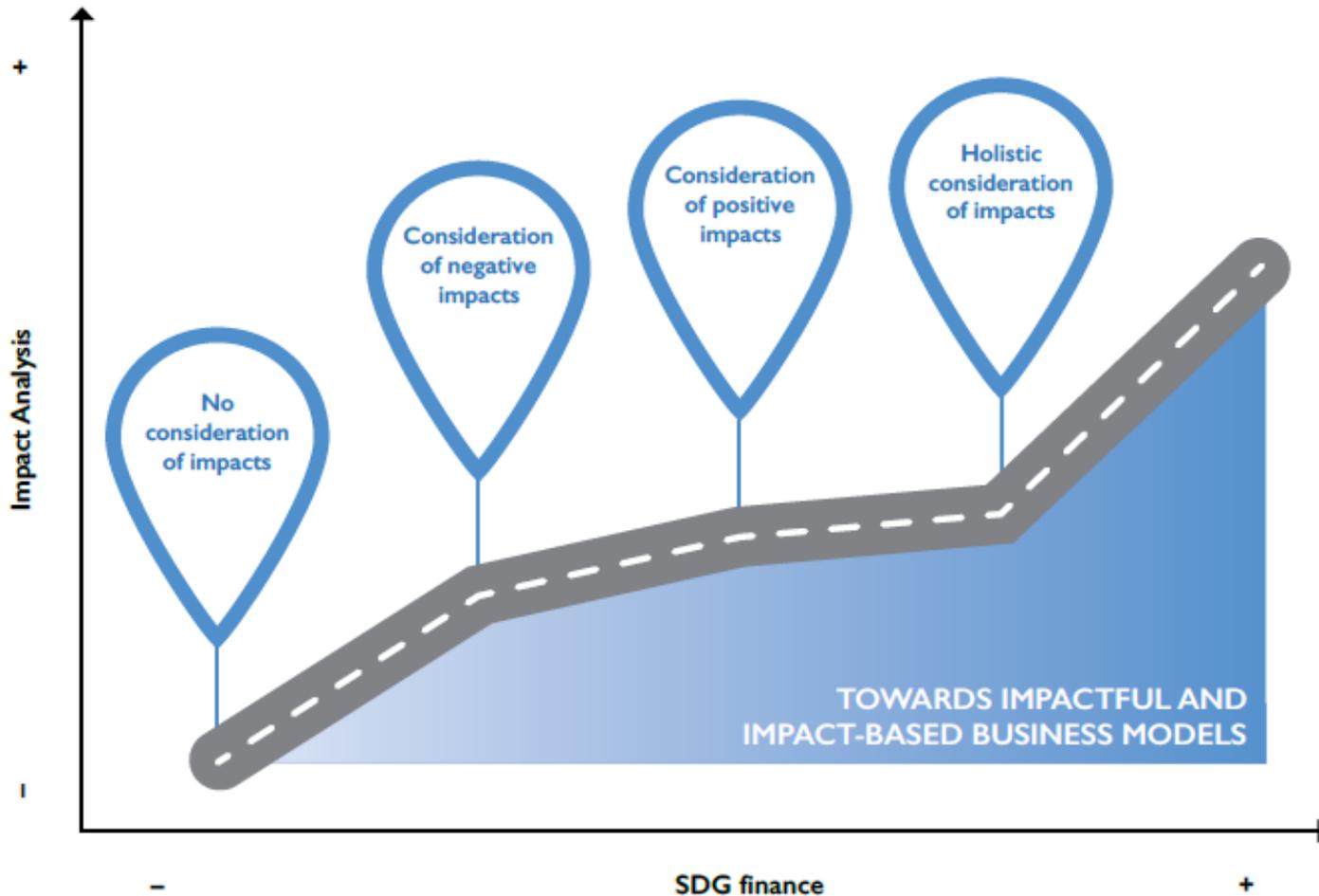
- **Marie-Aimee Boury**, Managing Director, Impact-based Finance, Société Générale



- **Jérôme Lavigne-Delville**, Senior Manager, Catalyzing Financial Innovation for the SDGs, UN Global Compact



IMPACT AS A STRATEGIC ISSUE FOR BUSINESS



Source: Authors



THE PRINCIPLES FOR POSITIVE IMPACT FINANCE



Positive contribution to one or more of the three pillars of sustainable development once potential negative impacts to any of the three pillars are duly identified and addressed.



Processes, methodologies and tools needed, adapted to different business lines and asset classes.



Transparency is required on :

- ✓ activities, projects, programs, and/or entities financed/invested in;
- ✓ processes to identify, assess and monitor impacts;
- ✓ anticipated positive impacts and where possible, impacts achieved.



Assessment of Positive Impact (PI) products by third parties should differentiate between process and impacts..



HOW TO IMPLEMENT IMPACT ANALYSIS AS A FINANCIAL INSTITUTION?

Specified use of funds

Equator Principles Scope

- Project-related Corporate Loans
- Project Finance

Non-Equator Principles Scope

- Corporate Loans / Bonds – specific purpose
- Property Finance
- Asset Finance
- Etc.

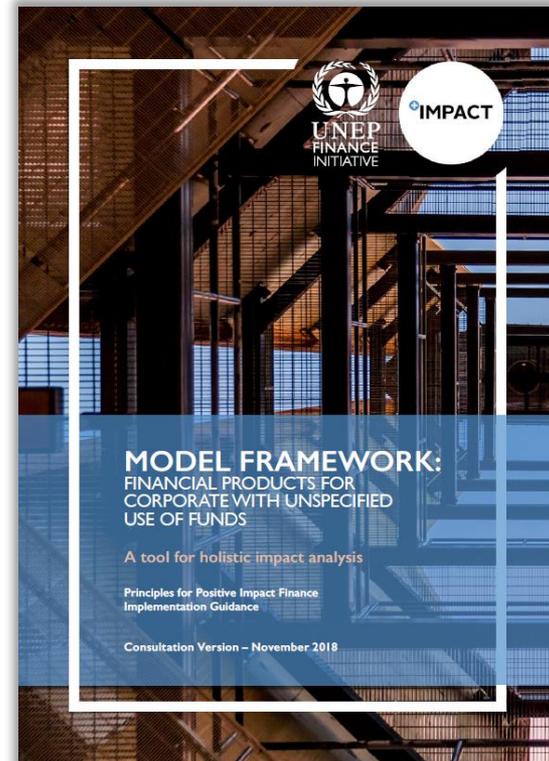
Unspecified use of funds

- General Purpose Corporate Loans / Overdraft
- General Purpose Corporate Bonds
- Equity (primary & secondary issuance)
- Off-balance-sheet Corporate Products (e.g. guarantees, certain types of bonds, etc.)
- Derivatives (swaps & options)



MODEL FRAMEWORK

FINANCIAL PRODUCTS FOR CORPORATES - UNSPECIFIED USE OF FUNDS



SCOPE

The Model Framework guides the **assessment of a Corporate's potential to generate positive impact** through its activities.

It is **applicable where funds raised or guarantees issued are used at the Corporate's discretion** without any specified use.

For example:

- General corporate purpose (GCP) Loans/Overdraft
- Corporate Bonds with GCP use of proceeds
- Equity (primary & secondary issuance)
- Off-balance sheet corporate products (e.g. guarantees not related to a specific asset)



TARGET AUDIENCE



Financial Institutions

To develop appropriate frameworks or adapt their existing frameworks for:

- decision-making (i.e. whether or not to finance/ invest);
- product development;
- reporting & target-setting;
- ongoing analysis/ monitoring of portfolios.



Third Parties

(e.g. auditors, analysts, asset owners, other stakeholders)

To verify and/or provide opinions on the PI character of financial products and services.



CONTENTS



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A. Analysis

- Identification
- Assessment
- Monitoring

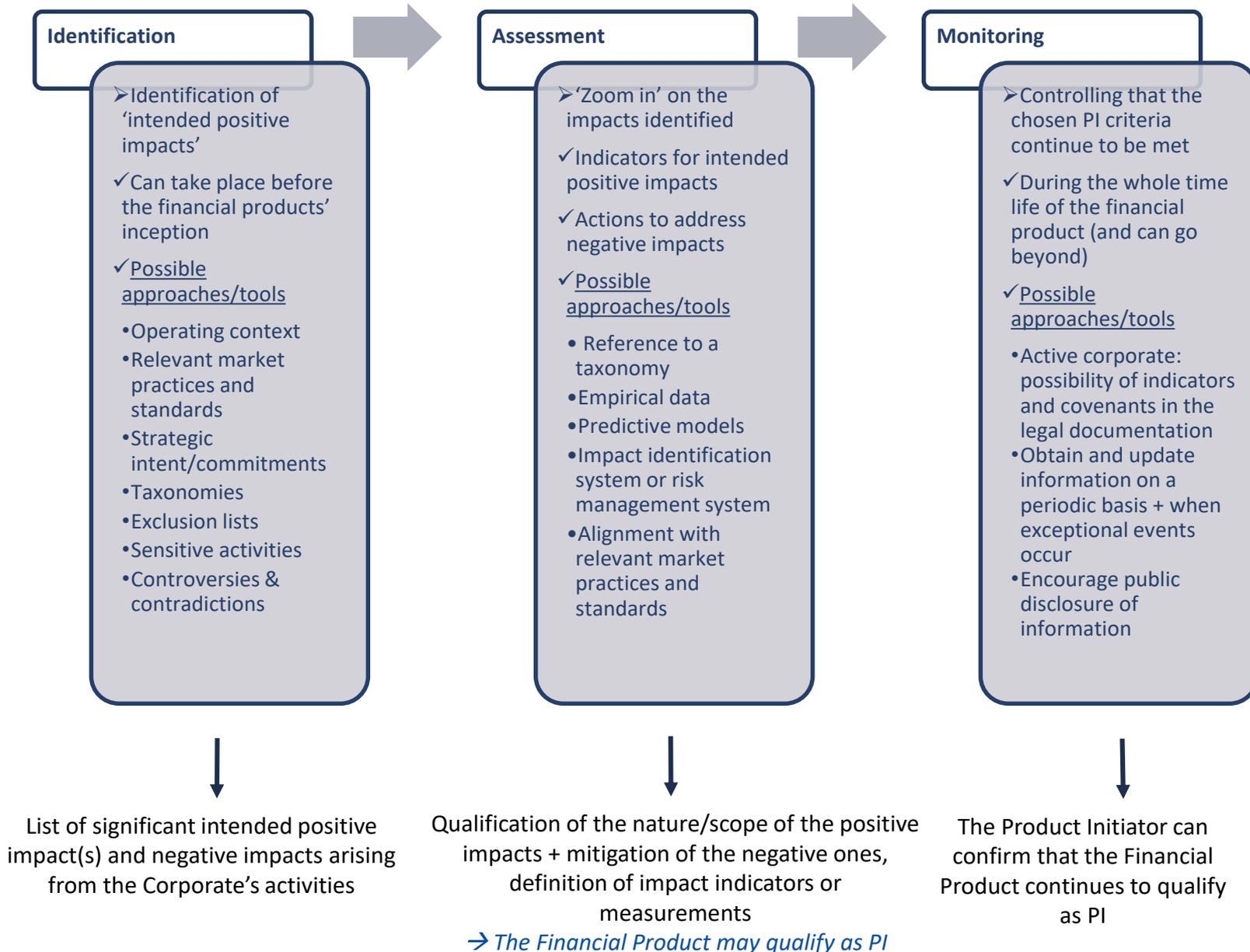
B. Third Parties

C. Transparency

D. Additional Considerations



A - Performing Holistic Impact Analysis



B – Involvement of Third Parties



Third party assessments such as 2nd opinions, verifications, audits, etc. are applicable at:

- Corporate Level
- Product Initiator Level

Not a requirement but can play a key role in satisfying the transparency requirement under the PI Principles



C - Transparency



Product Initiators are expected to:

- disclose as much possible information as possible
- use their position vis a vis the Corporate to encourage it to disclose as much information as possible

When full disclosure if not possible for confidentiality reasons, third-party interventions are recommended.



D – Additional Considerations



SDG Mapping

Positive impacts assessed under a PI framework can be mapped back to the SDGs for reporting and communication purposes.



Impact Attribution

Product Initiators should disclose any methodologies used to calculate attribution.



Proof of Additionality

Where additionality is claimed, the definition and the baseline used should be clearly specified.

SDG mapping, impact attribution and proof of additionality are not requirements for PI compliance.



UN GLOBAL COMPACT



CORPORATE FINANCE AND FINANCING THE SDGS

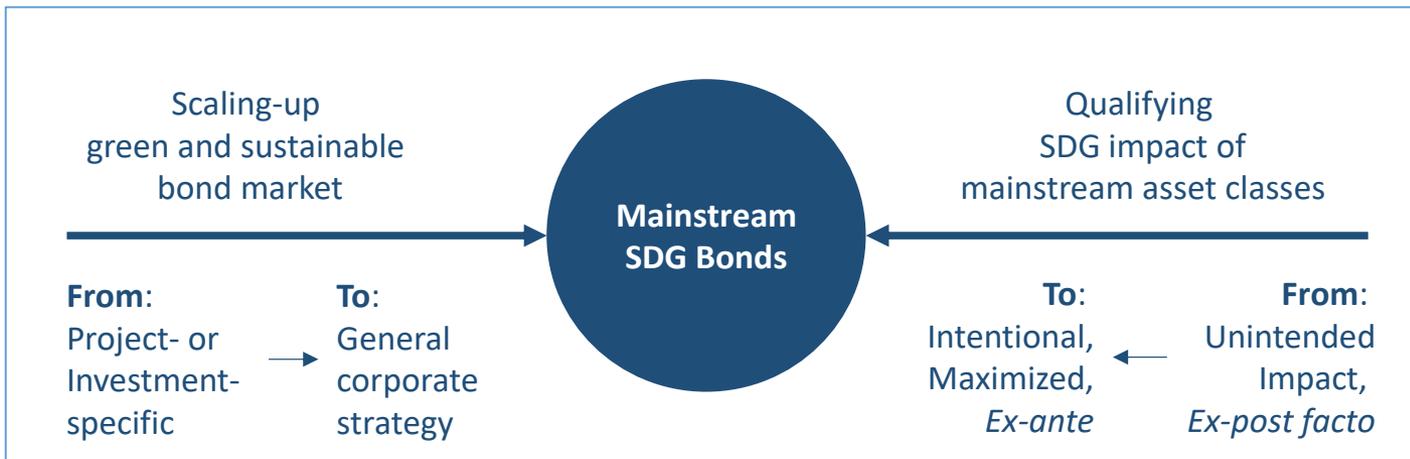


MARKET FOR MAINSTREAM SDG INVESTMENTS

A Broad Portfolio of Fixed-income SDG Investments

- Corporate bonds to fill capital needs of companies who pursue opportunities associated with the SDGs or transition to a sustainable business model.
- Sovereign, municipal and project bonds that can support the implementation of countries' national plans for the SDG.
- Structured products to de-risk and scale investments in public-private partnerships and blended capital products.

Scaling the Green Bonds and Qualifying Mainstream Asset Classes

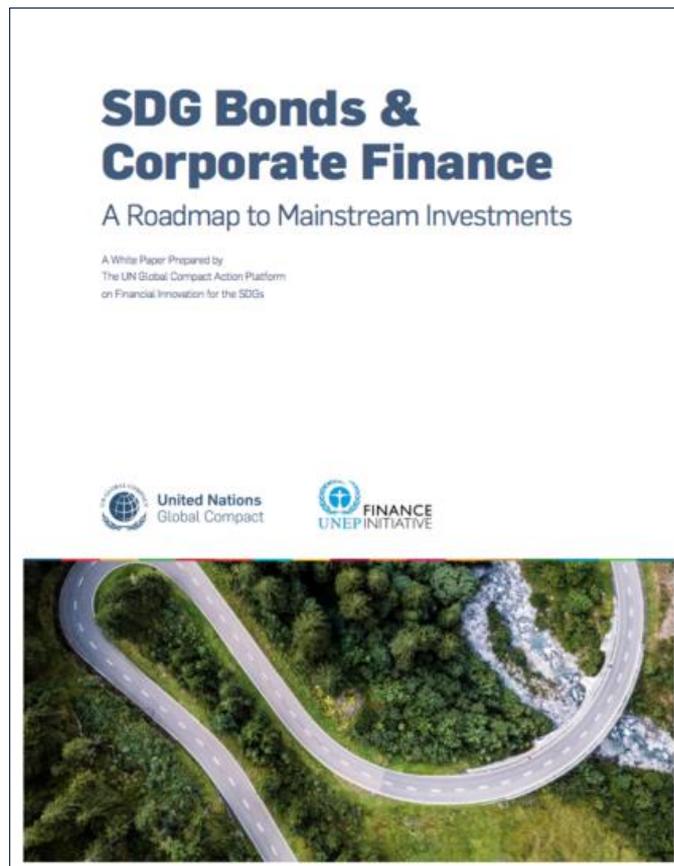


SDG BONDS AND CORPORATE FINANCE

A Roadmap to Mainstream Investments

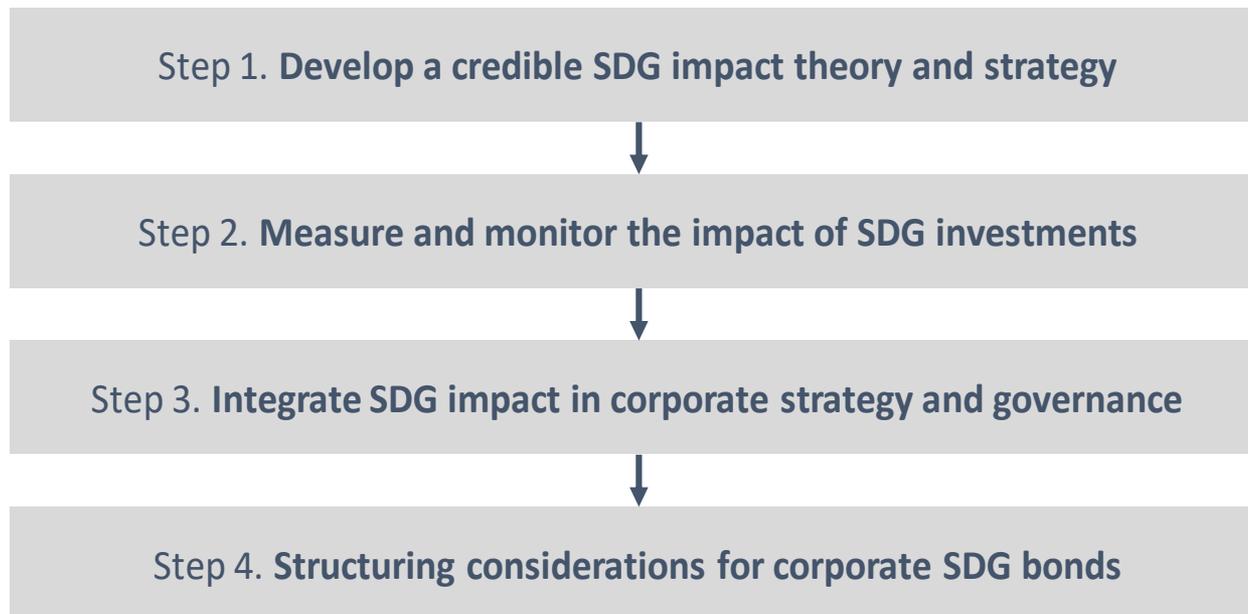
Seeks to **inspire and guide companies, Governments, cities** and others involved in the implementation of Agenda 2030 to **tap into the private capital markets** and benefit from cheaper and more reliable capital.

Introduces a **roadmap for mainstream SDG bonds and corporate finance** to tap into the largest asset classes and respond to the specific financing challenges in emerging markets.



MODEL FOR CORPORATE SDG FINANCE

Address the market for SDG investments in companies who contribute to the SDGs at the corporate-level but cannot isolate such contribution through a specific investment or a stand-alone asset.



INTEGRATE SDGS IN STRATEGY AND GOVERNANCE

- 1. A company transitions to SDGs** through various strategies including investments, strategic initiatives, business model transformation.
 - ... identifies SDG **opportunities/assets which need financing**
 - ... assess **potential downside** social and environmental impacts
- 2. Integrates SDG contribution in corporate strategy and governance**, including targets and KPIs, internal controls, verification and reporting
 - ... with mechanisms to **assess and mitigate potential downside of activities**
- 3. Issues mainstream SDG bond** with a detailed thesis and strategy for SDG impact, and a robust management, oversight and reporting process
 - ... **leverages the structure and contractual nature of bonds to strengthen credibility**, including commitments on process (e.g. reporting)
- 4. Communicates overall SDG impact theory** with existing and new investors, to **promote the company as SDG investment** in the primary (follow-on) and secondary **equity market**



KEY TAKEAWAYS

- Impact – including positive impact - is a **strategic, business model issue** that warrants analysis beyond specified use of proceeds
- From an SDG financing perspective this brings **potential to unlock finance at a much larger scale**
- While impact measurement is not always possible in this context, **proxies and models should be further exploited** so as to progress towards a finer assessment and ultimately measurement of impacts.
- Through the strict requirement for a holistic and transparent approach it is expected that the PI approach will contribute to **creating a common language for users across the value chain** – one that is **simple yet rigorous and credible**.

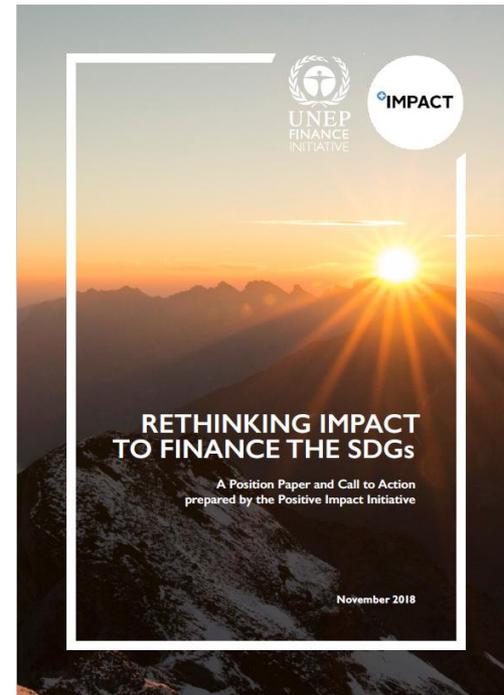


GETTING INVOLVED

- **Working Group for Framework Testing:**
 - Banks, investors, service providers and corporate clients to join forces to test, learn and share best practices and consolidate the framework as a common resource
 - Kick-off end of January
 - Open to UNEP FI, PRI & UNGC members
- **Call to action**
 - Pilot PI / SDG serving transactions and products (e.g. bonds, loans, equity, etc.), including through reverse inquiries from investors
 - Pilot PI / SDG reporting and target-setting
- **SDG Investment Forums**
 - Facilitated investor-company dialogues
 - Next Forum: Sao Paulo, 20th March
- **Coming next: call for research to develop predictive models**



RESOURCES



SDG Bonds & Corporate Finance

A Roadmap to Mainstream Investments

A White Paper Prepared by
The UN Global Compact Action Platform
on Financial Innovation for the SDGs



Model Frameworks

- How to implement holistic impact analysis, building on frameworks currently used by financial institutions? What is a Principles – compliant product/service?

Impact Radar

- What impact categories to use to identify potential impact? How to monitor, measure and report on impact?



THANK YOU



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