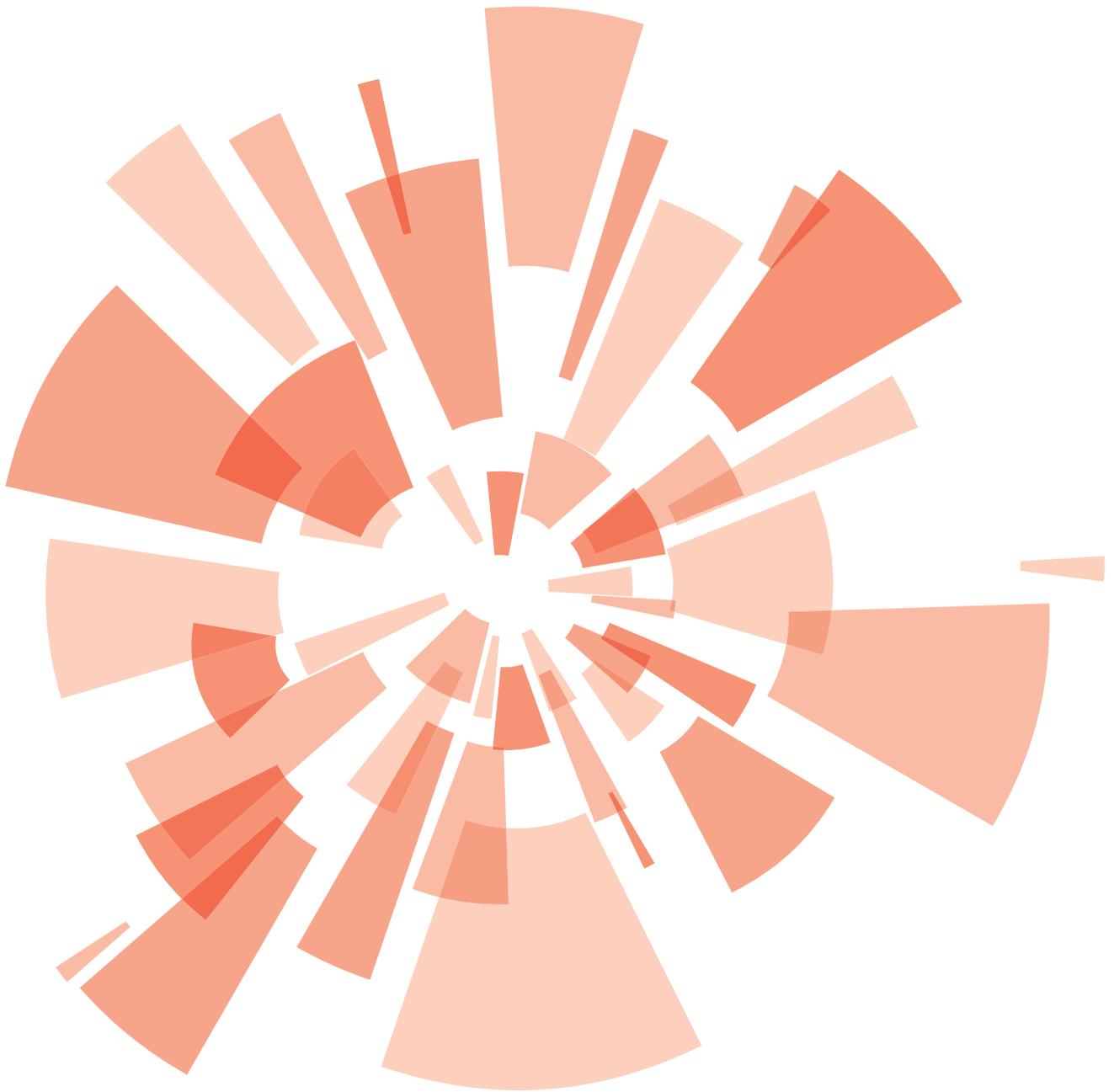


# DEFINITION OF IMPACT FINANCE





# EXECUTIVE SUMMARY

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To achieve the Sustainable Development Goals and those of the Paris Climate Agreement, and provide answers up to the challenges, **our ways of thinking and acting must evolve because the ecological, energy and solidarity transition requires transforming the real economy: financial actors must use all the resources at their disposal to contribute to it.**

In this context, Impact Finance is experiencing significant development. There is a strong historical record in France, with pioneering actors in solidarity finance who have demonstrated their robustness. In its market assessment, FAIR (ex Finansol- iiLab) estimates that the French impact investment market reached 4.4 billion euros of assets under management as of December 31, 2019, with an annual growth of 9%. **Faced with the urgency of the ecological and social crisis, the current challenge is to find the levers that will allow the development of Impact Finance, across all financial asset classes.**

Finance for Tomorrow launched in March 2021 a Paris Financial Centre Task force dedicated to Impact Finance at the request of Minister Olivia Grégoire, Secretary of State in charge of the Social, Solidarity and Responsible Economy to the Minister of the Economy, Finance and Recovery. It now gathers more than 80 institutions from the Paris financial centre within four working groups focusing on (i) the definition, (ii) the measure, (iii) the conditions for development and removal of barriers, and (iv) the international promotion of the French vision of Impact Finance.

The first mission of the Paris Financial Centre Task force is to propose a vision of Impact Finance which would allow to expand its reach, without ever giving up on its integrity. **Work on the definitions and development of Impact Finance has been underway for several years in France. The objective of the tasks carried out by the Paris Financial Centre Task force under the aegis of Finance For Tomorrow is to bring together the Financial Centre visions and practices, but also to ensure the applicability of the definition to all types of financial products and asset classes, to unite players around a common ambition.** Finance for Tomorrow led the reflections of a working group dedicated to the definition of Impact Finance based on the reference work of the iiLab (now FAIR after the merger with Finansol) and the French Sustainable Investment Forum (FIR) with France Invest, whose publications have enabled concrete progress towards a common understanding of Impact Finance in France, by defining its characteristics and pillars.

This work was made possible by the engagement of the co-pilots Thierry Sibieude, Professor of the Entrepreneurship and Impact Innovation Chair at ESSEC and Caroline Neyron, Managing Director of Impact France; which were supported in their work on the one hand by the pilots of the Paris Financial Centre Task force, Philippe Taffin, Director of Investments of Aviva France and Xavier Ploquin, Chief of Staff of the Chairman and CEO of Meridiam, and on the other hand by the engagement of professionals from more than 25 institutions in the Paris Financial Centre who contributed to the discussions and shared their expertise to reach a consensus.

We believe that impact investing should be based on a definition that applies to all types of financial products explicitly committed to an impact approach, from solidarity finance to new entrants. This definition enables to position financial players with different levels of commitment. The nature of the funded assets, which determines an important part of how each investment / financing product can have a social or environmental impact, must be fully taken into account in assessing its potential beneficial effects. Considering the type of asset class, each investor / financing institution then has the responsibility to define its objectives in terms of social or environmental impact, to ensure the compatibility of the sought financial return with these objectives and to demonstrate the beneficial effects of the strategy implemented.

**At the conclusion of the working group's discussions,**  
**Finance for Tomorrow proposes the following definition:**

**Impact Finance is an investment or financing strategy that aims to accelerate the just and sustainable transformation of the real economy, by providing evidence of its beneficial effects.**

It is based on the pillars of **intentionality, additionality and impact measurement**, to demonstrate:

1. The joint search, over time, for an ecological and social performance and a financial return, while controlling the occurrence of negative externalities;
2. The adoption of a clear and transparent methodology describing the causal mechanisms through which the strategy contributes to the targeted environmental and social objectives, the relevant period of investment or financing, as well as the measurement methods – according to the concept of theory of change.
3. The achievement of environmental and social objectives aligned with frameworks of reference, in particular the Sustainable Development Goals, defined at the international, national and local levels.

This definition is meant to be inclusive insofar as **it can be applied to all types of financial products engaged in an impact approach**, from pioneering solidarity finance actors to new entrants in this process. It can cover both listed or unlisted investments, but also financing and lending, subject to meeting the criteria of the definition. It is also ambitious, making it possible to position financial actors with different levels of commitments, in a clear and transparent manner.

**The core of the definition of Impact Finance is the «just and sustainable transformation» of the real economy.** It must anchor the challenges of sustainable development in all components of companies and projects and thus promote this transformation of the real economy. The transformation must necessarily be **demonstrated by evidence based on objectifiable and transparent elements**. In this regard, the definition explains the difference between responsible finance, which focuses on processes and risk management, and Impact Finance, which materializes in the **three pillars recognized by the market and anchored by the work of FIR / France Invest:**

— **intentionality**, which corresponds to the financial actor's willingness to contribute to generating a social and/or environmental benefit as well as the company that installed at the heart of its model of activity the achievement of one or more objectives of sustainable development ;

— **additionality**, which corresponds to the particular contribution of the financial actors allowing the beneficiaries of the investment/financing to increase the impact generated by their activities ;

— **measurement**, which refers to the assessment of environmental and social effects in the real economy on the basis of the objectives announced under intentionality.

First, the definition emphasizes the joint pursuit of ecological and social performance, but also of a financial return greater than or equal to zero, with a minimum of capital preservation, in order to honor fiduciary responsibilities. Indeed, in the different definitions of Impact Finance, it is always indicated that these are neither donation operations nor philanthropy. Therefore, it is



the responsibility of each investor/financier to define his objectives in terms of social or environmental impact, and to ensure the compatibility of the sought financial return with these.

The success of an Impact Finance strategy is also conditioned on **controlling negative externalities** to produce a positive «net impact». This logic is based on European regulations on sustainable finance in which the Do Not Significantly Harm (DNSH) principle is now the minimum required. No activity or investment can be considered to have a positive impact if it has significant negative impacts on another environmental or social criteria. The definition is thus fully consistent with the main principles of European regulations on Sustainable Finance (Green Taxonomy, SFDR, etc.).

Secondly, the definition recommends using the “**Theory of Change**” framework, which is a strategy for planning actions, linked by a causal chain from the initial decision of the financial actor to the impact for the final beneficiary. Certainly, the effectiveness of impact strategies and the additionality of the financial actor will depend on the chosen methods it uses to generate impact (engagement policy, adjustment of returns, development of new markets, etc.). These must be considered prior to the investment or financing decision, transparent, justified and regularly reviewed.

The financial actor must also assess what is **the most relevant investment or financing horizon with regard to the objectives he seeks to achieve** to ensure the materialization of impact. The idea is to **avoid a short-term view** and enable impact management throughout the investment or funding cycle. In this context, the adoption by financial actors of a long-term vision, capable of producing lasting beneficial effects, provides a guarantee to their economic partners and supports sustainable economic development. The holding time of assets by investors or the time it takes to finance a project are therefore key matters on which the financial actor must propose an approach consistent with the targeted objectives. The interests’ alignment of the various stakeholders (funder/beneficiary of the investment or project leader/final beneficiaries/final savers) is therefore necessary to be

able to respond to the different impact and profitability issues.

Finally, in a third step, the definition emphasizes **reference frameworks, including the Sustainable Development Goals and the shared horizon of the Paris Agreement**. Indeed, systemic objectives have been put in place, accompanied by quantified targets over defined time horizons which can only be achieved by a **global effort**. The impact objectives set by financial actors must meet the demands and therefore the international objectives, defined locally. The transition cannot be achieved by a single actor and can only be made possible through collective action and cooperation at every stage of the impact value chain. From this perspective, this vision of Impact Finance naturally calls for a stronger alignment of interest between political and civil actors, businesses and financial actors.

**The aim is for French financial actors to adopt this vision in order to develop it in the practice. As a reference for the future work of Finance for Tomorrow, it allows to concretely express the common ambition for Impact Finance of the Paris Financial Centre actors.**

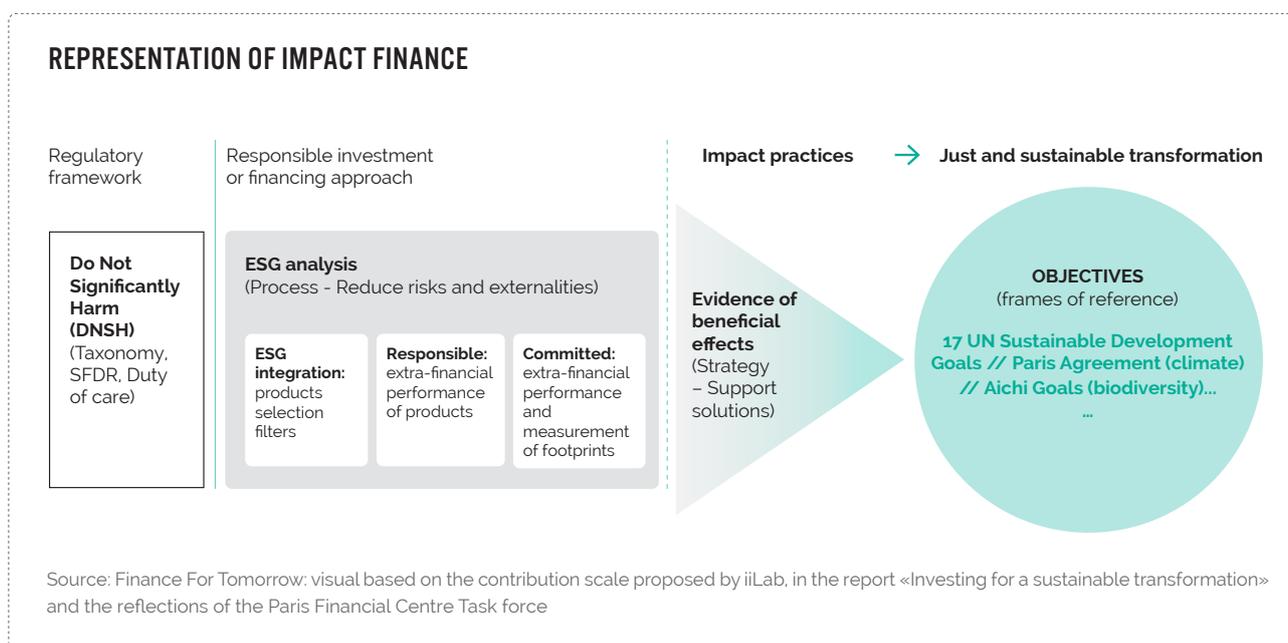
This common vision of Impact Finance is:

- **Holistic**: the effects produced by each stakeholder on the entire value chain of the impact (investor/beneficiary of the investment or financing/final beneficiary) on all sustainable development issues are taken into account; negative (externalities are controlled) as well as positive (the financial actor determines and implements the actions necessary to achieve a certain level of transformation of the real economy).
- **Systemic**: the impact objectives pursued are part of collective reference frameworks understandable and accessible to all actors.
- **Dynamic**: impact strategies are managed throughout the investment/financing cycle in a logic of continuous improvement.

**The objective of Finance for Tomorrow is thus to encourage the development of Impact Finance within the financial sector, to accelerate the just and sustainable transformation of the real economy. The challenge is to scale up impact finance, without ever giving up its integrity, based on a holistic, systemic and dynamic ambition, to respond effectively to ecological and social emergencies.**

Finance for Tomorrow provides supporting material associated with the definition:

→ Schematic representation:



→ Reading the schema:

- The ground of sustainable finance is now the European legal principle “**Do Not Significantly Harm**” (DNSH): significant negative externalities must be controlled.
- The gradation of sustainable finance practices expresses the **consistency needed between responsible practices and impact research**. Compliance with the regulatory framework, the analysis of extra-financial risks and the implementation of an **ESG analysis** are the necessary foundations supporting impact practices.
- The shift to impact is characterized by the **proof of beneficial effects** for society and the real economy. The **arrow illustrates an action**, which aims for effects (intentionality) to achieve **systemic environmental and social objectives** (additionality and measurability).

→ Introduction to the “Table of operational issues in Impact Finance”:

In order to support financial actors looking to engage in an Impact Finance dynamic, and to help them position themselves according to their engagement level, the group also produced a summary table of Impact Finance’s key issues. This table constitutes guidelines reminding the main principles of Impact Finance, according to the pre-established definition.

Based on the three pillars of impact, these guidelines present the main principles to be followed on the control of negative externalities, the place of impact in the financing and investment processes and finally to guarantee the performance of the just and sustainable transformation of the economy. It constitutes a means of operationalizing the previously-mentioned definition, and of clarifying for all stakeholders the key issues underlying the level of integration and involvement of each financial actor in this dynamic.



Table of Operational Issues in Impact Finance

		Control negative externalities	Establish the place of IMPACT in the processes	Realize the performance of the just and sustainable transformation
Intentionality	How to develop a strategic vision?	<b>Carry out a rigorous and exhaustive extra-financial analysis, based on ESG criteria</b> and a materiality analysis, with transparency on the methods used for the resulting investment / financing decisions.	<b>Ensure the place of impact in the investment thesis and in the strategic project of companies/projects supported</b> (setting of impact objectives and monitoring indicators). It requires compatibility between ecological and social performance and financial return. This can also be reflected in the search for official approval (status of company with mission, ESUS approval) or by the formalization of an internal charter for the company.	<b>Formulate objectives for the just and sustainable transformation of the real economy</b> , based on a clear and transparent methodology including a method for monitoring the achievements, results and impact of the financial vehicle and beneficiaries (Theory of Change).
	What frames of reference should be mobilized?	<b>Develop aligned CSR practices within the funder and the funded institutions:</b> compliance with international conventions, the PRI, European regulatory frameworks, in particular the "Do Not Significantly Harm" (DNSH) principle of the Taxonomy regulation and the main negative impacts (Principal Adverse Impact) of the SFDR regulation. The investor can also rely on a specific framework that he deems relevant (e.g. IMP, impact score, impact.gouv.fr, etc.) to manage negative externalities.	Match investment/financing practices and policies to <b>regulatory frameworks</b> for sustainable finance. For example in Europe: "Sustainable Finance Disclosure Regulation" (art. 8-9) and environmental objectives of the European Taxonomy of sustainable economic activities	<b>Embed sustainable transformation goals in systemic international, national and local frameworks of reference.</b> Cf. Paris Agreements, Nagoya Agreements, UN Sustainable Development Goals, etc.
	How to manage the impact dynamically?	<b>Establish a governance dedicated to limiting negative externalities:</b> dashboards for monitoring relevant ESG indicators, objectives of remediation and improvement actions over time, awareness and training of management and employees on ESG issues.	<b>Set up an alignment of interests in the funder/funded relationship</b> (e.g. shareholders' agreement, financing agreements, etc.): transparency on objectives pursued and time horizons, rates of return on investment, sharing value and expected impacts; variable compensation is partly determined by impact criteria.	<b>Set up a governance for monitoring impact</b> , including various stakeholders solicited for the validation of objectives and monitoring of achievements, and planning commitment actions.
Additionality	How to develop a strategic vision?	<b>Ensure the control and/or reduction of negative externalities</b> by each beneficiary/issuer (in particular according to the 17 SDGs) and at the portfolio level.	<b>Analyze each financing/investment according to the objectives of sustainable transformation pursued</b> in order to provide appropriate assistance to support the potential of each beneficiary and implement a process to demonstrate the extent to which it contributes to this transformation. For example: providing flexible capital, issuing impact signals, adjusting the risk/return ratio, developing new markets, etc.	<b>Adopt a "portfolio vision":</b> commit all the assets in the portfolio to a positive impact approach.
	What frames of reference should be mobilized?	<b>Pilot the development of CSR practices of the asset management company and of each beneficiary/issuer</b> with the objectives of sustainable transformation of financial products, throughout the life cycle of projects.	<b>Include impact financing within recognized frameworks to guide investment policies.</b> E.g. - for financial vehicles: label funds (Greenfin, FAIR, EU Ecolabel), align with the french AMF 2020-03 doctrine, etc.; - for companies: CSR labels, mission statement, ESUS, etc.	<b>Mobilize sources</b> (for example, empirical demonstrations or clusters of indices) to illustrate and explain the effectiveness of the impact projects implemented, that is to say the tangibility of the sustainable transformation.
	How to manage the impact dynamically?	<b>Commit over the entire project cycle, up to the exit stage</b> , with transparency on the investment/financing horizons, over a period necessary to generate the desired impacts from a long-term management perspective.	<b>Establish a commitment policy in order to strengthen impact strategies</b> , in direct relation with the beneficiaries/ issuers over the long term. For example: voting rights, active dialogue, listening to stakeholders, etc. Concerning private equity: with attention to the pursuit of impact research by the successor. Other asset classes: post-divestment commitments.	<b>Continuously improve the monitoring</b> and control of the implementation of development strategies or the just and sustainable transformation of funded projects (e.g. strategic plans, CapEx, territorial policies, decarbonization, ecological R&D, etc.).
Measuring	How to develop a strategic vision?	<b>Make the chosen monitoring indicators consistent</b> with the causal chain initially expected from the strategy, throughout the impact value chain.	<b>Monitor the effectiveness of the funder's actions</b> by consolidating the performance of portfolio assets (data collection according to the indicators defined in the strategy), by differentiating the results of the companies invested and the role of the investor/funder.	<b>Demonstrate the adequacy and ambition of the target values of each indicator</b> to measure the achievement of the sustainable transformation objectives pursued by the product.
	What frames of reference should be mobilized?	<b>Consolidate the overall product footprint</b> for each relevant indicator according to the initial strategy, with at least a carbon footprint (including: life cycle analysis, Scope 3 & avoided emissions) and monitoring of social issues (including: Professional Equality Index, Index Diversity, legitimate repositories, etc.).	<b>Monitor the achievements</b> and impacts of portfolio companies to ensure that the consolidated results and impacts at the portfolio level are consistent with the transformation objectives sought. To do this, the choices concerning the level of granularity, the data sources used and the methodologies for collecting and consolidating the data portfolio must be made explicit.	<b>Express the degree of success</b> of the sustainable transformation strategy compared to the objectives initially set, in consonance with the monitoring of indicators and according to the chosen reference framework, notably the SDGs.
	How to manage the impact dynamically?	<b>Develop transparent annual ESG reporting</b> , allowing to make public the control process for managing negative externalities and unexpected risks.	<b>Publish an annual impact report</b> , robust and genuine, useful to all stakeholders and expressing the effectiveness of the actions implemented by the product - in particular to justify any variable compensation for executives.	<b>Critical review by independent third parties</b> , ensuring in particular the consistency of strategies, results and contribution actions carried out, with what was planned in the supporting documents.

# EDITORIAL

Sustainable finance is experiencing an unprecedented boom in terms of regulations, financial products offerings and management practices. However, the environmental and social crises are far from over and the consequences of emergencies related to the preservation of our planet and humanity are materializing: greenhouse gas emissions are resuming their progress despite the health crisis, biodiversity is collapsing and inequalities are widening. How to remedy this to succeed in achieving the Sustainable Development Goals and the Paris Climate Agreement? There is also a great risk of seeing the displayed transformation of the financial sector discredited by real impacts unrelated to declared practices and commitments made. **Our ways of thinking and acting must evolve because the ecological, energy and social transition requires transforming the real economy. Financial actors must use all the resources at their disposal to contribute to it.**

In this context, Impact Finance is experiencing significant development. There is a strong historical record in France, with pioneering actors who have demonstrated their robustness. The French legal status of the social and solidarity economy, unique in its kind in the world, nourishes this ecosystem. From this perspective, the Paris Financial Centre Task force's mission on impact, led by Finance for Tomorrow, is to offer a vision of Impact Finance that would allow to develop its reach, without ever giving up its integrity. **While work on the definitions and development of Impact Finance has been underway for several years in France, it is now necessary to bring together market visions and practices in order to unify the actors around a common ambition.** Once the definition is in place, future work will focus on measuring impact, removing structural barriers and ensuring international promotion.

**Based on the conclusions from initial works on the definition of the Paris Financial Centre Task force, Impact Finance is seen as an investment or financing strategy that aims to accelerate the just and sustainable transformation of the real economy, by providing evidence of its beneficial effects.** The reflections that led to this definition carried a triptych of ambition to ensure the effectiveness of the transition: our vision of impact must be holistic, systemic and dynamic. All financial actors can turn to impact practices, if they actively develop strategies with this clear objective of transforming the real economy and contribute to the sector's growth to respond effectively to environmental and social issues. Indeed, our challenge is to scale up these still too marginal practices.

It is necessary for all French financial actors to take ownership of this vision in order to develop it in practice, because a better market structuring could support the dissemination of impact projects and the capacity for innovation of economic actors. As part of this unifying work, many debates are still open. This is all the richness expressed in the implementation of the ecological and inclusive transition: it is a collective, continuous reflection, to transform our professional practices and our lifestyles, in order to support beneficial solutions for the planet and society.

Our gratitude goes to all those who are willing to work collaboratively and transparently to co-build a just, sustainable and enviable future.



**Thierry Déau**  
Chairman of Finance for Tomorrow, Chairman and CEO and Founder of Meridiam



**Olivia Grégoire**  
Secretary of State to the Minister of the Economy, Finance and Recovery, in charge of the Social, Solidarity and Responsible Economy



# INTRODUCTION

Finance has too often shown resistance to a more just and sustainable economy. The question today is whether it can become an ally, and how?

Today, Finance is a keystone of the just and sustainable transformation of our society: it can change the world if its actors decide to shoulder their responsibility to play the role of reorienting immediate financial interests towards supporting the sustainable and just economic performance of companies.

This is a crucial yet colossal challenge, since the investments needed to achieve the Sustainable Development Goals amount to 5,000 to 7,000 billion dollars per year, of which only 3,000 billion are financed by states<sup>1</sup>. Thus the financing of the energy transition, of which the latest IPCC contribution published in early August 2021 confirms and recalls the burning urgency, will clearly be part of an Impact Finance approach.

This is the role that Impact Finance has taken on, an still emerging trend in the ultra-minority sector since it only represents less than 0.3% of all assets under management worldwide (i.e. 715 billion dollars in 2020 against 502 billion in 2019 worldwide)<sup>2</sup>, but whose potential is real since we note a growth of more than 40% between 2019 and 2020. In France, FAIR estimates in its market assessment that the French impact investment market reached 4.4 billion euros outstanding at 31 December 2019, with an annual growth of 9%.

The question of the definition of this new form of finance is to transform the risk/return profile into a risk/return/impact trinomial. This encourages a different business model repositioning the impact of its activities on Man and Nature as a central element, based on a fairer sharing of power and wealth. In this context, giving jointly consideration, with equal importance, to the impact of the investment or financing envisaged, is essential.

We are not the first<sup>3</sup> to tackle this task and many definitions are already circulating: the Paris Financial Centre Task force's objective on the first stage of the work on impact, coordinated by Finance for Tomorrow, is to deepen the definitions and existing reference works, to bring out within the Paris Financial Centre a common

and shared vision of Impact Finance, applicable to all financial products, in continuation of the action of solidarity finance funds pioneering this dynamic.

This approach fits naturally into the framework of rapidly evolving European regulations: the definition aims to comply with the environmental taxonomy, the future social taxonomy as well as the SFDR regulation of April 2021 (Sustainable Finance Disclosure Regulation) in particular with its Articles 8 and 9, and more broadly the CSRD (Corporate Social Reporting Directive) initiative encouraged by the European Commission

There is indeed an urgent need to stabilize things because **the challenge is to find the levers that will allow the development of Impact Finance, and thus reorient an increasingly important part of finance towards companies capable of meeting the international SDGs and the Paris Agreement.**

**This first publication aims to establish a common and ambitious definition of Impact Finance for the Paris Financial Centre, covering all sectors of finance.** On the one hand, it will allow to qualify and position financial actors having a standpoint on impact according to their level of commitment, and on the other hand to accompany the development of this practice, going beyond a simple "ESG +" vision.

The challenge is therefore to welcome financiers engaging in a demanding process that places impact at the heart of their choices and their activities, by limiting negative externalities and primarily supporting the resolution of the SDGs by beneficiary companies. The challenge is also to clarify with companies and savers their different involvement with a simple and transparent methodology, far from green and social washing. This is why the operational principles of this definition will be developed and measured as part of additional work, in particular through an assessment scale of the potential to contribute to the sustainable transformation of financial products.

In order to successfully transform the practices of financial institutions, it is essential that all French financial actors work in the same direction: **everyone must be able to adopt the collective definition, bring**

1. Filling the Finance Gap - Sustainable Goals Report UNA UK, June 2019

2. GIIN (Global Impact Investing Network) Report 2021

3. In particular, we must recall and welcome the work carried out by the mission FAIR (ex iiLab) from March 2020 to December 2020 under the leadership of Sandra Bernard Colinet, and the FIR/France Invest report published in March 2021

it to life in order to be able to work on a harmonized methodological framework serving to qualify the impact performance, and support its scope over time.

Not all finance is intended to become Impact Finance, but it must stimulate a dynamic so that compliance with ESG criteria turns into a minimum for all financing, which is far from being the case, and allows to support the trajectories of companies that have decided to transform themselves. It is therefore a question of broadening and enriching the perimeter of Impact Finance, by relying on the pioneers of solidarity finance, without deviating from the concept and therefore protecting oneself from impact washing, by putting the emphasis on transparency of commitments, compatibility between economic performance and expected ecological and social performance, proof and measurement of the impact thus obtained.

Finance is ultimately only a tool and everything depends on the use made of it by its actors and leaders at the service of the real economy.

**Caroline Neyron**

Executive Director of the IMPACT France Movement

**Thierry Sibieude**

Co-founder and holder of the Social Entrepreneurship Chair at ESSEC

# SUMMARY

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# 1

## DEFINING A FRENCH VISION OF IMPACT FINANCE

This first chapter seeks to understand the concept of impact in finance, based on French reference works and thanks to the feedback of financial actors, in order to propose a common definition for the Paris Financial Centre of Impact Finance.

# A – UNDERSTANDING THE CONCEPT OF IMPACT IN FINANCE

## WHAT IS IMPACT?

**Etymology of the word “Impact”:** from the Latin *impactus* (“shock, rupture”), *impactum*, past participle of *impingere* (“to push into, drive into, strike against”).

In 2011, an analysis by the French Academy expressed that the noun “impact”, which designates the impact of a projectile against a body, or the mark it leaves, could only be used figuratively to evoke an effect of great violence. The use of the verbal form “impact”, to mean “have consequences, effects, influence”, is an inspiration of the English language.<sup>4</sup>

Thus, in English, the term “impact” expresses these two ideas: i) the force of the collision energy of two objects, or ii) a strong influence, a significant effect. In the second case, the impact can be political, social, beneficial, harmful, significant...

**The verb “impacter” has now been integrated into the French dictionary, as a synonym of the verbs “influencer” or “affecter” (to influence, to affect).** Therefore, Impact Finance will seek to influence human development, economic well-being and the environment by integrating these issues at the heart of investment or financing decisions. Finally, the initial French understanding of the term “impact”, which is interested in the concrete mark left by the encounter of energies in motion, invites us to consider the **“materiality”** of this influence in the context of Impact Finance.

## WHAT IS SOCIAL IMPACT?

In France, the Superior Council of the Social and Solidarity Economy (CSESS) proposed a definition in 2011: *“The social impact consists of all the consequences (evolutions, inflections, changes, ruptures) of the activities of an organization both on its external stakeholders (beneficiaries, users, customers), direct or indirect of its territory, internal (employees, volunteers), as well as society in general.”*

The iiLab uses the following definition in the report *“Endowing France with a common culture of impact investment”* (July 2020): *“Impact is a sum of changes that occur as a consequence of the results of a specific action defined in relation to stakeholders or a set of changes observed in society or the environment and which can be causally attributed to a specific action.”*

4. <https://www.academie-francaise.fr/impacter>



## WHAT IS IMPACT FINANCE?

Many stakeholders have provided definitions of Impact Finance, listed below:

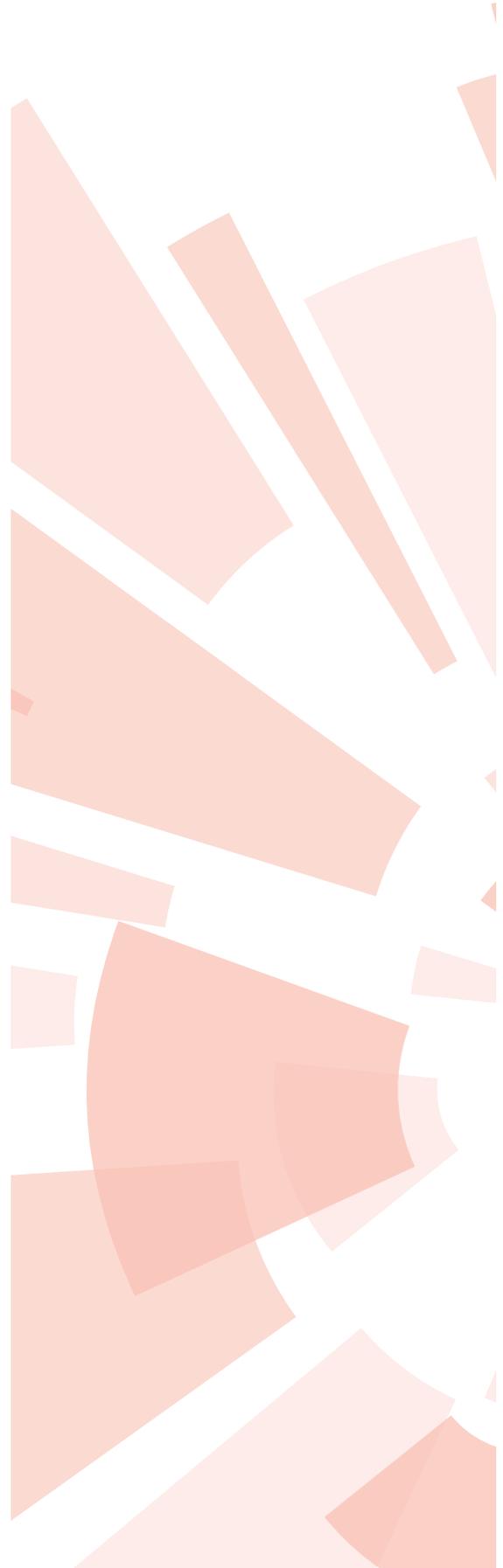
	<p>"The set of changes caused by an entity in the real economy." Source: report "Climate Impact Management System", April 2021</p>
	<p>"Sum of changes in the real world resulting from the actions of the financial institution." Source: report "Endowing France with a common culture of impact investment", July 2020</p>
	<p>"Impact investment, as a subset of sustainable investment, covers all investments that explicitly seek both economic profitability and the creation of a positive and measurable social and environmental impact." Source: "Zoom on Impact Finance", website of the Ministry of Economy, Finance and Recovery</p>
	<p>"Impact refers to the positive social and/or environmental externalities expected from investments (the "why" or the "results" approach)." It is evaluated against specific impact objectives defined ex-ante, based on the investor's intentionality and, where necessary, the companies in which he invests." Source: report "Impact Finance, a demanding definition for listed and non-listed products", March 2021</p>
	<p>"Impact investments are investments made with the intention of generating a positive and measurable social and environmental impact, alongside a financial return." (1st impact characteristic) Source: Annual Impact Investor Survey, 2020</p>
	<p>"Investments made into companies or organizations with the intent to contribute to measurable positive social or environmental impact, alongside a financial return." Source: report "Investing for impact: Operating Principles for Impact Management", February 2019</p>
	<p>"Impact is a change in an outcome caused by an organization. An impact can be positive or negative, intentional or unintentional." Source: IMP website</p>
<p>JPMORGAN CHASE &amp; CO.</p>	<p>"Impact investing covers all investments that explicitly seek both economic profitability and the creation of a positive and measurable social and environmental impact." Source: quoted by iiLab in the report "Endowing France with a common culture of impact investment" in July 2020, available on the website</p>
	<p>"Positive Impact Finance is that which serves to finance Positive Impact Business. It is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated." Source: Principles for Positive Impact Finance, 2017</p>

## WHAT DO WE UNDERSTAND BY IMPACT IN FINANCE?

This set of definitions on impact in finance makes visible debates that still exist on several dimensions:

- **Is the impact a positive change, a negative change, or both?** Is the term "positive" appropriate? Indeed, for modern societies in a situation of "ecological debt", what benchmarks allow to determine what is positive? Moreover, if the impacts are both positive and negative, how do we calculate the outcome to determine a net impact?
- Can the impact be **involuntary**, thus understood as an externality, or is it necessarily **intentional**, understood then as an effect carrying solutions, the proof of which has to be demonstrated?
- Different definitions explain how Impact Finance pursues two objectives at once: **social or environmental performance and financial return**. This emphasizes the fact that the aims are neither donation operations nor philanthropy. Conversely, should we assume that financial returns would be altered by the search for impact? Thus, how to promote effective strategies in terms of impact, without denying the fiduciary obligations of financial actors to their clients? The notion of financial performance compatibility, with regard to environmental and social performance, ultimately depends on the stated and implemented intention of the investors/financiers.

The working group has attempted to provide answers to these questions.



→ **How important is presenting the impact as positive and/or negative in the European regulatory framework?**

This question is gaining momentum in light of recent regulatory developments resulting from the European Union's sustainable finance action plan.

The new regulation on investment transparency called "**Sustainable Finance Disclosure Regulation**" (SFDR) enacts rules to frame communication on the consideration of social and environmental issues in finance. Moreover, it imposes transparency both on sustainability risks posed to financial assets by environmental and social factors external to the company (so-called "outside-in" approach) and on principal adverse impacts caused by financial actors on the environment and society (so-called "inside-out" approach).

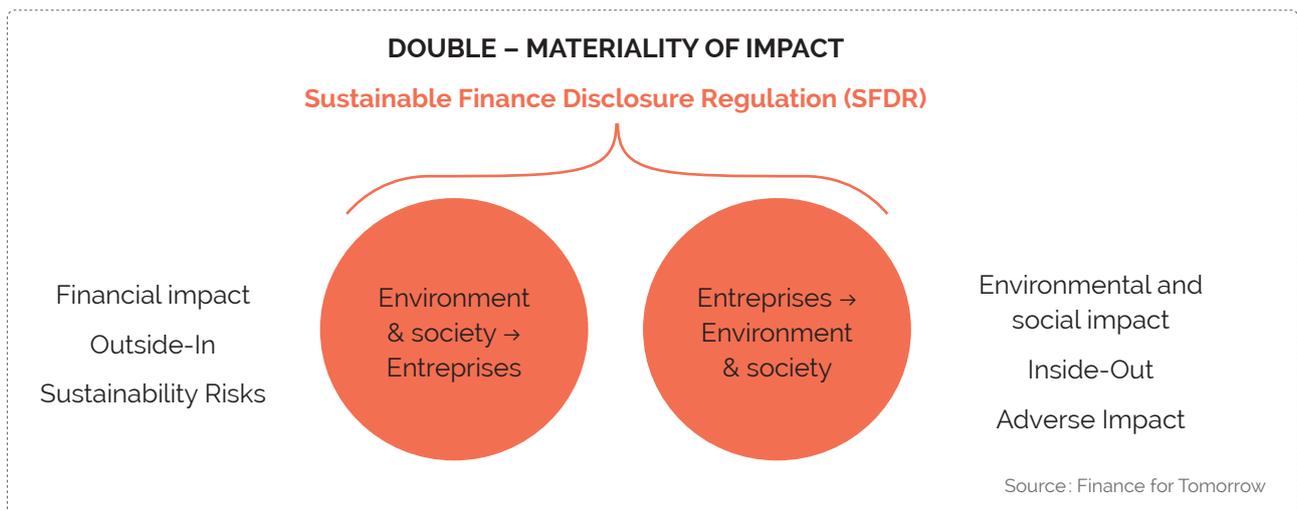
In this regard, it expresses well the possibility of a negative impact, and lays down a principle of "**double materiality**" based on the financial impact on the one hand, and the environmental and social impact of investment and financing decisions on the other hand.

This means that beyond studying the impact of environmental and social risks on their economic models (simple materiality), European financial actors also have an obligation to be transparent about their "adverse impacts" (for a double materiality), particularly if they wish to communicate on their characteristics and sustainability objectives.

The importance of balancing positive effects with a control of negative externalities is also endorsed in another regulation of the European action plan for sustainable finance: the "**Taxonomy**" regulation.

Indeed, the European Taxonomy, which is a benchmark of environmentally sustainable economic activities, sets precise criteria from which it can be considered if an activity "contributes" to one of the 6 environmental objectives covered: mitigation and adaptation to climate change, water management, sustainable use and protection of aquatic and marine resources, transition to a circular economy, prevention and control of pollution, protection and restoration of biodiversity and ecosystems.

However, in order to be considered environmentally sustainable, the activities analysed must also comply with the "**Do Not Significantly Harm**" principle (DNSH) for each of the environmental objectives. In addition to this principle, there are "**minimum social safeguards**" standards, which correspond to compliance with the following international conventions and standards: the OECD Guidelines for Multinational Enterprises, the United Nations Guidelines on Business and Human Rights, the eight conventions of the International Labour Organization (ILO) and the International Declaration of Human Rights.



→ If the impact can be both positive and negative, is it possible to define a "net impact"?

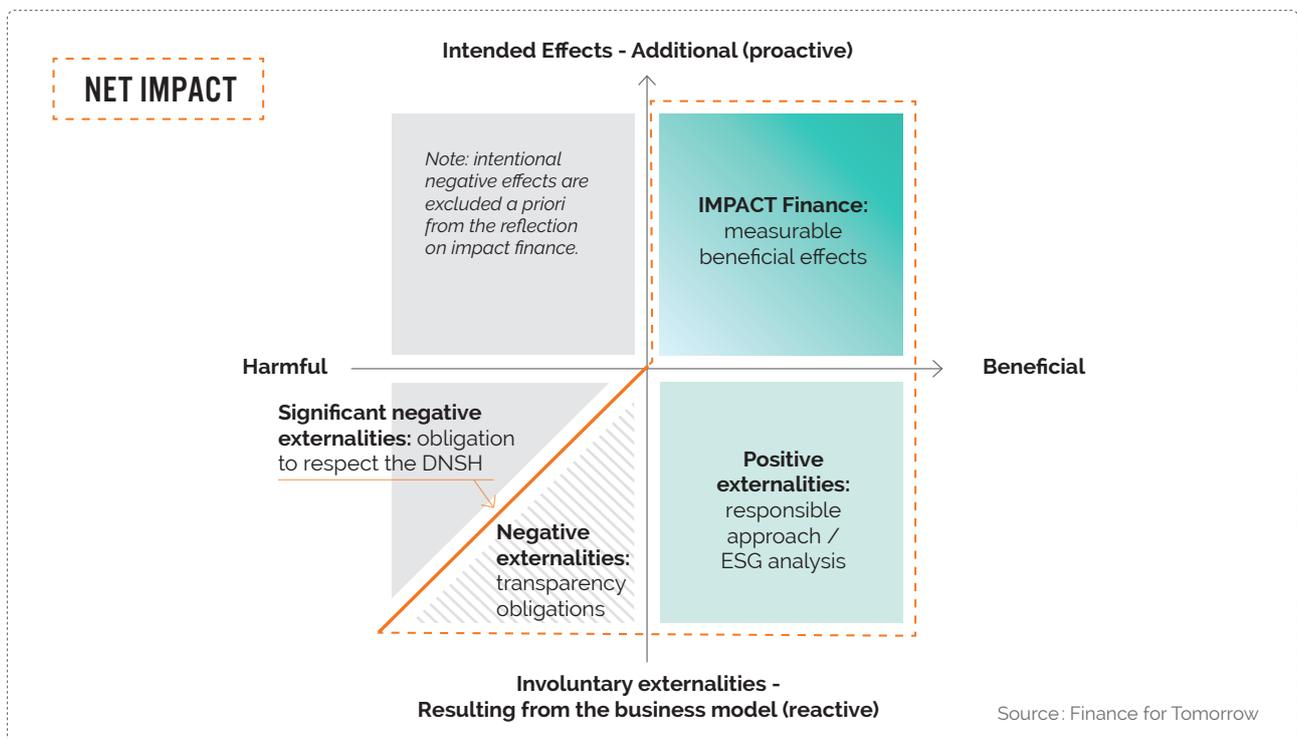
In the report "A demanding definition of Impact Finance" (March 2021), the reflections of the FIR/France Invest working group are transcribed on this subject as follows:

— The net impact is the underlying element of a debate on one of the methodological positions of the working group. In the context of impact investing, the impact is considered always positive because it is sought by the investor (intentionality). Thus, the net impact would be the addition of a positive impact (chosen by the investor) and a negative externality (not chosen by the investor). It would then be the combination of an impact KPI and a KPI from the mapping of negative externalities.

— To date, there is no robust and recognized methodology for net impact (positive externalities adjusted for negative externalities).

— The investor must be aware of the negative externalities that may be generated by his investments and take steps to minimize them, as the evolution of regulations encourages us to do (the «Do Not Significantly Harm» of European taxonomy and the «Principal Adverse Significant Impact» of the 2019 EU transparency regulation).

At this stage, from the analysis of the notion of impact in finance, an illustration of the scope of Impact Finance emerges:



This preliminary study of the concept of impact in finance allows us to remember that:

- positive and negative dimensions coexist;
- double materiality, including negative impacts, must be taken into account in view of European regulations.

It outlines the scope of Impact Finance, as a source of beneficial effects for society and the real economy, while controlling negative externalities, and preserving financial returns.

# B – DISCUSSIONS BASED ON REFERENCE WORK ON IMPACT FINANCE

Impact Finance refers to still emerging practices, which are sources of debate. The Finance for Tomorrow group reflections were based on the studies of leading actors.

## WHAT ARE THE CHARACTERISTICS OF AN IMPACT INVESTMENT?

In iiLab's report "*Investing for a sustainable transformation*" (December 2020), a scale was developed to measure the capacity of financial actors to respond to the promise made to savers in terms of contribution to sustainable transformation, presenting a coherent chain of commitment:

The iiLab proposed 6 eligibility criteria to characterize an impact investment:

### 1. Explicit social or environmental purpose:

**1.1.** The explicit purpose of the organization or project is to respond to a social, societal or environmental need or issue.

**1.2.** The effectiveness of the need addressed is

demonstrated by the organization or the project according to one of the following modalities: 1) by correspondence with conventions (SDGs, IDDRI, etc.) and 2) by documentation or study of emerging needs.

### 2. Intentionality of effects:

**2.1.** The organization or project defines a set of social and/or environmental impacts or changes targeted as part of its structural transformation action.

**2.2.** The organization or project formalizes a theory of change explaining the causal links between the direction of the activity and the response to the social or environmental needs being addressed.

### 3. Materiality of commitment and effects:

**3.1.** Materiality of commitment: the pursuit of the social purpose effectively impacts the conduct of the activity and decision-making within the organization.

**3.2.** The organization or project sets up tools and procedures for evaluation and impact measurement allowing the understanding and management of its performance in response to the social or environmental needs addressed.

Intensity scale // Risk of SUSTAINABLE TRANSFORMATION

	A	B	C	D	E	F	G	H
Saver's need	Minimum intensity of transformation		Low intensity of transformation		Average intensity of transformation		Strong intensity of transformation	
Meta features objectives and definitions of commitments	Priority Financial performance with ESG selection filter		Priority Financial performance Extra-financial performance of the financial product		Financial performance Extra-financial performance and measurement of social and environmental footprints		Priority Positive transformation (proactive) on issues declared ex-ante (SDG, or with impact) with an associated operating mode	
Sustainable investment practices	ESG		Responsible		Committed		Impact	

For impact as an aim: measurement and restitution of the transformation realised ex post vs issues ex ante.

Source: Investing for a sustainable transformation (p. 60), iiLab, December 2020 ; traduction by Finance for Tomorrow

## WHAT ARE THE PILLARS OF IMPACT FINANCE?

In France, the understanding of "Impact Finance" is commonly based on 3 pillars, that the work carried out within the **FIR/France Invest** working group formalized in the report "A demanding definition of Impact Finance", and thus anchored:

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**1. Intentionality:** "corresponds to the [intentional] willingness of the investor to contribute to generating a measurable social or environmental benefit" (in reference to the GIIN definition).

The explicit objective of impact investors is to respond to a sustainable development challenge. This is what differentiates impact investing from other responsible investing approaches, based on a generic ESG integration process with a possibly partial consideration of impact. As the France Invest Impact Charter reminds us, the investor therefore pursues a double objective of financial performance and impact. This intention concerns all investments of the fund (systematic approach) and occurs at the time of the investment decision (ex-ante).

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**2. Additionality:** "considered as the specific and direct action or contribution of the investor enabling the company receiving the investment or the funded project to increase the net positive impact generated by its activities".

Additionality is one way of materializing intentionality. It answers the question: "If the asset had not been financed by this particular investor what would be the difference? ". It can be financial (for example, financing of assets barely or not covered by the financial markets) and/or extra-financial (for example, active support of companies towards more social and/or environmental impacts).

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**3. Impact measurement:** "corresponds to the assessment of the social and/or environmental externalities of investments, in the light of the impact objectives intentionally pursued by the investor"

The impact objectives pursued are essentially positive, whether they represent a search for augmenting the positive externality (over time or in relation to a reference scenario) or a significant reduction in the negative externality of the business. The evaluation can be qualitative or quantitative, and can concern the impact of the products and services offered by the company as well as, in some cases, the significant impact of these processes. The results of this impact measure should be communicated and used by the investor in its investment decisions.



## OVERVIEW OF THE PARIS FINANCIAL CENTRE TASK FORCE DISCUSSIONS, ANIMATED BY FINANCE FOR TOMORROW:

The Finance for Tomorrow working group on Impact Finance relied on the 3 pillars accepted by the market and formalized by the FIR/France Invest, to seek convergences towards a common and ambitious definition of Impact Finance in France, making it possible to cover the diversity of financial products.

**Relationship between responsible finance and Impact Finance:** while agreeing on the complementarity of the different practices of sustainable finance, the members of the group identified a risk of seeing "impact" diluted in a "ESG+" vision, expressing the need to clarify the relationship between the notions of "responsible" and "impact" finance. In addition, the group preferred to use the term "effects" rather than referring to "externalities", as the involuntary nature of externalities seems incompatible with the pillar of intentionality. Impact practices are thus materialized by a pro-active selection of opportunities according to expected effects, which implies a management of resources allocated to the search for impact and an associated requirement of transparency.

**Intensity of the impact:** each action of each stakeholder can affect the performance of a transformation mission, that is, the scale of change achieved. Once specific objectives have been determined, it remains necessary to understand all the effects generated and to ensure that negative externalities are limited across all sustainable development issues. Similarly, three levels of intent can be distinguished in the "value chain" of impact: the financial institution (household), the financial vector/vehicle (management company/funds and products) and the companies/project owners. It is important to align intentions so that each institution can contribute to a collective impact through its individual action.

**Dynamic impact management:** impact management involves action by financial actors over time to strengthen and monitor the effectiveness of their impact strategies, with an approach of continuous improvement and while ensuring the control of negative externalities. In a dynamic of transition, the objective also is to support the 360° transformation trajectories of companies.

**Reference frameworks, impact objectives:** according to which frameworks measure a positive contribution, based on the goals to be achieved: Paris Agreement, Sustainable Development Goals, European taxonomy, etc.? In view of which micro/macro objectives and for which stakeholders are the actions carried out intended? How are they communicated? The working group agreed that the Sustainable Development Goals constitute a frame of reference shared by all, even if it can be completed.

In 2020 and 2021, the iiLab and FIR/France Invest publications have enabled concrete progress towards a common understanding of Impact Finance in France, by defining its characteristics and pillars. It is based on this work that Finance for Tomorrow led the reflections of a working group dedicated to the definition of Impact Finance. Certainly, to support the development of the sector, and this throughout the different asset classes in finance, a common and ambitious vision must be carried out for the entire Paris Financial Centre, applicable to all the different financial vehicles.

# C – PROPOSAL FOR A COMMON AND AMBITIOUS DEFINITION OF IMPACT FINANCE FOR THE PARIS FINANCIAL CENTRE

## THE DEFINITION PROPOSALS ADVANCED BY THE GROUP

The reflections of the working group, supplemented by interviews with academic experts and supported by exchanges with the entire Paris Financial Centre “Impact” Task force of Finance for Tomorrow, made it possible to characterize the differences between responsible finance and Impact Finance as subsets of sustainable finance, resulting in the following definition proposals:

### RESPONSIBLE FINANCE

**Responsible finance provides a strategic analysis filter for asset allocation based on the extra-financial performance of Environmental, Social and Governance criteria.** This is a risk reduction approach focusing on processes. The current European regulatory dynamic aims at strengthening this practice, which is destined to become a “minimum requirement”. (e.g. duty of care, SFDR, DNSH).

### IMPACT FINANCE

**Impact Finance is an investment or financing strategy that aims to accelerate the just and sustainable transformation of the real economy, by providing evidence of its beneficial effects.**

It is based on the pillars of **intentionality, additionality and impact measurement**, to demonstrate:

1. The joint search, over time, for an ecological and social performance and a financial return, while controlling the occurrence of negative externalities;
2. The adoption of a clear and transparent methodology describing the causal mechanisms through which the strategy contributes to the targeted environmental and social objectives, the relevant period of investment or financing, as well as the measurement methods – according to the concept of theory of change.
3. The achievement of environmental and social objectives aligned with frameworks of reference, in particular the Sustainable Development Goals, defined at the international, national and local levels.



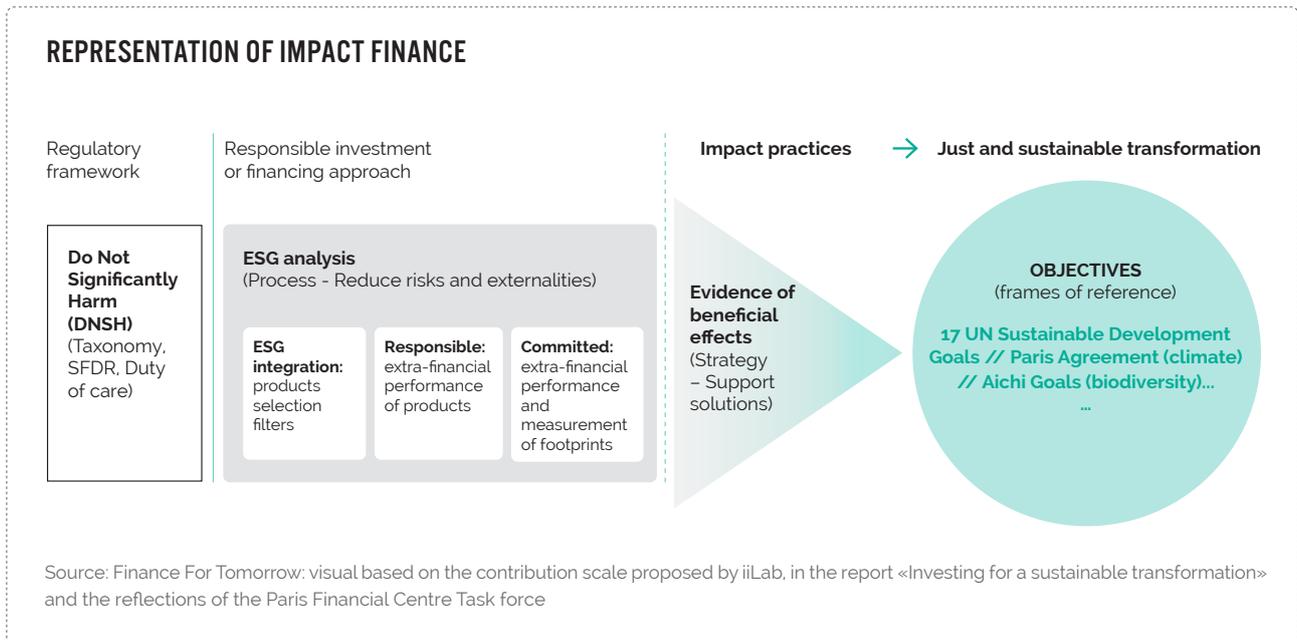


## INSIGHTS ON THE DEFINITION OF IMPACT FINANCE

- **The investment or financing strategy:** potentially concerns all asset classes and activities of a financial institution. The objective of the definition is to be able to cover the various financial actors, in particular banks, where the previous definitions focused mainly on the concept of investment, without encompassing that of financing.
- **Aim:** designates a direction, a strategy towards a concrete goal; expresses an intention.
- **Acceleration:** in the face of the social and climate emergency, the role of finance is to create a leverage effect.
- **Just and sustainable transformation:** sustainable transformation is the notion according to which the companies' understanding of the sustainable development challenges must make it possible to anchor the transformation in the company for the long-term, and to have a real impact thanks to a holistic approach integrating these issues in all of its components at strategic, tactical and operational levels (Source: iiLab report). The Just Transition aims to minimize the negative social impacts of a transition to a low-carbon and environmentally sustainable world, and to maximize the positive impacts, for example on job creation.
- **Real economy:** it refers to the materialization of the consequence, the change observed in the physical reality of the stakeholders.
- **Effects:** the group has chosen to speak of effects rather than externalities because the latter are involuntary, whereas Impact Finance expresses ex ante intentionality.
- **Beneficial:** rather than "positive". Since the reference threshold is the ecological debt situation of modern societies, an improvement of the situation will be beneficial, although it may not fulfil this "debt" and thus continue to be "negative".
- **Intentionality:** corresponds to the willingness of financial actors to contribute to generating a measurable social or environmental benefit (definition inspired by the FIR/France Invest work, with reference to the GIIN definition).
- **Additionality:** considered as the specific and direct action or contribution of financial actors allowing the invested company or the funded project to increase the positive net impact generated by its activities. It answers the question: "If the asset had not been financed by this particular investor what would be the difference?" (definition inspired by FIR/France Invest).
- **Impact measurement:** corresponds to the assessment of social and/or environmental effects produced by financial actors in the real economy (definition inspired by the work of FIR/France Invest).
- **Causal mechanisms through which the strategy contributes to environmental and social objectives:** this sentence explains the concept of theory of change, that is to say the planning strategy of the change process established by the financial actor, highlighting the causal chain linking the contribution actions specific to the financial institution and the impact objectives pursued (Source: iiLab report).
- **Relevant investment or funding period:** the idea is to avoid a short-term view and allow impact management throughout the investment or funding cycle. The financial actor must therefore assess the investment or financing horizon relevant to the objectives to allow the materialization of the impact. It also refers to the notion of "long-term" which can prove to be key for the sustainability of the beneficial effects. Moreover, the holding time for investors must be considered, as well as its suitability for the saver's time frame.
- **Measurement methods:** in connection with the impact measurement pillar, the financial actor must define by which means he will evaluate the achievement of the targeted objectives.
- **Reference frameworks for environmental and social objectives:** private actors must be part of a global effort, by adopting a "systemic" perspective, to help meet the challenges identified by citizens and public authorities, from the local to the international level. The Sustainable Development Goals are mentioned as an accepted and recognized framework of reference.

This definition is intended to be non-discriminatory with respect to any asset class or financial product and can cover both the non-listed investment, which constitutes the traditional practice of Impact Finance, but also, for instance, the listed investment or project financing, insofar as the actor provides evidence of the beneficial effects as described in the definition.

## VISUAL SUPPORT FOR THE DEFINITION



### Reading of the diagram:

1. The ground of sustainable finance is hereafter the **“Do Not Significantly Harm” (DNSH)** European legal principle: significant negative externalities must be controlled.
2. The gradation of sustainable finance practices expresses the **consistency needed between responsible practices and impact research**. Compliance with the regulatory framework, the analysis of extra-financial risks and the implementation of an ESG analysis are the necessary foundations that support impact practices.
3. The shift to impact is characterized by **evidence of beneficial effects** for society and the real economy. **The arrow illustrates an action**, which targets the effects (intentionality) for the achievement of **systemic environmental and social objectives** (additionality and measurability).

The shape of the arrow reinforces the expression of causality, which makes visible the need for a proof of impact. Indeed, one of the four fundamental characteristics of impact investing developed by the GIIN is the use evidence and data on impact in the conception of investments (2nd characteristic). However, since current scientific work does not allow to demonstrate a direct causality between the act of investment/financing and the transformation of a given situation in the real economy, it is the **evidence of the financial actor’s approach** which needs to be put forward in the first place. For this, different criteria are considered: *engagement practices, pro-active selection of supported projects, provision of advice, definition and measurement of objectives achieved, etc.*



# CONCLUSION

At the conclusion of the working group's tasks, Finance for Tomorrow proposes the following definition:

**Impact Finance is an investment or financing strategy that aims to accelerate the just and sustainable transformation of the real economy, by providing evidence of its beneficial effects.**

It is based on the pillars of **intentionality, additionality and impact measurement**, to demonstrate:

1. The joint search, over time, for an ecological and social performance and a financial return, while controlling the occurrence of negative externalities;
2. The adoption of a clear and transparent methodology describing the causal mechanisms through which the strategy contributes to the targeted environmental and social objectives, the relevant period of investment or financing, as well as the measurement methods – according to the concept of theory of change.
3. The achievement of environmental and social objectives aligned with frameworks of reference, in particular the Sustainable Development Goals, defined at the international, national and local levels.

Consistency in sustainable finance practices is necessary to support an impact approach. **The transition from responsible finance to Impact Finance lies in the production of evidence of beneficial effects in the real economy.**

It is necessary that all French financial actors take ownership of this vision in order to develop it in practice. **As a reference for future works on impact measurement, it will make it possible to determine the "contribution potential" of a financial institution and thus concretely express the common ambition for Impact Finance of the Paris Financial Centre actors.**

In the rest of this document, a literature review will consolidate the common understanding of the ambitions and practices of Impact Finance. To ensure the efficiency of the transition, **our vision of Impact Finance must be holistic, systemic and dynamic.** This vision will need to materialize in the financial sector operations, through practices that ensure mission performance by placing impact at the heart of processes, while controlling negative externalities.



# 2

## SUPPORTING THE PARIS FINANCIAL CENTRE COMMON AMBITION FOR IMPACT FINANCE

Built as a literature review of international works, this section provides a common basis for understanding the issues of Impact Finance. The reflections on the definition of Impact Finance have carried a triptych of ambition to ensure the effectiveness of the transition: our vision of impact must be holistic, systemic and dynamic.

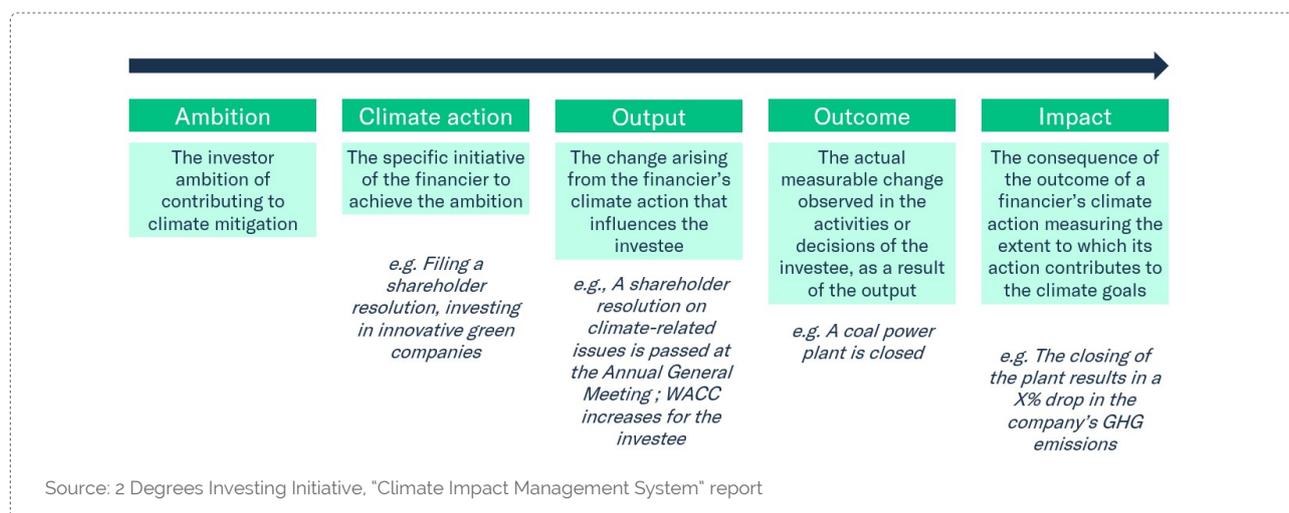
# A – HOLISTIC: HOW INTENSE IS THE IMPACT?

## KEY IDEAS

- **The intensity of impact refers to its scope:** it is a **desired level of transformation** between two situations, one before and one after.
- **The impact intention exists on 3 levels that need to be aligned along the «impact value chain» in finance:** the financial institution; the investment or financing vehicle; the company or project supported.
- **Each action of each stakeholder contributes to or affects the achievement of the mission's performance.** Thus, to be able to concretely solve social and/or environmental problems through the implementation of an impact strategy, it is necessary to analyze the effects produced by each stakeholder, concerning all sustainable development themes, and to respect the "Do Not Significantly Harm" (DNSH) principle.

## FROM ACTION TO IMPACT

Illustration of the financial sector impact value chain, proposed by 2Dii in the "Climate Impact Management System" report, according to ISO 14097



## A COMMON BASE OF UNDERSTANDING

As Impact Finance practices are still emerging, some references from international literature should be presented to address the following issues: **how to move from action to impact, identify societal needs or even effectively analyze an impact, while controlling the occurrence of negative externalities?**

### → How does the theory of change allows to move from action to impact?

Already used in 1954 by Peter Drucker in "The Practice of Management", the "Theory of Change" was popularized by the Aspen Institute, in a roundtable series on social change and its evaluation. In the article "The Power of the Theories of Change", published in the journal "Stanford Social Innovation" in 2010, it is stated that they serve to ensure the conditions for the success of long-term objectives by making it possible to plan each intermediate step "backwards". (P. Brest (2010). "The Power of Theories of Change". Stanford Social Innovation Review. Spring.)

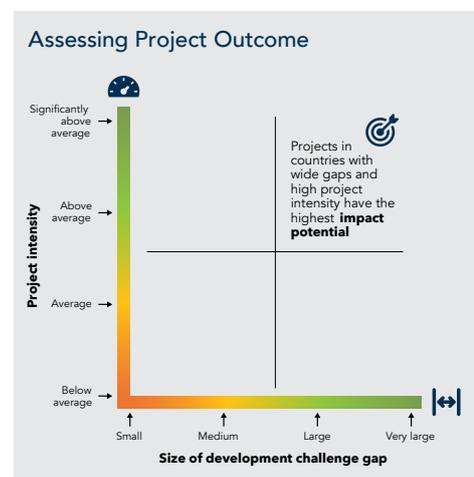
The United Nations defines a theory of change as a method that explains how a given set of interventions are expected to lead to a specific change, through an analysis of cause-and-effect relationships based on existing evidence.<sup>5</sup>

Concretely, the theory of change therefore consists in describing the progressive stages between the initial action of the investor/financier and the final societal or environmental results, which make it possible to achieve the targeted impact objectives.

### → How to identify a societal need and seek to effectively respond to it?

To justify a transformation goal, it is necessary to demonstrate the existence of a societal need. This can be expressed qualitatively, justified in particular by a set of stakeholders, but should also be expressed quantitatively, thanks to a consensus supported by scientific work. The level of granularity will strongly influence the relevance of actions for local populations.

*To study investment opportunities, the IFC produces an Anticipated Impact Measurement and Monitoring (AIMM) score, on two dimensions: 1) the potential of projects to solve a development challenge effectively (intensity) and 2) the capacity of projects to improve the structure and functioning of a developing market.*



Source: IFC, Rapport «How IFC Measures the Development Impact of Its Interventions» p.10 & p.11

5. [https://unsdg.un.org/sites/default/files/UNDG-UNDAF-Companion-Pieces-7-Theorie\\_du\\_Changement.pdf](https://unsdg.un.org/sites/default/files/UNDG-UNDAF-Companion-Pieces-7-Theorie_du_Changement.pdf)

→ **What specific actions can financial actors embrace to generate impact?**

The "Impact Management Project" (IMP) worked with 2000 investors and companies to identify **four types of possible investor actions**, to develop "impact classes", based on impact performance data (or, in the case of new investments, their impact goals).

Based on the four modes of action identified in their work, the IMP has developed a matrix presenting a set of **impact classes** which group investment practices according to their impact characteristics (combined). An impact class brings together the performance (or objectives) of the invested assets (x-axis) and the strategies that investors use to contribute to this impact (y-axis). (Source: "A guide to classifying the impact of an investment", IMP<sup>6</sup>)

### IMP impact class matrix

*Key point: the objective categories A, B, C hardly correspond to the vision presented previously, in which "Impact Finance" seeks to contribute to solutions by definition. Thus, only Category C (contribution) would be applicable here.*

Classes d'impact (IMP)	ACT TO AVOID HARM	BENEFIT STAKEHOLDERS	CONTRIBUTE TO SOLUTIONS
<b>Signal that impact matters</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	A1	B1	C1
<b>Signal that impact matters</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	A2	B2	C2
<b>Signal that impact matters</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	A3	B3	C3
<b>Signal that impact matters</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	A4	B4	C4
<b>Signaler que l'impact compte</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	A5	B5	C5
<b>Signaler que l'impact compte</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	A6	B6	C6

Source: Finance for Tomorrow, based on the impact classes of the Impact Management Project

6. <https://29kjwb3arms2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/A-Guide-to-Classifying-the-Impact-of-an-Investment-3.pdf>



The analysis of the researchers Florian Heeb & Julian Kolbel from the University of Zurich details the conditions for success and the limits of these four modes of action. (Source: Investors Guide to Impact)<sup>7</sup>

### **1. Communicate that "impact matters", with a market or non-market signal**

Asset allocation based on extra-financial analysis can influence the value of companies if a significant share of the market uses the same criteria (Environmental, Social and Governance). By affecting prices, investors send a market signal to companies that encourages improvement in their practices. This effect is limited when companies are excluded from portfolios.

Non-market signals, which involve sending messages to influence public discourse by emphasizing the challenges to be raised, depend on a level of public visibility to be effective. Their impact is difficult to assess because it depends on political action or cultural change.

### **2. Engage actively: provide non-financial support or practice shareholder engagement to encourage progress**

As the provision of non-financial support aims to grow businesses, it is necessary to select businesses whose "net impact" is positive (that is to say which generate a positive impact and control their negative externalities in order to not cause significant harm). This contribution must be relevant to the needs of companies and it is all the more effective for "early-stage" investments, when investors can directly influence companies.

Shareholder engagement aims to improve the practices of all companies. Among the conditions for success, the researchers identify: the search for relevant improvements at a reasonable cost, depending on the influence capacity of the investor (number of shares, cultural proximity, size and reputation of the investors). Unfortunately, the limits are strong with marginal improvements and little scope for transforming industries.

### **3. Developing new under-supplied capital markets**

As this action promotes business growth, it requires selecting businesses with a positive net impact. It mainly concerns companies with limited growth capacity, such as start-ups or with intangible assets, or in undeveloped financial markets.

### **4. Providing flexible capital to impact businesses that need it to grow**

As this action promotes business growth, it requires selecting businesses with a positive net impact and who need access to flexible capital. It is therefore not suitable for companies with access to philanthropic or commercial funds.

7. [https://www.csp.uzh.ch/dam/jcr:ab4d648c-g2cd-4b6d-8fc8-5bc527b0c4d9/CSP\\_Investors%20Guide%20to%20Impact\\_21\\_10\\_2020\\_spreads.pdf](https://www.csp.uzh.ch/dam/jcr:ab4d648c-g2cd-4b6d-8fc8-5bc527b0c4d9/CSP_Investors%20Guide%20to%20Impact_21_10_2020_spreads.pdf)

→ **As a financial actor, how to analyze and express one's impact?**

Based on the different modes of action of investors to cross with the solutions provided by the projects themselves, the IMP presents a framework for understanding and analyzing the impact. These 5 dimensions presented concern the nature of the impact and its significance (*what*), and for which stakeholders (*who*). They integrate the idea of intensity concerning the level of transformation sought by asking: at what scale, depth and duration (*how much*)? Finally, it is also a question of identifying whether the change is actually caused by the action taken (*contribution*) and anticipate the possible adverse consequences if this action does not occur as planned (*risk*).

**The 5 dimensions of impact as presented by the IMP:**

Impact dimension	Impact questions each dimension seeks to answer
 <b>What</b>	<ul style="list-style-type: none"> <li>•What outcome is occurring in the period?</li> <li>•Is the outcome positive or negative?</li> <li>•How important is the outcome to the people (or planet) experiencing them?</li> </ul>
 <b>Who</b>	<ul style="list-style-type: none"> <li>•Who experiences the outcome?</li> <li>•How underserved are the affected stakeholders in relation to the outcome?</li> </ul>
 <b>How Much</b>	<ul style="list-style-type: none"> <li>•How much of the outcome is occurring - across scale, depth and duration?</li> </ul>
 <b>Contribution</b>	<ul style="list-style-type: none"> <li>•Would this change likely have happened anyway?</li> </ul>
 <b>Risk</b>	<ul style="list-style-type: none"> <li>•What is the risk to people and planet that impact does not occur as expected?</li> </ul>

Source: Impact Management Project<sup>8</sup>

→ **"Net impact": the necessary management of negative externalities**

Although there is no relevant methodology to calculate a net impact, a holistic view of Impact Finance requires financial actors to be aware of the negative externalities that their portfolios and underlying assets could generate. Any impact financing should respect at a minimum the "Do Not Significantly Harm" (DNSH) principle but also seek to minimize any harm to the environment and sustainable development issues.

The control of negative externalities is mentioned in the first of the four "Positive Impact Finance Principles" of the UNEP FI: *"eligible projects are those which have a positive impact on at least one of the three pillars of sustainable development (environmental, social, economic), and for which any potential negative impact has been identified and properly managed."*<sup>9</sup>

8. <https://impactmanagementproject.com/impact-management/impact-management-norms/>

9. <https://www.unepfi.org/wordpress/wp-content/uploads/2017/01/POSITIVE-IMPACT-PRINCIPLES-AW-WEB.pdf>



# B – SYSTEMIC: WHICH REFERENCE FRAMEWORKS FOR WHICH IMPACT OBJECTIVES?

## KEY IDEAS

→ Relying on frameworks of reference allows the development of a «systemic vision» of impact to pursue collective alignment objectives, at a relevant pace with the hope of achieving them.

→ The frameworks of reference explain the strategy and justify the transformation approach to impact investing. The Sustainable Development Goals and the Paris Agreement are the international benchmarks.

The Sustainable Development Goals (SDGs) were adopted by the United Nations on October 21<sup>st</sup>, 2015. They outline 17 crucial issues, accompanied by 169 numerical targets to be achieved by 2030. They created a common benchmark, a series of universal goals for the betterment of society, which have been widely adopted by different types of stakeholders around the world.

**However, challenges arise when it comes to defining political, economic and financial strategies based on the SDGs:**

→ It is not possible to choose only one goal while forgetting all the others, because the 17 issues are interconnected;

→ It is not relevant to simply assign activities to an objective ex-post, it is necessary to work actively to improve a given situation;

→ To be relevant within a given community, these objectives must be scaled with great granularity, yet data are still rarely available;

→ Market conditions and macroeconomic policies are not always aligned or favourable to the achievement of these international objectives;

→ The Theory of Change is based on the idea that long-term goals can be divided into intermediate steps: what is the baseline pace for achieving the goals in 2030? The economic projects that will lead to it remain to be invented, or at least to be disseminated and developed: are they clearly identified?

**Once the international goals are defined, how can we ensure the alignment of political, economic and financial decision-making?**

To address this key issue, “operational reference frameworks” are emerging. They can cover different perimeters (international, national or local) and thematics, be carried by institutions as regulatory frameworks or even take the form of private initiatives, for example, aiming to produce concrete scenarios or tools for market players.

In the report *“The state of impact measurement and management practice”* published in January 2020 by the Global Impact Investing Network (GIIN), the difficulty associated with the lack of benchmarks of reference is identified as a priority. In the GIIN’s “COMPASS” report of May 2021, the construction of reference frameworks for the comparison of impact is presented as the priority of the GIIN working group for the remainder of this report, scheduled for 2021-2023.

## STATE-OF-THE-ART FRAMEWORKS AND AVAILABLE TOOLS:

### CLIMATE

The Paris Agreement helped define a common international goal, that of limiting global warming to less than 2°C. From this position, it was possible for scientists to determine a remaining available "carbon budget", which today underpins the objective of climate neutrality by 2050. The rise in importance of the "climate laws" reinforces this dynamic. Now, in Europe, a Taxonomy clearly defines what constitutes an environmentally sustainable economic activity, especially with regard to the climate.

The International Panel on Climate Change (IPCC) publishes scenarios to provide a global view of climate change. The International Energy Agency (IEA) also publishes reference scenarios, in particular to guide investment choices in energy technologies. Many debates remain open on the technological choices to be made in the context of compatible scenarios with the objectives of the Paris Agreement: nuclear? gas? carbon sequestration?

Nevertheless, tools are increasingly allowing investors to calculate the alignment of their portfolio with climate objectives. Thanks to the framework provided by the TCFD (Taskforce on Climate-Related Financial Disclosure), significant progress has been achieved in the understanding, the transparency and addressing of climate-related issues.

#### Some examples of tools to measure alignment with climate goals

→ **ACT (ADEME & CDP)**: the initiative ACT (Assessing low Carbon Transition) aims to provide companies with methodologies to 1) support and 2) assess whether their strategies and the means used to achieve them meet the climate mitigation objectives of the Paris Agreement. ACT offers a comprehensive corporate accountability framework and registers to the Solutions Agenda, driven by the UNFCCC. The analyzes follow sectoral methodologies in a holistic view, with details of emission reduction trajectories and key performance indicators.

→ **PACTA (2Dii & PRI)**: relying on a large climate-related financial database, the PACTA tool aggregates global prospective data at asset level including holding companies. The tool then produces a personalized and confidential report, which allows investors to assess the alignment of their portfolios for certain sectors with various climate scenarios and with the Paris Agreement.

→ **Science-Based Targets (Global Compact & CDP & WRI & WWF)**: the initiative Science Based Targets (SBTi) drives ambitious climate action in the private sector by enabling companies to set science-based emission reduction targets. By guiding companies in setting science-based goals, it enables them to fight global warming, while identifying opportunities and strengthening their competitiveness in the transition to a net-zero economy.

→ **Transition Pathway Initiative (LSE/PRI/FTSE Russell)**: aimed at investors, the tool assesses the readiness of companies to transition to a low-carbon economy, supporting efforts to combat climate change. 1) It evaluates and monitors the management quality by 415 companies of their greenhouse gas emissions and the risks and opportunities associated with the low-carbon transition; 2) It evaluates how the planned or expected future carbon performance of companies compares to international targets and national commitments made under the Paris Agreement on the basis of the Sectorial Approach to Decarbonization.

**Find out more:** there are many methodologies for measuring the climate alignment of financial portfolios. We invite you to consult the Institut Louis Bachelier report, "The Alignment Cookbook".<sup>10</sup>

10. <https://gsf.institutlouisbachelier.org/publication/the-alignment-cookbook-a-technical-review-of-methodologies-assessing-a-portfolios-alignment-with-low-carbon-trajectories-or-temperature-goal/>



## ENVIRONMENT

Generalist environmental scenarios (e.g. pollution; biodiversity; adaptation), are not harmonized and do not benefit from indicators as clear/recognized as climate issues. The "Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services" (**IPBES**) developed an analytical framework to define a good quality of life "in harmony with Nature". This framework remains little known to economic actors, even if the context is rapidly changing in the run-up to COP15 of the United Nations Convention on Biological Diversity (**CBD**). The framework of "**9 planetary limits**" proposed by the Stockholm Resilience Center is rapidly spreading internationally.

The launch of the **TNFD** in June 2021 aims to support the mobilization of financial actors at the international level on data transparency related to Nature.

In Europe, a community policy framework for the marine environment has defined 11 indicators describing the "**good ecological condition**" of a stream. This definition could be extended to different ecosystems, for example, there is currently no existing definition for soils.

Finally, beyond climate, the **European Taxonomy** objectives concern various environmental issues: sustainable use and protection of aquatic and marine resources; transition to a circular economy; prevention and control of pollution; protection and restoration of biodiversity and ecosystems.

### Tools to identify environmental risks:

→ **The CDP**<sup>11</sup>: international non-profit organization, formerly called the "Carbon Disclosure Project" until the end of 2012. It holds the world's largest database on the environmental performance of cities and businesses. The CDP organization encourages investors, businesses and cities to take action to build a truly sustainable economy, measuring and understanding their impact on the environment. It uses surveys and questionnaires and compiles these results and responses in environmental databases. Recently, it has also scored listed funds in environmental terms.

→ **NEC (Net Environmental Contribution)**<sup>12</sup>: initially developed within Sycomore AM, this tool has become "open source" and is now available as an initiative: this holistic environmental impact assessment methodology is based on a cycle analysis applied to the entire value chain, and takes into account all environmental dimensions: climate, water, air, impact on biodiversity, natural resources and waste. Concretely, the NEC measures, for each activity, the degree of contribution and compatibility of its economic model with the ecological transition. It ranges from -100% for an activity that is highly destructive of natural capital to + 100% for activities with a strong positive net environmental impact.

11. <https://www.cdp.net/fr>

12. <https://nec-initiative.org/>

## SOCIETY

The **social issues** are extremely diverse and localized. Many international conventions express “acceptable” social minimums and these conventions are mobilized by the European Taxonomy. The complexity lies in the fact that social reference frameworks are often defined at national level, with significant disparities. In many countries, forced labour is still a reality.

What ambitions would be possible to raise beyond these minimums? In Europe, the challenges of economic recovery are pushing to define a vision based on concrete objectives. This is expressed in particular in the “Green Pact”, where the “**Just Transition**” appears as a sine qua non condition to the success of the ecological transition: indeed, the sustainable transformation of the economy can only be achieved with the mobilization of citizens. Work is also underway to define a Social Taxonomy.

**“Just Transition” coalition:**<sup>13</sup> Finance for Tomorrow gathered investors with the aim of leading engagement campaigns on the Just Transition with companies, in order to focus precisely on the social dimension of the environmental transition. Representing 3.6 trillion euros under management to this date, the coalition seeks to strengthen dialogue between stakeholders by bringing together companies, unions and other organizations, in addition to assets owners and managers. The coalition will have three main areas of action: 1) corporate engagement campaigns; 2) the formation of an academic partnership; 3) the creation of a “Just Transition Hub” to allow investors to assess the performance of companies on the social aspect of their transition.

### Tools to apprehend social issues:

**The ISO 26000 standard**<sup>14</sup> is a voluntary standard of the International Organization for Standardization (ISO) establishing the guidelines relating to the social responsibility of companies (CSR) and more generally of organizations, that is to say, it defines how organizations can and should contribute to sustainable development. The standard insists on the holistic side of a societal responsibility approach, vis-à-vis the impacts of its decisions and activities on society and on the environment, resulting in transparent and ethical behavior: hence the link with double materiality in addition to the “risk” vision. Seven central pillars make it possible to guide the dialogue with stakeholders in an exhaustive manner: the governance of the organization; human rights ; working relationships and conditions; the environment ; fair practices; consumer issues; communities and local development. The standard establishes, in particular, the principle of accountability (being accountable for one’s decisions) and transparency (ensuring the transparency of decisions that have an impact on the environment or society).

**Convergences:**<sup>15</sup> composed of more than 200 partner organizations from all sectors, the association acts to stimulate reflection and action, disseminate good practices and promote the co-construction of innovative partnerships with a strong societal impact, and focusing also on the environmental impact. Convergences disseminates an “Impact Finance barometer”, which is a tool for raising awareness and sharing information on trends in the sector. By underlining projects with high impact potential, the Barometer promotes, among other things, their identification by financial actors.

13. <https://financefortomorrow.com/transition-juste/>

14. <https://www.iso.org/fr/iso-26000-social-responsibility.html>

15. <https://www.convergences.org/>



## SUSTAINABLE DEVELOPMENT

**Tools with an overall vision of sustainable development:**

→ **UNEP FI Impact Analysis Tools:** the Finance Initiative of the UN Environment has produced a series of open source digital tools, to allow companies and financial actors to analyze their impact through an iterative "input-output" work program. The tool uses the input data in combination with a set of integrated impact mappings to produce results, in particular a set of impact profiles per business sector, and to guide the user in identifying areas of significant impact and thus determine priorities, strategy and objectives. These tools develop a holistic, "multi-impact" approach, focusing on the positive and negative impacts on the following themes: water, food, housing, health, education, employment, energy, mobility, culture & heritage, integrity & safety, justice, institutional stability, air and soil quality, biodiversity and ecosystems, resources, climate, waste, inclusiveness, economic convergence.

→ **SDG Compass:** explains how the SDGs are relevant to a company and presents the tools and information to place sustainability at the heart of the strategy. Inventory of 60 tools that investors can use to study their risks and measure their impacts in relation to the SDGs. Inventory (and explanations) of 1553 indicators to be followed by companies to track their relationship with one or more SDGs.

→ **World Benchmarking Alliance:** the Alliance members represent organizations working at global, regional and local levels to define private sector contributions to the achievement of the SDGs.

**Objectives:**

**1. Calculate and compare the real impact of 2,000 of the most influential companies in the world by creating indicators that reflect the performance of companies on the SDGs.** Each company is placed in one or more pillars in which they have an impact. For each sector, the alliance develops a specific methodology and benchmark. For each sector, 30 indicators are defined, each of which has a different weight (defined by the experts) in the final score out of 20 for each company.

**2. Transparent and accessible benchmarks and methodologies.** The benchmark is carried out on 7 pillars identified by the experts as requiring to be transformed. The social factor lies at the center (human development, respect for human rights, reduction of inequalities) because it is found in all transformation pillars. The financial sector encompasses the other 6 pillars as it is what will reorient capital and finance the transformation.



# C – DYNAMIC: HOW TO MANAGE IMPACT?

## KEY IDEAS

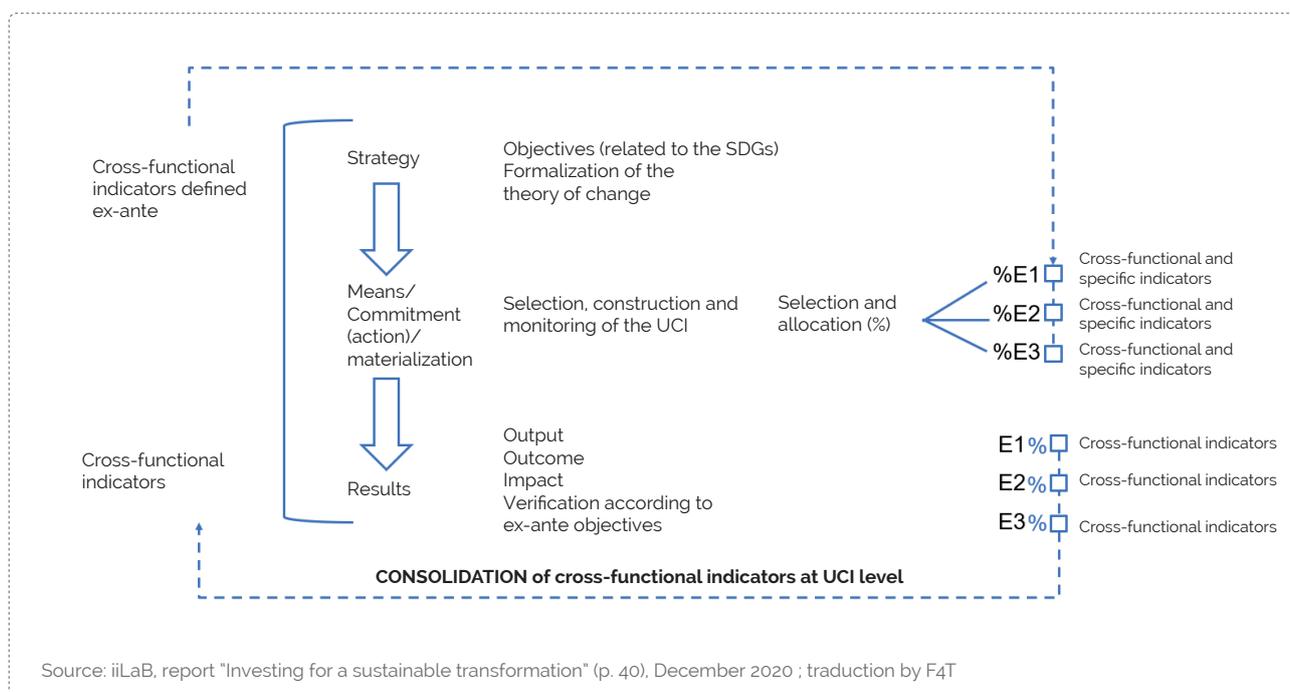
→ The impact approach must be formalized over the entire investment/financing cycle, adapted to the asset class, with impact objectives defined ex ante and associated means implemented.

→ The Theory of Change, which involves planning the stages and causal mechanisms so that the investment or financing strategy can contribute to environmental/social objectives, can be used to map the «dynamic materiality» of impacts.

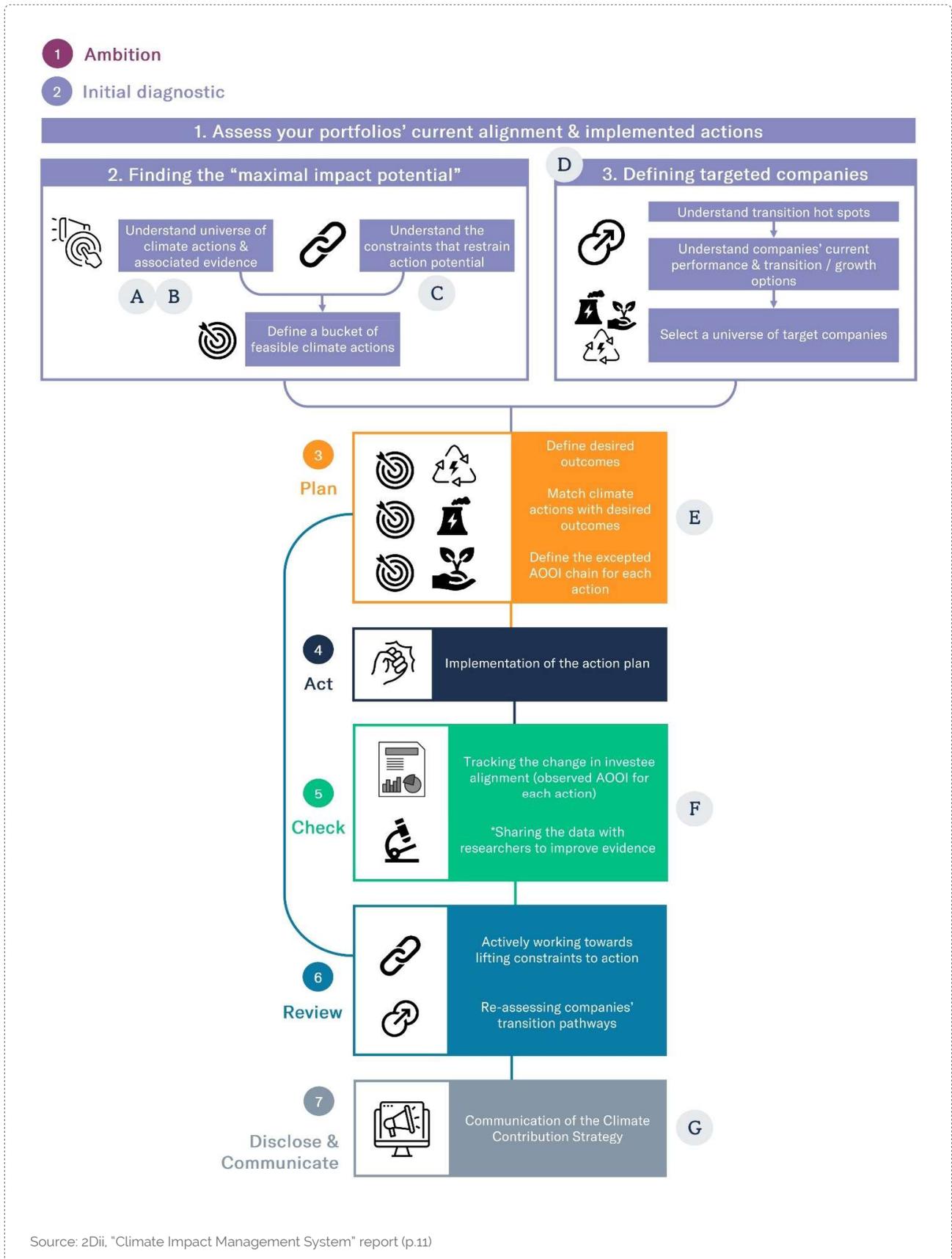
Promoting a dynamic vision of impact aims to ensure compliance with the GIIN'S 3rd characteristic of impact: "Managing impact performance". Impact investing comes with a specific intent and requires investments to be managed according to that intent. This involves setting up feedback loops and reporting performance information to help others in the investment chain manage their impact.

→ Impact objectives must be defined *ex ante* to guide decision-making. They must also be analysed, reviewed and made public *ex post*, in a dynamic of continuous improvement.

In the iiLab report, "Investing for a sustainable transformation", the backbone of impact assessment and measurement incorporates this dynamic vision:



In the “Climate Impact Management System” report, 2Dii proposes a dynamic action plan for financial institutions, which is organized and illustrated as follows:



The European Venture Philanthropy Association (EVPA) published "A practical guide to measuring and managing impact", in which the mobilized experts defined an impact measurement process in 5 successive steps, based on the "managing impact" action core. Furthermore, the guide expresses that "corrective measures adopted can be applied both to the investment management process and to the impact measurement itself".<sup>16</sup>



Managing impact in the investment process

Investment strategy	Investment process				
	Deal screening	Due diligence (detailed screening)	Deal structuring	Investment management	Exit
Decide on the overarching social impact objectives of the VPO/SI – these will guide the investment process.	Assess whether investment opportunity fits with VPO/SI strategy by asking questions detailed in setting objectives.	Dig deeper into questions asked in setting objectives.  Perform stakeholder analysis.  Verify and value expected results.	Map outputs, outcomes and impacts and decide on key indicators against which progress will be measured.  Decide on monitoring and reporting content and frequency and assign responsibilities.	Regularly assess impact results against key indicators.  Verify and value reported results at regular intervals.  Revise indicators if significant changes are made in the business and impact model.	Perform thorough analysis of impact results against objectives – verifying and valuing reported results.

Sources: EVPA, "A practical guide to measuring and managing impact" report, June 2015 (p.18, p.29)

The "holistic, systemic, dynamic" triptych enables to qualify an impact approach capable of effectively responding to the challenges of sustainable development. Supported by a common basis of understanding, these concepts establish a shared ambition of the Paris Financial Centre for Impact Finance, which aims to accelerate the just and sustainable transformation of the real economy.

16. [https://www.avise.org/sites/default/files/atoms/files/evpa\\_guide-mesure-impact\\_201506.pdf](https://www.avise.org/sites/default/files/atoms/files/evpa_guide-mesure-impact_201506.pdf)



## IMPACT FINANCE AS PART OF THE TRANSITION OF ECONOMIC AND FINANCIAL ACTORS

### 1 QUALIFYING FINANCIAL INSTITUTIONS AS ACTORS OF IMPACT FINANCE

The expression of a need for consistency at different levels of the impact value chain raises the issue of the financial institution practices. Should all of its activity be dedicated to impact in order to be able to highlight a particular quality and thus promote its projects that are beneficial for society and the environment? This debate is expressed internationally by a distinction between actors "with" impact, whose economic model's purpose is the positive environmental or social impact (a 70% threshold enshrined in French law), and actors "for" impact, that is to say those who integrate their reflections and projects as part of a more general activity.

Based on the working group discussions, we consider that only institutions actively seeking to advance their impact "compartments", and contribute to the active progression of the sector, could claim to be part of "Impact Finance" – thus introducing the category "towards" impact. Restricting Impact Finance to the most committed new entrants to financial markets, who are reinventing the core of business models and practices, would be a strong posture having the merit of supporting an emerging sector and much-needed social innovation. Unfortunately, this position is also a source of blockages for the engagement of traditional actors, who by their volume and influence capacity are nevertheless able to greatly accelerate the transformation of the economy.

This said, given the scale of the social issues and the urgency of the environmental crisis, it does not seem conceivable that traditional actors manage to claim an impact approach without seeking to change their overall practices. This idea joins the 4th characteristic of GIIN's impact: "**Contributing to the growth of the sector**": "Investors with credible impact investing practices use terms, conventions and indicators common to the sector to describe their impact strategies, their objectives and performance. They also share the lessons acquired when possible so that others can learn from their experience on what truly contributes to social and environmental benefits."

### 2 INTEGRATION OF "CLASSIC" COMPANIES IN TRANSITION

Impact Finance must be able to take an interest in traditional businesses on a transition process, because the reduction of their negative impacts could contribute very strongly to an improvement of the situation for the real economy, the environment and society. All Impact Finance is a finance of transformation, constantly improving on financial and extra-financial criteria. This idea is an entry key for investment, but also for monitoring the projects, up until their exit phase.

**This transition process can only be viable if it operates in a coherent manner and with an ambition based on reference frameworks. Thanks to concrete strategic transformation plans, it involves piloting the pace of transformation, but also establishing a strong requirement on the control of negative externalities to ensure the performance of the mission, corresponding to the "net impact".**

### 3 THE "TRANSITION" IN THE EUROPEAN TAXONOMY

As a list of activities able to contribute to European environmental objectives based on precise technological thresholds, the Taxonomy is in a sense "fixed". However, the importance of the transformation of companies towards a carbon-free model is such that the European Commission communicates on the key characteristics which make the Taxonomy a tool at the service of the transition.

First of all, the Taxonomy will be revised regularly by the "European Platform for Sustainable Finance", to raise its level of requirement over time. In addition, the Platform's experts published in March 2021 a report entitled "Transition Finance" which presents various arguments, such as the establishment of technological thresholds of the Taxonomy according to the European environmental objectives for 2030 and 2050, and the inclusion of capital expenditure and debt financing in order to promote the transition strategies of companies in their search for financing.

## 4 THE SPECIFICITIES OF THE SOCIAL AND SOLIDARITY ECONOMY IN FRANCE <sup>17</sup>

In France, the SSE sector benefits from a particularly favorable framework. According to figures from the National Observatory of SSE, it represents 10.5% of total salaried employment in France, or 2.4 million employees in 165,540 companies.

The objective of the amended law n° 2014-856 of July 31, 2014 relating to the social and solidarity economy is to support and develop the sector: securing the legal framework, defining aid and financing tools, strengthening the capacities of action by employees to facilitate the takeover of their business.

The concept of social and solidarity economy (SSE) designates a set of companies organized in the form of cooperatives, mutual societies, associations, or foundations, whose internal functioning and activities are based on a principle of solidarity and social utility. These companies adopt democratic and participatory management methods. They strictly regulate the use of the profits they make: individual profit is prohibited and the results are reinvested. Their financial resources are generally partly public. However, article 1 of the law expands in particular the range of SSE to commercial companies respecting its principles: the goal pursued must not only be the sharing of profits, governance must be democratic; finally, the company must set up an indivisible statutory reserve, known as the development fund. Recently, a decree of March 25, 2021 added to the missions of the General Directorate of the Treasury the promotion of the development of the social, solidarity and responsible economy.

### Strong initiatives have been put in place by the public sector to support the development of the SSE sector:

- The government announced in November 2018 a growth pact for the social and solidarity economy, in order to promote SSE companies, in particular through public procurement. The Banque des Territoires will provide 150 million euros to the sector.
- As part of the "Investment Program for the Future" (PIA) implementation, Caisse des Dépôts was entrusted by the State with the management of a €100 million endowment in favor of the social and solidarity economy, in order to strengthen the equity of companies in the sector and consolidate jobs.
- SSE financing tools are put in place by the public investment bank, as announced in the Bpifrance report of May 31, 2013.
- Defined by article 11 of the law of July 31, 2014, the "solidarity enterprise of social utility" (ESUS) approval allows the most socially demanding companies to be labeled in order to attract private investors through solidarity savings .

**FAIR FINANSOL**<sup>18</sup>: founded in 1995, Finansol is a 1901 law association which aims to promote solidarity in savings and finance: it merged with iiLab in 2021 to form Fair. It promotes ethical commitment through products which, while allowing savings to grow, support access to employment and housing for vulnerable people, and support ecological activities (sustainable development, organic farming) as well as entrepreneurship in developing countries. In contrast, Finansol is also a label created in 1997. It aims to distinguish solidarity savings products from other general public savings products. It guarantees the saver the effective contribution of his investment to solidarity activities, and ensures the commitment of the financial intermediary.

17. This information was collected from the public information portal: <https://www.economie.gouv.fr/cedef/economie-sociale-et-solidaire>

18. <https://www.finance-fair.org/>



# CONCLUSION. ONGOING DISCUSSIONS AND WORK PATHS FOR ACHIEVING THE COMMON AMBITION FOR IMPACT FINANCE OF THE PARIS FINANCIAL CENTRE

The reflections of the Paris Financial Centre Task force on Impact establish a common definition of Impact Finance in France, as well as a "base" understanding of impact in finance to support an ambition able to respond effectively to the challenges of sustainable development. **Our vision of Impact Finance must be holistic to ensure the performance of transformation missions, systemic to be part of public policy objectives, and dynamic for the active management of strategies set in place with a logic of continuous improvement.**

**However, as part of this unifying work, several debates remain open:**

- The alignment of financial actors and companies on the same "impact scale", if possible according to common regulations (Bcorp, ESUS, with a mission, etc.);
- The conversion of the Sustainable Development Goals into operational strategies, supported by enhanced interactions between private actors and

public powers to set investment pathways;

→ The construction of progress indicators, permitting to define a minimum rate of progress in relation to reference frameworks;

→ The possibility of defining a net impact between positive effects and negative externalities, which would rather correspond to the control of risks and which raises the question: can we compare the impacts produced on different themes of sustainable development?

→ Faced with the need for harmonization of practices, is it possible and desirable to express a standardized value of the impact, particularly monetary?

To find out more about the monetization of the impact, it is possible to refer in particular to the work of the "Ecological Accounting" Chair in France or to the "Impact Weighted Accounting" work of the Harvard Business School.

These debates illustrate the richness of the ecological transition implementation: a collective and continuous reflection to bring evolution to professional practices. The proposal for a definition and a common ambition by Finance for Tomorrow should enable French financial actors to strengthen their position in order to collectively advance the debates that remain open. A better structuring of the market could support the dissemination of impact projects and the capacity for innovation of economic actors. In this regard, the definition and ambition of Impact Finance for the Paris Financial Centre must materialize in the operations of the French financial sector.



# 3

## CONSOLIDATING THE PARIS FINANCIAL CENTRE DEFINITION AND AMBITION OF IMPACT FINANCE IN THE FRENCH FINANCIAL SECTOR OPERATIONS

To allow a change of scale in Impact Finance, French practices must evolve in line with the vision and common ambition proposed by the Paris Financial Centre.

# A – REFERENCE WORKS ON IMPACT PRACTICES IN FINANCE

Finance for Tomorrow's definition of Impact Finance relies on the evidence of accomplished beneficial effects. In this sense, the communication of impact results with stakeholders is key to realizing the vision of the financial actors. It must be continuous to hold up the offered support, but also in a continuous improvement effort. The need for transparency is heightened by the lack of maturity of impact analysis methodologies.

## WHAT ARE THE DIFFERENCES BETWEEN ESG & IMPACT DATA?

The type of information and the raw data do not necessarily vary, as Environmental, Social and Governance criteria remain crucial references in an impact approach. The key to making a difference is the idea of contextualization. Thus, the impact data must necessarily: (1) be comparable to a benchmark, in order to demonstrate the change achieved by the project or company; (2) make it possible to monitor the evolution of this impact over time, in particular to verify the contribution of the management fund. This is why complementary and indirect impact data are key: duration, scale, depth of impact.

## WHAT ARE THE REGULATIONS AVAILABLE FOR THE OVERALL CONSISTENCY OF A REPORTING APPROACH?

(EU) **The European Taxonomy** of environmentally sustainable economic activities sets technical thresholds which allow the activity in question to be "aligned", and minimum thresholds which must be respected according to the "Do Not Significantly Harm" principle. It defines a common language for the extra-financial transparency of economic and financial actors.

(EU & FR) **The SFDR regulation**, translated in France by the **decree "29 LEC"**, requires transparency on financial products. It differentiates between products with environmental or social characteristics (Article 8) and products with a sustainable investment objective (Article 9).

(EU & FR) **The Corporate Sustainable Reporting Directive (CSRD)** which revises the non-financial reporting directive (NFRD) imposes reporting on sustainability that must comply with standards.

(FR & EU) **The duty of care** which requires making public an analysis plan aims to prevent risks, in terms of **environment, human rights or also corruption**, on the activities of enterprises, their subcontractors and suppliers.

(FR) **The PACTE law** promotes the actions of so-called "benefit" companies to respond to social and environmental issues. These companies are subject to regular monitoring by independent third-party organizations, in order to avoid greenwashing/socialwashing but also to support them in carrying out their mission.

## COMMON OPERATIONAL REFERENCES

In France, a set of references make it possible to perceive the criteria and guidelines of the most ambitious impact practices recognized by the Paris Financial Centre.

### RÉFÉRENCE 1. JANUARY 2017

#### THE PRINCIPLES FOR POSITIVE IMPACT FINANCE BY UNEP FI

The Principles for Positive Impact Finance provide guidance to financiers and investors to analyze, monitor and disclose social, environmental and economics of the financial products and services they provide. They provide a framework global applicable to different business sectors, including lending, investment and asset Management. The Principles require a holistic assessment of positive impacts and negative effects on economic development, human well-being and the environment: it is what makes them innovative.

**PRINCIPLE ONE – Definition:** Positive Impact Finance is that which serves to finance Positive Impact Business. It is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated. By virtue of this holistic appraisal of sustainability issues, Positive Impact Finance constitutes a direct response to the challenge of financing the Sustainable Development Goals (SDGs).

**PRINCIPLE TWO - Frameworks:** To promote the delivery of Positive Impact Finance, entities (financial or non financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects, programmes, and/or entities to be financed or invested in.

**PRINCIPLE THREE - Transparency :** Entities (financial or non financial) providing Positive Impact Finance should provide transparency and disclosure on:

- The activities, projects, programs, and/or entities financed considered Positive Impact, the intended positive impacts thereof (as per Principle 1);
- The processes they have in place to determine eligibility, and to monitor and to verify impacts (as per Principle 2);
- The impacts achieved by the activities, projects, programs, and/or entities financed (as per Principle 4).

**PRINCIPLE FOUR - Assessment :** The assessment of Positive Impact Finance delivered by entities (financial or non financial), should be based on the actual impacts achieved.

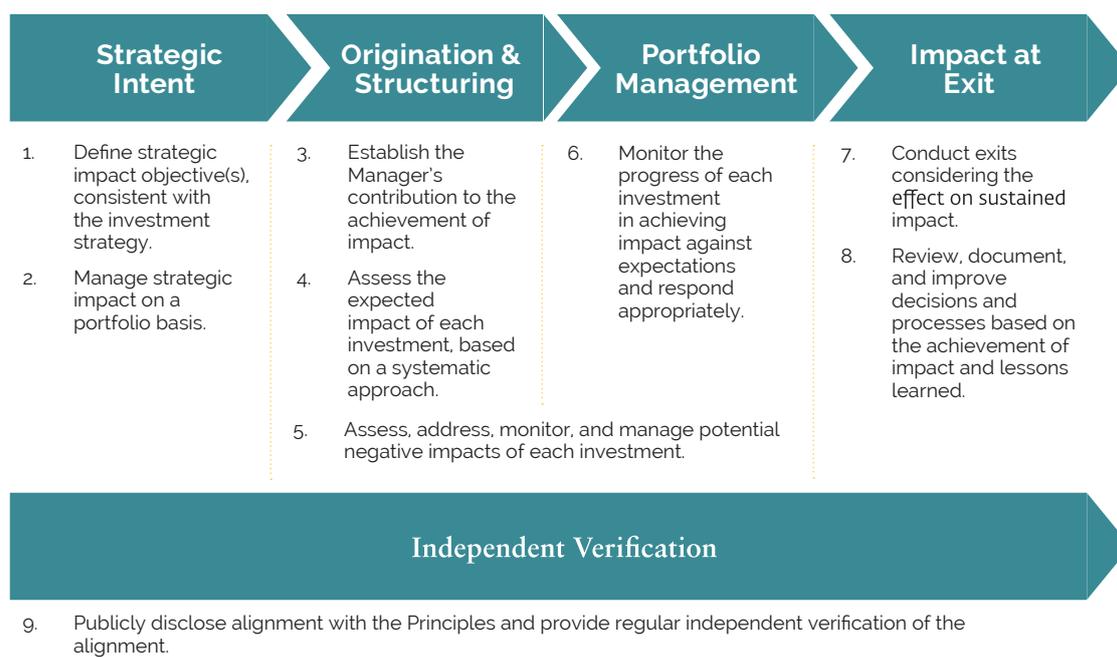


## REFERENCE 2. FEBRUARY 2019

## "IMPACT INVESTING OPERATING PRINCIPLES" BY THE IFC

The principles were developed by a group of financial players to describe the characteristics essential for the management of investments in companies or organizations with the intention of contributing to a measurable positive social impact or environmental, associated with financial returns.

### INVESTING FOR IMPACT: OPERATING PRINCIPLES FOR IMPACT MANAGEMENT



Source: IFC, Brochure «Operating Principles for Impact Management» p.4

## REFERENCE 3. MARCH 2020

## AMF DOCTRINE ON THE "INFORMATION TO BE PROVIDED BY COLLECTIVE INVESTMENT SCHEMES INCORPORATING EXTRA-FINANCIAL APPROACHES"

This doctrine constitutes the benchmark for being in a position to communicate on an ESG fund and will therefore also work as the base for the communication of an impact fund. As such, it expresses the need for an approach built on significant engagement, as defined below:

**Position n°2: Only collective investments respecting the following features can make extra-financial characteristics a central element of communication:**

1. The approach adopted is grounded on a commitment that provides measurable objectives in the regulatory documents for taking into account extra-financial criteria;
2. The commitment to take into consideration extra-financial criteria must be significant. This point is broken down as follows:

**2.1.** "Rating improvement" approaches with respect to the investable universe: the rating of the collective investment must be higher than the rating of the investment universe after elimination of at least 20% of the lowest rated values;

**2.2.** "Selectivity" approaches to the investable universe: reduction of the investment universe by at least 20%.

**2.3.** Approaches in "improvement of an extra-financial indicator with respect to the investable universe (alternative criteria)": a. The average of an extra-financial indicator calculated at the portfolio level must be higher than that of the investable universe calculated after eliminating at least 20% of the most inferior values on this indicator;

The average of an extra-financial indicator calculated at the portfolio level is at least 20% better than the one calculated on the investable universe on condition that the indicator's dispersion does not make this improvement irrelevant.

**2.4.** Other approaches (including the combination of approaches mentioned above): the management company must be able to demonstrate to the AMF how its approach is significant.

When the approach refers to the investment universe, it must be consistent with the universe that would have been selected for a similar fund with no extra-financial characteristics, in order to avoid an "artificial" reduction or improvement in the investment universe. As such, the composition of this universe must only be determined from the fund's strategy and the assets it is able to select.

3. The rate of analysis, extra-financial rating or coverage of the extra-financial indicator must be greater than 90 %. This rate can be understood either in number of issuers or in capitalization of the net assets of the collective investment.
4. In the particular case of approaches that make SRI the central element of communication, the extra-financial analysis applied to collective investment assets considers criteria relating to each of the Environmental, Social and Governance factors.



## REFERENCE 4. DECEMBER 2020

## "INVESTING FOR A SUSTAINABLE TRANSFORMATION" REPORT - IILAB

In the report "Investing for a sustainable transformation", the iiLab defined 9 main stages of impact evaluation and measurement, which actually fit into all operations of an Impact Finance strategy:

1. **Framing:** *What? Why? For whom? How?* The principle is to identify all the issues of the planned impact assessment.
2. **Stakeholder mapping:** *who are the stakeholders in my organization? Which ones to study? Which ones to involve?* This step participates in the definition of the study scope.
3. **Impact mapping:** *What are the expected impacts of my action? What unexpected impacts were observed? What reduced impact perimeter should be retained for the study?* The Theory of Change is used to map impacts.
4. **Definition of indicators:** *How to characterize the studied audience? What performance indicators should be monitored? How to measure the impacts?*
5. **Formalization of the procedure:** *how to conduct interviews, administer the questionnaires? From whom? By whom? At what times?*
6. **Creation of collection tools:** this step consists in creating the collection tools chosen in the previous step.
7. **Data collection:** data is collected with the tools created, according to the chosen procedure.
8. **Analysis:** the analysis carried out consists in verifying the main hypotheses of the Theory of Change according to the initial evaluative questions.
9. **Restitution and recommendations:** the conclusions are returned and strategic recommendations (how to improve its impact?) and methodology (how do I continue to track my impact?) are formulated.

As part of the operational framework definition to measure the degree of sustainable transformation of financial actors, iiLab has identified a series of questions to analyze the strategies of financial actors:

1. **Fund objectives and strategies:** score from 0 to 3 per sub-question
  - What is the sustainable transformation strategy?
  - What are the objectives of the sustainable transformation strategy?
  - What are the indicators associated with the sustainable transformation goals?
2. **Commitment/means implemented/materiality:** score from 0 to 3 per sub-question
  - What are the means used to build and manage the portfolio?
  - How is the sustainable transformation performance of each underlying asset monitored?
3. **Restitution of results:** score from 0 to 3 per sub-question
  - How is the overall performance of the portfolio monitored and communicated?
  - How are the results relating to the overall performance of the portfolio monitored?

REFERENCE 5. JULY 2020

## "ENDOWING FRANCE WITH A COMMON CULTURE OF IMPACT INVESTING" REPORT – IILAB

In the report "Endowing France with a common culture of impact investing", iilab presents three components of a tool allowing to confirm that "what is done is just" in response to the expectations of savers and institutional investors.

**1. The qualitative description of "what I invest in", based on the Sustainable Development Goals (SDGs) defined in the United Nations framework.** To this may be added, broader areas such as social or environmental issues or elements of contextualization of investment such as geographical footprint or investment horizon.

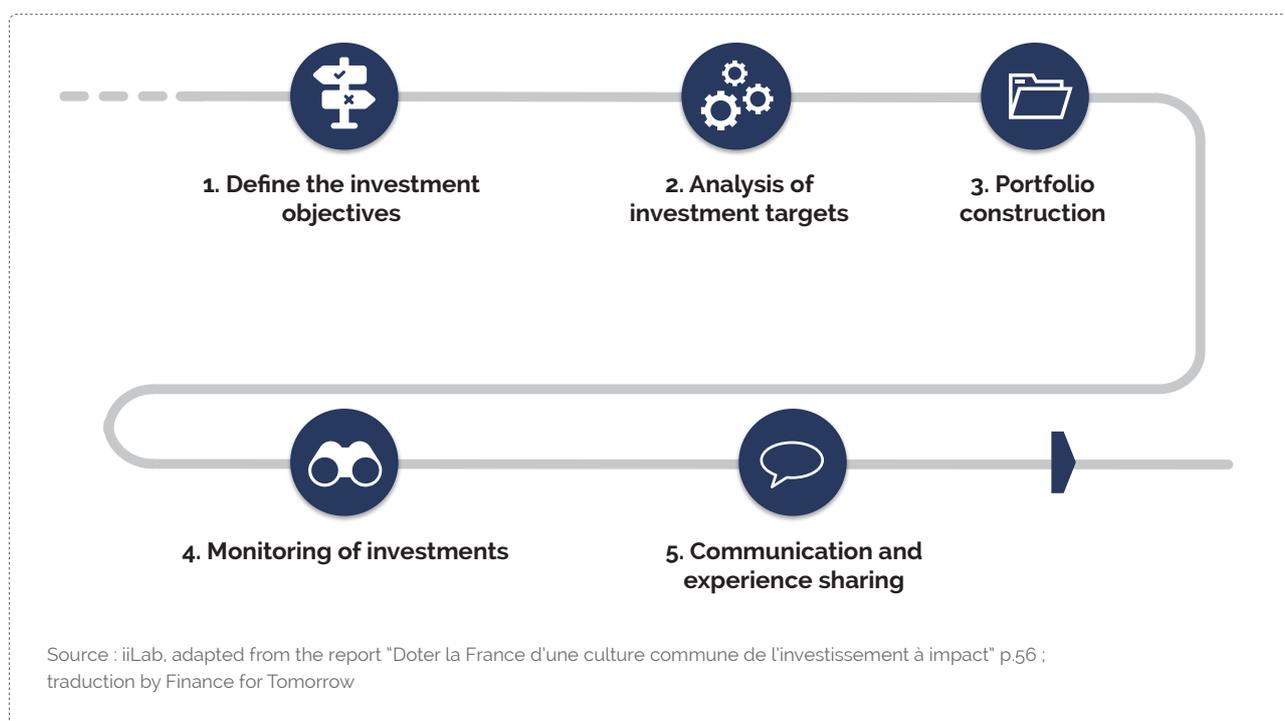
**2. An assessment of the investment process capacity to ensure an alignment between the sustainable transformation intention and the tangible nature of the transformation generated.** This evaluation is based on the consideration of criteria and sub-criteria associated with each of the stages of the investment/management process. These criteria must reflect the degree to which the ambition for sustainable transformation is taken into account. It could ease the comparison of all investment products regardless of their supports: listed/unlisted assets, large compa-

nies/small companies. This list of criteria could be completed in a binary or non-binary way, by adding the scores equally weighted or not to obtain a Yuka or Nutriscore type score.

**3. A series of indicators (and their evolution) to make tangible the reality of the transformation pursued.**

These indicators can be consolidated from standard or specific data communicated by projects/companies or from intermediate indicators approaching the desired effect. The tool would be simple, readable, dynamic and "multipart" to obtain by a simple click on a figure the method of calculation, its composition and the calculation methodology.

To ensure alignment of the strategy with the effective transformation, an assessment of each step of the investment process is necessary, as illustrated in the report:



## REFERENCE 6. MARCH 2021

## "A DEMANDING DEFINITION OF IMPACT INVESTING" REPORT – FIR/FRANCE INVEST

In the report "A demanding definition of impact investing", the working group "FIR/France Invest" presented nine key characteristics of an impact investment approach:

### INTENTIONALITY

1. Clearly defined **impact thesis**, which results in an investment policy aligned with the desired impact objectives.
2. Formalized **impact approach** over the entire investment cycle, with impact objectives defined ex ante and associated means implemented.
3. **Adapted governance** with a clear mobilization of teams and governance bodies as well as the resources allocated to enable the implementation of the impact strategy.

### ADDITIONALITY

4. The additionality approach must be **integrated into the fund's investment process and recover most of the assets** present in the portfolio.
5. The investment horizon is long-term, allowing to perpetuate the company's activities. It is assessed on the basis of the practices of each asset class. The effectiveness of this **long-term** management is measured.
6. **Commitment** of management teams to leaders with the aim of maximizing the impact, reducing any negative externalities and move the company forward in its generation of impacts.

### IMPACT MEASUREMENT AND ITS USE

7. The mobilization of **impact measurement indicators**, defined as impact indicators (if possible of results) or achievements from the impact value chain.
8. Development of a robust, **honest and transparent impact reporting**: informing the deployment of the impact strategy at each stage of the investment process; qualifying the relevance and accuracy of indicator results according to their place in the impact value chain, including an independent review of impact performance and associated reporting.
9. The alignment of financial interests with the impact approach must also be sought. Mainly, when variable compensation is in place, this involves seeking a mechanism by which the impact criteria and/or the results of the impact measurement determine all or part of the **compensation** of the investor and/or the manager.

# B – TABLE OF OPERATIONAL ISSUES

In order to support financial actors looking to engage in an Impact Finance dynamic the group produced a summary table of Impact Finance's key issues. Based on the three pillars of impact, these guidelines present the main principles to be followed on the control of negative externalities, the place of impact in the financing and investment processes and finally to guarantee the transformation performance of the just and sustainable economy.

		Control negative externalities	Establish the place of IMPACT in the processes	Realize the performance of the just and sustainable transformation
Intentionality	How to develop a strategic vision?	<b>Carry out a rigorous and exhaustive extra-financial analysis, based on ESG criteria</b> and a materiality analysis, with transparency on the methods used for the resulting investment / financing decisions.	<b>Ensure the place of impact in the investment thesis and in the strategic project of companies/projects supported</b> (setting of impact objectives and monitoring indicators). It requires compatibility between ecological and social performance and financial return. This can also be reflected in the search for official approval (status of company with mission, ESUS approval) or by the formalization of an internal charter for the company.	<b>Formulate objectives for the just and sustainable transformation of the real economy</b> , based on a clear and transparent methodology including a method for monitoring the achievements, results and impact of the financial vehicle and beneficiaries (Theory of Change).
	What frames of reference should be mobilized?	<b>Develop aligned CSR practices within the funder and the funded institutions:</b> compliance with international conventions, the PRI, European regulatory frameworks, in particular the "Do Not Significantly Harm" (DNSH) principle of the Taxonomy regulation and the main negative impacts (Principal Adverse Impact) of the SFDR regulation. The investor can also rely on a specific framework that he deems relevant (e.g. IMP, impact score, impact.gouv.fr, etc.) to manage negative externalities.	Match investment/financing practices and policies to <b>regulatory frameworks</b> for sustainable finance. For example in Europe: "Sustainable Finance Disclosure Regulation" (art. 8-9) and environmental objectives of the European Taxonomy of sustainable economic activities	<b>Embed sustainable transformation goals in systemic international, national and local frameworks of reference.</b> Cf. Paris Agreements, Nagoya Agreements, UN Sustainable Development Goals, etc.
	How to manage the impact dynamically?	<b>Establish a governance dedicated to limiting negative externalities:</b> dashboards for monitoring relevant ESG indicators, objectives of remediation and improvement actions over time, awareness and training of management and employees on ESG issues.	<b>Set up an alignment of interests in the funder/funded relationship</b> (e.g. shareholders' agreement, financing agreements, etc.): transparency on objectives pursued and time horizons, rates of return on investment, sharing value and expected impacts; variable compensation is partly determined by impact criteria.	<b>Set up a governance for monitoring impact</b> , including various stakeholders solicited for the validation of objectives and monitoring of achievements, and planning commitment actions.
Additionality	How to develop a strategic vision?	<b>Ensure the control and/or reduction of negative externalities</b> by each beneficiary/issuer (in particular according to the 17 SDGs) and at the portfolio level.	<b>Analyze each financing/investment according to the objectives of sustainable transformation pursued</b> in order to provide appropriate assistance to support the potential of each beneficiary and implement a process to demonstrate the extent to which it contributes to this transformation. For example: providing flexible capital, issuing impact signals, adjusting the risk/return ratio, developing new markets, etc.	<b>Adopt a "portfolio vision":</b> commit all the assets in the portfolio to a positive impact approach.
	What frames of reference should be mobilized?	<b>Pilot the development of CSR practices of the asset management company and of each beneficiary/issuer</b> with the objectives of sustainable transformation of financial products, throughout the life cycle of projects.	<b>Include impact financing within recognized frameworks to guide investment policies.</b> E.g. - for financial vehicles: label funds (Greenfin, FAIR, EU Ecolabel), align with the french AMF 2020-03 doctrine, etc.; - for companies: CSR labels, mission statement, ESUS, etc.	<b>Mobilize sources</b> (for example, empirical demonstrations or clusters of indices) to illustrate and explain the effectiveness of the impact projects implemented, that is to say the tangibility of the sustainable transformation.
	How to manage the impact dynamically?	<b>Commit over the entire project cycle, up to the exit stage</b> , with transparency on the investment/financing horizons, over a period necessary to generate the desired impacts from a long-term management perspective.	<b>Establish a commitment policy in order to strengthen impact strategies</b> , in direct relation with the beneficiaries/ issuers over the long term. For example: voting rights, active dialogue, listening to stakeholders, etc. Concerning private equity: with attention to the pursuit of impact research by the successor. Other asset classes: post-divestment commitments.	<b>Continuously improve the monitoring</b> and control of the implementation of development strategies or the just and sustainable transformation of funded projects (e.g. strategic plans, CapEx, territorial policies, decarbonization, ecological R&D, etc.).
Measuring	How to develop a strategic vision?	<b>Make the chosen monitoring indicators consistent</b> with the causal chain initially expected from the strategy, throughout the impact value chain.	<b>Monitor the effectiveness of the funder's actions</b> by consolidating the performance of portfolio assets (data collection according to the indicators defined in the strategy), by differentiating the results of the companies invested and the role of the investor/funder.	<b>Demonstrate the adequacy and ambition of the target values of each indicator</b> to measure the achievement of the sustainable transformation objectives pursued by the product.
	What frames of reference should be mobilized?	<b>Consolidate the overall product footprint</b> for each relevant indicator according to the initial strategy, with at least a carbon footprint (including: life cycle analysis, Scope 3 & avoided emissions) and monitoring of social issues (including: Professional Equality Index, Index Diversity, legitimate repositories, etc.).	<b>Monitor the achievements</b> and impacts of portfolio companies to ensure that the consolidated results and impacts at the portfolio level are consistent with the transformation objectives sought. To do this, the choices concerning the level of granularity, the data sources used and the methodologies for collecting and consolidating the data portfolio must be made explicit.	<b>Express the degree of success</b> of the sustainable transformation strategy compared to the objectives initially set, in consonance with the monitoring of indicators and according to the chosen reference framework, notably the SDGs.
	How to manage the impact dynamically?	<b>Develop transparent annual ESG reporting</b> , allowing to make public the control process for managing negative externalities and unexpected risks.	<b>Publish an annual impact report</b> , robust and genuine, useful to all stakeholders and expressing the effectiveness of the actions implemented by the product - in particular to justify any variable compensation for executives.	<b>Critical review by independent third parties</b> , ensuring in particular the consistency of strategies, results and contribution actions carried out, with what was planned in the supporting documents.



# C – EXAMPLES: GOOD PRACTICES FROM THE PARIS FINANCIAL CENTRE

## AFD “ANALYSIS & OPINION ON SUSTAINABLE DEVELOPMENT”

The French Development Agency's (AFD) mission is to improve the daily lives of local populations by financing projects to promote sustainable economic growth, reduce poverty and inequality, promote biodiversity and ESG responsibility, and reduce the negative impacts of climate change. It finances and supports more than 4,000 development projects.

To ensure the interrelationships between the SDGs, AFD has set up a system to raise questions and better take into account the impacts of projects, aiming to involve counterparts as early as possible:

→ **Sustainable development analysis:** carried out by the project team, it assesses the expected positive or negative effects and measures them through 6 dimensions of sustainable development.

→ **Sustainable development opinion:** carried out by an independent team to the project, it offers a global assessment on a project in a logic of accountability (favorable, with recommendation, reserved or negative), allows to think about how to mitigate or compensate negative impacts and optimize positive impacts.

### THE 6 DIMENSIONS OF SUSTAINABLE DEVELOPMENT ANALYZED ARE:

sustainable growth and resilient economy; social well-being and reduction of social imbalances; gender equality; fight climate change and its effects; preservation of biodiversity; management of environments and natural resources; durability of project effects and governance framework.

### “SUSTAINABLE DEVELOPMENT GOALS BOND ISSUANCE PROGRAM” EXAMPLE:

Three conditions must be met for a loan to be eligible for the SDG issuance framework:

1. A contribution to the SDGs, meets one of the 6 transition objectives of the group's strategic plan and addresses one of the eligible categories of Social Bond Principles, Green Bond Principles or SBG of the ICMA.
2. Thematic and technical eligibility: the loan meets at least one of the three technical eligibility criteria, and at least 2 in the case of climate loans and public policy loans or credit lines: **thematic eligibility** (depending on the intrinsic nature of the activities or projects); **climate** (depending on the climate performance delivered by the mitigation project); **transformation eligibility** (depending on the conditionality to the achievement of sustainable development results).
3. **“Do no significant harm”**: taking into consideration the negative interrelationships between the SDGs: no negative rating on each of the 6 dimensions of the “Sustainable Development Analysis and Opinion” framework.

Find the impact report of the French Development Agency: <https://www.afd.fr/fr/ressources/rapport-dactivite-et-de-responsabilite-societale-2020-rso>

## PROPARCO

A subsidiary of the French Development Agency (AFD) dedicated to the private sector, Proparco has been working with companies and financial institutions for more than 40 years to implement its mission: to promote transitions towards models of sustainable and balanced growth, inclusive and low-carbon, in developing and emerging countries. This mission is accompanied by ambitious impact objectives defined as part of its 2020-2022 guidelines. Proparco is a signatory of the Operating Principles for Impact Management and a member of their Advisory Board.

In a logic of accountability, Proparco assesses and reports on the impact of its action through a process of measuring the results and impacts of its funding. Integrated into the project cycle, this approach aims above all to inform the financing decision by characterizing the expected impacts of financing, in particular through 5 key impact indicators:

- Number of jobs created and/or maintained (SDG 5 & 8);
- Number of avoided tonnes of CO<sub>2</sub> equivalent (SDG 7 & 13);
- Number of theoretical people who will have new or improved access to an essential good or service (SDG 1, 3, 4, 7, 9 & 10);
- Gender equity (SDG 5 & 10);
- Volume of funding mobilized from private actors in the service of the Sustainable Development Goals (SDG 17).

In addition, in order to know the real impact of the funded projects, identify the most effective means to support the impact objectives and respond to the growing challenges of accountability, Proparco also collects key indicators at the stage of monitoring impact measurement. The results and impacts of projects financed by Proparco are presented each year in its Sustainable Development Report.

To accelerate the transitions, Proparco supports its clients in strengthening their CSR approach, improving their operational performance and accelerating their contributions to the SDGs, in particular through the technical assistance that it finances for the benefit of its customers' needs and ambition (PROPULSE: [www.proparco.fr/fr/propulse](http://www.proparco.fr/fr/propulse)). Furthermore, Proparco mobilizes so-called "blending" funds, which are additional subsidized resources enabling it to bear higher financing risks and for which it is entrusted with its management. These resources, mixed with market instruments, facilitate the mobilization of investment flows in favor of transitions, by backing the financing, where appropriate, with bonuses and premiums in line with the effort and the additional impact achieved. They can also be allocated to technical assistance.

Theories of change were developed in 2020 by sector, as part of the sectoral sheets developed to improve prospective knowledge of the potential impacts of projects by sector and type of operation. These sheets, intended for account managers and offices, aim to guide operational staff towards projects with high impact potential to then support them during project appraisal.

*Discover Proparco's sustainable development report: [www.proparco.fr/fr/ressources/rapport-de-developpement-durable-2020](http://www.proparco.fr/fr/ressources/rapport-de-developpement-durable-2020)*



## AMUNDI “FINANCE AND SOLIDARITY”

Amundi's **Finance and Solidarity** investment fund is a specialized fund whose assets are invested at least 50% in unlisted securities of solidarity companies, and the remainder in bond or money market products. In July 2021, it has 41 social enterprises invested. The fund benefits from “ESUS” approval, “Relance” and “Finansol” labels.

### THE FUND'S COMMITMENT CHARTER IS BASED ON FOUR KEY POINTS:

- **Impact First:** combining financial and social performance with the intentionality of a primary impact assessment, having the objective of identifying companies that provide solutions to social and environmental needs through an efficient business model
- **Become a partner for the long-term support of companies:** creating economic value and impact by enabling entrepreneurs to scale up and perpetuate their model; this involves participation in governance bodies and building “pathways” and “synergies” for economic actors.
- **Diversification across all SDGs and asset classes:** adapt to all needs to cover all societal issues.
- **Transparency of information:** publish coherent and concrete information, to prove the achievement of impact objectives and the fund's contribution to resolving issues, but also to co-construct the impact monitoring with entrepreneurs.

### REFERRING TO THE IMP'S 5 IMPACT DIMENSIONS, THE INTERNAL IMPACT MEASUREMENT METHODOLOGY LOOKS AT 5 PILLARS FOR A SINGLE FINAL SCORE:

#### WHAT & WHO

1. **Social commitment (15%):** commitment to meet the SDGs, social impact objective at the heart of the mission and existence of indicators to measure this impact.

#### HOW MUCH & CONTRIBUTION

2. **Societal performance (25%):** proof of the model's quality through quantitative criteria of social impact.
3. **Specific criteria (20%):** evaluation of company-specific impact criteria.

#### RISK

4. **Durability of the proposed solution (30%):** evaluation of the sustainability and “replicability” of the proposed solution;
5. **Transparency (10%):** assessment of the availability and relevance of company information.

### THE IMPACT APPROACH IS AT THE CENTER OF THE INVESTMENT PROCESS BY INFLUENCING EACH STEP:

The choice of opportunities to meet the impact objectives; dialogue with companies before “due diligence” focusing on impact data; validation by an “impact committee”; the establishment of a shareholders' agreement/loan agreement with constraints of impact realization; impact monitoring through frequent meetings with companies, participation in governance bodies and an exit policy conditional on the impact being achieved. All supported by annual reporting.

Find the impact results of the Finance & Solidarity fund: [https://amundi.oneheart.fr/assets/amundi/media/amundi\\_reporting\\_impact.pdf](https://amundi.oneheart.fr/assets/amundi/media/amundi_reporting_impact.pdf)

## CITIZEN CAPITAL ASSET MANAGEMENT COMPANY

Citizen Capital was created in 2008 and has 16 portfolio companies for +€125M under management (July 2021). The fund obtained the Bcorp certification in 2015 and is co-founder of the Community of benefit corporations. The transition to a benefit corporation was voted in January 2021.

### INVESTMENT CRITERIA:

→ **Self-realization:** provide everyone the means to fulfill themselves in society and to deploy their full potential (education, training, work, citizenship & democracy);

→ **Transform:** transform our models to accelerate the transition to a low-carbon society, respectful of our ecosystems (circular economy, energy savings, ecosystem preservation);

→ **Living:** taking action to enable everyone to live with dignity and in good health (health, aging well, purchasing power, access to employment, agriculture, food, housing).

### THE PRELIMINARY IMPACT ASSESSMENT IS BASED ON 6 KEY DIMENSIONS, MATERIALIZED IN AN "IMPACT RADAR":

1. **Depth:** does the company contribute to the sustainable improvement of living conditions?
2. **Intentionality:** do the leader (s) have a vision of what they want to bring to society through the company? Is the company's mission clear?
3. **Additionality:** does the solution provide a contribution or innovation for the company that could change a paradigm of its market?
4. **Accessibility:** is the solution available to everyone or a particular outreach strategy?
5. **Alignment:** is the mission in synergy with the business model? Is it available at all operational levels of the company?
6. **Control of negative externalities:** has the company identified its risks of nuisance? Does it control its negative externalities?

### IMPACT MEASUREMENT AIMS TO DEPLOY AND MAKE TANGIBLE THE IMPACT OF THE COMPANY:

→ **Pre-investment:** understanding the mission of the company, the path and the vision of the entrepreneur; carrying out an internal impact audit; definition with the executives of key impact indicators with objectives.

→ **Support:** assistance provided throughout the investment, particularly in support of strategic thinking and in monitoring and measuring of the impact (social KPIs and reporting), with provision to the network of partners.

This support aims to provide additional resources and skills to those of the executive teams, in particular on the following issues: participation in strategic thinking; support in organization, management and governance; provision of a network and support in business development; support in managing the impact.

Indicators are not standardized a priori so that each company can pursue objectives specific to its mission.

*Discover the impact approach of Citizen Capital: [www.citizencapital.fr/demarche-impact/](http://www.citizencapital.fr/demarche-impact/)*



## INCO VENTURES CONSULTING & ASSET MANAGEMENT COMPANY

INCO Ventures is a European-scale management company, expert in venture capital and pioneer in impact investing, which advises and/or manages more than 500 million euros. The diversity of their funds expresses the potential of Impact Finance across all asset classes. They have developed tools for evaluating companies based on more than 800 financial and non-financial criteria, which take into account the economic performance but also, at equal value, social and environmental impact: INCO Ratings & the MESIS method (dedicated to the structures of the social and solidarity economy).

*Discover INCO Ventures activities: <https://www.ventures.inco-group.co/>*

### EX 1 AVIVA IMPACT INVESTING FRANCE:

fund created in 2014, financed by Aviva France and having invested €30M in more than 58 small and medium-sized enterprises positioned in sectors of general interest, pioneers in terms of ecological transition and alternative economic models that are becoming the norm. AIIF supports companies in particular through active participation in societies strategic committees and the contribution of a network of mentors and experts. The AIIF fund is certified by Finansol and French Impact. - >INCO Ventures ensures the selection of investment projects and the monitoring of participations.

### EX. 2 GENERALI IMPACT INVESTMENT:

fund created in 2020, investing tickets between €100k and €1M in projects addressing two major themes: the professional integration of refugees and the support of vulnerable families and children. - > Companies are selected by applying the INCO Ratings methodology, which includes an impact and SRI filter. Companies with an overall score of less than 12/20 are automatically excluded and cannot be financed.

### EX. 3 SYCOMORE IMPACT EMPLOI BY INCO

fund created in 2020, investing tickets between 100k € and 1M € in companies creating inclusive jobs: "The targets of the fund will be in particular companies with ESUS approval or similar within the meaning of the Labour Code Article L. 3332-17-1. The fund's target companies are active in the creation of inclusive jobs, i.e. companies where: where at least 30% of employees have little or no degree; come from disadvantaged geographical areas; have difficulty accessing employment; at least 30% of staff are people leaving a period of unemployment of at least one year when they are hired; creating employment in economically disadvantaged geographical, urban or rural areas."

### EX. 4 EURO SOCIAL BOND FUND

the fund was established in 2017 and is managed by the British Management Company Columbia Threadneedle Investments. It subscribes to listed social bonds, issued by communities, intergovernmental institutions, and major groups involved. - >INCO deploys a methodology for measuring social and environmental impact adapted to Social Bonds, co-built with Columbia Threadneedle Investments.

## CRÉDIT COOPÉRATIF “CHOOSE YOUR IMPACT” CREDIT

The bank Crédit Coopératif, part of the BPCE group, is a benchmark in the French Social and Solidarity Economy. It committed to publish its ESG indicators on the French government's "Impact" platform.

In March 2020, the bank launched the "Choose your Impact" credit to encourage companies and associations to engage in an active approach of corporate social responsibility (CSR). The achievement of environmental and social indicators, defined jointly when the loan is taken out, then allows a reduction in the interest rate of 0.10%. The criteria chosen when signing the credit must be based on one or more areas of application of corporate social responsibility according to ISO 26000. The loan amount can vary between 700,000 and 5 million euros. The credit works only at a fixed rate and for a period of 5 to 15 years maximum.

*Discover more: <https://www.credit-cooperatif.coop/Entreprises/Financements/Pret-choisir-son-impact>*

## SOCIÉTÉ GÉNÉRALE “POSITIVE IMPACT FINANCE” WITH UNEP FI

Société Générale bank led the creation of the "Positive Impact Initiative" in 2015 within the UNEP Finance Initiative. This initiative brings together banks internationally and has led to the publication of "Principles of positive Impact Finance" as well as strategic tools for analyzing economic opportunities.

Société Générale's "Impact Finance" strategy aims to respond to the environmental and social needs of their clients to facilitate their financing and allow them to scale up.

Their method is threefold:

- **Increase impact:** reduce the "cost per impact" for better project resilience.
- **Facilitate credit:** reduce the risk of operations, offer public-private risk-sharing tools or even structure vehicles with critical size for the financial debt and capital markets.
- **Using the lever of digitization:** new services that are sources of value creation, in particular by collecting data to demonstrate the track record of projects, whose success supports development.

*Discover the works on impact finance of Société Générale : [https://wholesale.banking.societegenerale.com/fileadmin/user\\_upload/SGCIB/pdf/SPIF\\_brochures/Sustainable\\_Finance\\_Brochure.pdf](https://wholesale.banking.societegenerale.com/fileadmin/user_upload/SGCIB/pdf/SPIF_brochures/Sustainable_Finance_Brochure.pdf)*



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"Taxonomie des activités économiques durables sur le plan environnemental":

— Legislative text

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>

— List of delegated acts

[https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en](https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en)

— More information

[https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en)

"Declaration of Extra-Financial Performance":

— European directive

<https://eur-lex.europa.eu/legal-content/FR/TXT/?uri=CELEX%3A32014L0095>

"PACTE Law": legislative text

<https://www.legifrance.gouv.fr/dossierlegislatif/JORFDOLE000037080861/>

AMF Doctrine 2020-03 on "information to be provided by collective investments incorporating extra-financial approaches"

<https://www.amf-france.org/sites/default/files/doctrine/Position/Informations%20a%20fourmir%20par%20les%20placements%20collectifs%20integrate%20des%20approches%20extra-financieres.pdf>

Article 29 of the energy-climate law on extra-financial reporting by market actors:

Application decree

<https://www.tresor.economie.gouv.fr/Articles/2021/06/08/publication-du-decret-d-application-de-l-article-29-de-la-loi-energie-climat-sur-le-reporting-extra-financier-des-acteurs-de-marche>

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## THE MEMBERS OF THE DEDICATED WORKING GROUP ARE:

**Thibaut Ghirardi** and **Soline Ralite**, 2Dii; **Mathieu Azzouz** and **Thimothée Jaulin**, Amundi; **Esther Illouz**, **Marion Joubert**, **Camille Laurens-Villain** and **Juliette Wassenhove**, AFD; **Sylvie Malécot**, AF2i; **Vincent Kiefer**, **Guilain Cals** and **Mathieu Garnerio**, ADEME; **Louise Derochechouart**, **Cécile Leclair**, Avise; **Manon Septfons**, Aviva France; **Sophie Méchin**, BNP Paribas Capital Partners; **Laurence Méhaignerie**, Citizen Capital; **François Lett**, Ecofi; **Edward Luu**, Rotshild & Co Asset Management Europe; **Thibault de Saint-Simon**, Entreprendre Foundation; **Axel Bonaldo**, Impak Finance; **Nicolas du Rivau** and **Paul Morvannic**, In Extenso Finance; **Coline Pavot**, La Financière de l'Echiquier; **Pierre Schmidtgall**, LITA; **François Bergère**, LTIIA; **Karen Degouve**, Natixis; **Olivier Deguerre**, Phitrust; **Caroline Corlin** and **Pierre Forestier**, Proparco; **Philippe Tastevin**, Qivalio; **Sarah Mathieu-Comtois**, PwC; **Naoko Nakatani** and **Guillaume Vaudescal**, Groupe Renault; **Olivier Picard**, Société Générale; **Hadjira Hamdaoui**, Société Générale CIB; **Davina El-Baze** and **Audrey Gross**, Directorate General of the Treasury; **Capucine Beslay**, Trusteam; **Mathieu Negre**, UBP.

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# CONTACTS

## FINANCE FOR TOMORROW

This document was written by the Finance for Tomorrow team, **Natacha Boric**, Content & Publications Manager and **Philippe Clerc**, Impact Project Manager, with the support of **Suzanne Pascal & Noémie Le Peuvedic** and under the direction of **Pauline Becquey**, Executive Director of Finance for Tomorrow.

### FOR MORE INFORMATION:

#### **Pauline Becquey**

Managing Director, Finance for Tomorrow  
[p.becquey@financefortomorrow.com](mailto:p.becquey@financefortomorrow.com)

#### **Philippe Clerc**

Project manager - Impact, Finance for Tomorrow  
[p.clerc@financefortomorrow.com](mailto:p.clerc@financefortomorrow.com)

