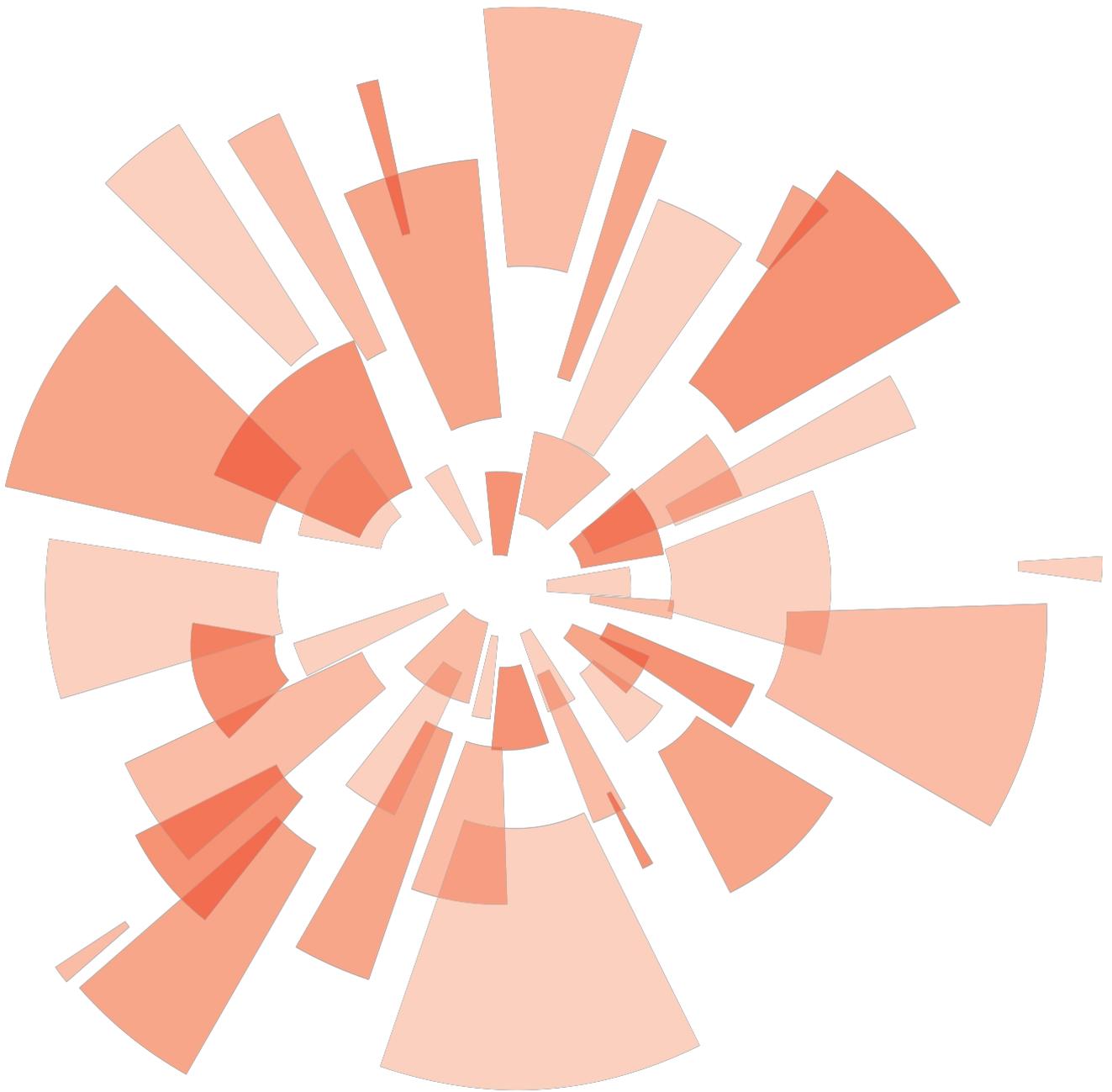


DEFINITION OF IMPACT FINANCE





EXECUTIVE SUMMARY

To achieve the Sustainable Development Goals and those of the Paris Climate Agreement and provide responses that are commensurate with the challenges, **our ways of thinking and acting must evolve. The ecological, energy and solidarity transition requires a transformation of the real economy: financial actors must use all the resources at their disposal to contribute to this.**

Impact **finance** is experiencing significant growth in this context. France has a strong track record in this area, with pioneering players in solidarity-based finance who have proven their resilience. In its assessment, FAIR (formerly iiLab) estimates that the French impact investment market reached €4.4 billion in assets under management as at 31 December 2019, with annual growth of 9%. **The challenge is to find the levers that will enable impact finance to develop across all financial asset classes in order to effectively address the urgency of the ecological and social crisis.**

At the request of Minister Olivia Grégoire, Secretary of State to the Minister of Economy, Finance and Recovery, responsible for the Social, Solidarity and Responsible Economy, Finance for Tomorrow launched a Place group dedicated to impact finance in March 2021. This group now brings together more than 80 institutions from the Paris financial centre within four working groups focusing on (i) definition, (ii) measurement, (iii) conditions for development and removal of barriers, and (iv) international promotion of the French vision of impact finance.

The primary mission of the Place Impact Group is to propose a vision of impact finance that would enable its scope to be expanded without ever compromising its integrity. **Work on defining and developing impact finance has been underway in France for several years. The aim of the work carried out by the Place group under the aegis of Finance For Tomorrow is to bring together the visions and practices of Place, but also to ensure that the definition is applicable to all types of financial products and asset classes, in order to unite stakeholders around a common ambition.** Finance for Tomorrow has led discussions within a working group dedicated to defining impact finance, drawing on the reference work of iiLab (now FAIR following its merger with Finansol), the Forum pour l'Investissement Responsable (FIR) and 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 on the definition was made possible by the efforts of co-pilots Thierry Sibieude, Professor of Entrepreneurship and Impact Innovation at ESSEC Business School, and Caroline Neyron, Managing Director of Impact France. They were supported in their work by the Place group pilots, Philippe Taffin, Director of Investments at Aviva France, and Xavier Ploquin, Director of the Office of the Chief Executive Officer at Meridiam, and by professionals from more than 25 institutions in the Paris financial centre, who contributed their insights and shared their expertise to reach a consensus.

We believe it is essential that impact investing 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 makes it possible to position financial players with different levels of commitment. The nature of the assets financed, which determines a significant part of how each investment/financing product can have a social or environmental impact, must be fully taken into account when assessing its potential beneficial effects. Taking into account the asset class in question, each investor/financier is then responsible for defining their objectives in terms of social or environmental impact, ensuring that the desired financial return is compatible with these objectives, and demonstrating the beneficial effects of the strategy implemented.

Following the working group's deliberations, Finance for Tomorrow proposes the following definition:

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

It draws on three key principles of the approach – **intentionality, additionality and impact measurement** – to demonstrate:

1. The joint, long-term pursuit of environmental and social performance and financial profitability, 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 predefined environmental and social objectives, the relevant investment or financing period, and the measurement methods, in accordance with the theory of change framework;
3. The achievement of these environmental and social objectives within reference frameworks, in particular the Sustainable Development Goals, at international, national and local levels.

This definition is intended to be comprehensive in that **it can be applied to all types of financial products involved in impact investing, from solidarity-based finance to new entrants**. It can cover both listed and unlisted investments, as well as bank financing and loans, provided that they meet the criteria of the definition. It is also intended to be ambitious, enabling financial players with different levels of commitment to be positioned in a clear and transparent manner.

The core of the definition of impact finance is the "fair and sustainable transformation" of the real economy. This must enable sustainable development issues to be embedded in all aspects of businesses and projects, thereby promoting this transformation of the real economy. This transformation must necessarily be **demonstrated by evidence based on objective and transparent factors**. In this respect, the definition explains the difference between responsible finance, which focuses on processes and risk management, and impact finance, which is embodied by the **three pillars recognised by the market and anchored by the work of France Invest and the FIR:**

– **intentionality**, which corresponds both to the financial actor's desire to contribute to generating social and/or environmental benefits and to the financed company's commitment to achieving one or more sustainable development objectives at the heart of its business model;

– **additionality**, which corresponds to the specific contribution of financial players enabling the beneficiaries of investments/financing to increase the impact generated by their activities themselves.

– **the measure**, which refers to the assessment of environmental and social impacts in the real economy based on the objectives announced in the context of intentionality.

Initially, the definition emphasises the joint pursuit of ecological and social performance, but also financial profitability greater than or equal to zero, with at least capital preservation, in order to honour fiduciary responsibilities. Indeed, the various definitions of impact finance always specify that it is neither a charitable donation nor philanthropy. It is therefore the responsibility of each investor/financier to



to define their objectives in terms of social or environmental impact and to ensure that the financial returns sought are compatible with these objectives.

The success of an impact finance strategy also depends on **controlling negative externalities** in order to produce a positive "net impact". This logic is based on European regulations on sustainable finance, in which the principle of "do no significant harm" (DNSH) is now the minimum requirement. No activity or investment can be considered to have a positive impact if it has significant negative impacts on another environmental or social factor. The definition is therefore 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 an action planning strategy linked by a causal chain from the financial actor's initial decision to the impact on the final beneficiary. The effectiveness of impact strategies and the additionality of the financial actor will depend on the methods they choose to use to generate impact (engagement policy, yield adjustment, development of new markets, etc.). These must be considered prior to the investment or financing decision, and must be transparent, justified and regularly reviewed.

Financial actors must also assess **the most appropriate investment or financing horizon in relation to the objectives they are seeking to achieve** in order to ensure that the impact materialises. **The idea is to avoid a short-term vision** and enable impact management throughout the investment or financing 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 period for investors or the financing period for a project are therefore key issues on which financial actors must propose an approach that is consistent with the objectives pursued. Aligning the interests of the various stakeholders

(financier/beneficiary of the investment or project leader/final beneficiaries/final savers) is therefore necessary in order to address the various challenges of impact and profitability.

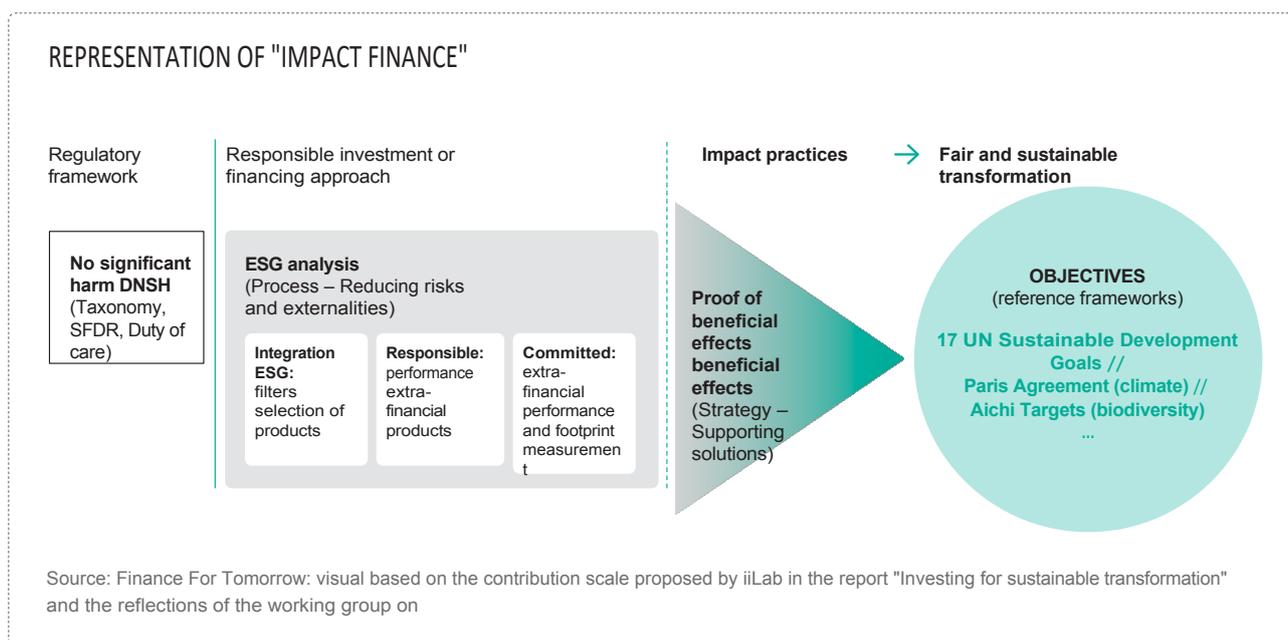
Finally, thirdly, the definition emphasises **reference frameworks, in particular the Sustainable Development Goals and the shared vision of the Paris Climate Agreement**. Systemic objectives have been established, accompanied by quantified targets over defined time horizons, which can only be achieved through a **global effort**. The impact objectives set by financial actors must meet needs and therefore international objectives, which are translated into local objectives. 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. With this in mind, this vision of impact finance naturally calls for a stronger alignment of interests between political and civil actors, businesses and financial actors.

The aim is for French financial players to embrace this vision and develop it in practice. As a reference for the future work of Finance for Tomorrow, it provides a concrete expression of the shared ambition for impact finance among players in the Paris financial centre.

This shared vision of impact finance aims to be:

- **Holistic:** the effects produced by each stakeholder throughout the impact value chain (investor/beneficiary of the investment or financing/final beneficiary) on all sustainable development issues are taken into account; Negative (negative externalities are controlled) and positive (the financial player 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 that are understandable and accessible to all actors.
- **Dynamic:** impact strategies are managed throughout the investment/financing cycle with a view to continuous improvement.

The objective of Finance for Tomorrow is to encourage the development of impact finance within the financial sector in order to accelerate the fair and sustainable transformation of the real economy. The challenge is to scale up the impact sector without compromising its integrity, through a holistic, systemic and dynamic approach, in order to respond effectively to ecological and social emergencies.

Finance for Tomorrow offers support associated with the definition:**6 Visual diagram:****Reading the diagram:**

- The baseline for sustainable finance is now the European legal principle of **"no significant harm"** (DNSH): significant negative externalities must be controlled.
- The gradation of sustainable finance practices reflects the **necessary consistency between responsible practices and the pursuit of impact**. Compliance with the regulatory framework, analysis of non-financial risks and the implementation of ESG analysis processes are the necessary foundations that support impact practices.
- The transition to impact is characterised by **evidence of beneficial effects** for society and the real economy. **The arrow illustrates an action** that aims to achieve effects (intentionality) in order **to attain systemic environmental and social objectives** (additionality and measurability).

Introduction to the "Table of Operational Issues in Impact Finance":

In order to support financial actors who wish to engage in impact finance and help them position themselves according to their level of commitment, the group has also produced a summary table of the key operational issues in impact finance. This table provides guidelines outlining 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 with regard to controlling negative externalities, the place of impact in financing and investment processes, and finally, ensuring the performance of a fair and sustainable transformation of the economy. It is a means of operationalising the above definition and clarifying for all stakeholders the key issues underlying the level of integration and involvement of each financier in this dynamic.



Table of operational issues in impact finance

		Controlling negative externalities	Establishing the place of IMPACT in processes	Reporting on the performance of fair and sustainable transformation
Intentionality	How to develop a strategic vision?	Conduct a rigorous and comprehensive non-financial analysis based on ESG criteria and materiality analysis, with transparency on the methods used for the resulting investment/financing choices.	Ensure that impact is included in the investment thesis and strategic plan of the companies/projects supported (setting impact targets and monitoring indicators). This requires compatibility between environmental and social performance and financial profitability. This may also be reflected in the pursuit of official accreditation (mission-driven company status, ESUS) or the formalisation of an internal company charter.	Formulate objectives for the fair and sustainable transformation of the real economy , based on a clear and transparent methodology that includes a method for monitoring the achievements, results and impact of the financial vehicle and beneficiaries (change theory).
	Which reference frameworks should be used?	Develop CSR practices that are aligned between the financier and the financed party : compliance with international conventions, PRI, European regulatory frameworks, in particular the "do no significant harm" (DNSH) principle of the Taxonomy Regulation and the principal adverse impacts (PAI) of the SFDR Regulation. Investors can also rely on a specific framework that they deem relevant (e.g. IMP, impact score, impact.gouv.fr, etc.) to manage negative externalities.	Align investment/financing practices and policies with sustainable finance regulatory frameworks . For example, in Europe: Sustainable Finance Disclosure Regulation (Articles 8-9) and environmental objectives of the European Taxonomy of Sustainable Economic Activities.	Incorporate sustainable transformation objectives into international, national and local systemic frameworks . See the Paris Agreement, Nagoya Agreement, UN Sustainable Development Goals, etc.
	How can we manage impact dynamically?	Establish governance dedicated to limiting negative externalities : dashboards for monitoring relevant ESG indicators, remediation and improvement objectives over time, awareness-raising and training for management and employees on ESG issues.	Align interests in the financier/financed relationship (e.g. shareholder agreements, financing agreements, etc.): transparency on objectives and time horizons, rates of return on investment, value sharing and expected impacts; variable remuneration is determined in part by impact criteria.	Establish governance for impact monitoring , including various stakeholders involved in validating objectives and monitoring achievements, and providing for engagement actions.
Additionality	How to develop a strategic vision?	Ensure that negative externalities are managed and/or reduced by each beneficiary/issuer (particularly in line with the 17 SDGs) and at the portfolio level.	Analyse each financing/investment in terms of the desired sustainable transformation objectives in order to provide appropriate support to sustain 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, sending signals about impact, adjusting the risk/return ratio, developing new markets, etc.	Adopt a "portfolio vision" : commit all assets in the portfolio to a positive impact approach.
	Which reference frameworks should be used?	Steer the development of CSR practices within the management company and each beneficiary/issuer with the aim of achieving sustainable transformation of financial products throughout the project life cycle.	Include impact financing in recognised frameworks to guide investment policies. For example: – For financial vehicles: label funds (Greenfin, FAIR, EU Ecolabel), align with AMF 2020-03 doctrine, etc.; – For companies: CSR labels, mission-driven company status, ESUS, etc.	Mobilise sources (e.g. empirical demonstrations or sets of indicators) to illustrate and explain the effectiveness of impact projects implemented, i.e. the tangible nature of sustainable transformation.
	How can impact be managed dynamically?	Commit to the entire project cycle, right up to completion , with transparency on investment/financing horizons, over the period necessary to generate the desired impact with a view to long-term management.	Implement an engagement policy to strengthen impact strategies , in direct relation with beneficiaries/issuers over the long term. For example: voting rights, active dialogue, listening to stakeholders, etc. For private equity: with a focus on continuing to seek impact for the successor. Other asset classes: post-divestment commitments.	Continuously improve the monitoring and control of the implementation of fair and sustainable development or transformation strategies for those receiving funding (e.g. strategic plans, CapEx, territorial policies, decarbonisation, ecological R&D, etc.).
Measure	How to develop a strategic vision?	Align the chosen monitoring indicators with the strategy's initial causal chain throughout the impact value chain.	Monitor the effectiveness of the financier's actions by consolidating the performance of the portfolio assets (collecting data according to the indicators defined in the strategy), differentiating between the results of the companies invested in and the role of the investor/financier.	Demonstrate the appropriateness and ambition of the target values for each indicator to measure the achievement of the sustainable transformation objectives pursued by the product.
	Which reference frameworks should be used?	Consolidate the product's overall footprint 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, Diversity Index, legitimate benchmarks, etc.).	Monitor the achievements and impacts of portfolio companies to ensure that the consolidated results and impacts at the portfolio level are consistent with the desired transformation objectives. To do this, the choices made regarding the level of granularity, the data sources used and the methodologies for collecting and consolidating the data portfolio must be clearly explained.	Express the degree of success of the sustainable transformation strategy in relation to the initial objectives, based on the monitoring of indicators and the chosen reference framework, in particular the SDGs.
	How can impact be managed dynamically?	Develop transparent annual ESG reporting to make public the process of controlling negative externalities and managing unexpected risks.	Publish a robust and comprehensive annual impact report that is useful to all stakeholders and demonstrates the effectiveness of the actions implemented by the product, particularly to justify any variable remuneration for executives.	Critical review by independent third parties , ensuring in particular that the strategies, results and actions taken are consistent with what was planned in the supporting documents.

EDITORIAL

Sustainable finance is experiencing unprecedented growth, in terms of regulations, financial products and management practices. However, environmental and social crises are far from being resolved, and the consequences of the urgent need to preserve our planet and humanity are becoming apparent: greenhouse gas emissions are rising again despite the health crisis, biodiversity is collapsing and inequalities are widening. How can we remedy this situation in order to achieve the Sustainable Development Goals and the Paris Climate Agreement? There is also a high risk that the financial sector's professed transformation will be discredited by real impacts that are not in line with its stated practices and commitments. **Our ways of thinking and acting must evolve because the ecological, energy and social transition requires a transformation of the real economy: financial players must use all the resources at their disposal to contribute to this.**

Impact finance is experiencing significant growth in this context. France has a strong track record in this area, with pioneering players who have demonstrated their robustness. The French legal status of the social and solidarity economy, which is unique in the world, nurtures this ecosystem. With this in mind, the mission of the Place sur l'impact group, led by Finance for Tomorrow, is to propose **a vision of impact finance that would enable its scope to be developed** without ever compromising its integrity. **While work on the definitions and development of impact finance has been underway in France for several years, it is now necessary to bring together the visions and practices of Place in order to unite stakeholders around a common ambition.** Once the definition has been established

established, the next steps will focus on measuring impact, removing structural barriers and promoting impact finance internationally.

Based on the conclusions of the Place group's initial work on the definition, we present impact finance as an investment or financing strategy that aims to accelerate the fair and sustainable transformation of the real economy, demonstrating evidence of its beneficial effects. The thinking behind this definition focused on three key ambitions to ensure the transition is effective: our vision of impact must be holistic, systemic and dynamic. All financial players can turn to impact practices if they actively develop strategies with this clear objective of transforming the real economy and contribute to the growth of this sector in order to respond effectively to environmental and social challenges. Indeed, our challenge is to scale up these practices, which are still too marginal.

All French financial players need to embrace this vision and develop it in practice, as better market structuring will support the dissemination of impactful projects and the innovative capacity of economic players. As part of this collaborative effort, many debates are still ongoing. This is the richness that is expressed in the implementation of the ecological and solidarity-based transition: it is a collective, ongoing reflection to transform our professional practices and lifestyles in order to support solutions that are beneficial to the planet and society.

Thank you to all those who are willing to work collaboratively and transparently to build a fair, sustainable and enviable future together.



Thierry Déau
President of Finance for Tomorrow, Chief Executive Officer and Founder of Meridiam



Olivia Grégoire
Secretary of State to the Minister of Economy, Finance and Recovery, responsible for the Social, Solidarity and Responsible Economy



INTRODUCTION

Finance has too often worked against a fairer and more sustainable economy, and the question today is whether it can be an ally, and how? Today, finance is a cornerstone of the fair and sustainable transformation of our society: it can change the world if its players decide to take responsibility for redirecting immediate financial interests towards supporting the fair and sustainable economic performance of businesses.

The challenge is crucial and colossal, as the investments needed to achieve the Sustainable Development Goals amount to \$5-7 trillion per year, of which only \$3 trillion is financed by governments (Filling the Finance Gap – Sustainable Goals Report UNA UK, June 2019). Thus, the financing of the energy transition, the urgent need for which is confirmed and reiterated in the latest IPCC report published in early August 2021, will clearly be part of an impact finance approach.

This is the role that impact finance has set itself, an emerging (and still) ultra-minority sector of finance, as it still accounts for less than 0.3% of total assets under management worldwide, or \$715 billion in 2020 compared to \$502 billion in 2019, according to the Global Impact Investing Network (GIIN). but whose potential is real, with growth of more than 40% between 2019 and 2020. In France, FAIR estimates in its review that the French impact investment market reached €4.4 billion in assets under management as at 31 December 2019, with annual growth of 9%.

The question of how to define this new form of finance, which aims to transform the relationship between return

/ risk into a trinomial of return/risk/impact, thereby encouraging a different business model that repositions the impact of its activities on people and nature as a central element and is based on a fairer distribution of power and wealth, taking into account the impact of the proposed investment or financing jointly and with equal importance, is therefore essential.

We are not the first to tackle this task and numerous definitions are already in circulation: **the objective of the first stage of the Place de Paris group's work on coordinated impact, led by Finance for Tomorrow, is to build on existing definitions and reference works in order to develop a common and shared vision of impact finance within the Paris financial centre**, applicable to all financial products, in line with the work of the solidarity finance funds that pioneered this dynamic.

This approach is naturally in line with rapidly evolving European regulations: the definition aims to comply with the environmental taxonomy, the forthcoming social taxonomy, the SFDR (Sustainable Finance Disclosure Regulation) of April 2021, in particular Articles 8 and 9, and more broadly the CSRD (Corporate Social Reporting Directive) initiative launched by the European Commission.

There is indeed an urgent need to stabilise the situation, as **the challenge is to find the levers that will enable impact finance to be developed, thereby redirecting an increasingly significant portion of finance towards companies capable of meeting the international objectives of sustainable development 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. It will enable financial players positioning themselves on impact to be classified and positioned according to their level of commitment, and will support developments in this practice by going beyond a simple "ESG+" vision. The challenge is therefore to welcome financiers who are committed to a demanding approach that places impact at the heart of their choices and activities, limiting negative externalities and giving priority to supporting the SDGs of beneficiary companies. The challenge is also to clarify to companies and savers their different levels of involvement using a simple and transparent methodology, far removed from greenwashing and social washing.

1. It is worth noting and commending the work carried out by the FAIR mission (Ex II Lab) from March 2020 to December 2020 under the leadership of Sandra Bernard Colinet, and the report by the FIR and France Invest published in March 2021.

This is why the operational principles of this definition will be developed and measured as part of additional work, in particular through a scale for assessing the potential contribution to the sustainable transformation of financial products.

In order to successfully transform the practices of financial institutions, it is essential that all French financial players work towards the same goal: **everyone must be able to embrace the collective definition and bring it to life in order to work on a harmonised methodological framework for assessing impact performance and supporting its scope over time.**

Not all finance is destined to become impact finance, but it must create momentum so that compliance with ESG criteria becomes a minimum requirement for all financing, which is far from being the case, and enable support for companies that have decided to transform themselves. The aim is therefore to broaden and enrich the scope of impact finance, drawing on the pioneers of solidarity finance, without distorting the concept and thus protecting it from "impact washing", by emphasising the transparency of commitments, the compatibility between economic performance and expected ecological and social performance, and the proof and measurement of the impact thus achieved.

Finance is ultimately just a tool, and everything depends on how it is used by its players and managers in the service of the real economy.

Caroline Neyron

Managing Director of the IMPACT France Movement

Thierry Sibieude

Professor of Entrepreneurship and Innovation at ESSEC

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1

DEFINING A FRENCH VISION OF IMPACT FINANCE

This first part focuses on understanding the concept of impact in finance, based on leading French research and feedback from financial players, in order to propose a common and ambitious definition of impact finance for the Paris financial centre.

A – UNDERSTANDING THE CONCEPT OF IMPACT IN FINANCE

WHAT IS IMPACT?

Etymology of the word "impact": from the Latin *impatto* ("shock, rupture"), *impactum*, supine of *impingere* ("to strike against, throw against, collide with").

In 2011, an analysis by the Académie Française stated that the noun "impact", which refers to the collision 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 verb form "impacter" to mean "to have consequences, effects, influence" is inspired by the English language.

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

The verb "impacter" has now been added to the French dictionary as a synonym for the verbs "influence" or "affect". Impact finance therefore seeks to influence human development, economic well-being and the environment by integrating these issues into the heart of investment or financing decisions.

Finally, the initial French understanding of the term "impact", which focuses on the concrete mark left by the meeting 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 High Council for the Social and Solidarity Economy (CSESS) proposed a definition in 2011:

"Social impact consists of all the consequences (developments, shifts, changes, disruptions) of an organisation's activities, both on its direct or indirect external stakeholders (beneficiaries, users, customers) within its territory and internal stakeholders (employees, volunteers), as well as on society in general."

The iiLab uses the following definition in the report *"Giving France a common culture of impact investing"* (July 2020):

"Impact is the sum of changes that occur as a result of the outcomes of a specific action defined in relation to stakeholders, or a set of changes observed in society or the environment that can be causally attributed to a specific action."

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



WHAT IS IMPACT FINANCE?

Many stakeholders have provided definitions of impact finance, which are listed below to help understand the concept:

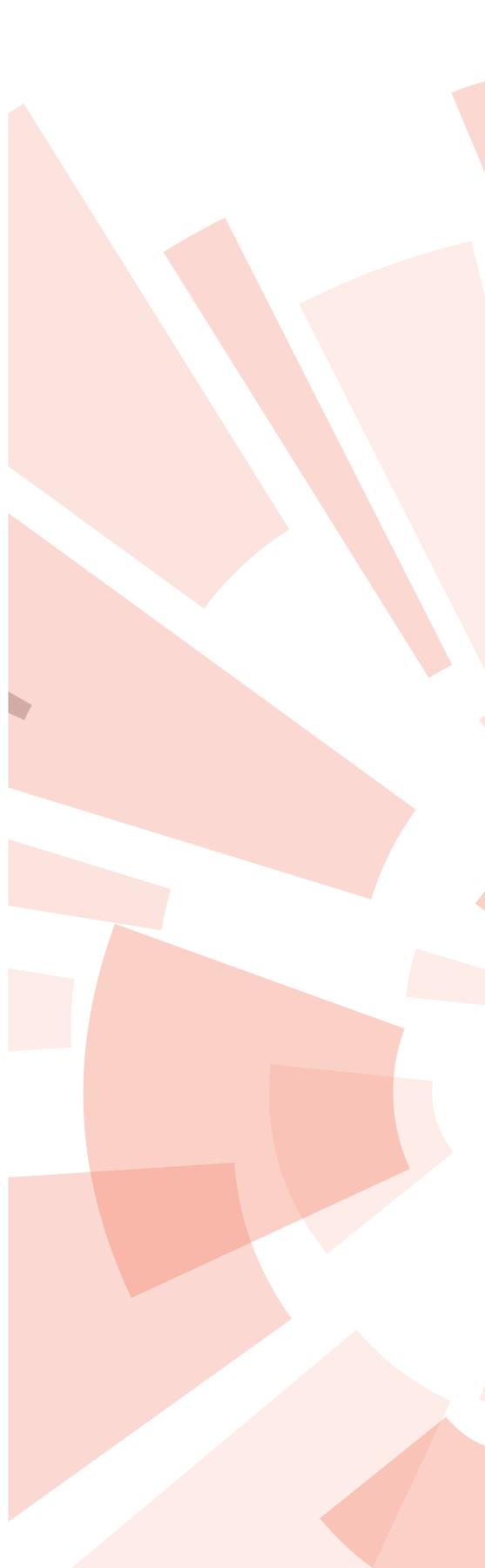
	<p>"All changes caused by an entity in the real economy." Source: "Climate Impact Management System" report, April 2021</p>
	<p>"The sum of changes in the real world resulting from the actions of the financial institution." Source: "Doter la France d'une culture commune de l'investissement à impact" report, July 2020</p>
	<p>"Impact investing, as a subset of sustainable investing, covers all investments that explicitly seek both economic profitability and the creation of a positive and measurable social and environmental impact." Source: "Focus on impact finance" webpage 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 'results' approach)." It is assessed against specific, ex-ante defined impact objectives based on the intentions of the investor and, where applicable, the companies in which they invest. Source: Report "Impact finance: a demanding definition for listed and unlisted companies", 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 characteristic of impact) Source: Annual Impact Investor Survey, 2020</p>
	<p>"Investments made into companies or organisations 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 organisation. An impact can be positive or negative, intentional or unintended." Source: IMP website</p>
<p>JPMORGAN CHASE & 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: cited by iiLab in the report "Doter la France d'une culture commune de l'investissement à impact" (Giving France a common culture of impact investing) 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 IS IMPACT IN FINANCE?

This series of definitions on impact in finance highlights ongoing debates on several dimensions:

- **Is the impact positive, negative, or both?** Is the term "positive" appropriate? Given that modern societies are in a state of "ecological debt", what reference thresholds can be used to determine what is positive? Furthermore, if impacts are both positive and negative, how can they be "summed up" to determine a net impact?
- Can the impact be **unintentional**, understood as an externality, or is it necessarily **intentional**, understood as an effect that brings solutions, the proof of which remains to be demonstrated?
- Various definitions explain that impact finance pursues two objectives at once: **social or environmental impact and financial return**. This emphasises that it is neither a charitable donation nor philanthropy. Conversely, should we assume that financial returns would be affected by the pursuit of impact? So how can we promote strategies that are effective in terms of impact without negating the fiduciary obligations of financial actors to their clients? The notion of the compatibility of financial performance with environmental and social performance ultimately depends on the intention stated and implemented by investors/financiers.

The working group sought to provide answers to these questions.



6 Why is it important to present impact as positive and/or negative in the European regulatory framework?

This issue takes on particular significance in light of recent regulatory developments stemming from the European Union's sustainable finance action plan.

The new **Sustainable Finance Disclosure Regulation (SFDR)** imposes rules governing communication on the consideration of social and environmental issues in finance. It requires transparency both on the **sustainability risks** posed to financial assets by environmental and social factors external to the company (the "outside-in" approach) and on the **main adverse impacts** caused by financial actors on the environment and society (the "inside-out" approach).

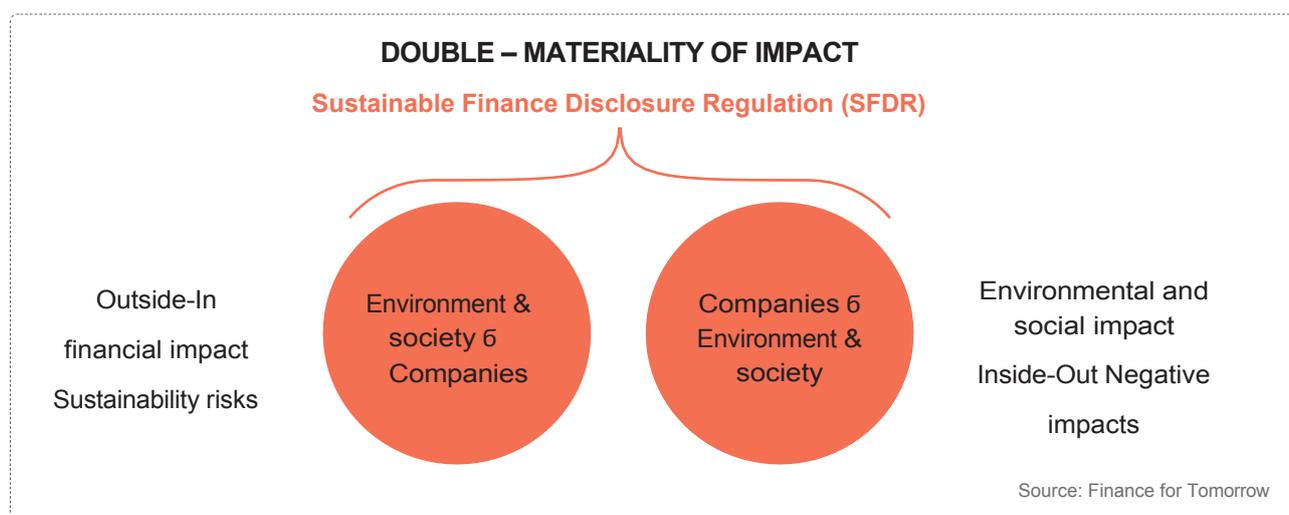
In this sense, it clearly expresses the possibility of a negative impact and establishes a principle of **"double materiality"** based on financial impact on the one hand, and the environmental and social impact of investment and financing decisions on the other.

This means that, in addition to studying the impact of environmental and social risks on their economic models (single materiality), European financial actors also have an obligation to be transparent about their "negative impacts" (for double materiality), particularly if they wish to be able to promote their sustainability characteristics and objectives.

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

The European Taxonomy, which is a reference framework for environmentally sustainable economic activities, sets out specific criteria for determining whether an activity "contributes" to one of the six environmental objectives covered: climate change mitigation and adaptation, water management, sustainable use and protection of aquatic and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

However, in order to be considered environmentally sustainable, the activities analysed must also comply with **a principle of no significant harm (DNSH)** for each of the environmental objectives. In addition to this principle, there are **minimum social and governance standards ("minimum social safeguards")**, which correspond to compliance with the following international conventions and standards: the OECD Guidelines for Multinational Enterprises, the United Nations Guiding Principles on Business and Human Rights, the eight conventions of the International Labour Organisation (ILO) and the International Declaration of Human Rights.

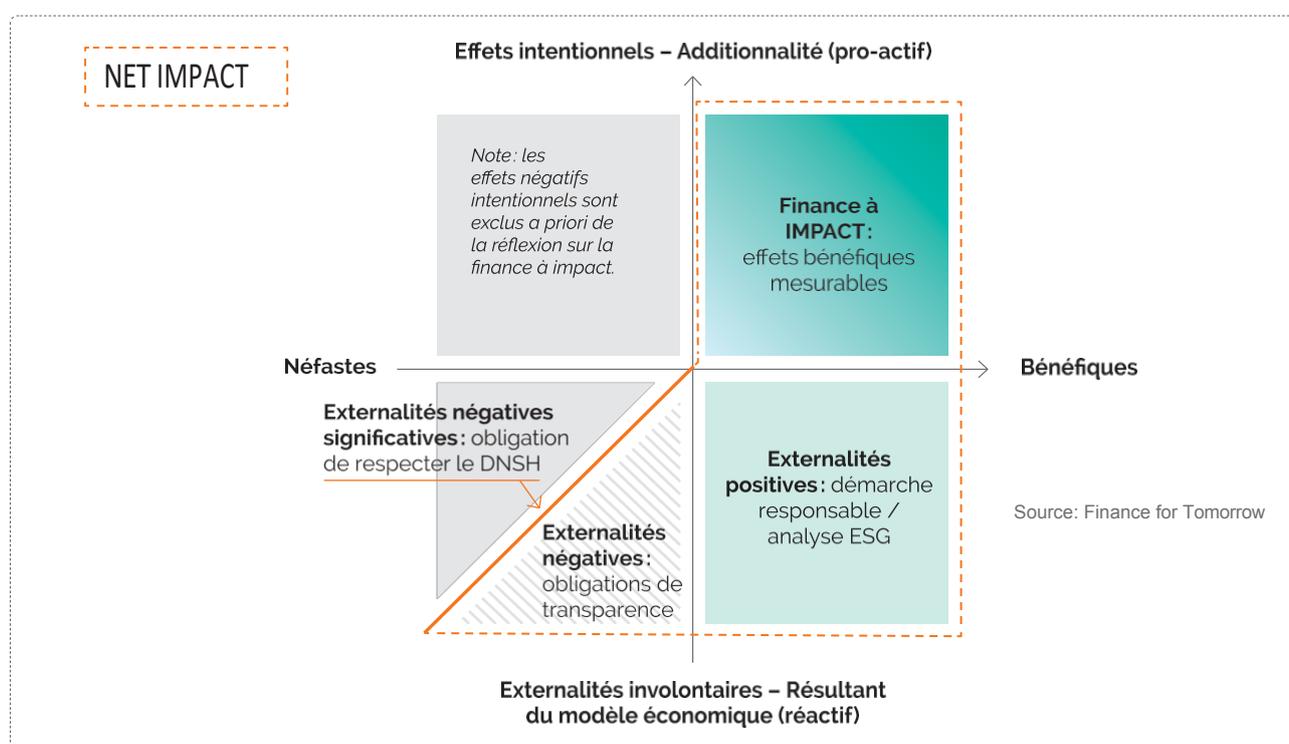


If the impact can be both positive and negative, is it possible to define a "net impact"?

In the report "A demanding definition of impact finance" (March 2021), the FIR/France Invest working group's thoughts on this subject are transcribed as follows:

- Net impact is the basis for a debate on one of the working group's methodological positions. In the context of impact investing, impact is always considered positive because it is sought by the investor (intentionality). Thus, net impact would be the sum of a positive impact (chosen by the investor) and a negative externality (not chosen by the investor). It would therefore be a combination of an impact KPI and a KPI derived from the mapping of negative externalities.
- To date, there is no robust and recognised methodology for net impact (positive externalities adjusted for negative externalities).
- Investors must be aware of the negative externalities that their investments may generate and take steps to minimise them, as encouraged by regulatory developments (the European taxonomy's "Do Not Significantly Harm" principle and the EU Transparency Regulation 2019's "Principal Adverse Significant Impact" principle).

At this stage, based on an analysis of the concept of impact in finance, a picture of the scope of impact finance is emerging:



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

- 6 Positive and negative dimensions coexist;
- 6 Dual materiality, including negative impacts, must be taken into account in light 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 – DEBATES BASED ON FRENCH REFERENCE WORKS ON IMPACT FINANCE

Impact finance is still an emerging practice and a source of debate. The Finance for Tomorrow group's reflections are based on studies by leading French players.

WHAT ARE THE CHARACTERISTICS OF AN IMPACT INVESTMENT?

In the **iiLab** report "*Investing for sustainable transformation*" (December 2020), a scale was developed to measure the ability of financial players to deliver on their promise to savers in terms of contributing to sustainable transformation, presenting a coherent chain of commitment: *Investing for sustainable transformation*.

The **iiLab** proposed six eligibility criteria to characterise an impact investment:

1. Explicit social or environmental purpose:

1.1. The organisation or project has the explicit aim of responding to a social, societal or environmental need or issue.

1.2. The effectiveness of the need addressed is demonstrated by the organisation or project in one of the following ways: 1) through correspondence with conventions (SDGs, IDDDRI, etc.) and 2) through documentation or studies of emerging needs.

2. Intentionality of effects:

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

2.2. The organisation or project formalises a theory of change explaining the cause-and-effect links between the conduct of the activity and the response to the social or environmental needs addressed.

3. Materiality of the commitment and effects:

3.1. Materiality of commitment: Pursuing social objectives has a real impact on how the organisation conducts its business and makes decisions.

3.2. The organisation or project implements tools and procedures for assessing and measuring impact, enabling it to understand and manage its performance in responding to the social or environmental needs addressed.

Echelle d'intensité / risque de la **TRANSFORMATION DURABLE**

	A	B	C	D	E	F	G	H
Besoin de l'épargnant	Intensité minimale de la transformation	Faible intensité de la transformation		Moyenne intensité de la transformation		Forte intensité de la transformation		
Caractéristiques meta objectifs et définition des engagements	Priorité Performance financière avec filtre de sélection ESG	Priorité Performance financière	Performance extra financière du produit financier	Performance financière Performance extra financière et mesure des empreintes sociales et environnementales		Priorité Transformation positive (actif) sur des enjeux déclarés ex ante (ODD, ou à impact) avec mode opératoire associé Performance extra financière et mesure des empreintes		
Pratiques d'investissement durable	ESG	Responsable		Engagé		Impact		

Pour l'Impact en vision cible : Restitution de la mesure de la transformation opérée ex post vs enjeux ex ante.

Source: Investing for sustainable transformation (p.60), iiLab, December 2020

WHAT ARE THE PILLARS OF IMPACT FINANCE?

In France, the understanding of "impact finance" is commonly based on three pillars, which the FIR/France Invest working group formalised in its report "Une définition exigeante de la finance à impact" (A demanding definition of impact finance), and thus established:

1. Intentionality: "corresponds to the investor's [intentional] desire to contribute to generating measurable social or environmental benefits" (with reference to the GIIN definition).

Impact investors have the explicit objective of addressing a sustainable development issue. This is what differentiates impact investing from other responsible investment approaches, which are based on a generic ESG integration process with, in some cases, partial consideration of impact. As stated in the France Invest Impact Charter, investors therefore pursue a dual objective of financial performance and impact. This intention applies to all of the fund's investments (systematic approach) and comes into play at the time of the investment decision (ex-ante).

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

Additionality is a way of giving concrete form to 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 (e.g. financing assets that are not or only partially covered by the financial markets) and/or extra-financial (e.g. actively supporting companies to achieve greater social and/or environmental impact).

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

The impact objectives pursued are essentially positive, whether they represent a quest to increase positive externalities (over time or compared to a baseline scenario) or a significant reduction in the company's negative externalities. The assessment may be qualitative or quantitative and may concern the impact of the products and services offered by the company and, in some cases, the significant impact of these processes. The results of this impact measurement must be communicated and used by the investor in their investment decisions.



OVERVIEW OF THE DEBATES LED BY THE MARKET GROUP FACILITATED BY FINANCE FOR TOMORROW:

Finance for Tomorrow's impact finance working group drew on the three pillars accepted by the market and formalised by FIR/France Invest to seek convergence towards a common and ambitious definition of impact finance in France, covering the diversity of financial products.

Relationship between responsible finance and impact finance:

while agreeing on the complementary nature of the various sustainable finance practices, the group members identified a risk of seeing impact diluted in "ESG+", expressing the need to clarify the relationship between the concepts of "responsible" and "impact" finance. In addition, the group preferred to use the term "effects" rather than "externalities", as the unintended nature of externalities seems incompatible with the pillar of intentionality. Impact practices are thus materialised through a proactive selection of opportunities based on expected effects, which implies managing the resources allocated to the pursuit of impact and a requirement for transparency.

Intensity of impact: every action taken by each stakeholder can affect the performance of a transformation mission, i.e. the extent of the change achieved. Once specific objectives have been determined, it is still necessary to understand all the effects generated and to ensure that negative externalities are limited across all sustainable development issues. Similarly, three levels of intention can be distinguished in the impact "value chain": the financial institution (in-house), the financial vehicle (management company/funds and products) and the companies/project promoters. 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 financial actors taking action over time to strengthen and monitor the effectiveness of their impact strategies, in a process of continuous improvement and while ensuring that negative externalities are controlled. In a transition dynamic, the objective is also to support companies' 360° transformation trajectories.

Reference frameworks, impact objectives: which frameworks should be used to measure positive contributions in terms of targets to be achieved: the Paris Agreement, Sustainable Development Goals, European Taxonomy, etc.? What micro/macro objectives are the actions intended to achieve, and for which stakeholders? How are they communicated? The working group agreed that the Sustainable Development Goals form a reference framework shared by all, even if it can be supplemented.

In 2020 and 2021, publications by iiLab and FIR/France Invest enabled concrete progress towards a common understanding of impact finance in France, defining its characteristics and pillars. Based on this work, Finance for Tomorrow led discussions within a working group dedicated to defining impact finance. In order to support the development of the sector across the various asset classes in finance, an ambitious common vision, applicable to the various financial vehicles, must be promoted for the entire Paris financial centre.

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

DEFINITION PROPOSALS PUT FORWARD BY THE WORKING GROUP

The working group's deliberations, supplemented by interviews with academic experts and supported by discussions with the entire Finance for Tomorrow "Impact" group, made it possible to characterise the differences between responsible finance and impact finance as subsets of sustainable finance, leading to the following proposed definitions:

RESPONSIBLE FINANCE

Responsible finance provides a strategic analysis filter for asset allocation based on the extra-financial performance of environmental, social and governance criteria. It is a risk reduction approach that focuses on processes. Current European regulatory dynamics aim to strengthen this practice, which is set 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 fair 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 pursuit, over time, of environmental and social performance and financial profitability, 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 predefined environmental and social objectives, the relevant investment or financing period, and the measurement methods, in accordance with the theory of change framework;
3. The achievement of these environmental and social objectives is part of a broader framework, notably the Sustainable Development Goals, which have been adopted at the international, national and local levels.



INSIGHTS INTO THE DEFINITION OF IMPACT FINANCE

6 **Investment or financing strategy:** potentially concerns all asset classes and activities of a financial institution. The aim of the definition is to cover the various financial players, particularly banks, whereas previous definitions focused mainly on the concept of investment, without also encompassing that of financing.

6 **Aim:** refers to a direction or strategy towards a specific objective; expresses an intention.

Acceleration: in the face of social and climate emergencies, the role of finance is to exert leverage.

6 **Just and sustainable transformation:** Sustainable transformation is the notion that companies' understanding of sustainable development issues should enable them to embed sustainable transformation within the company and have a real impact through a holistic approach that integrates these issues into all its components at strategic, tactical and operational levels. (Source: iiLab report). Just transition aims to minimise the negative social impacts of a transition to a low-carbon, environmentally friendly world and maximise the positive impacts, for example on job creation.

6 **Real economy:** this refers to the materialisation of the consequence, the change observed in the physical reality of the stakeholders.

6 **Effects:** the group chose to refer to effects, which are the product of a cause, rather than externalities, as the latter are unintended, whereas impact finance expresses a prior intention.

6 **Beneficial:** rather than "positive". With the benchmark being the ecological debt of modern societies, an improvement in the situation will be beneficial but may not offset this "debt" and therefore continue to be "negative".

6 **Intentionality:** corresponds to the desire of financial actors to contribute to generating measurable social or environmental benefits (definition inspired by the work of FIR/France Invest, with reference to the GIIN definition).

6 **Additionality:** considered as the specific and direct action or contribution of financial actors enabling the invested company or financed project to increase the net positive 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 the work of FIR/France Invest).

6 **Impact measurement:** corresponds to the assessment of the social and/or environmental effects produced by financial actors in the real economy (definition inspired by the work of FIR/France Invest).

6 **Causality mechanisms through which the strategy contributes to the environmental and social objectives targeted:** this sentence explains the concept of **theory of change**, i.e. the strategy for planning the change process established by the financial actor, highlighting the causal chain linking the financial institution's own contribution actions and the desired impact objectives (Source: iiLab report).

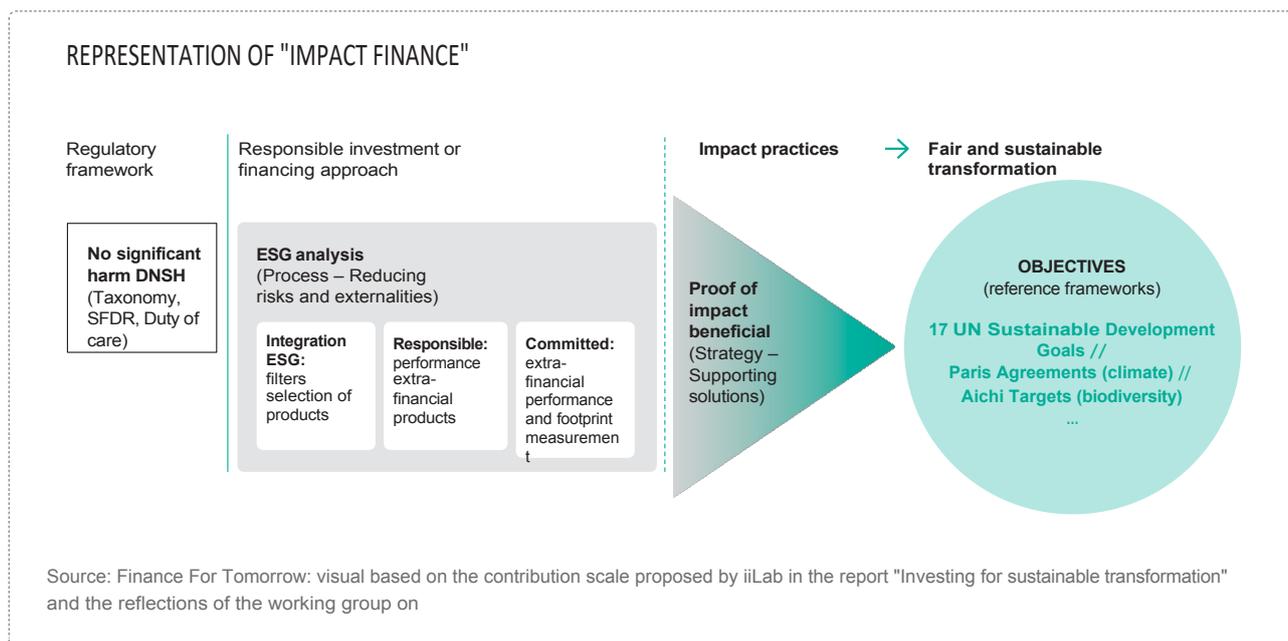
Relevant investment or financing period: the idea is to avoid a short-term view and enable impact management throughout the investment or financing cycle. The financial actor must therefore assess the relevant investment or financing horizon in relation to the objectives set in order to enable the impact to materialise. This also refers to the notion of "long term", which can be key to the sustainability of beneficial effects; the "holding period" for investors is also an issue, as is its suitability for the saver.

6 **Measurement methods:** in relation to the impact measurement pillar, financial actors must define the means by which they will assess the achievement of the objectives.

6 **Reference frameworks for environmental and social objectives:** private actors must be part of a global effort, adopting a to help address 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 recognised reference framework.

This definition is intended to be non-discriminatory with regard to any class of asset or financial product and may cover both investment in unlisted companies, which is the traditional practice of impact finance, and investment in listed companies or project financing, for example, provided that the actor can demonstrate the beneficial effects described in the definition.

VISUAL SUPPORT FOR THE DEFINITION



Reading the diagram:

1. The minimum standard for sustainable finance is now the European legal principle of **"no significant harm"** (DNSH): significant negative externalities must be controlled.
2. The gradation of sustainable finance practices reflects **the necessary consistency between responsible practices and the pursuit of impact**. Compliance with the regulatory framework, analysis of non-financial risks and the implementation of ESG analysis processes are the necessary foundations that support impact practices.
3. **The transition to impact is characterised by evidence of beneficial effects** for society and the real economy. The arrow illustrates an action that aims to achieve effects (intentionality) in order to meet systemic environmental and social objectives (additionality and measurability).

The arrow shape reinforces the expression of causality, highlighting the need for proof of impact.

Indeed, one of the four fundamental characteristics of impact investing developed by the GIIN is the use of evidence and data on impact in the design of investments (2nd characteristic). However, as current scientific research does not allow us to demonstrate a direct causality between the act of financing/investment and the transformation of a given situation in the real economy, it is **the financial actor's approach** that must be proven first. To this end, various criteria are being considered: engagement practices, proactive selection of supported projects, provision of advice, definition and measurement of objectives achieved, etc. These criteria could constitute a set of indicators for estimating the potential contribution of financial products to sustainable transformation.



CONCLUSION

Following the working group's deliberations, Finance for Tomorrow proposes the following definition:

Impact finance is an investment or financing strategy that aims to accelerate the fair 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 pursuit, over time, of environmental and social performance and financial profitability, 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 predefined environmental and social objectives, the relevant investment or financing period, and the measurement methods, in accordance with the theory of change framework;
3. The achievement of these environmental and social objectives within reference frameworks, in particular the Sustainable Development Goals, at international, national and local levels.

Consistent sustainable finance practices are necessary to support an impact-based approach. **The transition from responsible finance to impact finance lies in producing evidence of beneficial effects on the real economy.**

All French financial players need to embrace this vision in order to develop it in practice. **As a benchmark for future work on impact measurement, it will make it possible to determine the "contribution potential" of a financial institution and thus to express in concrete terms the shared ambition for impact finance among players in the Paris financial centre.**

In the rest of this document, a review of the literature will help to consolidate a common understanding of the ambitions and practices of impact finance. To ensure an effective transition, **our vision of impact finance must be holistic, systemic and dynamic.** This vision must be translated into concrete actions within the financial sector, through practices that ensure the mission is fulfilled by placing impact at the heart of processes, while controlling negative externalities.



2

SUPPORTING A SHARED AMBITION FOR THE PARIS FINANCIAL CENTRE FOR IMPACT FINANCE

Constructed as a review of international literature, this section provides a common foundation for understanding the challenges of impact finance. Reflections on the definition of impact finance have resulted in a three-pronged approach to ensuring effective transformation: our vision of impact must be holistic, systemic and dynamic.

A – HOLISTIC: HOW INTENSE IS THE IMPACT?

KEY IDEAS

6 **Impact intensity refers to its scope:** it is the level of transformation sought between two situations, one before and one after.

6 **Impact intention exists on three levels that must be aligned along the "impact value chain" in finance:** the financial institution; the investment or financing vehicle; and the supported company or project.

6 **Each action taken by each stakeholder contributes to or affects the achievement of the mission's performance.** Therefore, in order to be able to effectively solve social and/or environmental problems by implementing an impact strategy, it is necessary to analyse the effects produced by each stakeholder in relation to all sustainable development issues and to comply with the principle of no significant harm (DNSH).

FROM ACTION TO IMPACT

Illustration of the financial sector's impact value chain, proposed by 2Dii in the "Climate Impact Management System" report, based on ISO 14097



Further reading - Discover the concept of collective impact: collective impact is an impact that depends on a chain involving several stakeholders who, taken individually, do not necessarily generate a significant impact but who, taken together in a causal chain, could jointly create a significant final impact. Research on this subject is currently being conducted at the Institut Louis Bachelier.



COMMON UNDERSTANDING

As impact finance practices are still emerging, it is worth presenting some references from international literature to address the following issues: **how to move from action to impact, identify societal needs and effectively analyse impact, while controlling the occurrence of negative externalities?**

6 How does the theory of change enable us to move from action to impact?

Already used in 1954 by Peter Drucker in "The Practice of Management", the "Theory of Change" was popularised by the Aspen Institute in a series of round tables on social change and its evaluation. In the article "The Power of Theories of Change", published in Stanford Social Innovation Review in 2010, it is stated that they serve to ensure the conditions for the success of long-term goals by enabling "backwards" planning of each intermediate step. (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 set of given interventions are supposed to lead to a specific change, through an analysis of cause-and-effect relationships based on existing evidence.³

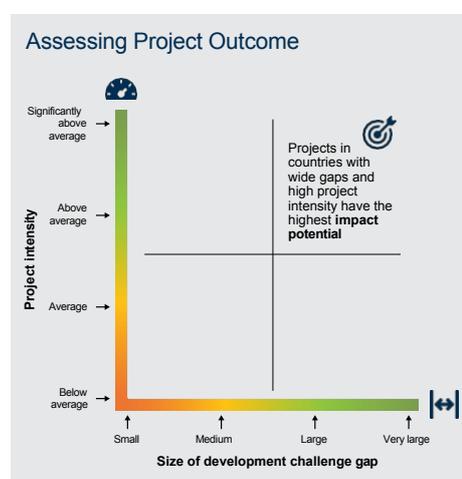
In concrete terms, the theory of change therefore consists of describing the progressive steps between the initial action of the investor/funder and the final societal or environmental results, which enable the targeted impact objectives to be achieved.

6 How can we identify a societal need and seek to respond to it effectively?

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

To assess investment opportunities, IFC produces an anticipated impact measure (AIMM) based on two dimensions:

1) the potential of projects to effectively address a development challenge (intensity) and 2) the capacity of projects to improve the structure and functioning of a developing market.



Source: IFC, Report "How IFC Measures the Development Impact of Its Interventions" p.10 & p.11

3. https://unsdg.un.org/sites/default/files/UNDG-UNDAF-Companion-Pieces-7-Theorie_du_Changement.pdf

6 What specific actions can financial actors take to generate impact?

The Impact Management Project (IMP) collaborated with 2,000 investors and companies to identify **four types of possible actions** that investors can take to develop "impact classes" based on impact performance data (or, in the case of new investments, their impact objectives).

Based on the four modes of action identified in their work, the IMP has developed a matrix presenting a set of **impact classes** that group investment practices according to their (combined) impact characteristics. Furthermore, an impact class combines 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 ⁴)

IMP impact class matrix

Point to note: categories A, B and C do not easily correspond to the vision presented above, in which "impact finance" seeks to contribute to solutions by definition. Therefore, only category C (contribute) would be considered here.

Impact classes (IMP)	ACT TO AVOID HARM	BENEFITING STAKEHOLDERS	CONTRIBUTING TO SOLUTIONS
Signal that impact matters + Actively engage + Develop new/underserved capital markets + Provide flexibility on the risk/return trade-off	A1	B1	C1
Signal that impact matters • Actively engage + Develop new/underserved capital markets + Provide flexibility on the risk/return trade-off	A2	B2	C2
Signal that impact matters + Actively engage • Develop new/underserved capital markets + Provide flexibility on the risk/return trade-off	A3	B3	C3
Signal that impact matters • Engage actively • Develop new/underserved capital markets + Provide flexibility in terms of risk/return ratio	A4	B4	C4
Signal that impact matters + Actively engage • Develop new/underserved capital markets • Provide flexibility on the risk/return trade-off	A5	B5	C5
Signal that impact matters • Be actively engaged • Develop new/underserved capital markets • Provide flexibility on the risk/return trade-off	A6	B6	C6

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

4. <https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/A-Guide-to-Classifying-the-Impact-of-an-Investment-3.pdf>



The analysis by researchers at the University of Zurich, Florian Heeb & Julian Kolbel, details the conditions for success and the limitations of these four modes of action. (Source: Investors Guide to Impact).⁵

1. Signal that impact matters, through market or non-market signals

Asset allocation based on extra-financial analysis can influence company value if a significant portion of the market uses the same criteria (environmental, social and governance). By affecting prices, investors send a market signal to companies that encourages them to improve their practices. This effect is limited when companies are excluded from portfolios.

Non-market signals, which consist of sending messages to influence public discourse by emphasising the challenges to be addressed, 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. Actively engage: provide non-financial support or take action to encourage progress

When providing non-financial support aimed at growing businesses, it is necessary to select companies with a positive "net impact" (i.e. those that generate a positive impact and control their negative externalities so as not to cause significant harm). This support must be relevant to the needs of the companies and is particularly effective for early-stage investments, when investors can directly influence companies.

Shareholder engagement, on the other hand, aims to improve the practices of all companies. Among the conditions for success, researchers identify: the search for relevant improvements at a reasonable cost, depending on the investor's capacity for influence (number of shares, cultural proximity, size and reputation of the investor). Unfortunately, there are significant limitations, with marginal improvements and little possibility of transforming industries.

3. Developing new underserved capital markets

As this action promotes business growth, it requires selecting businesses with a positive net impact. It mainly concerns businesses with limited growth potential, particularly start-ups or those with intangible assets, or those operating in immature financial markets.

4. Providing flexible capital to impact companies that need it to grow

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

5. https://www.csp.uzh.ch/dam/jcr:ab4d648c-92cd-4b6d-8fc85bc527b0c4d9/CSP_Investors%20Guide%20to%20Impact_21_10_2020_spreads.pdf

6 As a financial player, how can you analyse and express your impact?

Based on the different modes of action of investors, which can be cross-referenced with the solutions provided by the projects themselves, the IMP presents a framework for understanding and analysing impact. The five dimensions presented focus on the nature of the impact and its significance (what), and for which stakeholders (who). They incorporate the idea of intensity in terms of the level of transformation sought by asking: on what scale, to what depth and for how long (how much)? Finally, it is also a question of identifying whether the change is actually caused by the action taken (contribution) and anticipating the possible adverse consequences if this action does not occur as planned (risk).

The five dimensions of impact as presented by the IMP:

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

Source: Impact Management Project⁶

6 "Net impact": the need to control negative externalities

Although there is no relevant methodology for calculating 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. All impact financing should, at a minimum, comply with the principle of no significant harm (DNSH) but also seek to minimise any damage to the environment and sustainable development issues.

Controlling negative externalities is mentioned in the first of the four UNEP FI Positive Impact Finance Principles: "Eligible projects are those that have a positive impact on at least one of the three pillars of sustainable development (environmental, social, economic), and for which any potential negative impacts have been identified and properly managed."⁷

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

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



B – SYSTEMIC: WHAT FRAMEWORKS REFERENCE FRAMEWORKS FOR WHAT IMPACT OBJECTIVES?

KEY IDEAS:

6 **Relying on reference frameworks makes it possible to develop a "systemic vision" of impact** in order to pursue collective alignment objectives at a pace that is relevant to achieving them.

The reference frameworks explain the strategy and justify the approach to transforming 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 21 October 2015. They set out 17 crucial issues, accompanied by 169 quantified targets to be achieved by 2030. They have created a common reference point, a series of universal goals for the improvement of society, which have been widely adopted by different types of stakeholders around the world.

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

6 It is not feasible to choose just one goal and ignore all the others, as the 17 issues are interconnected;

6 It is not appropriate to simply assign activities to an objective ex-post; it is necessary to work actively to improve a given situation.

6 To be relevant within a community, these goals must be broken down into very specific details, but the necessary data is still rarely available.

6 Market conditions and macroeconomic policies are not always aligned with or conducive to the achievement of these international objectives.

The Theory of Change is based on the idea that long-term objectives can be divided into intermediate stages: what is the benchmark pace for ensuring that the objectives are achieved by 2030? The economic projects that will lead to this still need to be devised, or at least disseminated and developed: have they been clearly identified?

Once international objectives have been defined, how can we ensure that political, economic and financial decisions are aligned?

To address this key issue, operational "reference frameworks" are emerging. They can cover different scopes (international, national or local) and themes, be supported by institutions as regulatory frameworks, or take the form of private initiatives aimed at producing scenarios or concrete tools for market players, for example.

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 "operational reference frameworks" is identified as a priority. In the report

In the GIIN's May 2021 COMPASS, the development of frameworks for comparing impact is presented as the priority for the GIIN working group for the remainder of this report, scheduled for 2021-2023.

OVERVIEW OF AVAILABLE FRAMEWORKS AND TOOLS:

CLIMATE

The **Paris Agreement** established a common international goal of limiting global warming to less than 2°C. Based on this benchmark, scientists were able to determine the remaining "carbon budget", which now underpins **the goal of climate neutrality** by 2050. The rise of "**climate laws**" is reinforcing this momentum. In Europe, a **European Taxonomy** now clearly defines what constitutes an environmentally sustainable economic activity, particularly in relation to the climate.

The Intergovernmental 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 scenarios compatible with the objectives of the Paris Agreement: nuclear? Gas? Carbon capture?

However, more and more tools are enabling investors to calculate how well their portfolios align with climate objectives. Significant progress has been made in understanding, transparency and consideration of climate-related issues thanks to the framework provided by the Taskforce on Climate-Related Financial Disclosure (**TCFD**).

Here are a few examples of tools for measuring alignment with climate objectives:

6 **ACT (ADEME & CDP)**: the ACT (Assessing low Carbon Transition) initiative aims to provide companies with methodologies to 1) support and 2) assess whether their strategies and the means implemented to achieve them enable them to meet the climate mitigation objectives of the Paris Agreement. ACT offers a comprehensive corporate accountability framework and is part of the Solutions Agenda, supported by the UNFCCC. The analyses follow sector-specific methodologies with a holistic approach, detailing emission reduction trajectories and key performance indicators.

6 **PACTA** (2Dii & PRI): Drawing on an extensive database of climate-related financial data, the PACTA tool aggregates global forward-looking data at the asset level, down to parent companies. The tool then produces a personalised and confidential report, enabling investors to assess the alignment of their portfolios for certain sectors with various climate scenarios and with the Paris Agreement.

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

6 **Transition Pathway Initiative (LSE / PRI / FTSE Russel)**: aimed at investors, this tool assesses companies' readiness for the transition to a low-carbon economy, supporting efforts to combat climate change. 1) Assesses and monitors the quality of 415 companies' management of their greenhouse gas emissions and the risks and opportunities associated with the low-carbon transition; 2) Assesses how companies' projected or expected future carbon performance compares to international targets and national commitments under the Paris Agreement, based on the Sectoral Decarbonisation Approach.

For more information: there are numerous methodologies for measuring the climate alignment of financial portfolios. We invite you to consult the ILB report, "The Alignment Cookbook".⁸

8. <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

General environmental scenarios (e.g. pollution, biodiversity, adaptation) are not harmonised and do not benefit from indicators that are as clear/recognised as those for climate issues. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (**IPBES**) has developed an analytical framework to define a good quality of life "in harmony with nature". This framework remains little known among economic actors, even though the context is changing rapidly as the COP15 of the United Nations Convention on Biological Diversity (**UN CBD**) approaches. The "**nine planetary boundaries**" framework proposed by the *Stockholm Resilience Centre* is rapidly gaining international traction.

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

In Europe, a Community action framework for marine policy has defined 11 indicators describing the "**good ecological status**" of a watercourse. This definition could be extended to different ecosystems. For example, it does not currently exist for soils.

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

Some examples of tools for identifying environmental risks:

6 **CDP**⁹ : an international non-profit organisation, formerly known as the Carbon Disclosure Project until the end of 2012. It holds the world's largest database on the environmental performance of cities and companies. The CDP encourages investors, companies and cities to take action to build a truly sustainable economy by measuring and understanding their impact on the environment. It uses surveys and questionnaires and compiles the results and responses in environmental databases. Recently, it has also started to rate listed funds in terms of their environmental performance.

6 **NEC (Net Environmental Contribution)**¹⁰ : initially developed within Sycomore AM, this tool has become open source and is now available as an initiative: this holistic methodology for assessing environmental impacts is based on a life 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. In concrete terms, 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 highly positive net environmental impact.

9. [ht tps://www.cdp.net/fr](https://www.cdp.net/fr)

10. [ht tps://nec-initiative.org/](https://nec-initiative.org/)

SOCIETY

Social issues are extremely diverse and localised. Numerous international conventions set out "accepted" social minima. These are used in 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 could be developed beyond these minimum standards? In Europe, the challenges associated with economic recovery are driving the definition of a vision based on concrete objectives. This is particularly evident in the "Green Deal", where the "**Just Transition**" appears to be a prerequisite for the success of the ecological transition: indeed, the sustainable transformation of the economy can only be achieved with the mobilisation of citizens. Work is also underway to define a social taxonomy.

Just Transition Coalition¹¹ : Finance for Tomorrow has brought together investors with the aim of conducting engagement campaigns on Just Transition with companies, in order to focus specifically on the social dimension of environmental transition. Representing €3.6 trillion in assets under management to date, the coalition aims to strengthen dialogue between stakeholders by bringing together companies, trade unions and other organisations, in addition to asset owners and managers. The coalition will have three main areas of action: 1) engagement campaigns with companies; 2) the formation of an academic partnership; 3) the creation of a "Just Transition Hub" to enable investors to assess companies' performance on the social aspect of their transition.

Some examples of tools for understanding social issues:

ISO 26000¹² is a voluntary standard from the International Organisation for Standardisation (ISO) that sets out guidelines on corporate social responsibility (CSR) and, more generally, on organisations, i.e. it defines how organisations can and should contribute to sustainable development: The standard emphasises the holistic nature of a social responsibility approach, with regard to the impact of its decisions and activities on society and the environment, resulting in transparent and ethical behaviour: hence the link with dual materiality in addition to the "risk" vision. Seven central pillars provide comprehensive guidance for dialogue with stakeholders: organisational governance; human rights; labour practices; the environment; fair operating practices; consumer issues; and communities and local development. In particular, the standard establishes the principles of accountability (being accountable for one's decisions) and transparency (ensuring transparency in decisions that have an impact on the environment or society).

Convergences¹³: Comprising more than 200 partner organisations from all sectors, the association works to stimulate reflection and action, disseminate best practices and promote the co-construction of innovative partnerships with a strong societal impact, while also focusing on environmental impact. Convergences publishes an "impact finance barometer", which is a tool for raising awareness and sharing information on trends in the sector. By highlighting projects with high impact potential, the Barometer encourages financial players to identify them, among other things.

11. [ht tps://financefortomorrow.com/transition-juste/](https://financefortomorrow.com/transition-juste/)

12. [ht tps://www.iso.org/fr/iso-26000-social-responsibility.html](https://www.iso.org/fr/iso-26000-social-responsibility.html)

13. [ht tps://www.convergences.org/](https://www.convergences.org/)



SUSTAINABLE DEVELOPMENT

Tools providing an overview of sustainable development:

UNEP FI Impact Analysis Tools: The United Nations Environment Finance Initiative has produced a series of open-source digital tools to enable companies and financial actors to analyse their impact using an iterative input-output work programme. The tool uses input data in combination with a set of integrated impact maps to produce results, in particular a set of impact profiles by sector of activity, and to guide users in identifying areas of significant impact and thus determining priorities, strategy and objectives. These tools develop a holistic, "multi-impact" approach, focusing on positive and negative impacts on the following themes: water, food, housing, health, education, employment, energy, mobility, culture & heritage, integrity & security, justice, institutional stability, air and soil quality, biodiversity and ecosystems, resources, climate, waste, inclusiveness, and economic convergence.

6 **SDG Compass:** explains how the SDGs relate to a company and presents tools and information for placing sustainable development at the heart of strategy. Inventory of 60 tools that investors can use to study their risks and measure their impact in relation to the SDGs. Inventory (and explanations) of 1,553 indicators that companies can use to monitor their relationship with one or more SDGs.

6 **World Benchmarking Alliance:** Alliance members represent organisations working at global, regional and local levels to define the private sector's contributions to achieving the SDGs.

Objectives:

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

2. **Publication of benchmarks and methodologies that are transparent and accessible to all.** The benchmark is based on seven pillars identified by experts as areas in need of transformation. Social issues are at the heart of this (human development, respect for human rights, reduction of inequalities) as they are found in all pillars of transformation. The financial sector encompasses the other six pillars as it is the sector that will enable capital to be redirected and the transformation to be financed.



C – DYNAMICS: HOW SHOULD IMPACT BE MANAGED?

KEY IDEAS:

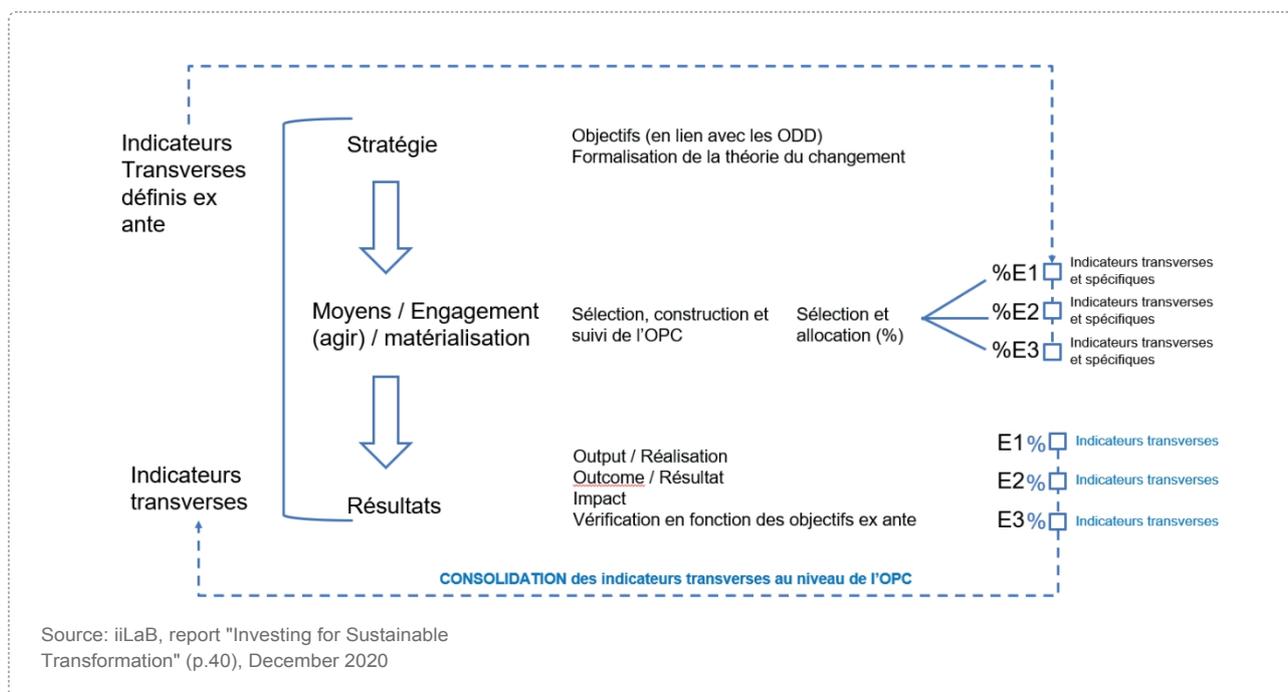
6 **The impact approach must be formalised across the entire investment/financing cycle**, adapted to the asset class, with ex-ante defined impact objectives and associated means of implementation.

6 **The Theory of Change can be used to map the "dynamic materiality" of impacts**, as it involves planning the steps and causal mechanisms so that the investment or financing strategy can contribute to environmental/social objectives.

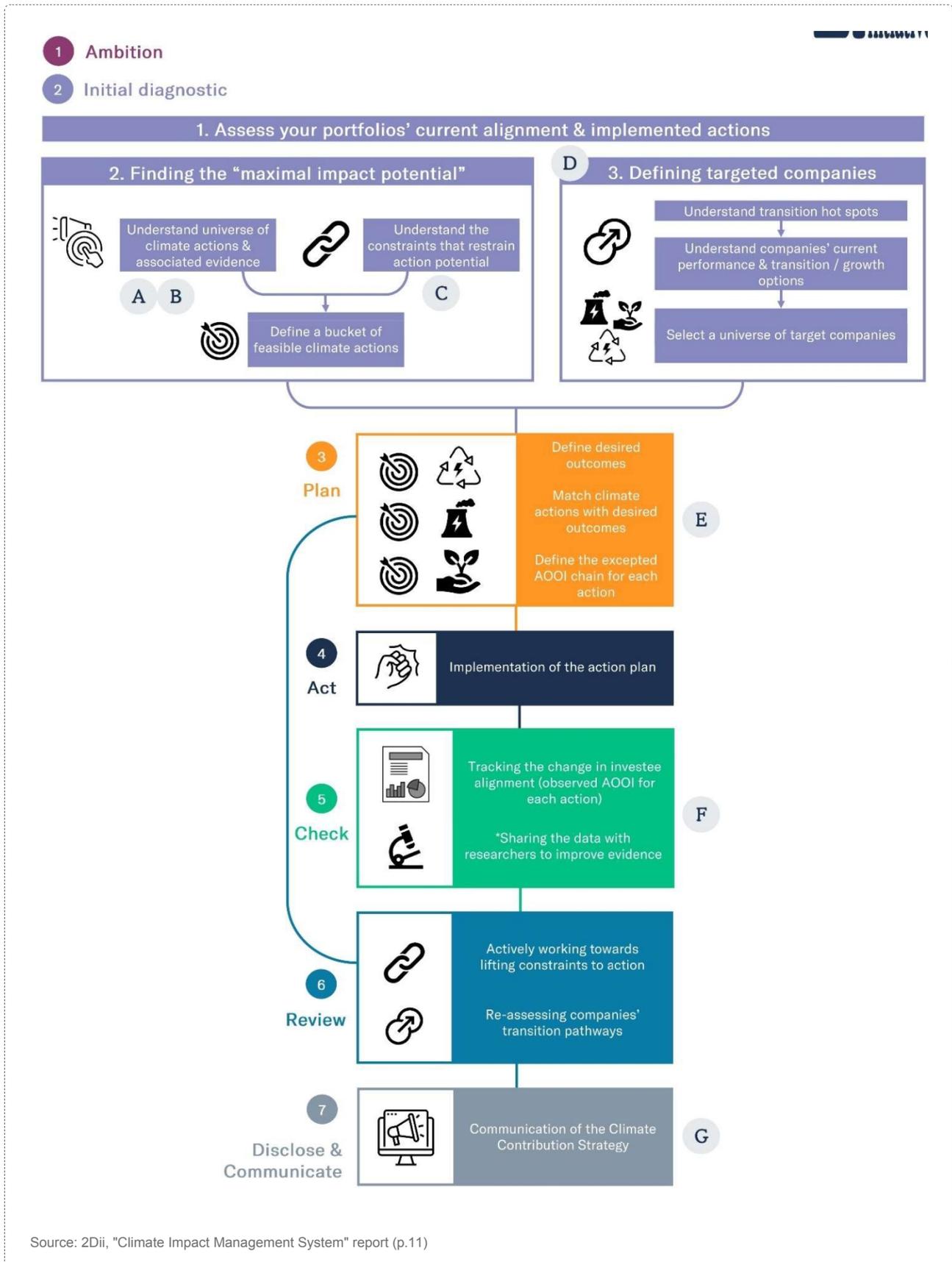
Promoting a dynamic view of impact aims to ensure compliance with the third characteristic of GIIN impact: "**Managing impact performance**". Impact investing comes with a specific intention and requires investments to be managed according to that intention. This involves setting up feedback loops and communicating performance information to help other actors in the investment chain manage their impact.

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

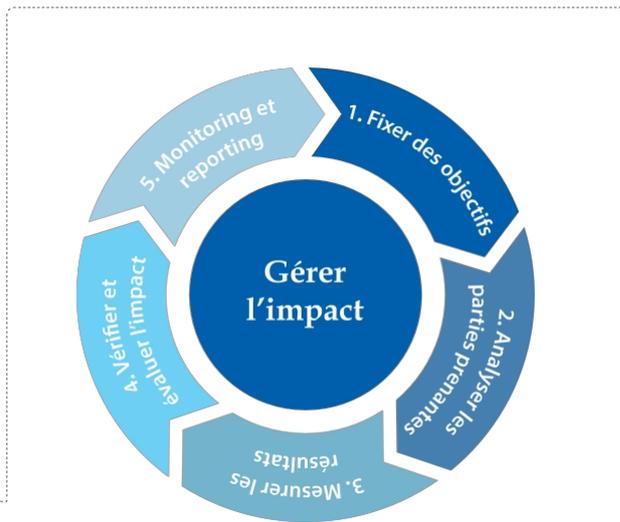
In the iiLab report, "*Investing for Sustainable Transformation*," the backbone of impact assessment and measurement incorporates this dynamic vision:



In its report "Climate Impact Management System", 2Dii proposes an action plan for financial institutions, which is organised and illustrated as follows:



The **European Venture Philanthropy Association (EVPA)** has published "A Practical Guide to Impact Measurement and Management", in which experts have defined a five-step process for measuring impact, based on the "managing impact" framework. Furthermore, the guide states that "the corrective measures adopted can be applied both to the investment management process and to the impact measurement itself."¹⁴



Gérer l'impact tout au long du processus d'investissement

Stratégie d'investissement	Processus d'investissement				
	Pré-sélection des investissements	Due diligence (étude détaillée)	Structuration de l'investissement	Gestion des investissements	Sortie
Déterminer les principaux objectifs d'impact social poursuivis par l'investisseur pour guider le processus d'investissement.	Déterminer si l'opportunité d'investissement s'inscrit dans la stratégie de l'investisseur en posant les questions indiquées dans la phase « Fixer des objectifs ».	Approfondir les questions posées dans la phase « Fixer des objectifs ». Analyser les parties prenantes. Vérifier et valoriser les résultats attendus.	Déterminer les attentes en matière de produits, résultats et impact et sélectionner les indicateurs clés de mesure. Déterminer les modalités de monitoring et de reporting, leur fréquence et attribuer les responsabilités.	Évaluer régulièrement les impacts au regard des indicateurs clés. Vérifier et valoriser les résultats obtenus de façon régulière. Réviser les indicateurs si des changements importants interviennent dans le modèle économique ou d'impact.	Analyser de façon approfondie la performance en matière d'impact en la comparant aux objectifs - vérifier et valoriser les résultats obtenus.

Sources: EVPA, report "A Practical Guide to Impact Measurement and Management", June 2015 (p.18, p.29)

The triptych "holistic, systemic, dynamic" describes an impact approach capable of effectively responding to the challenges of sustainable development. Supported by a common foundation of understanding, these concepts establish a shared ambition for the Paris financial centre in terms of impact finance, which aims to accelerate the fair and sustainable transformation of the real economy.

14. https://www.avise.org/sites/default/files/atoms/files/evpa_guide-mesure-impact_201506.pdf



IMPACT FINANCE IN THE CONTEXT OF THE TRANSITION OF ECONOMIC AND FINANCIAL ACTORS

1 QUALIFYING FINANCIAL INSTITUTIONS AS IMPACT FINANCE PLAYERS

The expression of a need for consistency at different levels of the impact value chain raises the question of financial institution practices. Should all of its activities be dedicated to impact in order to highlight a particular quality and thus promote its projects that benefit society and the environment? This debate is expressed internationally by a distinction between

"impact" players, whose business model is focused on positive environmental or social impact (70% threshold enshrined in French law), and "for" impact players, i.e. those who integrate their thinking and projects into a more generalist activity.

Based on the working group's discussions, we believe that only institutions actively seeking to advance their impact pockets and contributing to the active advancement of the sector could claim to be "impact finance" – thus introducing the category "towards" impact. Restricting impact finance to the most committed new entrants to the financial markets, who are reinventing core business models and practices, would be a strong position with the merit of supporting an emerging sector and essential social innovation. Unfortunately, this position would also be a source of obstacles to the engagement of traditional players, who, through their volume and capacity for influence, are nevertheless in a position to significantly accelerate the transformation of the economy. That said, given the scale of the social challenges and the urgency of the environmental crisis, it seems inconceivable that traditional players could claim to be pursuing an impact-based approach without seeking to change their practices as a whole.

This idea ties in with the fourth characteristic of GIIN impact: **"Contributing to sector growth"**: "Investors with credible impact investing practices use industry-standard terms, conventions, and metrics to describe their impact strategies, objectives, and performance. They also share lessons learned whenever possible to enable others to learn from their experience about what really contributes to social and environmental benefits."

2 THE INTEGRATION OF "TRADITIONAL" COMPANIES IN TRANSITION

Impact finance needs to take an interest in traditional companies undergoing transition, as reducing their negative impacts could contribute significantly to improving the situation for the real economy, the environment and society. All impact finance is transformative finance, constantly evolving in terms of financial and non-financial criteria. This idea is key not only for investment, but also for project monitoring and exit strategies.

This transition process can only be viable if it is carried out consistently and with ambition based on reference frameworks. Through concrete strategic transformation plans, the aim is to steer the pace of transformation, but also to establish strict requirements for controlling negative externalities in order to ensure the mission's success.

3 "TRANSITION" IN THE EUROPEAN TAXONOMY

As a list of activities that can contribute to European environmental objectives based on specific technological thresholds, the Taxonomy is, in a sense, "fixed". However, the importance of transforming businesses towards a carbon-free model is such that the European Commission explains the key characteristics that make the Taxonomy a tool for transition.

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

4 THE SPECIFIC FEATURES OF THE SOCIAL AND SOLIDARITY ECONOMY¹⁵

In France, the social and solidarity economy sector benefits from a particularly favourable environment. According to figures from the National Observatory of the Social and Solidarity Economy, it accounts for 10.5% of total salaried employment in France, representing 2.4 million employees in 165,540 companies.

Law No. 2014-856 of 31 July 2014, as amended, on the social and solidarity economy aims to support and develop the sector by securing the legal framework, defining support and financing tools, and strengthening the capacity of employees to take action in order to facilitate the takeover of their companies.

The concept of social and solidarity economy (SSE) refers to a group of enterprises organised as cooperatives, mutual societies, associations or foundations, whose internal functioning and activities are based on the principle of solidarity and social utility. These enterprises 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 opens up the field of SSE in particular to commercial companies that respect its principles: the aim pursued must not be solely to share profits, and governance must be democratic. Finally, the company must set up a statutory reserve that cannot be distributed, known as a development fund. Recently, a decree of 25 March 2021 added the promotion of the development of the social, solidarity and responsible economy to the remit of the Directorate-General of the Treasury.

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

- In November 2018, the government announced a growth pact for the social and solidarity economy to promote SSE enterprises, particularly through public procurement. The Banque des Territoires will contribute €150 million to the sector.
- As part of the implementation of the Future Investment Programme, the Caisse des Dépôts has been entrusted by the State with the management of a €100 million endowment for the social and solidarity economy, in order to strengthen the equity capital of companies in the sector and consolidate jobs.
- Financing tools for the SSE are being put in place by the public investment bank, as announced in the Bpifrance report of 31 May 2013.
- Defined by Article 11 of the Law of 31 July 2014, the "socially responsible enterprise" (ESUS) accreditation allows the most socially demanding companies to be labelled as such in order to attract private investors through solidarity savings.

FAIR FINANSOL¹⁶ Founded in 1995, Finansol is a non-profit organisation under the French law of 1901, which aims to promote solidarity in savings and finance: it merged with iiLab in 2021 to form Fair. It promotes ethical commitment through products that, while allowing people to grow their savings, support access to employment and housing for vulnerable people, and support ecological activities (sustainable development, organic farming) and entrepreneurship in developing countries. But Finansol is also a label created in 1997. It aims to distinguish solidarity-based savings products from other consumer savings products. It guarantees savers that their investment will effectively contribute to solidarity-based activities and ensures the commitment of the financial intermediary.

15. This information is taken from the public information portal: <https://www.economie.gouv.fr/cedef/economie-sociale-et-solidaire>

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



CONCLUSION. ONGOING DEBATES AND AREAS FOR FURTHER WORK TO REALISE THE COMMON AMBITION FOR IMPACT FINANCE IN THE PARIS FINANCIAL CENTRE

The Place group's reflections on impact establish a common definition of impact finance in France, as well as a "basic" understanding of impact in finance to support an ambition capable of effectively responding to the challenges of sustainable development. Our vision of impact finance must be holistic to ensure the performance of transformation missions, systemic to be in line with public policy objectives, and dynamic for the active management of strategies implemented with a view to continuous improvement.

However, within the framework of this collaborative effort, certain issues remain open for debate:

6 Aligning financial actors and companies on the same "impact scale", if possible based on common regulations (Bcorp, ESUS, mission-driven, etc.);

6 Converting Sustainable Development Goals into operational strategies, supported by

enhanced interaction between private actors and public authorities to set investment targets;

6 The development of progress indicators to define a minimum rate of progress in relation to reference frameworks;

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

Given the need to harmonise practices, is it possible and desirable to express a standardised value for impact, particularly monetary impact?

To learn more about monetising impact, refer to the work of the Chair in Ecological Accounting in France or the Impact Weighted Accounting project at Harvard Business School.

This is the true value of implementing ecological transition: collective and ongoing reflection to change professional practices. Finance for Tomorrow's proposal for a common definition and ambition should enable French financial players to strengthen their position in order to collectively advance the debates that are still open. Better market structuring will support the dissemination of impact projects and the innovation capacity of economic players. To achieve this, the definition and ambition of impact finance for the Paris financial centre must be reflected in the operations of the French financial sector.



3

CONCRETE THE DEFINITION AND AMBITION OF IMPACT FINANCE IMPACT OF THE PARIS MARKET ON OPERATIONS OF THE FRENCH FINANCIAL SECTOR

To enable impact finance to scale up, French practices must evolve in line with the shared vision and ambition proposed for the Paris financial centre.

A – REFERENCE WORK ON IMPACT PRACTICES IN FINANCE

The definition of impact finance proposed by Finance for Tomorrow is based on evidence of the beneficial effects achieved. In this sense, communicating impact results to the various stakeholders is key to making the approach of financial players a reality. It must be consistent in order to support the proposed support, but also in an effort to achieve continuous improvement. The need for transparency is heightened by the lack of maturity of impact analysis methodologies.

WHAT ARE THE DIFFERENCES BETWEEN ESG AND IMPACT DATA?

The type of information and raw data do not necessarily vary, as Environmental, Social and Governance criteria remain essential benchmarks in an impact assessment.

The idea of contextualisation is key to making a differentiation. Impact data must therefore: (1) be comparable to a benchmark in order to demonstrate the change achieved by the project or company; (2) enable the evolution of this impact to be monitored over time, in particular to verify the contribution of the management fund.

This is why complementary and indirect impact data are key: duration, scale and depth of impact.

WHAT REGULATIONS ARE NEEDED TO ENSURE THE OVERALL CONSISTENCY OF A REPORTING APPROACH?

(EU) **The European Taxonomy** of environmentally sustainable economic activities sets technical thresholds, based on which an activity will be "aligned", and minimum thresholds that must be met according to the principle of "no significant harm". 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 known as "29 LEC"**, requires transparency on financial products. It differentiates between products with environmental or social characteristics (Article 8) and products pursuing a sustainable investment objective (Article 9).

(EU & FR) **The Corporate Sustainable Reporting Directive (CSRD)**, which revises the Non-Financial Reporting Directive (NFRD), will require sustainability reporting that complies with certain standards.

(FR&EU) **The duty of care**, which requires the publication of an analysis plan, aims to prevent **risks relating to the environment, human rights and corruption** in the activities of companies, their subcontractors and their suppliers.

(FR) **The PACTE law** promotes the actions of so-called "mission-driven" companies in response to social and environmental challenges. These companies are subject to regular monitoring by independent third-party organisations, in order to prevent greenwashing/socialwashing and to support them in achieving their mission.

COMMON OPERATIONAL REFERENCES

In France, a set of references provides insight into the criteria and guidelines for the most ambitious practices recognised by the Paris financial market.

REFERENCE 1 JANUARY 2017

UNEP FI PRINCIPLES FOR POSITIVE IMPACT FINANCE

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

Principle 1 – Definition: Positive Impact Finance is finance that is used to fund positive impact businesses. It is used to make a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once the potential negative impacts on any of the pillars have been duly identified and mitigated. Based on this holistic assessment of sustainability issues, Positive Impact Finance is a direct response to the challenge of financing the Sustainable Development Goals (SDGs).

Principle 2 – Frameworks: to promote Positive Impact Finance, institutions (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 3 – Transparency: Institutions (financial or non-financial) providing Positive Impact Finance must ensure transparency on:

- The activities, projects, programmes and/or entities financed and considered to have a positive impact, their expected positive impacts (in accordance with Principle 1);
- The processes they have put in place to determine eligibility and to monitor and verify impacts (in accordance with Principle 2);
- The impacts achieved by the activities, projects, programmes and/or entities financed (in accordance with Principle 4).

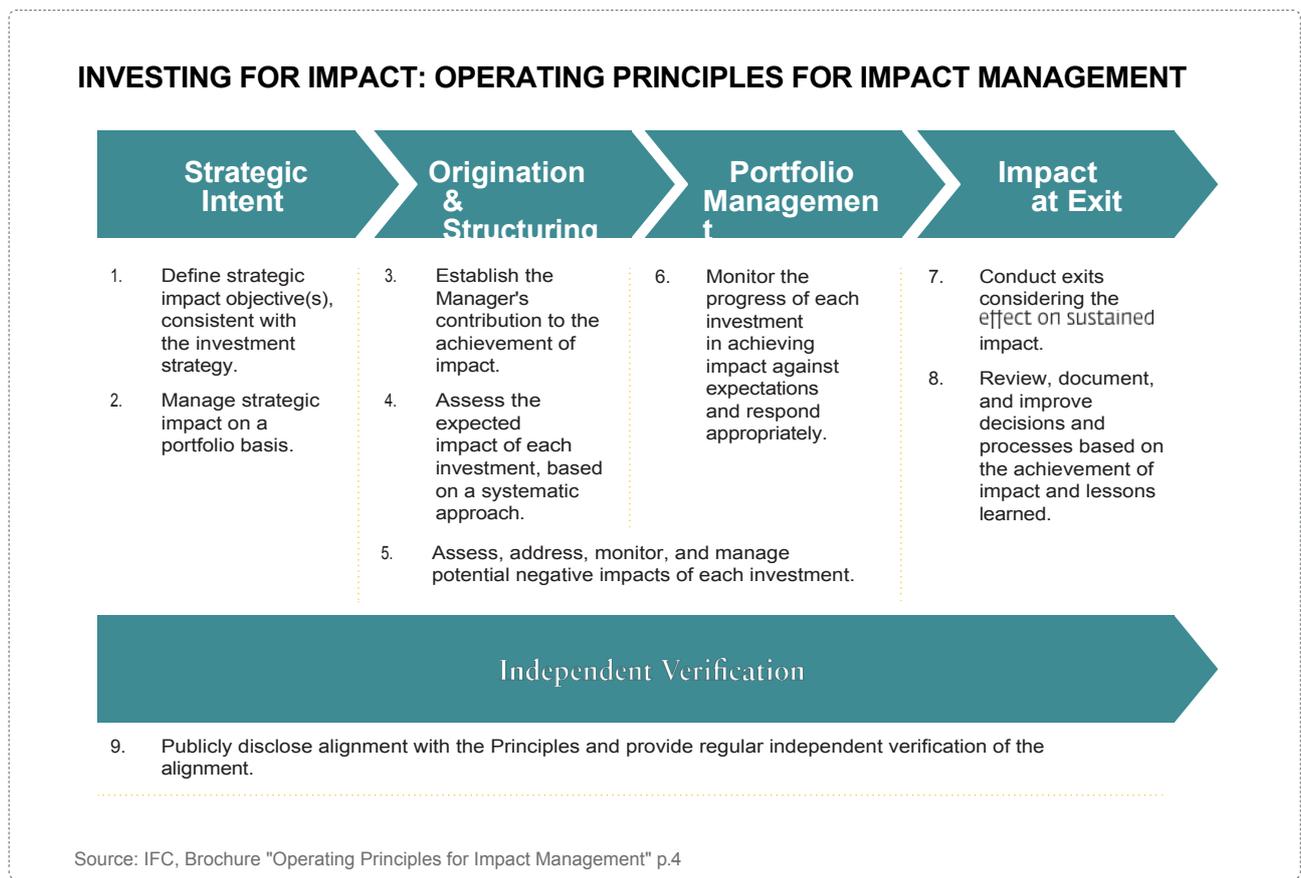
Principle 4 – Evaluation: the evaluation of positive impact investments/financing provided by financial and non-financial institutions should be based on the actual impacts achieved.



REFERENCE 2. FEBRUARY 2019

IFC IMPACT INVESTING OPERATING PRINCIPLES

The principles were developed by a group of financial actors to describe the essential characteristics of managing investments in companies or organisations with the intention of contributing to a measurable positive social or environmental impact, combined with financial returns.



REFERENCE 3. MARCH 2020

AMF GUIDELINES ON "INFORMATION TO BE PROVIDED BY COLLECTIVE INVESTMENTS INCORPORATING EXTRA-FINANCIAL APPROACHES"

This policy serves as a reference for communicating about ESG funds and will therefore also form the basis for communicating about impact funds. To this end, it emphasises the need for an approach based on meaningful engagement, as defined below:

Position No. 2: Only collective investments that meet the following characteristics may make extra-financial characteristics a central element of their communication:

1. The approach adopted is based on a commitment in that it sets out measurable objectives for taking extra-financial criteria into account in regulatory documents.

2. The commitment to take non-financial criteria into account must be significant. This point is broken down as follows:

2.1. Approaches based on "rating improvement" relative to the investable universe: the collective investment scheme's rating must be higher than the rating of the investment universe after eliminating at least 20% of the lowest-rated securities;

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

2.3. Approaches based on "improving a non-financial indicator" relative to the investable universe (alternative criteria): a. The average of a non-financial indicator calculated at portfolio level must be higher than that of the investable universe calculated after eliminating at least 20% of the worst-performing securities on this indicator;

The average of a non-financial indicator calculated at portfolio level must be at least 20% better than that calculated for the investable universe, provided that the dispersion of the indicator does not render this improvement insignificant.

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

When the approach refers to the investment universe, it must be consistent with the universe that would have been selected for a similar fund without extra-financial characteristics, in order to avoid an "artificial" reduction or improvement of the investment universe. As such, the composition of this universe must be determined solely on the basis of 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 terms of the number of issuers or in terms of the capitalisation of the net asset value of the collective investment scheme.

4. In the specific case of approaches that make SRI the central element of communication, the extra-financial analysis applied to the assets of the collective investment scheme takes into account criteria relating to each of the Environmental, Social and Governance factors.



REFERENCE 4. DECEMBER 2020

IILAB REPORT ON "INVESTING FOR SUSTAINABLE TRANSFORMATION"

Definition of nine key stages in impact assessment and measurement, which are actually integrated into all operations of an impact finance strategy:

1. **Scoping:** What? Why? For whom? How? The principle is to identify all the issues involved in the planned impact assessment.
2. **Stakeholder mapping:** Who are my organisation's stakeholders? Which ones should be studied? Which ones should be involved? This step helps to define the scope of the study.
3. **Impact mapping:** What are the expected impacts of my action? What unexpected impacts have been observed? What reduced scope of impacts should be retained for the study? The Theory of Change is used to map impacts.
4. **Definition of indicators:** How can the target audience be characterised? Which performance indicators should be monitored? How can impacts be measured?
5. **Formalisation of the procedure:** How should interviews be conducted and questionnaires administered? With whom? By whom? At what times?
6. **Creation of data collection tools:** this step consists of creating the data collection tools chosen in the previous step.
7. **Data collection:** data is collected using the tools created, according to the chosen procedure.
8. **Analysis:** the analysis carried out consists of verifying the main assumptions of the Theory of Change based on the initial evaluation questions.
9. **Reporting and recommendations:** the conclusions are reported and strategic recommendations (how to improve impact) and methodological recommendations (how to continue monitoring impact) are formulated.

As part of defining an operational framework for measuring the degree of sustainable transformation of financial actors, iiLab has identified a series of questions to analyse the strategies of financial actors:

1. **Fund objectives and strategies:** score from 0 to 3 per sub-question
6 What is the sustainable transformation strategy?
What are the objectives of the sustainable transformation strategy?
What are the indicators associated with the sustainable transformation objectives?
2. **Commitment/resources deployed/materiality:** score from 0 to 3 per sub-question
6 What resources are used to build and manage the portfolio?
How is the sustainable transformation performance of each underlying asset monitored?
3. **Reporting 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

IILAB REPORT: "GIVING FRANCE A COMMON CULTURE OF IMPACT INVESTMENT"

Presentation of three components of a tool that would confirm that "what is being done is right" in response to the expectations of savers and institutional investors.

1. A qualitative description of "what I am investing in", based on the Sustainable Development Goals (SDGs) defined by the United Nations. To this can be added broader areas such as social or environmental issues, or elements that contextualise the investment, such as its geographical footprint or investment horizon.

2. An assessment of the investment process's ability to ensure alignment between the sustainable transformation objective and the tangible nature of the transformation achieved. This assessment is based on criteria and sub-criteria associated with each stage of the investment/management process. These criteria must reflect the degree to which the sustainable transformation ambition is taken into account. They could be used to compare all investment products regardless of their medium: listed/unlisted assets

listed assets, large companies/small companies. This list of criteria could be completed in a binary or non-binary manner, by adding up the scores in an equally weighted or non-equally weighted manner to obtain a Yuka or Nutriscore-type score.

3. A series of indicators (and their evolution) would make the reality of the desired transformation tangible. These indicators could be consolidated from standard or specific data provided by projects/companies or from intermediate indicators approximating the desired effect. The tool would be simple, readable, dynamic and "pull-out" so that the calculation method, its composition and the calculation methodology can be obtained with a simple click on a figure.

To ensure that the strategy is aligned with the actual transformation, an assessment of each stage of the investment process is necessary, as illustrated in the report:



Source: iLab, Report "Giving France a common culture of impact investing" p.56



REFERENCE 6. MARCH 2021

FIR/FRANCE INVEST REPORT "A DEMANDING DEFINITION OF IMPACT INVESTMENT"

Presentation of nine key characteristics of an impact investment approach:

INTENTIONALITY

1. A clearly defined **impact thesis**, which translates into an investment policy aligned with the desired impact objectives.
2. A formalised **impact approach** throughout the investment cycle, with ex-ante defined impact objectives and associated means of implementation.
3. **Appropriate governance** with clear mobilisation of teams and governance bodies, as well as 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 cover most of the assets** in the portfolio.
5. The investment horizon is long-term, enabling the company's activities to be sustained over time. It is assessed in relation to the practices of each asset class. The effectiveness of this **long-term** management is measured.
6. **Commitment** of management teams to senior executives with the aim of maximising impact, reducing any negative externalities and advancing the company in its impact generation.

IMPACT MEASUREMENT AND ITS USE

7. The use of **impact measurement indicators**, defined as indicators, where possible, of results, impact or achievements derived from the impact value chain.
8. Development of **robust, honest and transparent impact reporting**: providing information on the deployment of the impact strategy at each stage of the investment process; assessing the relevance and accuracy of the indicator results according to their place in the impact value chain; incorporating an independent review of impact performance and associated reporting.
9. The alignment of financial interests with the impact approach should also be sought. Primarily, when variable remuneration is in place, this involves seeking a mechanism whereby impact criteria and/or impact measurement results determine all or part of the **remuneration** of the investor and/or manager.

B – TABLE OF OPERATIONAL ISSUES

In order to support financial players who wish to engage in impact finance, the group has produced a summary table of the operational challenges of impact finance. Based on the three pillars of impact, these guidelines present the main principles to be followed with regard to controlling negative externalities, the place of impact in financing and investment processes, and finally, ensuring the performance of a fair and sustainable transformation of the economy.

		Controlling negative externalities	Establishing the place of IMPACT in processes	Reporting on the performance of fair and sustainable transformation
Intentionality	How to develop a strategic vision?	Conduct a rigorous and comprehensive extra-financial analysis based on ESG criteria and materiality analysis, with transparency on the methods used for the resulting investment/financing choices.	Ensure that impact is included in the investment thesis and strategic plan of the companies/projects supported (setting impact targets and monitoring indicators). This requires compatibility between environmental and social performance and financial profitability. This may also be reflected in the pursuit of official accreditation (mission-driven company status, ESUS) or the formalisation of an internal company charter.	Formulate objectives for the fair and sustainable transformation of the real economy , based on a clear and transparent methodology that includes a method for monitoring the achievements, results and impact of the financial vehicle and beneficiaries (theory of change).
	Which reference frameworks should be used?	Develop CSR practices that are aligned between the financier and the financed party: compliance with international conventions, PRI, European regulatory frameworks, in particular the "do no significant harm" (DNSH) principle of the Taxonomy Regulation and the principal adverse impacts of the SFDR Regulation. Investors can also rely on a specific framework that they deem relevant (e.g. IMP, impact score, impact.gouv.fr, etc.) to manage negative externalities.	Align investment/financing practices and policies with sustainable finance regulatory frameworks . For example, in Europe: Sustainable Finance Disclosure Regulation (Articles 8-9) and environmental objectives of the European Taxonomy of Sustainable Economic Activities	Incorporate sustainable transformation objectives into international, national and local systemic frameworks . For example, the Paris Agreement, Nagoya Agreement, UN Sustainable Development Goals, etc.
	How can we manage impact dynamically?	Establish governance dedicated to limiting negative externalities: dashboards for monitoring relevant ESG indicators, remediation and improvement action targets over time, awareness-raising and training for management and employees on ESG issues.	Align interests in the financier/financed relationship (e.g. shareholder agreements, financing agreements, etc.): transparency on objectives and time horizons, rates of return on investment, value sharing and expected impacts; variable remuneration is determined in part by impact criteria.	Establish governance for impact monitoring , including various stakeholders involved in validating objectives and monitoring achievements, and providing for engagement actions.
Additionality	How to develop a strategic vision?	Ensure that negative externalities are managed and/or reduced by each beneficiary/issuer (particularly in line with the 17 SDGs) and at portfolio level.	Analyse each financing/investment in relation to the desired sustainable transformation objectives in order to provide appropriate support that enables each beneficiary to realise their potential and implement a process to demonstrate the extent to which they are contributing to this transformation. For example: providing flexible capital, sending signals about impact, adjusting the risk/return ratio, developing new markets, etc.	Adopt a "portfolio vision" : commit all assets in the portfolio to a positive impact approach.
	Which reference frameworks should be used?	Steer the evolution of the CSR practices of the management company and each beneficiary/issuer with the objectives of sustainable transformation of financial products throughout the project life cycle.	Include impact financing in recognised frameworks to guide investment policies. For example: – For financial vehicles: label funds (Greenfin, FAIR, EU Ecolabel), align with AMF doctrine 2020-03, etc.; – For companies: CSR labels, mission-driven company status, ESUS, etc.	Mobilise sources (e.g. empirical demonstrations or sets of indicators) to illustrate and explain the effectiveness of the impact projects implemented, i.e. the tangible nature of sustainable transformation.
	How can impact be managed dynamically?	Engage throughout the entire project cycle, right up to exit , with transparency on investment/financing horizons, over the period necessary to generate the desired impact with a view to long-term management.	Implement an engagement policy to strengthen impact strategies , in direct relation with beneficiaries/issuers over the long term. For example: voting rights, active dialogue, listening to stakeholders, etc. For private equity: with a focus on continuing to seek impact for the successor. Other asset classes: post-divestment commitments.	Continuously improve the monitoring and control of the implementation of fair and sustainable development or transformation strategies for those receiving funding (e.g. strategic plans, CapEx, territorial policies, decarbonisation, ecological R&D, etc.).
Measurement	How to develop a strategic vision?	Align the chosen monitoring indicators with the strategy's initial causal chain throughout the impact value chain.	Monitor the effectiveness of the funder's actions by consolidating the performance of the portfolio assets (collecting data according to the indicators defined in the strategy), differentiating between the results of the companies invested in and the role of the investor/funder.	Demonstrate the appropriateness and ambition of the target values for each indicator to measure the achievement of the sustainable transformation objectives pursued by the product.
	Which reference frameworks should be used?	Consolidate the product's overall footprint 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, Diversity Index, legitimate benchmarks, etc.).	Monitor the achievements and impacts of portfolio companies to ensure that the consolidated results and impacts at the portfolio level are consistent with the desired transformation objectives. To do this, the choices made regarding the level of granularity, the data sources used and the methodologies for collecting and consolidating portfolio data must be explained.	Express the degree of success of the sustainable transformation strategy in relation to the initial objectives, based on the monitoring of indicators and the chosen reference framework, in particular the SDGs.
	How can the impact be managed dynamically?	Develop transparent annual ESG reporting , making public the process for controlling negative externalities and managing unexpected risks.	Publish robust and accurate annual impact reports that are useful to all stakeholders and demonstrate the effectiveness of the actions implemented by the product, particularly to justify any variable remuneration for executives.	Critical review by independent third parties , ensuring in particular that the strategies, results and actions taken are consistent with what was planned in the supporting documents.



C – EXAMPLES: GOOD PRACTICES BY MEMBERS OF THE MARKET GROUP

AFD "SUSTAINABLE DEVELOPMENT ANALYSIS & OPINION"

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

To facilitate the cross-cutting consideration of sustainable development issues, the AFD has set up a system to encourage questioning and better consideration of the impacts of projects, with the aim of involving counterparts as early as possible:

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

6 **Sustainable development assessment:** carried out by a team independent of the project, provides an overall assessment of a project with a view to assisting decision-making (favourable, with recommendations, reserved or negative), enables consideration of how to mitigate or offset negative impacts and optimise positive impacts.

THE SIX DIMENSIONS OF SUSTAINABLE DEVELOPMENT ANALYSED ARE:

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

EXAMPLE: "SUSTAINABLE DEVELOPMENT GOALS BOND PROGRAMME":

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 six transition objectives of the group's strategic plan and falls within one of the eligible categories of the ICMA's Social Bond Principles, Green Bond Principles or SBG.
2. Thematic and technical eligibility: the loan meets at least one of the three technical eligibility criteria, and at least two in the case of climate loans and public policy loans or credit lines: thematic eligibility (based on the intrinsic nature of the activities or projects); climate eligibility (based on the climate performance delivered by the mitigation project); transformation eligibility (based on the conditionality of achieving sustainable development results).
3. "Do no significant harm": consideration of negative interrelationships between SDGs: no negative ratings on any of the six dimensions of the "Sustainable Development Analysis and Advice" system.

See the impact report from 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 over 40 years to fulfil its mission: to promote the transition to sustainable, balanced, inclusive and carbon-free growth models in developing and emerging countries. This mission is accompanied by ambitious impact objectives defined in its 2020-2022 roadmap. Proparco is a signatory to the Operating Principles for Impact Management and a member of their Advisory Board.

In line with its commitment to accountability, Proparco assesses and reports on the impact of its actions through a process of measuring the results and impacts of its financing. Integrated into the project cycle, this process aims above all to inform financing decisions by characterising the expected impacts of financing, in particular through five key impact indicators:

- Number of jobs created and/or maintained (SDGs 5 & 8);
- Number of tonnes of CO2 equivalent avoided (SDGs 7 & 13);
- Number of people who will have new or improved access to an essential good or service (SDGs 1, 3, 4, 7, 9 & 10);
- Gender equality (SDGs 5 & 10);
- Volume of financing mobilised from private actors in support of the Sustainable Development Goals (SDG 17).

In order to determine the real impact of the projects financed, identify the most effective means of supporting the impact objectives and respond to the growing challenges of accountability, Proparco

also collects key indicators during the impact measurement monitoring phase. The results and impacts of projects financed by Proparco are presented each year in its Sustainable Development Report.

To accelerate 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 it finances to meet the needs and ambitions of its clients (PROPULSE:www.proparco.fr/fr/propulse). In addition, Proparco mobilises "blended" funds, which are additional subsidised resources that enable it to cover higher financing risks and which it is entrusted with managing. These resources, combined with market instruments, facilitate the mobilisation of investment flows in favour of transitions, backing financing with premiums and subsidies linked to the effort and additional impact achieved, where applicable. They can also be allocated to technical assistance.

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

Read Proparco's sustainable development report: www.proparco.fr/fr/ressources/rap-port-de-developpement-durable-2020



AMUNDI "FINANCE ET SOLIDARITÉ"

Amundi's Finance et Solidarité investment fund is a specialised fund with at least 50% of its assets invested in unlisted securities of socially responsible companies, with the remainder invested in bond or money market products. As of July 2021, it has invested in 41 social enterprises. The fund has been awarded ESUS accreditation and the Relance and Finansol labels.

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

6 Impact First: combining financial performance and social performance with the intention of conducting a thorough impact analysis, the aim being to identify companies that provide solutions to social and environmental needs through an efficient economic model.

6 Being a long-term partner for businesses: creating economic value and impact by enabling entrepreneurs to scale up and sustain their business models; this involves participating in governance bodies and building "pathways" and "synergies" for economic players.

6 Diversification across all SDGs and asset classes: adapting to all needs in order to cover all societal issues.

6 Transparency of information: publishing consistent and concrete information to demonstrate the achievement of impact objectives and the fund's contribution to resolving issues, but also to co-construct impact monitoring with entrepreneurs.

REFERRING TO THE FIVE DIMENSIONS OF IMPACT, THE INTERNAL IMPACT MEASUREMENT METHODOLOGY FOCUSES ON FIVE PILLARS FOR A SINGLE FINAL SCORE:

WHAT & WHO

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

HOW MUCH & CONTRIBUTION]

2. Social performance (25%): proof of the quality of the model through quantitative social impact criteria.

3. Specific criteria (20%): assessment of impact criteria specific to the company.

RISK

4. Sustainability of the proposed solution (30%): assessment 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 CENTRAL TO THE INVESTMENT PROCESS, INFLUENCING EACH STAGE:

The selection of opportunities to meet impact objectives; dialogue with companies prior to due diligence focusing on impact data; validation by an impact committee; the implementation of a shareholder agreement/loan agreement with impact achievement constraints; impact monitoring through frequent meetings with companies, participation in governance bodies and an exit policy conditional on impact achievement. All of this is supported by annual reporting.

Discover the impact results of the Finance & Solidarity fund:
https://amundi.oneheart.fr/assets/amundi/media/amundi_reporting_impact.pdf

CITIZEN CAPITAL MANAGEMENT COMPANY

Citizen Capital was founded in 2008 and has 16 mission-driven companies in its portfolio with over €125 million under management (July 2021). The fund obtained Bcorp certification in 2015 and is a co-founder of the Community of Mission-Driven Companies. The transition to a mission-driven company was voted on in January 2021.

INVESTMENT CRITERIA:

6 **Self-fulfilment:** giving everyone the means to fulfil their potential in society and realise their full potential (education, training, work, citizenship & democracy);

6 **Transform:** transforming our models to accelerate the transition to a low-carbon society that respects our ecosystems (circular economy, energy savings, preservation of ecosystems);

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

THE PRELIMINARY IMPACT ANALYSIS IS BASED ON SIX KEY DIMENSIONS, WHICH ARE REPRESENTED IN AN "IMPACT RADAR":

1. **Depth:** Does the company contribute to the sustainable improvement of living conditions?
2. **Intentionality:** Do the manager(s) have a vision of what they want to contribute to society through the company? Is the company's mission clear?
3. **Additionality:** does the solution make a contribution or bring innovation to society that is likely to change a paradigm in its market?
4. **Accessibility:** Is the solution accessible to all or is there a specific outreach strategy?
5. **Alignment:** Is the mission in synergy with the business model? Is it implemented at all operational levels of the company?
6. **Control of negative externalities:** has the company identified its risks of harm? Does it control its negative externalities?

IMPACT MEASUREMENT AIMS TO DEPLOY AND MAKE THE COMPANY'S IMPACT TANGIBLE:

6 **Pre-investment:** understanding the company's mission, the entrepreneur's background and vision; conducting an internal impact audit; working with senior management to define key impact indicators and associated objectives.

Support: assistance provided throughout the investment process, particularly in terms of strategic planning, management and impact measurement (social KPIs and reporting), with access to the network of partners.

This support aims to provide resources and skills that complement those of the management teams, particularly in the following areas: participation in strategic thinking; support in organisation, management and governance; provision of a network and support in business development; support in impact management.

The indicators are not standardised a priori so that each company can pursue objectives specific to its mission.

Discover Citizen Capital's impact approach:
<http://www.citizencapital.fr/demarche-impact/>



INCO VENTURES CONSULTING & MANAGEMENT COMPANY

INCO Ventures is a European investment management company, an expert in venture capital and a pioneer in impact investing, advising on or managing more than €500 million. The diversity of their funds reflects the potential of impact investing across all asset classes. They have developed company assessment tools based on more than 800 financial and non-financial criteria, which take into account economic performance as well as social and environmental impact on an equal footing: INCO Ratings & the MESIS method (dedicated to social and solidarity economy structures).

Find out more about INCO Ventures' activities: [https:// www.ventures.inco-group.co/](https://www.ventures.inco-group.co/)

EX 1 AVIVA IMPACT INVESTING FRANCE:

Fund created in 2014, financed by Aviva France, which has invested €30 million in more than 58 SMEs and micro-enterprises operating in sectors of general interest and pioneering ecological transition and innovative economic models. AIIF supports companies in particular through active participation in their strategic committees and by providing a network of mentors and experts. The AIIF fund is certified by Finansol and French Impact. – > INCO Ventures is responsible for selecting investment projects and monitoring investments.

EX. 2 GENERALI IMPACT INVESTMENT:

a fund created in 2020, investing between €100k and €1m in projects addressing two major themes: the professional integration of refugees and support for vulnerable families and children. – > Companies are selected using 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 between €100k and €1m in companies creating inclusive jobs: "The fund's targets will include companies with ESUS accreditation or equivalent within the meaning of Article L.3332-17-1 of the Labour Code. The fund's target companies are active in the creation of inclusive jobs, i.e. companies in which at least 30% of employees have little or no qualifications; come from disadvantaged geographical areas; have difficulty accessing employment; at least 30% of whose staff are people who have been unemployed for at least one year at the time of their recruitment; creating jobs in economically disadvantaged urban or rural geographical areas.

EX. 4 EURO SOCIAL BOND FUND:

The Fund was created in 2017 and is managed by the British management company Columbia Threadneedle Investments. It subscribes to listed social bonds issued by local authorities, intergovernmental institutions and large committed groups. Its outstanding amount currently exceeds €400 million. INCO deploys a social and environmental impact measurement methodology adapted to Social Bonds, co-developed with Columbia Threadneedle Investments, and chairs the Fund's Social Advisory Board.

CRÉDIT COOPÉRATIF "CHOOSE YOUR IMPACT" LOAN

Crédit Coopératif, part of the BPCE group, is a leader in the French social and solidarity economy. It has committed to publishing its ESG indicators on the French government's "Impact" platform.

In March 2020, the bank launched the "Choose your impact" loan to encourage businesses and associations to actively engage in corporate social responsibility (CSR). Achieving environmental and social indicators, defined jointly when the loan is taken out, results in a 0.10% reduction in the interest rate. The criteria selected when the loan is signed must be based on one or more areas of application of corporate social responsibility in accordance with ISO 26000. The loan amount can vary between €700,000 and €5 million. The loan is only available at a fixed rate and for a term of 5 to 15 years maximum.

Find out more about the "Choose your impact" loan: <https://www.credit-cooperatif.coop/Entreprises/Finance-ments/Pret-choisir-son-impact>

SOCIÉTÉ GÉNÉRALE POSITIVE IMPACT FINANCE WITH UNEP FI

Société Générale led the creation of the Positive Impact Initiative in 2015 within the UNEP Finance Initiative. This initiative brings together banks at the international level and has led to the publication of the Principles for Positive Impact Finance as well as strategic tools for analysing economic opportunities.

Société Générale's impact finance strategy aims to respond to clients' environmental and social needs in order to facilitate their financing and enable them to scale up.

The approach is threefold:

Increasing impact: reducing the "cost per impact" to improve project resilience.

Facilitate credit: reduce transaction risk, offer public-private risk-sharing tools, and structure vehicles with the critical mass for debt and capital markets.

Leveraging digitalisation: new services that create value, in particular by collecting data that demonstrates the results of projects, the success of which supports development.

Discover Société Générale's work on impact: https://wholesale.banking.societegenerale.com/fileadmin/user_upload/SGCIB/pdf/SPIF_brochures/Sustainable_Finance_Brochure.pdf



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