Finance United:
Impact Investors, Financial Service Providers and the SDGs

Conference co-hosted by OECD and Cerise+SPTF
30 September 2020
Session Notes

Name of session	**Opening Keynote Addresses**
Time	9:00 – 9:45 am
Moderator	**Jurgen Hammer**, Managing Director, SPTF Europe
Speakers	**Richard Barker**, Member, International Sustainability Standards Board **Edgardo Perez Preciado**, General Manager, Fundación Génesis Empresarial **Sean Turnbull**, Impact and Experimentation Lead, Global Affairs Canada

NOTES FROM THE PRESENTATIONS AND DISCUSSION:

Jurgen Hammer (SPTF Europe):
The Sustainable Development Goals (SDGs) are ambitious by design. A lot of things will have to go right for their achievement. But ultimately, success will depend on our ability to cooperate - to exit our silos and agree to a common set of rigorous standards to which we will all be held accountable.

By luck, we in the financial inclusion industry had a big head start. We have wisdom that we can and must share. Financial inclusion, or microfinance, won the support of policymakers and the public on the promise of changing people's lives for the better. The standards we set, and implement, for social performance, prevent that promise from being empty. The entire global financial inclusion sector came together and published what came to be known as the Universal Standards for Social and Environmental Performance Management ("Universal Standards"). The Universal have existed for ten years now and are in use all over the world. This common language and definition of best practice created transparency and honest evaluation, reporting, and management.

The stakes are high and go far beyond the financial services sector. We face the catastrophic effects of environmental degradation and climate change. This catapults the issue of nonfinancial performance – environmental as well as social – into the mainstream for all sectors.

Our experience teaches that this work goes nowhere unless we all put our individual agendas, including sometimes our institutional messages, in the background, so that the bigger objectives of transparent impact assessment and management can be achieved. As long as we insist on working only within our own frameworks, on speaking our own internal organizational languages – we allow the market to hide performance, and we open the door to green- and social- washing.

Cerise+SPTF welcome all opportunities to collaborate, a vital part of which has been joining the harmonization efforts in the impact industry. One example of course is our partnership with OECD. We are also in dialogue with the European Commission on Social Taxonomy, and we link the Universal Standards to broader Impact Investment Initiatives, such as GIIN and ISO TC 322 for Sustainable Finance. All of these global Initiatives asked Cerise+SPTF for input because of our leading role and experience in creating industry standards that are practical to implement, and that have achieved voluntary adherence.

My invitation to all of us is this: Let's be open to what emerges as the best solutions to combine our global efforts to achieve the SDGs.

<u>Richard Barker (International Sustainability Standards Board)</u>:
I focus my remarks on two key areas:

1. Recent significant changes in corporate sustainability reporting standards
2. The difference between reporting to investors on sustainability and impact reporting. These are closely related but conceptually different, and we need both.

COP 26 in 2021 put in place significant changes in sustainability reporting. It established the International Sustainability Standards Board (ISSB), which absorbed the work of the Sustainability Accounting Standards Board (SASB). The ISSB operates under the auspices of the International Financial Reporting Standards (IFRS) Foundation, which also oversees the International Accounting Standards Board (IASB). This new structure recognizes that investors want information about sustainability as well as financial information, to understand better the finances and risks of the companies they are investing in.

In parallel, In Europe in June 2022, the Corporate Sustainability Reporting Directive (CSRD) was adopted, setting mandatory standards for corporate sustainability reporting. And in the U.S., the Securities and Exchange Commission (SEC) is exploring how to factor climate information into its regulations and reporting requirements for the U.S. securities markets. These changes will massively increase the quality and volume of sustainability reporting.

Investor-oriented sustainability reporting is different from impact reporting. While impact reporting should be of interest to all stakeholders, investor-oriented reporting focuses on what investors need to know to inform their work. Increasingly, companies are asked to report on their emissions, their transition plans for greater sustainability, and on their resilience. Investors increasingly use this sustainability information to inform their work.

It continues to be true that corporations must focus on financial reporting, but there is now increasing recognition that it is in the economic interest of corporations to respond to issues of climate change. Complementary reporting standards around impact reflect the recognition that corporate decision-making needs to be aligned with the SDGs if we are to achieve the SDGs.

It is the ISSB's role to provide reliable sustainability information to investors. Still to come from the EU are standards and practices for impact-focused reporting.

Edgardo Perez Preciado (Fundación Génesis Empresarial):
Financial service providers (FSPs) should ask themselves whether they are performing at a level where they can change the world, especially in terms of the SDGs. In 2015 when I joined Génesis, which is an FSP in Guatemala, 20% of the portfolio was bad. Less than a year later, the firm was making money, but I asked my staff, "What is the difference between Génesis and other high-performing banks?" The answer was "None." This was a wake-up call. Working from the Universal Standards, Génesis developed a five-year strategic plan and then implemented it. The Universal Standards framework transformed the team, integrating culture, profit, and purpose. Since adopting the Universal Standards, Génesis has been on a development path to transform peoples' lives out of poverty. It measures changes in well-being for each one of its customers and offers a variety of non-financial services, including running a food bank and programs for youth leadership, and offering medical solutions. Génesis also has strong financial performance. In fact, Génesis is the only FSP that has achieved the highest rating scores in both financial performance and social results, and was voted the best place to work in Central America and the Caribbean. Génesis also is one of only eight institutions in the world to achieve certification by Truelift in the category of leader. This is what the Universal Standards did for us. They are helping us to achieve our purpose. We can eradicate poverty and we have the metrics to prove it.

Sean Turnbull, Global Affairs Canada:
Global Affairs Canada manages a five-year, $1 billion fund that invests in six main areas in support of the SDGs, including gender and development of pro-poor markets. We have done important work in moving financial systems toward true sustainability, but there is still a major missing piece in terms of the operational culture. How do we intertwine impact not just into our goals but also into the financial tools and systems that underlie how we assess investments and their risks?

There also remains a disparity in how rigorous and advanced our models are for financial performance versus social impact. We need to make sure the impact thesis is clearly stated in how we measure performance. We have detailed business and financial models, but do we have models that help us measure achievement of our social goals? Can such models be applied across investments and organizations? One example of an application would be linking fees to impact returns. We tend to fall back to the easiest way to compare potential investments, which means financial tools, but this puts impact discussions at a disadvantage. We need to develop serious impact modeling frameworks that allow us to compare the level of social impact of disparate types of investments (e.g., the impact of solar in Africa vs. MSME financing in Asia). Let's figure out how to build impact into the way we measure risk and understand opportunity costs, meaning, what is the impact risk of not making this investment? What is the impact we could have by investing here versus there? We do not yet have tools to do this kind of impact analysis, but we need our impact modeling tools and projections to be on par with those for financial and business analysis.