Best Practices in Impact Investing

DBP RESEARCH REQUEST
The impact a company has increasingly extends beyond its own operations to include the short- and long-term changes the business generates for individuals, communities, and society.

Impacts are created across the value chain, from the way in which raw materials are sourced through to how products are used and disposed. They range from how a business supports the livelihoods of small-scale suppliers to what a product’s carbon footprint is when it is used by the consumer.

Today’s corporate stakeholders (employees, consumers, communities, investors) are taking a closer look at the impact of the business as part of a wider social, environmental, cultural and economic context. The most effective companies are collecting and assessing a range of impact data and leveraging the insights created to accelerate positive change for the business and for society overall.

This report provides information and insight related to corporate impact and the rising trend of impact investment, as well as a number of corporate examples of how companies are responding to the emerging challenge.
Environmental, social and governance – ESG criteria are a set of standards for a company’s operations that socially conscious investors use to screen potential investments.

Environmental criteria may include a company’s energy use, waste, pollution, natural resource conservation and treatment of animals. The criteria can also be used in evaluating any environmental risks a company might face and how the company is managing those risks. For example, are there issues related to its ownership of contaminated land, its disposal of hazardous waste, its management of toxic emissions or its compliance with the government’s environmental regulations?

Social criteria look at the company’s business relationships. Does it work with suppliers that hold the same values as it claims to hold? Does the company donate a percentage of its profits to the local community or encourage employees to perform volunteer work there? Do the company’s working conditions show a high regard for its employees’ health and safety? Are other stakeholders’ interests taken into account?

With regard to governance criteria, investors may want to know that a company uses accurate and transparent accounting methods and that stockholders are given an opportunity to vote on important issues. They may also want assurances that companies avoid conflicts of interest in their choice of board members, don't use political contributions to obtain unduly favorable treatment and, of course, don't engage in illegal practices.

Source: Investopedia
In recent years, as younger investors, in particular, have shown an interest in putting their money where their values are, brokerage firms and mutual fund companies have begun to offer exchange-traded funds and other financial products that follow ESG criteria.

A study of 22,000 investment professionals found that 78% have increased their investments in firms that have a strong corporate social responsibility track record. According to the most recent report from US SIF Foundation, investors held $11.6 trillion in assets chosen according to ESG criteria at the beginning of 2018, up from $8.1 trillion just two years earlier.

For example, Boston-based Trillium Asset Management, with $2.5 billion under management, uses a selection of ESG factors to help identify companies positioned for strong long-term performance.

Trillium's ESG criteria, determined in part by analysts who identify issues facing different sectors and industries, include avoiding companies with known exposure to coal mining and those with more than 5% of their revenues from nuclear power or weapons. It also avoids investing in companies with major recent or ongoing controversies related to workplace discrimination, corporate governance and animal welfare, among other issues.

The BlackRock Impact Bond seeks to provide income and capital growth by investing in a portfolio of fixed income including corporate bonds of companies with positive aggregate societal impact outcomes such as corporate citizenship, high impact disease research, greenhouse gas emissions, ethics controversies, and litigation.

As ESG-minded business practices gain more traction, investment firms are increasingly tracking their performance. Financial services companies such as JPMorgan Chase, Wells Fargo and Goldman Sachs have published annual reports that extensively review their ESG approaches and the bottom-line results.

Source: Investipedia
Younger people are significantly more likely than older people to be investing sustainably as a way of positively impacting society. Millennials are more likely to value and invest in sustainable investment funds. 52% of Millennials often or always invest in sustainable investment funds, compared to 40% of Generation X and 31% of Baby Boomers.

Countries that exhibit more sustainable behaviors are also more likely to invest in sustainable funds. The top five countries by rate of people exhibiting sustainable behaviors show an average of 65% investing sustainably, while the bottom five average a lowly 27%.

Source: Schroders Global Investor Study: Global Perspectives on Sustainable Investing 2017
Impact Investing is best described as directing capital to organizations that generate social or environmental benefits.

Sustainable investments offer people the opportunity to apply the same social and environmental values to their investments as they do in their day-to-day lives.

Environmental, social and governance – ESG criteria are an increasingly popular way for investors to evaluate companies they might want to invest in.

Many mutual funds, brokerage firms and robo-advisors now offer products that employ ESG criteria.

ESG criteria can also help investors avoid companies that might pose a greater financial risk due to their environmental or other practices.

Source: Investipedia
Understanding corporate impact
Data-driven impact studies can provide corporations with a deep understanding of their touchpoints with society. They can help companies answer questions such as:

- Does purchasing from local businesses create jobs and reduce risks, such as over-dependence on certain suppliers?
- Are lowest paid workers falling below local and national averages?
- What is the gender diversity in the supply chain?
- How do our environmental emissions compare to those of competitors?
- What is the environmental footprint of a product?
- How have training programs improved the skills of the workforce?
- How have investments improved local infrastructure?
- What is the size of the relevant talent pool in the communities of operation? Does it meet current and emerging needs?
- Are products reaching all parts of the market, particularly underserved ones? What new needs might be met?

Source: CorporateCitizenship
# Strategies to Impact for Change

## 1. Value chain mapping

Detailed value chain analysis of the business’s key touchpoints with society. From supplier activities through to consumer use and disposal of the company’s products and services. This analysis will:
- Identify who the business affects and how.
- Expose key social, economic, and environmental risks and opportunities through both direct and indirect operations.

## 2. Impact assessment

Quantification of the economic, social, and environmental impacts on society. This assessment will:
- Provide a deep understanding of positive and negative impacts.
- Generate robust data on the company’s range of impacts.
- Highlight Impact for Change focus areas – key areas in the value chain where specific interventions or collaborations could make a positive impact.

## 3. Action plan

Clear guidance on key steps to take to maximize positive impacts and minimize negative ones, with a particular focus on the business’s Impact for Change areas. This will:
- Identify levers and mechanisms for change within the business.
- Recommend high-impact partnerships and collaborations that can create greater change at a faster pace.
- Set a timeline for implementation, highlighting key milestones to achieve.

Source: [CorporateCitizenship](http://corporatecitizenship.com)
## Economic, Social and Environmental Impact

### Select Examples to Illustrate Positive and Negative Impacts

<table>
<thead>
<tr>
<th></th>
<th>Economic (a change in the factors that contribute directly to the financial well-being of a company or society)</th>
<th>Social (a change in the factors that contribute to the well-being of people within society or a company)</th>
<th>Environmental (a change in the factors that directly affect the physical world)</th>
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</thead>
<tbody>
<tr>
<td><strong>For society</strong></td>
<td>Positive: Taxes paid; jobs created; money paid to local suppliers</td>
<td>Health improvements from a new product</td>
<td>Habitat restoration in the supply chain</td>
</tr>
<tr>
<td></td>
<td>Negative: Unemployment</td>
<td>Human rights abuses</td>
<td>Deforestation; greenhouse gas emissions</td>
</tr>
<tr>
<td><strong>For business</strong></td>
<td>Positive: New revenues; lower costs</td>
<td>Employee training and engagement; reduced fatalities or accidents</td>
<td>Resource abundance</td>
</tr>
<tr>
<td></td>
<td>Negative: Higher costs; lower revenues</td>
<td>Employee sickness or turnover; labor unrest</td>
<td>Resource scarcity</td>
</tr>
</tbody>
</table>

Source: CorporateCitizenship
Sample Impact Assessment

DIRECT IMPACTS OF YOUR OPERATIONS

+ 45% of your procurement spend goes to domestic suppliers, helping to generate local growth and jobs.

- Water usage has increased 15% year-on-year, with local government reporting water scarcity in your region as a priority concern.

INDIRECT IMPACTS THROUGH THE VALUE CHAIN

+ Downstream in your value chain, 25% of workers are female, including 5,000 women earning an income for the first time from distributing your products.

- 25% of your critical suppliers source from countries considered high-risk for human rights issues.

WIDER IMPACTS FOR SOCIETY AND THE BUSINESS

+ A technological advance in your product gives over one million people reliable and affordable access to the internet for the first time, allowing them to better connect with loved ones and benefit from internet-dependent services, such as online job portals.

- Only 5% of the domestic population can afford your products, restricting your ability to increase market share.

Source: CorporateCitizenship
Case Studies
Prudential Financial recently doubled down on its commitment to make lives better by solving the financial challenges of our changing world, committing more than $180 million through 2025 to support young people aged 15-29 worldwide who lack access to school, training or regular jobs — a segment of the global population often referred to as opportunity youth. To date, this is the largest private-sector investment in this group.

Prudential’s investment will help young people across the globe gain the right skills to compete for and succeed in quality jobs. This population segment, which accounts for 350 million people worldwide, represents untapped potential for the future workforce. The company will support dedicated partnerships through grants, corporate contributions and impact investments to improve financial security for youth in more than 70 countries.

*Businesses like ours have a role to play in ensuring that global economic progress benefits all members of tomorrow’s workforce. Our goal is to improve young people’s lives by creating pathways for them to achieve financial wellness, strengthen their communities and ultimately help drive the global economy.*

Charles Lowrey, Prudential Chairman and CEO
Bank of America (BoA) has announced it will mobilize an additional $300 billion in capital by 2030 through its Environmental Business Initiative. This third commitment increases the company’s investment in low-carbon business activities as part of its focus on deploying capital for responsible, sustainable growth. Through lending, investing, capital raising, advisory services and developing financing solutions, this new commitment will drive innovation and help to accelerate the transition to a low-carbon, sustainable economy.

The $300 billion goal brings BoA’s total commitment to more than $445 billion since 2007, when the company issued its first Environmental Business Initiative. The bank has deployed more than $126 billion over the past 12 years in support of environmental business efforts across the globe. This commitment, like the previous two, will not impact corporate expenses.

The need to mobilize and deploy capital to address climate change has never been more urgent. As one of the world’s largest financial institutions, Bank of America has a responsibility and an important role to play in helping to mitigate and build resilience to climate change by using our expertise and resources, as well as our ability to convene partners across sectors, to accelerate the transition from a high-carbon to a low-carbon society.

Anne Finucane, Bank of America Vice Chairman

Source: Sustainable Brands
Collahuasi mine, conducted a socio-economic study to understand the mining operation’s impact on the local economy, communities and individual livelihoods.

The Chilean mine, owned by Glencore and Anglo American, is the third largest copper producer in the world.
Mondelez Coffee International realized that it could make a big impact on the lives of coffee farmers, many of whom struggle to make a good living, while also securing its supply chain. The company created the Coffee Made Happy program, which will invest $200 million to support one million coffee farming entrepreneurs by 2020.

Through Coffee Made Happy, the company champions better agricultural practices, equipping farmers with the skills to be successful entrepreneurs and making coffee farming attractive for future generations. Mondelez, which buys around 6% to 7% of global coffee production, has trained more than 300,000 farmers in 2015. It is also working with 24,000 farmers in Ethiopia and 16,500 in Honduras, where it buys more than 30% of the country’s arabica crop. There are also projects running in Vietnam, Peru, and Indonesia.

The program is creating a more robust global coffee supply chain, while also improving the quality of life of the farmers that participate.
Morgan Stanley is urging its nearly 16,000 financial advisers to embrace female-friendly investment strategies and to talk with clients about investing in companies that are supportive of women, according to a report in Investment News.

Recently, the firm began sending advisers a primer on investing in businesses with women in top leadership roles or that provide products and services benefiting females.

The firm started the initiative after hearing from brokers and clients that they were looking for ideas to invest in companies supportive of gender equality.

Morgan Stanley’s Parity Portfolio — a fund for ultra high-net-worth individuals — uses the number of women on boards of directors as an investment screen.

Source: Bloomberg
What’s the ROI?

Studies show that 90% of a woman’s income is reinvested into her family and community, more than twice the percentage of a man’s. McKinsey found that the global economy could be between $12 trillion and $28 trillion larger in 2025 if gender gaps in work and society were reduced or eliminated.

That’s larger than the gross domestic product (GDP) of any single country, including the U.S. and China. In short, investing in women is good for business, good for the economy, and good for people of all gender identities.

Source: Ellevest
The **Women’s Funding Network (WFN)** was formed with the intention of bringing together the financial power and influence of funders of gender equity in order to address and solve critical and complex social issues ranging from poverty to global security. Formed 33 years ago in California, the WFN now includes more than 100 women’s funds and foundations spanning 23 countries, with a number of successful campaigns to their credit.

One example is the **three-year program** run by **Women Win**, which reached more than 65,000 adolescent girls and young women in seven countries. As a result, nine out of 10 girls involved in the scheme know that a woman has the right to say no to sex, 70% know where to get money to start a business, 97% of their parents had an improved perception of their daughter as a leader, and eight out of 10 now know how to prevent pregnancy, compared to only three out of 10 before.

Source: [CorporateCitizenship](#)
Net-Works is an innovative partnership between Interface, a global manufacturer of carpet tiles, and the Zoological Society of London, an international scientific, conservation and educational charity.

The initiative empowers local community members to collect discarded fishing nets in rural coastal areas in the Philippines and the nearby Bantayan Islands. The discarded nets are then sold back into a global supply chain to be used as a material for carpet tiles.

This cross-sector initiative supports Interface’s goal to source 100% recycled material for its carpet tiles, while also tackling the growing environmental problem of discarded fishing nets in some of the world’s poorest coastal communities.

Source: Corporate Citizenship