FINANCE FOR IMPACT

CITY OF LONDON

KPMG

FINANCE FOR IMPACT:
Industry-led recommendations to advance finance for social impact

Foreword

The Rt Hon.
The Lord Mayor
of the City of London
Alderman Vincent Keaveny

Now more than ever, people want their money to have an impact. They want to invest in companies that are sustainably focused or have values like their own, and they are more likely to ask how their money – whether its savings or pensions – is being invested. This is especially true in younger generations, who are twice as likely to invest in companies targeting social or environmental goals.

This is a great opportunity for Financial Services to align themselves with proactive and productive change, a chance to offer products and services that have a measurable positive impact on society. We saw the real enthusiasm and drive at both COP26 and the Net Zero Delivery Summit for Financial Services to lead the way in this great societal change. And they have grasped this opportunity – working alongside the Government and regulators, the UK financial services sector is a world leader in sustainable finance, ensuring countries around the world can access the finance they need for net-zero infrastructure projects.

With the rise of inflation, the spike in gas prices and the war in Ukraine, the need for international communities to find sustainable energy solutions, to tackle climate change and address deep inequalities in society has only become more pressing. We know that – if we really want to instil this change – then we need to mobilise more private finance. People are looking towards our businesses and asking: What positive impact are you creating?

This report focuses on how the "S" of Environmental, Social and Governance (ESG) can get just as much attention and investment as the "E". We must ensure that companies can build on the great work they have done addressing environmental concerns, making sure the necessary shift to net zero is inclusive and becomes an example of where environmental and social issues overlap.

I have been proud to lead the conversation of this work. I was honoured to be a part of the G7 Impact Taskforce and as part of my Mayoral Theme – People and Purpose: Investing in a Better Tomorrow – I have been using this experience to ensure that the UK becomes the international financial market that delivers positive social change.

This report is an important moment in this discussion. It will lead to a greater understanding of how our Financial Services can not only have a profound positive impact on the world around them – helping to tackle the biggest issues facing our communities and our planet – but also show how they can demonstrate their effectiveness and resolve to their customers and the world.

Executive Summary

Financial services firms are already making great strides in advancing Finance for Impact. This progress has been substantial, but there is a great deal more to be done in order to scale and measure this across the industry. Market participants have a critical role to play alongside but also independent of Government and policy makers. As such this report – based on consultation with financial services firms – outlines an industry-led and industry-focused set of recommendations. These are a necessary step for this market to continue to grow.

Consultation with industry identified several key areas to prioritise. These include the development of consistent social impact goals, guidance on social impact disclosures, improved transparency, consistency in available frameworks and metrics, and progress on regulatory responsibilities.

The recommendations outlined in the chapters below cover nine key themes to enable Financial Services to scale finance for social impact. These are not sequential or in order of importance but simply provide a framework for progress.

In taking forward these recommendations, there are several levels of responsibility that firms need to consider when it comes to scaling finance for impact. Importantly:

1. **All organisations can manage their own corporate impact;**
2. **All investors/financiers can incorporate some impact considerations into their capital allocation decisions; and,**
3. **Some firms can choose to go further to pursue specific impact objectives through both capital allocation and corporate activities.**

Within this third level of responsibility, one area to highlight and which Financial Services are actively focussed on while delivering impact, is the important and unique role they have to play in increasing financial inclusion.

To continue progress on scaling finance for social impact, an industry-led coalition will be needed to drive forward the key priorities and recommendations in this report and engage in policy and regulatory advances.

Supported by data from the Good Foundation's Capital as Force for Good 2021 Database

Introduction

In response to pressure from customers, employees, policy makers and broader stakeholders, companies are increasingly considering the impact they have on people, communities and wider society. For some, doing something good is still associated with philanthropy, rather than it being seen as a legitimate consideration within the scope of normal business activity. It is only much more recently that this thinking has started to evolve. In 2018, Larry Fink, CEO of the world's largest asset manager, Blackrock, made an explicit call for a different style of capitalism: "Society is demanding that companies, both public and private, serve a social purpose.[1]"

Often referred to as "stakeholder capitalism[2]", the idea of placing purpose on an equal footing with profit goes beyond the traditional understanding of what a director's fiduciary duty encompasses. How far a firm can and should pursue social purpose is now a common theme highlighted by industry.

Furthermore, there is increasing recognition that profitability and an organisation's impact on people and communities are interconnected. For example, effects on a company's share price due to mistreatment of employees or indigenous communities. This correlation is referred to in both the International Sustainability Standards Board (ISSB) and the Value Reporting Foundation (VRF) under the heading of sustainability-related financial information.

Today, there are mounting regulatory pressures for Financial Services to manage environmental, particularly climate, risks, in addition to traditional financial risks. The same is becoming true for social considerations, though still to a lesser extent. Regulatory action is encouraging firms to meet minimum standards in their social impact while stakeholder and societal pressures are increasingly encouraging organisations to go further, to act and to seize upon such opportunities to make positive social contributions. Firms that have embraced this directional change are seeing first mover advantages and are positioning themselves as potential market-leaders.

This directional change is evident: social investments[3] in the UK have grown nearly eight-fold from £833 million in 2011 to £6.4 billion in 2020[4]. However, while this may seem large as a standalone number, it represents less than 0.1% of the total UK investment market of £9.4 trillion, as of 2020[5]. It is clear that there is enormous scope to grow the proportion of finance that is deployed to deliver social impact in a commercial way.

[1] BlackRock's push for 'social responsibility' shows shift in companies (cnbc.com)

[2] https://www.weforum.org/agenda/2021/01/klaus-schwab-on-what-is-stakeholder-capitalism-history-relevance/

[3] What is Social Investment? | Voluntary Organisations' Network North East (vonne.org.uk)

[4] UK social impact investment market swells to a record £6.4 billion in year of the pandemic | Big Society Capital

[5] https://www.investmentweek.co.uk

The Finance for Impact initiative

The Finance for Impact initiative is focused on scaling the deployment of finance to deliver positive and measurable outcomes for both the environment and society. Given that the “E” has to date received much greater attention, the aim is to elevate the “S” alongside the “E” in ESG across Financial Services. Accordingly, this report places greater emphasis on the social element of finance for impact.

Market participants have a crucial role to play, which is why this report – based on consultation with financial services firms – outlines an industry-led and industry-focused set of recommendations that, if implemented, will accelerate the growth of this market.

This work builds on the International Regulatory Strategy Group’s (IRSG) June 2021[6] report, “Accelerating the S in ESG”. The IRSG report outlined key market trends on social issues and, critically, included recommendations on how financial services firms, along with policymakers can collaborate to achieve more impactful social standards.

Many firms are still at an early stage when it comes to finance for impact, 66% of respondents to the industry questionnaire indicated that they were either at the start or in the early stages of embedding social considerations into their activities. However, there is a genuine desire among the industry to improve and increase this level of activity which is already translating into clear momentum in the market. Last year, social bonds[7] made up a greater proportion of the sustainable-related financing disclosed by the UK’s top 10 financial institutions (£46.3 billion) compared to green bonds (£44.7 billion), historically the largest category of sustainable bond. Many financial services firms also highlight that they intend to expand their suite of sustainable and social impact products over the next five years (Source: Force for Good Foundation – Capital as a Force for Good Database 2021).

To continue, and accelerate this growth, identified challenges must be better understood so they can be effectively addressed. These include the difficulty of measuring impact, understanding how, and where, an organisation delivers that impact, quantity versus quality concerning data collection, and a lack of standardisation in methodologies and metrics. There has already been significant progress made over the past decade on these, but market participants agree that more collective action is needed to drive further clarity and consistency and to increase the scale of investment.

Another question raised by the industry is whether the traditional understanding of a director’s fiduciary duty towards stakeholders should be extended to include broader impact and responsibility. This question extends beyond the scope of this report as it would involve significant policy review and potentially changes to companies’ law. However, elevating purpose to an equal level with profit may turn out to be a necessary pre-condition to growing finance for social impact by orders of magnitude rather than just incrementally.

---

[6] https://www.irsg.co.uk/assets/Reports/AA_IRSG_S_ROADMAP_008.pdf

[7] Social-Bond-PrinciplesJune-2020-090620.pdf (icmagroup.org) Social Bonds are the use of proceeds bonds that raise funds for new and existing projects that address or mitigate a specific social issue and/or seek to achieve positive social outcomes

Methodology

The recommendations in this report were determined through industry consultation across the financial services sector. Over 70 banking, wealth and asset management, insurance and pensions, and private equity firms as well as broader industry stakeholders contributed feedback and insights through various channels including bilateral conversations, sub-sector roundtables and a questionnaire.

Definitions

For the purposes of this report, the concept of impact – and specifically social impact – has been considered under the pillars of People and Prosperity in line with the graphic on the next page. This is based on a combination of frameworks including, amongst others, the World Economic Forum (WEF) Stakeholder Capitalism Metrics and the UN Sustainable Development Goals (SDGs).

Social Impact is defined here as:

A significant change in positive or negative outcomes for people and communities, within and outside of an organisation's operations and supply chain, that happens as a result of an action, activity, project, programme, or policy. This relates to the social outcomes occurring as a result of how corporate or capital allocation activities are undertaken by the organisation, as well as through the business activity or deployment of capital.

And, for the purposes of this report, Impact is considered to cover both:

1. **Corporate Activities** – which relate to the impact of an action, activity, project, programme, or policy undertaken, including business activities, operations and supply chain activities; and,
2. **Capital Allocation Activities** – which relate to the process by which capital allocation activities are undertaken (whether this is investment – including impact investing – financing, lending or otherwise), as well as the impact of that finance in generating a positive and measurable outcome on people and communities.

The core pillars of Impact

Impact

Transitioning to sustainable value, and transforming the impact on the Planet, on People, on economic Prosperity, and the Principles on how you govern and operate

Planet (E)

Reducing the impact and protecting the planet through taking action on climate change, and the sustainable consumption, production and management of natural resources

Energy & Emissions

Reducing energy consumption, transitioning to renewables sources and taking immediate action on emission production

Resource Circularity

Increasing the continual use of resources, eliminating waste and keeping products, equipment and infrastructure in use for longer

Ecology & Biodiversity

Reducing the ecological impact and impact on biodiversity from land and water use, to waste and pollution, to material and chemical consumption

People (S)

Delivering a positive impact for people by creating a diverse and safe environment, and a workforce fit for the future

Workforce – Decent Work & Skills for the Future

Creating a decent work environment and building the skills and experience across the workforce required to meet the needs for today and tomorrow

Inclusion, Diversity & Equality

Creating an inclusive, diverse, and equitable environment both within the enterprise, and across suppliers and partners

Health & Safety

Providing access to non-occupational health and medical and reducing the incidences of work related injury

Prosperity (S)

Delivering a positive economic and societal impact for all, through innovation, positive contribution, employment and financial investments

Economic Contribution

Delivering economic benefit, maximising investments and returns, and providing/ accessing sustainable capital

Social Contribution

Generating and delivering financial, and non-financial, societal and individual contribution

Innovation & Products/Services

Maximising investment in the development of existing, and innovation of new, products and services

Principles (G) (of Governance)

Delivering long term value creation and protection, aligning financial and societal performance, and ensuring accountability, effective decision making and compliance

Risk & Opportunity Oversight

Delivering agile and effective identification, mitigation and compliance of principle material risks and opportunities affecting the enterprise

Ethical Behaviour

Operating an ethical and anti-corruption environment supported by responsible information management and practices

Purpose & Composition

Creating a clear purpose that creates long term sustainable value governed by a relevant, diverse and equitable body of representation

The above impact pillars and sub-categories are based on a combination of frameworks including, amongst others, the World Economic Forum (WEF) Stakeholder Capitalism Metrics (SCM) and the UN Sustainable Development Goals (SDGs).

1. Build on the "E"

The majority of financial services firms are much further along in integrating environmental considerations into both their corporate activities and capital allocation decisions than they are when compared to social considerations. Many are already mapping and reporting on areas of environmental impact and, as a result, there is an opportunity to leverage and build on this experience as well as the existing policies and processes in order to scale the degree to which social impact considerations are part of the decision-making process. Elevating social to a similar level as environmental would have an immediate and measurable impact.

It is clear the "E" is further progressed than the "S" in ESG in terms of having clear comparable indicators as well as transparency on disclosure requirements. This therefore provides an important and helpful place to start when it comes to the broader question of impact.

In line with this, there has been significant convergence on social measures relating to corporate impact, for example in relation to employees and supply chains, which have already been incorporated into existing standards and frameworks, such as the Morgan Stanley Capital International (MSCI) ESG ratings. Analysing and assessing impact where the organisation has direct control is an important place to start. These are similar to the calculation and remediation of scope 1 and 2 emissions in a company's decarbonisation plan[8].

Beyond this, an important linkage between the "E" and the "S" is the "Just Transition", which highlights areas of social intervention that need to be considered and managed as economies shift towards being climate neutral. While some firms expressed tension and sometimes trade-offs in balancing environmental and social considerations, the majority – 75% of respondents to the industry questionnaire – indicated that their organisation actively considers social impact when making capital allocation decisions in support of the Net Zero Transition. This aligns with the hypothesis that social considerations are already being included when deciding how to achieve environmental objectives. A number of organisations indicated that aiming for environmental outcomes that also deliver a Just Transition is a helpful entry point to social impact – both in terms of engagement, and also in terms of focusing on areas that deliver the greatest sustainable impact.

[8] Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting requirements - GOV.UK (www.gov.uk)

2. Develop skills & training

Based on responses to the industry questionnaire, 50% of firms identified skills and resources as a key challenge in scaling finance for impact.

Some firms highlighted that it is necessary to have the right people within the organisation who can understand and monitor local laws and regulations to facilitate effective compliance across regions and entities.

Increased environmental skills and training should go hand in hand with increased social impact training if a Just Transition is to be achieved. Building on and enlarging this relevant skillset is fundamental for the UK to maintain competitiveness in line with wider industry transformation. Many organisations – and not just Financial Services – are competing for a limited pool of talent with deep ESG knowledge, who can meet these requirements. Financial services firms recognise there is a need for firms to invest in developing resources internally, as well as or rather than seeking these skills externally.

Additionally, a number of firms identified that workforce empowerment was an important tool, and that **formal training would help to further embed impact considerations into decision-making across the organisation.** In this vein, several higher-education providers are developing bespoke programmes to facilitate better understanding within industry and beyond, so there is an opportunity for Financial Services to engage with these providers to further upskill people within their own organisations.

3. Set a clear strategy

As with climate-related disclosures which need to be in line with the Taskforce on Climate-related Financial Disclosures' (TCFD) core pillars of recommendations, getting an appropriate strategy in place is an important building block for driving the social agenda.

Establish governance & culture

Market-leaders recognise that social considerations are critical to the long-term value of the organisation and financial viability of capital allocation decisions. As a result, they have embedded this into the governance and culture of the firm. Many have already made strides to incorporate longer-term sustainability objectives into executive performance targets to incentivise change. For example, one firm described setting board diversity targets that are directly linked to financial compensation, and another highlighted their work to set similar targets that are connected to interest payments for the firm.

Socially conscious practices should also be embedded throughout the organisation's culture; an industry participant explained that they have paid out over $2 million in bonuses for diversity champions across all levels of the business.

For both governance and culture, the bar needs to be set high on social considerations. Activities (corporate and capital allocation) should be explicitly ruled out if they potentially have adverse impacts on people or communities and cannot be remedied over a reasonable timeframe.

Set a "Finance for Good" strategy

There is a spectrum of responsibility firms should consider when it comes to developing a strategy. Importantly:

1. All organisations can manage their own corporate impact;
2. All investors/financiers can incorporate some impact considerations into their capital allocation decisions; and,
3. Some firms can choose to go further to pursue specific impact objectives through both capital allocation and corporate activities.

Developing a "Finance for Good" strategy requires organisations to **align a greater proportion of corporate and capital allocation activities to achieving objectives with a positive impact on people and communities, which can be monitored and measured.**

INDUSTRY-LED RECOMMENDATIONS TO ADVANCE FINANCE FOR SOCIAL IMPACT

3. Set a clear strategy

All businesses have both positive and negative impact, so starting with a baseline materiality assessment is crucial. This enables the organisation to understand current impacts – both positive and negative – establish a benchmark from which to measure progress and identify areas of focus, including how these should be prioritised and the required next steps.

Eliminate the "BAD"

There was common agreement across the industry that "doing no harm" – for example preventing any breaches of human rights – is the minimum consideration for organisations. Analysing existing corporate activities and the financing portfolio (such as conducting a balance sheet analysis) is necessary to identify all activities that have either existing or potential adverse impacts. The benchmark must be to stop or remedy activities that do harm, even if this means exiting those positions which cannot be fixed (the "bad").

Improve the "MEDIOCRE"

The next considerations involve shifting "finance for mediocre" (i.e. where only minimum social considerations are applied to decisions and activities) to "good". This forms the majority of firms' activities and is likely to be the largest opportunity to grow impact.

Many larger global organisations have social frameworks for their activities – both related to corporate activity and capital allocation – which are set at a global level, but the specific standards and thresholds for what constitutes "good" or sustainable are set in a region or country. This means in trying to "improve" the mediocre some of these standards could be applied to a greater proportion of remaining corporate activities and capital allocation decisions.

Grow the "GOOD"

This is where firms can choose to go further to pursue specific impact objectives. Here, organisations should develop a prioritisation matrix for higher potential opportunities, and targets that are set should be specific and sufficiently stretching.

Deciding which areas to focus on to drive impact is unique for each organisation – just as no one business is the same, no single approach fits all. **The areas or categories chosen should directly align with the firms' own values as well as those of its stakeholders.** Conducting the materiality assessment described above is also an important step as it helps in determining which social impact areas to focus on so that financing and resources are directed in the most effective and impactful way.

3. Set a clear strategy

An area where the financial services industry is already leaning in, taking ownership, and looking to drive real impact is financial inclusion. The questionnaire responses show that 71% of firms already have at least one financial inclusion initiative in place. The most common types of initiatives mentioned include:

1. **Providing financial & digital education: e.g. offering tools and resources to improve financial literacy.**
2. **Improving digital access: e.g. supporting those from low-income households in accessing digital services.**
3. **Building financial resilience: e.g. enabling customers to cover expenses in case of unexpected emergencies.**

Using the TCFD governance pillar as an example, the "finance for good" strategy should similarly be embedded within the firm's processes and governance framework which requires setting clear parameters that align to the strategy. Regular reviews should be undertaken to ensure impact data is integrated into the risk management thresholds, as well as escalation processes for any potential policy breaches.

Market participants described the benefits of expanding Know Your Customer (KYC) and client onboarding practices to incorporate additional questions for companies in line with areas of positive social impact such as diversity, equality and inclusion practices. This helps enhance the social impact standards of their customers and creates transparency.

4. Leverage influence & asset stewardship

The financial services industry is uniquely positioned to affect and enact large-scale change in the global economy not just by directing the flow of capital which, in turn, shapes society, but also through asset ownership. Institutional investors have a voice and an important seat at the table to drive change and, in this vein, influence is highlighted as an important tool.

The UN Principles of Responsible Investment (UN PRI) define stewardship in responsible investment as: the notion of financial services exercising their influence to incorporate purpose and impact, as well as financial returns, into long-term value.[9] The channels to apply this pressure are already opening up as custodians move beyond simple proxy voting to facilitating asset stewardship and active lobbying.

Increasing collaborative action amongst like-minded responsible investors and applying a social lens to engagement and voting behaviour to elevate companies' corporate activities in line with positive impact policies and procedures should become increasingly common as social considerations become more widely known and considered.

However, this should not only be reserved for those who are already meeting or exceeding social standards. Helping others raise the bar by embedding market-leading practices and working with companies who have a longer way to transition provides a greater opportunity to create impact. In setting social standards as an organisation, firms can then influence and encourage others to come up to the same standards, rather than simply divesting or solely focusing on companies already delivering positive social outcomes. In fact, influence was identified by some market participants, as having a greater effect on increasing social impact than the launch of new funds or products (though, of course these do have an important role to play as well), and it ultimately leads to better long-term outcomes for society.

[9] https://www.unpri.org/an-introduction-to-responsible-investment/an-introduction-to-responsible-investment-stewardship/7228.article

4. Leverage influence & asset stewardship

Engagement on sustainability and social impact can also help influence behaviours of those seeking to access capital. Requiring organisations to answer questions on social impact shines a light on a particular social issue and is more likely to lead to improvement.

Asking questions is not the only way of influencing behaviour. Firms may also offer preferential borrowing terms or access to cheaper finance based on social factors as a way of increasing their impact on the real economy. It is now commonplace for borrowers to ask and for lenders to offer small, but beneficial changes in lending terms based on the borrower's ability to meet ESG Key Performance Indicators (KPIs). Meeting the KPIs signals to the lender that the borrower is well governed, possibly more resilient, and may have a more motivated workforce. These ESG indicators could have a positive impact on the wider market's perception of the borrower leading to the lender perhaps taking a view that these positives decrease credit or investment risk and hence allow preferential terms. This practice is common within green financing, so the challenge is to take a broad enough perspective to recognise that socially beneficial outcomes are also good for business. This ability to influence social outcomes through general lending and investing criteria is under recognised.

5. Use data & metrics *– even though they are not perfect*

One of the principal challenges identified by market participants is the defining and measuring of impact and outcomes. Even if it is overquoted, it is no less true to state that **“you cannot manage what you cannot measure”.** The challenges faced in relation to ESG data more broadly, are specifically relevant to social data as well, including: a lack of consistency or commonality in how to measure impact, difficulty in objectively quantifying social goals across regions, limited transparency in thresholds and methodologies used by ESG rating agencies, and sparse disclosure outside large, listed companies and those that are self-reporting. The UN PRI have stated that “the social element of ESG issues can be the most difficult for investors to assess. Social issues are less tangible, with less mature data to show how they can impact a company’s performance”[10].

A lack of guidance on common baseline metrics hinders the ability to clearly communicate a comparable strategy that holds validity across the market and means that comparing data across organisations and setting industry or regional benchmarks is extremely difficult. **One of the key areas identified to support scaling finance for impact is the availability and sourcing of relevant data and reporting against comparable metrics that support decision making.** As such, many firms are trying to determine impact through various existing metrics that are perhaps easier to measure and quantify. Transparency across industry on just a few of these and setting some targets against a small set as a starting point would lead to a fundamental change in some business operations.

[10] ESG Integration: How are Social Issues Influencing Investment Decisions?

5. Use data & metrics *– even though they are not perfect*

The top five social impact categories related to both corporate and capital allocation activities, which financial services firms highlighted are the most important in terms of reporting metrics are set out below. These are based on responses to the industry questionnaire.

1. **Fair Remuneration**
2. **Human Rights**
3. **Equal Opportunity Policy & Practices**
4. **Workforce Diversity**
5. **Wellbeing & Health**

In addition, the questionnaire feedback indicated that 70% of firms use fair remuneration as a measure to determine social impact, and similarly, 68% of firms use human rights indicators.

These categories are an initial starting point toward improved disclosure, and several existing standards – such as B Lab, the Global Reporting Initiative (GRI), the World Benchmarking Alliance (WBA), and the UN Global Compact – include quantifiable metrics under these themes. For example, fair renumeration includes metrics on living wage, and workforce diversity incorporates diversity and inclusion targets. In addition, the IRSG[11] report made a recommendation for organisations to use modern slavery as a metric. **The rationale being that as it is pervasive and affects economies of all sizes and at all stages of development – it would be a strong candidate to use as a "lead principle".**

Beyond the top five selected (which all sit under the people pillar), market participants also acknowledged the importance of the prosperity pillar in responses to the questionnaire. Categories under both social and economic contribution were recognised as being significant when it comes to delivering impact.

[11] https://www.irsg.co.uk/assets/Reports/AA_IRSG_S_ROADMAP_008.pdf

6. Be transparent

Those organisations leading on delivering positive impact tend to also provide more transparent disclosures. Being accountable reinforces "good" actions, quickly identifies "bad" actions, and encourages swift remedial action. External transparency is achieved through appropriate and comparable disclosures that allow stakeholders to access and analyse the approach being taken to meet objectives and deploy capital in an impactful way. Comparable external reporting also drives stakeholder and consumer confidence, which is critical to maintaining long-term business value.

Building on the challenges mentioned above regarding comparable market data, **the inability to validate reported information affects the ability to identify social washing or "swashing" and hinders buy-in from stakeholders to drive initiatives forward.** In many cases, firms are understandably cautious and even reluctant to disclose for fear of inadvertently getting it wrong and being penalised. This ultimately creates tension between a broader desire for transparency to support finance for impact and managing reputational risk.

Part of the answer to this reputational risk may be to obtain independent third-party verification of approaches to provide assurance as to the validity of an organisation's information. Similarly, improved standardisation and publication of methodologies across organisations and ESG rating agencies and/or greater transparency as to where approaches differ, would be a helpful step toward closing the data gap.

Greater transparency can also be driven internally. Transparency within an organisation includes clearly defining and communicating the strategy and the pathways created to achieve objectives, including areas where improvement is required to mitigate or eliminate adverse impacts. This fosters internal cultural change and better alignment to strategic objectives which in turn helps to drive impact.

7. Improve frameworks

One of the most common challenges and a key area for improvement described by financial services firms when it comes to scaling finance for impact is the lack of comparative frameworks and uniform standards. In fact, 68% of the industry questionnaire respondents highlighted the lack of comprehensive frameworks as one of their organisation's biggest challenges. However, **firms are not calling for a new framework – the feedback from Financial Services made it clear that the industry would prefer to build on and consolidate existing frameworks rather than see the creation of something new.**

While the UK is already taking action to develop meaningful guidelines, other countries and jurisdictions are also taking notable actions in embedding sustainability and impact into their existing frameworks, tackling ESG issues holistically, rather than separately. This means, if the UK is to establish and maintain competitive advantage, then it needs to continue to be a part of these conversations and ensure the "E", "S" and "G" are progressed simultaneously.

The creation of the International Sustainability Standards Board (ISSB) marks a significant step forward in this regard and will hopefully lead to coalescence of voluntary corporate sustainability reporting standards into one consistent framework. The ISSB is an investor-focused initiative of the International Financial Reporting Standards (IFRS) Foundation. On 31 March 2022, it released exposure drafts[12] of its sustainability reporting standards which builds upon the Sustainability Accounting Standards Board (SASB) Standards and will embed the industry-based approach used by SASB into the standard-setting process. Working alongside the GRI, the ISSB exposure drafts include the General Requirements Standard [13] and the Climate Standard as well as using the VRF Standards alongside the TCFD, with the aim to bring about increased standardisation.[14]

[12] https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf

[13] https://www.ifrs.org/news-and-events/news/2022/06/issb-and-gri-provide-update-on-ongoing-collaboration/

[14] https://www.ifrs.org/news-and-events/news/2022/03/issb-communicates-plans-to-build-on-sasbs-industry-based-standards/

7. Improve frameworks

The work of the ISSB could influence mandatory disclosure regimes that are evolving in the UK, EU and US. However, there will be considerable challenges in ensuring global adoption of these standards, as there may be contradictions with existing disclosure regimes in certain jurisdictions. For example, with the EU Sustainability Reporting Directive (CSRD) and the US Securities and Exchange Commission (SEC) proposed disclosures. Uptake may also be slower in emerging markets where TCFD reporting may not yet have been adopted.

In the meantime, and according to respondents to the industry questionnaire, three existing frameworks financial services firms most commonly use – both in terms of corporate and capital allocation – are:

1. **UN Sustainable Development Goals (UN SDGs), for communicating impact objectives – 64%;**
2. **UN Principles of Responsible Investing (UN PRI), for implementing processes – 52%; and,**
3. **Sustainability Accounting Standards Board (SASB), for disclosing performance – 38%.**

8. Progress policy & regulation

Many finance firms are already delivering positive social impact to some extent and, as an industry, there appears to be enthusiasm to increase this. While the private sector can, and should, drive progress in scaling finance for impact, that is not the whole answer. **Tackling social issues requires more than the deployment of capital, it requires multi stakeholder collaboration – and in some cases policy reform and regulatory intervention may be required to truly accelerate and drive change at scale.** This is reflected in the recommendations of the IRSG report[15] which called for progressive legislation, to use regulation creatively and in tandem with other tools to drive a gradual improvement in social outcomes.

UK Government policy and regulatory reform are important drivers of behavioural change. This is demonstrated through gender pay gap reporting, implemented in 2021, the Modern Slavery Act of 2015, and the Equality Act of 2010. All of the above have had a direct impact on where organisations – not just Financial Services – focus their efforts. Some clear examples of where regulation is helping drive the availability of metrics as well as standardised reporting can be seen in the topmost commonly used categories against which firms are reporting metrics outlined above which include: Fair Remuneration, Human Rights and Workforce Diversity. These measures are currently having significant impact on larger, listed companies so these firms should be encouraging private as well as small and medium enterprises (SMEs) to work towards similar disclosures.

In addition, firms are keen to see the definition and setting of social impact goals at government and policy level being prioritised to help drive progress. In fact, 68% of industry questionnaire respondents indicated that they are dissatisfied when it comes to global political clarity and common leadership in setting social goals. This is in part due to a lack of clear and consistent scoping of social considerations, cultural differences by country, and importantly, outside of the UN SDGs there are no common objectives at a global or regional level. Ultimately, there are currently no social equivalents to the Paris Agreement or TCFD to set a baseline for social impact.

[15] https://www.irsg.co.uk/assets/Reports/AA_IRSG_S_ROADMAP_008.pdf

8. Progress policy & regulation

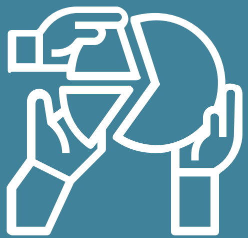
Clarity on broader regulatory requirements to drive consistency and standardisation in the market is an important priority for firms in scaling finance for impact. As mentioned, the ISSB is already making progress and will be producing further social standards in the coming years, and the UK Government has already included social disclosures in its Strategy Green Paper. With this in mind, an important consideration should be to ensure that any social frameworks and regulations are aligned with environmental ones. For example, when building social housing, risks to the local environment may exist which, if not adequately addressed, impede the achievement of the social objectives. Similarly, there may be a negative impact on local workers as a result of divestment from polluting organisations.

Finally, financial services firms also point to examples where existing regulation conflicts with, and is ultimately preventing, innovation in certain areas.

For example, strict adherence to Diversity & Inclusion laws may hinder smaller business enterprises from accessing finance where they have a limited number of employees and are not able to build their diversity profile adequately within a short time frame.

Regulation or policy development should foster innovation and allow for flexibility in its adoption to avoid such circumstances.

9. Collaborate & engage to drive change



i. Engage with clients and customers

The demands and expectations for companies to provide products and services which create positive impacts on people and communities is growing as consumers become more socially conscious. Therefore, engaging with customers is crucial for Financial Services to understand where demand lies and to create products that align.

An example of market-leading innovation in this area is the creation of a corporate mental health benchmark. Through engagement with clients and investees, a UK based asset management firm found that mental health was of significant concern across various stakeholder groups. As a result, they established a set of assessment criteria to evaluate 100 companies on their mental health policies. This benchmark provides a window on how 100 of the UK's largest companies approach and manage workplace mental health, based on their published information. This can then be leveraged by other organisations to structure their own management and disclosures and provides a reliable tool for investors to understand and compare corporate practice on mental health.

In clearly identifying a demand, this has led to a greater positive impact on mental health considerations.

Another financial services organisation highlighted the value of "policyholder days" as a means of engaging with their customers. These informal events facilitate real-time feedback from the company's core stakeholder group, and are attended by employees, senior management, including the CEO, as well as the Chairman and Board members. The events focus not only on the quality of service being provided, but also give customers insight into the investment approach being taken which helps to bring to life the need for social projects such as the development of social housing and urban regeneration.

9. Collaborate & engage to drive change

ii. Engage with policy makers and regulators

Another important action highlighted by industry to overcome some of the challenges identified, is greater engagement by Financial Services with policymakers, regulators and standard setters.

Improving this will help ensure industry needs are met through the enhancement of existing frameworks and clarity of requirements. Establishing an open-dialogue between Financial Services with policymakers and standard setters through both the sharing of ideas and material data would accelerate growth of finance for impact. Financial Services must seize opportunities to respond to exposure drafts and requests for industry input or broader engagement with regulators.

iii. Seek out partnerships

A number of financial services firms highlighted the power of partnerships. Having identified target areas of focus to deliver the greatest social or sustainable impact, one meaningful way to deliver this is through partnering with NGOs or third-party organisations already working in the space. As previously highlighted, the majority of financial services firms are focused on financial inclusion in various forms.

Examples of this include: a financial organisation which has partnered with a leading education platform to support children's learning and development of maths, numeracy and financial skills through football, and another which targets impact in low socio-economic areas in partnership with other businesses and NGOs to address low money confidence.

Broader opportunities also exist to partner with NGOs and third-party organisations to create clear, actionable impact plans – such as in adopting the Living Wage[16]. These initiatives and accreditations help drive transparency and consistency as companies align themselves to a standardised set of metrics and associated disclosure processes.

[16] What is a Living Wage? - Global Living Wage Coalition

9. Collaborate & engage to drive change

iv. Engage with beneficiaries

In trying to measure impact and outcomes, industry also noted the importance of engaging with beneficiaries – i.e. those who ultimately benefit from, or are impacted by, capital allocation or a corporate activity. This could be members of a local community where an organisation has invested in building infrastructure, a school at which employees from a firm volunteer to mentor or coach the children, or employees themselves who benefit from a firm's health and wellbeing initiatives.

Engaging with the end-recipients enables firms to better understand the outcome of an activity. The risks of not clearly defining the target beneficiaries, their needs, and what represents real and measurable outcomes for them, include not actually delivering on those outcomes as well as not accurately capturing the impact.

Building on the point above, bringing together the financial services sector with experts who have the appropriate and direct local experience, will ensure those deploying capital or services have better access to the tools and skills required to meet beneficiary needs.

v. Collaborate with industry peers

In the absence of perfect policy, regulation, goals and agreed frameworks, as described above, financial services firms emphasised the need for collaboration with industry peers to overcome some of the challenges identified. Significant progress could be achieved by market participants joining forces on key issues. For example, on metrics, ideally these would be set at a policy level – global or national – but there is certainly an opportunity for industry leaders to come together to agree key areas where consensus can be reached. In fact, 54% of survey respondents indicated that this would be one of the most important actions in overcoming the challenge around the lack of standardised reporting.

Collaboration would also improve transparency on approaches that are adopted by organisations and enable better consistency in measuring impact. For example, if all firms opt in on a small set of disclosures this would not only create a degree of standardisation, but also enhance minimum standards. This, in turn, would aid the level of comparability across the market thereby improving the integrity and reliability of reported data which can then more easily be interpreted.

This requires a coalition of market-leaders to lean in and work together in a non-competitive manner to agree a set of shared objectives and standards. If those out in front are collaborating to set standards and expectations, it may mean those further behind in their journey to integrate impact considerations into their businesses may be encouraged and incentivised to progress.

Furthermore, industry collaboration would also help alleviate some concerns around reputational risk in terms of getting things wrong and the stigma of being an outlier.

Several market-participants volunteered "collaboration hubs" as a powerful tool to grow finance for impact and to bring policymakers and finance providers together so that initiatives have a far greater chance of success and greater potential to scale.

Supported by data from the Good Foundation's Capital as Force for Good 2021 Database

Continuing progress

From the research and insights collated in this report, it is evident that there is significant existing momentum and enthusiasm within Financial Services to continue to progress and scale finance for impact. As such, forming an industry-led taskforce or convening a group of market-leaders from across the subsectors of Financial Services will be crucial to progressing the recommendations in this report. Considering this imperative, the Finance for Impact initiative will endeavour to form such a group to ensure momentum continues to build in the UK and globally, and to further mainstream finance for impact.

Respondents to the industry questionnaire highlighted several key priority areas for this group to focus on. In order to deliver on these, this industry coalition could look to take forward the following:

Key priorities areas	Suggested actions
1. Guidance on impact disclosures and metrics	Connect with existing industry bodies such as the IRSG ESG Working Group to help drive these forward.
2. Development of clear social impact goals	Assign a Finance for Impact industry champion, in a similar way that Mark Carney has supported climate and decarbonisation in the UK TCFD regulation, to further elevate the work and progress.
3. Clarity on regulatory requirements	Work with Her Majesty's Treasury (HMT), the Department for Digital, Culture, Media, and Sport (DCMS), the Department for Business, Energy & Industrial Strategy (BEIS), and the Financial Conduct Authority (FCA) to help progress social considerations with policymakers and regulators.
4. Consolidation of social frameworks	Engage with the work of the ISSB, B Lab, GRI and WBA to align with and adopt existing standards and further consolidate frameworks.
5. Expanding social impact training	Further sharing of industry best practice on social impact and continue to engage with higher education providers.

Kay Swinburne
Vice Chair of Financial
Services at KPMG UK
Kay.Swinburne@kpmg.co.uk

John McCalla-Leacy
Head of Environment, Social
& Governance (ESG) at KPMG UK
John.McCalla-Leacy@kpmg.co.uk

Noeleen Cowley
Financial Services Lead Partner
for ESG at KPMG UK
Noeleen.Cowley@kpmg.co.uk