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FOREWORD

Time to deliver

The Rt. Hon.
Nick Hurd
Chair, Impact Taskforce

We are an industry-led Taskforce that has been invited by the G7 Presidency to help answer a critical question for our time: *"How can we accelerate the volume and effectiveness of private capital seeking to have a positive social and environmental impact?"*

It is not a new question, but the urgency of the context requires a more effective response than we have seen in the past. As the dangers become clearer and more present, public and private sector leaders have made a series of high level, long term commitments to change. For trust and hope to be sustained, the gap between rhetoric and delivery needs to narrow visibly over the next critical decade. There will never be enough public money and so the mobilisation of private capital and innovation for public good is mission critical. Given the very dangerous risks attached to non-delivery, we call for a more conspicuous and coordinated effort to align interests and achieve this mobilisation. This cannot be left to private markets alone: public capital, policy and regulation will be key enablers. The worlds of business and politics need each other more than ever. This needs to be reflected in the structuring of networks to accelerate the flow of investment to where it can have the most positive impact. A network of G7 leaders, regulators, business executives, investors and non-governmental organisations are uniquely positioned to accomplish this task.

There is more than enough private capital to fill the funding gap, and investment decision-makers are becoming increasingly alive to social and environmental risks. We have strong tailwinds to challenge system inertia, align interests and move large pools of mainstream institutional investment to be a more visible part of the solution. This will require sustained commitment and acceptance of the need to work in less fragmented ways and develop new models of partnership.

We have been very conscious of the need to add value to various ongoing dialogues and avoid reinventing wheels. With an active life of just four months, we limited our scope of work to proposing actionable pathways to accelerate change in two important areas. The first pathway will transform the quality and transparency of information on the impact of investment decisions. The second will mobilise more institutional capital for positive impact, especially in emerging markets through vehicles that integrate social and environmental objectives in support of the United Nations' Sustainable Development Goals (SDGs) and a just transition that does not leave people and places behind. Our recommendations seek to find the right balance between pragmatism and stretch in an environment of rapid change where the rule makers risk being out of step with what is possible and necessary.

The extraordinary level of engagement from our members and wider stakeholders speaks to the resonance of the issues we aimed to address, which go to the heart of what corporate and investment success will look like in the future. I am very grateful to everyone who has contributed to our work, from the members of our technical working groups and the ITF Steering Committee, to our sponsor, the UK Government FCDO's Impact Programme, and to our generous supporters, including the William and Flora Hewlett Foundation, the EQT Foundation and BNP Paribas. This work would not have been possible without their passion, professionalism and commitment.

Success is not the publication of this report or the technical reports that accompany it. The next steps at this critical juncture centre on engaging decision-makers around our specific recommendations and obtaining a sustained commitment to the mobilisation of private capital for public good.

Nicholas Hurd

The Rt. Hon. Nick Hurd
Chair, Impact Taskforce

Financing a better world requires impact transparency, integrity and harmonisation

Douglas L. Peterson
Chair, ITF
Workstream A

Institutional investors, company leaders, government officials and other market participants have arrived at a crossroads. We are within a decade of the deadline for achieving the SDGs. Yet, the pace, volume and effectiveness of action required are insufficient to achieve the UN's ambitions or to produce positive social and environmental impacts more broadly.

There is some good news, however. The necessary capital is ready, willing, and capable of being mobilised. The challenge is to lay the groundwork required for this funding to flow. In our view, far greater transparency, harmonised disclosure standards and better data for decision-making are the foundational elements needed.

Establishing globally consistent standards to measure, value and account for impact will require new levels of public-private cooperation.

Momentum is on our side. In November 2021, the International Financial Reporting Standards (IFRS) Foundation announced the formation of a new International Sustainability Standards Board (ISSB) to serve as a global baseline of high-quality sustainability disclosure standards. Workstream A welcomes this news and urges stakeholders to build on this effort. We set out specific recommendations to do just that. By focusing on such steps as improving required disclosures; evolving accounting, auditing and assurance practices; and building secure, interoperable data infrastructure, we can reach our desired destination of mandatory accounting for impact by businesses and investors.

Douglas L. Peterson
President and CEO, S&P Global
Chair, ITF 'Workstream A'

We need more opportunities for traditional capital to contribute to a Just Transition

Dame Elizabeth Corley
Chair, ITF
Workstream B

The current momentum behind the movement of capital towards impact must be accelerated if we are to achieve a transition to a Net Zero world in which no one is left behind.

Demand to invest for impact is growing; pledges are plentiful but actual deployment of capital is still too slow. The challenge remains to mobilise more 'traditional' capital in a manner that respects the responsibilities of asset owners and managers towards their clients.

Allocations to strategies with integrated environmental and social objectives not only mitigate risks but also expand the potential for positive financial returns.

However, we also need solutions that reach beyond the investment frontiers of private capital working alone. The answer is to combine multiple sources of finance – from governments, multinational development agencies, philanthropists, and the private sector – together with multiple financial instruments. Our work highlights examples of tested tools that are already being applied to blend capital, the use of which must be expanded.

As climate finance has galvanised attention, a growing consensus is emerging that a single focus on environmental issues is insufficient and that addressing the socio-economic consequences of climate change will be essential to achieving Net Zero. An approach based on the principles of a just transition, focusing on our planet and its people, is therefore needed.

We introduce global integrated Just Transition Elements: Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice. Together, these Elements assure that capital meaningfully contributes towards a resilient and sustainable just transition to a Net Zero world.

Dame Elizabeth Corley
Chair, Impact Investing Institute
Chair, ITF 'Workstream B'

INTRODUCTION

This report provides the summary conclusions of the Impact Taskforce (ITF). It presents the case for urgent action, provides actionable recommendations and sets out a clear pathway as to how private capital can be mobilised at scale in support of key global sustainable development targets.

OBJECTIVES

Set up in July 2021, the ITF was established to contribute practically to promote sustainable, impact-driven economies and societies worldwide by addressing two core questions: *"How can we accelerate the volume and effectiveness of private capital seeking to have a positive social and environmental impact?" and "How do we make sure this mobilisation has a real impact and does not leave people and places behind?"*

COMPOSITION

The Taskforce has gathered together 120 members and a broader number of experts from across all sectors, representing around 40 countries. Its governance and operational structure enable close coordination with other relevant working groups in the G7, the G20 and beyond. It sits under the secretariat of the Global Steering Group for Impact Investment (GSG) and draws on support from the GSG's UK National Advisory Board, the Impact Investing Institute (III). It also receives input from the GSG's network of national and regional advisory boards on impact investment, which span across 33 countries.[1]

THEMATIC PRIORITIES

The ITF chose to examine two very specific themes that represent key enablers for scale. These were examined by two technical Workstreams, led by S&P Global and the GSG (Workstream A), and the III (Workstream B):

WORKSTREAM A: Transparency, Integrity and Harmonisation for Impact
The first Workstream of the ITF addressed the issues of impact transparency, global harmonisation of standards, and mechanisms to ensure integrity of data, analysis and governance.

WORKSTREAM B: Instruments and Policies for Financing the SDGs and a Just Transition
The second Workstream concentrated on mechanisms to align investment vehicles across asset classes in support of the transition to an equitable and sustainable future

PRODUCTS

In addition to this final report, the two Workstreams of the ITF produced powerful technical documents that show, in full, the analysis and associated recommendations for each of the thematic priorities described above. These and other resources can be accessed from the ITF website: **www.impact-taskforce.com**

AUDIENCE

The Taskforce's deliverables and recommendations are aimed at both public and private-sector stakeholders. Primarily, our findings speak to those decision makers and regulators in G7 member states and 2021 G7 guest countries who are best positioned to take action: namely, Heads of State and Government, Foreign and Development Ministers, Finance Ministers, Central Bank Governors and Development Finance Institutions. Additionally, and given the industry-led nature of the ITF and the technical areas it covers, the report's findings and recommendations are also aimed at a wider set of stakeholders that include capital-market regulators, asset managers, asset owners, businesses, National Advisory Boards on impact investing and Environmental, Social and Governance (ESG) and impact investors, among others.

BACKGROUND

UK G7 2021 Presidency

The United Kingdom (UK)'s government used the opportunity of its presidency of G7 in 2021 to appoint the independent and industry-led ITF to promote impact-driven economies and societies in the long term.

2021 G7 Guest Countries

The UK invited Australia, India, South Africa and South Korea as guest countries to 2021 G7.

Social Impact Investment Taskforce (SIIT)

The ITF builds on the work of the SIIT, which was set up by the UK government during its presidency of the G8 in June 2013 and published its findings in September 2014.

[1] See: "The Global Steering Group for Impact Investment"; www.gsgii.org

1 SUMMARY OF KEY MESSAGES

Responding to the urgency of today's context

The urgent need to narrow the gap between rhetoric and delivery

We are just eight years away from 2030 and at a moment of important global accountability. The current generation of political and business leaders must now assume the challenge of evidencing momentum in delivery on the long-term commitments to climate action, the global goals and the building back of a better world. The risks attached to failure of delivery are extremely dangerous.

The critical role of private capital and enterprise

There will never be enough public money to deliver on the goals. Limited public budgets mean that the mobilisation of private enterprise, innovation, and capital in support of positive social and environmental impact is mission critical. Private capital is available in abundance. The challenge lies in creating the conditions for it to flow with urgency, scale and integrity into investment opportunities that reflect investor appetite and risk and return tolerances while having a positive impact on the public effort to meet our challenges.

The challenges should not be underestimated

This imperative to mobilise capital at scale for public good is not a new challenge. The historic failure to make more progress is testimony to the heavy drag of system inertia. Success requires a concerted effort from different stakeholders in support of actionable ways to deliver systemic change. This is not for private markets alone: public investment and policy also have a critical role to play.

We have a window of opportunity

Today's critical context both allows and requires us to think and act in ways that would have been unimaginable just a few years ago. Advocates of reform can take confidence in two powerful tailwinds of change. The first is the shift in the social values of consumers, talent and investors, which is already influencing corporate behaviour. The second is the huge leaps in digital technology which are creating opportunities to deliver and measure social and environmental impact in ways that were previously inconceivable. These tailwinds have encouraged leaders across different disciplines to build an increasingly powerful demonstration effect to influence others.

Actionable pathways to accelerate change

The ITF has chosen to focus on offering actionable pathways to:

A Transform the quality and transparency of information on impact

Investment decisions are being taken today with inadequate information about their social and environmental impact. What we do not measure, we do not manage. So we need to move with urgency to transform the quality and usefulness of information on impact available to investment decision-makers, as well as those holding them to account. Better information should lead to better decisions and so be seen as a vital management tool by companies. Leveraging the power of impact transparency is key to change behaviour and work towards a future in which investment decisions, by companies and institutional investors are increasingly taken through the triple lens of risk, return and impact.

B Mobilise more institutional capital in pursuit of positive impact

We focus on the opportunity to increase the use of proven and new instruments and tools that can address real barriers for private capital to flow, especially in emerging economies and frontier markets that have impact potential. We need to break down silos that are forming between environmental and social goals. Instead, the G7 and partners should be encouraging visible institutional commitment to a just transition that does not leave people and places behind - paying particular attention to segments of societies which are typically underrepresented and discriminated against for, amongst other factors, their economic standing, race or gender. Such a transition, in turn, needs a better definition. So, we seek to demonstrate what good looks like on a pathway towards an expanded set of instruments and vehicles appropriate for institutional investors, and the integration of social and environmental objectives in support of a just transition, especially in emerging economies.

Key messages from our technical Workstreams:

WORKSTREAM A

1. **There is strong support for the International Financial Reporting Standards Foundation's International Sustainability Standards Board (IFRS-ISSB)** efforts to create a global reporting "baseline" on impact related to enterprise value. **The Impact Taskforce (ITF) calls on governments to support and participate in upcoming consultations,** ensuring that the ISSB: has an inclusive governance model; balances social and environmental issues; acknowledges and reflects realities of both emerging and developed economies; actively engages small and medium enterprises (SMEs) along the value chain; and is swiftly followed by an assurance regime for all data relevant to enterprise value for public companies.

2. **The ITF also calls for an urgent build on this reporting baseline** to include any impacts on stakeholders that the baseline does not address. This can happen through changes to company law and the scope of directors' duties, voluntary and mandatory disclosure, and further evolution of accounting and assurance standards to cover all impact data, not just data related to enterprise value. Critically, governments can mandate that statements on impact disclose the limitations, thresholds and assumptions underpinning them, and any basis for deciding what is material.

3. We believe that impact transparency is a powerful lever for change. Investment decisions are being taken today with incomplete information. We should be working towards a world in which such decisions are thoroughly informed by risk, return, and impact. For this reason, **the ITF urgently calls for mandatory accounting for impact as a destination**, stressing that the journey towards this goal must be underpinned by greater transparency, harmonised global standards and strong mechanisms to ensure integrity of data and analysis.

4. **The ITF recommends that the G7 countries and partners collaborate with the private sector, standard-setters and academia on approaches to impact valuation**. This work is needed to deepen our understanding of how to value impact in a way that allows a meaningful comparison of the impacts and profits of companies, while also revealing the relationship between the two. As methodologies improve and investor demands evolve over the next few years, regulators need to be in a position to assess different approaches to impact valuation at scale. This is consistent with the "baseline and build" approach that we advocate.

WORKSTREAM B

5. **Coordinated, urgent movement** spearheaded by the G7 to remove multiple external and internal barriers that currently limit the flow of institutional investors' transformational capital particularly to emerging and frontier economies. This must be done in conjunction with all relevant market actors in developed and emerging markets and other leaders around the world. It should also include the mobilisation of domestic capital pools to work alongside international sources of finance. Workstream B calls on all actors across the financial system to work together in such a coordinated movement if there is to be any prospect of achieving the SDGs by 2030.

6. **Broad recognition of the need for integration of environmental and social factors** to drive an inclusive, fair, and equitable transition that avoids poor or disadvantaged populations becoming worse off. To drive alignment between public and private actors, and to ensure that more capital is meaningfully directed towards a just transition, we introduce three Elements that integrate the critical drivers of a just transition: advancing Climate and Environmental Action; improving Socio-economic Distribution and Equity; and increasing Community Voice. The Just Transition Elements are applicable across geographies, sectors, investments, and policies.

7. **Support for the mobilisation of capital**, by enhancing the role of multilateral development banks (MDBs) and development finance institutions (DFIs), particularly those of which G7 members are shareholders, and more actively using a range of proven tools and instruments. Mobilisation can be further strengthened by improving regulatory frameworks for sustainable investment that currently constrain deployment. Existing instruments and tools, often combined through blended finance, can help overcome barriers faced by asset owners and managers. The full Workstream B report provides examples across asset classes of mobilising capital at scale, and calls for their further deployment.

8. **An expansion of capabilities and increase in transparency** to support the deployment of funds to people and places of greatest need and opportunity. MDBs and DFIs have much more potential to utilise their market position, networks and expertise to accelerate and expand institutional investor mobilisation. This combines with their ability to generate investable pipelines, provide de-risking support such as subordinated capital or guarantees, and to share years of relevant performance data. At the same time, we call on asset owners and asset managers to increase their awareness of, and capabilities to engage in, the new opportunities created.

2 THE IMPACT TASKFORCE'S MISSION

The Case for Action ("Why")

Time is running out. We need to narrow the gap between rhetoric and delivery in securing the transition to an equitable and sustainable future. Accelerating the flow of private capital for public good at scale and with integrity is mission critical. Public policy and capital have a crucial role to play. Delivery requires sustained leadership and new models of public private partnership, which the G7 is uniquely placed to foster and encourage.

The world today is at a critical inflection point. Our global model for generating prosperity is now severely challenged by the escalating risks of climate change, biodiversity loss, and rising inequality within and between countries. Covid-19 has widened the poverty gap, while also alerting us to the fragility of our existing systems and the need to invest in resilience and inclusion. More positively, global responses to the pandemic revealed our collective ability to think and act in new ways when challenged.

Political and private-sector leaders across the world have responded to today's crises with a series of long-term commitments. Chief among these are the Net Zero carbon pledges that now cover 90 percent of the global economy, the commitments to deliver the Sustainable Development Goals (SDGs) by 2030 and The Build Back Better World Initiative (B3W).[2] As a result of the Glasgow Climate Pact that emerged from COP26, the next 12 months should see higher levels of climate ambition.[3] This must increase our chances of a trajectory to limit warming to 1.5°C. Now, the challenge is to demonstrate real delivery in what is acknowledged to be an absolutely critical decade.

Today's glaring gap between rhetoric and delivery not only feeds public scepticism, it also prompts existing risks to grow in size and severity.[4] The economic, social, political and environmental risks attached to failure of delivery are potentially catastrophic. This is particularly true for the effects of the climate crisis on developing countries,[5] which, as explicitly acknowledged in the G7 communiqué from Carbis Bay, "cannot be left behind".[6]

Welcome as recent pledges are, now is the time to move from well-intended statements to real-world implementation. Delivery on the Net Zero pledges **will require systemic change in most of the global economic systems we rely on, including the system for allocating capital.** This process will create winners and losers. The latter will include investors left with assets that are stranded by regulation or technology disruption. There will also be a significant political challenge in helping people manage the change and sustain support for it. COP26 demonstrated how much more work needs to be done to build the trust between the Global North and South, which is essential to an equitable recovery from Covid-19 and a just, global transition to Net Zero. The process of delivery has to recognise, as the Glasgow Climate Pact does, the "need to ensure just transitions that promote sustainable development and eradication of poverty, and the creation of decent work". Despite the commitment to energy access for all (SDG 7), we still share a world in which almost one billion people do not have access to electricity and the opportunity it brings, and in which four million people a year die prematurely from illness attributable to the

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[2] The White House (2021): "FACT SHEET: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership"; https://bit.ly/3reb154

[3] UNFCCC, Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) (2021): "Glasgow Climate Pact"; https://bit.ly/3oxpdmS

[4] The result of inaction will give rise to multiple risks, including those of an economic (climate-related losses, stranded assets, reduced productivity), social (rising inequality, deteriorating development indicators, mass migration), environmental (dangerous climate instability, ecosystem vulnerabilities), and political (social unrest, protectionism, weakening of democracy) nature.

[5] As many as 132 million people, primarily from Sub-Saharan Africa, could be pushed into extreme poverty by 2030 if swift action to avert climate change is not taken. See: Arga Jafino, B., B. Walsh, J. Rozenberg. and S. Hallegatte. (2020). "Revised Estimates of the Impact of Climate Change on Extreme Poverty by 2030". Policy research Working Paper 9417; https://bit.ly/3qLMxjl

[6] See: The White House (2021): "Carbis Bay G7 Summit Communiqué"; https://bit.ly/3wPBcQr

household pollution caused by the inefficient use of solid fuels and kerosene for cooking.[7] In addition, despite our commitment to Inclusive, Sustainable Cities (SDG 11), over one billion people live in slums and informal settlements without access to basic services, such as sewage and drinking water.[8] In short, we cannot disconnect the social from the environmental if we are to take people with us and sustain the political will that long-term investment in the transition requires.

Delivery of the SDGs and the necessary just transition to Net Zero will not happen without the full engagement of private enterprise, underpinned by innovation and capital supplied at the right cost.

The investment requirements are immense and well-documented. According to the International Energy Agency, an estimated $4 trillion in clean energy investment is needed every year between now and 2050 to keep global warming to within 1.5°C.[9] In a study released in 2019, the International Monetary Fund estimated that an additional $2.1 trillion per year is needed to meet the SDGs in five priority areas (education, health, roads, electricity, and water and sanitation) in emerging markets alone.[10]

There will never be enough public money to resolve these challenges, especially in emerging economies where the fiscal space has been reduced even further by Covid-19. Kenya, estimates that it requires $62 billion annually to implement its climate-linked Nationally Determined Contributions; its own public resources have capacity to cover only 13% of this figure.[11]

Global financial markets represent a hugely powerful – hitherto under-utilised – lever for the systemic changes we need to see. Harnessing that power at scale through processes that prioritise integrity and inclusion now feels mission critical. The need to align public policy and leverage public capital in support of this mission has never been more important. In close alliance with the G20 (in particular via its Sustainable Finance Working Group), the G7 is best placed to provide the leadership and coordination that is necessary.

The opportunity to mobilise private capital for public good at an unprecedented scale is real. The problem is not primarily the supply of money. There is plenty of private capital available, with the world's investable assets estimated at around $250 trillion.[12] We are also seeing real momentum in response to the growing societal and regulatory pressure for capital markets to give greater prominence to environmental, social, and governance (ESG) issues.

At the recent COP26 summit, meanwhile, more than 450 private financial institutions with over $130 trillion assets under management (AUM) signed up to the Glasgow Financial Alliance for Net Zero (GFANZ) to help transform the economy for a Net Zero future.[13] Similar examples are increasingly plentiful. The Principles for Responsible Investment (PRI) now counts signatories with over $120 trillion AUM, for instance. Likewise, over 60 institutional investors representing $10 trillion AUM recently united under the banner of the UN-convened Net-Zero Asset Owner Alliance.[14] Illustrative of this trend is the decision by many UK occupational pension schemes to adopt voluntary Net Zero targets.[15]

The ESG market is expanding fast. Globally, over one quarter of all assets under management – around US$35.3 trillion – are now bound by at least one ESG criterion (with the sector projected to reach over $50 trillion by 2025).[16] This movement contains a spectrum of ambition from investment policies that are content to reduce risk and do less harm ("responsible investing") through to opportunities to invest proactively for positive impact ("sustainable investing").

A clear opportunity exists to build on ESG's rapid growth and create the conditions for more of that capital to be deployed intentionally in favour of companies that have positive social or environmental impacts (i.e. focusing on on "what" companies do and not just "how" they behave). This mandate to invest explicitly for more positive impact falls to a subgroup of the sustainable investment sector known as 'impact investment'.[17] Impact investors use measurement tools intentionally to maximise

[7] WHO (2021): "Household air pollution and health"; https://bit.ly/3cR7C3N

[8] UN (2018): "Make cities and human settlements inclusive, safe, resilient and sustainable"; https://bit.ly/3CUTkd3

[9] IEA (2021): "World Energy Outlook 2021 shows a new energy economy is emerging – but not yet quickly enough to reach net zero by 2050"; https://bit.ly/3nkyiQn

[10] IMF (2019): "Fiscal Policy and Development: Human, Social, and Physical Investments for the SDGs"; https://bit.ly/3HufwOw

[11] FSD Kenya (2021): "A Snapshot of FSD Kenya's Intended Work in Green Finance"; https://bit.ly/3CgNqCx

[12] BCG (2021): "Global Wealth 2021: When Clients Take the Lead"; https://on.bcg.com/3kDkpLh

[13] See: GFANZ (2021): "Amount of finance committed to achieving 1.5°C now at scale needed to deliver the transition"; https://bit.ly/3chx02w

[14] Members of the Net Zero Asset Owner Alliance commit to transition their investment portfolios to Net-Zero greenhouse gas emissions by 2050. See: https://www.unepfi.org/net-zero-alliance/

[15] An estimated 85% of defined contribution pension savers in the UK are now in schemes aligned with the Paris Agreement. See: Department for Work and Pensions, UK Government (2021) "Climate and investment reporting: setting expectations and empowering savers"; https://bit.ly/3qlJgBw Note: a number of pension schemes are also signatories to the Net Zero Investment Framework, launched by the Institutional Investors Group on Climate Change in March 2021. See: https://bit.ly/328avuX

[16] Global Sustainable Investment Alliance (2021): "Global Sustainable Investment Review 2020"; https://bit.ly/3HtSveP

[17] See: B20 Italy 2021 (2021): "Finance and Infrastructure Policy Paper"; https://bit.ly/326Nxo1

positive outcomes for people and the planet. According to the International Finance Corporation, some $2.3 trillion of assets have an intent for impact, of which $636 billion have clear impact management and measurement processes in place.[18] Given that investment for intentional impact represents less than 1% of investable assets and less than 7% of ESG assets, there is a clear opportunity and need to enable impact investment to scale, and to encourage further growth in ESG assets that want to focus on "doing good" rather than "doing less harm".

There is an increasingly large evidence base of impact investments that deliver market-competitive investment returns and, simultaneously, there are asset owners who are prepared to trade off some financial return for evidence of greatest positive impact. However, as we shall explore, the route to scaling up mainstream investment for positive impact and public good has to start with recognition of fiduciary duty and the obligation to generate returns for and to comply with mandates by end asset owners. Governments must also not lose sight of who the end beneficiaries of these returns are: voting citizens who want to have confidence in their pensions and life insurance policies. However we can expect that attitudes to fiduciary duty will evolve as better data on impact provides wider understanding of the need to manage social and environmental risks in order to underpin the sustainability of returns. However, the immediate priority must be to demonstrate the opportunity for different investor groups to combine acceptable financial return with positive impact. A recent indicator of momentum was the decision by Temasek to invest $500 million in Leapfrog Investments, a leading impact investment group, and advocate of the opportunity to combine profit with purpose.[19] In Australia, superannuation fund HESTA has taken the lead by investing about A$100 million for positive impact, with a focus on core social issues including social, affordable and disability housing and employment for those experiencing disadvantage.[20]

Issuers are responding with ESG as well as impact investment securities at growing scale and diversity. On the supply side, the market is witness to a dynamic array of new products and offerings. Green, social and sustainability bonds provide the most prominent example of this trend, with cumulative labelled issuance now exceeding $2 trillion.[21] Of this sum, sustainability-linked bonds are on course to raise $100 billion in 2021, up from $20 billion the previous year.[22] Such instruments offer companies a reduction in the interest they pay if they achieve predetermined environmental or social impact targets. Pioneers such as the Italian energy utility Enel ignited this market with a $1.5 billion issuance linked to targets on renewables.[23] Sustainability-linked loans, which adopt a similar logic, are set to exceed $800 billion this year. In summary, we see an ever larger number of lenders and investors incentivising social and environmental impact by linking it explicitly to the cost of capital. In terms of equity financing, we are seeing the emergence of inspirational impact 'unicorns', valued at over $1 billion, and the number of young impact companies raising capital is rising impressively, especially in the clean technology space. The United Kingdom (UK) is home to nearly 900 impact companies with a combined value of £50 billion and an employment base of 35,000 people.[24]

Meanwhile, the pace of change in digital technology continues to redefine what is possible. The landscape of risk and opportunity is being increasingly shaped by huge leaps in technology. Nowhere is this clearer than in the disruptive effect of Tesla on the automotive industry. In other industries, such as energy, we are also seeing dramatic shifts in business models that are creating new front-end investment opportunities and that are placing a higher value on supporting the sustainability of long-term returns. In fields such as healthcare, education and financial services, digital technology is also opening previously unimaginable opportunities for positive, market-led impacts.

The pace of technological change and the associated requirement for investment should be accelerated even further by the Glasgow Breakthrough Agenda, which commits 40 countries to speed up the development and deployment of clean technologies to drive down costs in power, road transport, steel, hydrogen and agriculture.[25] Emerging economies present a particularly interesting case in point. With much of the infrastructure still to be built in Africa and other developing regions, a unique opportunity exists to use digital advances to leapfrog towards better, more sustainable solutions. At the same time, technology and data processing at ever faster speeds are transforming our ability to measure and (eventually) value environmental and social impacts.

Changes in understanding of risk and evolving demand for better information. We are seeing a transformation in private-sector awareness of the risks and opportunities associated with climate change. Over 1,500 companies have agreed to disclose potential financial risks linked to climate change based on the Taskforce on Climate-related Financial Disclosures (TCFD) framework, for instance. In addition, the G7 has shown leadership in calling for mandatory disclosure. The UK has set the pace in becoming the first G20 country to legislate for its largest businesses to disclose their climate-related risks and opportunities, in line with TCFD recommendations.[26] In a complementary move that speaks to the speed of change in response to the environmental crises, the Taskforce on Nature-related Financial Disclosures (TNFD) has

[18] In addition, more than $400 billion is managed in accordance with the IFC's 'Impact Principles', the market standard for how to manage an investment portfolio for impact. For more information, see: IFC: "Impact Investing at IFC"; https://bit.ly/30ruiEX

[19] See: Temasek (2021): "Temasek and LeapFrog Investments Forge US$500 Million Partnership, Largest Ever Commitment to an Impact Investor"; https://bit.ly/3chfkUt

[20] See: Investor Strategy News https://ioandc.com/and-hesta-shows-what-impact-investing-can-do/

[21] Year-on-year growth in the Green, Social and Sustainability bond market hit 59% in the first quarter of 2021. This debt category also includes Sustainability-linked Bonds, Blue Bonds, Masala Bonds, and Transition bonds. For more, see: The Climate Bonds Initiative (2021): "Sustainable Debt Market: First Quarter Results, 2021"; https://bit.ly/3FlpCQ1

[22] Moody's ESG Solutions (October 2021)

[23] See: Yoruk Bahceli (2021): "Italy's Enel, sustainability-linked bond pioneer, brings record debt sale"; https://reut.rs/3HDpjSL

[24] See: Louis Goss (2021): "Sustainable UK start-ups raise record £2.3 billion"; https://bit.ly/3EfKDLU

[25] See: UNFCCC (2021): "The Breakthrough Agenda"; https://bit.ly/3ovNsBW

[26] See: "UK to enshrine mandatory climate disclosures for largest companies in law"

been established with political support as a means to give companies and financial institutions a more complete picture of nature-related risks and opportunities.[27] In the private sector, we are also seeing the publication by leading companies of Environmental Profit and Loss accounts.[28]

In this context, one of the most important initiatives is the collective work to agree on a global baseline of standards to disclose non-financial information, following the formation of a new International Sustainability Standards Board (ISSB). The ISSB is tasked with developing a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs.[29]

Other sectors are becoming increasingly alive to the need and opportunity to support this mobilisation of private capital for public good.

In the *public sector*, greater knowledge is emerging around the best policy frameworks for incentivising investment for positive social and environmental outcomes. A case in point is the use of feed-in tariffs and reverse auctions, which were instrumental in transforming the cost competitiveness of some renewable energy technologies, e.g., in the UK and India. Further, regulation in the UK and the European Union (EU) enables asset owners and managers to engage with companies on the reallocation of capital from combustion energy engines towards electric vehicles. In the social context, meanwhile, outcomes-based commissioning has helped mobilise private capital to bring innovation and rigour to delivering better social outcomes.[30]

The public sector is becoming increasingly aware of the power of regulation to create new investment markets and stimulate support for clean innovation. For example, recent analysis by the Carnegie Endowment for International Peace anticipated that the EU Green Deal[31] could precipitate the creation of a "mutually beneficial partnership" between the EU and Africa, "overhauling" the donor-recipient orientation of the past – with the potential to accelerate tens of sustainability markets across a wide range of industries.[32]

Public and philanthropic capital is becoming more ambitious and experienced in using the ability to improve the investability of projects and investment vehicles, across a number of geographies and sectors. We are seeing greater understanding of what works in terms of blending different types of finance to adjust risk profiles for mainstream institutional investors. Flexible public and philanthropic capital, including guarantees and risk insurance, is playing an increasing role here. A recent example is the issuance of a ground-breaking $364 million bond for ocean conservation in Belize, made possible by political risk insurance from the United States government-backed financier, the International Development Finance Corporation.[33]

Indonesia, who will play a key role in the global discussion as President of the G20 next year, has been a pioneer of blended finance solutions for climate and the SDGs. Amongst other developments, its Ministry of Finance launched "SDG Indonesia One", a $3 billion platform to invest in sustainable infrastructure - which to date has deployed almost a third of its capital. At the same time, Indonesia launched the world's first sustainable land-use bond, for a rubber plantation in East Kalimantan, and is currently supporting The Global Fund for Coral Reefs and Blue Halo programme for sustainable fisheries - both anchored in blended finance structures to unlock private capital for a healthy ocean.[34]

Leadership in the philanthropic sector is becoming evident, ranging from catalytic funding by philanthropies for collective impact[35] through to university-directed projects dedicated to the creation of innovative impact-measurement methodologies[36] and foundations leading the way in taking a Total Impact approach to the investment of their endowments.[37] We are also witnessing the growing emergence of large pots of philanthropic capital, as illustrated by the Giving Pledge (a charitable alliance of some of the world's wealthiest individuals)[38] and the Bezos Earth Fund[39] (pledging $10 billion to fight climate change). These present the opportunity to increase the amount of concessional capital that could be deployed to leverage mainstream institutional capital into investment opportunities that combine scale, appropriate return, and measurable positive impact.

These are strong tailwinds that can be harnessed … yet the past tells us that we cannot assume that this momentum will get us to the scale, impact integrity, and inclusivity we need. The headwinds against change should not be underestimated. It is important to be clear-eyed about the challenges ahead.

System inertia in the financial markets remains strong (and appetite for change varies across countries). It can be argued that institutional investors have traditionally viewed their duties as being defined mainly, if not exclusively, by the pursuit of financial return. The negative effects (or 'externalities') of investment decision making have not been systematically measured and therefore have not generally been managed or valued. The argument that ESG risks are significant business risks that might impact future financial performance and valuation is relatively recent. However we should not assume that there is widespread support in the capital markets to advance the SDGs, not least because this interest

27 See: "Taskforce on Nature-related Financial Disclosure"; https://tnfd.global/about/

28 See: EcoChain (2021): "What's an Environmental Profit & Loss account? And how do companies use it?"; https://bit.ly/2YPtsRK

29 See: IFRS (2021): "IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements"; https://bit.ly/3D09Atc

30 See: GSG (2021): "Tying Funding to Results"; https://bit.ly/3Cn1nz5

31 See: The European Commission (2021): "Delivering the European Green Deal"; https://bit.ly/3niXiHD

32 Carnegie Endowment for International Peace (2021): "What Does the European Green Deal Mean for Africa?"; https://bit.ly/30umi5L

33 See: DFC (2021): "DFC Provides $610 Million in Political Risk Insurance for Innovative Debt Conversion in Support of Marine Conservation in Belize"; https://bit.ly/3qlCGuS

34 Further information and case studies can be accessed via the Blended Finance Taskforce: https://www.blendedfinance.earth/

35 See: "MacArthur Foundation's Catalytic Capital Consortium"; https://www.macfound.org/programs/catalytic-capital-consortium/

36 See: "Harvard Business School's Impact Weighted Accounts Initiative"; https://www.hbs.edu/impact-weighted-accounts/Pages/default.aspx

37 See: Access Foundation´s "Total Impact Approach"; https://access-socialinvestment.org.uk/us/total-impact-approach/

38 See: "The Giving Pledge"; https://givingpledge.org/

39 See: "Bezos Earth Fund"; https://www.bezosearthfund.org/

has not been encouraged in any sustained way or stimulated by a supply of credible and appropriate investment vehicles. In this regard, we recognise that certain asset managers and asset owners may feel constrained by perceptions that fiduciary duty requirements constrain their ability to invest with due regard for positive impact. Additionally, lack of adequate information feeds the perception among investors that financial returns and socio-environmental impacts are somehow at odds, when, in reality, they often go hand-in-hand.

A fragmented approach undermines momentum. Regulators, standard setters and governments have recognised the need for investors to have better information on which to base decisions. In reviewing legislative and regulatory frameworks that might shape change, jurisdictions are moving at different speeds. The process of setting standards to help define what good looks like created a confusing and fragmented ecosystem which has only recently found a path to harmonisation.[40]

Disclosure of non-financial information remains unfit for purpose. The recent exponential growth of ESG markets has led to unprecedented demand from investors for material non-financial data. For the most part, however, such data remains unavailable, unreliable or difficult to compare. This information deficit reduces investors' capacity to deploy ESG-linked capital for maximum impact. Hence, the call by G7 finance ministers for mandatory disclosure as part of "*greening the financial system*" and for *"baseline global reporting standards for sustainability"*.[41]

Initiatives such as the ISSB will do much to harmonise differing approaches.[42] Even so, standardisation of data reporting remains a work in progress, with much more to do to reflect the green-social interdependence.[43] In this respect, cutting-edge tools developed by impact investors for reporting on risk, return and impact have much to offer. The potential of digital technologies to process data at scale and monitor impact cost-effectively also merits note.

Concerns continue around "Greenwash". Greenwashing is a term that has been in the public domain for some time, and businesses and consumers are increasingly alert to misleading or exaggerated claims made by organisations about their performance. A number of well-documented scandals have reinforced public scepticism and regulatory concern.[44] Most recently, we have seen how an investigation into an asset manager can result in a significant impact on the company's valuation.[45] There is an understandable instinct to strengthen the regulatory regime, most notably in the EU. This creates an environment that may deter capital. Our recommended approach focuses on pathways to radically improve impact integrity and transparency (Workstream A) and provide better definitions and demonstrations of what good looks like (Workstream B). There remains a need to build trust in the integrity of ESG and impact claims. The risk of greenwash – and the consequent damage to shareholder value and trust – is very real.

Barriers to mainstream investment exist in areas of greatest need and impact potential. We should not look at the challenge of accelerating the flow of private capital for public good through the lens of scale and volume alone, however important these are. There is a global competition for capital and huge investment requirements in economies and sectors that are relatively low risk for mainstream institutional investors. These are likely to be prioritised, as we can see from the fact that over 70% of climate finance is invested in the country of origin. It will require sustained and proactive public-private collaboration to make sure that mainstream investment can flow into potentially high-impact frontier markets where the perceived risks are greater and where there has historically been a lack of investable opportunities at scale. This is true for specific geographies, such as Sub-Saharan Africa, as well as for particular emerging asset classes, such as Natural Capital. Our call for more effective collaboration between investors and governments is essential if high-level commitments emerging from the G7 and COP26 are to be delivered. As we strive to harness the power of markets, we must be mindful of what has (and has not) worked in the past – especially with regards to emerging economies and frontier sectors. In the context of emerging economies, these hurdles include credit, foreign currency and other idiosyncratic risks that push up return expectations or make opportunities seem initially unattractive. Other notable challenges include lack of visibility of investable deal flow and domestic restrictions on the use of accumulated pools of capital from within a country.

Silos that undermine trust and inclusivity must be avoided. We detect an emerging risk that the increasing and very necessary flows of investment in decarbonisation may lead to the forming of silos between the social and the environmental. Long-term investment in the systemic change that we need in the global economy requires confidence in the continuance of political will across the world, which itself depends on sustained popular support for change. Focusing narrowly on one framing concept (however valuable), such as Net Zero, will stymie the dynamic, flexible and multifaceted approach needed to underpin a more sustainable global economy. Likewise, decision makers must recognise that the answer to the question of how we finance the transition must be shaped by the interests and perspectives of less-developed economies and communities affected by climate change, as well as by the small and micro businesses that generate 50% of jobs in the global economy.[46] If the voices of rich countries and big companies dominate the discussion, it will be impossible to sustain the collaboration we need to achieve a low-carbon transition that is genuinely just.

[40] See: "Triodos Investment Management. Impact investing: choosing between impact and financial return?"; https://bit.ly/3qJSLAi

[41] HM Treasury, UK Government (June 2021): "G7 Finance Ministers and Central Bank Governors Communiqué"; https://bit.ly/3Cfsgos

[42] Notably, the ISSB recently combined with the Climate Disclosure Standards Board (an initiative of CDP) and the Value Reporting Foundation (which houses the Integrated Reporting Framework and the SASB Standards) to issue a set of prototype disclosure requirements in June 2022. For more details, see: https://bit.ly/3Fn3hRY

[43] See: TCFD. (October 2021): "Guidance on Metrics, Targets, and Transition Plans". https://bit.ly/3CllIVr. Note: Over 2,600 companies globally support the TCFD's recommendations, including 83 of the world's largest 100 companies. See: TCFD: "Fourth TCFD Status Report October 2021"; https://bit.ly/31USyzN

[44] See: earth.org (2 August 2021): "10 Companies and Corporations Called Out For Greenwashing"; https://bit.ly/3DeG03a

[45] See: The Wall Street Journal (25 August 2021): https://on.wsj.com/3DjyrIt

[46] Tewari, P. S., D. Skilling, P. Kumar, and Z. Wu. (2013): Competitive small and medium enterprises: A diagnostic to help design smart SME policy. Retrieved from: https://documents1.worldbank.org/curated/en/534521468331785470/pdf/825160WP0P148100Box379861B00PUBLIC0.pdf

Our Recommended Approach ("What")

If the G7 recognises the critical role of mobilising private capital for positive impact, then investing for impact needs to feature more prominently in both its finance and foreign/development streams. This is an agenda that needs to be more visible and one in which the sustained leadership and coordination of the G7, guest nations and partners, are uniquely placed to provide. It also requires all relevant stakeholders to step out of their comfort zones and work in different ways.

The necessity of working differently. The urgency of the context means we cannot continue with the old model of sequential and often disjointed action by different actors. Financing the 'Just Transition' – by which we mean the journey to an environmentally sustainable, Net Zero future that is fair and inclusive – will require an explicit recognition of the interconnectivity of environmental and social issues, as well as a clear strategy that unites multiple actors in simultaneous action.

New models of collaboration. The scale of the challenge requires innovation in models of collaboration and partnership. A recent example is the impressive collaboration of the IFRS Foundation with standard setters to set up the aforementioned ISSB. Similarly illustrative are new philanthropic alliances such as the Global Energy Alliance for People and Planet, a $1 billion initiative between the IKEA Foundation and Rockefeller Foundation set up to catalyse investments in distributed renewable energy.[47] Innovative partnerships are also coming to the fore between private and public-sector players. A case in point is the Universal Energy Facility, a multi-donor, results-based financing facility incentivising solutions to scale access to energy in Africa.[48] In frontier spaces, such as nature-based solutions, we have also seen novel collaborations such as the Natural Capital Investment Alliance[49] and the LEAF Coalition.[50] Future priorities should include alignment around the right collaboration platforms to connect the macro-scale finance represented by GFANZ to the flow of real investment into emerging economies, especially in Africa. We would also encourage support for emerging peer learning and review networks, such as the African Green Finance Coalition. The same is true for coalitions of ambitious companies committed to exploring new frontiers, such as investing in natural capital, procuring low-carbon materials and advancing impact-weighted accounting. In this same line, the GSG's network of national and regional advisory boards, covering over 30 countries, brings together experts in the fields of investment, public policy, philanthropy and social and environmental innovation, to develop impact economies in the markets in which they operate.

The recently launched Impact Management Platform (an evolution of the Structured Network facilitated by the Impact Management Project from 2018–2021) represents another good example of the collaboration required.[51] The initiative brings together a set of multilaterals under a shared framework that enables ongoing coordination among leading international providers of sustainability resources. In this way, it acts as a useful resource for practitioners and other stakeholders who are seeking to advance higher standards of impact management.

Clear signalling of destination and pathways. In our four months of active life, the ITF has chosen to focus on offering actionable pathways to *two destinations* that we identified as top priorities for the impact agenda.

The first destination is full impact transparency with integrity. Investment decisions are being taken today with inadequate information on their social and environmental impact. What we do not measure, we do not manage. So we need to move with urgency to transform the quality, usefulness and accessibility of information on impact available to investment decision-makers and to those holding them to account. Such a future will require a change in the norms of accounting, auditing and assurance practices. Leveraging the power of impact transparency is key to change behaviour and work to achieve a future in which investment decisions, by companies and institutional investors, are increasingly taken through the triple lens of risk, return and impact.

The second destination is to foster new investment instruments and vehicles in support of the SDGs and a just transition, especially in emerging and frontier economies where the funding gap is greatest.[52] For institutional investors to be part of an enhanced effort to deliver the SDGs, investment vehicles that work for them must be made available, especially in areas which are well aligned with private sector companies' and investors' objectives. We propose a set of actionable pathways to enable greater amounts of capital to flow to solutions that meet the long-term, inextricably linked environmental and social needs of people and the planet. These pathways include: aligning around a definition of just transition elements (climate and environmental action; socioeconomic distribution and equity; and community voice); expanding the use of existing and proven instruments and tools (e.g. blended finance); increasing the role of guarantee entities; and amending the mandates of development institutions to increase focus on private capital mobilisation.

The analysis of both ITF Workstreams draws heavily on the expertise of the members of their working groups, as well as on extensive engagement with the target audiences. It also recognises and reflects the momentum built up by related initiatives already in train.

[47] See: IKEA Foundation (2021): "IKEA Foundation and Rockefeller Foundation join forces to set up a historic $1 billion initiative to catalyze investments in distributed renewable energy"; https://bit.ly/3p293BZ

[48] See: "Universal Energy Facility"; https://www.seforall.org/results-based-financing/universal-energy-facility

[49] See: "Natural Capital Investment Alliance"; https://naturalcapital.finance

[50] See: "LEAF Coalition"; https://leafcoalition.org

[51] See: "Impact Management Platform"; https://impactmanagementplatform.org

[52] Doumbia, Djeneba, and Lauridsen, Morten Lykke(2019): "Closing the SDG Financing Gap—Trends and Data". IFC; https://bit.ly/3p4Wczf

3 ITF TECHNICAL WORKSTREAMS

WORKSTREAM A

Transparency, Integrity and Harmonisation for Impact

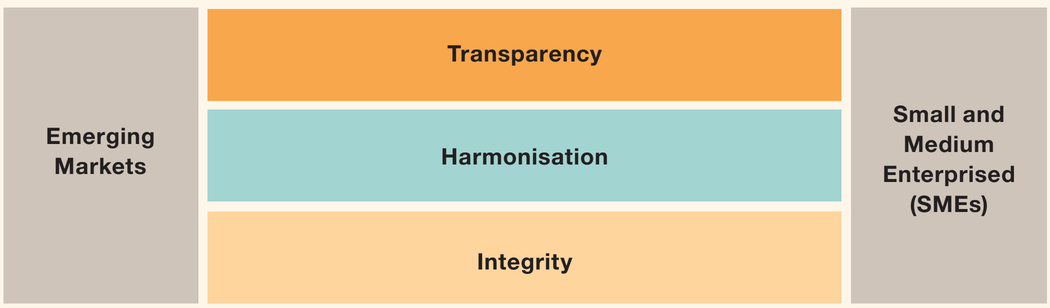
An urgent need exists to increase the volume and effectiveness of capital directed to achieving the Sustainable Development Goals (SDGs) and a Just Transition. Effective impact transparency by companies and investors can represent a vital tool to achieve this shift in capital flows. In this respect, it is welcome that non-financial reporting is increasing. Nine in 10 major United States' companies published a "sustainability report" in 2019, for instance, up from just two in 10 a decade ago.[53] A similar trend is visible globally. A 2017 survey, by professional services firm KPMG, of the largest 100 companies in 49 countries found that three-quarters of firms issued sustainability reports; in 1993, the proportion was less than one-eighth (12%).[54] Yet, transparency alone is no guarantee of meaningful positive impact on the ground.

What is needed now is better data. For transparency to bring about substantive change in decision making, it needs to enable investors to make meaningful comparisons between investment opportunities and to enable companies to improve their impacts on all stakeholders.

The ITF urgently calls for mandatory accounting for impact as a destination. Accounting is how entities make sense of and act upon financial and non-financial disclosures, in a way that can be audited and assured.

The journey to this goal will require:
- greater transparency
- building on harmonised standards
- strong mechanisms to ensure integrity of data, analysis and governance

FIGURE 3.1



- **Transparency** on the impact of practices and performance provides the data necessary for businesses and investors to make critical business decisions and to evaluate progress in achieving the 2030 SDGs
- **Harmonisation** of accounting methods and reporting standards is one of the most effective mechanisms to achieve comparable, consistent and reliable information on impact. Streamlined reporting requirements would simplify disclosure for companies and investors, but reporting and disclosure standards alone do not tell companies how to improve. Emerging accounting standards for impact do so by focusing on how companies record, organize and understand that information[55]
- **Integrity** ensures that disclosed impact data maintains quality, consistency, privacy and interoperability, so the information can be used by decision-makers

Underpinning all these priorities are the principles of fairness and inclusivity. This means ensuring that the voices of all actors are heard. The ITF has carefully considered priorities for small and medium enterprises (SMEs) and emerging markets (which range from rapidly developing economies to smaller, riskier or more illiquid capital markets). For example, SMEs often lack access to training and resources (including those required for effective disclosure), which can slow the adoption of global standards and result in ambiguous impact reporting.

[53] Makower, J. (2021): "The state of Green Business 2021"; https://bit.ly/3oBieJl

[54] Blasco, José Luis, et al. (2017): "The road ahead: The KPMG Survey of Corporate Responsibility Reporting 2017", KPMG International; https://bit.ly/3FQkML0

[55] Accounting for impact, as referenced in this paper, covers a range of valuation techniques to estimate the relative value that an organisation creates, preserves or erodes for its stakeholders, expressed as a common unit. This can happen through a combination of (i) qualitative valuation (e.g. low/medium/high); (ii) quantitative non-monetary valuation (e.g. ratings on a scale of 1 – 10); and/or (iii) monetary valuation (e.g. the estimated monetary value to a stakeholder of a benefit they experience, or a harm or loss that they avoid or experience).

Summary Calls to Action

The ITF proposes a series of short and medium-term recommendations with a view to ensuring that the potential contribution of public and private-sector investors to achieving a Just Transition is fully realised. A comprehensive list is available in the Workstream's report.

FOR GOVERNMENTS

Short-term: Governments should support and participate in upcoming consultations on the International Financial Reporting Standards Foundation's International Sustainability Standards Board (IFRS-ISSB) initiative as it advances in its efforts to develop and maintain a global baseline on impact related to enterprise value. Governments can also play a role in ensuring that IFRS-ISSB has an inclusive governance model, that it actively engages SMEs along the value chain, and that it covers both social and environmental issues.

As an urgent priority, national legislators should mandate that all statements on impact disclose the limitations, thresholds and assumptions underpinning them, as well as the grounds for determining materiality. This will require similar attention by finance m inisters to social issues (as proposed by the Taskforce on Inequality-related Financial Disclosures, or TIFD)[56] as that previously shown around the theme of climate (e.g. the Taskforce on Climate-related Financial Disclosures [TCFD] and the Taskforce on Nature-related Financial Disclosures [TNFD]).

Governments should also provide technical assistance, training capacity and subsidies to empower SMEs to report on their impact performance. Such support must recognise the growing importance and specific characteristics of micro-enterprises and self-employed individuals, while also acknowledging the reality of smaller companies in emerging markets, where informality often prevails. Governments should develop data standards for digitisation and interoperability of impact disclosures in a globally consistent, machine-readable format, while allowing enterprises to maintain control of their data privacy and quality.

Finally, G7 members and partners should encourage standard setters, in particular the IFRS Foundation, to engage in emerging collaborative monetary valuation efforts, consistent with the "baseline and build" approach that we advocate.

Medium-term: To spur an evolution of reporting and accounting practices for private companies, national governments should mandate reporting on social and environmental impacts. Where necessary, this may require the revision of corporate law or related acts. National and international legal frameworks should ensure that directors can pursue positive impact alongside financial performance. In time, these frameworks should evolve to encourage decisions based on impact.

Furthermore, governments (and regulators) could incentivise and encourage the necessary participation of private asset managers by developing and interpreting legislation and regulation that indicate impact investing's consistency with fiduciary behaviours expected of them.

Governments can lead by example through the adoption of the necessary public-sector accounting practices too. In this way, public expenditure can exemplify new expectations of transparency, harmonisation and integrity of impact – an important area not developed in detail in this phase of the ITF but which merits serious exploration. Additionally, public investment should be directed to building open data infrastructure (while protecting data privacy) to inform decisions on social and environmental issues across borders.

FOR CAPITAL MARKET REGULATORS

Short-term: Capital market regulators should build swiftly on the IFRS-ISSB launch to create an assurance regime for the "baseline" (i.e. all data relevant to enterprise value) for public companies. It will also be necessary to develop an SME-friendly version of the IFRS-ISSB prototype so that smaller firms can show leadership on new impact disclosure requirements.

Medium-term: To meet the ITF's call for mandatory accounting for impact, the International Organization of Securities Commissions (IOSCO) and/or other capital market regulators should move to develop a regime for the "build" phase. This should account for, and assure, all impact data, not just data on enterprise value. Regulators should partner with central banks to identify data gaps on social risks, building on models such as the Network of Central Banks and Supervisors for Greening the Financial System. Calling on external stakeholders to bridge the gaps is also recommended.

FOR INVESTORS

In advance of regulatory action by governments, the ITF calls on all investors to commit to external assurance on impact for assets under management so as to track real progress on social and environmental issues. Investors, stock exchanges, venture capital firms and Development Finance Institutions (DFIs) can also signal that impact transparency and local stakeholder engagement is critical to due diligence and investment decisions. Investors should commit to co-creating investor-level disclosures, as well as reporting on the

[56] See: "Task Force on Inequality-related Financial Disclosures (TIFD)"; https://bit.ly/3l8y79r

positive and negative impacts of their own practices and portfolios.[57] For example, asset managers sharing their analyses would strengthen the case that impact investment portfolios generate acceptable risk-adjusted returns over the longer term.

FOR ENTERPRISES

Public and private companies should adopt voluntary, issue-specific disclosure frameworks, ahead of regulatory action, while also considering methodologies for monetary valuation. In parallel, banks and large enterprises can leverage their relationship with SMEs through their supply chains and loan requirements to encourage better impact disclosures. Large multinationals should seek transparency across full value chains, including in emerging markets. To do so, they should equip their in-country teams to evaluate how local communities and employees are treated, what governance practices are in place, and how far climate resilience is ensured.

FOR STANDARD SETTERS AND NON-GOVERNMENTAL ORGANISATIONS

In advance of mandatory action by governments, civil society can lead the way in co-creating voluntary, issue-specific accounting for impact to:

- Show that harmonised accounting and disclosure is possible and insightful
- Expose gaps in information within existing (or future) mandatory accounting and disclosure frameworks

New and existing voluntary disclosure frameworks should integrate science-based thresholds and issues relating to the interdependence of green and social impacts. Network organisations and industry associations can support SMEs by providing training and resources to help overcome costly barriers to full transparency.

1 Transparency

A Just Transition depends on transparency of impact information that is both relevant and easy to understand. Disclosures matter because they can expose risks and opportunities for investors and businesses as well as industries and markets. By identifying, measuring and addressing impacts, financial markets can create a race to the top by companies. Our recommendations on transparency explore the role of both mandatory and voluntary disclosure, covering impacts throughout the value chain at both the enterprise and investor levels, as well as with regard to public-sector accounting practices.

Mandatory impact disclosure is necessary to achieve the SDGs and accelerate behavioural change in capital markets. Voluntary disclosure alone is not moving fast enough to achieve the SDGs and the Paris Agreement. A push by G7 member states and guest countries towards mandatory reporting on environmental and social information is critical to the implementation of global sustainable development accords. These new reporting requirements, which can be requested through revisions of national corporate law and related acts, should strike a careful balance between green and social issues. A starting point is to mandate that any statements on these issues disclose the limitations, thresholds and assumptions underpinning them, and any basis for deciding what is material. Such a move would, in turn, spur reporting and accounting practices for private companies to evolve.

While mandatory reporting rules are being rolled out, voluntary disclosure practices must improve to meet today's urgent social and environmental challenges. Disclosure will evolve if there are strong incentives for reporting and vibrant civil society efforts to shine a spotlight on areas of low transparency. Investors are increasingly looking to integrate information related to economic, environmental, racial, and climate justice into their investment analysis and decisions. Whether negative impacts in these areas fall unfairly on low-income or emerging market communities is a growing concern. The demand from investors gives companies a powerful incentive to disclose impact data and show leadership even before this becomes mandatory. New and existing voluntary disclosure frameworks should integrate science-based thresholds and the interdependence between social and environmental issues.

Investors should be transparent too. Disclosure should cover how investors in their own right (i.e., separate from the enterprises they finance) engage in practices that amplify social and/or environmental impacts. Investors are often subject to lower expectations about impact reporting than the companies in their portfolios. As investors report on non-financial issues, they typically do so in accordance with generic, enterprise-wide metrics. This potentially overlooks impacts linked to investment institutions' unique attributes.[58]

The impacts of investor practices are now the subject of considerable public debate, especially with respect to private equity. Further transparency by governments and the private sector is being demanded.

[57] See: "Impact Frontiers"; https://impactfrontiers.org/share-your-feedback-to-improve-investor-contribution-metrics/

[58] Such attributes include their investment structures, capital frameworks, leverage ratios, earnings calculations, valuation methodologies and benchmarking approaches, as well as their resulting asset allocations and portfolio constructions.

2 Harmonisation

The past few decades have witnessed remarkable momentum around the impact of investing. In parallel, understanding about the social and environmental impacts of decisions has increased rapidly. Both these phenomena have given rise to an abundance of standards evolving independently of one another. Harmonising standards is widely recognised as a necessary and highly effective way of driving data comparability, consistency and reliability.[59] Such a process signals a market's growing maturity.

A global reporting "baseline" should cover, as a minimum, social and environmental impacts that affect enterprise value. An increasing overlap exists between impact disclosures (voluntary and mandatory) and financial disclosures. The first covers issues that have not traditionally been incorporated into reporting, such as diversity and climate change. The second relates to issues that traditional investors care about because of their effect on profit and cash flow over the short, medium and long term. The ITF calls on governments to support and participate in the upcoming consultations of the IFRS-ISSB initiative as it seeks to develop and maintain a global baseline on impact and its link to enterprise value.

The ITF backs the "baseline-and-build" approach. This approach raises the international threshold on social and environmental reporting standards that relate to enterprise value (the "baseline"), while also encouraging regions or jurisdictions to manage impacts on relevant stakeholders (the "build"). IOSCO and the IFRS Foundation also support a "baseline-and-build" strategy and it is embedded in the European Union (EU) Non-Financial Reporting Directives and its proposed successor, the Corporate Sustainability Reporting Directive.

Endorsing a baseline is not enough; governments should urgently "build" on the global baseline and push for standards that explicitly recognise and incorporate the impact on all stakeholders.[60] A "global baseline" will encourage enterprises and investors to make decisions based on what is material to enterprise value. However, if stakeholder impacts do not affect companies' value creation in the short, medium or long term, this does not mean such impacts should not be managed. Enabling and encouraging such behaviour is important in achieving more equitable and sustainable economic systems. The "build" requires an urgent expansion from requiring disclosure of impacts (and dependencies) on people and the planet that affect the short, medium and long-term value of an enterprise to requiring disclosure of all impacts to address the information needs of a broad range of stakeholders.

3 Integrity

Maintaining integrity requires at least three actions:

- The development of systems, principles and norms that build trust in the underlying data
- The responsible stewardship of data about people and the planet
- The creation of constructive feedback loops with affected stakeholders

While celebrating the volume of private capital flowing towards impact, ensuring impact integrity is critical to developing and maintaining public trust, especially around issues that require a level of judgment and subjectivity.

Putting in place secure, interoperable data infrastructure is essential for telling the full story. Impact data, disclosed in accordance with harmonised standards, must be easily accessible to all kinds of users. Structured information enables greater connectivity and allows for searching, filtering, aggregation and integration. Data today is event-based, multidimensional and just-in-time. Unless technology is leveraged to track such data, impact disclosure and reporting will be challenging to produce. Once available, moreover, it will prove of little practical utility. In particular, the context of social and environmental impact will be difficult to assess without comprehensive data infrastructure.

Even before taxonomies are mandated through regulation, improved visibility regarding taxonomy management processes would help to resolve incompatibility. This will lead to more consistently structured and comparable information for both preparers and users. Hence, the ITF's call for secure and accessible data repositories of impact information.

Decision-making processes must include those most affected; to ensure impact integrity, a wide range of stakeholders should inform and participate in decision-making. Transitioning to a low-carbon economy in a fair way will involve systems of governance, management and operations that hold decision-makers to account for actions on behalf of all stakeholders. Stakeholder involvement in the decision-making of organisations is essential to guarantee impact integrity. The ITF underlines the importance of inclusive governance models that break down traditional silos among stakeholder groups. This supports a responsive, inclusive, participatory and representative approach to decision-making at all levels. Such a move has important implications for the harmonisation of disclosure norms about which stakeholders are considered 'material' or 'relevant'. It also brings into focus questions about the tools used for stakeholder engagement and data collection.

[59] See: EY (2021): "The future of sustainability reporting standards. The policy evolution and the actions companies can take today."; https://go.ey.com/3DlfZ36

[60] The OECD Guidelines for Multinational Enterprises could be leveraged as a key precedent. See: https://mneguidelines.oecd.org/mneguidelines/

4 Small and Medium Enterprises

Successful impact transparency, harmonisation, and integrity will rely on the inclusion and engagement of SMEs. A just transition will require the involvement of SMEs, not only to ensure that climate and biodiversity goals are reached but also to contribute to the goals of decent work for all, social inclusion, and the eradication of poverty. Our recommendations concerning SMEs note that support can come from many directions. Corporations, in particular, can engage with SMEs through their supply chains. Enterprises, network organisations and industry associations can also make training and resources available so that SMEs can show leadership, while also facilitating tech-enabled solutions that promote flows of capital based on publicly available SME data.

5 Emerging Markets

Capital markets want better information on impact for all stakeholders – and in an increasingly interconnected world, this must include truly global voices. Emerging markets require foreign and domestic capital that has a focus on sustainable investments. One of the key barriers to such capital flow is the absence of robust and updated metrics and data. This shortfall makes it challenging for national governments and foreign investors to know where to prioritise activities and reinforces a perception of uncertainty and risk. Our recommendations regarding emerging markets rely therefore on incentives for transparency, investment in Just Transition vehicles, and globally relevant harmonised impact standards to facilitate investment flows.

WORKSTREAM B

Instruments and Policies for Financing the SDGs and a Just Transition

Underpinning the work of the ITF is the recognition that the achievement of global priorities – delivering the SDGs and delivering an inclusive recovery from the Covid-19 pandemic – will require increased cooperation and innovative forms of partnerships between governments, the private sector and civil society. Workstream B explored this imperative within the context of supporting the development of specific instruments and policies for financing the SDGs and a Just Transition.

We need to harness the power of financial markets for public good.

There is momentum moving capital towards impact, in particular towards climate solutions. However, this momentum needs to be accelerated to achieve greater scale. A concerted and urgent effort by all actors is required to move significant pools of funding into the SDGs and achieve a transition to a Net Zero world where no one is left behind; this is what we mean by a 'Just Transition'. These efforts apply to investment opportunities across the world, with particular relevance for emerging markets.

Combined ESG and impact pools of capital demonstrate the potential realisation of an inclusive and sustainable world for all; and yet, funding needs remain immense. The United Nations (UN) estimates that an additional $2.5 trillion per year is required to achieve the SDGs in developing countries alone by 2030. Although pools of ESG and impact have been growing steadily over the last decade, the challenge is to move much more of the vast 'traditional' capital resources (estimated at around $154 trillion) into ESG and impact financing. Where and how we apply and invest those resources will determine whether we achieve the SDGs.

Capital that ignores environmental consequences and social inequity and dislocation will be increasingly vulnerable to performance as well as reputational risk. In contrast, capital that pursues investment strategies in which environmental and social objectives are integrated not only mitigates exposure to risk but also expands the opportunity landscape for capital to generate positive financial, environmental and social returns.

A Just Transition fit for the future

The increasing global attention to climate finance is welcome, but it is not sufficient to meet the needs of people and the planet. There is increasing consensus that a shift in perspective to also include the socio-economic impacts of the climate crisis is essential - in particular, the disproportionate effects of climate change on women need to be recognised and addressed. A holistic approach on a just transition, paying attention to where and to whom money is flowing, is needed to address climate change and its effects on societies in a fair and inclusive way. This approach can result in a thriving planet where no one is left behind.

While a just transition needs to be universal and global, pathways towards it must be grounded in local considerations of needs, capacity, and priorities to ensure that they are inclusive, fair and equitable and to avoid poor or disadvantaged populations becoming worse off. Countries, regions and communities have different starting points when it comes to achieving a just transition. These starting points will influence local decarbonisation and development trajectories, as well as transition pathways. That said, the requirement to reflect locally specific context does not dilute the global relevance and power of, and need for, a common understanding of what a just transition means in practice.

To drive alignment across public and private actors and ensure that more capital is meaningfully contributing towards a just transition, the report produced by Workstream B (available in full at the ITF website) introduces three Just Transition Elements that integrate the critical drivers of a just transition: advancing Climate and Environmental Action; improving Socio-economic Distribution and Equity; and increasing Community Voice. The Just Transition Elements are applicable across geographies, sectors, investments and policies. Together, the Just Transition Elements provide a common foundation for action, while enabling a tailored understanding of local implementation scenarios.

The combined Elements make clear 'what good looks like' and will allow the global community to speak the same language in terms of pursuing a just transition while inviting, encouraging and incentivising actions that can have the most impact in local environments. Only through the adoption of consistent Just Transition Elements can we encourage creative and effective investment approaches by private-sector actors while fostering transparent assessment of where and to whom capital is flowing.

Accelerating capital towards a just transition builds on growing public and private market awareness, offers tangibility to a concept with positive resonance, and strengthens investment behaviour to integrate environment and social considerations. The Just Transition Elements can be integrated both in existing investment vehicles and those yet to be designed.

There are practical pathways to activate markets – and unlock transformational capital towards the SDGs and a Just Transition

There is significant near-term opportunity to mobilise and allocate capital at scale among different investor types across the spectrum of capital (from impact and ESG to traditional capital) to help achieve the SDGs in general and a just transition in particular. This opportunity is in developed and emerging markets and across asset classes. While we acknowledge the relevance and importance of all asset classes in achieving the SDGs, we prioritise in the Workstream B report private equity, private debt, infrastructure, real estate and fixed income, as these are familiar and relevant to asset owners and managers. In addition, they often provide a significant degree of influence to align the capital being mobilised with the impact being pursued. These asset classes represent actionable pathways that should, and can, be expanded to mobilise more capital.

Enabling large-scale mobilisation of capital into emerging markets by institutional investors presents one of the most powerful means of financing to meet the SDGs and deliver a just transition. Within the institutional investor universe, growing pools of domestic institutional investor money in emerging markets have a significant role to play and will be increasingly important in building local capital markets. As previously noted, momentum is there - interest in applying ESG and impact standards is gaining traction across the institutional investor community. In addition, the asset manager universe that delivers impact and offers sizeable investment vehicles is growing, resulting in rising volumes of investable impact opportunities for institutional investors.

Nevertheless, multiple external and internal barriers currently limit the flow of institutional investors´ transformational capital. External barriers include, e.g., the risk (either real or perceived) of emerging market investments, lack of suitable investment size, pipeline or information, or legal and regulatory requirements. Barriers internal to institutional investors may include limited risk appetite, rigid allocation policies or frameworks and mandate restrictions, and lack of awareness, access or internal capabilities, among others.

While acknowledging this reality, these barriers must not be an excuse for inaction. Institutional investors need to move beyond their comfort zones for progress to happen at scale, including at times, amending their existing mandates and allocation frameworks and adjusting their incentive structures towards consultants and asset managers.

For capital to move at scale, barriers need to be adequately addressed. Existing and familiar instruments and tools, combined with proactive effort and engagement, demonstrate that it is possible to overcome barriers, as showcased by existing transactions in the market presented in the report. These precedents need to be expanded so that more institutional investors can participate and deploy capital. Efforts need not be diluted in search of the most innovative structure; rather they can be concentrated in dialling up those structures that show promise, of which there are many.

We make clear that blended finance, combining various tools and instruments from different sources of capital, is a highly effective and widely used approach enabling private commercial capital to invest more deliberately for social and/or environmental impact. Our work showcases a range of tools, including subordinated capital, guarantees, insurance, securitisation, local currency financing, performance data and information, and partnerships. The potential of these instruments and tools is evidenced by real examples that demonstrate how capital can be mobilised at scale through their use and application. Perhaps the most promising is the increased use of guarantees and insurance coverage at a portfolio and vehicle level.

Given the diverse range of institutional investors, there will not be one solution that fits all. Each investor type – or even investor – may have their own specific set of challenges, depending on the regulatory framework and jurisdiction under which they operate, and their individual appetite for engagement, which may be determined by their leadership. Early engagement with targeted investors and distinct partnerships are important to move significant money into solutions for a just transition in emerging markets.

Beyond the use of specific tools, we invite simultaneous and coordinated action by both institutional asset owners and asset managers – and all the other actors that support them. Combined action is necessary to structure investment vehicles that are investable by institutional investors. At the same time, institutional investors need to move beyond their comfort zones for progress to happen at scale, including at times amending their existing mandates and allocation frameworks and adjusting their incentive structures towards consultants and asset managers. Further, intentional effort by all financial market actors, including intermediaries, consultants, advisors and rating agencies, that often act as gatekeepers to investment is encouraged in order to achieve meaningful capital allocations towards the SDGs.

Our work also discusses the central role of multilateral development banks (MDBs) and DFIs, particularly those of which G7 members are shareholders, highlighting the potential to further utilise their market position, networks and expertise to accelerate and expand institutional investor mobilisation. MDBs and DFIs have an ability to generate investable pipelines, to provide de-risking support such as subordinated capital or guarantees, and to share years of relevant performance data. Their role is vital in mobilising private capital at scale to achieve the SDGs generally and a just transition.

Practical guidance for mobilising capital at scale towards the SDGs and a Just Transition

In order to provide concrete guidance towards the mobilisation of more capital towards the SDGs with a focus on a just transition, we put forward a 'Just Transition Blueprint' and underlying guiding 'Principles' (further details available in the WSB technical documents). The Blueprint and Principles provide a tangible starting point for developing investment vehicles that seek to mobilise private institutional capital. The guidance is provided across several asset classes and shows how investment vehicles can align with the three Just Transition Elements to help achieve the SDGs.

Within prioritised asset classes, our work showcases a range of relevant Just Transition investment opportunities that already exist. While not labelled explicitly as Just Transition Vehicles, the examples included in the full version of our technical paper successfully demonstrate adherence to some, or even most, of the Principles of the Just Transition Blueprint. The featured case studies and examples demonstrate how vehicles can pursue bold environmental and social impact and be attractive to institutional investors. They also illustrate the critical importance of concerted action, by highlighting examples of structures where blending and concessional capital have been successfully deployed towards mobilising institutional capital. Current activity is poised to be replicated and expanded.

Recommendations

Based on engagement with over 170 industry, policy, and thought leaders, we identified two priority objectives for all relevant actors:

1. **Mobilise institutional capital, from the full range of private and quasi-public institutional actors, in pursuit of positive impact and advancing the SDGs by increasing significantly the use of proven and new instruments and tools that can address real barriers for private capital participation; and encourage more private-sector capital to flow to emerging markets**.
2. **Break down silos between climate-first and social-first strategies and transactions, and strengthen the participation of local Community Voice, to advance a just transition.**

To support the achievement of these priority objectives, we make **action-oriented recommendations** tailored for different audiences across public and private sectors, so that each set of actors can take concrete and resolute action now. The key recommendations are summarised below:

FOR ALL INVESTMENT ACTORS

Influence global financial markets to mobilise investment to support the achievement of the SDGs in general, and a just transition in particular.

Mobilisation will be through vehicles and structures that can successfully deliver investment at scale. These vehicles and structures will mobilise capital to achieve the SDGs with a significant subset fulfilling the three integrated Just Transition Elements: Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice. Such mobilisation will occur most successfully through vehicles and structures that can deliver investment at scale while fulfilling the three Just Transition Elements.

FOR G7 MEMBERS
(AND GUEST COUNTRIES)

Amend the mandate of MDBs and DFIs to give equal weight to mobilising capital for the SDGs and a just transition and balance-sheet investment.

To ensure sufficient priority is directed towards a mobilisation objective, this goal cannot be seen as inferior or less important than balance-sheet investment. As such, we specifically call on G7 Foreign and Development Ministers to amend objectives of MDBs, DFIs and other development banks and agencies so that these two objectives have equal weight. This entails structuring incentive mechanisms that promote every mobilised dollar as receiving at least as much recognition as every dollar invested from its own account.

Provide additional financing to MDBs and DFIs in support of their mobilisation objectives.

Making mobilisation a co-equal objective will have implications for the business models of the MDBs and DFIs. As such, we also call on the G7 shareholders to provide MDBs and DFIs with the necessary financing support to: expand their project pipeline capabilities; improve their investment tools, including capital to be used for risk mitigation instruments that address the risk (real or perceived) of institutional investors; and provide concessional capital where needed to expand blended finance solutions.

Significantly expand the use of guarantees, particularly in emerging markets.

In addition, we call on the G7 Foreign and Development Ministers to strengthen the balance sheets of existing providers of guarantees and to fund new entities at scale. Such steps can be usefully informed by the established track record and existing models of guarantee providers. These new entities should be domiciled in emerging markets and should address the specific challenges (e.g., risk barriers) limiting investment of more institutional capital there, both domestic and international. Specific attention should be given to Africa, where investment flows and climate risks are low and high, respectively.

FOR ASSET MANAGERS

Bring to market more SDG and Just Transition products with the objective of attracting more private institutional capital.

We hope that the examples offered in the Workstream B report will provide practical guidance towards this objective. We also call on asset managers to apply a similar commitment to their ambitions to reduce portfolio carbon footprints by 2030. Specifically, we call on asset managers to double capital flows to impact by 2025 (from a 2021 baseline); and then to double capital flows once again by 2030 (from a 2025 baseline). Doing so will give them the opportunity to substantially increase the amount of capital flowing to investments that seek solutions aligned with the SDGs.

FOR ASSET OWNERS

Commit to pursue investments in vehicles that demonstrably integrate environmental and social objectives.

We call on asset owners of all kinds to support investments that integrate the Just Transition Elements, while also increasing their exposure to emerging markets in the process. Specifically, we call on them to apply a similar commitment to their ambitions to reduce portfolio carbon footprints by 2030, following the parameters expressed above for asset managers.

To achieve these overall recommendations, we call on all parties to take action now. No matter their respective starting positions, each actor can and should do more to participate in the solutions that will build a more sustainable and inclusive world for all. Commitments and pledges now need to be translated into concrete actions.

The table below provides a roadmap for individual action which, when taken together, can deliver an inclusive, resilient and sustainable future for people and the planet.

FIGURE 3.2

	Recommendations	Audience							
		G7 policy makers	National policy makers and regulators	MDBs/DFIs	Institutional asset owners	Asset managers	Impact investors	Advisors	Ecosystem builders
Urgent and Coordinated Movement	**Move together at once**	✓	✓	✓	✓	✓	✓	✓	✓
	Build momentum	✓							
Environmental and Social Integration for a Just Transition	**Recognise the imperative of a Just Transition, integrating environmental and social objectives**	✓	✓	✓	✓	✓	✓	✓	✓
	Engage with and apply the Just Transition Elements	✓	✓	✓	✓	✓	✓	✓	✓
Mobilisation	**Accelerate private capital mobilisation towards the SDGs**	✓	✓	✓	✓	✓	✓	✓	✓
	Demonstrate commitment to the SDGs			✓	✓				
	Strengthen the enabling environment for SDG investments	✓	✓						✓
Transparency	**Demonstrate best-in-class Just Transition investments**	✓	✓	✓	✓	✓	✓	✓	✓

4 NEXT STEPS

The Impact Taskforce (ITF) has had an active life of just four months. Within that time constraint, we have made active choices on what to prioritise, intentionally pursuing a strategic scope of work. As explained, we have focused on actionable pathways to:

- Transform the quality, transparency and usefulness of information on impact for investment decision makers
- Mobilise more institutional capital in support of the Sustainable Development Goals (SDGs) and a just transition. We will now engage with decision makers outside the ITF to build broader support for our recommendations.

Our primary call to action is for acceptance of the destinations we signal and a commitment to the actionable pathways we set out. In particular we call on the G7, guest nations and partners to commit to:

1. **Supporting a journey towards mandatory accounting on impact for businesses and investors as an urgent destination**, stressing that this goal must be underpinned by greater transparency, harmonised global standards and strong mechanisms to ensure integrity of data and analysis.

2. **Supporting the efforts of the International Financial Reporting Standards Foundation's International Sustainability Standards Board (IFRS-ISSB)**, including by participating in upcoming consultations to create a global reporting "baseline" on impact related to enterprise value. **We also call for an urgent "build" on this baseline to include any impacts on stakeholders that the baseline does not address.**

3. **Validating the Just Transition Elements introduced in our work, encouraging the further development of Just Transition investment blueprints** to demonstrate what good looks like for institutional investors.

4. **Empowering MDBs and DFIs to be more effective in catalysing mobilisation of private capital.**

Additionally, aware that we have not been able to explore in sufficient detail some other areas of real importance to frame a more complete answer to our initial research questions ("How can we accelerate the volume and effectiveness of private capital seeking to have a positive social and environmental impact?", and "How do we make sure this mobilisation has a real impact and does not leave people and places behind?"), *we would recommend to the incoming Presidency of the G7 that it works with the G20 and partners to support continued work in a number of key areas* specifically:

- Additional *work to better internalise perspectives and realities of emerging economies and SMEs* into the design process and mechanisms for widespread adoption of impact standards, engaging with and clearly supporting the fast and full implementation of the International Financial Reporting Standards Foundation's International Sustainability Standards Board (IFRS-ISSB) and the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. Further momentum will come from embedding disclosure standards in local securities reporting, regulations and standards facilitated by the International Organization of Securities Commissions (IOSCO).
- Expansion of the research on impact transparency, integrity and reporting to *cover public-sector accounting, including impact in procurement as well as wider government spending and activities* - e.g., through increased outcomes-based financing / commissioning in the public sector. In particular, we see a prime opportunity to focus on the impact transparency of climate-finance expenditure, particularly in the run-up to COP27 in Egypt.
- Analyse *in greater depth the "build" side of our "baseline-and-build" proposition*, furthering discussions on how to incorporate impacts onto wider stakeholders beyond those directly affecting enterprise value.
- Over the next three years, we will continue to see innovative approaches emerge from academia, as well as from the public and private sectors, on *how to value impact*. Along this journey, we will start to see monetary values linked to some standardised metrics established by the ISSB. We therefore recommend that the G7, together with guest countries and partners, engage in such collaborative initiatives now, which is consistent with our "baseline and build" recommendation. In this context, we envision the need to:

  - Support concrete initiatives capable of achieving greater transparency on impacts, one of which is the implementation of monetary valuation of impact by a global group of leading businesses
  - Support the creation of an internationally recognised effort to accelerate the work on impact valuation more generally, thereby complementing the mission of the new ISSB

- Support *for further development of Just Transition investment blueprints in targeted emerging economies*, where the successful transition will deliver significant carbon reductions but with significant social and economic risks attached. South Africa, India and Indonesia would be obvious priorities. Given the $8.5 billion Just Energy Transition partnership announced at COP26, South Africa might be the logical place to start, by developing a blueprint that could be demonstrated at COP27 in Egypt and adopted elsewhere.
- Build on Workstream B´s contributions to deepen the research, analysis and recommendations *on gender-equality implications for the Just Transition*, acknowledging that women are and will continue to be disproportionately affected by climate change.
- *The development of a new model for effective collaboration* at the country, and possibly sector level between governments, the multilateral and development finance system and private capital (domestic and international). This is needed to build trust, to understand investment priorities, and to work through the key barriers to the deployment of capital and the reduction of the cost of capital. Ideally, this should lead to a compact that sets out commitments within a framework of accountability. Such a model will be important for helping the $130 trillion Glasgow Financial Alliance for Net Zero (GFANZ) commitment by financial institutions at COP26 turn into something relevant and credible for emerging economies.
- *Continued exploration of specific opportunities for increasing the mobilisation of capital* to finance the SDGs and a Just Transition through additional exploration of the *role of the public equity and debt markets.* One specific example would be a collaboration between donors and multilateral organisations to build the capability in African markets to issue green bonds in line with appropriate standards, and increase the regional share of cumulative issuance from historic levels of less than 1% of global volumes between 2012 and 2019.
- *Encourage the development of large scale, sustainable infrastructure investment vehicles in emerging markets, capable of providing institutional investors and sovereign wealth funds with long-term, stable yields.* This will require creative collaboration between investor networks, providers of accessible de-risking instruments and governments supporting a pipeline of investable opportunities. The G7 and guest countries, working with the G20, are well placed to foster this creative collaboration with a view to market readiness by COP27.
- Encourage the G7 to continue their *support for the development of policy frameworks that help provide clarity around 'Sustainable I nvestment' as a concept* (which currently has a broad range of perspectives, objectives and end-investor motivations at play). This could be achieved through an unambiguous investment product naming classification. It is becoming increasingly evident that both investors and asset managers would benefit from standards that clearly define the segments of this market. However, a common approach remains elusive. We recognise the challenge in building such frameworks: they need to be clearly enough defined to aid investor decision-making while introducing credible high bars to create confidence and prevent greenwashing. At the same time, they should be flexible enough to ensure that a wide variety of investment approaches can fit into the framework to meet the diversity of investor motivation in committing capital to sustainable investments.

The commitments have been made. It is time to deliver. Today is our last best chance to secure the financing to achieve a transition to an equitable and sustainable future. We recognise that change is hard, and that radical change is harder still. No doubt, some people will be uncomfortable with the pace of change we are proposing. But our recommendations do not come out of the blue. They build on existing momentum – including the drive and commitment of over 120 high-level members and wider stakeholders in this global Impact Taskforce.

Leading financial institutions have already seen the writing on the wall – in terms of risks to manage and opportunities to seize. However, time is running out and we need governments, regulators, standard setters and investors of all stripes step out of their comfort zones with urgency to help overcome the inertia of our system. Financial markets are one of the most powerful systemic levers of change we have, and the combined savings and wealth of the world can be an extraordinary force for good in generating more positive social and environmental impact, alongside acceptable risk-adjusted returns. With the right incentives, frameworks and leadership, we are confident that we can dramatically accelerate the scale and effectiveness of private capital flowing to where it can do most good. The sooner we make this happen, the better…for all our futures.

ACKNOWLEDGEMENTS

We are grateful to the ITF Steering Committee members for their invaluable contributions to the preparation of this report.

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ABBREVIATIONS AND ACRONYMS

AUM	Assets under management
B3W	The Build Back Better World Initiative
COP26	Conference of the Parties (United Nations Climate Change Conferences), 26th edition, 2021
DFI	Development finance institution
ESG	Environmental, social and governance
EU	European Union
GFANZ	Glasgow Financial Alliance for Net Zero
GIIN	Global Impact Investing Network
GSG	The Global Steering Group for Impact Investment
IFRS	Foundation International Financial Reporting Standards Foundation
III	Impact Investing Institute
IMF	International Monetary Fund
IMP	Impact Management Project
IOSCO	International Organization of Securities Commissions
ISSB	International Sustainability Standards Board
MDB	Multilateral development bank
MSME	Micro, small and medium enterprise
OECD	Organisation for Economic Co-operation and Development
PRI	Principles for Responsible Investment
SDGs	(United Nations') Sustainable Development Goals
SFWG	Sustainable Finance Working Group (G20)
SIIT	Social Impact Investment Taskforce
SME	Small and medium enterprise
TCFD	Taskforce on Climate-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosures
UN	United Nations

KEY DEFINITIONS

Accounting
Accounting refers to how entities record, organise and understand information, including disclosures. Accounting on impact refers to this same process as it applies to information about how products, services and practices affect people and the planet.

"Baseline and Build" approach
The **Baseline** concept raises the international threshold on social and environmental reporting standards that relate to enterprise value as a "baseline". **Build** encourages countries to urgently "build" upon the baseline to cover impacts on all stakeholders, in parallel with their jurisdiction, as appropriate.

Disclosure
Disclosure refers to the process and methodology of providing comprehensive, verified, comparable information through timely dissemination *(IOSCO)*

Environmental, social and governance (ESG) criteria
ESG criteria are a set of standards that a conscious investor uses to screen potential investments. Environmental criteria consider impact on nature, climate and the conservation of the natural world. Social criteria comprise the consideration of people and relationships. Governance criteria refer to the standards for running a company. *(CFA Institute)*

Fiduciary duty
Fiduciary duty refers to the legal duty of a trustee (or other) to act in the best financial interests of their beneficiaries. *(Impact Investing Institute)*

Harmonisation
Harmonisation is the process by which related standards are brought into line with one another. It is seen as a highly effective mechanism to achieve comparable, consistent and reliable information, and represents a necessary step to help build trust and attract increased flows of private capital towards a just transition. *(Ernst & Young)*

Impact
The change in outcome (positive or negative) caused by an organisation, directly or indirectly, wholly or partially, intended or unintended. *(Impact Management Project)*

Impact economy
The impact economy model seeks to balance social and environmental causes with profit. This model removes the emphasis on purely stimulating economic growth. This model is thought to be best placed to reach the Sustainable Development Goals as identified by the United Nations. *(Bruegel)*

Impact investment
Impact investments are investments made with the intention of generating positive, measurable social and environmental impact alongside a financial return. The intentionality of seeking social and environmental impact makes it distinct from responsible and sustainable investments, as the latter investment types focus more on simply avoiding negative externalities or they settle with high-level ESG criteria. *(GIIN)*

Integrity
Integrity refers to the overall accuracy, completeness, verifiability and consistency of data. *(Ernst & Young)*

Just Transition
Although there is not a universally agreed definition, an early description by the ILO states that: "A just transition for all towards an environmentally sustainable economy needs to be well managed and contribute to the goals of decent work for all, social inclusion and the eradication of poverty. The greening of economies will enhance our ability to manage natural resources sustainably, increase energy efficiency and reduce waste, while addressing inequalities and enhancing resilience." The Just Transition concept is used to better understand who will be affected by climate action and where the effects of related systemic shifts will be felt. It is vital to distribute benefits of Net-Zero climate action in a fair manner. *(OECD, ILO)*

Net Zero
Net Zero refers to achieving an overall balance between emissions produced and emissions taken out of the atmosphere. In contrast to a gross-zero target, which would reduce emissions from all sources uniformly to zero, a Net-Zero emissions target is more realistic because it allows for some residual emissions. *(LSE Grantham Research Institute)*

Responsible investing

Responsible investing explicitly acknowledges the relevance of environmental, social, and governance (ESG) criteria to inform investment decisions. Responsible investing seeks to avoid investments that conflict with the investor's ethical guidelines. This uses a 'negative screening' process. *(Impact Investing Institute)*

Reporting

Reporting is the concept that connects the company to its stakeholders. It refers to the communication that an organisation issues to demonstrate to shareholders and potential investors its capabilities, opportunities, and performance. Reporting frameworks create guiding principles and content elements for a report, and the fundamental concepts that underpin them, including valuation techniques.

Small and medium enterprises (SMEs)

Small and medium enterprises (SMEs) consist of a range of enterprises of various sizes (which can be defined by the number of employees, working capital, and/or annual revenue). According to the World Bank, micro, small and medium enterprises (MSMEs) are defined as follows: micro: 1–9 employees; small: 10–49 employees; and medium: 50–249 employees. *(World Bank)*

United Nations' Sustainable Development Goals (SDGs)

The 17 United Nations' Sustainable Development Goals (SDGs) form the heart of the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015. The SDGs provide a shared blueprint for peace and prosperity for people and the planet, now and into the future. They also represent an urgent call for action by all countries – developed and developing – in a global partnership. Inherent within them is the recognition that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality and spur economic growth – all while tackling climate change and working to preserve our oceans and forests. *(UN)*

Sustainable investing

Sustainable investing explicitly acknowledges the relevance of environmental, social, and governance (ESG) criteria to inform investment decisions. In contrast to responsible investing, which uses a negative screen, sustainable investing seeks out investments that score well on the ESG criteria, whilst also generating long-term competitive financial returns and positive societal impact. *(The Forum for Sustainable and Responsible Investment)*

Transparency

Transparency refers to the principle of creating an environment where information on existing conditions, decisions and actions are made accessible, visible and understandable to all.

Valuation of impact

Valuation of impact allows a meaningful comparison of the impacts and profits of companies, while also revealing the relationship between the two. There are three ways of estimating relative value of an impact to stakeholders:

- Monetary valuation (e.g., the estimated monetary value to a stakeholder of a benefit they experience, or harm or loss that they avoid or experience)
- Quantitative non-monetary valuation (e.g., ratings on a scale of 1 – 10)
- Qualitative valuation (e.g., low/medium/high)