Identifying Progress in the Development and Implementation of Impact Valuation Methodologies

Input paper to the Impact Taskforce (ITF) produced by International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA)

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Background: The role of impact monetization in an economic system with greater impact transparency

The times of unlimited resources have come to an end. Climate change, biodiversity loss, social inequalities are destabilizing our traditional global market economy. These developments are changing our business environment and our understanding of good performance, business success, and corporate value contribution fundamentally. Businesses are increasingly held accountable for their impact on the environment, employees, customers, and society at large – and this along the complete value chain. In response, companies have started to integrate sustainability targets into their governance systems to ensure competitiveness and business resilience. Investors are also integrating these considerations into investment decision making and the development of products to provide capital to the market. Lastly, regulators and governments are considering organizational externalities as they make policy decisions.

Current frameworks provide an important starting point by standardizing scope and measurement of "ESG" data points, but they are insufficient. Today, most mainstream ESG reporting frameworks require qualitative and quantitative information of corporate and investment inputs and outputs. Examples include cubic meters of water intake and discharge, metric tons of GHG produced, nitrogen and phosphorous emissions, and wages paid. Although important, these disclosures do not capture the ultimate social and environmental effects of corporate activities.

If the ambition is a truly sustainable economy which is compatible with planetary boundaries and healthy societies, we need to move beyond the current performance measurement and accounting systems. To assess corporate sustainability and product impact, we need to see the clear casual relationship between corporate activities to changes in well-being for people and the planet. Conventional ESG reporting frameworks only consider immediate corporate-level factors (e.g., greenhouse gas emissions or wages paid) by focusing only on inputs and outputs, and they omit their impact on all stakeholders. Consequently, these frameworks lack the information needed to evaluate corporate sustainability effectively. Instead of explicitly measuring these changes, they often leave implicit the actual effects on human well-being or the environment. For this reason, we are getting an incomplete view of value created by organizations."

However, even if impacts for affected groups or the environment were clearly disclosed using these pathways, this would be insufficient to achieve the economy-wide changes needed to solve society's biggest challenges. One reason is that impacts are traditionally measured in units specific to a particular discipline. For example, disability adjusted life years (DALYs) and quality adjusted life years (QALYs) are used by public-health officials to assess the burden of disease when comparing treatment options. We frequently hear that corporate decision makers and investors struggle to comprehend:

- Is the impact metric a lot or a little?
- Is the impact metric in line with thresholds, benchmarks, or transition pathways?
- Are the impacts from one choice better or worse than those for another?
- What produces the greatest positive impacts or minimizes the negative impacts for those affected?

The solution is to convert the changes in outcomes for people, the planet, and society at large into monetary terms (called impact accounts) based on robustly derived methodologies, so that the trade-offs being made, and the value created or destroyed for and by whom can be widely understood, particularly at the time of making decisions. By monetizing environmental and social impact, it becomes possible to readily compare impacts to financial returns, analyze, and act upon information using the same management systems and financial analyses that are already well understood by firms, investors, and regulators. This is not just our opinion. In May 2023, PWC released a report, *Why Impact Matters for Company Valuations*, which they created based on their global investor survey and investor workshops. A key takeaway from investors was, "there needs to be a meaningful way to articulate the value of the impact of sustainability action or inaction and how it is associated with financial impact."[1] Over 66% of investors on which they report wanted to see companies disclose the monetary value of the impacts that they have because they believe it will help companies understand the full economic effect of their decisions and encourage them to address the ESG issues to which they contribute.

The corporate world increasingly tests and pilots impact accounting methodologies to generate better information for management accounting, decisions, making, steering, and external disclosures. To ensure comparability and consistency of information, corporates call for standardized methodologies on measuring and valuing the impact of their business models. For example, VBA members have tested standardized impact accounting methodologies for more than three years[2].

By providing comparable, transparent measures of impacts for stakeholders, it is possible to truly calculate whether a product, project, or organization creates net value. In this way, impact can be readily incorporated into decision-making in real time, mitigating negative risk and optimizing positive outcomes. The future is one in which organizations stop optimizing just Risk and Return and shift to the more comprehensive and stakeholder aligned optimization of Risk, Return, and Impact.

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[1] https://www.pwc.com/gx/en/services/audit-assurance/corporate-reporting/esg-reporting/esg-impact-company-valuation.html

[2] (https://www.value-balancing.com/_Resources/Persistent/6/5/d/7/65d77c09700346cc7e1317b79aec525031cf04c5/VBA-Pilot-Study_vo.2_final.pdf)

Latest developments sustainability disclosure standards

Prior to discussing developments in impact accounting, it is critical to recognize the substantive changes that have occurred within the reporting ecosystem since publication of the Impact Task Force's (ITF) December 2021 reports. About two years since the International Financial Reporting Standards Foundation ("IFRS") first contemplated them, the International Sustainability Standards Board ("ISSB") published its first global sustainability standards in July 2023, with endorsement by the International Organization of Securities Commissions ("IOSCO") as well as the Financial Stability Board ("FSB") which asked IFRS to take over the monitoring of compliance with the Task Force on Climate-Related Financial Disclosures ("TCFD") requirements. Importantly, the ISSB also has a collaboration agreement with the Global Reporting Initiative (GRI) to ensure interoperability of their respective standards. For example, the ISSB standards reference the GRI standards as a source of guidance for organizations trying to make a judgment on how to disclose a sustainability risk or opportunity in the absence of an IFRS Sustainability Disclosure Standard. In addition, the S1 requests a sustainability adjusted cash flow which will require a certain monetary valuation. A number of large economic jurisdictions have introduced plans to consider incorporating the ISSB standards into their local jurisdictional regulations.

The European Commission completed the final public consultation on the first set of European Sustainability Reporting Standards ("ESRS") ahead of their initial application beginning in January 2024. The ESRS asks companies to disclose the financial effect of sustainability related impacts, risks, and opportunities (E1, E4) which requires a monetary valuation of sustainability aspects. The CSRD (44) references natural capital accounting, fulfilling the European Commission's commitment to support businesses and other stakeholders in developing standardized natural capital accounting practices within the European Union and internationally, with the aim of ensuring appropriate management of environmental risks and mitigation opportunities and reducing related transaction costs. The EU LIFE-funded preparatory project, Transparent[3], led by the Value Balancing Alliance, the Capitals Coalition and the World Business Council for Sustainable Development (WBCSD) and the European Commission's DG Environment released in final form as the Natural Capital Management Accounting ("NCMA") methodology in July 2023 is the basis for that practice in the European Union. Additionally, the Taskforce on Nature-related Financial Disclosures ("TNFD") is preparing to provide Valuation Guidance in September 2023.

Lastly, in the United States, the Securities and Exchange Commission (SEC) is expected to release climate disclosure requirements by the end of the year which are expected to be very consistent with the ISSB requirements to reduce the burden on corporates while substantially increasing the current level of disclosure. The UN Development Programme has continued implementing the SDG Impact Standards, management standards designed to help organizations integrate operating responsibly and sustainably into organizational systems, investment frameworks and decision-making practices so as to contribute positively to sustainable development and the SDGs. This important work now includes not only management standards, but also application guidance, an assurance framework, the forthcoming SDG Impact Seal, and numerous training and evaluation tools. In addition, UNDP and ISO are

[3] https://www.value-balancing.com/en/projects/transparent/transparent.html

working together on creating a joint ISO-UNDP international management system standard based on SDG Impact Standards.

Interoperability between ISSB, GRI, and jurisdictional standards is essential for the future of impact accounting. As mentioned, the current efforts by ISSB, GRI, EFRAG and others will standardize the measurement of sustainability outputs as an intermediate step on the path to value impact. Consistency and alignment will be key to ensure comparability of information. For example, ISSB, GRI, and ESRS currently take different views on materiality. GRI and ESRS taking the broader impact materiality view compared to ISSB. There is increasing agreement that materiality determination is a dynamic process, especially when cumulative systemic risks are taken into account. A new thought piece by the Impact Management Platform and its Partners states:

> “current interpretations and implementation of the concept of financial materiality do not always recognise the importance of information on entities’ contributions to the accumulation of system-wide risks. Because of investors’ exposure to and interest in managing system-wide risk, information on entities’ impacts and impact management processes may well affect their decision-making, rendering the information material. A consequence of this observation is that the information needs under a comprehensive and forward-looking financial materiality perspective overlap with the information needs under an impact materiality perspective to a greater extent than is sometimes believed.”[4]

Complementarity with existing sustainability disclosure standards

While these developments are encouraging and reinforce a critical global baseline of reporting, amid these developments, we are increasingly convinced that for the reasons previously discussed, to truly get the changes that are required in decision making and capital allocation, impact accounting, using monetary valuation techniques, is a critical condition. The field of impact accounting along with the broader field of impact are moving extremely quickly. It is unlikely that this section will fully capture every development that has taken place in the ecosystem; any omissions are unintentional.

There have been a number of significant developments in the field of impact accounting following the ITF Report that called for mandatory accounting for impact as a destination toward which investors, corporates, governments, and civil society should work. Following the report, in 2022 the leadership of IWA made the choice to spin out the team and intellectual property into an independent organization, IFVI, in order to gain the independence, scale, governance, and partnerships that are required in order to contribute meaningfully to the significant work that needs to take place to achieve the destination envisioned by the ITF.

IFVI was incorporated as a tax-exempt non-profit in June 2022. The majority of the diverse Board of Directors was seated by December 2022, drawing global membership from diverse experiences including in academia, investing, government, policy-making/regulation, corporate/industry, and

[4] https://impactmanagementplatform.org/wp-content/uploads/2023/06/The-Imperative-for-Impact-Management.pdf

nonprofits. In January 2023, the team from IWA moved over to IFVI along with its intellectual property. That same month, the VBA and IFVI announced their partnership to develop one common impact accounting methodology for the public good. This partnership brings together the corporate, academic, and investor perspectives on impact along with the expertise of an independent committee, the Valuation Technical & Practitioner Committee (VTPC). Together with the Board, all of the sectors of the economy called upon by the Impact Taskforce to work together are present in these important bodies

With the independent oversight of the VTPC, the common methodology will comprehensively value positive and negative impacts of business on society. It will be independent, credible, and publicly available, striving to be robust while also business relevant, pragmatic, scalable, and transferable. It will both utilize data inputs from global standard setters and strategically inform that global standard setting over time. To achieve this common goal, IFVI and VBA work in partnership to:

- Develop one common impact accounting methodology, flanked by academia.
- Test the methodologies in daily business with corporates and investors.
- Execute joint external positioning and market development activities – especially with regard to financial market regulators and standard setters, consistent with the ambitions of the Impact Task Force.
- Cooperate with other organizations operating within the ecosystem, including but not limited to the Value Commission and the members of the Value Accounting Network.

In August 2023, the first significant research output of the partnership between IFVI and VBA was approved by the VTPC and released for public exposure and comment. Additional publications will be released later in the year and continue on an ongoing basis. Adding incredible scale to the work, IFVI is a GSG impact transparency initiative. GSG is working with its community in over 50 countries to support the international adoption of impact transparency and IFVI's impact-weighted accounting methodology. The collaboration includes serving on IFVI's committees, promoting uptake, knowledge-sharing events, workshops, and pilot programs in many countries.

About the partnership between IFVI and IWA

Impact accounting is best viewed as an extension of traditional financial accounting by natural, social, and human capital as well as impact thinking. The aspiration of the IFVI and VBA partnership is to produce methodology that 1) enables businesses and investors to incorporate impact into strategic decision-making and management accounting, 2) enables data preparers to collect the right information to comply with sustainability reporting requirements based on auditable processes and data, 3) builds on the work of ISSB, GRI, and EFRAG developing the next level of sustainability information: the monetary valuation of impacts, and 4) provides relevant data for corporate, financial market, and regulatory decision makers to account for the true value contribution of business models to society and to enterprise value.

The common vision is to establish a comprehensive, globally accepted baseline for reporting and building blocks to serve the needs of different jurisdictions and stakeholder groups – including globally accepted disclosure standards and an accepted impact accounting methodology. Rigorous governance, consultation, and piloting processes will be used to drive this acceptance. Organizations such as ISSB, GRI, EFRAG, VBA, and IFVI intend to work closely together to achieve this vision. The work of ISSB, GRI, and EFRAG provides the global disclosure standards that result in the pre-conditional data inputs for valuation methodologies developed by VBA and IFVI.

For example, IFVI and VBA's environmental methodology will leverage the disclosure metrics and definitions stipulated by these organizations to define key pathways by which these outputs become impacts and which are then monetized using a coefficient. IFVI and VBA will generally not produce their own monetary coefficients but will research existing coefficients with a recommendation for which are most robust while supporting disclosure of existing libraries of coefficients for the public good.

In turn, the VBA and IFVI work could provide valuable input into the development of disclosure standards. For example, in many cases, methodologies have been created based on existing or soon to be implemented reporting standards, however, in rare cases, we seek to leverage disclosures that have not yet been fully defined in a standard yet, but are essential to understanding business impact on society (e.g. diversity in employment). ISSB, GRI, EFRAG, WEF, WBCSD, Capital Coalition, ERT, OECD, VBA, IFVI and their affiliated partners are closely coordinating their work, guided by their respective due processes, to ensure the provision of consistent, high quality, transparent, reliable, and comparable and interoperable information that can enhance business and investment decision making – today and in the future.

Other Advances in Impact Accounting Since 2021

It bears noting that the work of IFVI and VBA builds upon the incredible legacy of numerous organizations that have done significant foundational and alignment work. The role and importance of valuing impacts is aligned with the Natural Capital Protocol and the Social & Human Capital Protocol of the Capitals Coalition, the Impact-Weighted Accounts Framework of the Impact Economy Foundation, and the Standards set by Social Value International for Social Return on Investment (SROI) and specifically Principle 3: Value the Things That Matter. In the case of the Capitals Coalition Protocols, valuation is recognized to encompass many different approaches, quantitative, qualitative and monetary valuation.

In 2023, the Capitals Coalition continued its important work by releasing a White Paper on the role of integrated decision-making across nature, people, society and the economy. This paper sets out the progress so far in the thinking and development of the Coalition's new flagship framework, the Capitals Protocol. Building upon the framework set out in the Natural Capital Protocol (2016) and the Social & Human Capital Protocol (2019), the Capitals Protocol will provide businesses with a unified framework to identify, measure and value their impacts and dependencies on natural, social, human, and produced capital to inform their decision-making and deliver positive outcomes for nature, people and economies. The Capitals Protocol will provide a structure for applying systems-thinking within organizations and offer greater transparency to decision makers concerning hidden risks, opportunities and trade-offs. In this paper, the Capitals Coalition explores the core concepts of integrated decision-making and sets out the journey that lays ahead. At the end of 2023, the Capitals Coalition will conduct a consultation of the White Paper with key audiences, such as business and subject-matter experts, followed by a beta version of the Capitals Protocol for pilot testing in 2024. Capitals Coalition was also very involved in the creation and consultation of two important projects: Transparent and Align. Transparent has been previously described. Align was developed to assist the European Commission's efforts to support businesses, financial institutions and other stakeholders in developing standardized natural capital accounting practices by establishing a standardized approach to biodiversity measurement and valuation. In December 2022, Align published recommendations bringing more clarity on 'what' elements of biodiversity to measure and 'how' to assess impacts and dependencies on biodiversity in a business context.

Social Value International continued to grow its practitioner base with members in over 60 countries contributing to guidance and best practice standards for impact valuation. The guidance and standards offer a principles-based framework for accounting for value that is highly consistent and complementary to the work of Capitals Coalition and IFVI/VBA. In 2022, SVI released two important publications. Firstly, an updated paper on the purpose of the Principles of Social Value & SVI Standards to support decision making that optimizes impacts on wellbeing for all materially affected stakeholders. Secondly, SVI published the first Standard and Guidance for the new Principle: Be responsive. The latter is a significant development as it brings explicit attention to how impact data should be integrated into strategic, tactical, and operational decision making. In early 2023, SVI circulated its updated draft Standards for Principle 6: Be Transparent (that includes an updated SVI Reporting Standard) and Principle 7: Verify the Result for consultation.

An additional significant update is the launch of the Global Value Commission by the Capitals Coalition in mid-2022. This important initiative brings together over 30 expert Commissioners from around the world to drive transparency and accountability across the application and use of value factors by organizations. The Commission's mandate is co-design and develop a set of clear and transparent global criteria spanning the creation and use of value factors (also known as monetization coefficients) and to consolidate existing efforts into an open-access Value Platform. The Transparency Criteria are a detailed set of standards that can be used to improve user confidence in the application of value factors. The criteria serve as a method to improve the flow of information between developers, users, and stakeholders.

In November 2021, the Impact Management Project ("IMP") was wound down, with the IMP Structured Network having transitioned to UNEP FI and the OECD as Co-Chairs of the evolved initiative, named the Impact Management Platform (the "Platform"). The Platform is a collaboration between the leading providers of standards and guidance for managing sustainability impacts, which are coordinating efforts to mainstream the practice of impact management. To achieve this, these "Partners" have been working together to clarify the meaning and practice of impact management, to promote interoperability between their existing sustainability resources, and to engage with policymakers and regulators in the process. Critically, the Platform has released a set of guidance for enterprises, investors and financial institutions of all types. This includes the iterated Actions of Impact Management (which references the role of valuation) and associated Key Terms and Concepts, which were published in July 2023.

The British Standards Institution (BSI) released a standard BSI 8632:2021 on Natural Capital Accounting within the UK. It provides specifications and guidance on the process of preparing natural capital accounts. It includes minimum requirements for defining the scope of an account and the material impacts and dependencies, and for documenting the data and process used to prepare the natural capital account. It also presents the terminology, principles, steps, and outputs of natural capital accounting with the aim that the process is transparent, repeatable and generates information that is comparable and useful for decision making.

Lastly, in August 2023, WiFOR Institute took the step of publishing their library of ecological and social value factors and supporting documentation. Accessibility of robustly created and defined value factors is critical to supporting organizations in applying impact accounting as well as for external actors to evaluate the basis for disclosures.

Our Vision for Impact Accounting

The ultimate aspiration IFVI and VBAs partnership work is a comprehensive system for impact accounting, including calculation methodologies, practitioner application guidance, audit and data management protocols, and robust, properly-disclosed monetary coefficients, akin to the financial accounting and audit ecosystem and the supporting standard databases (such as for depreciation and amortization schedules). In addition to the documentation guidelines, broad market uptake across corporate decision-makers and investment professionals as a fundamental part of their analysis process is critical to achieving the change that we envision. We still require approximately three years of concentrated development work before the first comprehensive set of documentation is fully ready, we expect these to evolve over time. In that same time, we will be working intensely to raise awareness of and practice with the methodology as elements are released so market uptake around the world begins building. Ultimately, we believe that an international organization with the respective legitimacy, credibility, and resources, such as the UN or OECD, must take up impact accounting methodology and frameworks being developed by us and the aforementioned ecosystem of organizations, to develop them into international standards. Critical to the success of such standards will be the hosting, maintenance, and ongoing development of monetary value factors to ensure transparent, publicly examinable, and comparable reporting.

We believe that there are two self-reinforcing features of impact accounting to achieve our vision of organizations shifting to comprehensive and stakeholder aligned optimization of Risk, Return, and Impact: management accounting to inform decision making and transparent reporting on the results. While the impact accounting methodology focuses on impact on stakeholders, studies and anecdotal evidence indicate several benefits to robust incorporation of impact considerations into organizational activities and decisions; investors are willing to provide capital at lower costs, the base of investors willing to provide capital widens, customer trust and relationships improve, and the ability to attract a talented workforce relative to peers increases, among others. Official reporting is the critical means by which such benefits accrue to an organization and thus provides an incentive to report. As more organizations transparently report impacts in a consistent way, organizations choosing not to do so signal to the market that they are not adequately managing impact risks and opportunities and thus the above-mentioned benefits accrue all the more to organizations that are transparently reporting.

There must be standardization around how sustainability information is disclosed to the market. Financial market actors and corporates are concerned that due to the different requirements, sustainability information will not be disclosed in a comparable, easy to capture, and machine-readable way. We envision reporting happens through a comprehensive impact-statement (also referred to in the ecosystem as impact profit & loss). Corporates, such as Kering, BASF, Holcim, or Novartis, have started to communicate their impacts on society and nature). To ensure broader uptake, a common format needs to be developed. An example of what this might look like, subject to further review and discussion, is shown in the latest VBA piloting study.[5] The impact-statement will also have important linkages to the financial statements of organizations that will allow for analysis of how the wellbeing of stakeholders affects organizational value and status as a going concern, supporting optimization of risk, return, and impact. There is currently work underway at IFRS to ensure connections between the requirements of International Accounting Standards Board ("IASB") and the ISSB standards which will inform these interconnections.

State of Play: Adoption by Corporates and Investors

In early 2022, IWA partnered with the VBA to conduct a survey to evaluate market uptake of impact accounting to better understand the breadth of geographies and industries involved in the practice. The survey also asked questions regarding the scope and use of impact accounting by organizations. These survey results are not meant to provide a comprehensive summary of the use of impact monetization around the world, but rather to provide a snapshot of the breadth of users and some of the common challenges and opportunities they face.

For those who answered the question of whether or not they utilize impact accounts (N=80), 58% reported they were using the practice (N=46). There were 22 countries represented among these respondents, demonstrating the global reach of the practice of impact monetization. Out of 40 organizations that reported their domicile country, 47% were located in Europe, 27% in Asia, 16% in North America, 6% in Africa, 4% in South America, and only 1 respondent was located in Australia. Respondents spanned 18 unique industries including automobiles, insurance, and pharmaceuticals. Out of the organizations that report their GICS industry the most common were Food, Beverage, and Tobacco and Materials.

Among the organizations that use impact accounts, the survey sought to understand how their analyses were used. The most common response was internal reporting (69%), followed by external

[5] See page 21, https://www.value-balancing.com/_Resources/Persistent/6/5/d/7/65d77c09700346cc7e1317b79aec525031cf04c5/VBA-Pilot-Study_vo.2_final.pdf)

reporting (56%), management control systems (49%), and investment, divestment, and procurement systems (41%). Among organizations that use impact valuation for internal reporting (N=27), there was evidence that executives and Boards are common recipients of this information. 48% provided information to their CEO, 44% to the Board of Directors, 44% to their CFO, 41% to their Chief Sustainability Officer, 30% to their Chief Operating Officer, and only 15% share impact accounting results with their Internal Audit personnel. The most common format for sharing information externally is through an integrated report, although many respondents also included impact valuation in their sustainability reports and on their corporate websites. Only 18% of respondents describe their use of impact accounts in customer communications and marketing (N=22).

Respondents revealed that the application of impact accounts in their management control systems are highly varied. Target setting, future budgeting, and employee communications were the most common uses at 63%, 47%, and 42% respectively (N=19). 5 firms reported a link between executive compensation and impact accounts. The least common, but nevertheless significant, use of impact accounting was for the formation of investment, divestment, and procurement decisions. Among those who indicated this general use case (15), 60% reported that impact accounts are factored into decisions about capital expenditures and new product development and 40% used impact valuation in decision-making regarding R+D expenditures. A smaller number noted procurement of goods and services, M+A due diligence, and divestment of business units as use cases for impact-weighted accounting. Further research into these applications is necessary.

The survey also asked about the key benefits and challenges associated with the practice. While just a starting point, these insights can help to shape strategy to bolster the effectiveness of impact-weighted accounting and continue to build and maintain momentum for the practice. Among those reporting on the benefits of impact-weighted accounting (N=28):

- 75%: better management of opportunities from positive impacts
- 64%: strengthened organizational culture
- 60%: better management of risks from negative impacts
- 32%: higher employee engagement and morale
- 32%: promotion and support of standardization
- 29%: development of new products

The organizations surveyed identified the following four challenges to be most prevalent:

- 57%: lack of a standardized approach to valuing nature and people
- 36%: lack of regulatory frameworks and government policy
- 32%: lack of understanding about the potential benefits and business case by management
- 32% lack of case studies and practical applications

Survey respondents could choose whether to publicly disclose their use of impact accounting. 14 of these organizations are represented below to demonstrate industry and geographic breadth.

Organization Detail			Impacts Measured					Stages of Value Chain Measured		
Organization Name	**GICS Industry Group**	**Domicile Country**	**Environmental**	**Employment/ Social**	**Economic**	**Customer**	**Suppliers**	**Upstream**	**Own Operations**	**Downstream**
Ambuja Cements	Materials (1510)	India	X	X	X				X	
BMW	Transportation (2030)	Germany					X		X	
Capitals Coalition	Other	Netherlands	X	X	X	X	X	X	X	X
Eisai Co., Ltd. Japan	Pharmaceuticals, Biotechnology & Life Sciences (3520)	Japan		X		X				
Holcim	Materials (1510)	Switzerland	X	X	X	X	X	X	X	X
Impact Institute	Commercial & Professional Services (2020)	Netherlands	X	X	X	X		X	X	X
IMPact SGR	Diversified Financials (4020)	Italy		X						
Intesa Sanpaolo	Banks (4010)	Italy	X	X					X	
LAST Waste Management	Commercial & Professional Services (2020)	Sudan	X	X				X	X	X
Natura	Household & Personal Products (3030)	Brazil	X	X		X	X	X	X	X
Pepsi	Food, Beverage & Tobacco (3020)	United States				X			X	
PMI	Food, Beverage & Tobacco (3020)	Switzerland			X					
Porsche AG	Automobiles & Components (2510)	Germany	X	X	X	X	X	X	X	X
Summa Equity	Other	Sweden	X	X	X	X	X	X	X	X

Applicability to the Public Sector

Within the public sector, impact accounts also have substantial potential to change the way development incentivizes economic growth within markets or regions. Traditionally, development organizations, including governments, have offered huge incentive packages to organizations looking at moving into or expanding in the region, with the goal of promoting jobs and economic growth. However, it was challenging to compare whether the quality and impact of those jobs was worth the cost to the public sector. The Fresno Economic Development Corporation, working with numerous partners, is hoping to change this paradigm with an innovative corporate scorecard, upon which tax rates or other incentives may be based. For example, rather than offering lower taxes up front, organizations would be evaluated annually based on their impact, and incentives adjusted accordingly. One of the critical inputs to the scorecard is the IWA employment framework, which has numerous action pathways for organizations to increase their impact by investing in an area such as Fresno with higher unemployment (location impact), diversity challenges (diversity and opportunity), and increasing wages and benefits for workers (wage quality and health/wellbeing). SVI also has made substantial progress in articulating the benefits of impact monetization to non-profits and the public sector.

Additionally, there are numerous efforts by governments around the world to incorporate impact accounting. The New Zealand Treasury developed a Living Standards Framework to "take a more holistic approach towards measuring wellbeing, recognizing that traditional economic and financial measures miss some important aspects of living standards not just of the current generation, but also of future generations."[6] As part of this "unapologetically pragmatic" framework, monetization plays a critical role in order to inform choices. They published an investment statement in which they valued the state of natural capital within the country, along with a literature review focused on "capturing natural capital in decision making, with a focus on approaches to measuring natural capital that have been implemented."[7] Additionally, the United States government just solicited feedback on updates to guidance documents from the Office of Management and Budget which guide the creation and presentation of monetary cost-benefit analysis for proposed regulation. These updates are likely a precursor to additional guidance in response to President Biden's call for a national natural capital valuation study.[8]

In 2021 the ITF called for "mandatory impact accounting as a destination". How far are we from this north and what would be your priority recommendations and calls to action for ITF key audiences (corporates, investors, policymakers) to get us there?

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[6] https://www.treasury.govt.nz/publications/speech/natural-capital-and-living-standards-framework

[7] Clough, P and Bealing, M, "Capturing natural capital in decision making," New Zealand Institute of Economic Research Whitepaper, 2017.

[8] https://www.whitehouse.gov/ostp/news-updates/2023/01/19/fact-sheet-biden-harris-administration-releases-national-strategy-to-put-nature-on-the-nations-balance-sheet/

As with all innovations, there are a few stages in the path to the ITF's envisioned destination. As the methodology is released and enhanced, early adopters, including practitioners, investors, and corporates, will conduct experimentation and piloting. IFVI and VBA will work closely with early adopters and gather learnings and feedback to further refine the methodology and ensure it is practical and pragmatic. As understanding of the value of impact accounts for risk management, opportunity identification, and financial planning becomes clearer and as evidence of uptake increases, more and more organizations will turn to impact accounting to optimize risk, return, and impact.

Eventually, methodology usage will hit a critical mass. This does not necessarily entail universal adoption, but rather the creation of a virtuous cycle where increased corporate disclosure of monetized impacts in turn mobilizes more investors to request this information from other companies in a consistent format. As has occurred with recent regulatory mandates, regulators will then recognize the need to standardize such disclosures to ensure market efficiency and capital formation. Our aspiration is for the IFVI and VBA methodology to serve as a catalyst for the adoption of impact accounting. Ultimately, we envision the methodology being taken up by a regulator or standard-setting organization, as was the case with the IFRS Foundation and the Value Reporting Foundation.

While the pace of change depends on many factors beyond our control, we anticipate that regulators and standard setters could begin reviewing and conducting due diligence on our work within the next three to four years. By 2030, we expect a plurality of companies to be using impact accounting for internal decision making as well as public disclosures as part of their corporate reports. Notably, dozens of pilots have already been completed by IWA and VBA, including Blackrock, Acciona, Calvert Investments, Summa Equity, BASF SE, Eisai, BMW Group, Deutsche Bank, among others. The interest in trialing our work continues to grow daily.

Our priority recommendations and calls to action are as follow:

- Investors and Corporates: Begin piloting the methodology within your organizations, starting small at first and expanding as competency, experience, and senior level buy-in develop.
- Investors and Corporates: Provide feedback on the benefits and challenges of those pilots to IFVI and VBA and support the development of case studies so that the methodology evolution can also be informed by that experience.
- All investment actors, governments and regulators, asset managers, asset owners, information preparers, sustainability advocates and any other stakeholders from the financial sector: Participate in the public consultations and exposure draft process pertaining to the work of IFVI and VBA as well as the other ecosystem organizations referenced in this briefing note in order to ensure that the work is stakeholder informed and responsive.
- All: Connect interested regulators, politicians, and others to our organizations for engagement, learning, and collaboration.

About the contributing organizations

International Foundation for Valuing Impacts The International Foundation for Valuing Impacts (IFVI) is an independent nonprofit bridging the gap between financial accounting and impact measurement. Founded in 2022, IFVI grew out of the Impact-Weighted Accounts Project at Harvard Business School, which was overseen by Professors George Serafeim and Ethan Rouen. Between 2019 – 2022, the IWA team proved that impact accounting is feasible, valuable, and scalable through the release of over 20 whitepapers and four large datasets in which the impacts for thousands of companies were calculated.

Value Balancing Alliance: The Value Balancing Alliance is a growing non for profit alliance of currently more than 25 multinational companies. The common goal is to develop a standardized methodology of impact measurement and valuation. Positive and negative impacts of corporate activity are disclosed and monetized through the methodology. The Value Balancing Alliance provides guidance on how these impacts can be integrated into business steering and reporting. The member companies pilot the methodology to ensure feasibility, robustness, and relevance. It is supported by the four largest professional services networks - Deloitte, EY, KPMG, and PwC - as well as in a close collaboration with the International Foundation for Valuing Impacts (IFVI).