Impact Based Finance: a disruptive solution to deliver the Sustainable Development Goals

To tackle global environmental and social priorities, combined efforts from everyone are needed. Many companies rethink their business models to contribute to a sustainable future for all while creating long-term value for their stakeholders. Yet, the scale and pace of transformation are too slow: disruptive business and financing solutions are urgently needed to deliver more with less!

On the back of the Covid-19 crisis, the SDG investment gap, i.e. the additional investments required to meet the SDGs, jumped by 50% from an estimated US$ 2.5 trillion per year to US$ 3.7 trillion per year until 2030 according to the OECD.[1] This reflects both the increased needs resulting from the pandemic and the slowdown of financing flows to emerging countries.

However, there are reasons to remain optimistic: the world has shown its ability to coordinate efforts to fight an emergency, and there is a growing awareness that a radical paradigm shift is required to solve environmental and social crises. Furthermore, with an estimated US$ 110 trillion of assets under management,[2] there is no shortage of private capital available. How can we funnel this capital in the right direction, towards impactful investments? By changing our priorities and making impact-driven decisions: any project, investment, or initiative should be designed and implemented to seek the maximisation of its positive impacts rather than solely profit. Besides, our ecosystem is at risk unless we adopt circular business models that preserve nature. In other words, we must do more (impacts) with less (resources and costs).

Societe Generale has developed Impact-Based Finance, a disruptive approach to support companies that shift their strategy to deliver low carbon, nature-positive and inclusive businesses. The objective is to assist them in focusing on their customers' environmental and social needs, enabling them to enhance the impacts of their projects, facilitate funding and accelerate their scale up.

Our approach is threefold:

1. Augment impact:
By providing multiple services and mutualising costs, projects can generate more social, environmental & economic impact as well as additional revenues. Reducing the "cost-to-impact" leads to increased profitability, stronger resilience and financial attractivity.

For solution providers, an example can consist in developing off-grid solar power in rural areas in developing countries, combined with access to connectivity, healthcare and education together with innovative agriculture techniques including nature-based solutions.

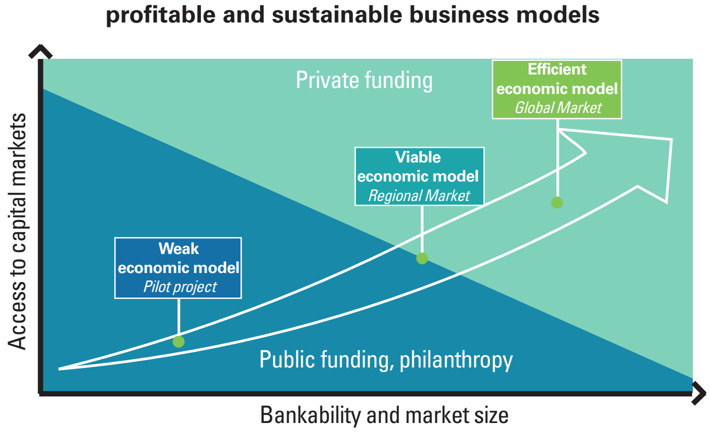
On the demand side, we advocate for "impact-based" tenders where bidders are selected on their ability to deliver impacts rather than equipment or infrastructure.

2. Enhance credit:
Using Blended Finance mechanisms to reduce transactions risks and designing aggregation vehicles to reach critical size enable the optimal allocation of risks and return to all actors of the impact ecosystem (Development Finance Institutions, foundations, banks, investors...) while ensuring financial sustainability for all stakeholders. When data collected demonstrates investments' actual profitability and impact, credit enhancement can be reduced or even abandoned to be redeployed elsewhere. This principle of "additionality" is essential to successfully deliver the trillions of SDG investment gap.

3. Leverage on digitalisation:
First, data on operational performance, payment track record and impacts are key to improve the risks (mis)perception when considering investing in developing countries or new business models. Second, digital tools and artificial intelligence can be used to standardise processes and facilitate scale up by aggregating transactions in diversified portfolios and optimising the use of public money as mentioned above.

With trillions of dollars spent during the pandemic, states and companies must - more than ever - optimise the use of their capital to "do more with less". Natural capital also needs to be preserved. Using our collective intelligence, we must co-construct new impact-based business models that maximise positive outcomes for the people and the planet and optimise the risk/return/impact ratio for investors.

Maximize impacts to develop profitable and sustainable business models



1 Source OECD, "Mobilizing institutional investors for financing sustainable development in developing countries"
2 Source PWC, Asset & Wealth Management Revolution: Embracing Exponential Change

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