MOBILIZING FINANCE FOR CORPORATE SOCIAL IMPACT
A PRIMER FOR CHIEF FINANCIAL OFFICERS
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It's our responsibility, as CFOs, to think about the overall company's value in 10, 20, 30 years’ time, not just in one particular transaction. Our role is to consider intangibles that are difficult to measure, because we see they add up to something significant.

José García Cantera
Chief Financial Officer, Banco Santander

It is not a matter of deciding whether social impact is part of the agenda or not. You have to manage this in the same way you manage your people, your machinery, your operations.

Felipe Aigner
Global Head, Treasury and Corporate Finance, Vale S.A.

As a CFO, I'm trying to create a dynamic of value creation that will stand the test of time. I think about ‘sustainable value,’ not sustainability and value.

Karim Hajjar
Chief Financial Officer, Solvay
Social impact refers to the positive and negative effects that businesses have on people and society through their operations as well as supply chains and through the products and services they provide. It isn’t just a feel-good issue - it shows up in your financial metrics.

Right now, corporate social impact strategies vary tremendously and the value they create for business and for society is poorly understood. There is no standard typology of social impact strategies or the financing solutions that make sense.

And mainstream financial leaders in the corporate and the investment communities have, for the most part, yet to engage. As a result, in many companies, financing for social impact can be hard to find.

Chief Financial Officers (CFOs) can provide that critical link between social impact strategy and action. In this report, we share four ways CFOs can help their companies capture the potential.
How are companies investing in social impact?

We define “social impact” as the positive and negative effects that businesses have on people and society through their operations and supply chains, and through the products and services they provide.

We have seen companies use four basic strategies to minimize the negative and maximize the positive, deliberately going beyond business-as-usual.

As part of any of these strategies, companies can support other organizations – providing time, expertise, grant funding and/or return-seeking investment to organizations they expect to generate social impact. **But social impact strategy is different from philanthropy.** It’s about making the core business work better for people and society, and by extension, for shareholders.

How companies invest in social impact

**Develop new products:** Developing products or services that fill unmet needs or create greater value for the customer than available alternatives

**Improve working conditions:** Protecting the health, safety and human rights of workers in the company’s own operations and/or value chain and contributing to their well-being

**Strengthen value chains:** Improving the knowledge, skills and access to inputs, assets and financing of suppliers, distributors and/or retailers

**Reach new markets:** Bringing existing or new products to “underserved” customer segments such as low-income, rural, women, youth, farmers, small and micro enterprises, even refugees

For a wider perspective around why and how companies are developing and integrating business solutions with social impact into their core business, see [http://www.wbcsd.org/Programs/People/Social-Impact](http://www.wbcsd.org/Programs/People/Social-Impact). WBCSD’s work builds on over a decade of advancing business perspectives, collaboration and action. This has most notably included projects focused on inclusive business ventures, measuring impact on society, meeting the skills gap and embedding corporate respect for human rights throughout value chains.
Social impact is a financial issue

Investors, regulators and consumers are pushing companies to think harder about their impacts on people and society.

We face a time when the economy is testing the limits of our natural resources, yet failing to deliver the opportunities that billions of people seek. Social and political issues are dividing societies and backlash against globalization is appearing even at the highest levels of government. Companies are being challenged to create greater value for their employees, business partners, customers, communities and societies, in addition to their shareholders.

Experience - and hard evidence - suggest companies should take heed.

Forced labor is surfacing in factories and supply chains. Farming communities are food insecure. Across industries, forward-thinking companies are forging ahead with new business models that promise to radically reshape markets - fintechs, for example, are capturing market share from traditional banks. And tomorrow’s markets are still waiting to be tapped. These include a USD $350-500 billion market for health insurance in low-income countries, a USD $650-1,080 billion market for affordable housing, and a more than USD $4.6 trillion market for financing among smallholder farmers and micro, small and medium enterprises.\(^1\)

In this context, research is showing that investing in social impact can protect and create business value in a range of different ways. These can include risk mitigation, brand differentiation, innovation and opportunity creation, talent attraction, engagement and retention, operational efficiency as well as capital access and market valuation.\(^2\)

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The value of investing in social impact shows up in companies’ financial metrics.

Numerous studies have linked environmental, social and governance (ESG) performance to long-term shareholder return.

For example, a study by the McKinsey Global Institute found that companies that manage for long-term value creation have consistently outperformed their industry peers on almost every significant financial metric, including revenue, economic profit and market capitalization.

A quantitative analysis of more than 300 companies by the Boston Consulting Group found that companies’ performance on relevant social impact issues had statistically significant effects on their valuations and margins.

For example:

- In the consumer packaged goods industry, gross margins were 4.8 percentage points higher for top performers in socially responsible sourcing.
- In biopharmaceuticals, earnings before interest, taxes, depreciation and amortization (EBITDA) margins were 8.2 percentage points higher for top performers in expanding access to medicines.
- In oil and gas, EBITDA margins were 3.4 percentage points higher for top performers in health and safety.
- In banking, net income margins were 0.5 percentage points higher for top performers in financial inclusion and there were also margin premiums for top performers in fair sales and debt collection practices.

Valuation multiples for top performers on these and other ESG topics were 11% higher for consumer packaged goods, 12% for biopharmaceuticals, 19% for oil and gas and 3% for banking.

If you care about your share price, you have to care about more than profit, cash, and return. It’s about having the right tension between long-term value and profits today. It’s about having this on the agenda.

Karim Hajjar
Chief Financial Officer, Solvay

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CFOs can provide the critical link between social impact strategy and action

CFOs play increasingly strategic roles in their companies.
A range of forces have pushed CFOs beyond traditional stewardship and compliance. More than managing company finances and mitigating market risks, CFOs are now developing business strategy and catalyzing change within their organizations.⁵

In their new roles, CFOs influence whether and how their companies approach social impact.
They can do it intentionally or not – by treating social impact as a legitimate business issue or dismissing it, by thinking about it as a cost or as an investment that protects and creates value.

And CFOs are crucial in obtaining and allocating the capital needed to execute their companies’ social impact strategies, along with their finance and investor relations teams.
Right now, corporate social impact strategies vary tremendously and the value they create for business and for society is poorly understood. There is no standard typology of social impact strategies or the financing solutions that make sense. And mainstream financial leaders in the corporate and the investment communities have mostly yet to engage. As a result, in many companies, financing for social impact can be hard to find.

Not everyone understands these issues well or what the real risks are. Raising the level of awareness, elevating these issues internally and externally is critical.

José García Cantera
Chief Financial Officer, Banco Santander

⁵ See, for example, Deloitte’s "Four Faces of the CEO." Online at https://deloitte.wsj.com/cfo/files/2014/05/Deloitte-Four_Faces_of_the_CFO.pdf.
What CFOs can do

Based on the experience of our member companies and their CFOs, there are four ways CFOs can help their companies capture the value of investing in social impact.

1. Shape their companies’ social impact strategies

2. Integrate social impact into investment decision-making

3. Explore “blended finance”

4. Communicate and collaborate with peers, investors and market-shaping organizations
Shape their companies’ social impact strategies

This matters because social impact strategies can protect and create business value. And social impact strategies are more effective when they are linked to companies’ broader business and financial interests. CFOs have a vested interest and the capabilities required to help their companies get it right.

When the strategy makes sustainability a key measure of business success, it makes it easy for a finance person.

John Beswick
Chief Financial Officer, Technology, BT
CFOs can:

- **Advocate to look at corporate strategy through a social impact lens.** Anticipating the effects a company may have on people and society through their operations and supply chains and the products and services they provide can help to avoid scandals and other negative events that destroy value. At the same time, it can identify positive impacts to leverage and expand to maximize value creation.

- **Develop a financing strategy consistent with corporate purpose.** More and more companies define themselves in terms of a higher purpose, beyond the generation of shareholder returns - especially short-term returns. Financing strategies need to support that purpose, for example by cultivating long-term and socially-responsible investors, and by finding more specialized investment partners for innovative, purpose-driven social impact initiatives.

- **Help develop investable business cases for innovative social impact initiatives.** To be sustainable and scalable, such initiatives ultimately have to contribute to the company’s business and financial interests. Help procurement, product development, marketing, sustainability and other teams understand the links between their social impact initiatives and the company’s business and financial value drivers - and how to measure the effect on its financial performance.
Integrate social impact into investment decision-making

This matters because strategic intent is not enough. For social impact strategies to protect and create business value, capital allocation must follow. Companies that do so may be able to reduce their cost of capital and tap into new, specialized sources of funding, such as sustainability bonds.

We have negotiated a credit line where the interest we pay is based on our sustainability rating. The better we are, the lower the cost of our debt. This is a very interesting way to align financial and non-financial matters.

Carine de Boissezon
Chief Financial Officer,
International Division, EDF
CFOs can:

- **Require social impact assessments for significant new investments.** This will help the company anticipate and mitigate risks associated with negative impacts and derive the greatest possible value from positive impacts.

- **Estimate and account for all the ways social impact creates business value,** not only risk mitigation but also for brand differentiation, innovation and opportunity creation, employee engagement and retention, capital access and market valuation. This can help innovative social impact initiatives compete for investment when the financial returns are uncertain or longer term.

Today, each company needs to define its own formula based on its core business, mission and values, the demands of investors, its data collection infrastructure and other factors. When the business value of social impact is impossible to quantify, consider raising it to the Board for discussion.

- **Build awareness and capacity throughout the finance organization.** Social impact needs to be integrated into investment decision-making at all levels of the company where significant investment decisions are made. CFOs can consider hiring sustainability officers into finance teams or forging links with sustainability teams and incentivizing finance professionals through social impact-related performance metrics linked to compensation.
Explore “blended finance”

This matters because many social impact strategies are new and evolving, with evidence still emerging – especially strategies aimed at creating, not just protecting, business value, which could play a role in long-term growth and competitiveness. For now, the benefits are often uncertain, difficult to quantify, and/or longer-term than for other opportunities that companies have.

**Blended finance** is the use of capital from public and philanthropic sources to de-risk investments that create social (or environmental) impact, enabling private investment to flow.

Sharing the cost and risk with donors, Development Finance Institutions (DFIs) and foundations can help make these social impact strategies more investable. This is not yet common practice, but could help scale up corporate social innovation.
CFOs can:

• **Get to know how other companies have used blended finance.**
  A range of companies have used grants, guarantees, debt and equity investments into joint ventures from donors, DFIs and foundations to reduce the cost and risk of more innovative social investment initiatives. Their examples can suggest approaches your company could use to drive its social impact agenda.

• **Invest in the capacity to take advantage of blended finance.**
  This space is complex and unfamiliar to most companies. Donor focal points and specialized advisory firms can help companies learn more about the players, their incentives and accountability structures; the money available through different vehicles, for different purposes; the partnering process; and the kind of reporting that can be required.

• **Develop a point of view on when it makes sense to pursue blended finance and when it doesn’t.**
  There are advantages and disadvantages to the different kinds of financing available from different public and philanthropic sources. Knowing what can really add value to your project and your company will help you navigate this space cost-effectively.
Sources of finance for social impact

Balance sheet
By far the most common source of finance for social impact is a company’s own balance sheet, which offers the flexibility and agility companies often need in this space. Research suggests there is roughly USD $19 trillion in cash, cash equivalents and short-term investments sitting on corporate balance sheets today. However, innovative social impact initiatives often struggle to compete with investments that offer more direct and immediate financial returns. Companies often use earmarking and portfolio approaches to close the gap between expectations and returns.

Donors and Development Finance Institutions (DFIs)
Donors and DFIs are increasingly interested in mobilizing private sector investment for development through blended finance to help achieve the Sustainable Development Goals. They can be willing to share cost and risk, and partnering with them can bring reputational and relationship benefits. However, it can also increase complexity and scrutiny, and reduce operational agility.

Socially responsible capital markets
The capital markets have begun to finance business initiatives with social impact through sustainability bonds, similar to green bonds. To take advantage of such products, companies have to be able to carve out initiatives that are large enough to be interesting to mainstream bond issuers, and that generate enough revenue or savings to cover bond payments. Companies are beginning to see rewards for social impact. EDF, Danone, DSM, Olam and Philips have all obtained credit lines linking their third-party-verified sustainability performance to lower cost of capital.


LafargeHolcim is investing in a portfolio of inclusive business opportunities along a spectrum of risk and expected return. This ranges from “mature market” projects, intended to strengthen the company’s competitiveness, to “growth market” projects intended to create new distribution channels, to “frontier market” projects where the company is targeting an entirely new market with a new value proposition.

DSM has started a joint venture in Rwanda, Africa Improved Foods, which procures commodities from local farmers and produces fortified foods for sale to institutional buyers and consumers. The International Finance Corporation, the Commonwealth Development Corporation, the Dutch Development Bank and FMO have all invested both equity and debt.

Starbucks trains coffee farmers in its supply chain to comply with its Coffee and Farmer Equity (CAFÉ) practices. The company has issued a USD $500 million sustainability bond to raise money to purchase CAFÉ-certified coffee, operate farmer support centers and make and refinance loans to farmers.
Mapping social impact strategies to sources of finance

On page 5, we listed four strategies companies are using to maximize the positive impacts and minimize any negative ones they might have on people and society through their operations and supply chains, and through the products and services they provide.

Here are the sources of capital we have seen them use to finance those strategies. Keep in mind that this is only a preliminary picture based on a relatively small, unrepresentative sample.

In the future, we hope to see the capital markets taking on more of a role in order to unleash corporate social impact at scale. It would also be interesting to see donors and development finance institutions find ways of working with companies to improve working conditions in their extended supply chains - for example by providing the financing needed by companies’ suppliers to improve their facilities and practices.
Communicate and collaborate with peers, investors and market-shaping organizations

This matters because many different forms of finance, and especially commercial forms of finance, are needed to help companies invest in social impact at scale. There is a particular need to engage investors on the links between social impact and financial value. This and the other measures we’ve suggested that CFOs take in this report will be challenging. Working with others who are focused on this can help elevate the issue and accelerate the journey.

We don’t just talk about revenue. We talk about for respect for human rights. We talk about transparency and accountability and ethical contact. It gets more and more attention from the investors.

Hans Jakob Hegge
Chief Financial Officer,
Equinor (from 2015 to 2018)
CFOs can:

• **Educate investors on the links between social impact and financial value.** CFOs, with their specific credibility in finance, risk and operations can play an important role in communicating these links to shareholders. The upside potential, especially, needs to be communicated better. CFOs can consider developing one story to tell all categories of investors - for example, leading quarterly calls with a focus on fundamentals and long-term prospects before honing in on short-term results.

• **Share challenges and lessons learned with other CFOs.** This can accelerate the learning process for individual CFOs and their teams. This can be done informally, and there are also various initiatives and networks ready to plug into - including WBCSD’s Redefining Value Program, which helps companies measure and manage risk, gain competitive advantage and seize new opportunities by understanding ESG information.

• **Work with investors, peers and market-shaping organizations to develop “market infrastructure” that moves the whole field forward.** Companies and their CFOs are currently feeling their own way and developing their own approaches. Eventually, the industry needs to develop standard definitions and products and meaningful benchmarks, to distinguish social impact from philanthropy and help investors measure whether they are meeting their investment objectives. Multi-stakeholder initiatives and networks can facilitate this too. For example, the Social and Human Capital Coalition has developed a protocol that helps companies measure, value and better manage their social and human capital performance.
The experiences and recommendations shared in this paper are an entry point for CFOs and their teams to connect with the wide landscape related to finance for social impact. These insights touch upon the fields of development finance, microfinance, impact investing and corporate venturing. They also allude to the variety of roles that a large corporation can play in financing social impact:

- **as a source of finance** by investing in social partners, innovators and entrepreneurs;
- **as a channel of finance** by providing financing options to suppliers, distributors and customers throughout their value chains; and, in particular,
- **as a user of finance** to fund its own efforts to improve social performance.

Further dialogue, alignment and collaboration are essential to shape this emerging market and to unlock finance to support and scale initiatives for corporate social impact. The CFO’s role is critical to mobilize this new market and enable companies to drive sustainable value, now and into the future, for business and society.

We invite CFOs alongside their finance and investor relations teams, investors and partners, to continue the conversation.

Shaping the future of finance
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About the World Business Council for Sustainable Development (WBCSD)

WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees. Our Global Network of almost 70 national business councils gives our members unparalleled reach across the globe. WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than nine billion people are all living well and within the boundaries of our planet, by 2050.

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Credits

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