

IMPACT-WEIGHTED ACCOUNTS FRAMEWORK OVERVIEW



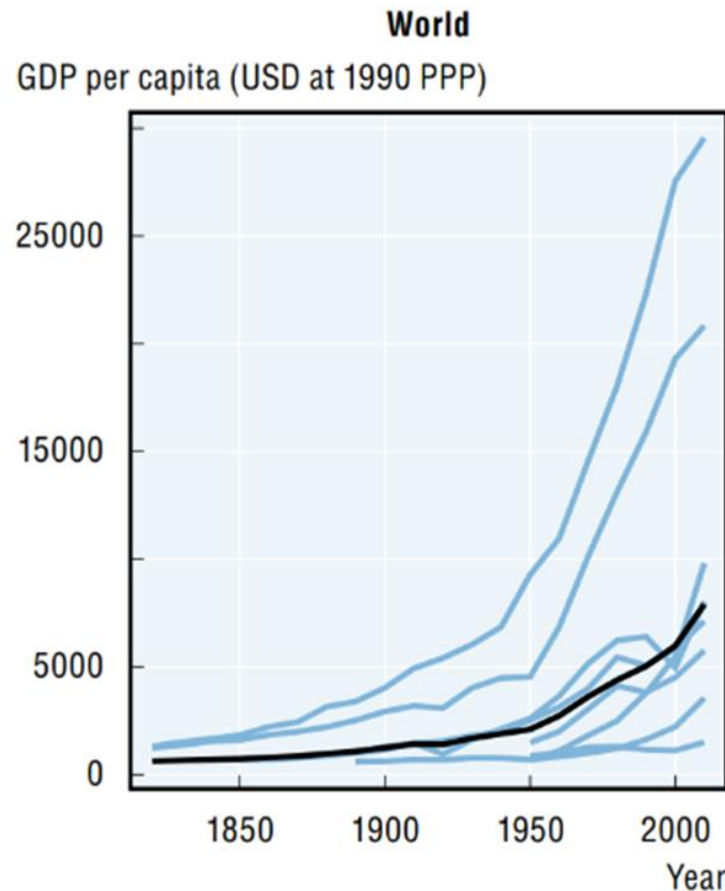
February 9th, 2023



THE CASE FOR AN IMPACT ECONOMY

1

19TH AND 20TH CENTURIES: PRICE & PROFIT BASED MARKET ECONOMIES HAVE BROUGHT MATERIAL WELFARE | AT A COST



Climate change could result in 25% decline in global GDP this century (NGFS, 2021)



A million species are threatened with extinction (IPBES, 2019)



More people than ever (1 in 200) are in a form of forced labour in our economy: (Hodal, 2019)



20% of the global working population are working poor (ILO, 2019)

21ST CENTURY: REALIZE IMPACT ECONOMY THAT CREATES TRUE VALUE

1970

A Friedman doctrine— The Social Responsibility Of Business Is to Increase Its Profits

By MILTON FRIEDMAN

TAMING G.M.—Chairman James Roche of General Motors (right) replies to members of Campaign G.M. (below, wearing "Tame G.M." buttons) at the corporation's stockholders' meeting in May. Representatives of the campaign demanded that G.M. name three new directors to represent "the public interest" and set up a committee to study the company's performance in such areas of public concern as safety and pollution. The stockholders defeated the proposals overwhelmingly, but management, apparently in response to the second demand, recently named five directors to a "public-policy committee." The author calls such drives for social responsibility in business "pure and unadulterated socialism," adding: "Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society."



Jerome Kretzmer, New York Environmental Protection Administrator.



Betty Furness, consumer-affairs adviser in the Johnson Administration.



Philip Sarason, chairman of Campaign G.M.'s parent organization.



John Epstein, lawyer and coordinator of Campaign G.M.

2022

The purpose of business is to create true value

A Free Market Manifesto That Changed the World, Reconsidered

Milton Friedman's libertarian economics influenced presidents and inspired "greed is good." So what did Friedman get right — and wrong? Today's business leaders and economists weigh in.

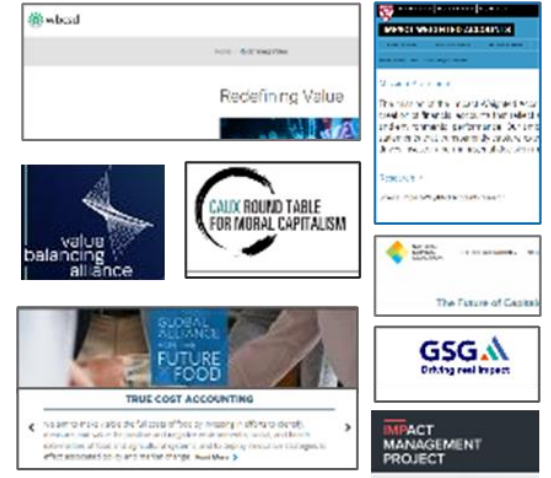
Introduction by Andrew Ross Sorkin

Published Sept. 11, 2020
Updated Sept. 14, 2020

Sept. 13 is the 50th anniversary of a seminal moment in the world of business: the publication of Milton Friedman's essay in *The New York Times Magazine* entitled "The Social Responsibility of Business Is to Increase Its Profits."

56 companies

experimented with monetary impact valuation, producing environmental or total profit and loss accounts.



VBA



Banking
for impact

21ST CENTURY: REALIZE IMPACT ECONOMY THAT CREATES TRUE VALUE

Current economy

Impact economy

Goal

Financial Value

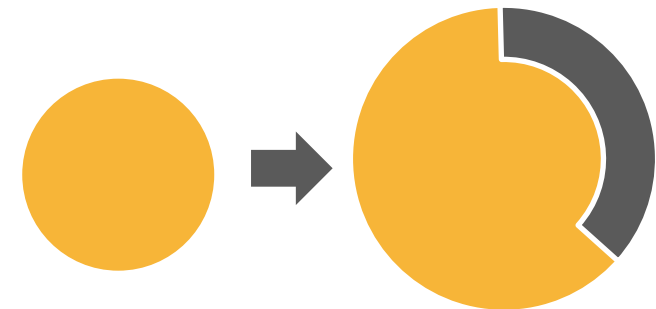
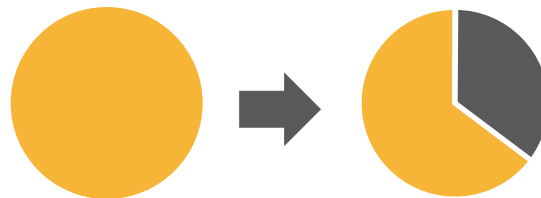
True Value



Business models

Extractive

Generative



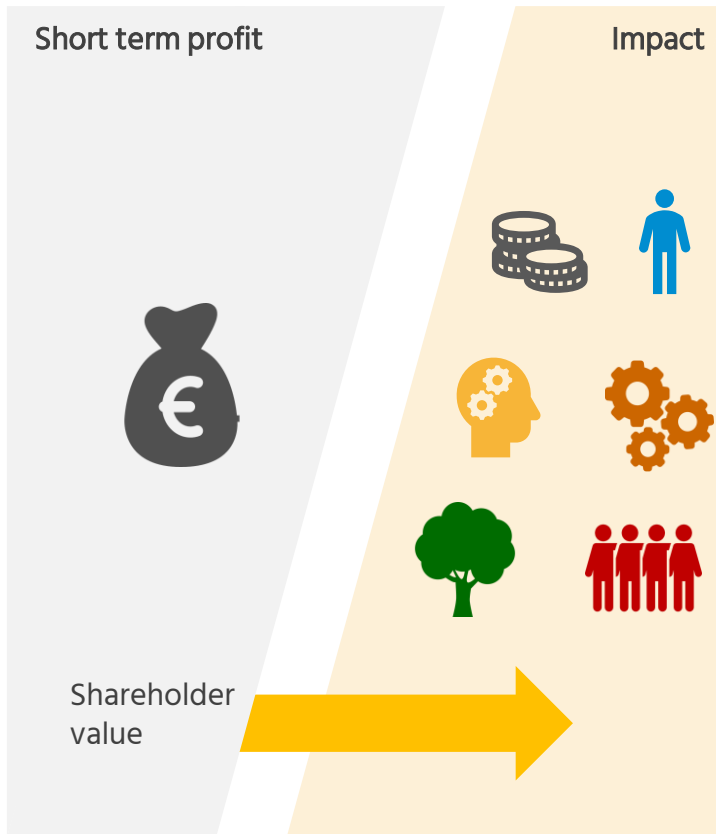
Drivers

Profits, prices, returns

True profits, true prices, true returns



WHY IS IMPACT MEASUREMENT ESSENTIAL?

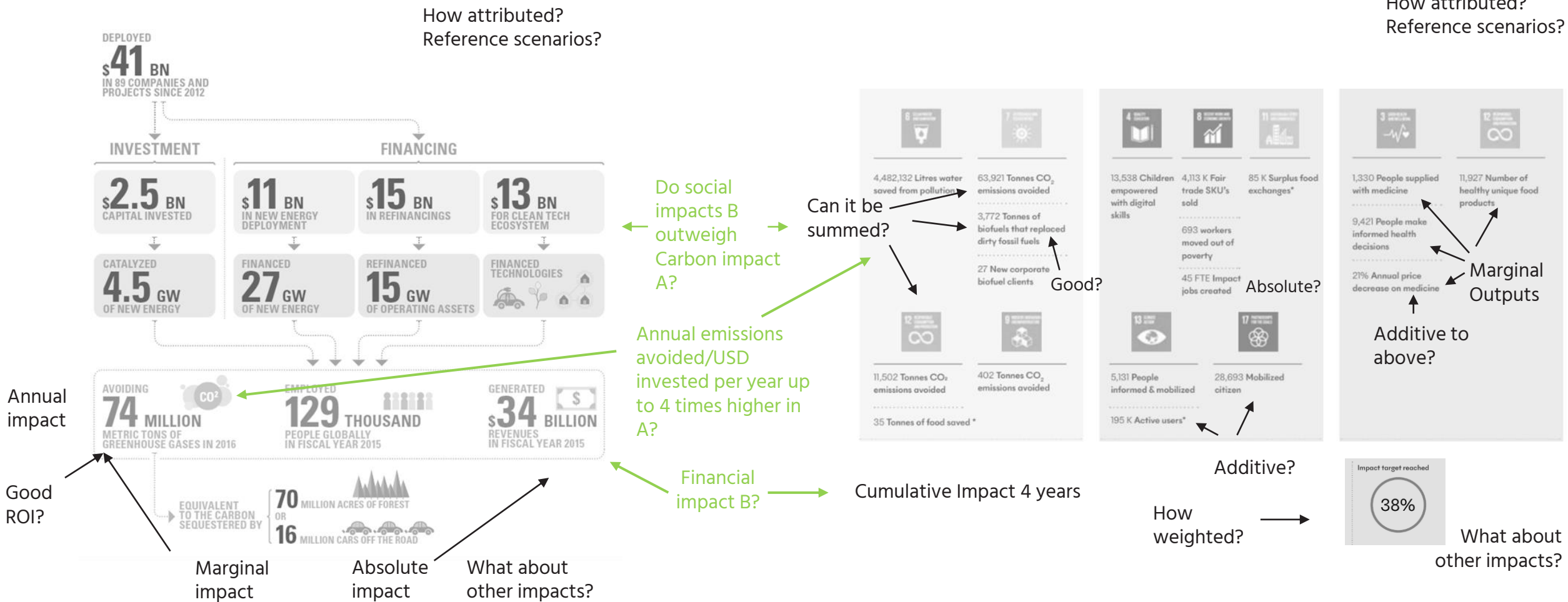


- Current financial value is created **at the expense** of society and the environment.
- Organisations **cannot continue** to do so. Their licence to operate requires them to create sustainable value. Therefore, organisations should aim to create **integrated value** for all its stakeholders.
- Without measurement, management is impossible. As a result, the practice of steering on impact is currently lacking in many organisations.
- However, measuring sustainable value creation is challenging:
 - How to **reliably measure** and compare (non-financial) value?
 - How to **engage stakeholders** and ensure organisations act?

CURRENT IMPACT INFORMATION DOES NOT ALLOW COMPARING ALTERNATIVES

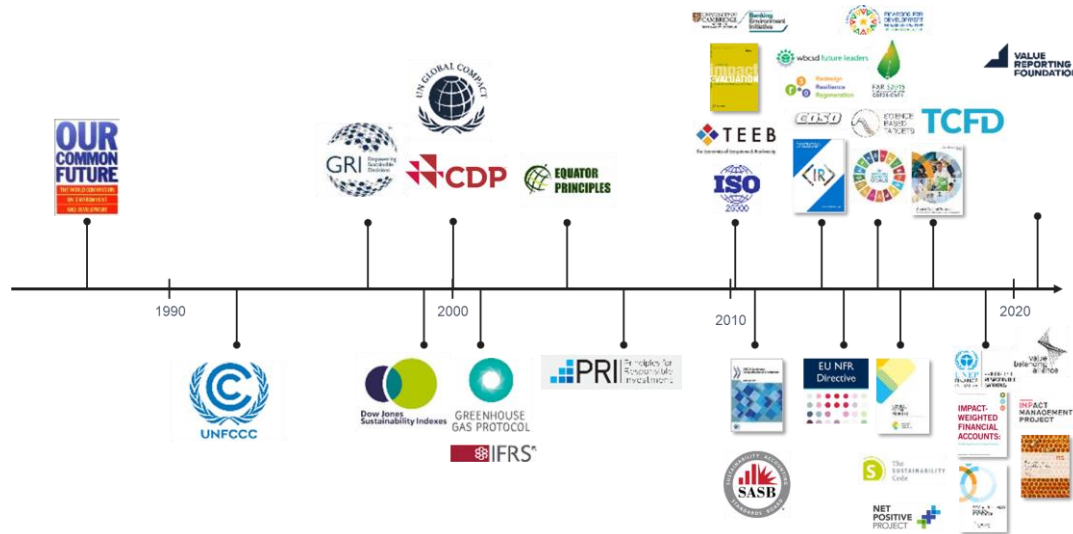
Impact Report Fund A
Fund size 41 billion USD

Impact Report Fund B
Fund size ~47 million USD

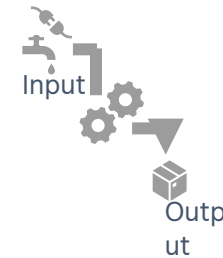


CURRENT IMPACT DATA IS NOT FIT FOR BUSINESS DECISION MAKING

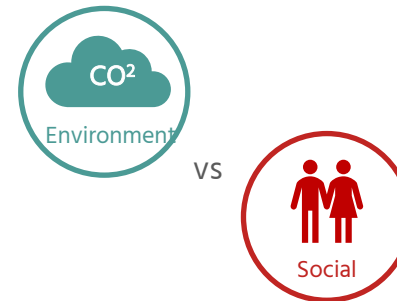
Increasing amount of non-financial information



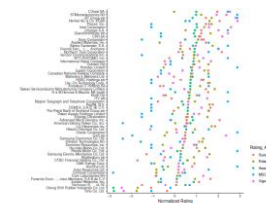
Challenges of Sustainability/CSR/ESG/impact data



Assess inputs and outputs instead of impacts



Incomparability between metrics

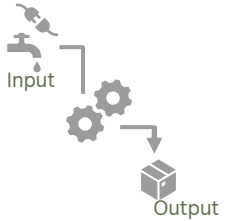


Bias and inconsistencies with low correlations between agencies

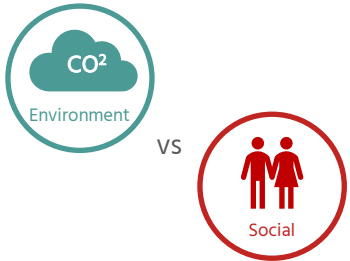
*Figure from: Berg Kölbel & Rigobon (2019)

UNMET INFORMATION NEEDS TRANSITION TOWARDS STRUCTURED DATA

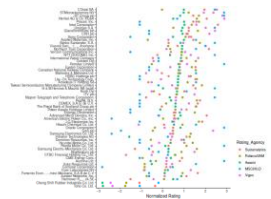
Sustainability/CSR/ESG data now



Availability of information. Assesses inputs and outputs instead and real-world outcomes



Incomparability between metrics



Bias and inconsistencies with low correlations between agencies

*Figure from: Berg Kölbel & Rigobon (2019)

*"Investors are not getting the sustainability information they want or need to make informed decisions. Reasons for this include the fact that **there's too much information** across conflicting frameworks and that there are **differing definitions** for what sustainability is and does from company to company. Plus, investors have **difficulty assessing to what extent the information can be relied on.**" **

*WBCSD (2018). *Enhancing the credibility of non-financial information: the investor perspective*.



THE MISSING PIECE: IMPACT-WEIGHTED ACCOUNTS

2

IMPACT-WEIGHTED ACCOUNTS (IWAS) ARE THE MISSING PIECE



IWAF is written on behalf of the Impact-Economy Foundation by a.o., experts from:



HARVARD | BUSINESS | SCHOOL
Impact-Weighted Accounts



ROTTERDAM SCHOOL OF MANAGEMENT
ERASMUS UNIVERSITY



WHAT DOES THE IMPACT-WEIGHTED ACCOUNTS FRAMEWORK (IWAF) ADD?

Steering on impact

- Sustainable value can be measured through impacts. Impacts show how activities affect welfare in society.
- The **goal of IWAF** is to guide organisations on creating their own **Impact-Weighted Accounts**, allowing them to meaningfully **steer on impact** within their organization.
- **Impact-Weighted Accounts** supplement traditional financial accounts with positive and negative impacts on stakeholders such as employees, customers, the environment and the broader society through quantitative and valued accounts:
 - The **Integrated Profit & Loss** (IP&L) extends the “normal” P&L. It shows all impacts on stakeholders in one year (see next slide).
 - In the IP&L, impacts can be measured and compared. The Impact-Weighted Accounts Framework (IWAF) specifically uses **monetary valuation** for comparability (see below for details).



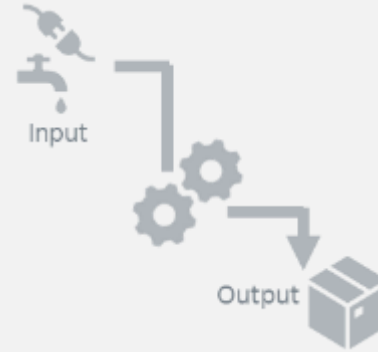
WHERE ESG COVERS OUTPUTS AND INTENTIONS IMPACT FOCUSES ON THE EFFECTS OF ACTIVITIES ON LIFE SATISFACTION WELFARE & WELLBEING

Integrated assessment on all six capitals

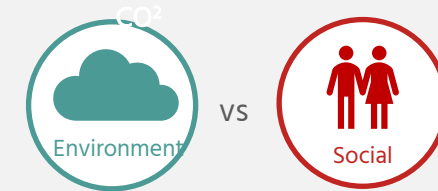
Addresses impact on stakeholders

Quantitative measurement and valuation enable objective comparison

FROM ESG:



Metrics which are difficult to compare and often subjective



6 capitals

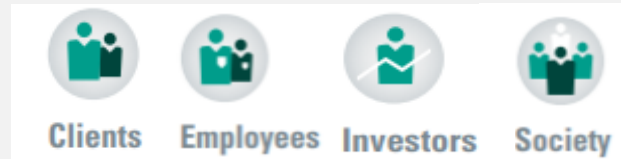


Impact on stakeholders



Valuation

TO IMPACT:




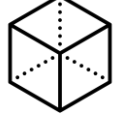





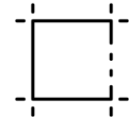




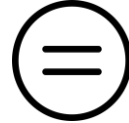
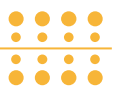
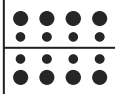
THE INTEGRATED PROFIT & LOSS (IP&L) STATEMENT

The basis for Steering on Impact

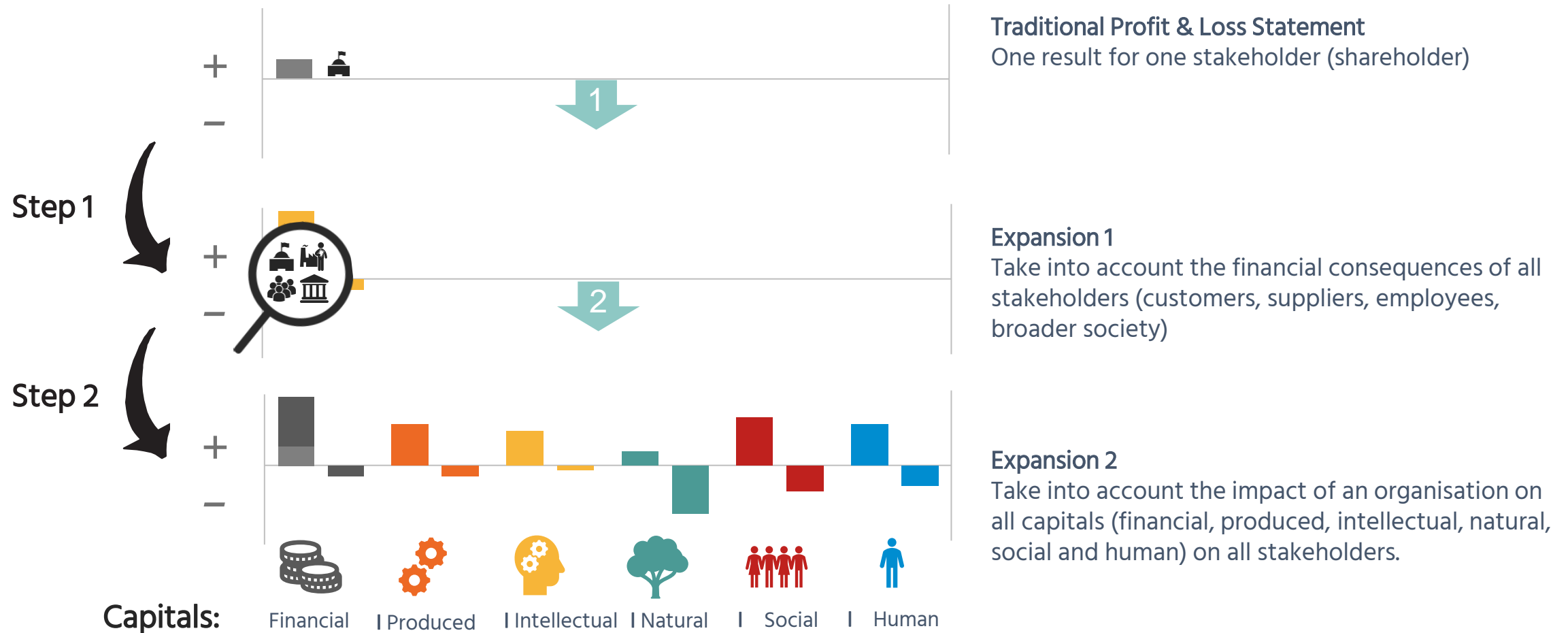
- The **Integrated Profit & Loss** (IP&L) extends the “normal” P&L. It shows all impacts on all stakeholders in one year.
- To make impacts comparable, all impacts are **quantified** and **monetized**.
 - This allows the organisation f.e. to choose whether it is more impactful to reduce biodiversity impact or to reduce climate impact.
- The IP&L shows the value creation for all stakeholders: **shareholders, employees, suppliers, customers, broader society**.
- The IP&L shows the increase and decrease in value on six capital:
 - **Financial** (e.g. taxes, profits, wages)
 - **Manufactured** (e.g. produced products, fixed assets)
 - **Intellectual** (e.g. intellectual property, technological development)
 - **Social** (e.g. social cohesion, contribution to human rights, child labour, underpayment)
 - **Human** (e.g. wellbeing of employees and clients, safety of employees and clients)
 - **Natural** (e.g. contribution to climate change, biodiversity, and soil, water and air pollution)



PRINCIPLES UNDERLYING THE IP&L

Topic		Principles			
	Identification	 Multi-dimensional	 Materiality based	 Welfare based	 Value chain responsibility
	Measurement	 Impact-pathway based	 Complete reference view		
	Comparability	 Valued in commensurable unit			
	Aggregation	 Only within welfare categories	 Conservation of impact		
	Presentation	 Statements of IWAs			

THE LOGICS OF THE INTEGRATED PROFIT & LOSS STATEMENT



BENEFITS OF IWAs FOR BUSINESSES AND THEIR INVESTORS

Benefits for companies

1. Be in control of your impacts on society (particularly important for the CSRD)
2. Integrate impact in rational business decision making
3. Retain social licence to operate
4. Quantify internalisation risks and act upon them
5. Meet transparency expectations of stakeholders
6. Comply with future regulations
7. Remain an attractive employer for future talent

Additional benefits for investors

1. Understand an organisation's integrated value creation
2. Assess the likelihood and speed of internalisation
3. Get better insight in organisation's long-term financial viability
4. Increased transparency of potential long-term risks

RELATION TO OTHER FRAMEWORKS

- Impact-Weighted Accounts (IWAs) are in **the forefront of a broader field** of measuring, reporting and managing sustainability and impact.
- IWAs supplement the reporting on financial performance of an organisation with its positive and negative impacts on employees, customers, the environment and the broader society.





APPLICATION

3

IMPACT-WEIGHTED ACCOUNTS FRAMEWORK APPLICATIONS



HARVARD | BUSINESS | SCHOOL
Impact-Weighted Accounts



SMU
SINGAPORE MANAGEMENT
UNIVERSITY

RSM

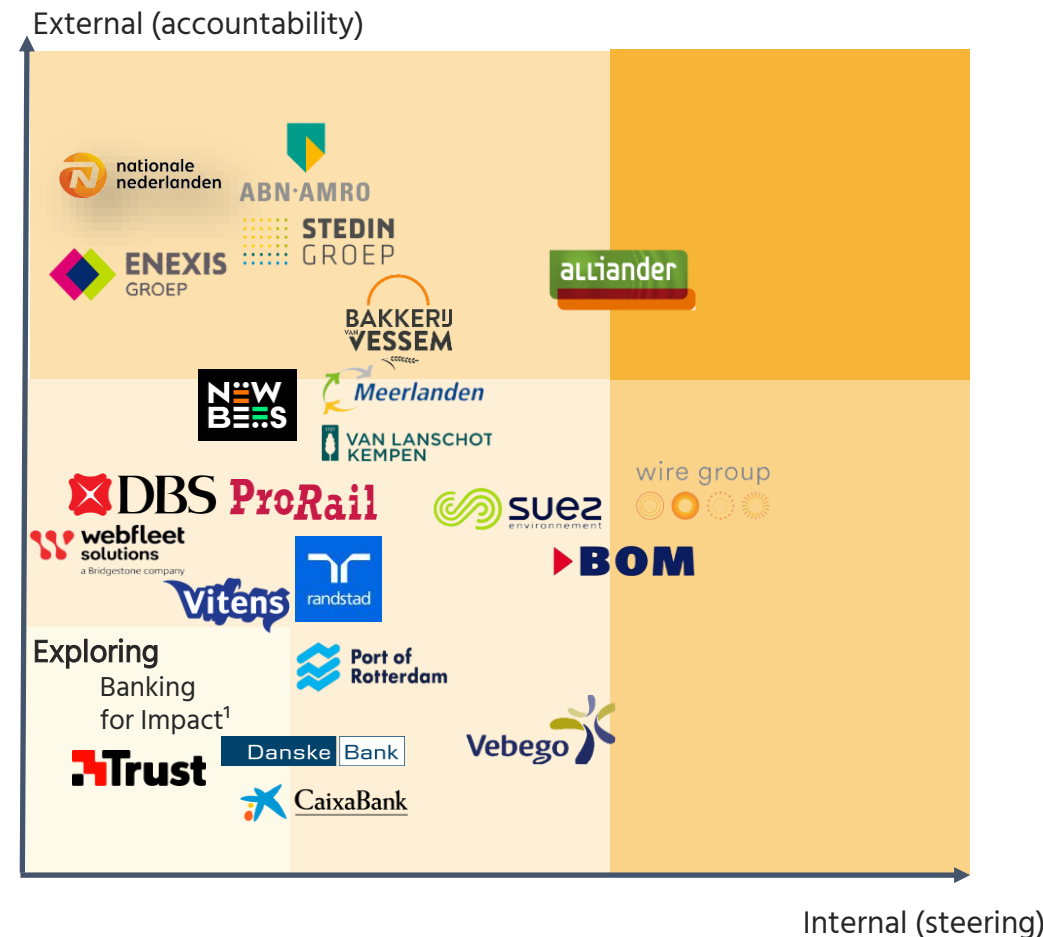


ROTTERDAM SCHOOL OF MANAGEMENT
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IMPACT
INSTITUTE

- These organizations measure, report and steer on impact, using frameworks on which IWAF is based (FIS, IAM, Guide for Funders, Harvard IWAI) and intend to update to the IWAF



¹ The Banking for Impact Working Group: ABN AMRO, Danske Bank, DBS, UBS, Harvard Business School and Impact Institute

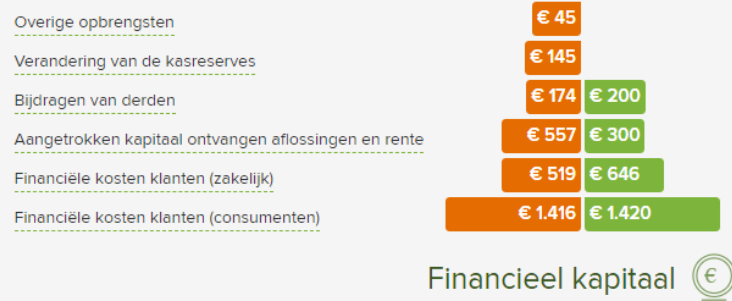


APPLICATION: GRID MANAGEMENT

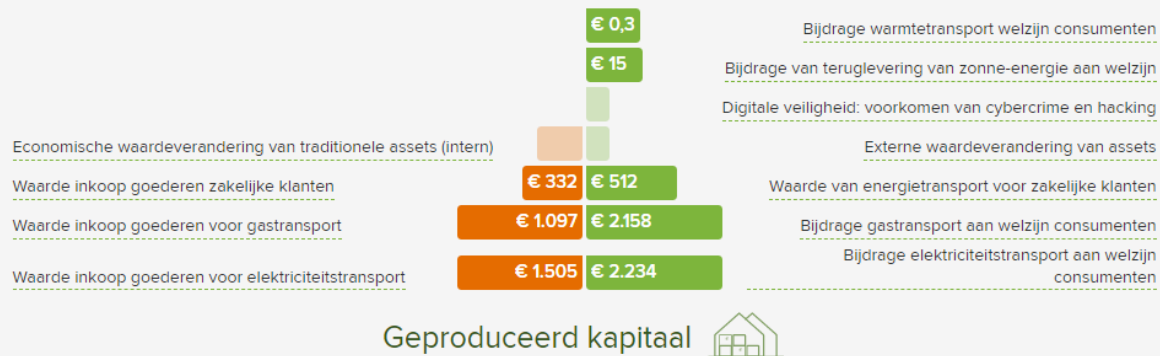


Vermindering van kapitaalwaarde

Vermeerdering van kapitaalwaarde



Belastingen
Dividenden, aflossing en rente
Betalingen aan werknemers
Betalingen aan leveranciers



Ecologische schade door afval
Ecologische schade door inkoop van materialen
Klimaatverandering door CO2-uitstoot
Overige milieu-impacts



Vermindering van kapitaalwaarde

Vermeerdering van kapitaalwaarde

Bedragen zijn in € miljoen

● Gekwantificeerd in € miljoen ● Niet gekwantificeerd in € miljoen ● Geen impact gekwantificeerd

APPLICATION: BANKING

Integrated Profit & Loss Statement

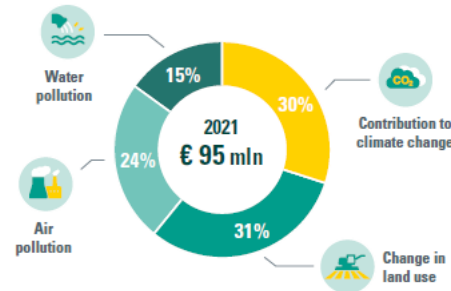
The IP&L Statement shows ABN AMRO's impact from the perspective of different stakeholder groups. For reference, impacts are also shown by capital.

(EUR millions equivalent)

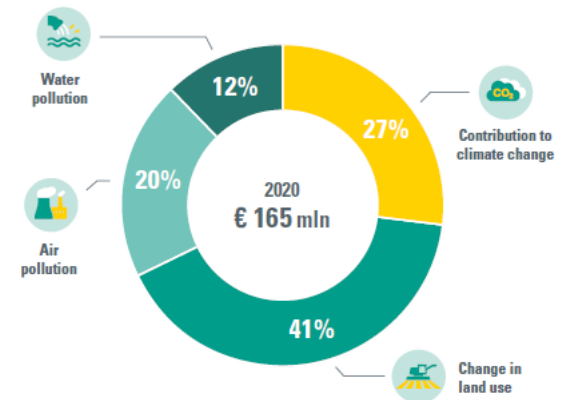
	Clients		Employees		Investors		Society	
	2021	2020	2021	2020	2021	2020	2021	2020
Manufactured	●●●●●●●●	●●●●●●●●			●●●●●●●●	●●●●●●●●	●●●●●●●●	●●●●●●●●
1 Contribution to final goods and services in value chain	●●●●●●●●	●●●●●●●●			●●●●●●●●	●●●●●●●●	●●●●●●●●	●●●●●●●●
2 Client value through increase in house value	●●●●●●●●	●●●●●●●●					●●●●●●●●	●●●●●●●●
3 Client value of money transfers	●●●●●●●●	●●●●●●●●						
4 Client value of money storage and management	●●●●●●●●	●●●●●●●●						
5 Client value of other infrastructure services	●●●●●●●●	●●●●●●●●						
6 Value of infrastructure services provided by suppliers							●●●●●●●●	●●●●●●●●
7 Balance of value of goods received from suppliers and provided to buyers of divested assets							●●●●●●●●	●●●●●●●●
8 Client value of housing	●●●●●●●●	●●●●●●●●						
9 Gross increase in tangible assets					●●●●●●●●	●●●●●●●●		
10 Depreciation of tangible assets					●●●●●●●●	●●●●●●●●		
Financial	●●●●●●●●	●●●●●●●●						
11 Payments by clients	●●●●●●●●	●●●●●●●●						
12 Payments made by other stakeholders								
13 Payments to suppliers for expensed goods and services								
14 Employee payments								
15 Income tax payments								
16 Interest payments	●●●●●●●●	●●●●●●●●						
17 Net profit/loss								
18 Corrections for non-financial profit items								
19 Balance of payments to suppliers for investments and from buyers for divested assets								
20 Cost of capital	●●●●●●●●	●●●●●●●●						
21 Value of capital								
22 Value of services (financial) provided by suppliers								
23 Consumer client value of lending services (non-mortgage)	●●●●●●●●	●●●●●●●●						
24 Business client value of lending services	●●●●●●●●	●●●●●●●●						
25 Consumer client value through home ownership	●●●●●●●●	●●●●●●●●						
26 Change in share price not captured in comprehensive income								
27 Added value of prevented bankruptcies due to Covid-19 financial support measures	●●●●●●●●	●●●●●●●●						
28 Contribution to tax collection through payment system	●●●●●●●●	●●●●●●●●						
29 Other financial impacts	●●●●●●●●	●●●●●●●●						



ABN AMRO 2021 and 2020 impact on biodiversity loss: main drivers (%)

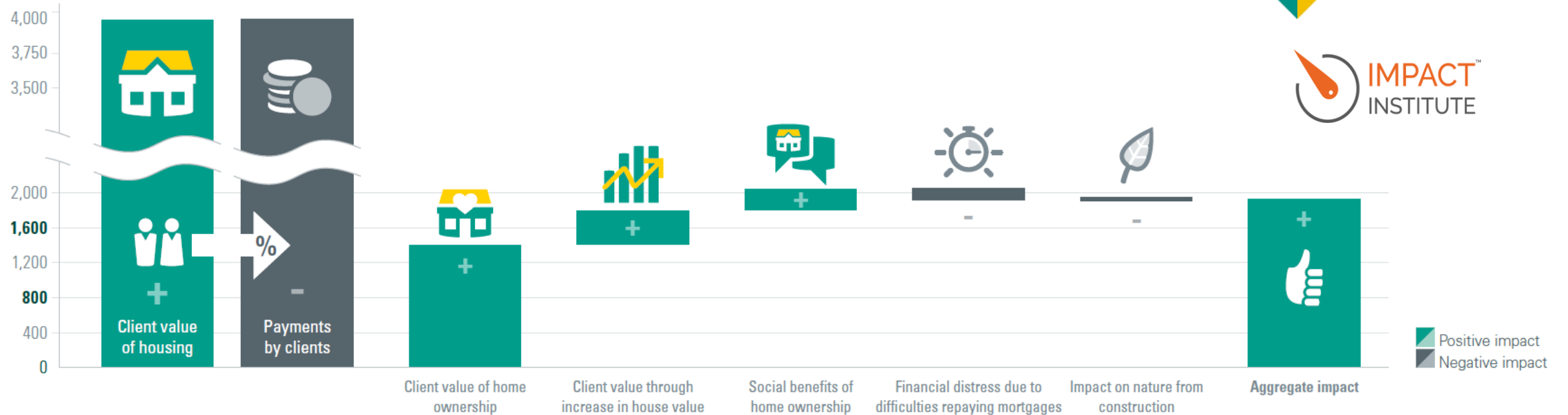


Improvement of
€ 70 million



APPLICATION - CASE MORTGAGES: MORTGAGE IMPACT BREAKDOWN

Mortgage impact
(EUR millions)

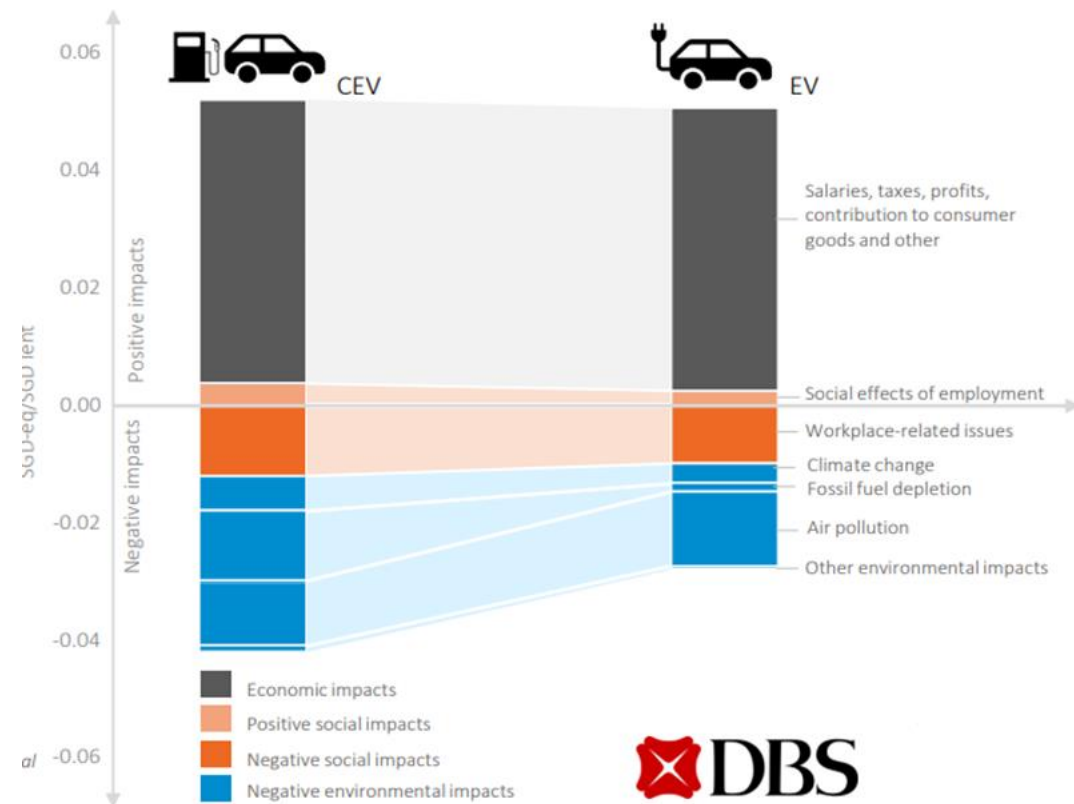
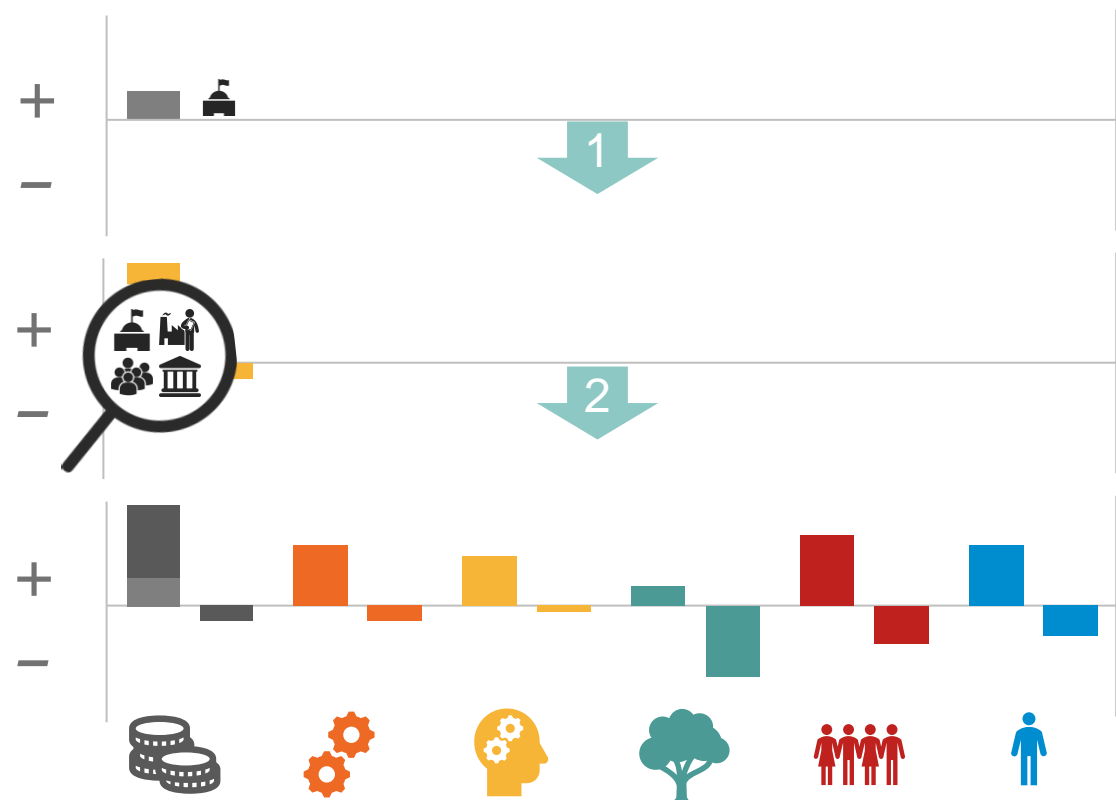


How are we minimising our negative impact?

- ▶ Through our Mission 2030 programme, we are helping clients improve energy efficiency in their homes across the Netherlands, which results in lower energy bills for homeowners and reduced carbon emissions.
- ▶ We have introduced an online Energy Savings Check for homeowners and reduced interest rates on our Sustainable Living mortgage, for homes with the top A or B energy labels.
- ▶ For clients having difficulty repaying loans, we provide dedicated budget coaches – we are also working to improve financial inclusion through initiatives such as Geldfit, or 'Money Fit'.



APPLICATION: COMPARING INNOVATIONS





ABOUT THE IMPACT ECONOMY FOUNDATION

4

ABOUT THE IMPACT ECONOMY FOUNDATION

The Impact Economy Foundation accelerates the transition to the Impact Economy

Vision: Impact Economy

An Impact Economy is a market economy in which work, innovation and entrepreneurship is used to resolve our societal issues. By integrating societal value creation in the core of every organization, we harness the power of markets for the common good.

Mission

The mission of the Impact Economy Foundation is to accelerate the transition towards the Impact Economy by developing the mindset, instruments and incentives for the impact economy.



BOARD



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ORGANISATION

The Impact Economy Foundation (IEF) is an international non-profit based in Amsterdam and is supported by and cooperates with partners such as True Price, Impact Institute, Alliander, Stibbe and the Harvard Business School.

Director



Werner Schouten

ADVISORY COUNCIL

The Impact Economy Advisory Council represents key decisions-makers and representatives of stakeholders.



Jan Peter
Balkenende



Corien
Wortmann-Kool



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Rinnooy Kan



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Laetitia Griffith



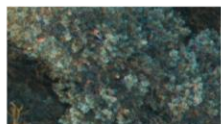
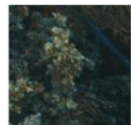
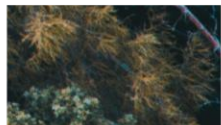
Steve Young



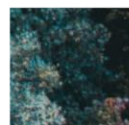
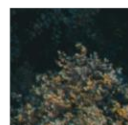
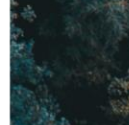
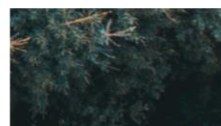
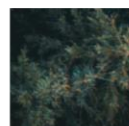
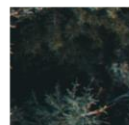
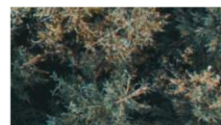
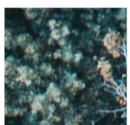
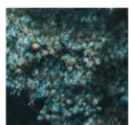
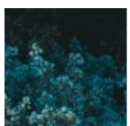
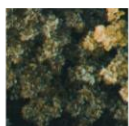
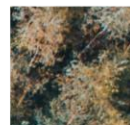
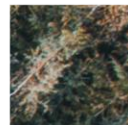
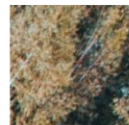
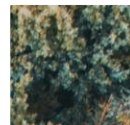
Peter Bakker



Mirjam van
Praag



www.impacteconomyfoundation.org



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