A4S CFO LEADERSHIP NETWORK

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NETWORK

ESSENTIAL GUIDE TO INCENTIVIZING ACTION ALONG THE VALUE CHAIN

A practical guide for finance teams to work with their value chains and incentivize action on sustainability

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ESSENTIAL GUIDE TO INCENTIVIZING ACTION ALONG THE VALUE CHAIN

INTRODUCTION

INTRODUCTION FROM THE A4S CFO LEADERSHIP NETWORK

At CDPQ and the City of Vancouver, we strive to generate a positive impact for the communities in which we operate. As chief financial officers (CFOs), we are uniquely positioned to see the immediate and long-term financial and business effects of some of the most critical sustainability issues of our time, including climate change, nature loss and inequality.

The global estimate of insured losses from natural catastrophes in the first half of 2022 is 22% above the average of the past 10 years. Biodiversity is declining at an ever-increasing rate, yet more than half of the world's GDP heavily depends on functioning natural ecosystems. Diversity in the workplace is becoming more critical to an organization's success, recognizing that more diverse companies outperform industry peers on profitability.

These factors are driving organizations across the globe to understand better the sustainability risks and opportunities facing the whole of their business. Evolving regulation, the effects of the pandemic, and the global push to set, and achieve, net zero targets are challenging organizations to better understand their value chain interdependency. Investors are actively seeking out companies with strong sustainability credentials – industry group Global Sustainable Investment Association estimates that assets related to environmental, social and governance (ESG) issues account for one in three dollars managed globally. Purpose-driven companies are experiencing 40% higher levels of workforce retention than other organizations, according to a Deloitte survey. The combined impact of these drivers means that operating sustainably, across the whole value chain, is now a strategic business imperative.

A value chain reflects all stages of a business's activities in creating a product or service. It captures how value is added and the stakeholders involved. To make more sustainable business decisions, though, we must look beyond the narrow economic sense of 'value' to embrace 'values'. This means taking into account non-monetary factors, such as social, human and environmental impact.

Some of the key sustainability challenges can only be tackled through businesses engaging their value chains and incentivizing stakeholders to support the business's own values and goals. For example, Scope 3 emissions are often by far the largest portion of a company's greenhouse gas (GHG) emissions. Tackling emissions in the value chain, can be critical to meeting net zero targets. Your organizational reputation can also be bound up in your value chain; poor sustainability performance in suppliers' operations can negatively affect consumer perception of your own brand.

A holistic view of your organization and its operations, through a value chain analysis, will help your business to understand its risks, opportunities and impacts, enabling it to become truly sustainable, achieve net zero emissions and thrive.

Finance is ideally placed to drive this process. Finance has the knowledge, influence and reach to engage the executive teams and leaders throughout an organization, building awareness of the value chain and its role in delivering sustainable outcomes. Through this guide we will help you to understand the business case for engaging with your value chain, map your value chain, prioritize risks and opportunities and advise on levers which finance teams can use to incentivize your stakeholders. The guide is designed to support organizations across the real economy and financial services sectors, examining their unique matrix of risks, opportunities and incentivization levers.

Maarika Paul
Executive Vice-President and Chief Financial and Operations Officer, CDPQ

Patrice Impey
Chief Financial Officer and General Manager of Finance, Risk, and Supply Chain Management, City of Vancouver

NAVIGATING THIS GUIDE

As sustainability becomes more integrated into organizations, it is clear that most social and environmental goals can only be achieved if action is taken not only by the organization itself, but also by suppliers, customers, partners, regulators and others across its value chain. Global risk and interdependencies are also likely to be more prevalent within organizational value chains and therefore need to be fully understood.

Written for finance professionals by finance professionals, this framework can be used by organizations across the real economy and financial services sector to think through the different ways that they can incentivize action along their value chain. The focus of this guide is working with others outside of your organization; please see other A4S Essential Guides for more information on how to integrate sustainability considerations within your organization. We invite you to share your feedback and examples of work you are doing in this area.

The framework consists of two main sections:

SECTION 1: MAPPING THE VALUE CHAIN AND PRIORITIZING AREAS FOR ACTION

The first section provides information on value chain mapping.

1. Define your organizational value chain and boundary
2. Identify the key sustainability risks and opportunities in your value chain
3. Review key relationships
4. Identify priority areas for action
5. Re-evaluate

> We recognized early on that to achieve our ambitious targets for working with social/diverse businesses, we would need to work collaboratively with our supply chain – with finance's understanding of existing data, and using that data to look for opportunities, we were able to put this into practice.
>
> **Patrice Impey**
> Chief Financial Officer and General Manager of Finance, Risk, and Supply Chain Management, City of Vancouver

NAVIGATING THIS GUIDE

SECTION 2: INCENTIVIZING ACTION

The second section sets out how to work with your value chain to incentivize action. It highlights different categories of incentivization levers, key considerations about which levers to deploy in different situations and examples of each.

The most effective levers will be unique to your value chain, and will therefore depend upon the sector, stakeholders and communities relevant to your organization. As value chains for the real economy and financial services sector vary significantly, the guide includes examples for each.

Direct financial levers	Influence
Information and knowledge sharing	Collaboration

> The changes needed to move towards a sustainable economy are everyone's business. At CDPQ, we believe we can have the biggest impact by leading, influencing and collaborating across our entire value chain.

Maarika Paul

Executive Vice-President and Chief Financial and Operations Officer, CDPQ

WHY DID WE DEVELOP THIS GUIDE?

The effects of climate change, nature loss and societal demands to address inequality and justice are driving organizations to understand better the sustainability risks and opportunities within their value chains. Organizational net zero commitments are unlikely to be met unless organizations work with their broader network of stakeholders and communities, supporting them to drive down their emissions too. Only by larger organizations using their influence and incentivizing action will our economies decarbonize rapidly and efficiently, as well as deliver the broader set of Sustainable Development Goals (SDGs).

Each organization will have its own unique web of resources, relationships, activities and impacts, depending on its sector, purpose, size, geography and structure. This web of interactions creates both opportunities and risks, which organizations can influence and control to varying degrees. In an interconnected world, sustainability-related opportunities and exposures are magnified across the organizational ecosystem, which is why mapping your value chain and incentivizing action across it are so important. The more complex and global your value chain, the more benefit you may gain from taking this macro view of your organization's network of direct and indirect relationships. It may also help you to respond to external reporting developments, which are likely to focus more on value-chain-related sustainability risks and opportunities.

By addressing sustainability risks and opportunities across the value chain, large organizations can also improve collaboration, identify efficiencies, reduce costs and capture new opportunities. Sector-based approaches can be effective in driving change and are becoming increasingly important with carbon budgets being allocated on a sector basis.

As well as incentivizing your own value chain, you are likely to be influenced by being part of the value chain of others, for example your investors. This guide includes information on how investors are working with portfolio companies and asset managers, which will help you to understand how investor activities may impact your own organization.

The role of finance:

Finance can play a central role in helping the organization to think through the strategic implications of social and environmental risk and opportunity within the value chain and the actions that the organization can take in response. Finance can not only provide context on key relationships to inform stakeholder mapping, but also has the data and analysis to identify elements of the value chain where incentives might have the strongest potential to drive sustainable outcomes. The finance team can also model the potential impact of new incentives and monitor progress, including how the incentives interact with the organization's longer-term financial objectives and operational processes. Finance is well placed to facilitate communication and engagement across the value chain by providing high-quality data, costings and forecasts, as well as monitoring performance.

SECTION 1

MAPPING THE VALUE CHAIN AND PRIORITIZING AREAS FOR ACTION

INTRODUCTION

This section provides a brief step-by-step process for understanding your value chain, including the key stakeholders and communities within it, the associated sustainability risks and opportunities, and the identification of priority areas for action. The role of finance within each step is given below. It is possible that your organization has already mapped your value chain and the sustainability risks and opportunities associated with it in this case, the process below may instead provide a useful sense check and aid to data and information gathering. If the areas covered below are well understood within your organization, you may want to go directly to Section 2.

Step	What does the step involve?	Role of finance
Step 1: Define your organizational value chain and boundary	• The key value chain definitions and how they can be applied to your organization • Your value chain boundary	• Interpret and apply key definitions • Draw upon other mapping exercises that have been undertaken by finance, eg Scope 3 carbon accounting • Use broad organizational knowledge and relationships to gather relevant data and information • Monitor and input into emerging regulations and definitions and stakeholder expectations
Step 2: Identify the key sustainability risks and opportunities	• The different types of organizational sustainability risks and opportunities and the resources available to identify them	• Use data and risk analysis to identify which sustainability risks and opportunities are material to the organization, where they sit in the value chain and how they may impact long-term business performance • Partner with other functions, including IT and risk management, to access and synthesise the data needed
Step 3: Review key relationships	• Group stakeholders with a similar sustainability profile and consider the need for subgroups • Identify interdependencies between stakeholder groups alongside key factors such as control vs influence and traceability	• Work with others within the organization to understand the current categorization of key stakeholder groups and use information from steps 1 and 2 to determine whether this is fit for purpose • Use learning from existing partnerships eg industry groups, to determine the ability of finance to effect change • Analyse key relationships, eg percentage spend with suppliers, level of investment holding, to determine your level of control vs influence
Step 4: Identify priority areas for action	• Identify priority areas based on steps 1-3	• Analyse data and information and identify gaps • Determine the potential impact of different interventions and examine how they will interact with the organization's longer-term financial objectives and operational processes
Step 5: Re-evaluate	• Review the output to see if later steps could change decisions made in earlier steps	• Evaluate the output – Is there enough data and information to build a business case? – Do you know the potential magnitude and severity of the risks and opportunities identified? – Is the relationship with the stakeholder group clear?

TOP TIPS

LEVERAGE EXISTING INFORMATION

Use what is already available on your value chain, risks and opportunities, and relationships

COLLABORATE

Work across your organization, industry and sector

ALIGN TO STRATEGY

Ensure your strategic objectives are informed by the material sustainability-related impacts and dependencies along your value chain, maximizing opportunities to drive sustainable outcomes

KEEP IT SIMPLE

Start with one priority action where you have the greatest influence and potential to impact

FOCUS

Prioritize specific areas where the organization holds the relationship or has significant influence

LEADERSHIP

Identify leaders within your organization to drive action along the value chain

STEP 1: DEFINE YOUR ORGANIZATIONAL VALUE CHAIN AND BOUNDARY

WHAT IS A VALUE CHAIN?

A value chain is not just a supply chain. It is a wider network which covers your interactions with key stakeholders such as investors, rights holders, customers, suppliers, employees, contractors, non-government organizations (NGOs), regulators and host governments critical to the success of your organization. It also includes the communities in which you operate, including neighbours, local businesses, Indigenous Peoples and landowners. Frequently, organizations are also involved in partnerships, which can include multiple members of their value chain.

It is helpful to think of your value chain as being made up of three main elements, as shown in Figure 1.

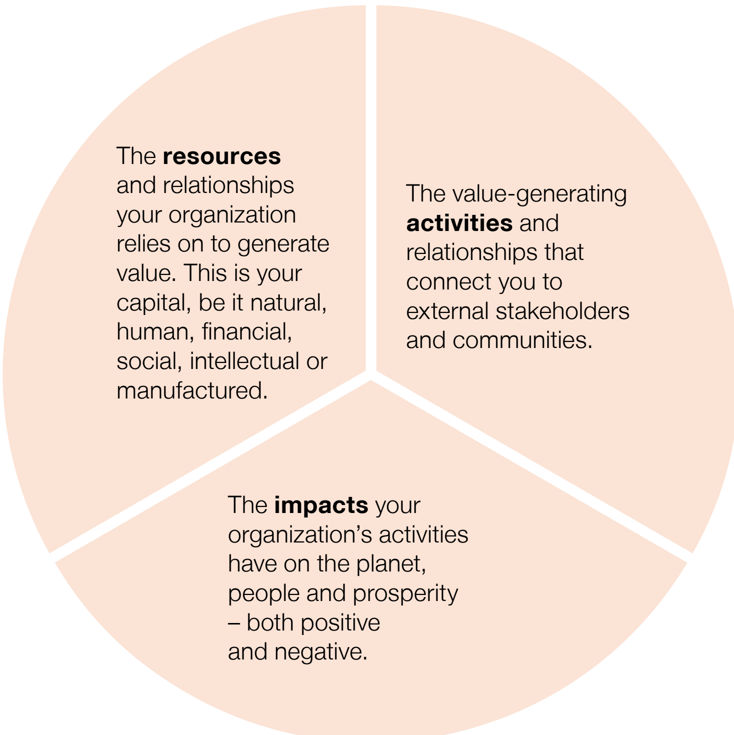

Figure 1: Elements of the value chain, adapted from the Integrated Reporting Framework.

Value chain definitions

International Sustainability Standards Board definition, Exposure Draft, IFRS S1, p41

"The full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include those in the entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates."

GHG Protocol definition, GHG Corporate Value Chain (Scope 3) Accounting and Reporting Standard, p141

"'Value chain' refers to all of the upstream and downstream activities associated with the operations of the reporting company, including the use of sold products by consumers and the end-of-life treatment of sold products after consumer use."

Below is an example value chain from Unilever (Figure 2), which sets out how they measured the greenhouse gas (GHG) emissions impact of their products across their value chain. This clearly demonstrates that the most significant stakeholder group within their value chain for mitigation activities in relation to GHG emissions is their consumers. This insight has driven a focus on innovation in the design of products to reduce consumer impact and is integrated into their strategy through the Unilever Compass.

UNILEVER'S GHG IMPACT

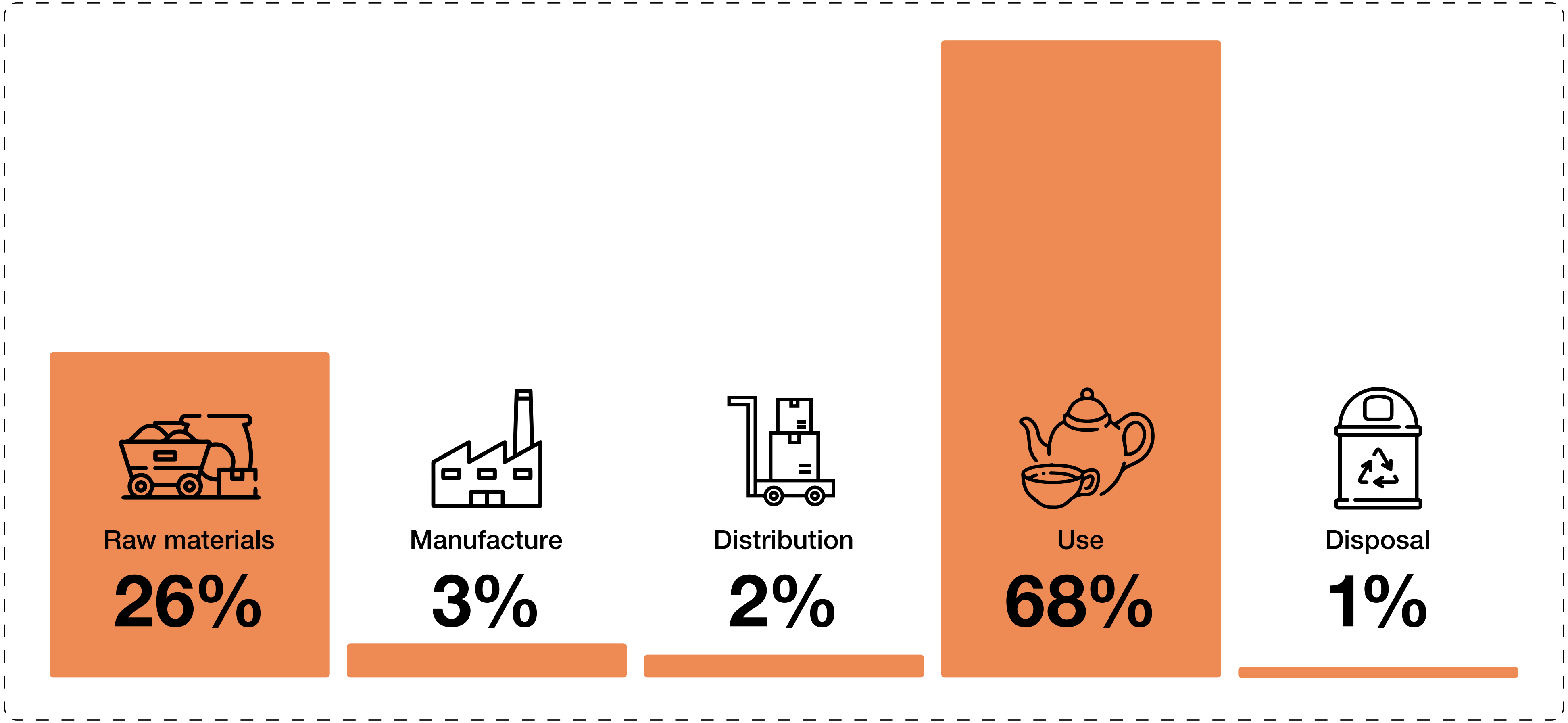

Figure 2: Unilever's GHG impact, Sustainability at Unilever – The Value Chain.

Another way to understand your value chain is to consider the key stakeholders and communities within it. Below are illustrative examples of the key external stakeholders for an organization that operates in the real economy (Figure 3) and the financial services sector (Figure 4).

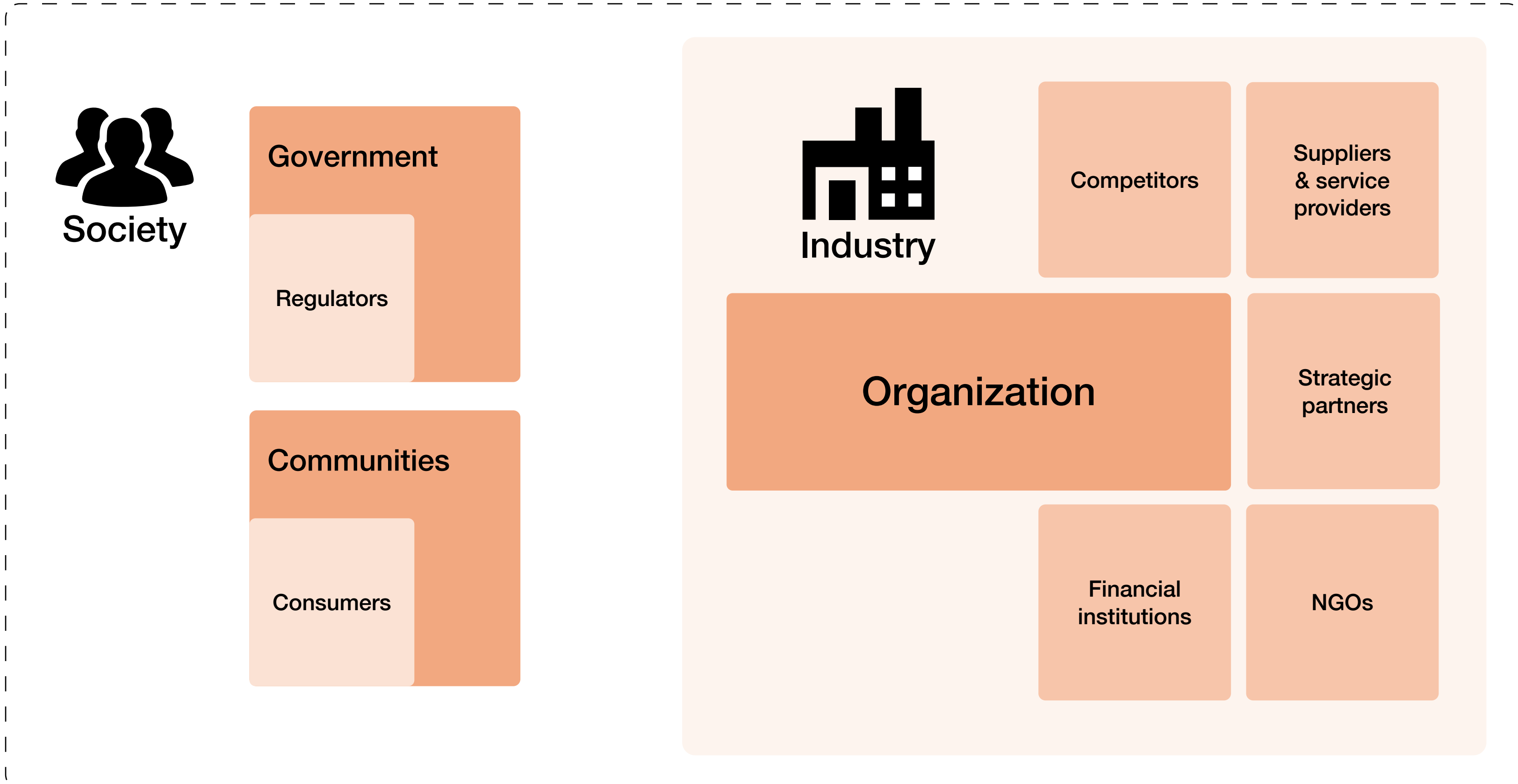

Figure 3: Illustrative example of real economy external stakeholders and communities.

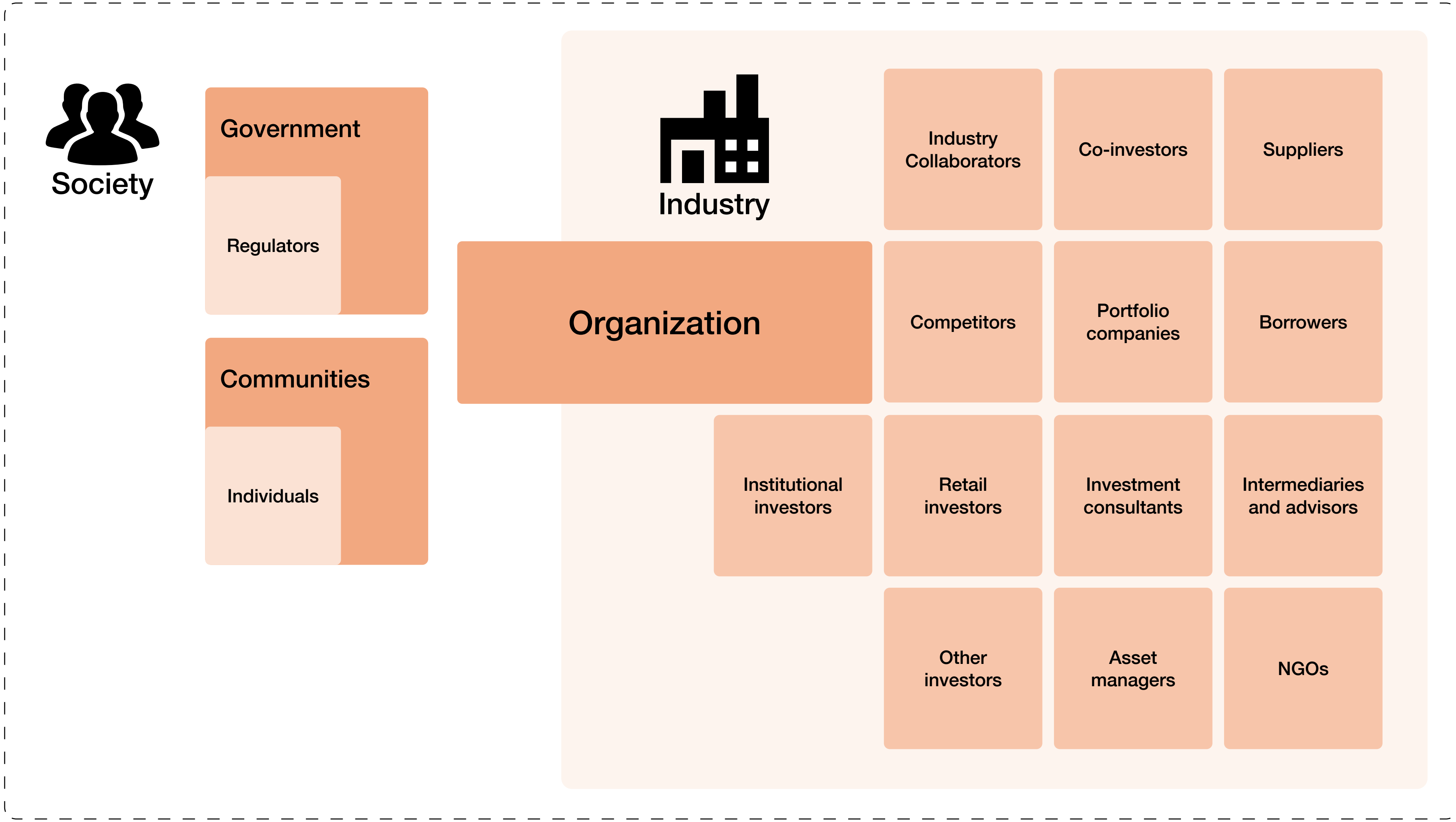

Figure 4: Illustrative example of financial services sector external stakeholders and communities, adapted from Aviva Investors, European Political Strategy Centre.

WHAT IS YOUR VALUE CHAIN BOUNDARY?

As part of the mapping exercise, you will need to put a boundary around your value chain to know what you are including and what you plan to exclude. It is important to focus on the most material sustainability impacts and activities of your organization across your value chain, for example those that are critical to your success both in the short and long term. It is always possible to add more granularity at a later date if more precision is needed to determine the exact nature of the incentivization levers to use.

You may also want to consider other mapping exercises undertaken by your organization that can be an input to determining the boundaries of your value chain:

Your work on complying with the GHG Protocol's **Corporate Value Chain (Scope 3) Standard**

Any assessments undertaken using the Capitals Coalition **Natural Capital Protocol** or **Social and Human Capital Protocol**

The assessment of social risk in your supply chain or within your investments, for example connected to modern slavery, conflict minerals or child labour

STEP 2: IDENTIFY THE KEY SUSTAINABILITY RISKS AND OPPORTUNITIES IN YOUR VALUE CHAIN

A good starting point would be to consider the sustainability risks and opportunities already identified for your organization both in the short and long term. It is likely that some of these risks and opportunities sit either directly or indirectly within your value chain. The location of the sustainability risks and opportunities will vary between sectors. Their magnitude will depend both on the nature of the specific issue and where the risk or opportunity sits.

Risks and opportunities may be short or long term:

Macroeconomic	These may include the impact of extreme weather events or geopolitics on raw materials and supply chain security.
Strategic	These relate to the longer-term sustainability goals and ambitions of the different stakeholders and communities and how these intersect with those of your organization.
Operational	These may include new technologies or changing workforce trends.
Compliance	These include evolving regulatory requirements to tackle sustainability issues, of which organizations must be aware for their own compliance and that of their value chain.

There are a wide range of resources available to help you to identify sustainability risks and opportunities, which can then be applied across the value chain. A detailed methodology on how finance teams can work with their organizations to identify sustainability risks and to understand and assess their impacts is set out in the A4S Essential Guide to Managing Future Uncertainty (p 10–21).

Other useful resources to help with identifying sustainability risks and opportunities include:

- World Economic Forum (WEF), Global Risks Report: published annually, identifies macro level risks.
- MSCI, ESG Industry Materiality Map: provides an assessment of the long-term resilience of companies to ESG issues.
- SASB Standards Materiality Finder: shows material sustainability issues on an industry basis relevant to investors and pertinent to sectors.
- Labour Rights Index: provides a global heat map that benchmarks 'decent work' indicators.
- GRI Standards on sustainability reporting: gives a wide range of sustainability reporting topics relevant to different types of stakeholders through their universal, sector and topic standards.
- WEF, Embracing the New Age of Materiality: provides a framework for investors on the signals to look for to better identify dynamic ESG issues.
- Embedding Project, Issue Snapshots: a list of key sustainability issues and associated resources.

STEP 3: REVIEW KEY RELATIONSHIPS

GROUP STAKEHOLDERS AND CONSIDER THE NEED FOR SUBGROUPS

Once you have understood your value chain, set your boundary and analysed the associated sustainability risks and opportunities, you should consider how these risks and opportunities relate back to your key stakeholders and communities. An important first task is to group stakeholders with a similar sustainability profile, which is likely to be by industry or geography. Consider the need for subgroups because even organizations that appear similar may, following a deeper analysis, present with very different risk profiles as a result of their own value chain exposures. These groupings can make it easier to identify areas for action.

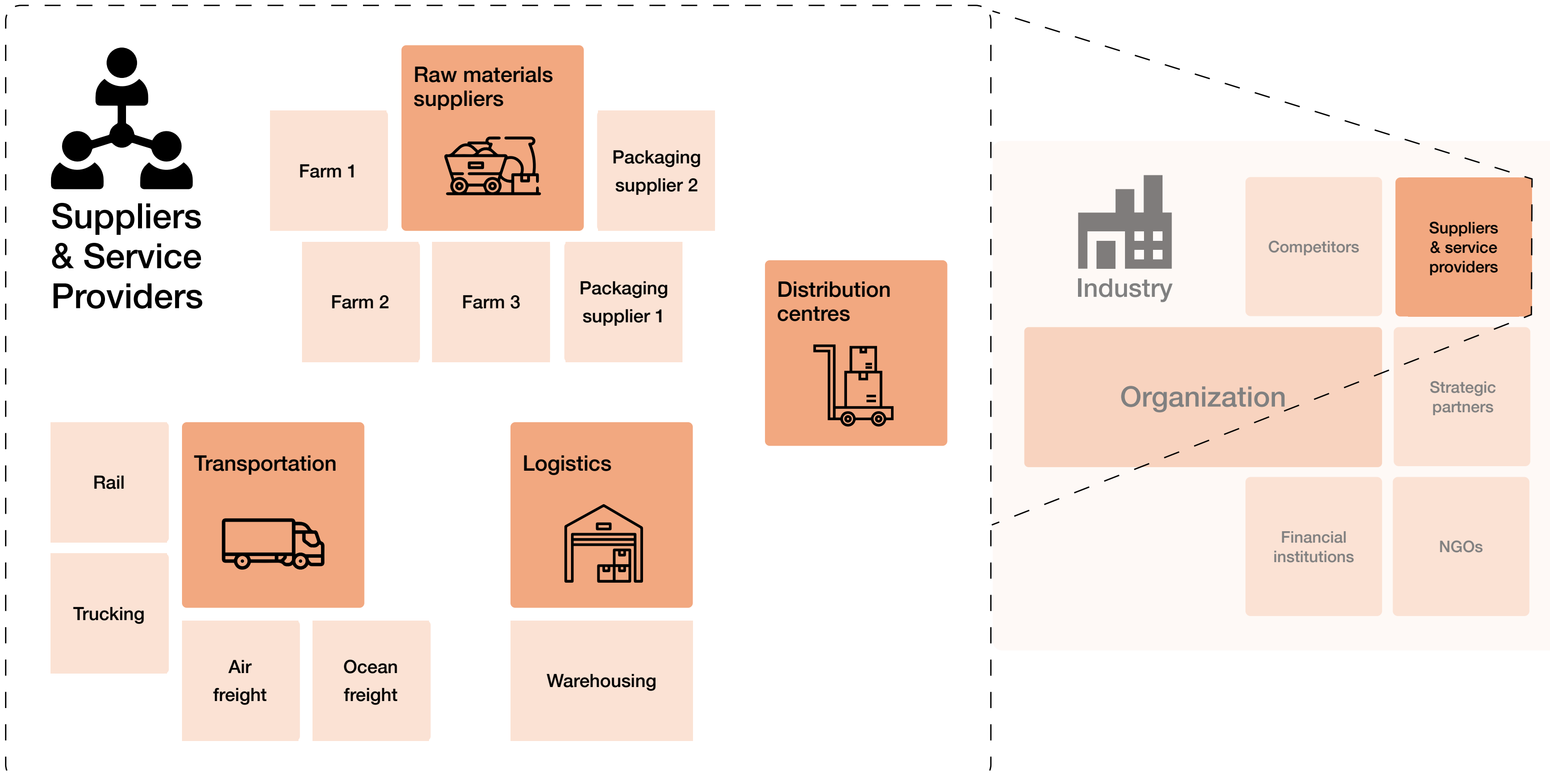

Figure 5 provides an illustrative example of how a key stakeholder group of suppliers and service providers can be further broken down. This allows you to determine where action needs to be taken to address a key sustainability risk or opportunity identified. For the financial services sector, this breakdown is likely to be most useful when considering your different asset classes and investment holdings.

Figure 5: Illustrative example of real economy value chain categories for suppliers and service providers, based on parties noted in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

CONSIDER INTERDEPENDENCIES BETWEEN STAKEHOLDER GROUPS AND THE VALUE OF PARTNERSHIPS

It is important to highlight interdependencies within stakeholder groups and consider how you can draw on those interdependencies to influence change. These may be current relationships; for example, many sectors have a strong industry body, which brings organizations together to work on common challenges and can be used to influence regulators, consumers or suppliers. This may also highlight the value of forming additional partnerships.

Your organization may also already be working in partnership with other stakeholders on specific issues. Drawing on these existing partnerships can be useful for influencing industry bodies and other wider industry networks.

CONSIDER KEY FACTORS SUCH AS CONTROL *VS* INFLUENCE AND TRACEABILITY ALONG THE VALUE CHAIN

Within the stakeholder groupings consider:

Control versus influence	Your capacity to effect change across the value chain. You may, for example, have a degree of control over supplier contracts, but relatively little influence over consumer behaviour. Alternatively, your investment holding may be too small to effect change without collaborating with others.
Traceability	Your ability to follow goods as they move along the value chain, capturing data about the origin of inputs, supplier sourcing practices and conversion processes. The higher the degree of traceability you have, the more effective your mapping will be and the more impact you can have when implementing any incentivization levers. Traceability data is essential for securing the origin and sustainability certifications (for example, certifications on organic content, carbon footprint or labour standards) required by today's investors and consumers, who increasingly expect evidence that goods and services align with their values or codes of conduct.

STEP 4: IDENTIFY PRIORITY AREAS FOR ACTION

Once you have mapped your value chain, identified your sustainability risks and opportunities and reviewed your key relationships, it is time to prioritize areas for action. This should be based upon:

- Size of relationship within key stakeholder groups, eg largest suppliers by spend/quantity, most significant customer base
- Material sustainability impacts/dependencies and risks/opportunities
- Level of sustainability maturity within key stakeholder groups
- Degree of influence/control

The aim is to identify the overlap between material sustainability impacts and the level of control or influence you have. Effecting change will require the use of different incentivization levers depending on the sector in which you operate, the type of relationship, the scope and scale of the risk exposure or the magnitude of the opportunity identified. Working out where to focus energy and resources requires an understanding of your capacity to influence the different stakeholders and communities covered in Step 3.

STEP 5: RE-EVALUATE

Mapping and prioritizing the value chain is often an iterative process. Once it is complete, we recommend reviewing the output to see if later steps could change the decisions you made in earlier steps. For example:

Are there smaller subsets of analysis that would be more insightful if separated out, eg breaking down your work by subsector or key sustainability impact?

Have you considered relationships between different actors in the value chain that are independent of your organization and could be used to magnify any actions taken?

Do you need to revisit the boundaries applied?

Do you need to reassess the impact or influence you can have?

SECTION 2

INCENTIVIZING ACTION

INTRODUCTION

Now that you have mapped your value chain, the associated sustainability risks and opportunities and your priority areas, you can determine the best way to incentivize action. The most effective levers will vary depending on the nature of the stakeholder relationship and the level of control or influence you have.

It is helpful to think of different categories of levers, such as:

- Direct financial levers
- Influence
- Information and knowledge sharing
- Collaboration

These categories of levers are discussed in detail in this section along with a selection of illustrative examples. The examples have been included to give an indication of how the different levers have been used in practice.

The matrix below helps identify which levers to use in different circumstances.

Lever	Speed of change	Strength of relationship / degree of control	Value chain	Extent of sustainability risks / opportunities	When to use
Direct financial levers (eg use of contractual terms, favourable pricing, tiered premiums)	Potential to offer fast results, particularly if the value chain has been engaged in the process, eg given prior notice of new contractual requirements or made aware that financing is or could be linked to sustainability performance.	A direct relationship is helpful. Best used where there is a level of control, eg suppliers, customer, major shareholder.	Can be used most effectively when specific to a particular relationship, eg specific suppliers, investment holdings.	Addresses a specific sustainability risk/opportunity and the need for others to act, eg when sustainability risks exist further up the value chain.	Direct relationships. Analysis shows that the use of direct financial levers is likely to deliver sustainability benefits. The sustainability risk/ opportunity identified requires direct and fast action.
Influence (eg product and service offerings)	Can be slower to effect change than direct financial levers but can have a significant impact over time.	Can be used for indirect relationships and where control is weak if the benefits to stakeholders are clearly demonstrated.	Can be used when trying to reach lots of stakeholders simultaneously. Action often spreads through the value chain.	Can be used to effect change across the whole value chain (through separate targeted actions) to cover risks/ opportunities that require end-to-end action.	The business case for direct financial levers is not favourable. Have significant level of influence with value chain.

Lever	Speed of change	Strength of relationship / degree of control	Value chain	Extent of sustainability risks / opportunities	When to use
Information and knowledge sharing (eg guidance, support and tools)	Can take time to spread, but will be faster if the information is compelling and targeted.	Can be used even when there is no control. Will be more effective if there is a strong level of trust, eg with partners or consumers.	Can be tailored to cover all relevant parts of the value chain.	Can be used for all types of risks/opportunities, but most impactful when the impact on each stakeholder is clear.	Have knowledge to share that can address a significant sustainability risk/opportunity. There is an information/ knowledge gap in the marketplace.
Collaboration (eg industry groups, networks)	Can be slow but speed of change will depend upon the level of ambition. Change can be faster if goals are mutual and clear and key actions are identified. Will be more impactful if industry wide.	Often relies on the goodwill of parties involved. The key is identifying points of alignment for all parties and developing joint ambition.	Greatest impact when more value chain actors are involved.	Compelling where risks/ opportunities are clear and mutual. Most effective for significant risks/opportunities where action by one party will not be sufficient to enact change, and industry-wide change is needed.	Ability to work with others on a joint initiative and with like-minded organizations. There is a systemic sustainability risk/opportunity that cannot be addressed in isolation.

ROLE OF FINANCE

Finance teams have the necessary skills and insight to distil issues, prioritize them and equip leaders with critical information and analysis – for example, conducting financial analysis to help identify areas along your value chain that can best drive sustainable value, providing financial rigour to incentivize design and quantifying the outcome of actions taken.

The finance team is best placed to advise and implement a strategy to incentivize action across the value chain through:

- Deploying financial levers, such as leases, contracts, targets, incentive payments, budgets and favourable lending terms.
- Considering and prioritizing a broad range of levers that use different ways of incentivizing, such as collaboration and knowledge sharing.
- Incorporating plans into annual budgeting processes to make resources available.
- Developing targets which can be used to shape strategy and policy.
- Designing metrics and collecting data to monitor progress and understand impact.

Throughout the process the finance team should involve representatives from across the organization, including executive and management teams, to ensure a robust and holistic approach is taken and that there is buy-in. Finance teams can also use this process to continue to educate themselves and upskill.

DIRECT FINANCIAL LEVERS

Finance is a powerful lever for change. If properly structured, the right financial incentives can not only incentivize and accelerate change but can also provide additional business benefits to your own organization and your value chain partners. If you wish to drive clear and fast action in your value chain, you may choose to deploy direct financial levers such as contracts, targets, incentive payments, budgets and favourable lending terms.

Finance teams can lead the project to identify the most effective opportunities, based on the sustainability priorities and sector of the organization, the makeup of the value chain and the types of relationships held. Finance can also track the impact of these initiatives to highlight those which are the most successful. Illustrative examples for each lever are included below:

Type	Why	Role of Finance	Examples	Tips
Contractual requirements Alter contracts to include key sustainability risks/opportunities (or considerations) as a contractual requirement.	There is a direct relationship and contractual amendments can be made (generally with direct suppliers). Can identify costs and benefits of action and develop a business case to support it. Have the ability to amend contracts and the sustainability risk/opportunity identified supports contractual action. Supply chain relationships are predominantly contractual.	Data analysis to identify priority contracts – suppliers, spend (actual and %), type of contract, strength of relationship, cost modelling. Business case development including cost-benefit analysis and options available. Contract negotiation. Setup of cross-organizational structure (dependent upon the role of finance in the organization). Develop metrics/key performance indicators (KPI) to monitor outcome/impact.	**City of Vancouver: multinationals with local community values** The City of Vancouver, a municipal government organization in Canada, was keen that its contracts with multinational organizations achieved similar local, social and environmental value outcomes to those from working with local social enterprises (non-profit business). While it found that direct awards to diverse suppliers come with inherent value, this does not always translate into best-value once other elements of quality and price are factored in. The key to achieving both best-value and beneficial social/human capital outcomes was in the type of questions being asked during the bidding process. These questions could then be incorporated into contractual requirements against which the multinational supplier would have to deliver. Having a multinational corporation align to local, community values and sustainability can also have wider benefits through significant ripple effects in the value chain. The City of Vancouver noted, however, that public observation often misinterpreted the award as a 'price-based' decision and so the wider benefits need to be communicated. **Salesforce: supplier contracting** US software company Salesforce brought climate action into its standard supplier contract in 2021 through a four-page 'sustainability exhibit', which operates as a legal appendix to the contract. Salesforce notified its suppliers that all future procurement agreements would include this sustainability exhibit, which requires suppliers to set science-based targets, disclose their Scope 1, 2 and 3 emissions, and deliver carbon-neutral products and services. One target is for suppliers representing 60% of Salesforce's Scope 3 emissions to set science-based targets of their own by 2024. Salesforce's finance, procurement and sustainability teams collaborate to provide support to suppliers through webinars and conversations. Finance for the Future Salesforce case study	Focus on one or two areas which are key goals for your organization and where supplier impact is significant. Discuss proposals with key suppliers in advance to allow them time to prepare for new requirements. Offer support to suppliers where needed.

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Type	Why	Role of Finance	Examples	Tips
Procurement and sourcing processes Offer favourable terms and conditions (eg prices) to more sustainable providers, using procurement data to drive best practice across similar suppliers.	Useful where the main lever of change has been identified as being procurement and sourcing processes (eg significant capital and operational expenditure totex forecast). Ability to change process. Sustainability risk or opportunity identified can be addressed within the processes. Can identify costs and benefits of action and develop a business case to support.	Help to price contracts so they incentivize suppliers to take action on sustainability. Identify key points within the process where changes can be made. Data analysis – suppliers, spend (actual and %), upcoming totex spend and categorization, strength of relationship, cost modelling. Business case development including cost–benefit analysis and options available. Setup of cross-organizational structure (dependent upon the role of finance in the organization). Develop metrics/KPIs to monitor outcome/impact. Consider areas where the organization has direct purchasing power, eg appointment of auditors, banks, M&A activities.	**City of Vancouver: social value procurement** The City of Vancouver implemented a Social Value Procurement Framework in 2019 to encourage staff to procure services from vendors that have a social purpose or that are diverse. Finance teams analysed historical trends in procuring services, established new contracts with social/diverse businesses and developed dashboards and targets for measuring performance. See full case study for more detail **City of Vancouver: circular economy for hardware** The City works with its IT suppliers to reduce the amount of technology hardware 'decommissioned' from use before end-of-life. Rather than simply recycling equipment, suppliers are expected to work with local organizations that prioritize refurbishing technology and providing it at low or no cost to those in need. This benefits the environment, the community and the refurbishing organizations that are typically employment training non-profits. **Sainsbury's: dairy value chain** Sainsbury's used data from its dairy value chain to highlight and share best practice across suppliers. It worked with dairy farmers to improve its economics by using a cost of production (COP) model which aims to protect both farmers and the company from market volatility in the price paid for milk and the major input costs to the farms. This model moves away from standard market pricing to a financially open book, cost-based approach. Sainsbury's collated financial data and data on herd health and efficiency with each of the farms given incentives to drive continual improvement. This is also communicated to customers so that they can see the benefits arising from their purchases. The finance and commercial teams led the COP initiative working with the agriculture team. The quality of the financial model (including its data, governance and the processes) was key to establishing confidence and trust within and across the businesses involved. A Collection of Sainsbury's Practical Examples	Look at shifting your procurement spend towards long-standing suppliers with shared values and standards. Use benchmarking data to compare suppliers and drive improvements across the board. Questions to consider asking providers will depend upon your specific sustainability priorities. These could include: • Do you have the competencies and skills within your team to support my organization's sustainability objectives? • Do you have public sustainability targets? • Does your organization support the transition to net zero? If so, how? • How do you support equity, diversity and inclusion? • How do you minimize your negative impacts on biodiversity?

Type	Why	Role of Finance	Examples	Tips
Investment mandates Update existing investment mandates or issue new mandates that include integration of environmental and social issues into investment criteria. These could be mandatory requirements, optional features or performance targets.	A main lever of change for investment portfolios is likely to be through investment mandates with asset managers. Sustainability risks or opportunities could also potentially be addressed directly through engagement with investee companies.	Finance teams to work with their investment teams to: • Review existing investment mandates and consider how to incorporate sustainability factors • Review leading market practice from other organizations who have aligned their investment practices with their key sustainability risks and opportunities • Complete data analysis of sustainability metrics considered by asset managers • Identify potential incentives that can be used and conduct cost–benefit analysis • Develop reporting and tracking mechanisms including KPIs/data	**BT Pension Scheme (BTPS): engaging asset managers** BTPS is the UK's largest corporate pension scheme, with net assets of over £57 billion. To ensure alignment with its net zero emissions by 2035 goal, it is selecting and retaining asset managers to deliver the investment performance required to achieve their climate change targets. It requires asset managers to report against a net zero climate scorecard, which is used annually to review managers' performance and, if necessary, manager changes will be made, making this a powerful driver to ensure focus and results. Engaging Our Asset Managers to Support Net Zero Emissions Commitment – Practical Example: BT Pension Scheme **City of Vancouver: divesting from fossil fuel** The City of Vancouver is keen to divest from fossil fuel holdings and is working with its local Municipal Finance Authority to select funds that incorporate fossil-free exclusion screens. City of Vancouver: Memo on the divestment from fossil fuels 12 major cities commit to divest from fossil fuel companies **CDPQ: climate strategy** As asset manager, CDPQ's climate strategy includes a goal to triple the value of its low-carbon asset portfolio compared to 2017. It is investing to increase the supply of renewable energy, sustainable transportation and real estate. Further, CDPQ uses carbon budgets to monitor its portfolio's emissions and links its climate targets to its teams' variable compensation. CDPQ Climate Strategy	Include sustainability scoring in asset manager selection. Clearly set out and document your sustainability-related expectations at the outset, eg the inclusion of specific sustainability factors in investment analysis and reporting. Mandate that asset managers align with existing sustainability frameworks, initiatives and reporting requirements, ie reporting in line with TCFD. Periodically monitor asset managers' performance of sustainability risks and opportunities, eg through a regular questionnaire. Hold asset managers accountable and provide financial incentives for delivering on sustainability KPIs. Work with industry collaboration groups to engage with investee companies.

Type	Why	Role of Finance	Examples	Tips
Customers and suppliers: favourable lending terms Offer beneficial lending terms to those who take specific action on an area of sustainability.	Useful where there is a significant Small to Medium sized Enterprises (SME) supply chain base, who may not have equivalent relationships with banks and/ or funders. Sustainability risk or opportunity identified requires investment/ expenditure by suppliers. Have processes/systems in place to facilitate implementation. Commercial opportunity.	Identify the need and conduct data analysis. Develop business case and obtain support from others. Identify and negotiate with banks/others. Set up pilot and monitor impact. Develop metrics/KPIs to monitor outcome/impact.	**Tesco: supplier financing** Retailer Tesco offers suppliers access to preferential financing rates if they commit to science-based emissions targets and carbon reporting. Finance rates will be based on each supplier's carbon data disclosure, emissions reduction targets and progress against sustainability goals. The scope of the sustainability data requirements will be regularly updated in line with market best practice and Tesco's own sustainability commitments. The retailer expects the programme to be of particular interest to SMEs and will provide online tools and support to help these suppliers enrol in the scheme. It hopes the financing scheme will accelerate work across its supply chain, building on the science-based targets it set in 2017, that by 2020 had helped its 70 biggest suppliers report a 12% reduction in manufacturing emissions, ahead of its science-based target of 7%. The A4S Academy Yearbook, p13–14 **Rabobank: Planet Impact Loan** Dutch cooperative bank Rabobank launched a Planet Impact Loan that gives dairy farmers interest discounts based on their Biodiversity Monitor scores. The Biodiversity Monitor is a new tool developed through an industry-wide collaboration between Rabobank, Sustainable Dairy Chain, World Wildlife Fund and Royal FrieslandCampina. Farmers who perform well on biodiversity receive both preferential interest rates on the Rabobank loan and a premium price for their milk from FrieslandCampina. Through the loan, Rabobank leverages its influence in the market to drive change that supports the sustainability of the dairy industry and the wider environment. Collaborating with other key industry players amplifies Rabobank's potential impact even further. Finance for the Future Rabobank case study	Focus on a small number of indicators where reliable measurements exist. Include periodic reviews, periods, for example to allow data requirements from borrowers to be updated as required.

Type	Why	Role of Finance	Examples	Tips
Sustainable financing decisions Integrate environmental and social considerations into investment and lending decisions. Debt providers develop products that promote sustainable activities, such as green bonds, social bonds, sustainability bonds, sustainability-linked bonds and transition bonds.	Instruments linked to sustainable outcomes. Attractive to companies as they provide a new investment avenue and potentially a lower cost of debt. Sustainability risk or opportunity identified requires dedicated investment to reduce risk. Commercial opportunity as more organizations look to demonstrate their sustainability credentials publicly. Can strengthen relationships.	Finance teams to work with and engage the board and executive management on sustainable finance options and set up relevant working groups. Enhance and expand the approach to further projects and funding opportunities and address additional risks and opportunities. For more information, see Implementing a Sustainable Finance Framework: Top Tips for Treasury Teams.	**Acciona: sustainability-linked instruments** Acciona identifies gaps in the infrastructure needed to achieve the UN's SDGs and works to address those gaps. It finances its activities through sustainability-linked instruments, with the financing costs linked to the company meeting quantifiable sustainability targets and generating a positive local impact on the environment. Finance for Future Awards: Demonstrating Climate Leadership **City of Vancouver: sustainability bond** The City of Vancouver wanted a more cost-efficient method of financing green and social projects and programmes when accessing the capital markets. The organization developed a Green Bond Framework in 2018 and issued the City's inaugural green bond in the same year. The next step to have more cost-efficient financing and to support both green and social capital projects was to develop a Sustainability Bond Framework to give the City flexibility to issue either green, social or sustainability bonds (which includes both green and social capital projects). The selection of eligible capital projects is a collaborative effort led by treasury services in consultation with other City departments, such as engineering services; planning, urban design and sustainability; real estate facilities management; and financial planning and analysis. Finance led the development of a Sustainability Bond Framework in 2020 and the City issued its inaugural sustainability bond in 2021, supporting capital projects that align with the UN SDGs. There were 35 domestic and international investors with demand approximately four times the issuance size. This transaction priced at the tightest interest rate spread to a benchmark for any Canadian local municipality and is estimated to save the City CA$200,000 over the term of the bond compared to a conventional bond issue. Developing a financing model for other local municipalities to replicate to finance both green and social projects at more efficient financing costs is one of the goals for the City's treasury services department. For further details, please see the City's winning entry in Environmental Finance's Bond Awards 2022.	Agree upon clear, robust measurement indicators. Be open to innovative new ideas and products. Align with international best practice when developing a sustainable finance framework.

Type	Why	Role of Finance	Examples	Tips
			CDPQ: sustainable investing policy CDPQ's treasury team, leveraged CDPQ's climate leadership to establish a green bond framework and engage with value chain actors in pursuit of CDPQ's climate change strategy. This framework is an additional lever that CDPQ can use as part of the deployment of its climate strategy as well as to increase and diversify its investor base globally. The benefits of the framework have been: • Alignment with CDPQ's climate strategy and its goal of enhancing its debt investor base with,, institutional investors that have a sustainability focus. • Ability to take advantage of a growing market interest in sustainable finance products in CDPQ's strategic planning and financing activities. • Access to new investors and a reduction in CDPQ's borrowing rate. CDPQ's real estate subsidiary also incorporates ESG factors into a number of its transactions. This approach allows for alignment of its financing activities with its corporate social responsibility priorities, a broadening of its pool of investors and drives innovation forward within the real estate industry. Over the past three years, the real estate subsidiary has deployed more than $10 billion in sustainable financing through a wide range of instruments. For example, it has entered into a €250 million sustainability-linked margin loan with its financial partners. In the fall 2021, the subsidiary indexed C$8.5 billion of corporate financing to our ESG performance. To measure its ESG performance, it selected three key performance indicators (KPIs): greenhouse gas emissions; low-carbon investments and improvement of its GRESB score. For each KPI, it has defined annual targets over a period of 5 years. These targets allow the subsidiary to achieve the objectives of its new "net zero carbon" strategy and improve our GRESB score. For further details, please see CDPQ's case study.	

INFLUENCE

Influencing your value chain through your own operational activities, such as the products and services you offer or leading by example, can be a significant lever for change.

Finance teams can perform cost–benefit analyses on providing sustainable product offerings, develop KPIs, gather data to show the business case for leading practices and showcase the role of finance.

Illustrative examples for the different ways of influencing are included below:

Type of Influence	Why	Role of Finance	Examples	Tips
Product and service offerings Provide products and services that can help organizations in your value chain manage their own sustainability journey and influence the wider market.	A product or service that addresses a specific sustainability risk or opportunity can act as a differentiator. Mitigate identified transition risk within your current product or service portfolio. Competitor analysis can identify key opportunities. Changing product design and offering take-back schemes can help tackle embodied product emissions.	Cost–benefit analysis, business case development and associated modelling. Budget allocation and pricing decisions. Identify sustainability risk and the risk of product or service obsolescence. Develop KPIs to track and monitor performance.	**Lloyds Banking Group: green buildings tool** Lloyds Banking Group has a range of financial products available for SME customers who meet certain green/sustainability criteria, including term loans and asset finance facilities. It has a green buildings tool to help customers understand how to make their properties more sustainable and energy efficient and is piloting the use of carbon calculators with SME clients. Lloyds Banking Group – Financing a Green Future **Salesforce: Net Zero Cloud** Salesforce developed the Salesforce Net Zero Cloud as an internal tool to help it manage, analyse and report on its carbon emissions and other sustainability metrics. It then launched this tool as a product for its customers to help them achieve the same kinds of improvements, with the finance team demonstrating the business case for a customer-facing product. Salesforce Net Zero Cloud **CDPQ: CA$10 billion transition envelope** As part of its climate strategy, CDPQ has created a CA$10-billion transition envelope to decarbonize the heaviest carbon-emitting sectors. The aim of this envelope is to invest in companies committed to a net zero objective. It will target sectors that are essential to the transition but need to reduce their GHG emissions. CDPQ aims to help companies deploy measurable plans to decarbonize their operations. Specific criteria have been set for these investments. CDPQ Climate Strategy	Products do not have to be revenue generating – consider internal tools that could be used by suppliers. Work with industry bodies as some offer, eg take-back schemes that can be more impactful if they are industry wide.
Showcasing your work From case studies to webinars, and social media to awards, sharing what you have achieved can inspire, inform and influence others.	An effective and easy way to share achievements with others. Can be used by others to replicate if 'how to' guidance is included. Gain recognition and obtain a leadership position.	Communicate the role of finance in the project to allow other finance teams to replicate. Showcase the evolving role of finance and highlight the need for additional skills development.	**Finance for the Future Awards** The Finance for the Future Awards recognize organizations and individuals that are supporting the integration of sustainability into financial decision making. The awards drive awareness, inspire action and develop a community of finance leaders committed to creating sustainable outcomes for their organizations. Case studies of winners are published to increase understanding of the actions of finance teams in leading organizations. Finance for the Future Awards **A4S: CFO Leadership Network case studies** The A4S CFO Leadership Network publishes case studies to highlight the commercial and sustainability benefits members have achieved through their actions. The case studies have been used as a basis for others to kick-start a related initiative. CFO Leadership Network case studies	Focus on the role of finance teams in the work to inspire others. Understand work being undertaken by others (eg A4S case studies) to use as a basis for your own actions.

Type of Influence	Why	Role of Finance	Examples	Tips
Public declaration of sustainability targets Setting and publicizing a sustainability ambition, such as a net zero target, signals your intention to take action on sustainability to your value chain and incentivizes action. For example, as investors commit to achieving net zero by 2050 (or sooner), this should flow down to asset managers and investment companies.	Demonstrate the strength of your sustainability commitment to your value chain. Clearly highlight areas of focus and show your response to a particular sustainability risk or opportunity. Inspire organizations in your value chain to set their own targets and drive innovation.	Work with others to set targets and KPIs and determine how these can be accurately disclosed to external stakeholders. Develop appropriate plans for how the targets can be achieved and incorporate these plans within budgeting and forecasting processes. Track data and information and ensure it is accurate and fit for purpose. Develop performance management systems to track and monitor progress.	**CDPQ: publication of climate strategy** CDPQ's new climate strategy is based on four pillars: 1. Hold CA$54 billion in green assets by 2050. 2. Achieve a 60% reduction in the carbon intensity of the total portfolio by 2030 compared with 2017. 3. Create a CA$10-billion transition envelope to decarbonize the main industrial carbon-emitting sectors. 4. Complete exit from oil production by the end of 2022. The first two build upon previous accomplishments and increase its ambition, demonstrating its desire to drive action throughout its value chain. Two new pillars reflect CDPQ's desire to increase its impact further. CDPQ Climate Strategy **A4S: statements of support** To encourage collective commitment and demonstrate support of key initiatives such as net zero, A4S has a range of statements of support across our networks. These demonstrate organizational ambition and commitment includes the value chain. CFO Net Zero Statement of Support Accounting Bodies Net Zero Commitment Pension Fund Chair Net Zero Statement of Support	You can publish a target without yet knowing exactly how you will reach it, to incentivize ambition in both your own organization and your value chain.

Type of Influence	Why	Role of Finance	Examples	Tips
Adopting voluntary standards Become an early adopter of voluntary standards to show leadership to your wider value chain and also to prepare internal teams and external partners for future mandatory regulations.	Demonstrate belief in the business case for action. Allow authentic discussions with your value chain. Can help to shape the content and direction of voluntary standards that may become standard practice.	Consider which voluntary codes and standards to follow. Benchmark your current practice against the standard and determine how to proceed. Work with others to implement actions needed. Provide input to standard development and respond to consultations.	**Task Force on Climate-related Financial Disclosures (TCFD)** The TCFD developed a framework to help organizations more effectively disclose climate-related risks and opportunities through their existing reporting processes. What began as a voluntary initiative has evolved over time, with multiple jurisdictions making laws to require TCFD-aligned disclosures. The TCFD recommendations are also the basis upon which international accounting standard setters are building global standards for climate risk disclosure. TCFD – 2021 Status Report **A4S: TCFD Statement of Support** The statement signalled leading companies' support for the recommendations and a commitment to their adoption. TCFD Statement of Support **Science Based Targets initiative (SBTi)** The SBTi developed a corporate Net-Zero Standard, the world's first framework for corporate net zero target setting in line with climate science. It includes the guidance, criteria and recommendations companies need to set science-based net zero targets consistent with limiting the global temperature rise to 1.5°C. This gives business leaders clarity and confidence that their near- and long-term targets are aligned with climate science and is a useful tool to guide organizations on the journey to net zero and to help them show leadership to their value chain. SBTi is also developing a net zero standard for financial institutions. SBTi – The Net-Zero Standard **Science Based Targets Network** This network develops guidance for companies and cities on how to set science-based targets for all of Earth's systems. It aims to help organizations define a clear pathway to ensure they are doing enough across their value chain to address their impacts and dependencies on nature. Science Based Targets Network **Living wage campaigns** While ensuring living wages are paid in the value chain is still an emerging practice for most organizations, they are beginning to recognize their ability to influence supplier behaviour. Unilever has committed to ensuring that everyone who directly provides goods and services to the company earns at least a living wage or income by 2030. Tesco has committed to paying the living wage gap to banana producers, equivalent to the volumes it sources, from January 2022. Unilever commitment Tesco commitment The Global Living Wage Coalition is seeking alignment around living wage definitions and there are numerous in-country collaborations, such as the Living Wage Foundation in the UK, which offers accreditation to employers that pay the independently calculated living wage rates to all UK staff. For capital markets, the Platform Living Wage Financials (PLWF) encourages and monitors investee companies to enable living wages and incomes in their global supply chains. The Global Living Wage Coalition Living Wage Foundation The Platform Living Wage Financials Research by the Cambridge Institute for Sustainability Leadership (CISL) shows that companies highlight a direct correlation between supplier performance and their treatment of workers. Living wages also offer a measurable pathway to improving supply chain transparency and social impact while reducing the costs of managing labour issues, which often stem from low wages. CISL research	Participate in consultations and working groups to inform and understand how voluntary standards are adopted. For living wages, consider 'ring-fencing' labour costs in price negotiations and investing in suppliers' improvements.

ESSENTIAL GUIDE TO INCENTIVIZING ACTION ALONG THE VALUE CHAIN

Type of Influence	Why	Role of Finance	Examples	Tips
Engagement between investors and companies Delivering a sustainable economy, including reaching net zero across the whole economy, requires engagement between companies and investors. Growing numbers of investors are using their power to drive change in their portfolio companies through engagement, industry groups and voting rights.	Investors are uniquely vulnerable to systemic disruptions from climate change. Catalyse decarbonization of the global economy. Invest in climate resilience. Direct engagement yields results. Manage risks and opportunities. Alignment across value chain.	Analyse engagement portfolio and benchmark against key standards and frameworks. Monitor and manage emerging risks and opportunities. Develop systems to track and monitor impact/outcome. Engage in key initiatives.	**PIMCO: investment platform** Global investment firm PIMCO has developed a three-step ESG-focused investment platform: Exclude/Evaluate/Engage, through which it collaborates with bond issuers to encourage stronger sustainability practices. Its main focus is on 'Engage' because PIMCO believes allocating capital to issuers willing to improve the sustainability of their business practices can generate a greater impact than simply excluding issuers with poor sustainability metrics. By engaging with bond issuers through regular dialogue, PIMCO aims to influence positive change and raise the standard of sustainable investment practices over time, urging organizations to set strong sustainability targets and align their activities with the UN SDGs. Finance for the Future PIMCO case study **Burberry: sustainability bond** Burberry is committed to enlisting the support of investors in delivering its sustainability goals, and issued a five-year £300m sustainability bond in 2020. Proceeds from the bond are allocated to sustainable projects, including a store refurbishment programme and action in the wider supply chain, including environmentally sustainable management of living natural resources and land use and pollution prevention and control. The bond, one of only a few bonds that includes operational expenditure as well as capital expenditure in its qualifying use of proceeds, was well received by the market, being 7.9 times oversubscribed with a tightly priced coupon of 1.125%. Enhancing Investor Engagement Practical Example: Burberry **CDPQ: engagement approach** CDPQ recognizes the power of engagement with portfolio companies on sustainability issues. During 2021, it initiated 248 discussions with 194 companies and voted on 57,008 proposals at 5,762 shareholder meetings held across all its equity market holdings, including the appointment of members of the board of directors. For example, CDPQ reviews the diversity of board members both pre- and post-investment and has a policy governing the exercise of voting rights of public companies, which documents CDPQ's expectations: • A minimum of 30% of board members for public companies should be women. • Boards should transparently disclose their equity, diversity and inclusion practices in compliance with applicable regulations in the geographies where they operate. CDPQ 2021 Sustainable Investing Report	Focus on a small number of key issues material to the sector. Collaborate with others through investor groups.
Marketing spend Consumer use of products is a significant sustainability impact for many organizations. Marketing to change consumer behaviour can therefore have significant benefits. This can also include prioritising marketing spend on sustainable products.	Powerful way to change consumer behaviour.	Consider priorities for marketing budget/ spend and tie to sustainability goals.	**Unilever Finance: valuation toolkit** Unilever Finance created a valuation toolkit to assess the financial impact of the Unilever Sustainable Living Plan (which applies across the whole value chain). This is being used to prioritize marketing spend and investments, with the more sustainable projects benefiting from greater marketing spend. As the majority of Unilever's impacts are from consumers using their products, marketing including mass scale campaigns have helped them catalyse enduring change in everyday behaviours. Unilever Sustainable Living Plan	Develop KPIs to monitor impact of targeted marketing spend on consumer behaviour.

Type of Influence	Why	Role of Finance	Examples	Tips
Research and development spend Focusing research and development spend on sustainability-related challenges can yield innovative results.	Impact research agendas eg work with universities that focus on solutions to your sustainability issues.	Consider priorities for research and development budget/ spend and tie to sustainability goals.	**CISL: The Prince of Wales Global Sustainability Fellowship Programme** This programme at CISL focuses on challenges and opportunities that must be addressed to build a sustainable economy, including zero carbon, circular economy, protection of nature and inclusive and resilient societies. Each fellowship develops real-world solutions to enable private sector action on sustainability and is funded by companies, foundations and individuals. For example, Unilever is funding research to explore how the 'circular economy' creates jobs for young people in low-income countries, while dealing with climate change, pollution and resource constraints. Heathrow Airport is supporting research into scenarios for transition and physical risk within the aviation industry, taking a system-level approach to the aviation sector and modelling financial risk with a view to including complex industry stakeholder perspectives. The Prince of Wales Global Sustainability Fellowship Programme	Consider working with industry bodies to magnify the impact of research and development spend in your sector.
Lobbying spend Significant money is spent by organizations lobbying against sustainability regulations. Lobbying for regulations that encourage a more sustainable future can drive sector-wide advances.	Can help drive regulatory/ market change to aid your organization to meet its sustainability goals.	Consider priorities for lobbying budget/ spend and tie to sustainability goals.	**InfluenceMap: tracking influence on climate policy** The thinktank InfluenceMap notes that very few of the largest and most politically influential corporations are positively engaging on climate policy globally, with most being neutral and negative influencers outweighing supportive ones by around three to one. Organizations should therefore ensure their sustainability ambitions are reflected in their lobbying spend. InfluenceMap – Corporate Carbon Policy Footprint – The 50 Most Influential, 2017 **Standards on climate lobbying** Investors have a key role to play. The UN Principles for Responsible Investment (PRI) has released a guide to help investors engage with portfolio companies on their direct and indirect lobbying practices related to climate policy. There is also a new global standard intended to achieve a step change in the commitment of investors and companies to responsible climate lobbying in practice. PRI – Converging on Climate Lobbying: Aligning Corporate Practice with Investor Expectations Global Standard on Responsible Climate Lobbying	Develop clear business case to bring senior leadership on board.

Pension fund influence

The Japanese Government Pension Investment Fund (GPIF) is the largest pension fund in the world with approximately US$1.7 trillion of AUM. Its entire portfolio is managed by external asset managers. It has an investment principle to embed ESG integration into all asset classes and engages with its value chain in the following ways:

Asset managers are expected to:

- Integrate the systemic inclusion of ESG factors into investment analysis and decision making.
- Select a material ESG issue on which to engage with portfolio companies, these 'critical ESG issues' are published on the GPIF website.
- Produce a TCFD report.
- Increase the number of green and sustainable bonds in their portfolio.

Asset managers are incentivized through:

- Accountability – GPIF tracks what asset managers say and how they vote, and may terminate mandates if there are discrepancies.
- Additional fees – GPIF will agree upon a KPI and an extra level of fee for asset managers that demonstrate stewardship and active ownership on sustainability matters.
- Securing mandates – GPIF evaluates ESG integration as part of the scoring process when appointing new asset managers.

Index providers – GPIF has detached index provider contracts from asset manager contracts to enable GPIF to engage directly on how indexes have been built and the index provider's sustainability governance. GPIF has also been shifting the benchmarks used in certain aspects of its portfolio, from the conventional indices to thematic ESG-weighted indices. As one of the largest pension funds in the world, it is also using its ability to influence to create a market, reducing costs to others adopting the same indices.

INFORMATION AND KNOWLEDGE SHARING

Stakeholders can be motivated to change when they understand why change is required and what the benefit is to them. Information and knowledge sharing are powerful tools to incentivize action across the value chain, whether it is channelled through media, professional networks or community outreach programmes. Sharing tangible data on the benefits of sustainable business models, and tools and guidance on how to implement changes, can be extremely effective.

Finance can collate the data to demonstrate the business case and develop tools and guidance for other finance teams to use.

Illustrative examples for information and knowledge sharing are included below:

Type of Information/ Knowledge Sharing	Why	Role of Finance	Examples	Tips
Guidance, support and tools Help your value chain understand and identify sustainability issues and take appropriate action by working with others (both internally and externally) to provide step-by-step guidance or by developing tools that can be deployed by stakeholders to address their own sustainability risks.	Close relationship with value chain actors and have knowledge base to share information. Value chain asking for support. 'How to' guides help value chain members to take action. Many stakeholders in your value chain will have sustainability ambitions but may lack the tools to enable them to act.	Develop and share guidance. Input into tool development. Implement tools that have been developed and share learnings. Gather data that underpins the information campaign. Monitor outcomes.	**The A4S CFO Leadership Network** The network has developed guidance for finance teams on how to integrate sustainability within standard financial processes within their own organizations and their value chains. This includes tools for others to use based on members' experience. The Essential Guide series **City of Vancouver: Canadian Collaboration for Sustainable Procurement (CCSP)** The City is a founding member of a network of Canadian public sector institutions working together to align their spending with their values and commitments on sustainability. Members meet virtually to network, share information and co-create tools to better address green, social and ethical opportunities and risks in their supply chain. Canadian Collaboration for Sustainable Procurement – The State of Sustainable Public Procurement in Canada	Make your guidance and tools as practical as possible to encourage uptake. Assess the level of prior knowledge of those you are trying to influence – often topics are relatively new to finance teams, and you may need to start with the business case and explain the technical terms used.
Sharing knowledge with your suppliers Sharing knowledge with your suppliers can help them understand the sustainability risks and opportunities they are facing and can help them progress at a quicker rate. It can also help your organization manage a particular sustainability risk or opportunity.	Beneficial where you have a large number of suppliers who can share knowledge and best practice, eg agriculture. The sustainability risk or opportunity can be (partially) addressed through increased knowledge.	Develop data-sharing tools. Complete data analysis to identify best practice. Distil into key information likely to drive change.	**Olam: sustainability insights platform** Olam's value chain spans over 60 countries and includes farming, processing and distribution operations, as well as a sourcing network of an estimated 4.8 million farmers. AtSource, Olam's proprietary sustainability insights platform, provides customers with clear traceability and evidence of sustainability throughout agricultural supply chains. The information available includes end-to-end metrics, action plans and corresponding narratives, with the level of data and insight provided varying according to customer needs. This information can be used to inform customers and allow them to make decisions which meet their own sustainability requirements and objectives, report on sustainability initiatives and potentially transform their supply chains. In addition, AtSource is enabling Olam to gather information and insights about its own footprint, helping to educate investors on potential risks and opportunities along the full value chain. AtSource with Olam	Encourage a collaborative ethos with suppliers on common sustainability challenges. Seek out examples of best practice to share and celebrate.

Type of Information/ Knowledge Sharing	Why	Role of Finance	Examples	Tips
Sharing knowledge with your customers/ consumers Embrace opportunities to communicate your sustainability goals, targets and progress with your customers, and use this engagement to help educate them about their own footprint and practical steps they can take to reduce this.	You have direct relationships with your customers/ consumers, and you have knowledge to share with them. Your customers/consumers are asking for information about your sustainability objectives/ performance. Consumers often contribute a significant proportion of an organization's sustainability impact.	Gather compelling data that underpins information campaign. Data analysis – which customer/consumer segment to focus on based on sales or impact.	**City of Vancouver – Annual Procurement Report** As part of a requirement of its procurement policy, the City of Vancouver's supply chain management department reports publicly every year to the Council on the procurement achievements and activities of the previous year, including progress regarding sustainable procurement goals and targets. City of Vancouver – Annual Procurement Reports **CDPQ – Sustainable Investing Report** CDPQ publishes an annual sustainable investing report to provide key information to its stakeholders, namely its clients who are pensions plans and public and parapublic insurance plans. It highlights the strategic objectives that the organization is focused on. CDPQ 2021 Sustainable Investing Report	Include compelling data on the benefits of action.
Sharing information with your investors As social and environmental issues are increasingly integrated into investment decision making, companies are having to engage more frequently and with greater transparency with their investor base.	Investors' buy-in is crucial for a successful transition to a sustainable business. Supportive investors can drive change across the whole sector and the wider economy.	Demonstrate link between embedding sustainability and improved financial outcomes. Engage directly with investors through investor relations teams. Support tracking and reporting on sustainability metrics.	**Unilever: Giving investors a say on climate** Sustainability and net zero is a priority for investor engagement at Unilever, which is working to improve sustainability literacy and give investors a say on climate. In addition to weaving sustainability into all investor relations activities, the company gave shareholders a non-binding advisory vote on its Climate Transition Action Plan, the first time that a major global company had voluntarily committed to putting its climate transition plans before shareholders for a vote, which gained 99% support. Unilever also hosted a 'Climate Action' webinar for investors and analysts to explain why companies and investors alike need to take action on climate change. Unilever hopes this approach and its results will encourage other companies to follow suit. The company believes investors will increasingly expect to have a say on climate and, by engaging in this way, it aims to improve the outcomes for all. Enhancing Investor Engagement Practical Example: Unilever	Focus on the sustainability priorities you wish your investors to understand and where you may need their support.

Innovation, data and digitization

In a highly connected world, data and digitalization is informing company decision making. Big data and artificial intelligence are increasingly being used to improve value chain mapping and transparency and apps are being used to gather and analyse sustainability information.

More are collaborating using digital supply chain technology. An Accenture survey shows 75% of CEOs say they are already digitizing their supply chains.

Examples of how organizations are using technology, data and digital solutions to evaluate and incentivize action in their value chain include:

- Apps for customers to calculate their carbon emissions, eg NatWest's carbon footprint tracker.
- Analysis of publicly available information on an organization's approach to sustainability, eg the Transition Pathway Initiative collects data on corporations' progress on the management of climate change and reducing their carbon footprint and the 'FTSE TPI Climate Transition Risk Index' embeds forward-looking data to assess whether companies align to 2°C or below.
- Enhancing traceability provides transparency and insights in value chains eg Trasefinance allows financial institutions to assess the deforestation risk in their portfolios. AtSource, Olam's proprietary sustainability insights platform, provides customers with traceability and evidence of sustainability throughout agricultural supply chains.
- Benchmarking, eg ClimateAction100+, benchmarks high-emitting companies and their performance on emissions reduction, governance and disclosure.

Complex value chains add to the challenge of making sustainability data sufficiently robust, as the data must go through multiple layers of the value chain before it is processed. Finance teams play a lead role in looking at the data needs of the organisation and delivering systems such that the key data is collected from the value chain in a reliable and transparent way.

COLLABORATION

The IPCC report published in April 2022 makes it clear that the climate crisis requires 'now or never' radical action to limit global warming to 1.5°C. This will require cross-sector collaboration of a type not seen before to drive through transformative and sustained change across many aspects of business operations, from financial flows and investment priorities to carbon regulations and emissions reporting. Companies are already working across sector boundaries to deliver drastic cuts in emissions: oil and gas companies, for example, are now working with auto manufacturers and systems experts to rethink road transport. This level of collaboration is required across all environmental and social issues to achieve the impact and scale of change needed.

You may choose to collaborate across the whole value chain, with the aim of raising standards across the board, or work with similar organizations to share insights and magnify the power to drive change.

Value chain collaboration can deliver clear financial benefits too. **EY research with the Coalition of Inclusive Capitalism** shows that investing in sustainable supply chains can add 12–23% to overall value chain revenue. It also finds that organizations with supplier diversity programs generate a 133% higher return on procurement investments than those without.

llustrative examples for the different types of collaboration are included below:

Type of collaboration	Why	Role of finance	Specific examples	Tips
Working with suppliers Building a more sustainable supply chain can result in more efficient operations and lower costs of procurement and reduce disruptions to the flow of supplies.	Engage suppliers to help you meet your targets – they may already have the data you seek and can help you to generate innovative ideas that lower costs and improve sustainability. Working with members of your supply chain can create innovative solutions to business challenges.	Identify key suppliers by % spend. Develop targets for suppliers, eg for carbon reductions. Develop tools to be used in the appraisal process. Data analysis of the costs saved and sustainability outcomes achieved from the collaboration.	**Anglian Water: embodied carbon budget** Anglian Water created joint carbon plans with its top 100 contractors and suppliers, getting them around the table to come up with the best ideas in sustainable design and building. Together they were determined to reduce embodied carbon at every link of the chain. Anglian Water challenged its design engineers and capital delivery partners across the supply chain to deliver more sustainable assets and reduce carbon, the use of finite raw materials and cost. The success of this approach means that, in five years, embodied carbon emissions reduced by 54% against their 2010 baseline. A4S Essential Guide to Strategic Planning, Budgeting and Forecasting (p81) **National Grid: capex** On a project to rewire London's high-voltage electricity network via deep underground tunnels, National Grid worked with its suppliers to develop tunnel design options that minimized carbon emissions and waste. It developed a carbon modelling tool to measure the projected carbon emissions for the different design options, and a sustainable options appraisal tool to compare the sustainability characteristics of the different options qualitatively. By driving innovative solutions from suppliers and embedding sustainability into the design and build of the tunnels, the project has achieved up-front cost savings of approximately £3 million, and operational costs over the asset's lifetime will be reduced. The project will also achieve a 40% reduction on carbon emissions over the lifetime of the asset. National Grid capex practical example	Focus on one or a small number of key issues, ideally with a target, eg to reduce carbon emissions by a certain percentage. Understand your key suppliers and get to know them – what are their key strengths, how do they innovate, who else do they work with, etc.

Type of collaboration	Why	Role of finance	Specific examples	Tips
Networks and working groups: working across sectors and industries Bringing together organizations with a shared purpose. This can be wide ranging or for a specific project.	Develop solutions to a particular risk or opportunity where it is not possible to achieve this on a standalone basis. Allow discussion and sharing of best practices in evolving areas of sustainability and finance.	Lead activities. Develop solutions and guidance. Participate and respond.	**A4S CFO Leadership Network** The network brings together CFOs from large global organizations from across a range of sectors to show personal leadership on sustainability. They work to share best practice on how finance teams can embed sustainability into their organizations. They aim to inspire others to act, both through leading by example and through developing guidance and tools to allow others to take action. Members disseminate this through their value chain – for example, by profiling this work at supplier conferences. The network was launched by HRH The Prince of Wales in 2013 and is rapidly expanding as CFOs recognize the key role of finance in building sustainable organizations. It has chapters in Asia Pacific, Canada, Europe and the USA. There are over 60 members, operating in over 200 countries. A4S CFO Leadership Network	Find common ground in terms of priority areas. Identify a few quick wins with which to begin. Set clear expectations from members so that everyone knows their role.
Joint initiatives Focus on the key players required to deliver the project.	Achieve a clear goal that requires help from outside the organization.	Set financial and sustainability targets for the initiative. Track and monitor progress/impact. Support business case development.	**Royal DSM: Forming a joint venture** Royal DSM formed a joint venture with Sinopec to open a new facility in China for producing caprolactam, a chemical used in the manufacture of nylon. The investment was in response to market growth opportunities in the region. By going beyond minimum local regulatory requirements, they constructed a production line that is upheld as a model of sustainable engineering across Royal DSM's global business, while maintaining attractive financial returns. Compared to a standard design, the new facility uses 37% less fresh water and 20% less energy, and generates 58% less effluent waste. Royal DSM: A4S Capex Case Study **Sainsbury's: sharing information** Sainsbury's is committed to sourcing fish responsibly and protecting marine biodiversity, and is encouraging responsible fishing practices in its supply chain. Verifying the sustainability practices of suppliers, however, can be challenging. By collaborating independently with third parties, using novel sources of data, advanced technology and data analytics, the supermarket giant can verify the legality and the fishing method of its canned tuna at the point of capture. This initiative allows third-party access to, and analysis of, sensitive data sets in a way that has not been done before. This has helped to secure future sourcing and develop sustainable fishing communities. Sainsbury's – Sainsbury's expands responsible fishing methods Sharing Progress: A Collection of Sainsbury's Practical Examples	The finance team should work with commercial teams to identify actions that meet commercial and sustainability goals. Think differently about how a sustainability risk or opportunity can be addressed and who is already developing solutions to key challenges.

Type of collaboration	Why	Role of finance	Specific examples	Tips
Industry action Working with organizations in your sector to share experiences and develop new leading market practice.	Acting as a sector will be necessary to drive change at the speed required to limit climate change and nature loss. Avoid competitive constraints.	Develop business cases for action and appraise investments. Provide input to the development of new initiatives.	**Heathrow Airport: net zero commitment** Heathrow Airport committed to net zero carbon emissions by 2050 but recognized it could not achieve this alone. As an airport, most carbon emissions are outside of its direct control, with the bulk of emissions coming from aircraft operated by the airlines, not the airport. This means working hand-in-hand with partners across the sector, including airlines and aviation bodies, to amplify its impact and promote sustainable aviation. When it comes to ground-level emissions, Heathrow works with partners and passengers to encourage the switch to zero-carbon vehicles and set carbon targets for building works. The airport's finance function helps drive this agenda, appraising investments and developing business cases using a proprietary in-house sustainability investment tool that, among other things, measures the carbon saved per pound of investment. Our Pathway to Net Zero: Heathrow practical example **Partnership for Carbon Accounting Financials (PCAF)** PCAF is a global partnership of financial institutions set up to develop and implement a harmonized accounting approach for assessing and disclosing the GHG emissions associated with loans and investments. The mechanism PCAF uses is an open-source global GHG accounting standard for financial institutions, known as the Global GHG Accounting and Reporting Standard for the Financial Industry. PCAF	Ensure all key players are involved, even if it means compromises are required. Develop clear expectations of roles and aims.
Participating in consultations Changes in regulation or industry practice offer a comprehensive way to drive change in your value chain. Consulting exercises ahead of policy or regulatory formation are important forms of collaboration.	Help ensure disclosures of information on finance and sustainability are effective and practical and as such can drive change in value chains. Highlight risks, challenges and opportunities for achieving key aims.	To contribute the voice of finance from a practical perspective. Identify key risks and challenges.	Examples of organizations that either have previously, or may in the future, issue consultations about sustainability that are relevant to finance teams include: • The International Sustainability Standards Board (ISSB) • The Securities and Exchange Commission (SEC) • The European Financial Reporting Advisory Group (EFRAG) • Task Force on Nature-related Financial Disclosures (TNFD)	Focus on consultations most likely to impact your sector.

INCENTIVIZING ACTION FRAMEWORK: CHECKLIST

SECTION 1: MAPPING THE VALUE CHAIN AND PRIORITIZING AREAS FOR ACTION

STEP 1: DEFINE YOUR ORGANIZATIONAL VALUE CHAIN AND BOUNDARY
Action
Identify the relevant resources, activities and impacts for your organization
List all the stakeholders and communities associated with your value chain (see p 9) Additional resources: • Key external stakeholder examples, Figures [3] and [4]
Check that you have considered the value chain both upstream and downstream, including your own operations and investments, your supply chain and the consumers using your products and services
Consider the most material sustainability impacts and activities of your organization across your value chain
Review any previous mapping exercises, eg for natural capital, social capital or GHG emissions Additional resources: • Greenhouse Gas Protocol – Corporate Value Chain (Scope 3) Standard • Capital Coalition – Social & Human Capital Protocol • A4S Essential Guide to Natural and Social Capital Accounting (p 11 and 15) Social and Human Capital Accounting (p 17–20)
Map the value chain, limited by appropriate boundary considerations
Engage with internal teams to obtain feedback and update the proposed value chain accordingly
Document the agreed upon value chain

INCENTIVIZING ACTION FRAMEWORK: CHECKLIST

STEP 2: IDENTIFY THE KEY SUSTAINABILITY RISKS AND OPPORTUNITIES

Action
Consider the sustainability risks and opportunities identified for your organization
Identify broader sustainability risks and opportunities that may sit directly or indirectly within your value chain Additional resources: • A4S Essential Guide to Managing Future Uncertainty (p 10–21)
Review external resources to ensure all risks are captured (see p 11) Additional resources: • World Economic Forum (WEF), Global Risks Report • MSCI, ESG Industry Materiality Map • SASB Standards Materiality Finder • Labour Rights Index • GRI Standards on sustainability reporting • WEF, Embracing the New Age of Materiality • Embedding Project, Issue Snapshots
Partner with other teams, such as IT, legal and compliance teams, to identify material risks and opportunities for your value chain
Document all of the material sustainability risks and opportunities

INCENTIVIZING ACTION FRAMEWORK: CHECKLIST

STEP 3: GROUP STAKEHOLDERS AND COMMUNITIES

Action
Group stakeholders and communities with a similar sustainability profile, likely to be by industry or geography (see p 12) Additional resources: • Example of real economy value chain categories, Figure [5]
Consider the need for subgroups and update accordingly (see p 12) Additional resources: • Example of suppliers and service providers broken down, Figure [3]
Note the interdependencies within stakeholder groups and consider how these can be used to influence change
Consider current relationships and partnerships
Evaluate whether any new relationships or partnerships are required
Consider key factors such as control versus influence and traceability along the value chain

INCENTIVIZING ACTION FRAMEWORK: CHECKLIST

STEP 4: IDENTIFY PRIORITY AREAS FOR ACTION

Action
Assess the priority areas for action by considering: • **Size of relationship** • **Material sustainability impacts/dependencies and risks/opportunities** • **Level of sustainability maturity within key stakeholder groups** • **Degree of influence/control**
Understand your capacity to influence different stakeholders and communities
Identify the overlap between material sustainability impacts and the level of control or influence Additional resources: • Matrix (p 16)
Establish primary focus areas for incentivizing action

STEP 5: RE-EVALUATE

Action
Revisit the value chain to assess whether the findings from the later steps influence the choices made in earlier steps

INCENTIVIZING ACTION FRAMEWORK: CHECKLIST

SECTION 2: INCENTIVIZING ACTION

Action
Evaluate whether your current engagement strategy includes the focus areas identified
Assess the current level of engagement with key value chain members on the focus areas
Consider the appropriateness of different levers including: • **Direct financial levers** • **Influence** • **Information and knowledge sharing** • **Collaboration** Additional resources: • Further details and examples included in the guide
Assess which levers are appropriate for each key value chain member Additional resources: • Include reference to overview levers tables
Develop an engagement and influence plan

RESOURCES

Please find below a list of resources referenced in the guide.

A4S

- A4S Essential Guide to Strategic Planning, Budgeting and Forecasting, page 81
- A4S Essential Guide to Finance Culture
- A4S Essential Guide to Engaging the Board and Executive Management
- A4S Essential Guide to Debt Finance
- A4S Essential Guide to Social and Human Capital Accounting, p 17 - 20
- A4S Essential Guide to Natural and Social Capital Accounting, p 11, 15
- A4S Essential Guide to Managing Future Uncertainty, p 10–21
- A4S Net Zero Guidance
- A4S Financing Our Future Report Update, p 8 - 9
- Implementing a Sustainable Finance Framework: Top Tips for Treasury Teams

Capitals Coalition

- Natural Capital Protocol
- Social & Human Capital Protocol

Embedding Project

- Issue Snapshots
- Understanding Community Resilience

The Global Living Wage Coalition

- Regional living wage information and benchmark reports by country

Greenhouse Gas Protocol

- Corporate Value Chain (Scope 3) Accounting and Reporting Standard

GRI

- Sustainability Reporting Standards

InfluenceMap

- How business and finance are impacting the climate crisis

International Integrated Reporting Framework

- International <IR> Framework

Labour Rights Index

- Heat Map 2020

Living Wage Foundation

- Become a Living Wage Employer

MSCI

- ESG Industry Materiality Map

PCAF

- The Global GHG Accounting and Reporting Standard for the Financial Industry

The Platform Living Wage Financials

- Encourages and monitors investee companies to enable living wages and incomes in global supply chains

PRI

- Converging on Climate Lobbying: Aligning Corporate Practice with Investor Expectations

Responsible climate lobbying

- The Global Standard

SASB

- Materiality Finder

Science Based Targets initiative

- The Net-Zero Standard

Science Based Targets Network

- Enabling companies and cities to play a vital role in creating an equitable, nature positive, net-zero future using science-based targets

World Economic Forum (WEF)

- The Global Risks Report 2022
- Embracing the New Age of Materiality

GLOSSARY

Word/phrase	Description
Capitals	Any store of value that an organization can use in the production of goods and services, or is vital to production, which needs to be maintained, protected and nourished to continue to produce benefits in the future. The Value Reporting Foundation defines the following capitals: financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital.[1]
ESG	A set of factors or criteria that are critical to the success of businesses across all sectors. Environmental factors examine how a company performs as a steward of the natural environment. Social factors examine how a company manages relationships with its employees, suppliers, customers and the communities in which it operates. Governance deals with a company's leadership, ethical conduct and oversight, executive pay, audits and internal controls, and shareholder rights.[2]
Green bonds	Green bonds enable capital raising and investment for new and existing projects with environmental benefits.[3]
Real economy	The part of a country's economy that produces goods and services, rather than the part that consists of financial services, such as banks, stock markets, etc.[4]
SDGs	The UN Sustainable Development Goals or Global Goals are a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all." The SDGs were established in 2015 by the United Nations and are intended to be achieved by 2030.[5]
Social bonds	Social bonds are use of proceeds bonds that raise funds for new and existing projects with positive social outcomes.[6]
Stakeholder	A party that can either affect or be affected by an organization. Stakeholders can be internal or external. Internal stakeholders are those who have a direct relationship with an organization, such as employees; external stakeholders are those who relate to the actions and outcomes of the organization, such as customers, suppliers, investors or governments.[7]
Sustainability bonds	Sustainability bonds are bonds where the proceeds will be exclusively applied to finance or refinance a combination of both green and social projects.[8]
Sustainability-linked bonds	A forward-looking performance-based instrument. The bonds' financial or structural characteristics (such as the coupon rate) are adjusted depending on the achievement of predefined sustainability targets. The adjustment can be in both directions, eg an increase in coupon rate if targets are not met or a decrease in coupon rate if targets are met. The key difference with green/social/sustainability bonds is that the proceeds can be used for general corporate purposes.[9]
Sustainable business	A business that delivers financial returns in the short and long term in a way that generates positive value for society and the environment, operates within environmental constraints and contributes to the ongoing resilience of social and environmental systems.[10]
Transition bonds	Transition bonds are a subset of sustainable debt finance instruments whereby the issuer is raising funds in debt markets for climate- and/or just transition-related purposes.[11]

1. Value Reporting Foundation, Get to grips with the six capitals, (accessed 2022)
2. Investopedia, Environmental, Social and Governance (ESG) Criteria, (accessed 2022)
3. ICMA, Green Bond Principles 2021, (accessed 2022)
4. REAL ECONOMY | meaning, definition in Cambridge English Dictionary, (accessed 2022)
5. United Nations, Sustainable Development Goals, (accessed 2022)
6. ICMA, Social Bond Principles, (accessed 2022)
7. Investopedia, Stakeholder, (accessed 2022)
8. ICMA, Sustainability Bond Guidelines, (accessed 2022)
9. Morningstar I Sustainalytics, What are Sustainability-Linked Bonds?, (accessed 2022)
10. A4S Essential Guide to Engaging the Board and Executive Management, page 8, (accessed 2022)
11. London Stock Exchange, Transition Bond Segment, (accessed 2022)

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THE A4S ESSENTIAL GUIDE SERIES

LEAD THE WAY

Developing a strategic response to macro sustainability trends

- Managing Future Uncertainty
- Engaging the Board and Executive Management
- Finance Culture
- Incentivizing Action Along the Value Chain

TRANSFORM YOUR DECISIONS

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting
- Management Information
- Capex

MEASURE WHAT MATTERS

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting
- Valuations and Climate Change

ACCESS FINANCE

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance
- Implementing the TCFD Recommendations
- Implementing a Sustainable Finance Framework
- Sustainability Reporting*

*coming soon

CFO LEADERSHIP NETWORK

ACCOUNTING FOR SUSTAINABILITY

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