Global Alliance for Banking on Values

GABV Position Paper

EU Taxonomy – Social Impact

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Executive Summary

In this position paper, the GABV defines social sustainability and impact and offers a high level reference framework used by values-based banks to classify which projects and investments can be considered to add a specific social and/or environmental value beyond what is standard practice in the respective market, and to do no harm. How values-based banks, as frontrunners in sustainable finance, approach social and environmental sustainability and impact offers valuable insights for the EU Taxonomy. The GABV is carrying out further research through a series of case studies how its member banks design policies, criteria, threshold levels and other instruments for social sustainability and impact. It will share this information with high-level officials and experts in early 2021.

The GABV

The Global Alliance for Banking on Values (GABV) is a network of banking leaders from around the world committed to advancing positive change in the banking sector. Our collective goal is to change the banking system so that it is more transparent, supports economic, social and environmental sustainability, and is composed of a diverse range of banking institutions serving the real economy. As an Alliance of frontrunners in sustainable finance, we have a strong belief in the value of our banking model and our recent research backs that up, showing that lending to the real economy delivers better financial returns when compared with the largest banks in the world. We have demonstrated through our focus on the real economy, our strong capital positions, and our steady financial returns that the values-based banking model provides a viable and needed alternative, adding strength to a diverse financial ecosystem.

The EU Taxonomy

The EU Taxonomy is a tool to help investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy. The Taxonomy sets performance thresholds (referred to as 'technical screening criteria') for economic activities which:

- make a substantive contribution to one of six environmental objectives (see below);
- do no significant harm to the other five, where relevant;

- meet minimum safeguards (e.g., OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).

The performance thresholds will help companies, project promoters and issuers access green financing to improve their environmental performance, as well as help to identify which activities are already environmentally friendly. In doing so, it will help to grow low-carbon sectors and decarbonize high-carbon ones. The EU Taxonomy is one of the most significant developments in sustainable finance and will have wide ranging implications for investors and issuers working in the EU, and beyond.

The six environmental objectives singled out by the EU include:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control;
6. Protection and restoration of biodiversity and ecosystems

The outbreak of the COVID19 pandemic and the ensuing collapse of the global economy has accelerated a shift of the attention of policy makers from the environmental to the social dimension of sustainability that started in 2019. A dedicated subgroup under the EU Platform for Sustainable Finance has been established to complement the EU Taxonomy with a social pendant. The subgroup is composed of representatives from the asset management sector, civil society and academia.

Why a contribution by the GABV?

- The Global Alliance for Banking on Values (www.gabv.org) is a practitioners' network of banks that put social and environmental impact and sustainability at the heart of their business model.
- Member banks apply tried and tested solutions to social sustainability that are ambitious yet practical and realistic, and therefore can be implemented by any regulated bank.
- Because GABV banks are frontrunners in sustainable finance, they are motivated to share their experience and contribute to the discussion on the EU taxonomy.

Social Sustainability and Impact

- Sustainability is not an absolute concept, but rather a relative one. This is particularly true in finance, since banks are engaged in every type of sector and economic activity, working in very different social, environmental and economic contexts. The concept of sustainability is not always straightforward, and there can be trade-offs and conflicts. Science can provide data and information, but ultimately different solutions and options have to be weighed against each other. One could be setting a target while missing the point. This is why values-based banks emphasize the importance of guiding values that offer orientation in everyday business decisions in addition to explicit minimum conditions and criteria. The business models of values-based banks are intentional and coherent with respect to social and environmental impact, yet contextual and flexible enough to address the specific needs of the communities they serve.

- Values-based banks recognize that social impact is strongly linked to the real economy. It is their focus on the real economy that is one of the strongest contributing factors to the sustainability of the communities in which they operate. The IMF confirmed that relatively higher lending to the real economy, especially to SMEs, is correlated with higher prosperity and stability of their member countries.[1]
- The minimum social conditions to be respected by any bank are defined by the universal norms relating to human rights and labor standards[2] as well as the legal requirements of the jurisdiction in which the banks operate. In addition, banks often apply basic exclusion criteria (e.g. gambling, tobacco and pornography) to protect against reputational risk. These criteria build a minimum floor to be respected by all players in the market. However, they do not yet constitute what can be considered as socially sustainable or impactful.
- There is no universal definition of social sustainability or social impact. The reason for this is that the term "social" can mean many different things at the same time. This speaks for a principle-based approach that looks at the underlying values that constitute a social outcome or represents a social condition that should not be undermined.
- Socially relevant values include human dignity, fairness, inclusion, solidarity, affordability, resilience, well-being, happiness, diversity, honesty, no speculation, and so forth. This list is not exhaustive but captures some of the most prevalent values used by GABV member banks. We are planning a comprehensive survey to get greater clarity around the value base guiding our member banks.

Instruments

- The instruments used by banks to translate their mission and values into practice are the same for social sustainability and impact as they are for environmental concerns.
- While the instruments used by values-based banks do not differ much from the tools applied by conventional banks, **the difference lies in their ambition,** as well as their strong focus on

[1] Finance and Inequality, IMF, 2020
[2] Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at work

the real economy. The following list provides an overview on these differences. We have collated this list based on our experience with our members and the GABV Sustainable Banking Scorecard.

- We are currently carrying out further research to examine and record **how these instruments are applied in practice**; that is how member banks design policies, criteria, threshold levels and other instruments for social sustainability and impact.

Comparison of Standard Practice in Banking and Best Practice in Values-Based Banking

	Standard Practice	Best Practice
1. Safeguards (Exclusion Criteria)	Few exclusion criteria primarily designed to limit reputational risks.	Strict and comprehensive list of exclusion criteria, addressing key social and environmental challenges.
2. Target Sectors	All sectors eligible if they contribute to profitability, are legally compliant and do not harm reputation.	Focus on specific social and environmental impact areas, e.g. renewable energy, energy saving, food, financial or social inclusion, health, affordability, education etc.
3. ESG Analysis (Ratings)	Used to select the sustainable investment portfolio from a particular investment universe by applying positive & negative criteria in ESG-dimension. Mainstream banks of then resort to standard "off the shelf" ratings with lower levels of ambition and differentiation.	Used (sometimes in combination with a selection of target sectors) to select the sustainable investment portfolio from a particular investment universe by applying positive & negative criteria in ESG-dimension. Values-based banks carry out their own specific ratings to ensure higher level of ambition and differentiation.
4. Business Practices	Business practices designed to maximize profits (e.g. financial incentives) and avoid reputational risks (e.g. legal compliance).	Further reaching ethical components reflected in the business practices (e.g. no speculation, no tax avoidance, fair fee structure, etc.)
5. Financial Solidarity & Access	N.A.	Special products and services to support positive social and environmental change (e.g. interest waived on deposits, seed capital instruments, special foundations, Gift Money, etc.)
6. Business Operations	Traditional corporate culture with limited staff participation. Financial incentives play an important role. Staff development primarily focused on banking and business skills. Relationship with clients and shareholders is economically and transaction driven.	Progressive staff policy and leadership models with strong staff participation. Limited/no financial incentives, but progressive social benefits. High value and investment in personal and professional development of staff, comprising both banking and the values dimension of banking.

7. Governance	Owners' primary focus is on risk/return. Limited diversity on the board and in the leadership (primarily banking background, few women).	Owners are strongly invested in the mission; if listed, then safeguards are taken to protect the mission. Ownership model structured to safeguard the bank's social and environmental purpose. High diversity and many backgrounds represented at the board beyond just banking (e.g. ethics, sustainability, customers, staff, etc.). Diverse leadership team and adequate gender balance.
8. Stakeholder Relations	Transactional, business-oriented client and shareholder relationship.	Relationship with clients and shareholders grounded in the mission. Clients and shareholders seen as important stakeholders that participate.

Accountability

- Above we have identified an initial set of socially relevant values and shown the instruments through which they get translated into practice. This begs the question how to ensure that these practices are effective and delivering the desired outcomes.
- It is important to keep in mind that banks are commercial entities operating in the market, and thus that they are resource constrained. In low-interest markets such as Europe, competition among banks is fierce and therefore the ability to impose specific impact related reporting requirements on clients is low. This limits the scope to carry out in-depth impact measurement as is the case for example for development banks or other entities working with subsidies, grants or state guarantees.
- The fact that banks are operating in the market also has an advantage: at least in theory refinancing is infinite and primarily a matter of price, not of availability. Thus, there is no (or at least no significant) opportunity cost when financing bankable projects. Whilst banks need to be accountable and show how they deploy their funds, their impact measurements do not need to be as sophisticated as is the case for impact investors or development finance institutions. They do not have to decide between a "good" and a "better" project, since they can simply finance both.
- GABV member banks have developed different answers to the question of accountability, but the most important common denominator is transparency at a level that allows depositors and investors to understand what is happening with their money. The level of transparency is far

higher than is the case for mainstream banks: some GABV members go as far as publishing every single loan they make. Other member banks have developed further-reaching metrics capturing specific impact criteria, such as kWh of renewable energy produced, additional housing for low-income families built or number of jobs created for migrants.

- All GABV member banks are required to assess their lending and investment portfolios with the **GABV Sustainable Banking Scorecard** and classify, which projects and investments can be considered to add a specific social or environmental value beyond what is standard practice in the respective market, and do no harm. In Annex 1 we have included the reference framework used by the Scorecard. The framework is aligned to the UN Sustainable Development Goals (SDGs).
- In addition to this portfolio-level assessment, GABV member banks may carry out empirical studies or research into specific topics and provide additional information through story telling.

Outlook

- The GABV is uniquely positioned to provide input to the debate on an EU Social Taxonomy. Its member banks are frontrunners in the field of social sustainability and impact. It can draw on a network of smaller and larger banks, with simpler or more sophisticated business models in Europe and globally. The approaches of its member banks are ambitious, tried and tested, and therefore particularly relevant for a framework that should bring about positive social change in the real world.
- The GABV with the support of the Open Society Foundation is currently carrying out an in-depth investigation into the instruments and approaches described in this paper that should provide additional insights into the practice of socially sustainable and impactful banking. The results will be available by the first quarter of 2021 and will be shared with the Members of the Platform for Sustainable Finance.

Annex 1: GABV Sustainable Banking Scorecard Reference Framework

Under the GABV Sustainable Banking Scorecard, member banks have to classify all of their banking activities. Financial intermediation must have an **impact** that is **positive, better** than the **average** in the context, and **not negative**[3] in <u>one or more</u> of the following **areas**:

Social wellbeing	Economic wellbeing
- Food and water - Housing - Health and sanitation - Education - Employment - Energy and mobility - Culture and Heritage - Information, justice, integrity and security of person	- Inclusive, healthy economies - Economic convergence **Environmental wellbeing** - Resource efficiency - Waste - Water, Air, Soil, Climate, Biodiversity and ecosystems

The impact areas are adapted from the UNEP Finance Initiative Impact Radar framework, including a set of impact categories supporting the financing of sustainable development (economic, environmental and social), and aligned to the UN Sustainable Development Goals (SDGs)[4]. In the following we list the applicable criteria, examples and sources relating to these impact areas.

Social wellbeing

Criteria	Examples	Sources
Food and Water		
Population's accessibility, physical, social and economic, to sufficient, safe and nutritious food which meets their dietary needs and food preferences for an active and healthy life. Population's accessibility to sufficient, safe, acceptable and affordable water for personal, domestic and economic uses. Safe water is water free from micro-organisms, chemical substances and radiological hazards that constitute a threat to a person's health.	Producers, retailers and restaurants privileging healthy food in a context of high incidence of obesity and related pathologies. Water access projects.	Food and Agriculture Organization of the United Nations (FAO) United Nations Office of the High Commissioner for Human Rights (OHCHR), UN-Water

[3] Impact that is not negative or with marginal residual negative impact after accounting for the mitigation measures adopted.
[4] The dimensions of positive impact are adapted from the UNEP Impact radar Impact categories of sustainable development (https://www.unepfi.org/publications/positive-impact-publications/the-impact-radar/): a global reference anchored in the SDG and specific to financial institutions, high-level enough for each bank to develop an aligned, yet context-specific, impact classification system.

Housing		
Population's accessibility to adequate, safe and affordable housing: a place where to live in security, peace and dignity.	Affordable housing loans (small, not too expensive units). Loans for house improvements (hygiene, quality of roof, walls and floor, expansion, safety). Housing loans to beneficiaries of government programmes for disadvantaged population. Community housing program. Low-income first home buyer loans. Does not include first-home buyers per se, but only if combined with some additional positive impact (e.g. low income, financially excluded).	OHCHR, UN-Habitat
Health and Sanitation		
Population's ability to live in a state of physical, mental and social well-being, including but not limited to the absence of disease or infirmity. This includes the ability to access quality essential health-care services and effective, quality and affordable essential medicines and vaccines. It also includes sanitation, which refers to population's accessibility to facilities and services that ensure privacy and dignity, ensuring a clean and healthy living environment for all.	Conventional dental clinic. Fitness and recreation centres, with fees aligned to the market average. Special care and education institutes for disabled persons. Does not include loans to doctors, nurses and health workers for consumption, housing or other non-health related purposes.	World Health Organization (WHO), UN-Water
Education		
Population's ability to access quality education and lifelong learning opportunities in an inclusive and equitable way. This refers to accessibility for all to elementary education, free and compulsory; and to technical, professional and higher education, as made available, equally accessible to all on the basis of merit.	Consumer loan for college, university, or other education purposes. Loans to public or private schools, boarding schools, afterschool, special education care. Does not include loans to teachers for consumption, housing or other non-education related purposes.	Universal Declaration of Human Rights; United Nations Educational, Scientific and Cultural Organisation (UNESCO)
Employment		
Population's accessibility to full and productive employment and decent work, which delivers a fair income, security in the workplace, social protection for families, and involves prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment.	Business providing compensation higher than the average in the context. Financing of large enterprises that create or sustain employment in compliance with local regulation, in areas affected by high unemployment rates (e.g. >10%). For employment generated by MSME, please refer to the economic wellbeing dimension. Employment conditions better than standard in context (e.g. a large scale conventional farm may employ a large number of people, but would not qualify for quality of employment if the working conditions are aligned to the market; a fair trade certified crop producer would be qualified thanks to the better quality working conditions for its employees).	The International Labour Organisation

Energy and mobility		
Population's accessibility to modern energy, to include: household access to a minimum level of electricity and to safer and more sustainable cooking and heating systems; access to energy enabling productive economic activity, and to modern energy for public services, such as health facilities, schools and street lighting. Population's accessibility to safe, affordable, inclusive, efficient and sustainable mobility and transport systems and infrastructure.	Finance the purchase of solar panel and mini-grid systems for household or business purposes, to provide energy access in off-grid areas.	Organisation for Economic Co-operation and Development (OECD), International Energy Agency (IEA) The World Bank
Culture and heritage		
Population's ability to access and participate in cultural life, to enjoy the arts and to share in scientific advancement and its benefits. This includes the safeguarding and promotion of cultural heritage in all its forms: tangible and intangible, cultural and natural, movable and immovable.	Finance a local music festival. Finance heritage building preservation projects.	UN General Assembly, Universal Declaration of Human Rights, UNESCO
Information, justice, integrity and security of person		
Population's accessibility to information and ideas through any media regardless of frontiers. This includes universal and affordable access to information and communications technology. Population's ability to access justice in an equal and inclusive way. Population's ability (read as ability of the person) to enjoy freedom from injury to the body and mind, data security, data privacy and protection.	Law firm specialized in domestic violence. Organization contributing to the access to justice for discriminated populations.	Universal Declaration of Human Rights, UNESCO, United Nations General Assembly United Nations General Assembly

Economic wellbeing

Area	Examples	Sources
Inclusive, healthy economies		
Development and creation of sustainable, diverse and innovative markets that add value to society and the economy. This includes under-served social groups' full and fair accessibility to labour markets, finance and entrepreneurship and, more generally, economic opportunity. It also includes, but is not limited to, access to affordable, effective and safe financial services for individuals as well as micro-, small and medium-sized enterprises.	Financial services to the financially excluded or underserved (please refer to appendix 3.b for Microfinance and SME finance). Financial services to segments of the population with specific barriers to access financial services: low-income, other marginalized groups in the context (e.g. youth, elderly, women, to the extent they face higher barriers). Loan products designed in the framework of government disability programme. Loans offered in CDFI designated opportunity zones (US)	European Bank for Reconstruction and Development, OECD, United Nations Special Advocate for Inclusive Finance, United Nations Development Programme, SDGs

	Credit in times of financial hardship due to natural disaster, acute economic crisis or personal emergency. Loans restructured due to unexpected job loss or hurricane. Emergency car repair loan to enable work continuity. Cooperatives, other broad-based ownership organizations (e.g. substantial Employee ESOP), NGO, non-profit organizations Community projects (e.g. meeting hall).	
Economic convergence		
Ability to reduce inequality at the level of average per capita income	Organization redistributing to community 30% of profits made in the form of donations to disadvantaged communities.	United Nations Department of Economic and Social Affairs

Environmental wellbeing

Area	Examples	Sources
Resource efficiency		
Efficient use of limited, non-renewable natural resources (which cannot be regenerated after exploitation) and renewable natural resources (which can return to their previous stock levels by natural processes of growth or replenishment) in the process of exploiting nature for production and consumption purposes.	Renewable energy: solar, wind, ocean, geothermal, hydro energy, biomass Electric vehicles and vehicles with lower emissions than the average new vehicle on the market. Heating systems more energy saving than the average new heating systems on the market. Loans to install solar panels in private houses and transition from non-renewable to renewable energy consumption. Green, resource-efficient buildings. Financing of constructions that employ building materials and techniques that minimize the carbon emissions.	United Nations Glossary, International Resource Panel
Waste		
Ability to manage waste, including the control, monitoring and regulation of the production, collection, transport, treatment and disposal of waste, and the prevention of waste production through in-process modifications, reuse and recycling during a project lifecycle. This includes waste reduction.	Zero waste business. Construction techniques that minimize the production of waste. Waste management enterprises in context with scarcity of such services.	United Nations Glossary, United Nations General Assembly
Water, air, soil, climate, biodiversity and ecosystems		
Quality, understood as the physical, chemical, biological, and taste-related properties of water, as well as the quantity of surface water and groundwater. Quality of ambient (outdoor) and household (indoor) air as exposed to contaminant or pollutant substances	Bank off-setting the carbon emissions of vehicles financed for the duration of the loan, by paying the protection of an equivalent land surface, in a context where this is not a common practice of the majority of banks. Sustainable and resilient agriculture. Water purification.	United Nations, European Commission, International Monetary Fund, OECD, World Bank

that do not disperse properly and that interfere with human health and welfare, or produce other harmful environmental effects. Composition of soil and its ability to deliver ecosystem services, in terms of food production, as biodiversity pools and as a regulator of gases, water and nutrients. Exposure to pollutants and factors that may interfere with this ability and soil stability Composition of the global atmosphere and its exposure to greenhouse gas (GHG) emissions as a direct factor contributing to climate change Variety of living organisms from all sources including terrestrial, marine and aquatic ecosystems and the ecosystems they are part of. This includes diversity within species, between species and of ecosystems.	Organic food, agriculture, other type of production. Environmental advocacy NGO Business designing engineering solutions for wildlife protection Organizations operating in the land conservation sector.	United Nations Statistics Division, WHO United Nations Glossary, FAO, European Environment Agency Intergovernmental Panel on Climate Change United Nations, Convention on Biological Diversity

Key concepts of sustainable and values-based finance

Values-Based Banking

Values-based banking is a mission driven approach to banking that puts finance at the service of people and planet. Social and environmental impact are at the heart of a values-based bank's business model. A focus on the real economy, strong engagement with its stakeholders, and a prudent approach to risk help make values-based banks financially resilient. Inherent in the values-based banking movement is a commitment to contribute to the positive development of the wider banking sector so it contributes to a more sustainable economy in the future.
Source: GABV

Sustainable Finance

Sustainable finance generally refers to the process of taking due account of **environmental, social and governance (ESG) considerations** when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects. More specifically, **environmental considerations** may refer to climate change mitigation and adaptation, as well as the environment more broadly, such as the preservation of biodiversity, pollution prevention and circular economy. **Social considerations** may refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues.
Source: European Commission.

Impact Investing

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals.
Source: GIIN

The Principles for Responsible Banking

The Principles provide the framework for a sustainable banking system and help the industry to demonstrate how it makes a positive contribution to society. They embed sustainability at the strategic, portfolio and transactional levels, and across all business areas.
Source: UNEP-FI