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1 The Integrated Impact Valuation Framework: A Guide

1.1 Introduction: From Impact to Action

In today's world, the environmental and social impacts of business are under intense scrutiny. But how can a company measure these impacts in a way that is consistent, comparable, and useful for making financial decisions?

This framework provides a comprehensive, data-driven system to translate complex environmental and social issues—like climate change, water scarcity, and labor practices—into the language of finance. It is a set of seven "playbooks" that work together to create a clear line of sight from a company's real-world footprint to its bottom line.

This guide walks you through each of the seven playbooks, explaining how they connect to form a powerful tool for navigating the transition to a sustainable and resilient economy.

1.2 Chapter 1: Valuing the Impact (Playbook 1 - IVF)

The Core Idea: Before we can manage impacts, we must first agree on what they are worth to society.

Playbook 1 establishes the foundation for the entire framework by assigning a standardized monetary value to each unit of impact. This is called the **Impact Value Factor (IVF)**.

Think of it like a price tag for externalities. For example: - **GHG Emissions:** The IVF is the **Social Cost of Carbon (SCC)**, which represents the long-term damage done by emitting one tonne of CO2. This might be valued at $100 per tonne. - **Water Consumption:** The IVF for using water in a water-scarce region is much higher than in a water-abundant one, reflecting the greater societal harm. - **Worker Safety:** The IVF for a workplace fatality is valued in the millions of dollars, based on established methodologies for the Value of a Statistical Life.

Key Takeaway: Playbook 1 creates the universal "ruler" we use to measure all different types of impacts, based on authoritative scientific and economic sources. At this stage, these are societal costs, not necessarily company costs.

1.3 Chapter 2: Measuring the Footprint (Playbook 2 - EF)

The Core Idea: Now that we have a price per unit, we need to measure an asset's total consumption and emission footprint.

Playbook 2 focuses on an asset's physical footprint. It defines the **Exposure Factors (EFs)** that link a company's activities to its physical impacts, including both what it consumes and what it emits.

This is the "how much" step, where dependency on resources becomes clear: - A power plant's **exposure** includes the tonnes of CO2 it emits *and* the cubic meters of water it consumes for cooling. - A farm's **exposure** is not just its emissions, but its high dependency on resource consumption, like the vast amount of water needed for irrigation or the hectares of land occupied. - Different sectors have different dependencies. The agricultural sector is far more dependent on water and land consumption than the IT services sector.

Key Takeaway: Playbook 2 connects what a business *does* with its physical impact, measuring its consumption of resources and its emission of pollutants. It requires good data, either from direct measurement (preferred) or credible industry benchmarks.

1.4 Chapter 3: Looking to the Future (Playbook 3 - VF)

The Core Idea: An exposure doesn't become a risk until it is vulnerable to change.

Playbook 3 introduces **Vulnerability Factors (VFs)** and **Scenarios**. It asks, "What if the rules of the game change?" This is where we model the future.

Scenarios are different potential futures, for example: 1. **Orderly Transition (1.5°C world):** Strong climate policies, high carbon prices, and nature-protection laws are enacted smoothly. 2. **Disorderly Transition:** Action is delayed, leading to sudden, sharp policy shifts. 3. **Hot House World (4°C world):** Few policies are enacted, leading to severe physical risks like floods, droughts, and heat stress.

A **Vulnerability Factor** determines how much an asset is affected in each scenario. Crucially, this is not just about external events. **A company's own management decisions can change its vulnerability.** - A coal plant is highly vulnerable to a 1.5°C scenario. But if management has a credible **transition plan** to retrofit it with carbon capture, its vulnerability is significantly reduced. - An unprepared company is a vulnerable one. A proactive company that adapts its strategy is resilient.

Key Takeaway: Playbook 3 is where risk crystallizes. It shows how an asset's exposure, when combined with external scenarios and internal management decisions, becomes a major liability or a strategic opportunity.

1.5 Chapter 4: Who's in Charge? (Playbook 4 - Governance)

The Core Idea: A powerful framework is useless without clear ownership and robust processes.

Playbook 4 provides the rulebook for implementing the entire system. It outlines the governance structure needed to make the valuation process credible, consistent, and auditable.

It establishes: - **Roles & Responsibilities:** Who owns the data? Who approves the scenarios? Who is accountable for the results? This is often defined using a "Three Lines of Defense" model (Business, Risk/Compliance, Audit). - **Board Oversight:** The Board of Directors sets the company's risk appetite and uses the framework's outputs to guide strategy. - **Data & Model Governance:** Ensures the data is accurate, the models are validated, and the process is transparent.

Key Takeaway: Playbook 4 turns the framework from a theoretical exercise into a managed, enterprise-wide business process, ensuring the integrity of the results.

1.6 Chapter 5: Slicing the Pie (Playbook 5 - Attribution)

The Core Idea: An asset has an impact, but who is accountable for it?

Playbook 5 answers the critical question of "who owns the impact." It provides a clear methodology for attributing an asset's total impact to the various entities that finance it, such as equity holders (investors) and debt holders (lenders).

The attribution hierarchy is key: 1. **Control-Based (Highest Priority):** If an entity has majority ownership or effective control (>50%), it is attributed **100% of the asset's impact**. 2. **Pro-Rata Financial Share (Default):** For minority investors or lenders, the impact is allocated based on their financial share (e.g., % of equity owned or % of total enterprise value for debt).

This process ensures that impacts are allocated logically and without double-counting across the financial system.

Key Takeaway: Playbook 5 is the crucial link that connects real-world asset impacts to a specific company's or investor's portfolio.

1.7 Chapter 6: Bridging the Gap (Playbook 6 - Finance Integration)

The Core Idea: How does a societal cost (an externality) become a real cost on a company's financial statements?

Playbook 6 is the bridge between the external world of societal impact and the internal world of corporate finance. It introduces the most important metric for financial decision-making: the **Transition Internalization Ratio (TIR)**.

TIR = Dependency (Financial Risk) / Impact Value (Societal Cost)

- A **low TIR (< 0.2)** means the company isn't paying for its societal impact. The risk is still external.
- A **high TIR (> 0.8)** means policies (like carbon taxes) or physical risks (like flood damage) are forcing the company to bear the cost. The externality has become an internal financial liability.

Key Takeaway: Playbook 6 translates the entire analysis into financial terms, allowing executives to see when and how sustainability issues will hit the P&L and balance sheet.

1.8 Chapter 7: From Data to Action (Playbook 7 - Strategy)

The Core Idea: How do we use all this analysis to make better decisions and create a credible transition plan?

Playbook 7 is the culmination of the framework. It integrates the insights from all previous playbooks into a coherent, enterprise-wide strategy.

This includes: - **Setting Science-Based Targets:** Using the analysis to set meaningful, data-driven goals for emissions reduction (SBTi) and nature (SBTN). - **Developing a Transition Plan:** Creating a detailed roadmap with milestones, capex plans, and technology pathways to achieve those targets. - **Optimizing Capital Allocation:** Using metrics like TIR and impact-adjusted returns to steer investment away from high-risk assets and toward opportunities. - **Engaging Stakeholders:** Communicating a credible, transparent, and data-backed strategy to investors, regulators, and customers.

Key Takeaway: Playbook 7 is where data becomes action. It provides the strategic tools for a company to not just manage risk, but to build a resilient and value-creating business model fit for a net-zero, nature-positive future.