

What could finance do today to help climate innovators bridge gaps to a sustainable future?

Collaboration between financial institutions, corporations and governments can help rebalance finance in service of entrepreneurial innovation.

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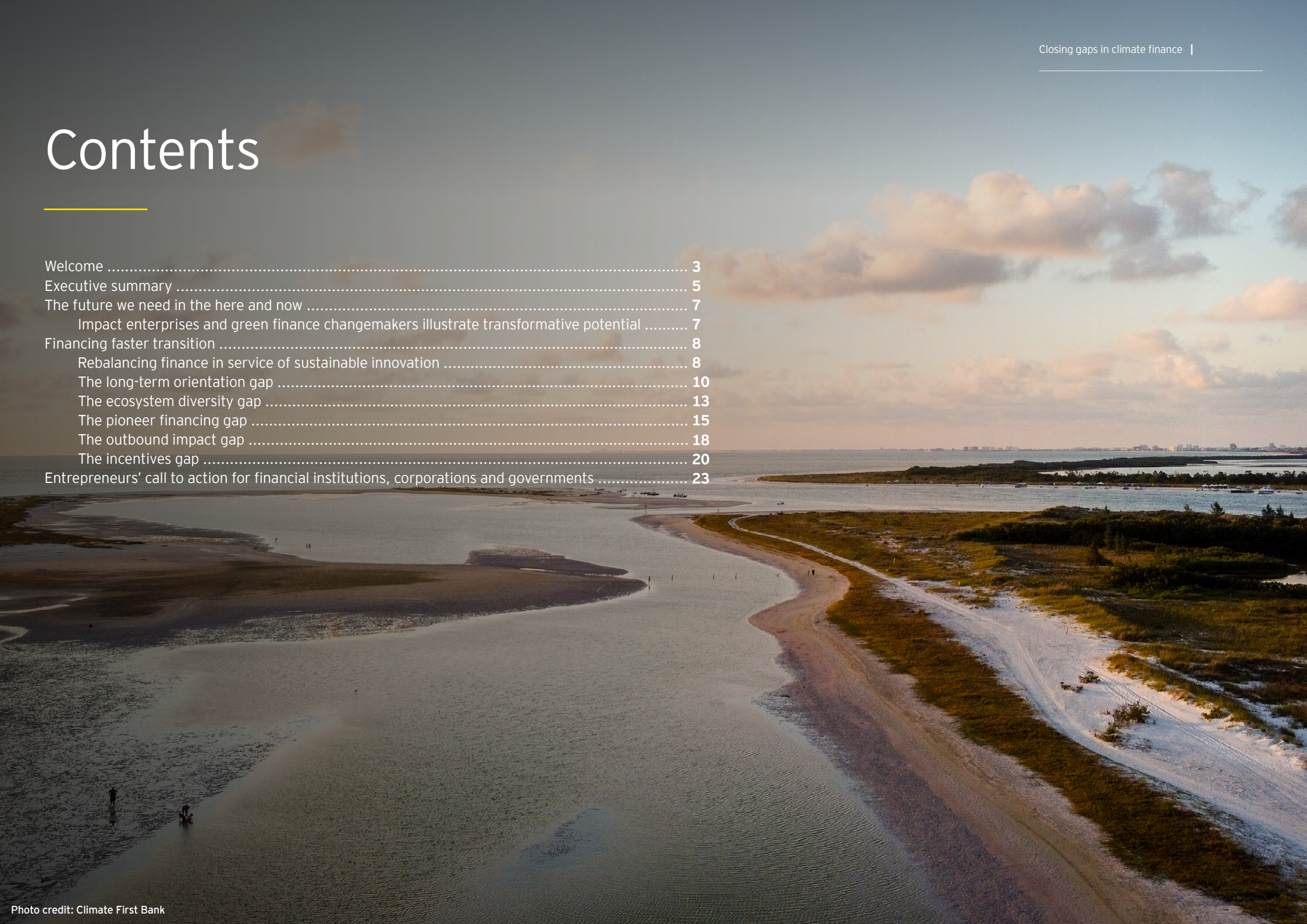
Building a better
working world



ASHOKA

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Welcome



Jeanine Buzali

Changemaker Companies Lead, North America – Ashoka

At Ashoka, we envision a world where everyone is a changemaker. Since 1980, we've built a network of over 4,000 Ashoka Fellows in nearly 100 countries – leading social entrepreneurs who are championing innovative ideas for transforming society's systems in ways that provide benefits for everyone and improve the lives of millions of people.

In 2020, we began piloting new ways of working together across this network to help address some of the world's most urgent challenges – among them, how to rebalance the relationship between humanity and the planet. Engaging with hundreds of relevant entrepreneurs, they all told us one thing. We cannot address the climate imperative without tackling the elephant in the room: financial and economic systems whose profit and growth equations neither fully account for the damage we do to nature, nor for the benefits nature brings us.

In the course of this collaboration with the EY organization, we've reviewed the models of hundreds

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A full-scale systemic shift toward “regenerative” capitalism may still feel a distant goal at present.

Jeanine Buzali

of innovative financial services enterprises and impact entrepreneurs, and conducted in-depth interviews with the most relevant ones. As well as offering glimpses of the future we need, insights from these exemplary innovators help us better understand how finance, and its many corporate players, must change if it's to fulfill its vital role in scaling transformative climate solutions.

While a full-scale systemic shift toward “regenerative” capitalism may still feel a distant goal at present, even relatively small shifts in mindsets, incentives and value metrics can begin to drive significant change in the right direction.

Critical gaps in our dominant economic model can be closed here and now, and we hope this report can add to the impetus to do so. We hope it will inspire financial institutions, large corporations and governments to learn from social sector pioneers who are lighting the road ahead, and to play their part in evolving a financial system truly in service of sustainable innovation.



Andrew Gallacher

Partner, Financial Services – Ernst & Young Ltd and EY EMEA Financial Services Actuarial Leader

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Sustainability is everyone’s business, and the healthy circulation of capital to small and mid-sized enterprises at local and regional scale, not just to large corporations, is critical.

Andrew Gallacher

“The future is already here – it’s just not evenly distributed.”

This famous William Gibson quote is apt in the context of tackling the climate crisis. The fact is, solutions are already at hand that can stop greenhouse gas levels from climbing and bring about their steady decline as early as the mid-2040s.¹ But we need to be able to scale those solutions.

That’s why I’m so excited that the EY organization is collaborating with Ashoka in publishing this report. It’s a powerful combination. EY teams work with a financial services industry that is innovating new products, services and business models with long-term value creation for people, society and the planet at their core. Ashoka brings a network of entrepreneurs who are

reframing the future here and now. Representative of the impact enterprises EY professionals are proud to help scale through the EY Ripples program, they’re making it their business to tackle the interconnected challenges of climate change and social inequality.

Sustainability is everybody’s business, and the healthy circulation of capital to small and mid-sized enterprises at local and regional scale, not just to large corporations, is critical. Their agility, ingenuity, and deep understanding of people and place is vital to accelerating the spread of culturally relevant innovations.

Concerted action by financial institutions, corporations and governments to close the five gaps outlined in this report can create more favorable conditions for that to happen.

¹ Project Drawdown, 2020. “The Drawdown review: climate solutions for a new decade,” *Drawdown website*, www.drawdown.org.



Executive Summary

The latest Intergovernmental Panel on Climate Change (IPCC) assessment is unequivocal. The window of opportunity is shrinking to achieve the deep emissions reductions across all sectors required to limit global warming to 1.5°C above preindustrial levels. Every year over the next decade and beyond, the world will need to mobilize trillions of dollars to transform business, decarbonize the economy and enhance climate resilience.

Too often, we define this need in terms of avoiding catastrophe, rather than actively designing for a positive vision of the future we want. As a result, even though the science tells us clearly what must be done, we're missing the hope and optimism that can inspire us to act at the pace and scale required.

What if, instead of dwelling on a dystopian future, we focused on how accelerating climate action now can create long-term value for business, society and the planet? What if we could identify innovations that are already providing better answers to the urgent and interconnected challenges of our time? What if the financial system worked in service of scaling these innovations and unleashing their full creative potential?

For the EY organization and Ashoka, these are not rhetorical questions. Both organizations have the privilege to work with and learn from an extraordinary network of transformative entrepreneurs, including those interviewed for and profiled in this report. They have a vision of the just,

inclusive and regenerative future we need, and are showing how pursuing that vision can create long-term value for all stakeholders. They are taking risks to innovate the products, services and business models that can be the vehicles for realizing it. And they are showing what is possible to achieve within the socioeconomic systems in which they operate.

Yet, with the right conditions, they and other innovators could be going further, faster. Systemic barriers are holding back impact enterprises – and sustainable businesses more broadly – from realizing their full potential. Creating and protecting value from sustainability is everybody's business, and we all share in interest in addressing these anchors on transformative potential.

Here and now, entrepreneurial business models are providing a glimpse into the future we need, and our collective challenge is to scale and replicate their positive impact at a systemic level. Creating more favorable conditions for this to happen, say our interviewees, requires action from financial institutions, corporations and governments to close a number of critical gaps:

The long-term orientation gap

- ▶ Investors adopting a more long-term, holistic perspective of value – taking full account of planetary thresholds when evaluating risk, attaching greater value to the social and environmental impact of any given investment, and rebalancing expectations around rates of return

The ecosystem diversity gap

- ▶ Financial institutions prioritizing the healthy circulation of capital to small and mid-sized enterprises at local and regional scale, not just to large corporations, so as to empower the diffusion of culturally relevant innovations
- ▶ Large corporations actively participating in local sustainable innovation ecosystems

The pioneer financing gap

- ▶ Developing new public-private partnerships and financial instruments that provide the right mix of capital, better supporting impact enterprises to test, iterate and scale breakthrough ideas

The outbound impact gap

- ▶ Policymakers and standard setters transforming ESG frameworks to take greater account of companies' outbound impacts on people and planet, thereby stimulating more transformative change and increased awareness that the health and vitality of economic, social and environmental systems are interdependent

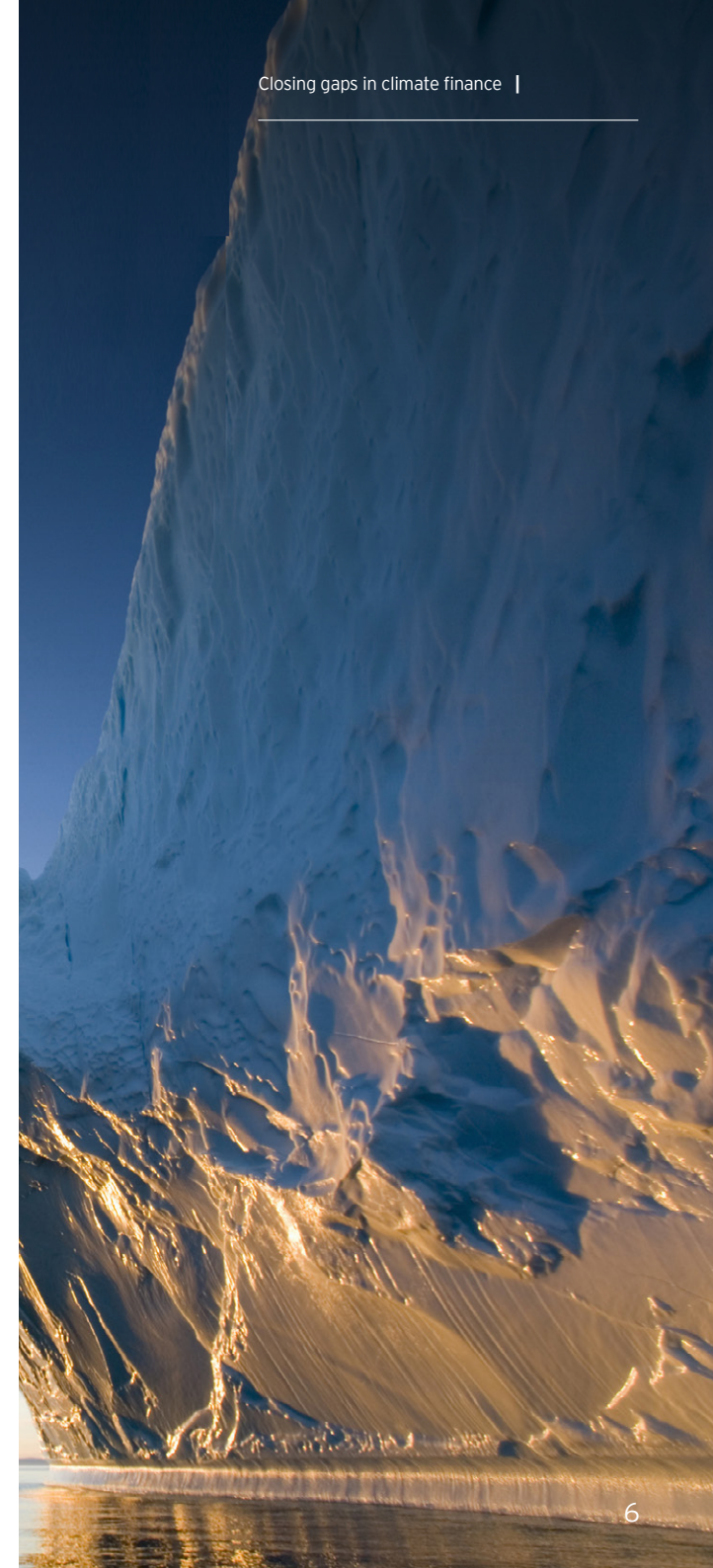
The incentives gap

- ▶ Governments reimagining subsidies and taxation to create more favorable conditions for climate innovation to flourish – not only penalizing undesirable behaviors and outcomes, but also doing more to incentivize positive ones

As these calls to action imply, rebalancing finance in service of sustainable innovation will require deep, long-term collaboration across the public sector, large companies, finance and sustainable innovators – not only to re-establish a different set of guiding principles, but also to continually sense and respond to the actions, behaviors and relationship dynamics they spawn.

It won't be easy, but the prize is worth the effort. It's a key step toward accelerating the advent of a livable, sustainable future – one in which we can meet the needs of current and future generations within the means of a flourishing planet; where long-term business success flows from solving the problems of people and planet, and scaling equitable access to those solutions.

Rebalancing finance in service of sustainable innovation will require deep, long-term collaboration across the public sector, large companies, finance and sustainable innovators.





The future we need in the here and now

Impact enterprises and green finance changemakers illustrate transformative potential

Per the famous William Gibson quote, the future is already here, it's just not evenly distributed yet. Innovators around the globe are manifesting a future in which business and financial services drive positive sustainability outcomes. By deploying innovative business models, using technology creatively and catalyzing new partnerships, they're carving out entrepreneurial spaces despite the constraints and resistance of incumbent systems. This report introduces nine organizations in EY and Ashoka entrepreneurial networks that are lighting the road ahead:

- ▶ **&Repeat** – striving to make the world more circular (see full profile on p16)
- ▶ **Canopy** – protecting the world's ancient and endangered forests by transforming supply chains (see p21)
- ▶ **Capital for Climate** – directing climate investment to where it matters most (see p22)
- ▶ **Carbon Tracker Initiative** – aligning capital market actions with climate reality (see p19)
- ▶ **Climate First Bank** – accelerating environmental sustainability through community banking (see p11)

Innovators around the globe are
manifesting a future in which
business and financial services
drive positive sustainability
outcomes.

- ▶ **Good4Trust** – nurturing a “prosumer economy” (see p14)
- ▶ **GoParity** – crowdlending to democratize access to sustainable finance (see p17)
- ▶ **Smarter Dharma** – empowering sustainable choices across real estate, hospitality and urban living (see p9)
- ▶ **Triodos Bank** – financing change and changing finance (see p12)

Financing faster transition

Rebalancing finance in service of sustainable innovation

As impressive as the achievements of these innovators are, in-depth interviews with them reveal several key gaps that not only act as anchors on their ability to realize impact enterprises' full potential, but also to realize the systems-level change and sustainability gains the world needs in the race to net zero and beyond.

At COP26, financial institutions with more than US\$130 trillion in assets under management committed to supporting the world achieving a state of net zero by 2050. Making sure that a fair share of that capital flows to entrepreneurial innovation is vital and not just in terms of impact enterprises' capacity to achieve scale faster.

As Sriram Kuchimanchi of Smarter Dharma observes, "A lot of money has been earmarked to meet the Paris Agreement but, in deploying those funds, people are still using economic models that pre-date our growing consciousness of the climate emergency. To achieve meaningful change, investors can't use the same old approach and expect different answers. We need a paradigm shift."

Closing the following gaps may help to shift mindsets and encourage more capital to flow in the direction of climate and social innovators.

	The gaps	The action agenda
Mindsets	1. The long-term orientation gap	<ul style="list-style-type: none"> Investors adopting a more long-term holistic perspective of value.
Capital flows	2. The ecosystem diversity gap	<ul style="list-style-type: none"> Financial institutions prioritizing the healthy circulation of capital to small and mid-sized enterprises at local and regional scale. Large corporations actively participating in local sustainable innovation ecosystems.
	3. The pioneer financing gap	<ul style="list-style-type: none"> New public-private partnerships and financial instruments providing the right mix of capital to support impact enterprises.
Policy	4. The outbound impact gap	<ul style="list-style-type: none"> Policy makers and standard setters transforming ESG frameworks to take greater account of outbound impacts on people and planet.
	5. The incentives gap	<ul style="list-style-type: none"> Governments reimagining subsidies and taxation to create more favorable conditions for climate innovation to flourish.

A financial system that operates in service of a diverse and thriving ecosystem of climate innovators of all sizes.

Case study



Sriram Kuchimanchi
Founder and CEO,
Smarter Dharma

Smarter Dharma

Founded: 2012, India

Focus: empowering sustainable choices across real estate, hospitality and urban living

Scope of operations: India

Bangalore-based social enterprise, Smarter Dharma, provides data-driven systems design and managed services to help businesses, governments and communities embrace sustainability and simplify decision-making.

Its approach begins with auto-setting sustainability goals, often aligned with India's Intended Nationally Determined Contribution to the Paris Agreement. Impact begins with realizing efficiencies in resource consumption, backed by accurate, contextualized data and access to the financial instruments needed to make informed decisions. Achieving those efficiencies provides Smarter Dharma's clients with both the motivation and the capital to pursue goals that might otherwise have seemed unattainable.

With an ambitious vision to help mitigate the equivalent of one billion tons of carbon emissions by 2030, integrating sustainability into decision-making at the earliest possible stage and building partnerships to co-create impact are core to Smarter Dharma's approach. In the case of the construction industry, both of these tenets are exemplified by its SD+ platform – India's first sustainability resource planning platform.

Focused on helping the industry design and develop high-performing, sustainable buildings, SD+ autogenerates customized solutions, depending on a given project's financial and sustainability goals, and integrates them into the design. Clients can then use the platform's curated vendor marketplace to select reliable vendors, and constantly track resource and financial impact. Financial instruments, which help bridge capital needs for implementation, help complete the circle.

Smarter Dharma's extensive analytics framework not only empowers companies to look for and evaluate improvements to building design, but also to understand building management and maintenance processes. This helps companies to evolve to meet various sustainability standards and supports behavior change among all stakeholders.

In terms of standards, the business is also trying to further its impact by translating insights from its work with early adopter companies into sustainability policy guidelines for the entire industry. In so doing, it aims to influence urban development authorities to update building standards, mandating the use of sustainable technologies that positively impact resource consumption across all new building designs, as well as retrofitting existing buildings.

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Sustainability isn't a technology problem, it's an internalization problem. Whether it's energy, water, waste or whatever, people too often look at these issues in isolation. In fact, they're interconnected, with people at the heart of it all. We use a data-driven approach to move sustainability from the periphery to the center of business decision-making.

Sriram Kuchimanchi



Photo credit: Smarter Dharma



Photo credit: Smarter Dharma



1.

The long-term orientation gap

“Why does every single euro need to make a financial return?” asks Triodos’ Riella Hollander-Van de Vondevoort. “If money can generate positive societal, cultural and ecological returns, which are incredibly valuable in and of themselves, is it logical to demand it makes a financial return, too?”

These provocative questions get to the heart of perceived flaws in the current financial system – the narrow focus on short-term profit maximization, the belief that capital must only seek the highest rate of financial return, and the blurring of investment and speculation, which contribute to a vicious cycle of chasing short-term returns over long-term, sustainable impact.

Growing momentum behind the stakeholder capitalism movement, including development of universal stakeholder capitalism metrics under the auspices of the World Economic Forum’s International Business Council (WEF-IBC), already signals recognition of the need for change. It embodies the belief that capital and talent must, and will, shift from organizations that only create value for shareholders to those that create long-term value for a broad group of stakeholders, including consumers, employees, suppliers, government, communities, investors and shareholders.

Organizations that authentically link their approach to long-term value to a meaningful purpose are best positioned to benefit from, demonstrate and measure the value they create.² Yet, although many business leaders have ambitions to adopt a more long-term focus, the EY Long-Term Value and Corporate Governance Survey suggests that board commitment to a strong ESG proposition remains constrained by short-term investor expectations.³ At first glance, this might appear to contradict a prior survey, indicating that 90% of institutional investors are attaching greater importance to ESG performance in their investment strategies and decision-making.⁴ However, what this appears to suggest is that, while investors are seeking proof of progress against ESG goals, expectations in terms of short-term earnings remain unchanged.

Entrepreneurs agree on the necessity of shifting investor mindsets – rebalancing priorities and expectations, focusing on investment in the real economy, and taking a more integrated view of impact, risk and return. This naturally encourages a more positive, long-term, holistic perspective, in turn leading to deeper consideration of, and greater value being attached to, the beneficial social, cultural and environmental outcomes of any given investment.

² Barton, D. et al, 2017. “Finally, evidence that managing for the long term pays off,” *Harvard Business Review website*, hbr.org/2017/02/finally-proof-that-managing-for-the-long-term-pays-off.

³ Teigland, J. and Hobbs, A., 2022. “How can boards strengthen governance to accelerate their ESG journeys?” *EY website*, [ey.com/en_gl/attractiveness/22/how-can-boards-strengthen-governance-to-accelerate-their-esg-journeys](https://www.ey.com/en_gl/attractiveness/22/how-can-boards-strengthen-governance-to-accelerate-their-esg-journeys).

⁴ Nelson, M., 2021. “Is your ESG data unlocking long-term value?” *EY website*, [ey.com/en_gl/assurance/is-your-esg-data-unlocking-long-term-value](https://www.ey.com/en_gl/assurance/is-your-esg-data-unlocking-long-term-value).

Case study



Photo credit: Climate First Bank

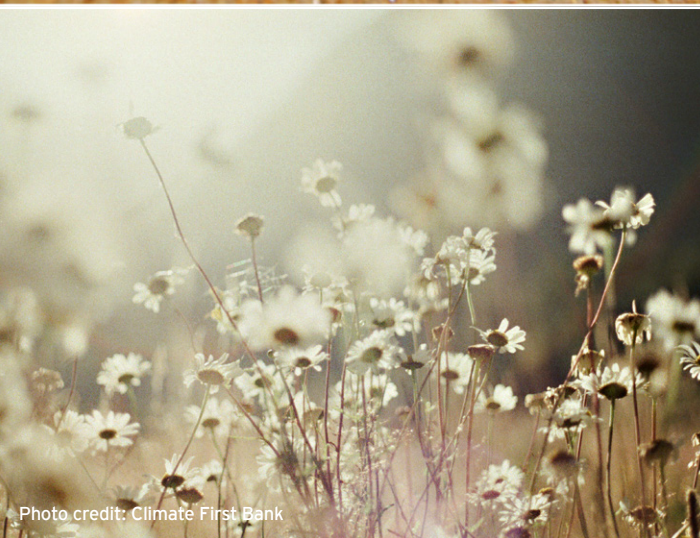
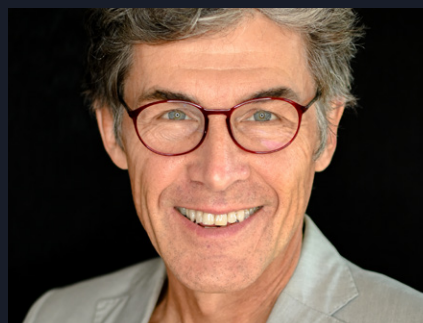


Photo credit: Climate First Bank



Ken LaRoe
Founder and CEO,
Climate First Bank

Climate First Bank

Founded: 2021, United States

Focus: accelerating environmental sustainability through community banking

Scope of operations: United States

Climate First Bank aims to change finance by financing change. A Florida state-chartered, FDIC-insured, full-service community bank, it's reimagining finance as a force for good in the drawdown of atmospheric CO₂.

Among several sustainability credentials, Climate First Bank is "1% for the Planet" certified (i.e., it donates at least 1% of revenues to environmental causes). It's also "Fossil Free Certified" (i.e., it doesn't finance fossil fuel companies) and is a member of the Net-Zero Banking Alliance (a UN Alliance committed to aligning banks' portfolios with net zero emissions by 2050 or sooner). The bank is also a "Pending B Corp," and is currently pursuing full B Corp certification.

⁵ Regeneration.org, n.d. "Welcome to Regeneration | Project Regeneration," *Regeneration.org website*, regeneration.org/solutions.

Perhaps most significant, though, is its suite of products, which includes a "Regeneration Checking" account for personal banking customers, and a range of specialized loan options for both personal and business customers to finance things, such as energy-saving building retrofits, rooftop solar and EV charger installations.

All these products are heavily influenced by the work of Paul Hawken and his nonprofit advocacy group, Project Regeneration, which outlines a system of interlocking initiatives capable of stemming the climate crisis in one generation.⁵ The checking account donates US\$100 to Project Regeneration for every qualifying account opened, as well as all interest earned; and the focus of specialized loans reflects the select band of regenerative solutions that a community bank is best positioned to affect.

Especially noteworthy is the bank's recently launched digital solar lending platform, which can provide customers with up to 100% financing for solar panels within 48 hours, with no down payment and no hidden dealer fees.

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Read Paul Hawken's books, 'Drawdown' and 'Regeneration,' and you realize there's a ton of things we can do right now to end the climate crisis. My job was to figure out which of these initiatives a community bank can actually affect and that's what we've done.

Ken LaRoe

Case study



Photo credit: Pieter van den Boogert



Photo credit: Bert Rietberg



**Riella Hollander-
Van de Vondevoort**
Managing
Director, Triodos
Regenerative
Money Centre

Triodos Bank

Founded: 1980, Netherlands

Focus: financing change and changing finance

Scope of operations: Western Europe (Belgium, Germany, the Netherlands, Spain and the UK) and emerging markets

Triodos Bank was founded on the conviction that banking and financial services can be a force for good, connecting savers, investors and donors with entrepreneurs, organizations and charities in a shared desire to make a positive and lasting impact.

Triodos Bank is unusual in that its mission is to only lend money to organizations in the real economy, whose activities are judged to be of social, cultural and environmental benefit (to the exclusion of sectors such as tobacco, fossil fuels and gambling). It even publishes details of every organization it lends to, so that customers can see exactly whom the bank is financing and why.

Through the Triodos Regenerative Money Centre (TRMC), the bank is going yet further to place long-term societal and ecological impact above short-term financial returns. From revolving funds and impact-first investing to gift money and impact-only donations, the TRMC supports initiatives that are pioneering new business models in the fields of food and nature, social inclusion, money and society,

and energy transition. Every donation and catalytic investment is intended to generate new perspectives on complex questions, to which traditional banking and investment products have yet to provide satisfactory answers.

By demonstrating that values-based, impact-driven banking and investments can be commercially robust and resilient, Triodos aims to inspire change across financial services. It explicitly advocates for revisions to the legal framework for all financial institutions, based on four integrated concepts:

- ▶ **A resilient, sustainable and inclusive economy** – as an essential part of society, the financial sector should serve the real economy and society as a whole.
- ▶ **All finance is impact finance** – all decisions about the use of money have an impact on people, communities, nature and society. Money can and should be made to work for people in a positive way.
- ▶ **Diversity in banking** – to better serve the diversity of our economies and the stability of the financial system, we need banks of all sizes, not just a small number of large ones.
- ▶ **Transparent banking** – stakeholders should know how their money is used by their bank and how their bank makes, or loses, its money. Trust in the financial sector depends on transparency about business models, lending activity and investments.

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Why is it that we allow companies' overriding goal to be maximizing profit, irrespective of the societal and environmental costs to current and future generations? Humans created our economic system. It's a collection of man-made rules and incentives, which means we can change them if we want to.

Riella Hollander-Van de Vondevoort

2.

The ecosystem diversity gap

Meeting expectations and living up to decarbonization goals will require accessing the best sustainability innovations around the world.

Closely allied to the dominant patterns of thinking that lead to an outsized focus on maximizing short-term financial returns is the emphasis on achieving efficiency through economies of scale. While attractive in terms of improving rates of return, the consequences of driving out diversity and redundancy can be disastrous for systemic resilience.

Leading thinkers on sustainability and regeneration, such as Daniel Wahl, advocate strongly not for large-scale, global recipes for change, but rather the creation of a vibrant and interconnected network of locally relevant responses. In this way, solutions are collectively capable of global impact, yet individually honor the specific contours of community and place.

This emphasizes the importance of encouraging the healthy circulation of capital to small and mid-sized enterprises at regional and local scale, not just to large corporations, so as to empower the diffusion of culturally relevant innovations.

For large companies, supporting and developing relationships with vibrant local ecosystems of small and mid-sized enterprises focused on sustainability challenges will

be essential to competitiveness and driving long-term value creation. Consumers and business partners increasingly expect sustainability to be inherent in the products and services they purchase. At the same, many large companies have declared ambitious decarbonization goals, but without a clear roadmap for achieving them.

Meeting expectations and living up to decarbonization goals will require accessing the best sustainability innovations around the world. And while large corporations may conduct business on a global scale, they actually operate in a number of unique places, each with its own environmental, social and economic dynamics. Success will depend on thinking globally, but developing local relationships and solutions.

As Sriram Kuchimanchi of Smarter Dharma comments, "Finding global solutions is tricky. I used to be more idealistic, not understanding that solutions are nuanced, simply because each country has its own unique localized challenges."

Case study



Dr. Uygur Özesmi
Founder &
Instigator,
Good4Trust

Core to this model is the so-called “Council of 7,” which is democratically elected by and from the prosumer community, with a specific eye to gender diversity (the current council is made up of four women and three men). Among the council’s roles is making decisions on the acceptance or removal of producers on the Good4Trust platform. This is based on analysis of factors, such as raw material and energy inputs, circularity of production processes, and the extent to which producers’ working conditions reflect respect and care for fundamental human rights. The council also provides the function of an advisory board to the Good4Trust administration, making policy decisions, monitoring the development of the platform and holding the leadership team to account on behalf of the community.

In this way – as the prosumer portmanteau implies – people who use the platform to purchase goods and services are not passive consumers. They are empowered to play a much more active role in maintaining the health and vitality of the community of which they’re part, based on a shared commitment to driving positive social and environmental impact.

Good4Trust

Founded: 2014, Turkey

Focus: nurturing a “prosumer economy”

Scope of operations: Turkey

Founded in Turkey and in the process of expanding to Chile, Germany and South Africa, Good4Trust is a social enterprise that believes in a different economic model – one rooted in mutuality.

Under one virtual roof, its online community brings together nearly 470 local producers, committed to ecologically and socially just operations, with approximately 22,000 socially conscious “prosumers.” Goods and services on offer through its online bazaars range from food, clothing and cleaning products to training and consultancy services. In addition to this B2C component, producers can also trade with each other wholesale, helping to create a circular flow of material inputs and outputs at scale.

Aside from its not-for-profit structure (any surplus profits are reinvested in scaling the platform), what elevates Good4Trust from ethical marketplace to genuine community of trust and reciprocity is its governance model.



Photo credit: Good4Trust

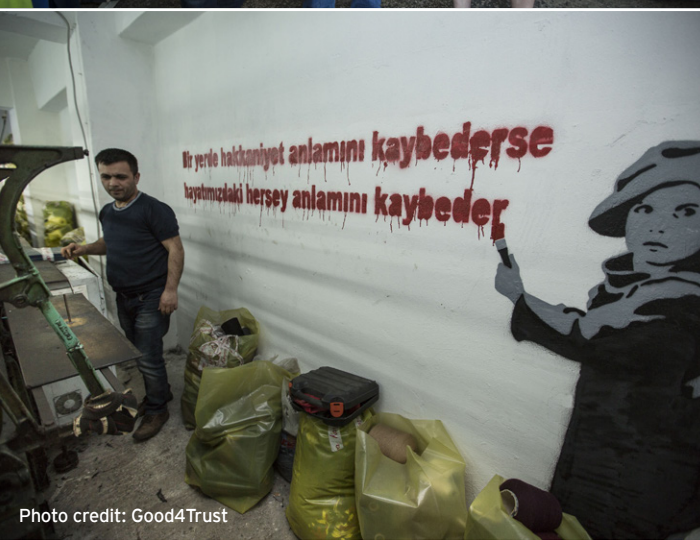


Photo credit: Good4Trust

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The current profit-maximizing capitalist system is unable to meet social needs, destroys nature and concentrates decision-making power. By contrast, the macro-scale, circular ecosystem we’re building reduces social and environmental externalities, and is self-governing.

Dr. Uygur Özesmi

3.

The pioneer financing gap

“The time and cost of building a platform, then signing up big brands to use it, is huge. You can see revenues, of course, but it can be years and years before you can even think about achieving breakeven and profitability.”

This quote from Gustaf Redin of &Repeat is indicative of the challenge facing many impact entrepreneurs. While it's common to think in binary terms – of pure philanthropic capital at one end of the spectrum and commercial investment at the other – the reality is that multiple forms of capital are needed to support enterprises through different phases of their development.

The attraction of commercial investment may be when impact enterprises can truly take flight, but somebody, somewhere, will have had to do the heavy lifting to help those enterprises reach the point where they become a commercially investible proposition. Go back one step and you're likely looking at “patient capital” that expects lower (though still fair) rates of return over a longer timeframe. Go back two and investors are probably prepared to work at breakeven. Go back to the beginning and you're most likely looking at donations and grant funding.

While investors adopting a more long-term, holistic perspective can help to some degree, it's only part of the equation. Another is the development of more blended financing and innovative financial instruments, specifically designed to accelerate positive societal and environmental impacts.

As Mark Campanale of the Carbon Tracker Initiative observes, in the earliest stages of development, “It's less a case of asking whether a project or enterprise is going to be hugely profitable and more a case of making sure it doesn't fall over before the model has a chance to prove itself.” This is where innovative public-private partnerships can come in – for example, using public money to catalyze private sector investment, as in the case of the Global Energy Efficiency and Renewable Energy Fund (GEEREF);⁶ or blending grant funding with customized business support, as the TRANSFORM initiative does, to help impact enterprises scale to point where they can ultimately become self-sustaining.⁷

As outlined in previous EY research,⁸ innovation and diffusion of new financial instruments, such as development impact bonds, can also play a significant role. Tying grant usage to the achievement of specific sustainable development outcomes, such instruments can help attract new and different sources of investment capital by distributing risk among investors and outcome funders. At the end of a successful development impact bond is an enterprise or project with a proven track record, capable of attracting further investment; outcomes funders with intended development outcomes achieved; and investors whose returns stimulates greater appetite for similar investments.

⁶ GEEREF, 2022. “What GEEREF is,” *GEEREF website*, [geeref.com/about/what-geeref-is.html](https://www.geeref.com/about/what-geeref-is.html).

⁷ TRANSFORM, 2022. “Delivering impact through the power of markets,” *Transform website*, www.transform.global.

⁸ Coates, J. and Gray, D., 2020. “Eight ways impact enterprises can transform the sanitation economy,” *EY website*, [ey.com/en_gl/corporate-responsibility/eight-ways-impact-enterprises-can-transform-the-sanitation-economy](https://www.ey.com/en_gl/corporate-responsibility/eight-ways-impact-enterprises-can-transform-the-sanitation-economy).

Case study



Photo credit: &Repeat



Photo credit: &Repeat



Gustaf Redin
EVP Business
Development,
&Repeat

&Repeat

Founded: 2020, Sweden

Focus: striving to make the world more circular

Scope of operations: Western Europe (Sweden and France)

In Sweden, two billion items of takeaway food packaging are used every year, less than 15% of which are recycled. If recycling rates were on a par with aluminum cans and PET bottles (around 85%), this could save the equivalent of 100,000 tons of carbon emissions a year – comparable to the emissions of 50% of annual road traffic in Stockholm.⁹

While the whole premise of takeaway food is based on convenience, knowing what to do with the packaging it comes in is anything but easy. But what if were easy to tell that packaging is recyclable? What if you could be given clear guidance on how to sort it correctly? And what if you were rewarded for doing so? These questions are exactly what &Repeat's model is designed to answer.

Affiliated restaurants, of which there are already more than 700 across Sweden and France, put a QR code sticker on their takeaway

packaging, which &Repeat has already verified is recyclable. Using &Repeat's app, customers then scan that code, receiving instructions on how to handle the packaging and information on the nearest recycling point. Upon recycling correctly, customers are credited up to SEK4, which they can put toward a future food order.

If sorted into domestic, office or public recycling bins (which customers can set up on the app), waste packaging enters general recycling streams. However, if sorted at dedicated &Repeat recycling stations, it's collected and transported to a central facility where it is checked, bailed and sent on to state-of-the-art recycling plants to be converted into new plastic and packaging board products. The efficacy of the app is evidenced by the waste arriving at this central facility, only 5% of which is either incorrectly sorted or too contaminated to be recycled.

In addition to its recycling services, &Repeat is also now branching out into reusable, returnable packaging, following its acquisition of barePack in France. With new French legislation set to ban single-use fast food containers for meals consumed on-site from January 2023, it's an important opportunity to learn about how models based on returnable packaging can be made economically viable.

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Our recycling rates are between four and six times higher than the base rate for single-use packaging, which comes from providing a combination of quality information and incentives.

Gustaf Redin

⁹ &Repeat, n.d. "About disposable packaging," &Repeat website, www.andrepeat.io/om-engangsforpackningar.

Case study



Nuno Brito Jorge
Co-founder and
CEO, GoParity

GoParity

Founded: 2017, Portugal

Focus: crowdlending to democratize access to sustainable finance

Scope of operations: Africa, Europe and South America

Believing that changing the course of life on Earth requires everyone to feel involved, GoParity provides an impact investment platform that connects projects and enterprises looking for finance with a network of individuals and organizations that want to invest sustainably.

A project to reforest the Belver region of Portugal, which was devastated by two wildfires in 2017, provides an excellent example of how GoParity works. At a total cost of more than €700,000 – largely co-funded by the Portuguese government's Rural Development Program and the EU – the aim of the project is to restore 600 hectares of forest by planting around 270,000 indigenous trees.

With €50,000 of the necessary funding opened up to GoParity investors, that sum was raised in less than 24 hours, with more than 120 investors each contributing an average of €360. Each of those investors is now part of a project that, once complete, will be capable of absorbing an estimated 5,940 tons of CO₂ per year (according to GoParity), while also promoting wildlife and biodiversity, and providing valuable jobs and income for local communities involved.

In total, GoParity has so far funded more than 160 projects across five focus areas – water and the blue economy, business in transition, green use of land, social innovation and sustainable energy. Cumulatively, these projects have contributed to the generation of more than 9,000 MWh of clean energy, the avoidance of over 22,000 tons of annual greenhouse gas emissions per year and the creation of nearly 5,000 jobs.

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I wish we could all be more patient. When we shift to long-term thinking, it becomes easier to balance profit and purpose — to acknowledge that the ability to generate fair, sustainable returns depends on positively impacting the health and wellbeing of the systems we're all part of.

Nuno Brito Jorge



4.

The outbound impact gap

While many of the entrepreneurs we spoke with see the rise of ESG as a positive signal that social and environmental concerns are now firmly at the top of the corporate agenda, it's notable that none expressed strong positive opinions about ESG metrics and reporting frameworks.

"It's still far too easy for big corporations to get away with not being good global citizens," says Gustaf Redin of &Repeat, reflecting the wider view that, while a welcome step in the right direction, ESG as currently framed is unlikely to drive the deep business model transformation needed to put the world on a 1.5°C pathway.

Such views are consistent with broader skepticism around ESG. Beyond issues of consistency and comparability, critics point to the absence of context – for example, the planetary boundaries and social foundations illustrated by economist Kate Raworth's "doughnut," which define the safe, just and regenerative operating space for humanity.¹⁰ They also criticize its inward-looking nature – i.e., predominantly concerned with how social and environmental upheaval might compromise the ability to sustain business-as-usual, rather than how business-as-usual might compromise the ability to sustain the social and environmental systems upon which we all depend.

As John Elkington, originator of the "triple bottom line," has argued, there can be no such thing as a sustainable company in an unsustainable economy.¹¹ Indeed, that's why he volunteered a recall of the concept in 2018, on the basis that it was too often being used to forge incremental strategies, rather than the intended purpose of provoking deeper, more systemic change.¹² Relative improvements in individual company performance do little to address systemic risks and failures, on which greater emphasis needs to be placed to identify and support breakthrough ideas that can generate meaningful change in absolute terms.

The EU Corporate Sustainability Reporting Directive (CSRD) will be a step in the right direction.¹³ By broadly applying the principle of "double materiality" to corporate sustainability reporting, it will require companies to report not only on inbound risk (the traditional sense of materiality), but also on their outward impacts on people and the planet. This is intended to reduce systemic risk, while also improving allocation of financial capital to companies and activities that address social, health and environmental problems.

¹⁰ Doughnut Economics Action Lab, 2021. "About Doughnut Economics," doughnuteconomics.org, doughnuteconomics.org/about-doughnut-economics.

¹¹ Elkington, J. and Roberts, R., 2019. Tomorrow's Capitalism: The Leadership Agenda for the 2020s. *Global Goals Yearbook 2019*, p.14.

¹² Elkington, J., 2018. "Zen and the Triple Bottom Line," *GreenBiz website*, www.greenbiz.com/article/zen-and-triple-bottom-line.

¹³ Wollmert, P. and Hobbs, A., 2021. "How the EU's new sustainability directive will be a game changer," *EY website*, www.ey.com/en_no/assurance/how-the-eu-s-new-sustainability-directive-will-be-a-game-changer.

Case study



Mark Campanale
Founder and
Executive
Chairman, Carbon
Tracker Initiative

Carbon Tracker Initiative

Founded: 2009, United Kingdom

Focus: aligning capital market actions with climate reality

Scope of operations: global

Recognizing that there's a limited carbon budget of cumulative emissions that must be respected to avoid destabilizing the global climate, Carbon Tracker believes that capital markets are failing to align the capital allocation process with this reality.

Its mission is to help markets understand and quantify these risks, and to help the investment community better understand the financial implications of tackling climate change. To this end, its team of financial market, energy and legal experts carries out in-depth analysis on the impact of energy transition on capital markets and future investment in fossil fuels, mapping both risks and opportunities for investors on the path to a low-carbon future.

The organization's analytical research identifies the highest-cost, riskiest investments, allowing for greater scrutiny by analysts, asset owners, investors, policy makers and financial regulators. Its regulatory research builds the case for reform of the financial regulatory system to improve transparency of climate-related financial risks. And its insights help those engaging with energy companies to plan future strategy and capital expenditure.

It's because of this research that terms, such as "carbon bubble," "unburnable carbon," and "stranded assets" have become cemented in the financial and environmental lexicon. By opening up a new way to understand value of fossil fuel companies' carbon stockpiles, this can change how financial analysts and fund managers determine investment risk. It can also help mobilize shareholders to demand that companies align their business plans with the goals of the Paris Agreement.

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Our intervention is to essentially persuade the financial community that there's a fundamental problem at the heart of the fossil fuel industry. Because we can't burn it all and we won't burn it all, most fossil fuels will have to remain in the ground.

Mark Campanale

5.

The incentives gap

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We must massively compress the timeline for mobilizing the investment necessary to halve emissions by 2030 and reach net zero by 2050.

Nicole Rycroft – *Canopy*

“There needs to be a reckoning that we don’t have the luxury of time,” says Nicole Rycroft of Canopy. “We must massively compress the timeline for mobilizing the investment necessary to halve emissions by 2030 and reach net zero by 2050.”

Echoing that sentiment, co-founder of Capital for Climate, Tony Lent, adds: “We’ve got the innovation community firing on all cylinders. What we’re still lacking is leadership on the demand side – governments providing risk mitigation investment that bolsters industry demand for climate solutions.”

These comments are indicative of the view that governments could and should be doing more to establish a better operating environment for climate innovators to flourish. While acknowledging that regulation can play a part, the innovators we spoke with are skeptical of its effectiveness and ability to keep pace with the unfolding climate crisis. Rather, there is broad consensus around

the need not only to curb undesirable behaviors, but also (preferably) to positively incentivize desirable ones.

As an example of this, leading thinkers, such as Walter Stahel, have long advocated appropriate sustainable taxation as a means to accelerate progress toward a circular economy.¹⁴ Rooted in stock management, rather than throughput, this essentially involves shifting from taxation of renewable resources (including human labor) to consumption of nonrenewable materials and energy, and the production of undesired wastes and emissions. Such changes could help to promote regional circular economies over a linear global one, based on local reuse of materials, and serve to increase the value and competitiveness of material-preserving business models.

As &Repeat’s Gustaf Redin comments, “We need the right incentives to make sure it actually pays to take care of materials and maintain them in closed loops. The reality is that, today, it’s still cheaper to source virgin fiber or plastics than to buy recycled materials, and that just doesn’t add up.”

¹⁴ Doughnut Economics Action Lab, 2021. “About Doughnut Economics,” doughnuteconomics.org, doughnuteconomics.org/about-doughnut-economics.

Case study



Photo crédit: Paul Hilton



Photo credit: Sophie Wright



Nicole Rycroft
Founder and
Executive Director,
Canopy

Canopy

Founded: 1999, Canada

Focus: protecting the world's ancient and endangered forests by transforming supply chains

Scope of operations: global

Every year, 3.2 billion trees are cut down to make paper packaging or cellulosic fabrics, such as rayon and viscose.¹⁵ Many of these trees come from the world's most ancient and endangered forests, whose protection is vital to safeguarding the climate, biodiversity, fresh water systems and frontline community rights.

Committed to conserving these ecosystems, Canopy works collectively with some of the world's largest fashion, food and beverage, and beauty and care brands, as well as publishers and printers, to bring low-carbon, forest-saving alternatives from the margins to the mainstream.

For example, its Pack4Good initiative and EcoPaper database help guide and support brands to green their paper packaging supply chains, focusing on materials that make use of recycled pulp and

paper, or alternative fibers, such as agricultural waste. In similar fashion, its CanopyStyle initiative focuses on scaling the supply and use of alternative, circular economy feedstocks for the production of viscose clothing. These include recycled textiles, agricultural residues and microbial cellulose grown through fermentation. Not only helping keep vital forest ecosystems standing, these various alternative technologies also commonly use 90% less water and up to 75% less energy to produce.

In addition, Canopy works with forest product purchasers, producers and suppliers to develop appropriate environmental policies – ones that seek to eliminate the sourcing of fibers that originate from ancient and endangered forests, that support development and sourcing of alternatives fibers, and that identify further opportunities to advance forest conservation.

Contributing to large-scale conservation gains across 25 million hectares of forest to date, Canopy has rallied hundreds of organizations to commit to eliminating ancient forest fibers from their supply chains. These include some of the world's largest companies and viscose producers representing almost 90% of global supply.

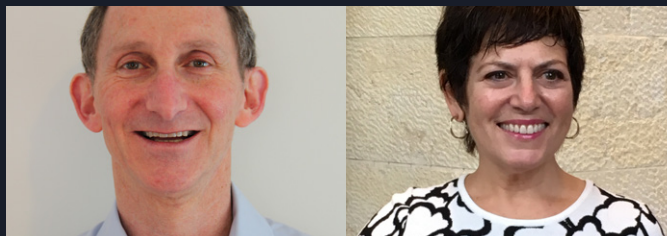
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We don't need to be cutting down 800-year-old trees to make pizza boxes and t-shirts. Humanity has to be smarter than that and alternatives already exist. They just need to be scaled.

Nicole Rycroft

¹⁵ Canopy, 2020. "About Canopy," *Canopy website*, canopyplanet.org/about-us.

Case study



Tony Lent
Co-founder, Capital for Climate

Deborah Stern
Co-founder, Capital for Climate

Capital for Climate

Founded: 2019, United States

Focus: directing climate investment to where it matters most

Scope of operations: global

Capital for Climate believes that limiting global warming to 1.5°C requires a step change in allocating capital to climate solutions – not just the amount invested, but also where that investment goes. The challenge is that many investors lack a clear understanding of which investments can have the greatest impact per dollar invested, as well as convenient access to knowledge and resources that can help them invest with confidence.

To help address these problems, Capital for Climate is building a climate solutions intelligence platform for proactive, large-scale investors. By letting allocators see the landscape of climate investment opportunities in one place, linked to science-based sectoral roadmaps, this will empower them to build strategies, navigate and source opportunities, and execute on investments aligned with 1.5°C pathways across all major sectors.

A free, public-purpose pilot of the platform was launched at COP26. This focused on nature-based solutions (NBS) precisely because these are among the most strategic and urgent investment opportunities for the climate and biodiversity, yet are also the least well understood. Spanning areas such as regenerative agriculture, forestry, land use and the blue economy, the platform is designed to orient investors to mission-critical solutions, according to leading research. It provides detailed investment theses on each solution, a commercially oriented database of investible opportunities available today and a compilation of key initiatives helping to accelerate investment.¹⁶

Institutional investors representing US\$130 trillion in collective assets under management have already committed to the net zero transition. However, while many have thus far focused on understanding climate risk to their portfolios, the vast majority are only beginning to focus on the investment opportunities linked to the transition. Capital for Climate is designed to make sure that the vast amount of capital dedicated to reaching net zero is allocated as quickly and effectively as possible to the climate solutions that matter most and provide market returns.

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Nature-based solutions can provide a third of the emissions reductions required by 2050 for a tenth of the investment needed to achieve energy transition.

Deborah Stern

¹⁶ Capital for Climate, 2021. "Nature-Based Solutions Investment," *Capital for Climate website*, nbs.capitalforclimate.com.



Photo credit: Capital for Climate



Photo credit: Capital for Climate

Entrepreneurs' call to action for financial institutions, corporations and governments

The window of opportunity is shrinking to achieve the deep emissions reductions across all sectors required to limit global warming to 1.5°C above preindustrial levels. Urgently needed are business model innovations that prioritize addressing the climate crisis, and interconnected issues of economic inclusion and social justice.

We are fortunate that this is where impact enterprises already live. These small and growing businesses represent pockets of the future we need, here and now. They are already lighting the road ahead, yet their ability – and the ability of sustainable business more broadly – to attract the investment needed to scale and replicate innovations is acting as an anchor on their full transformative potential.

With more than US\$130 trillion of institutional investment alone already committed to achieving net zero by 2050, this is less a question of whether sufficient capital exists than it is one of where that capital flows. Notwithstanding growing momentum behind the stakeholder capitalism movement, as long as the financial system continues to prioritize financial returns over all other considerations, it seems likely that capital will continue to flow disproportionately toward global corporations and solutions, potentially at the expense of financing more locally relevant entrepreneurial innovations.

Leveling the playing field requires fundamental shifts in how investors make decisions and the wider context within which those decisions are reached. The voices of impact entrepreneurs and finance innovators interviewed for this report are as one in framing critical gaps to be closed. They call for:

- ▶ Investors to adopt a more long-term, holistic perspective of value – taking full account of planetary thresholds when evaluating risk, attaching greater value to the social and environmental impact of any given investment, and rebalancing expectations around rates of return
- ▶ Financial institutions to prioritize the healthy circulation of capital to small and mid-sized enterprises at local and

regional scale, not just to large corporations, so as to empower the diffusion of culturally relevant innovations

- ▶ Greater corporate participation in local sustainable innovation ecosystems
- ▶ New public-private partnerships and financial instruments that provide the right mix of capital, better supporting impact enterprises to test, iterate and scale breakthrough ideas
- ▶ Policymakers and standard setters to transform ESG frameworks to take greater account of companies' outbound impacts on people and planet, thereby stimulating more transformative change and increased awareness that the health and vitality of economic, social and environmental systems are interdependent
- ▶ Governments to reimagine subsidies and taxation to create more favorable conditions for climate innovation to flourish – not only penalizing undesirable behaviors and outcomes, but also doing more to incentivize positive ones

None of these interventions should be made in isolation, nor in one-size-fits-all fashion. We need to move systems with an understanding of different characteristics and relationships in different settings. Indeed, a core reason for encouraging a healthier circulation of capital toward small- and mid-sized enterprises, operating at local and regional scale, is to help bring into being a greater diversity of culturally relevant climate solutions.

It's everybody's business to take action on sustainability, and this requires new and increased forms of collaboration between stakeholders, not individual actions. We can go further, faster together.

Doing so can not only enhance systemic resilience. It can also yield more widespread prosperity and human flourishing, creating long-term value for business, people, society and the planet by making better answers to the climate crisis more equitably available to all.

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At Ashoka, we envision a world where everyone is a changemaker.

Jeanine Buzali – *Changemaker Companies Lead,*
North America – Ashoka

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