Introduction

Increasingly, FIs are looking beyond risk mitigation and focusing more consciously on interventions that create value for the FI itself, or for the stakeholders with which it interacts. For the purposes of this document, value is considered in two ways, as follows:

- **Value protection:** this relates to opportunities that enable one to preserve existing value, thereby preventing the risk of value being destroyed. Value protection generally considers the risk elements of an investment and managing these to minimise or avoid value destruction through fines or penalties, business interruptions, reputational damage, etc.

- **Value creation:** this relates to opportunities that enable one to generate further/additional value beyond what would normally be achieved. From an E&S perspective, value creation generally relates to opportunities that will lead to increased investment returns through cost saving mechanisms, efficiencies and/or increased productivity and brand awareness.

Value add opportunities could present themselves in many ways depending on the types of financing activities a FI is involved in and the types of clients it lends to. Key focus areas include gender, climate change, job quality, financial inclusion, etc. Refer to the section on Gender-smart investing for FIs, Green financing: pursuing climate change investment opportunities and Integrating climate change into governance and risk management for guidance on specific value add strategies to adopt.

Defining a Strategic Intent

The selection of value-add focus areas should be informed by the FI's own ambitions, its business strategy, the nature and focus of its clients. (including the sectors within which its clients operate); and key E&S challenges or priorities for the jurisdictions in which it operates (these can be informed by national or global priorities such as the Sustainable Development Goals). Once a relevant value add focus area has been selected (i.e. gender-smart investing or climate change), the FI should consider what objectives it is seeking to achieve through pursuing interventions aligned with the chosen focus area.

Once a set of objectives have been established, there is a need to integrate them into the broader E&S Management System to provide a streamlined approach to driving value-add opportunities aligned with such objectives. This is undertaken through embedding such considerations into FI policies and core activities, including incorporation into each stage of the credit cycle (from deal origination, through pre-credit screening and due diligence, to monitoring and management). These approaches do not need to be developed from scratch and there are a host of different globally accepted frameworks that have been developed to support such development and implementation within companies. Examples include 2X Challenge, Task Force on Climate-related Financial Disclosures (TCFD), Greenhouse Gas Protocol, etc. Other examples can include (non-comprehensive list):

- Adoption of sectorial sustainability standards such as the Fair-Trade Initiative, the Forest Stewardship Council or the Rountable for Sustainable Palm Oil can help the client of an FI to access new markets through application of higher standards and/or a more sustainable product or offering.

- Energy efficiency standards such as ISO 50 001 for Energy Management, BREEAM or LEED for green buildings can help the client of an FI to achieve energy savings and improve its revenue.

- Standards such as ISO 45 001 – Occupational Health and Safety can help the client of an FI reduce its occupational accidents and as a result improve its production efficiency. Such ISO certification can also allow an FI client to access new markets through application of higher standards and/or a more sustainable product or offering.

The nature of the relationship between the FI and its clients means that the potential value for the client needs to be tangible to increase the liklelihood of a specific value-add intervention being implemented, as the FI has limited leverage over the operations of its clients. For this reason, ongoing engagement on the identified value-add topics is critical in supporting their effective implementation and the gathering of relevant data to assess the impact achieved by the relevant value-add interventions.

- E&S value-add considerations at each stage in the credit cycle

Credit stage	Value-add consideration
Transaction Origination	Determine whether there is potential to realise value through E&S within the transaction
Screening	Assess whether the FI able to drive E&S value-add within the transaction in question (i.e. whether this is feasible) and whether this is something the investor wants to actively pursue

Due Diligence	Identify specific value-add opportunities within the credit line that align with the FI’s strategic intent, and assess the role that they are likley to play in pursuing the opportunity.
Application, Structuring, Approval and Execution	Finalise proposed plan (including setting specific objectives and targets for any interventions identified, assigning roles and responsibilities, inputs and activities into action plan and defining specific monitoring and reporting requirements). Obtain alignment on agreed plans with credit committee and client and incorporate specific requirements into credit documentation.
Monitoring	Collect relevant data on a periodic basis to determine whether the value-add intervention is on track to achieve its goals, and to provide this feedback to relevant stakeholders.

It is important that there is alignment amongst key stakeholders regarding the value that the strategy will bring to the FI, and the most effective way to do this is through the development of a well-considered business plan which clearly illustrates the business benefits (financial, relational and reputational) of adopting the strategy in question.

The selection, oversight and/or management of specific E&S value-add opportunities should be determined on an credit by credit basis depending on a number of factors, including product type (Overdrafts vs Term Loans), the extent to which the FI is actively involved in the transaction or project and has an interest in driving such interventions.