

# Financial Valuation Tool

GLOBAL VALUE tool showcase



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## Introduction

# The GLOBAL VALUE tool showcase series

### **GLOBAL VALUE tool showcases: your guides to using tools**

Understanding a company's impact on sustainable development, and finding ways to manage it best, is not an easy task. With so many tools available, choosing one to invest time in is even more difficult. GLOBAL VALUE tool showcases will make this task easier.

We selected and tested 15 leading tools in different categories to help understand how each of them can help you achieve your assessment goals. Our tool showcases are meant to support you in deciding which tool best fits your company's needs. The tools were tested in collaboration with multinational companies from different sectors to give you practical tips on how to get the most from using each of the showcased tools.

### **Tools for managing impact on the Sustainable Development Goals**

The Sustainable Development Goals (SDGs) are the north star for global development for the next 15 years. Adopted by the United Nations in September 2015, these Goals have been developed in extensive consultation with the business community. For companies across the globe, the SDGs are both a challenge and an opportunity to serve global populations in a manner that is sustainable in the long-term. Each tested tool has also been screened for how many and which SDGs it may help companies tackle.

Find more tool showcases on the [GLOBAL VALUE Toolkit](#).

### **Tool selection**

The tool showcases feature [15 tools](#) that were selected from over 200 tools collected during three years of research in the context of the [GLOBAL VALUE project](#). These tools were shortlisted through an iterative consultation with GLOBAL VALUE consortium experts, who evaluated the strengths and weaknesses, feasibility and usability, methodology and added value of different tools in order to narrow down the list of tools to 15 for testing in an actual company setting.

The Financial Valuation Tool (FVT) was selected for testing as one of the few robust sustainability assessment tools that offer monetization of sustainability impacts.

### **Tool testing process**

The tool showcases are based on the experiences of three GLOBAL VALUE tool testers, who have implemented these tools in collaboration with [three multinational companies](#). The tools were tested with a specific focus on their operations in developing countries, in order to understand how each of them can help companies measure and manage their impacts on global sustainable development. The tool testing assessed each tool's feasibility and usability, user friendliness, content and context, methodology, data required and results provided.

This showcase will guide you through the main benefits and limitations, ease of use, tool adaptability to different geographical and company contexts, scope of value chain and SDG coverage, methodology for assessing impact, and the usefulness of output or results that the tool provides.

# An introduction to the Financial Valuation Tool

The Financial Valuation Tool (FVT) is a sustainability assessment tool available for download as a modelling software. It helps companies to **assess potential sustainability risks and financial returns** associated with sustainability investments.

The tool calculates Net Present Value (NPV) over a project's or a facility's lifecycle, defined by the user, by **quantifying and monetizing sustainability investment benefits, costs and risk impacts**. FVT estimates the differences on financial return and value through comparing two scenarios modelled by the user of the tool. Through that, it calculates the financial value created by assessed sustainability investments in comparison to a baseline scenario.

Expect questions about projected facility cash flows, risks, stakeholders and their influence, planned sustainability investments and their management, projected costs and potential benefits. The tool is a multi-level assessment consisting of a number of different steps that assess specific parameters required for the overall assessment.

The Financial Valuation Tool aims to **demonstrate how sustainability investments can create business value in financial terms**. It was developed to help companies **identify sustainability investments that can contribute to the bottom line, as well as make a positive contribution** to issues that are important to the company's stakeholders, including environmental sustainability, social well-being, health and safety, and others.

## At a glance

Web: <http://fvtool.com/>

Developer: International Financial Corporation

The IFC a member of the World Bank Group is the largest global development institution focused exclusively on the private sector in developing countries. IFC is primarily an international finance institution that provides advisory, investment and asset management support to the private sector with an aim of private sector development in developing countries.

Use the Financial Valuation Tool when you want to:

- **demonstrate how sustainability investments** can create business value in financial terms
- **assess potential sustainability risks and financial returns** of sustainability investments
- **identify sustainability investments that can contribute to the bottom line**, as well as make a positive contribution to issues that are important to the company's stakeholders.

## Features

# What you need to know about the FVT

This section gives you an overview of the key features of the FVT assessment. All important information that can help you decide on whether this is the tool for your needs is presented in a condensed format in the table below. For more elaborate information on the [icons](#) and to explore other tools please visit the [GLOBAL VALUE tool navigator](#).

Purpose	Scope	Output	Requirements	Access
   <p>The main purpose of the tool is to support <b>management control</b>. The tool is allows to simulate risks and their financial impact and compare strategic sustainability investments.</p>	      <p>The tool can be used to assess risks related to a <b>facility or a project</b> that is physically bound to a geographical location.</p>	      <p>Assessment results are provided in a <b>pie chart comparing the assessed sustainability initiatives</b> and a projection of <b>financial impact</b> on the company's revenues and value for a chosen time period.</p>	   <p>Tool implementation requires a minimum of <b>6 months</b>, if done properly. External stakeholder engagement is required and external consultant support may be useful.</p>	  <p>The tool is <b>free</b> to use and is available for download after a registration. Assessment is completely <b>anonymous</b> and runs on one's computer.</p>

### What did tool testers say - Overall experience

The FVT assessment is a robust and rigorous modelling exercise with risk assessment and financial modeling elements. It is designed to help organizations calculate the financial impact of risks and model how different sustainability investments can help mitigate the impacts. The results provided can be a powerful instrument for confirming a business case of sustainability initiatives and help shape organization development priorities.

The tool is fully customizable: users can decide the parameters of the assessment within the framework of the software's methodology. The FVT can be used to run assessments for MNCs and vertically integrated companies. However, each assessment is site and project specific.

### Want to explore other tools?

[GLOBAL VALUE tool navigator](#) features over 220 tools that all screened for the same features as the FVT.

## Benefits

# Key benefits and added value of the FVT

### Key benefits you can expect

- **Monetising business impacts**

FVT is one of the few available tools that offers a methodology for monetizing the effects of sustainability initiatives on the business itself. The tool guides you through identifying the risks the business faces, designing sustainability investments that can help address those risks, and running a cost benefit analysis of sustainability investments. Through this rigorous modelling exercise, FVT is able to calculate the financial impact of different sustainability scenarios on the business value.

- **Strengthening sustainability investments business case**

The tool estimates the financial impact of risks and compare the financial returns of sustainability investments to the business. By employing financial modeling and finance language for sustainability investment analysis, the tool helps in making a strong business case for new or existing investments in sustainability initiatives.

- **Transparency of results**

The reporting of results provided by the FVT is very extensive and gives an opportunity for the user to check the results and make a sensitivity analysis of various parameters. The corresponding guide to using the tool also provides practical tips of how to run one or the other step the FVT tool requires, who to involve, and where to find the necessary data.

Learn more about the SDGs and what they mean for your business on the [GLOBAL VALUE Toolkit](#).

### Sustainable Development Goal coverage

Financial Valuation Tool coverage of SDG depends on the user's choices of what sustainability issues and risks are to be evaluated. It has the potential to cover the SDGs, that are important to the project or facility stakeholders. This can range from decent jobs, health, education, to cities and communities or water and sanitation etc. The only limitation with respect to how many SDGs the tool can potentially cover, is that it only assesses how a company may affect relevant stakeholders. If an issue is not considered of direct importance to a relevant stakeholder, or is not a risk that can be addressed by a sustainability investment, it cannot be assessed using the FVT (e.g. issues related to risks posed by climate change).

It is up to the user to decide which SDGs are relevant for the specific case. Careful consideration and consultations with stakeholders should be considered when prioritizing the most important issues in each assessment.



## How to

# Implementation steps

### **STEP 1: defining the project or facility to be assessed**

The first step will define the scope and certain parameters relevant to the exercise, including financial parameters and modelling simulation parameter choices. The FVT was originally designed for assessing the risks of new mining projects and aid in the design of sustainability initiatives that help address those risks. Since then, it has been adapted to be suitable for many more industries and situations. You can run the FVT on a geographically defined project or facility. As a first step, you will be required to define "project phases" and their duration, which can be time periods of normal operation instead of project phases. You will also have to provide a few financial data points regarding the country of operations and your facility or project that is being assessed (incl. Weighted Average Cost of Capital, country inflation rate etc.). The tool also asks you to choose a country where the assessed facility or project takes place from a (currently limited) list of available countries. This choice impacts the Multilateral Investment Guarantee Agency (MIGA) Country Level Risk Rating that will be taken into account at the final calculations by the tool. If your country is not available in the given list, contact the FVT staff for a suggested alternative country that shares similar MIGA ratings for the purpose of this assessment. As a finalization of these initial steps, you will be asked to make a cash flow projection of your chosen project/facility for the phases and years you have defined at the beginning. These will be the baseline financial projections for calculating the returns of sustainability investments later.

### **STEP 2: defining project risks**

As a second major step in the assessment, you will be required to identify the major risks the project/facility faces, a phase for when those risks can appear, estimate their occurrence, duration of production delays each of them may cause, any one time costs, or recurring costs, and calculate lost revenue resulting from each of these risks. Bear in mind that the assessment can only assess risks that are posed by, or are important to, direct stakeholders.

### **STEP 3: identifying project/facility stakeholders and their influence**

As a third major step, you will be required to map your identified risks against identified stakeholders and estimate how your planned sustainability initiatives may mitigate or manage the risks. To do so you need to download a separate excel based risk tool from the FVT website. This additional tool will help you identify the stakeholders that are relevant for your project/facility assessed, their influence and the importance of the risks you identified to them. It will also ask you to define the sustainability initiatives you would plan to take that could mitigate the risks and estimate to what extent your defined sustainability initiatives can help mitigate or manage the identified risks. After filling in these estimates, the risk tool will provide you with the calculated input for this step of the FVT.

### **STEP 4: modeling sustainability investments and estimating their costs and benefits**

The tool at this stage assesses the quality of sustainability initiative management and the associated operating and capital costs, as well as benefits. Each defined sustainability assessment will have to be evaluated using a questionnaire about its management (including policies, practices, performance, and budget allocations). The results of the questionnaire will affect the estimates of how effective each sustainability assessment will be in mitigating the defined risks. Secondly, the tool will ask you to estimate the operational (OPEX) and capital costs (CAPEX) of each sustainability initiative, as well as financial benefits.

### **STEP 5: Calculating and analyzing results**

After all the above mentioned steps are completed, you will be able to calculate the results and will receive a detailed comparison between two identified scenarios of sustainability investments and how they effect the financial performance of the project/facility.

## How to

### Implementation steps (cont.)

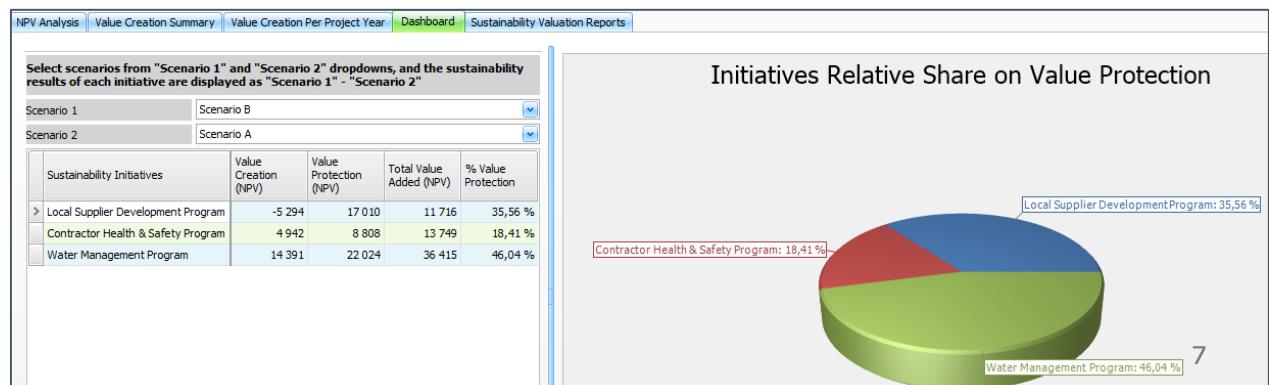
#### Illustration for Step 2:

Identifying the potential risks and their effects on the project/facility is a crucial element of the FVT. Based on our tool testing experiences, consulting relevant external stakeholders may greatly enhance the assessment of risks done by internal management teams. One aspect to keep in mind, is that only the risks that are somehow related to direct company stakeholders can be assessed using the FVT tool. As a result, risks, such as higher sea level caused by climate change, cannot be taken into account using the FVT methodology, as it (in most cases) is not an environmental risk that is not triggered by a company stakeholder, and thus cannot be addressed by a sustainability initiative addressing stakeholder concerns. Identifying the financial effects of risks is tricky, but the tool allows to select different levels of certainty for each risk and each parameter. E.g. selecting triangular distribution will allow for flexibility in estimating ranges of possible values rather than exact values in cases where those are less certain.

#### Illustration for Step 5:

The tool results in a range of tables and graphs that estimate the potential financial impact of sustainability initiatives over a defined period of time. This illustrated pie chart graphically compares assessed sustainability initiatives on their ability to positively effect facility or project value protection.

Project Definition		Value Protection		Sustainability Programs				Value Creation																																																																									
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<b>One Time Costs ('000s)</b> Distribution: Triangular Minimum: 250,00      250,00      250,00 Likely: 500,00      500,00      500,00 Maximum: 750,00      750,00      750,00																																																																																	
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## Suitability

# Tool testing insights: FVT for MNCs

### **Financial Valuation Tool for MNCs**

The FVT is a rare tool that helps companies monetize and assess the business case of sustainability investments. In resource-tight times, this tool can be a powerful resource for multinational companies in estimating and comparing the benefits of planned sustainability investments that go beyond the reputational or employee motivation gains. The tool assesses real risks, the real financial consequences of those risks, in terms of production or project disruptions, and estimates whether the costs of sustainability investments outweigh the benefits they may have in mitigating the potential risks.

The FVT was developed by IFC in partnership with Rio Tinto and Deloitte. The tool was developed to help mining companies address community risks and help them demonstrate the benefits of sustainability investments in ensuring the financial viability and smooth operation of a mining project. Since then, it has been adapted and used by a number of other industries. However it remains more suitable for assessing physical operations, that is plants or factories, rather than new or existing service based businesses.

The tool remains limited in the types of risks or financial consequences it is suitable for analyzing. Only the risks that are of importance to direct company stakeholders, and that can be addressed with locally implemented sustainability initiatives, can be addressed. As a result, other risks that can either not be addressed by sustainability initiatives benefiting direct stakeholders or cause financial impacts beyond production disruption and loss of revenue (e.g. brand value damage) cannot be assessed.

### **Ease of use**

The FVT tool is quite a rigorous and demanding assessment that requires the involvement of numerous departments and external stakeholders for a meaningful and robust assessment. The tool requires a significant time input from the user, and usually takes up to 6 months to implement in its entirety.

The tool is complemented by a number of additional tools, helping with individual assessment steps (Risk Tool, Benchmarking Tool), and an extensive practical guide with detailed step-by-step guidance and tips on how to implement the tool. Users can also contact the developers for advice or assistance with a specific step. However, the tool is complex and the links between the individual steps, and implications of user's choices in initial stages of the tool are not easy to understand and operate. For a user who is a novice in financial modelling and risk assessments, it can require time to understand how the tool operates and familiarize oneself with the specific terminology. Knowledge about cost/benefit analyses, risk assessment methodologies and finance is required. The downloaded tools come with a completed tutorial assessment that demonstrates how to fill in each of the steps and what results can look like.

The tool is a downloadable software, which carries a benefit of complete anonymity, but, at the same time, a disadvantage that the assessment remains on one device and cannot be shared among team members.

The tool is a complex and demanding, however it can provide powerful insights that can build a strong business case for sustainability assessments inside a company.

## Review

# The FVT Assessment approach to measuring and managing impact

### Managing for global value

All the tools GLOBAL VALUE tested exhibit a different approach to managing a company's impact on sustainable development. Tested approaches include tools that assess a company's management system, monetize sustainability impacts or map impacts and build strategies for mitigating negative impacts and enhancing positive impacts.

In order to capture these differences, and what each of these approaches brings to a company wanting to measure and manage its impacts, each of the tools tested were evaluated against a set of criteria developed by the GLOBAL VALUE consortium. Find out more about the criteria we used [here](#). An online [Expert Crowd](#) of more than 260 experts from a variety of organisations and stakeholder groups globally has also been involved in developing the criteria to ensure that the most important concerns of science, businesses, civil society and policymakers are reflected.

This section will provide insights into the underlying assumptions of how the FVT evaluates the impact of a company using the tool, and the usefulness of the results that the FVT provides for managing business impacts on sustainable development.

Learn more about how to use tools for managing your impact on the SDGs on the [GLOBAL VALUE toolkit](#)!

### FVT Assessment approach

FVT analyses the financial impact of community risks posed by a company facility or project, and helps identify effective sustainability investments to ensure that the impacts on the community are mitigated in ways that carry the biggest financial benefit to the company. The risks that the tool assesses are, in essence, the impacts the company poses on the communities around its plant or factory. Thus, it identifies the impacts on communities and helps manage the resulting financial impacts on the company itself.

FVT operates on the assumption that if you address and mitigate social and environmental issues that are important to stakeholders, you can protect and increase your financial value over a number of years. With this approach, it is limited to only assessing risks that are of direct relevance to stakeholders.

The tool uses a variety of approaches for impact measurement and management and varied data types. The tool employs a monetization approach to impact, by estimating the financial impact of community impacts on the business value. It also assesses the process when estimating the potential of sustainability investments in mitigating the financial impact of risks. The FVT requires both quantitative and qualitative data, which can be obtained from existing company registries, as well as collected by engaging different departments, external stakeholders or experts through workshops, and/or consultations. Testing experience showed that identifying and analysing the most important impacts, and hence risks, regarding environmental and social risks from operations might require consultation with trusted external stakeholders.

### FVT Assessment output

Assessment results are extensive and tailored to internal use. However, little guidance is provided on how to analyze the results. Nevertheless, they can be powerful in the benefits of sustainability investments.

## Resources

### Further resources

- International Financial Corporation (IFC): <http://www.ifc.org>
- FV Tool: <https://www.fvtool.com/>
- FVT Tool Guide: <https://www.fvtool.com/downloads/user-guide-april2014.pdf>
- Sustainable Development Goals (SDGs): <https://sustainabledevelopment.un.org>
- GLOBAL VALUE Project: [www.global-value.eu](http://www.global-value.eu)
- GLOBAL VALUE Toolkit: [www.global-value.eu/toolkit](http://www.global-value.eu/toolkit)
- GLOBAL VALUE Tool navigator: [www.global-value.eu/navigator](http://www.global-value.eu/navigator)
- GLOBAL VALUE Expert Crowd: [www.global-value.eu/toolkit/expert-crowd](http://www.global-value.eu/toolkit/expert-crowd)
- Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group: <https://www.miga.org/Pages/Home.aspx>
- Farsang, A.; Reisch, L. A.; Temmes, A.; Wiman, A.; Munrat, S. H. A.; Jenkins, A.; Schönherr, N.; Martinuzzi, A. (2016) GLOBAL VALUE Deliverable 4.03. Final Comparative Assessment Report.



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