THE BISCAY MODEL

Executive summary

UCL INSTITUTE FOR INNOVATION
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The Biscay Model: Executive Summary by UCL Institute for Innovation and Public Purpose

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The Biscay Model: Executive summary

1 Introduction

Can taxation tools to help advance the United Nations Sustainable Development Goals (SDGs)? In 2020, the UCL Institute for Innovation and Public Purpose (IIPP) undertook a partnership with the Biscay regional tax team to explore this question. This resulted in the development a composite index tool, the Biscay Model, which enables authorities to measure corporate SDG performance in priority areas in order to link it to tax incentives. This work marks new thinking around the role of regional fiscal policy tools in providing directionality and shape markets to be greener and fairer. Such work has the potential to help regions and states better address the climate emergency and pursue the SDGs.

The Biscay project is described in two main documents. The first is the *Concept Note*, which describes the challenge, details the rationale for a market-shaping approach, and introduces the composite index approach and its core components. The second document, the *Summary Contribution Areas*, describes the 28 indicators or contribution areas (CAs) that compose the index; this provides a starting place for further consultation. This executive summary covers the main ideas set out in these two documents. Additional information on the project, including the link to a policy brief aimed at practitioners, can be found here.

The executive summary is divided into six sections. Section 2 highlights the importance of the region's tax autonomy and the local SDG challenges that the government has prioritised. Drawing from the *Concept Note*, Section 3 reviews the theoretical underpinnings and guiding principles of the Biscay Model, and Section 4 outlines the building blocks of the composite index model and how it is scored. It focuses on the contribution areas, as covered in the *Summary Contribution Areas* document. Section 5 describes how these scores are brought together in the index. Section 6 concludes.

2 The Biscay tax autonomy capacity, the Biscay priority areas and the SDGs

The tax powers of the Biscay region enable it to do something revolutionary: to become the first local or regional authority to implement fiscal policies that are aligned with the SDGs. Through its work with IIPP, the Biscay region has become a 'living lab' for a new way of thinking about taxation and sustainability. This aspiration is consistent with the region's role at the forefront of efforts for sustainable, equitable growth and well-being for its inhabitants, which is made possible through its high levels of autonomy, unique history, capacity to collect all taxes and establish tax laws, and strong regional commitment to innovation and equality.

However, the region faces a series of specific challenges, and the Biscay Government has identified three priority areas (henceforth the 'Biscay priorities'), which form the focus of and motivate the Biscay Model for aligning SDGs and taxation. These include:

- Demographic shifts: Population ageing and care, gender equity, low birth rates and migration are all areas of focus for the regional government.
- Climate crisis: In the Biscay region, there is both the need to protect and restore natural areas, as well as to address climate risks through the reorientation of the economy towards more sustainable production.
- Economic resilience: Finally, the government is working to shift the Biscay economy to be greener, more inclusive, and focused on innovation and entrepreneurship in order to drive economic growth.

These three priorities correspond — although not perfectly — with targets within ten of the 17 SDGs. More specifically, for the first priority, SDG3 (Health), SDG4 (Quality education), and SDG5 (Gender); for the second priority, SDG7 (Energy), SDG12 (Sustainable consumption), SDG13 (Climate), and SDG15 (Life on land); and for the third priority, SDG8 (Decent work), SDG9 (Infrastructure and R&D), and SDG11 (Cities). These provided the SDG focus when developing the index.

3 Principles of the Biscay Model

In bringing together the SDGs and fiscal policy, the Biscay Model embraces a set of design principles. Overarching these principles is a recognition that this tool would work in concert both with other tax instruments, as well as fit within a portfolio of other policies and regulations around corporate responsibility, climate and the SDGs.

- Tilting the playing field: The model rewards contributions to the SDGs – rather than penalising behaviour. As such, this goes beyond an approach of correcting 'market failures' and negative externalities to encourage progress on societal challenges. The model enables 'market-shaping': the state is not just levelling the playing field but actively tilting it in the direction of sustainable outcomes.
- Inclusive approach: The model is designed to be simple and inclusive, specifically recognising the importance of micro and small enterprises, not only large corporate actors. In this spirit, the approach is *ipsative* and focused on driving change and performance improvements across priority areas, not just the achievement of targets.
- Public value focus: The model focuses on the interaction between the public and private sectors and towards wider considerations of 'public value'. Public value is the value that is created collectively for a public purpose.
- Context driven and embedded: The model is context-driven and focuses on Biscay's three priorities rather than seeking to capture all 17 SDGs. Wherever possible, the model is linked to existing targets and reporting standards. We also view the model as embedded in, and enabled by, broader shifts across government and society towards sustainable development.

4 The Biscay Model building blocks

The Biscay Model has been designed as a means of encouraging action; as designed, corporations opt into a reporting against the index, which produces a score that can be translated into a tax incentive. Indices like the Biscay Model have the advantage of allowing actions in a range of arenas to be scored and combined; this is an alternative to translating all actions into Pounds and Euros, for example, which can be difficult to do when thinking about important changes, such as to gender policies, which may not have a material cost.

This section describes the different elements that form the composite index, the Biscay Model. These include *Negative Screening, Contribution Areas, Measurement and Scoring,* and *Calculating the Index*.

4.1 Negative screening

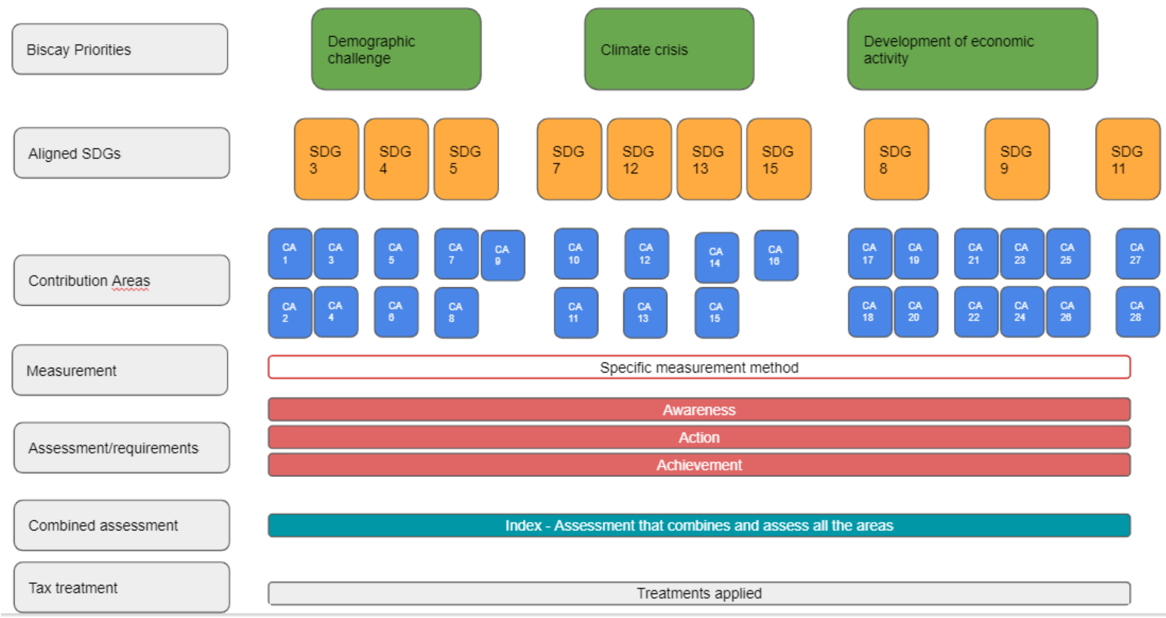
While the initiative is designed to be inclusive and inspire participation across sectors, we recognise that it is important to exclude some companies whose business models or activities are particularly detrimental to the SDGs; this is known as negative screening. Negative screening is an area that has been debated and researched extensively within the investment industry.
The Norwegian Government Pension Fund Global (NGPFG) system provides a robust model; it is internationally respected, has US$ 1.1 trillion invested, and has published guidelines for negative screening. Adopting a simplified version of the NGPFG, would allow those using the Biscay Model to screen out companies that, for example, manufacture certain types of weapons (nuclear or cluster munitions), base their operations on coal, or produce tobacco.

4.2 Defining the Contribution Areas

The Biscay Model is a composite index composed of 28 contribution areas (CAs) (see more detail in appendix 1). The CAs capture the key ways in which a corporation can advance or *contribute to* the ten prioritised SDGs and the three regional strategic priority areas, namely demographic shifts, climate change, and economic resilience.

These contribution areas were determined through the process depicted in Figure 1. This figure shows the relationship between the overarching Biscay Priorities, the associated SDGs, and then the CAs that correspond to the selected SDGs. The selection and development of the CAs was aided through work by the UN Global Compact, for example, which has done extensive work connecting and translating SDG indicators into measures that would be appropriate at the corporate, rather than national level.

Figure 1: The Biscay model, selecting the contribution areas



An extended list of potential indicators was refined and narrowed through joint work by the IIPP Research Team and the Biscay tax authorities, with attention to local context, priorities, and the relationship existing legislation, tax instruments, and reporting initiatives. A full list of the 28 CAs and their measurement can be found in Appendix 1.

In combining many different types of CAs or indicators, we recognise that the units and types of reporting across the index will be highly varied. Table 1 outlines a variety of approaches that may be taken for measuring activities within the Biscay Model, ranging from companies providing evidence of policies, such as family friendly leave, to percentage change, such as the reduction of emissions. Greater detail on the CAs and what types of disclosures would be necessary for each indicator can be found in Appendix 1.

Table 1: Types of assessment

Measures	Explanation
# of actions or plans	The company will be scored based on the number of actions or plans it has taken from a list.
Yes/No	The company will score the three achievement points if it has taken the defined action. No action points are available.
%, # reached	The company will be scored based on the % or # reached.
% change	The company will be scored based on the % improvement (current year vs previous or base year).

4.3 Rewarding effort

The Biscay model is designed to both drive private sector actors' awareness of the SDGs and corporate impact as well as to encourage improved performance. To this end, the index does not simply set a single target for each contribution area that is either achieved or not. Instead, the index is designed to incentivise a range of activities and effort of increasing intensity.

As outlined in Table 2 below, these activities are Awareness, which involves reporting and does not take into account performance, Action, which involves demonstrating progress, and Achievement, which involves demonstrating the attainment of a 2030 target. This approach is ipsative; this means that the model is designed to encourage improvement over time, not just to reward outstanding performance.

Table 2: Company effort

Effort	Description	Evidenced by
Awareness	Many companies are unaware of the goals and how their actions may be contributing to their achievement. The model encourages companies to demonstrate awareness of their impact on the SDGs.	Awareness is signalled through annual corporate reporting, which provides baseline data.
Action	The model drives action and behavioural change across identified areas. The focus is on encouraging companies to start contributing to the achievement of the SDGs, no matter their starting point.	Action is captured through demonstrating progress towards the SDGs, for example, an increase in the use of renewable energy.
Achievement	Finally, the model recognises achievement and companies whose practices are in line with international sustainability standards or with the performance of international leaders.	Achievement is captured through demonstrating the achievement of a defined target.

4.4 An Example: Women in Leadership

Table 3 provides a detailed example of how Contribution Area 4e, which falls under SDG5 – Equality, Women in leadership, is composed. Firstly, the way in which the CA is assessed is listed; this clarifies what is being measured and in what units. Secondly, the way in which the CA is scored is laid out; this clarifies what types of activities are necessary for reaching the threshold for Awareness, Action and Achievement. Next, what a company would be expected to report is clarified; if there are particular standards for disclosure, these are clarified here. Finally, a definitions section provides definitions for key terms.

Table 3: Women in leadership; Contribution Area 4e; SDG5 - Equality.

Assessment	Proportion of directors and senior managers that are female. *Metric for medium and large entities* Leadership gender percentage *(medium and large)*: ▪ Number of women in the board of directors and senior management personnel Divided by ▪ Total number of people in board of directors and senior management personnel *Metric for a micro and small entities* Leadership gender percentage *(micro and small)*: ▪ Number of female senior management personnel Divided by ▪ Total number of senior management personnel
Scoring	*Awareness* The entity discloses the required information (see reporting) and is below the 'action' threshold for that year. *Action* The entity discloses the required information (see reporting) and: ▪ during the period 2021-2024: leadership gender percentage is greater than 20% ▪ during the period 2025-2027: leadership gender percentage is greater than 25% ▪ during the period 2028-2030: leadership gender percentage is greater than 30% *Achievement* The entity discloses the required information (see reporting) and: ▪ leadership gender percentage is between 40% and 60%

Reporting

The entity discloses:

- the resulting leadership gender percentage even if the figure is zero

Definitions

Board of directors

The consultative, executive and collegiate body, made up of the minimum and maximum indicated in the Articles of Association or, failing this, by the General Meeting, but in no case may it be less than 3 directors or more than 12 (art. 242.2 LSC). The board of directors is the highest management group that leads a company (public or private limited company). Thus, it is made up of the managers selected by the general shareholders' meeting, acting in accordance with the provisions of the organisation's articles of association.

Leadership gender percentage (medium and large):

- Number of women in the board of directors and senior management personnel

Divided by

- Total number of people in board of directors and senior management personnel

Leadership gender percentage (micro and small):

- Number of female senior management personnel

Divided by

- Total number of senior management personnel

Micro, small, medium and large entities

	Income or assets	Employees
Micro entities	< 2 mill.	< 10
Small entities	< 10 mill.	< 50

Medium entities	< €50 million	< 250
Large entities	> €50 million	> 250

Senior management personnel

Senior management personnel are considered to be those employees who exercise powers inherent to the legal ownership of the company, and relating to its general objectives, with autonomy and full responsibility only limited by the criteria and direct instructions emanating from the person or the higher governing and administrative bodies of the entity that respectively occupies that ownership.

5 Calculating the index

The company's index score is the sum of CA points; if they exceed a set level of total points in one year, companies become eligible for a favourable tax treatment. Participating companies are awarded points in reference to three, increasing levels of effort: awareness, action and achievement in each CA. In order to reward greater efforts, an increasing number of points is associated with increasing activities. Table 3 lays out a simple scheme.

Table 3: Connecting Activities to Points

Comment	Points
Achievement: Reporting and already met or exceeded the 2030 target	3
Action: Reporting and improving towards the 2030 target	2
Awareness: Reporting and no or insufficient action towards the 2030 target	1
No or insufficient reporting	0

However, weighting is an important tool that allows governments to adjust which levels and areas they want to promote over time. How the levels are weighted between awareness, action and achievement can shift, as well as change the overall value of the index. Table 4 lays out three different schemes, A, B and C, in which Achievement, Action and Awareness have different values, which shift the incentive structures.

Table 4: Weighting within a CA

	Example weighting levels		
	A	B	C
Achievement: Meets or exceeds the 2030 target	3	10	10
Action: Sufficient improvement toward the 2030 target	2	5	9
Awareness: Reporting; no or insufficient action towards target	1	1	1
No reporting	0	0	0

Furthermore, the weighting between CAs can shift the incentives to focus on different CAs:

1. All CAs are weighted equally; the only differences are between the levels (awareness, action, achievement).
2. All priority areas are weighted the same. This means that priority areas with more CAs do not dominate the index.
3. Most CAs are weighted the same, but certain priority CAs are over-weighted; this means that achievement in one CA, for example, could allow the company to meet the number of points needed to receive the tax benefits.

Weighting provides an excellent means for policymakers to continue to experiment with and adjust the index to encourage activities or disclosures; as time goes by, policy actors would also have the option to increase or decrease the overall threshold needed to receive a tax incentive. For example, this threshold may start quite low in order to encourage engagement by companies and then be increased as more companies participate and processes for reporting become more routinized.

6 Looking forward: public consultation and testing

This document summarises the Biscay Model, a composite index tool used to measure corporate SDG performance for tax purposes. The tool is designed to raise awareness of the SDGs, increase reporting, and provide a clear and measurable direction towards sustainable development for participating companies. While there have been considerable efforts around reporting standards and indicators, the Biscay Model takes this further by developing a set of measures – at Awareness, Action and Achievement levels – to clarify what 'good performance' looks like in the region.

Looking forward, while much has been done on model design and the definition of the company contribution areas, work remains to gain local buy-in and further refine the instrument to local needs and existing practices. As such, the *Concept Note* and *Summary of Contribution Areas* documents provide a framework for greater public consultation and debate over local 2030 targets. We recommend further consultation with four key stakeholders: associated government ministries, academic experts and NGOs, verification bodies, and the companies themselves. This process will enable the proposed CAs to be taken as a starting point and tested: Are targets, thresholds and scores in line with government policy? What data is likely to be available from companies? What are the verification issues likely to be?

This work thus marks a starting point in a wider-ranging set of conversations about performance, regional priorities, sustainability, and taxation. This is a singular attempt to bring taxation in line with SDG priorities and, as such, to 'tilt the playing field' towards the types of economic activity and investment critical for the Biscay region — and the globe — to create a more sustainable and inclusive future.

7 Appendix 1. Summary of contribution areas

Ref	CA	SDG	Measurement	Scoring method
4a	Well-being and health	3 - Health	# policies and actions	# of plans (3 periods)
4b	Conciliation in the work environment	3 - Health	# policies and actions	# of plans (3 periods)
4c	Quality employment	3 - Health	# internships or % recruitment	Yes/No or % change from previous year and % reached
4d	Complementary corporate social security	3 - Health	Pension scheme	Yes/No modified
4e	Leadership	5 - Equality	% women in leadership	% reached (3 periods)
4f	Professional development	4 - Education	# policies and actions	# of plans (3 periods)
4g	Quality education	4 - Education	# partnerships with education	Yes/No
4h	Labour gap	5 - Equality	% hourly wage gap	% reached (3 periods)
4i	Gender violence in the workplace	5 - Equality	# policies and plans	List (3 periods)
5a	Consumption and production of renewable energy	7 - Energy	% of green electricity	% reached (10 periods)
5b	Energy efficiency	7 - Energy	Energy intensity ratio	% change from base year (10 periods)

Ref	CA	SDG	Measurement	Scoring method
5c	Use of raw materials	12 - SCP*	Material productivity ratio	% change from base year (3 periods)
5d	Circular economy	12 - SCP*	% waste diverted	% change from previous year (3 periods)
5e	Greenhouse gases	13 - Climate	GHG emissions	% change from base year (10 periods)
5f	Resilience in the face of climate change	13 - Climate	Plan	Yes/No
5g	Conservation of ecosystems	15 - Land use	Supplier screening – Yes/No or % reached	Yes/No or Phased % reached then % changed from previous year
6a	Entrepreneurship	8 - Sustainable growth	% SDG investing or staff policy	% reached (3 periods) or Yes/No
6b	Innovation	8 - Sustainable growth	SDG R&D %	% reached (3 periods)
6c	Collaboration and strategic alliances	8 - Sustainable growth	# partnerships	# reached (3 periods)
6d	Talent	8 - Sustainable growth	# actions	# of actions (3 periods)
6e	Private financing	9 - Sustainable industrialisation	SDG invested / sales %	% reached (3 periods)

Ref	CA	SDG	Measurement	Scoring method
6f	Financing by the financial sector	9 - Sustainable industrialisation	SDG invested %	% reached (3 periods)
6g	Structuring of productive investments	9 - Sustainable industrialisation	SDG invested %	% reached (3 periods)
6h	Digital economy	9 - Sustainable industrialisation	# changes to digital business	# reached (3 periods)
6i	Resilience of economic activity	9 - Sustainable industrialisation	New or diversified activities	Yes/No
6j	Small trade and fair trade	9 - Sustainable industrialisation	% of supplies	% change from base year (3 periods) and ratio reached
6k	Access to housing	11 - Sustainable cities and communities	% void properties or actions	% change from base year (3 periods) and ratio reached or # of actions (3 periods)
6l	Development of infrastructures for the promotion of productive activity	11 - Sustainable cities and communities	% invested in productive infrastructure	% reached (3 periods)

* 12 - SCP = 12 - Sustainable Consumption and Production

** 3 periods = there are three thresholds each covering one of three time periods (2021-2024; 2025-2027; 2028-2030)

*** 10 periods = as above but each year has its own threshold (2021, 2022….2030)

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