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Moving Forward With SDGs: Metrics for Action

The UN's Sustainable Development Goals (SDGs) are a moral imperative and an economic necessity.

– Anne Simpson, Investment Director,
Sustainability, CalPERS

EXECUTIVE SUMMARY

- Momentum is building within the private sector to achieve the U.N.'s SDGs; however, current progress is insufficient to achieve the goals.
- A key challenge lies in identifying fit-for-purpose metrics to inform SDG-aligned business activities and capital allocation by corporate finance teams or market participants.
- Although financial institutions are committed to directing capital into SDG-aligned strategies, many reporting frameworks are still in the early stages of maturity.
- Proposed best practice criteria for measuring and disclosing private sector SDG outcomes will help to scale up private sector SDG-aligned actions in ways that are robust and measurable against the SDG targets of countries.
- Quantified assessment and disclosure of total value (financial, social, and environmental) will help private sector participants move from awareness to meaningful action on SDG-aligned business and capital allocation.

INTRODUCTION

The private sector is mobilizing to achieve the SDGs to end poverty, protect the planet, and ensure prosperity for all. In constant pursuit of returning shareholder value, corporations are looking for ways that SDG-aligned strategies can give a true measure of shareholder value. Financial institutions are voicing their support and creating investment opportunities, companies are identifying business value and reporting their contributions, and a multitude of frameworks are emerging to fill the gap between ambition and attainment.

The appeal of the 17 global SDGs lies in their harmonization of the three dimensions of sustainable development—social inclusion, environmental

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protection, and economic growth. The U.N. is clear that addressing critical social and environmental challenges must “go hand-in-hand with strategies that build economic growth.”¹ The U.N. further acknowledges that while its agenda will require the mobilization of trillions of dollars in resources, there are more than enough savings in the world to finance the new agenda.

As of August 2017, Trucost had identified market participants with USD 4 trillion in assets making SDG commitments, from Dutch leaders APG and PGGM, to U.S. heavyweights CalPERS and State Street. Trucost found commitments often aligned with firms’ corporate responsibility priorities. In a 2016 survey of institutional investors representing USD 5.9 trillion by the Principles of Responsible Investment, 62% of respondents believed that acting on the SDGs could create opportunities for increased financial returns, indicating growing interest in SDG-aligned strategies.² As a result, SDG investment products are being developed, such as the partnership of BNP Paribas and the World Bank, resulting in EUR 163 million in bonds financing projects that advance SDG priorities.³

Corporate sustainability leaders are also identifying business value from SDG-aligned strategies. Unilever’s Paul Polman said, “SDGs present a clear moral case for change, but companies must recognize that they represent the business opportunity of a lifetime too and must adapt to take advantage of it.”⁴ For some, it’s also about business continuity. Kim Marotta, MillerCoors’ sustainability director, said, “This [SDG] framework can open up opportunities for us to address our material issues in an integrated manner and develop transformative solutions that not only future-proofs our operations, but can also help our business remain commercially sustainable.”⁵ The World Business Council for Sustainable Business Development reported that 50 of its 163 member companies surveyed for 2016 communicated SDG progress in their non-financing reports, with this figure likely to increase year-over-year.⁶

It is clear that, despite some momentum, a long journey remains. Recent research suggests that none of the SDGs will be met in all regions of the world by 2030, and not even one-half of the 17 SDGs will be met in any region.⁷

¹ United Nations, *The Sustainable Development Agenda*, (2017), Link: <http://www.un.org/sustainabledevelopment/development-agenda/>.

² ShareAction, UNPRI, The Baring Foundation, *Transforming Our World Through Investment: An introductory study of institutional investors’ role in supporting the Sustainable Development Goals*, (2016).

³ World Bank, *SDG Bonds*, (2016), Link: <http://treasury.worldbank.org/cmd/htm/The-World-Bank-Launches-Two-New-Sustainable-Development-Bonds-for-the-ItalianMarket.html>.

⁴ GreenBiz, *How the C-suite is reaching for Global Goals*, (2017), Link <https://www.greenbiz.com/article/engaging-c-suite-reach-global-goals>.

⁵ GreenBiz, *How the C-suite is reaching for Global Goals*, (2017), Link <https://www.greenbiz.com/article/engaging-c-suite-reach-global-goals>.

⁶ World Business Council for Sustainable Development, *Reporting Matters*, (2016), Link http://wbcsdservers.org/web/wbcsdfiles/files/2016/10/WBCSD_Reporting_matters_2016_interactive.pdf.

⁷ DNV GL, *Spaceship Earth*, (2016), Link <https://www.dnvgl.com/technology-innovation/spaceship-earth/>.

The private sector still needs to determine which of its impacts are material and measure them, optimize business strategies to align financial value with social value and avoided risk, and set context-based targets for benchmarking and scenario analysis. While 75% of companies that signed the U.N. Global Compact state they have actions in place to address the SDGs, these are often for single SDGs—particularly SDG 8 (promote inclusive and sustainable economic growth, employment and decent work for all) and SDG 3 (ensure healthy lives and promote well-being for all at all ages). Furthermore, many of these initiatives are aimed at mapping existing programs to SDGs, with few companies publically setting targets. Lack of standardized reporting is identified as a barrier to effective reporting for market participants.⁸ Robust metrics are also important to avoid “greenwashing,” wherein reporting only on positive contributions to SDGs may be perceived as a means to mask the negative impacts associated with financial value creation.

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To increase the pace, market participants require a practical toolkit of fit-for-purpose metrics and analytics. Based on Trucost’s experience analyzing corporate and investor non-financial performance metrics and disclosure over the past 15 years, we propose the following set of best practice criteria for private sector SDG alignment that we believe are foundational for more widespread adoption based on credible, robust disclosures.

Trucost’s Proposed Best Practice Criteria for SDG Action

- **Total value creation:** Metrics and frameworks incorporate financial, social, and environmental value creation to assess materiality and quantify impacts.
- **Material:** Programs focus on the narrow set of SDGs that are financially relevant and where the business has potential to make the most significant positive or negative impact.
- **Quantifiable outcomes:** Frameworks include specific metrics that can be measured so that companies and investors can quantify impacts and track performance over time.
- **Measurable against targets:** Metrics are context based, taking into account geographic differences, and quantifiable in a way they can be compared to SDG global targets.
- **Market context:** Frameworks are mapped to current responsible investment and environmental, social, and governance (ESG) reporting frameworks already in use in different sectors.
- **Value chain:** SDG alignment considers the full range of positive and negative activities across a corporate value chain, spanning from sourcing and manufacturing activities in the supply chain and the company’s own operations, to the products and services provided through the company’s business model.

⁸ U.N. Global Compact, *United Nations Global Compact Progress Report*, (2017), Link: https://www.unglobalcompact.org/docs/publications/UN%20Impact%20Brochure_Concept-FINAL.pdf.

- **Comparable:** Ideal frameworks and metrics will allow for market participants to compare performance within and across industry sectors as well as across asset classes.

With these criteria, Trucost seeks to break the mold on traditional fundamental and ESG analysis, which are often separate and siloed. We propose an approach that connects private sector financial, environmental, and social value creation with the impact on sustainable sovereign-level economic growth.

Trucost acknowledges that progress on SDGs is more important than perfection in measurement, and welcomes feedback and discussion on these proposed best practice criteria as a means to increase the pace and breadth of private sector action.

TRUCOST'S ASSESSMENT OF LEADING SDG FRAMEWORKS

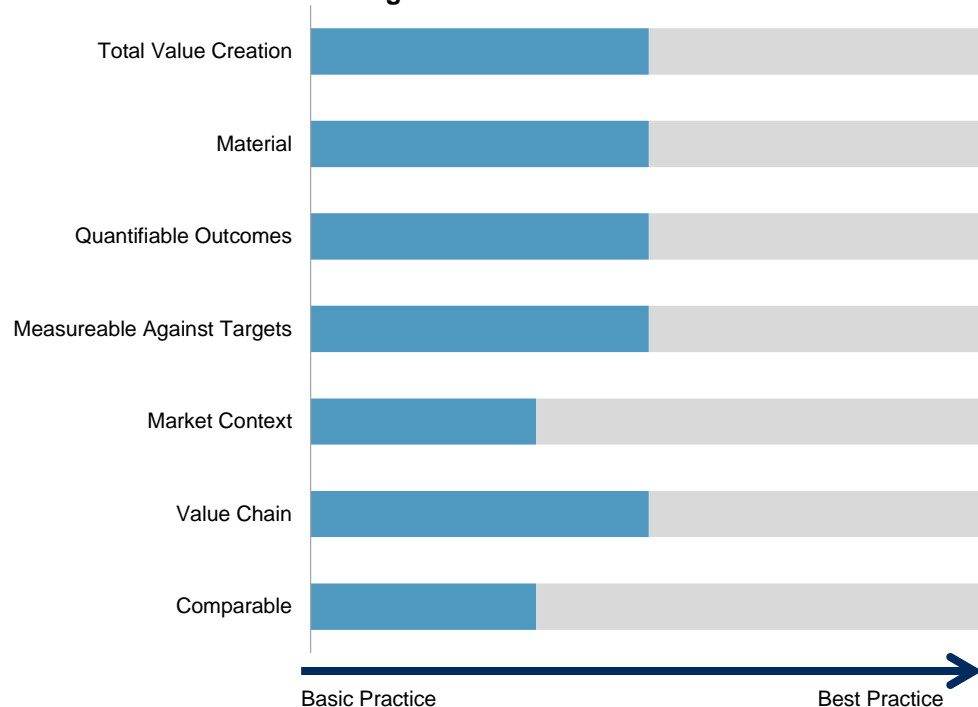
Trucost conducted a survey of major asset owners and fund managers to assess the appetite for SDG-aligned investment. Assessing the commitments made by financial institutions highlighted some regularly referenced and highly collaborative frameworks. Trucost further identified SDG frameworks representative of the depth of academic research and leadership in impact investing from the Cambridge Institute for Sustainability Leadership (CISL), the Dutch SDG Investing (SDGI) Agenda, the Global Reporting Initiative (GRI) and U.N. Global Compact, Earth Security Group with HSBC, and the Sustainable Development Investment (SDI) framework.

These frameworks provide critical guidance to help make the SDGs approachable for the private sector. They are all the result of cooperative efforts with multiple academic, non-profit, for-profit, and nongovernmental organizations and financial institutions. Through that broad and deep collaboration, the frameworks outline ways to view SDG impacts unique to sectors and asset classes.

The frameworks vary, ranging from general approaches without precise metrics to assess SDG-aligned investments, to detailed approaches with indicator-specific metrics, yet they are missing the connection between economic value and new market development. Not surprisingly, frameworks oriented to private sector value creation struggle to address SDG 16 (promote just, peaceful, and inclusive societies) and SDG 17 (revitalize the global partnership for sustainable development). While it is important to measure each SDG separately to assess progress, viewing the SDGs as an interconnected web provides insights on total value creation. Here lies an opportunity for frameworks to evolve to provide market participants with enhanced insight on private sector SDG value creation.

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Exhibit 1: SDG Framework Alignment and Trucost Best Practice Criteria



Source: Trucost, as of 2017. Chart provided for illustrative purposes.

Through this assessment, a few features of these frameworks stand out.

- The CISL bridges the gap between social and environmental impact and economic value creation through economic inflows and outflows to connect SDG themes to the private sector.
- Earth Security Group and HSBC map SDGs to countries to connect country risk that is material to the private sector specifically for sustainable growth of both developed and developing countries. The framework highlights the need for new economic growth models for sustainable growth within planetary limits and calls for more interconnected analysis beyond the prevailing linear financial and ESG analysis.
- The GRI advises using an assessment of a company’s value chain to understand social and environmental impact throughout the process.
- The Sustainable Development Goal Fund and CISL thematically cluster the SDGs to link them to existing ESG reporting structures with sector-specific metrics.

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The financial institutions working toward SDG-aligned strategies are focusing their efforts in a few different ways.

- The SDI framework turns SDGs from a policy framework into a measurable investment framework, concentrating on key performance indicators for SDGs that tangibly support a strategic agenda.

- The Dutch SDGI Agenda holistically views investment strategies through a spectrum of capital for SDG investing: responsible, sustainable, thematic, and impact-first investment.⁹ This top-down approach starts to assess SDGs through which investments could add based on sector weighting and geographic focus.

MOVING TOWARD BEST PRACTICES FOR SDG FRAMEWORKS AND STRATEGIES

Private sector engagement with the SDGs makes sound business sense. Recent estimates suggest that achievement of the SDGs could create over USD 12 trillion per year in business value across sectors including mobility, energy efficiency, healthcare, clean energy, affordable housing, material efficiency, and waste management.¹⁰ Realignment of corporate strategies with the SDGs will require capital, and better corporate disclosure will be key to enabling investors to efficiently direct capital toward those companies that are best aligned with sustainable development.

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Exhibit 2 introduces Trucost's SDG Total Value Creation framework for the private sector, illustrating the elements required to capture triple bottom line environmental, social, and financial value creation and best inform the SDG targets. First, it is key that value creation is assessed holistically throughout the corporate value chain, from initial raw materials sourcing in the supply chain through to the products and services delivered, as well as the investments in employees and the communities within which they operate. An SDG-aligned business strategy will be based on sector-specific metrics and measured using geographically specific data that provides for context and comparability. This SDG Total Value Creation framework puts companies in position to set SDG-aligned targets, compare those targets against current strategies, and optimize their strategy to manage and improve the financial, environmental, and social value creation.

⁹ IISD, *Dutch Financial Institutions Recommend SDG Investment*, (2017), Link: <https://static1.squarespace.com/static/582981ddeb1ad7f34681b6/t/5848065ee4fcb5ba4258a042/1481115245615/SDGI+Report+Building+Highwaysto+SDG+Investing.pdf>.

¹⁰ AlphaBeta. *Valuing the SDG Prize: Unlocking Business Opportunities to Accelerate Sustainable and Inclusive Growth*. Business and Sustainable Development Commission, (2017), Link: <http://s3.amazonaws.com/aws-bsdc/Valuing-the-SDG-Prize.pdf>.

Exhibit 2: SDG Total Value Creation What Action is the Company Taking to Align with SDGs?

Enterprise Arms Creating Business Value Through SDG Alignment



Total Value Creation for the Private Sector Through SDG Alignment



Poor SDG performance can be linked to reputational, operational, regulatory, or physical risks, while revenue exposure to sectors and products aligned to SDG solutions can be linked to future growth opportunities.

Source: Trucost, as of 2017. Chart provided for illustrative purposes.

Disclosure should provide forward-looking information on risks and opportunities, considering total financial, environmental, and social value. Poor SDG performance can be linked to reputational, operational, regulatory, or physical risks, while revenue exposure to sectors and products aligned to SDG solutions can be linked to future growth opportunities.

Applying an SDG lens to the evaluation of business investments can provide a broader perspective on potential business and social value. Business investments often provide additional value beyond simply a financial return. By viewing these investments through an SDG lens, companies can start to articulate to market participants how their investments are providing additional value, including positive impacts on the SDGs.

GAPS BETWEEN FINANCIAL AND SDG ACCOUNTING

Conventional accounting captures the financial implications of a sustainable investment decision, but fails to capture progress toward the SDG targets. Exhibit 3 presents an example of a computer manufacturer assessing the risks and opportunities associated with its business activity, which in this case is the production of IT equipment.

Raw material acquisition, manufacture, product use, and disposal each occur in different regions, in addition to having different ESG implications and impact on SDGs. The computer manufacturer sources some key component raw materials from Australia that have negative environmental implications due to land and water pollution associated with the extraction practices. This presents a potential risk to SDG 15 (sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss) and SDG 14 (conserve and sustainably use the oceans, seas and marine resources). Conversely, product sales in Germany offer an opportunity for SDG 13 (take urgent action to combat climate change and its impacts) through the design of low-energy products.

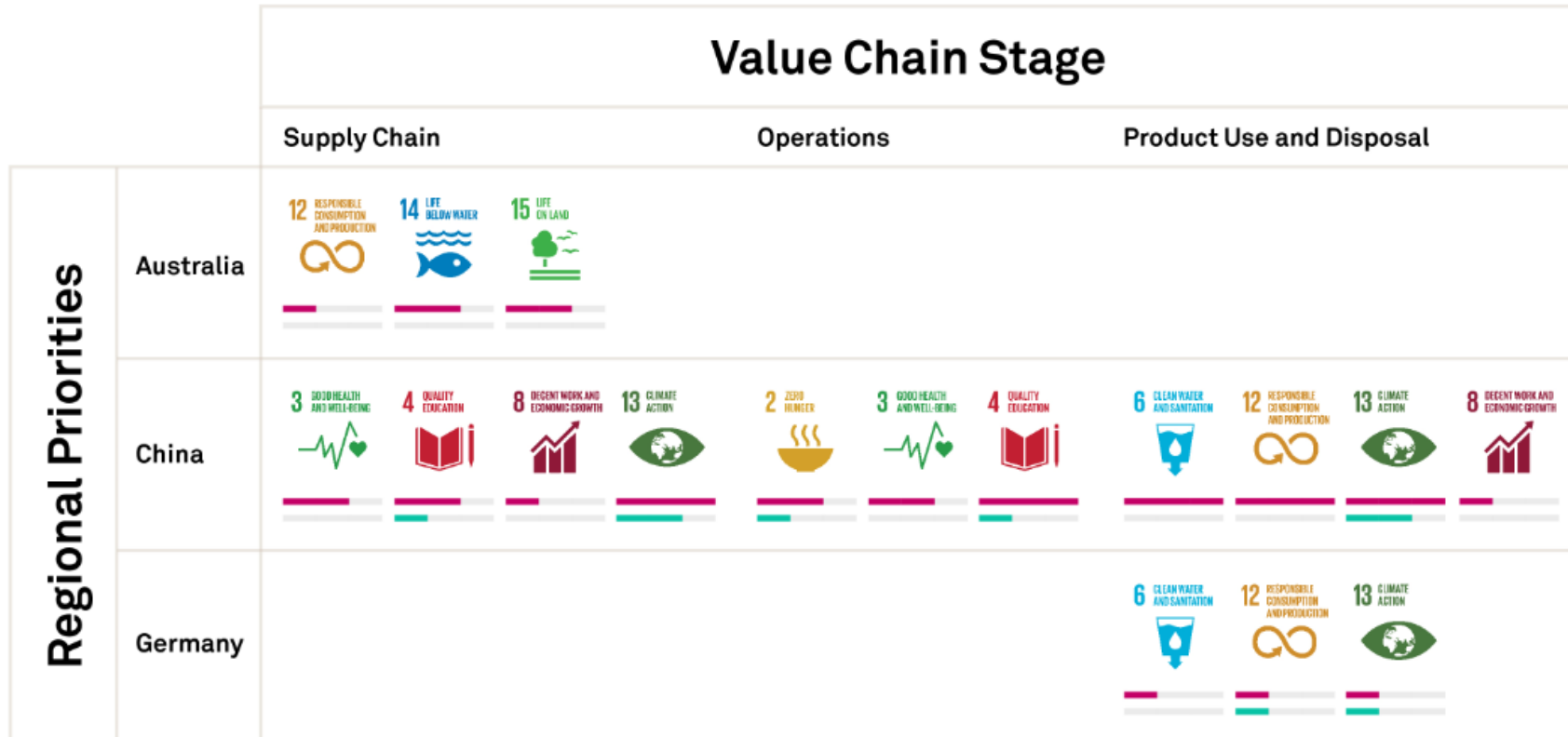
The recommended SDG Total Value Reporting Framework provides a holistic consideration of social value, incorporating risk and opportunity and allowing investors and other stakeholders a better understanding of the wide range of direct and indirect influence.

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Exhibit 3: SDG Total Value Reporting Framework – Computer Manufacturer

SDG Total Value Report Framework

The Risks and Opportunities Associated with Business Activity of a Computer Manufacturer



— Risk due to company impact on SDG, length of line denotes magnitude of impact
— Opportunity due to company impact on SDG, length of line denotes magnitude of impact

S&P Global supports the Sustainable Development Goals.
 Source: Trucost and U.N. Sustainable Development Goals, as of 2017. Chart provided for illustrative purposes.

CONCLUSION

The SDGs provide an opportunity for financial institutions and companies to enhance current ESG analysis with emerging goal-aligned analysis to gain a better understanding of the sustainability risks and opportunities, as well as the impacts of their strategies.

With the right assessment and disclosure, market participants will be able to identify financial, social, and environmental value from SDG-aligned business activities and capital allocation, ultimately achieving the triple bottom line profits of sustainable development. New investment products will likely emerge to channel private capital, providing the range of institutional to retail investors a holistic view on the impacts and returns of their investments. With this market movement, data and index providers have a fundamental role in providing the robust analytics and tools needed by market participants to inform—and capitalize on—innovative SDG strategies.

With the right assessment and disclosure, market participants will be able to identify financial, social, and environmental value from SDG-aligned business activities and capital allocation, ultimately achieving the triple bottom line profits of sustainable development.

Companies and financial institutions are beginning to grasp all that the SDGs have to offer to measure total value in this rapidly evolving market.

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