IDB Invest

DEBrief

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The Sustainable Development Goals (SDGs): A Roadmap for Impact Measurement and Management

- The SDGs offer a framework and a common language for the public and private sectors to measure, manage, and communicate social and environmental impact.
- Many of the actions the SDGs call for are naturally aligned to the strategic interests of the private sector.
- Tying impact reporting to the globally-recognized language of the SDGs can give firms a competitive advantage when attracting capital.
- SDG alignment can help firms shape their brand image, build loyalty among customers and employees, and mitigate risk.
- IDB Invest helps clients and co-investors measure their impact and contribution to the SDGs.

THE SDGS AND THE ROLE OF THE PRIVATE SECTOR

Launched by the United Nations in 2016, the 17 Sustainable Development Goals (SDGs)[1] encompass a broad set of targets to be reached by 2030, aiming to create a more prosperous, equal, and environmentally sustainable world.

Globally, an estimated US$5-7 trillion is needed annually until 2030 [2] to meet the SDGs. At today's level of funding, this leaves a US$2.5 trillion annual funding gap for developing countries. Bringing to bear its financial, technological, and innovative capacity, the private sector is well positioned to make the SDGs a reality in a way that public investments, foreign aid, and NGOs cannot do alone.

Achieving the SDGs also makes business sense. Estimates show that reaching the SDGs could open up US$12 trillion in new market opportunities by 2030 in areas such as agriculture, cities, energy, and health.[3]

IMPACT MEASUREMENT AND MANAGEMENT MATTERS

Since the launch of the SDGs, the convergence of the business and development agendas has become increasingly visible. As more companies and investors seek to align their businesses and investment portfolios to these global goals, it is becoming increasingly important to systematize how contributions to the SDGs are measured.

The SDGs offer an overarching framework, with targets and metrics for meeting each goal, that both the public and private sectors can use as a guide for measuring their social and environmental impact.[4] This framework can serve as an accounting system for non-financial impact. Beyond tracking metrics, it is just as important for organizations to manage the impact data collected to learn and improve operations and investment decision-making.

The SDGs also provide a common language for talking about impact. For companies and investors, this can mean joining a global conversation that an increasingly broad audience of stakeholders – clients, other investors, employees, shareholders – is tuning in to.

HOW SDG ALIGNMENT BRINGS VALUE TO THE PRIVATE SECTOR

Many of the actions the SDGs call for are naturally aligned to the strategic interests of the private sector. For one, firms may already be engaging with the SDGs through their daily operations without even realizing it. This can include activities such as building sustainable and reliable infrastructure or streamlining operations through more efficient resource use, adoption of new technology, or improvements in productivity. It also includes increasing access to finance for women, small businesses, and green projects. Simply reporting on how these activities contribute to specific SDGs can therefore add value. For example, according to a survey of about 5,000 companies from 49 countries, nearly 40% are connecting their corporate sustainability reporting to the SDGs.[5]

In addition, firms seeking to create social value in other ways can view the SDGs as a menu of internationally recognized impact activities from which to choose. In order to maximize the benefits, firms should strategically select focus areas which overlap with their business objectives and core values.

1. More information on the SDGs can be found at https://sustainabledevelopment.un.org/sdgs.
2. UNCTAD (2014). World Investment Report.
3. Business and Sustainable Development Commission (2017). Better Business, Better World.
4. Key resources to help guide private sector SDG efforts include: The SDG Compass and Integrating the SDGs into Corporate Reporting: A Practical Guide.
5. KPMG (2017). Survey of Corporate Responsibility

ADVANTAGES FOR ATTRACTING CAPITAL

There has been a massive shift in the way that investors perceive success, and they are increasingly searching for sustainable investments that achieve social impact alongside financial returns. While still relatively small, the impact investing industry has been growing, reaching an estimated US$502 billion in assets under management as of 2018.[6] SDG-focused investment strategies and innovative financial products that reward positive contributions to society such as social impact, green, and blue bonds are becoming more commonplace.

This paradigm shift has not been limited to investors specializing in impact investing. Institutional asset managers, sovereign wealth funds, and private equity firms are all increasingly seeking investments with strong social and financial returns: it is estimated that roughly 25% of assets under management globally are invested with environmental, social, and governance considerations in mind.[7]

While there is a strong appetite for investing in socially responsible companies and projects, it can be hard for investors to know where to put their money. To gain a competitive advantage when it comes to attracting capital, firms need the tools to rigorously assess impact and express their achievements in the globally recognized language of the SDGs.

CUSTOMER, EMPLOYEE, AND COMMUNITY ENGAGEMENT

As a globally accepted metric of sustainability, having a rigorous alignment methodology enables firms to capitalize on the legitimacy of the SDGs to shape their brand image and attract clients who are willing to pay a premium for sustainability.

The SDGs can also help build shared purpose and attract and retain talent. Millennials, who are projected to make up roughly 75% of the global workforce by 2025,[8] want to feel a sense of purpose and work for firms that are innovative and socially responsible.

Similarly, incorporating environmental and social best practices into operations and transparently communicating these to stakeholders helps firms build consensus with the communities in which they operate. This can reduce the risk of delays or backlash against projects and mitigate reputational risk.

HOW IDB INVEST CAN HELP MEASURE CONTRIBUTIONS TO THE SDGS

As the private sector institution of the Inter-American Development Bank Group, IDB Invest has always been in the business of measuring the development impact of its projects in Latin America and the Caribbean. This focus on impact adds value beyond financing by allowing clients to capture the social returns on investment while becoming more competitive, resilient, and sustainable. The common language provided by the SDGs is also fully integrated into IDB Invest's impact measurement and management practices.

More specifically, through its comprehensive Impact Management Framework[9], IDB Invest helps clients and co-investors measure their impact and contributions to the SDGs. This entails assessing the development impact potential and expected SDG contribution of each project at the origination stage and defining a set of SMART (Specific, Measurable, Attainable, Realistic, and Timely) indicators (including specific SDG indicators when relevant) to track impact achieved throughout the lifetime of the project, adjusting course as needed along the way.

IDB Invest has also helped clients create internal data collection systems, allowing them to better track the social and environmental impact of their businesses and be more precise in their alignment to the SDGs. For example, IDB Invest is working with financial institutions to help them measure the impact of their green lending portfolios in areas such as water savings, energy savings, and GHG emission reduction. This allows the institutions to track progress towards new SDG targets, making reporting more impactful.

Moreover, given the complexities and costs of data collection, IDB Invest is continuously searching for new sources of information, such as big data[10], that can be used to monitor and evaluate development impact in a more cost-effective way both internally and for clients.

In addition to monitoring impact performance, IDB Invest also supports clients with more rigorous in-depth evaluations aiming to measure the extent to which impact results can be attributed to a specific project.[11]

As the SDGs continue to gain traction in the private sector in Latin America and the Caribbean, IDB Invest is ready to help more companies and investors capture and communicate the social and environmental impact of their work towards meeting these targets.

Additional Information

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To learn more about IDB Invest's Impact Management Framework, see our *Negocios Sostenibles* blog and the Development Effectiveness Overview (DEO).

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6. Global Impact Investing Network (2019). Sizing the Impact Investing Market.
7. McKinsey (2017). From 'Why' to 'Why Not': Sustainable Investing as the New Normal.
8. Deloitte (2014). Big Demands and High Expectations: The Deloitte Millennial Survey.
9. See the IDB Group's Development Effectiveness Overview for more information.
10. UN Global Pulse (2016). Integrating Big Data into the Monitoring and Evaluation of Development Programmes.
11. For example, IDB Invest conducted a study to quantify the effects of the Panama Canal expansion project on catalyzing private investment.