SDG Impact Measurement Overviews: An Introduction

By the Sustainable Finance Platform

The Sustainable Finance Platform

This report is a reflection of the deliberations of the SDG Impact Assessment Working Group set up under the auspices of the Sustainable Finance Platform. The working group consists of financial and non-financial companies and is sponsored by PGGM.

The Sustainable Finance Platform is a cooperative venture of De Nederlandsche Bank (chair), the Dutch Banking Association, the Dutch Association of Insurers, the Federation of the Dutch Pension Funds, the Dutch Fund and Asset Management Association, Invest-NL, the Netherlands Authority for the Financial Markets, the Ministry of Finance, the Ministry of Economic Affairs and Climate, and the Sustainable Finance Lab. Platform members meet twice a year to forge cross-sectoral links, to find ways to prevent or overcome obstacles to sustainable funding and to encourage sustainability by working together on specific topics.

The Sustainable Finance Platform fully supports this paper. However, the practices and advice described herein are in no way binding for the individual financial institutions comprising the industry organizations which are members of the Platform, nor are they committed to take any specific follow-up actions. Furthermore, this paper outlines private sector initiatives and as such does not contain any supervisory requirements.

Content

1 Introduction

The UN Sustainable Development Goals (SDGs) are a set of 17 Goals contained within the 2030 Agenda for Sustainable Development, which was adopted by all United Nations Member States in 2015. They constitute a blueprint for peace and prosperity for people and the planet, and aim to tackle urgent global challenges, including poverty, climate change, environmental degradation and inequality. The UN estimates that, in order to meet the Goals, annual investments of between $5 trillion to $7 trillion are required.[1]

Clearly, private finance can play a pivotal role in financing the SDGs. Indeed, companies, through their products and services, and investors, through their investment decisions, can contribute meaningfully to achieving the SDGs by 2030. The upscaling of SDG private finance flows is in part contingent on the development of a **commonly shared understanding of the SDGs and their underlying targets**, as well as the adoption of **shared frameworks for measuring and reporting the impact of the private sector on the advancement of the SDGs**.

Considering this, the SDG Impact Assessment Working Group ('Working Group'), operating on the Sustainable Finance Platform chaired by the Dutch Central Bank (DNB), was created to help investors understand the impact of their investments on the SDGs. In its 2017 publication, 'SDG impact indicators – A guide for investors and companies', the Working Group proposed a "core" set of positive impact indicators focusing on companies' products and services (except for those SDGs where the main impact originates from the production process or corporate conduct, i.e. operational impact),[2] as part of a transparent, credible and practical methodology "broadly supported by pension funds, insurers and banks to measure their contribution to the SDGs, focusing on positive impacts."[3] The ultimate goal of this effort was to "support the scaling up of investments and loans that contribute to the SDGs," as convergence towards a common set of impact indicators may help companies to improve their disclosure of impact data, which in turn may spur additional interest in SDG-related investments.[4]

Building on this initial work, this introductory paper and the subsequent SDG Impact Measurement Overviews, each relating to an individual SDG, aim to present a summary of the main methodologies and data sources currently available for the measurement of positive impact across various asset classes. Whilst the positive impact indicators proposed in the 2017 publication provide guidance on **what** is being measured, for example "number of people provided with safe, nutritious and sufficient food" for SDG 2, the SDG Impact Measurement Overviews explore **how** positive impact can be measured, by presenting various frameworks for measuring companies' performance on the proposed indicators, for example the FAO 'Guidelines on the measurement of harvest and post-harvest losses' in the context of SDG 2.

Overall, the SDG Impact Measurement Overviews aim to complement the initial effort undertaken by the Working Group. They are **dynamic documents** that will be improved upon and refined with progressing insights, experiences and data quality. Whilst this first version of the Overviews will list the methodologies, initiatives and data sources without adjudicating on their utility, later iterations of the documents will evaluate the advantages and disadvantages of the various frameworks.

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[1] See, for example, https://unctad.org/system/files/official-document/wir2014_en.pdf; https://www.unepfi.org/wordpress/wp-content/uploads/2018/11/Rethinking-Impact-to-Finance-the-SDGs.pdf

[2] SDG 5 'Gender equality', 8 'Decent work and economic growth', 9 'Industry, innovation and infrastructure', 10 'Reduced inequalities', and 12 'Responsible consumption and production'.

[3] See sdg-impact-measurement-final-draft_tcm46-363128.pdf (dnb.nl)

[4] Ibid.

The SDG Impact Measurement Overviews will be published on the website of the Sustainable Finance Platform for use by the wider investor community. Other forms of outreach will include webinars and dissemination through various (online) platforms, to increase exposure within and outside the Netherlands, and stimulate discussion and feedback, which will be incorporated where appropriate.

Scope and structure of the SDG Impact Measurement Overviews

In line with the 2017 publication, the scope of the SDG Impact Measurement Overviews is limited to the measurement of **product- and service-related impact**,[5] with the exception of those SDGs where operational impact indicators are more appropriate.[6] Moreover, the focus is on the measurement of **positive impact**, although, in some instances, positive impact is really a reduction of adverse impact.[7]

Notably, much of the existing work on impact measurement is focused on aiding companies and investors to identify, measure, and reduce their adverse impacts, on, amongst others, human rights, the environment, and workers. This is reflected in frameworks such as the OECD Due Diligence Guidance for Responsible Business Conduct and the Equator Principles. At the European level, the EU Regulation on sustainability-related disclosures in the financial services sector (SFDR) mandates financial market participants and financial advisers to consider "adverse sustainability impacts in their processes," and to provide "sustainability-related information with respect to financial products."

To complement these and other initiatives, as well as ESG data that mostly capture adverse, operational impact, the Working Group decided to focus on companies' positive contribution to the SDGs through their products and/or services (i.e. SDG solutions). Indeed, the UN Environment Programme Finance Initiative's Positive Impact Initiative in its 2018 position paper 'Rethinking Impact to Finance the SDGs', identifies a need for convergence and development of "adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects, programmes, and/or entities to be financed or invested in." To address this need, the forthcoming SDG Impact Measurement Overviews presents available methodologies, data sources and examples, starting from the positive impact indicators proposed in the 2017 publication.

The focus on positive impact measurement does, however, not preclude the need to identify and measure adverse impacts. After all, solely accounting for positive impact, and disregarding potential adverse impacts, may facilitate 'SDG washing'. Whilst adverse impact will not be explicitly addressed in the SDG Impact Measurement Overviews, we recognize the importance of adverse impact measurement and available guidance to that end.

The SDG Impact Measurement Overviews will be structured as follows:

1. **Methodologies and initiatives**, where we identify available methodologies for positive impact measurement, as well as relevant initiatives, and classify them according to the logic model.
2. **Data sources**, where we identify available data sources to support the implementation of the listed methodologies, and classify them according to the logic model.

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[5] In the Overviews, these products and services are also referred to as 'SDG solutions'.
[6] See footnote 3
[7] In the case of SDG 14 'Life under water' and SDG 15 'Life on land', for example, one of the proposed positive impact indicators is "% of biodiversity loss avoided or reduced," which, in reality, refers to a reduction of adverse impact.

3. **Investor and company examples**, where we briefly present relevant case studies, usually one investor and one company, as well as link to additional examples of companies and investors reporting on their positive impact.
4. **Challenges and future developments**, where we identify and discuss relevant (methodological) challenges, and suggest pragmatic ways forward.

Throughout the Overviews, the positive impact indicators, as well as the identified methodologies and initiatives, data sources, and investor and company examples will be mapped to the logic model below, which refers to the activities of the investee.[8]

In the logic model, we adopt the definitions of the [Impact Management Project](#) (IMP) where:
- **Input** is the capital provided to the company by the investor, e.g. 1.5% equity ownership;
- **Activity** is the production of SDG solutions to which capital is provided, e.g. wind turbines;
- **Output** is the immediate result of the company's activities, e.g. MW of wind power installed;
- **Outcome** is the positive effect of the output provided, e.g. tonnes of CO_2 emissions avoided;
- **Impact** is the 'contextualized' outcome, i.e. the ultimate improvement for people or planet, e.g. % of global CO_2 emissions avoided. Real-world impact can be measured across five dimensions:
  - What – e.g. positive, important outcome;
  - Who – e.g. underserved population;
  - How much – e.g. significant degree of change, for many people, which lasts;
  - Contribution – e.g. likely better than what would happen anyway;
  - Risk – e.g. unlikely to materialise with minimal consequences for people and planet.

In reality, the distinction between inputs and activities, and outputs and outcomes is often hard to maintain when mapping methodologies, data sources and examples. For this reason, the mapping to the logic model should be seen as a way to approximate a differentiation between different levels of impact, and not a strict classification.

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[8] In the SDG Impact Measurement Overviews the recipients of investors' capital will be referred to as 'companies'.

2 Methodologies and initiatives

In this section, we identify available methodologies and initiatives for SDG positive impact measurement and classify them according to the way impact is measured or modelled.[9] Impact measurement can be approximated by a classification of a company's activities and revenues, by a qualitative rating of outcomes, or by a quantitative assessment of outcomes or impacts. Alternatively, a distinction can be made between company-reported impact and industry-derived impact. Notably, many of the available methodologies are proprietary, still unrefined due to a lack of available data, or suitable only for specific asset classes or investment strategies.

To illustrate what this section will look like in the SDG Impact Measurement Overviews, some relevant methodologies and initiatives are included in the table below, and mapped to the logic model. SDG-specific methodologies will be included in the SDG Impact Measurement Overviews.

input	activity	output	outcome	impact

• APG-PGGM taxonomy • EU taxonomy	• UBS/PGGM revenue-to-outcome models • Cambridge Sustainable Investment Framework	• Impact-Weighted Accounts Initiative • Y Analytics • Net Purpose • Cerise MetODD-SDG • BCtA Impact Lab

At the **input** and **activity** level, the SDG Impact Measurement Overviews include methodologies which identify companies' activities that can contribute to the advancement of the SDG at hand. For instance, the taxonomy and decision rules pioneered by APG and PGGM establish which companies qualify as Sustainable Development Investments, by mapping their revenues to pre-defined SDG solutions. For many investors such a revenue break-down is a first and adequate proxy for impact. Another example is the EU Green Taxonomy, which focuses on climate change mitigation and adaptation and dissects companies at the activity level.

One step up from a revenue-based proxy for impact are methodologies that rate the immediate result (**output**) of companies' activities, often by the number or volume of products and services sold, or capacity installed. **Outcomes** on the other hand, are usually assessed against predetermined objectives and indicators, often tied to absolute measures of social or environmental progress, which are generally SDG-specific. In this context, product-related positives may be combined with products- and operations-related negatives in a single score, also known as 'netting'. Sometimes outcomes can be obtained from companies' sustainability reports, although, more often, these data are left unreported. This is why UBS Asset Management and PGGM developed models that convert revenues from SDG solutions to outcomes. Another example of a methodology which helps measure the outcomes of investments on the SDGs is the Cambridge Sustainable Investment Framework.

When outcomes are contextualized relative to the prevailing social or environmental conditions, in order to establish what specific real-world improvements companies' activities have brought about, we should talk about

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[9] Note that impact often refers to outputs or outcomes rather than actual impact. In the titles and headings, however, we will continue to use impact as a catch-all for the different levels of investment results.

impact. Some of the revenue-to-outcome models are already accounting for context, for example by calculating the number of people or hectares of ecosystems that have benefitted from wastewater treatment (in m^3). In this context, Net Purpose is a promising start-up which benchmarks companies' outcomes against country context as well as index performance data. Beyond measurement, these impacts can be monetized[10] based on various assumptions and judgements. Two initiatives, amongst many others, working towards (net) impact monetization are the Impact-Weighted Accounts Initiative and Y Analytics. In addition, several self-assessment tools have been developed to evaluate business contributions to the SDGs, of which Cerise MetODD-SDG and the BCtA Impact Lab are two examples.
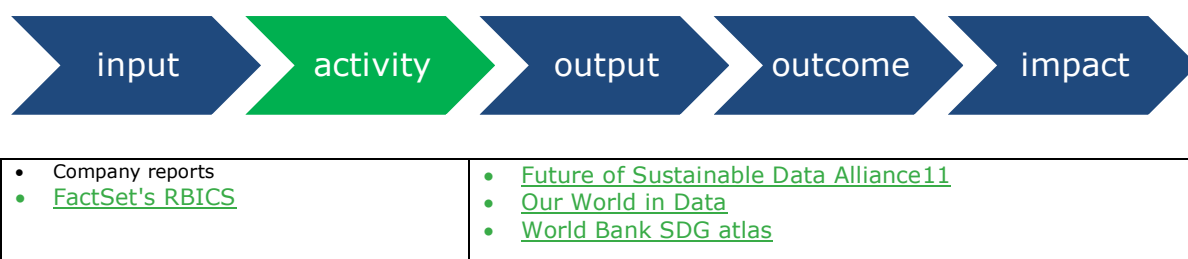
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[10] Monetization expresses the context-specific value of outcomes in monetary terms (for ease of comparison).

3 Data sources

In this section, we identify available data sources that can be used to support the above-mentioned methodologies. Data sources included provide data at the company or sector level, as well as relevant geographic or social data which can be used for contextualization of outcomes.

To illustrate what this section will look like in the SDG Impact Measurement Overviews, some relevant data sources are included in the table below, and mapped to the logic model. SDG-specific data sources will be included in the SDG Impact Measurement Overviews.

input	activity	output	outcome	impact

• Company reports • FactSet's RBICS	• Future of Sustainable Data Alliance11 • Our World in Data • World Bank SDG atlas

At the **input** and **activity** level, the SDG Impact Measurement Overviews include data sources which collect information on companies' activities and revenues. An example of such a data source is FactSet's RBICS, which breaks down company revenues, allowing investors to calculate their exposure to the SDGs and specific SDG solutions. This information may also be derived from company reports, which additionally may report **outputs**.

Some companies are moving from reporting only activities and related outputs to additionally outlining **outcomes**. These data, once contextualized relative to the prevailing social or environmental conditions can be used to measure **impact**. Macro data sources, including, for example, the World Bank SDG atlas and Our World in Data, provide information on these conditions at the regional, national and global level and are thus useful for outcome contextualization.

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[11] This is a nascent initiative in partnership with the World Economic Forum and run by Refinitiv. UN SDG impact data is one of its objectives.

4 Investor and company examples

In this section, we identify, and briefly discuss, relevant investor and company examples. Notably, an increasing number of companies and investors are taking their first steps toward SDG impact measurement, either at the input/activity, output/outcome or impact level.

To illustrate what this section will look like in the SDG Impact Measurement Overviews, some relevant company and investor examples are included in the table below, and mapped to the logic model. SDG-specific examples will be included in the SDG Impact Measurement Overviews.

input → activity → output → outcome → impact

Investor examples:

• APG Responsible Investment Report 2019 • NNIP Responsible Investment Report 2020 • Rabobank's contribution to the UN Sustainable Development Goals 2018	• FMO Annual Report 2020 • Impact @ Impax 2020 • PGGM Integrated Report 2019 • WHEB Impact Report 2019	• ABN AMRO 2020 impact report

Company examples:

• Danone's 2019 Performance Related to the SDGs	• Chr. Hansen • DSM Integrated Annual Report 2020 • Yara Sustainability Report 2020	• Philips 2020 Annual Results

5 Challenges and future developments

In the years leading up to 2030, companies' sustainability reports are likely to improve in response to investor and stakeholder demands, driven in part by evolving standards, such as the Global Reporting Initiative, which increasingly aims to capture positive impact, and surveys such as the Corporate Sustainability Assessment which underpins the Dow Jones Sustainability Index. In this context, engagement with companies is an important instrument to nudge companies and funds to conduct better impact measurement and reporting.

Yet, SDG impact measurement still faces various (methodological) challenges. In the SDG Impact Measurement Overviews, we will address SDG-specific challenges and suggest pragmatic ways forward.

Some of the crosscutting challenges of SDG positive impact measurement include:

- **Double counting along the value chain**: portfolio-level double-counting, i.e. the attribution of a single outcome to various companies along the supply chain, could perhaps be tackled on the basis of the value-add in successive steps (as in VAT). An alternative is to allocate lower weights to intermediate products (inputs) than to final products or services (SDG solutions).
- **Geographical and social breakdowns of sales**: outcomes can be weighed according to the geographic or social context in which they occur; outcomes in places or for people at greater need are valued more. Nonetheless, lack of granularity limits the investors' ability to contextualize outcomes and thus assess the real-world impact in specific regions or communities.
- **Differing assumptions**: revenue-to-outcome models can inform company engagement and possibly elicit more accurate impact data. Here the challenge lies in improving the congruency between standard sector and industry classifications and the taxonomies of solutions to the SDGs as proposed by, for example, APG and PGGM. The introduction of confidence levels in revenue-based classifications and outcome measurements is one way to account for various assumptions.
- **'Netting' of positive and negative impacts**: netting of impacts within and, especially, across SDGs invariably requires weighting various outcomes on the basis of investors' values and preferences. Whilst, on the one hand, such netting may facilitate comparability across investments, it may come at the expense of transparency. For this reason, investors should be explicit in how various and possibly conflicting effects have been considered to arrive at a net outcome.
- **Risk of 'SDG washing'**: whilst, as discussed above, there is utility in measuring the positive impact of companies and investors, greenwashing in the context of the SDGs[12] poses a significant challenge in the absence of clear disclosure requirements and standards. Utilizing a holistic approach[13] to impact measurement, where, in addition to positive impact measurement, adverse impacts are properly accounted for and addressed, is essential to avoid 'SDG washing' and related reputational risks.

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[12] See, for example, https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620550/dp-walking-the-talk-business-sdgs-240918-en.pdf

[13] See, for example, https://www.unepfi.org/wordpress/wp-content/uploads/2018/11/Rethinking-Impact-to-Finance-the-SDGs.pdf