

Responsible Investment Group

UN Sustainable Development Goals

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1 Background

The 17 United Nations **Sustainable Development Goals (SDGs)** represent a universal framework or blueprint designed to facilitate the globally coordinated transition to a sustainable path of development for the planet by the year 2030.



The SDGs were adopted in 2015 by all 193 member states of the United Nations (UN) and are a continuation of decades of UN-led efforts to further peace and prosperity for people and the planet. The SDGs evolved from (and replaced) the UN’s eight **Millennium Development Goals (MDGs)** adopted in 2000. The primary objective of the MDGs was to reduce extreme poverty by 2015. In general, action helping to achieve the MDGs involved increasing financial aid and other assistance from wealthy, developed countries to poor/indebted, developing countries (including some cancelling of debts), where local resources could then be redirected towards supporting the goals.

On average globally, actions to meet the MDGs resulted in some meaningful progress across the eight goals, including significant reductions in instances of extreme poverty and maternal/child mortality, and increased access to primary education, healthcare and clean water. However, the degree of success in achieving the MDGs varied greatly between different regions with sub-Saharan Africa and Southern Asia particularly lagging.

To address this shortcoming of the MDGs, a central pledge made by the UN member states in developing the new SDGs was that “no one will be left behind”. During the three-year development and consultation period for the SDGs, a more ambitious approach was taken, recognising that **universal sustainability requires coordinated action by all countries across a wide range of interconnected economic, social and environmental dimensions.**

2 Anatomy of an SDG

Each of the 17 SDGs is structured in the same way. Here, we use SDG 7 as an example:

- We are introduced to the goal by way of a short, descriptive title and a monochromatic icon as follows:



- The goal itself is formalised as a short, high-level objective. In this instance, SDG 7 is to:

“Ensure access to affordable, reliable, sustainable and modern energy”

- Underpinning the goal are several **Targets**, specific to that goal, articulating in detail the outcomes sought by 2030, which in aggregate, are deemed necessary in order to successfully achieve that SDG. Where available, **Indicators** define the metrics used to measure progress on each Target. Targets for SDG 7 are shown following:

7.1 By 2030, ensure universal access to affordable, reliable and modern energy services

7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

7.3 By 2030, double the global rate of improvement in energy efficiency

7.A By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology

7.B By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries, in accordance with their respective programmes of support

Source: UN

It is therefore crucial to acknowledge that the SDGs go well beyond just the colourful and now-familiar icons. A goal, any goal, by definition, is set as an ambition to be achieved (and of course, can be missed) and the SDGs are no exception. The UN has deliberately established Targets and designated Indicators in order to guide the actions of governments, companies, asset owners and other entities to specifically support the process of achieving the SDGs.

As such, genuine “alignment” with an SDG should demonstrably consider how an entity’s actions tangibly advance the Targets underpinning the headline goal. Without such depth of focus, e.g. by reporting one’s actions only in the context of an SDG’s high-level title, the entity leaves itself open to criticism of “SDG-washing”, that is, claiming to be aligned to the goals without actually contributing to their achievement in a meaningful way.

3 Engaging with the SDGs (and Targets)

Any entity, whether they be a government, a company, an asset owner or some other, will engage with the SDGs and their underlying Targets in a unique way, depending on their specific objectives, constraints and values.

A member state of the UN (i.e. a national government), having adopted the SDGs and agreeing to support them, take the Targets as being aspirational and global. That government will then establish its own national sustainability targets, guided by and aligned with the global level of ambition but considering domestic circumstances. Those national targets are subsequently incorporated into achievable domestic policies and strategies.

Special emphasis is placed on the interconnectedness of the SDGs, ensuring that any action to advance one SDG is not detrimental to another. For example, underpinning SDG 8 – Decent Work and Economic Growth, Target 8.1 aims to *“Sustain per capital economic growth... in particular, at least 7 per cent GDP growth p.a. in the least developed countries”*. For some of these countries, in the shorter term at least, Target 8.1 may conflict with Target 7.2 *“increase substantially the share of renewable energy in the global mix”* should they be heavily reliant on cheaper energy generated from fossil fuels. Partnership between member states is thus integral to facilitating universal sustainability and ensure *“no one will be left behind”*.

3.1 SDGs and Asset Owners

For asset owners, the SDGs and Targets may provide useful guidance on the likely evolution of development-related policies and the resultant capital requirements to achieve them. Such requirements may well generate attractive investment opportunities in various asset classes and/or regions. As such, asset owners can benefit both from emerging tailwinds for SDG-aligned investments, plus contribute meaningfully to the attainment of the goals themselves.

Frontier has observed increased interest by Australian asset owners in understanding the implications of the SDGs for their investment strategy. Various approaches to engagement with the SDGs from an investment point of view include:

- “Mapping” portfolio exposures in terms of their alignment with SDGs;
- Identifying and disclosing specific SDGs considered to be most material;
- Use of the SDGs as a framework to report on responsible investment actions;
- Selecting investment products which support achievement of the SDGs; and
- Engaging with fund managers to promote uptake and reporting of SDGs

A key challenge for asset owners making initial efforts to understand and integrate SDGs, is that there is no single, consensus approach which can be considered as “best practice”. The Principles for Responsible Investment recently noted it had been approached to endorse “SDG investment frameworks” being offered by over 400 different commercial entities. While one of the UN’s ambitions for the SDGs was indeed to mobilise private capital, it was not prescriptive in how asset owners should go about doing so. Frontier expects that this space will evolve, and pockets of consensus will emerge, but at this time, it is a work in progress.

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