ALTERNATIVES

Beyond Alignment: Contributing to the Sustainable Development Goals

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As investors, both institutional and individual, look for ways to use their money in a more impactful way, the United Nations' Sustainable Development Goals (SDGs) have emerged as a relatable tool. However, Raymond Jacobs and John Levy from Franklin Real Asset Advisors warn the SDGs are vulnerable to misuse, misrepresentation and dilution. In this article, they explain why impact investment products labeled as "aligned with the SDGs" should move beyond just alignment and make a real contribution to positive social and environmental outcomes.

Understanding the impact that our money has on the planet and society is critically important for the investment world.

For many investors, the [United Nations' Sustainable Development Goals (SDGs)] act as a common language for discussing, managing and reporting on impact investment strategies.

In fact, one of the most common questions from investors to asset managers in the impact investing space is: "are you aligned with the Sustainable Development Goals?"

Investors, whether motivated by internal reporting requirements, portfolio construction considerations or external client pressures, feel the need to know the SDGs addressed in each investment.

However, if we end the discussion at SDG alignment, there's a risk that these incredibly important ambitions will be met in name only and will lack substance and depth.

We see it as our duty to raise the level of discussion and focus on how we achieve new and better results. We believe the focus on defining and measuring real contributions should be a primary consideration when assessing an impact strategy.

We don't want simply to be aligned with the SDGs; we want to contribute to achieving those goals. And, we realize that contribution requires additional effort and ambition.

Our approach starts with an understanding of how specific projects are addressing SDGs. Our attention then quickly turns to how we contribute to the achievement of those goals.

Examining the specific targets and indicators beneath each SDG results in a clearer linkage with the goals. We think it can also bring extra transparency to a portfolio, allowing investors to leverage this information as they map their investments against their own goals.

WHAT ARE SUSTAINABLE DEVELOPMENT GOALS?

The UN Sustainable Development Goals are an agreed-upon framework that all parts of society can use.

Governments, companies, investors, charities, non-governmental organizations and even individuals can relate their actions and motivations to this unifying language. The goals align the public, private and philanthropic sectors around 17 broadly recognized social and environmental priorities.

Behind each goal, there are anywhere from five to 19 “targets” that speak in greater specificity about sought-after outcomes. And behind each target are “indicators,” which are the data points used to track progress towards each target.

Toward a Deeper Understanding of Impact Contributions

The shift in focus from whether an investment aligns with SDGs to defining and measuring its real contributions requires more work before an assertion of impact is justified. However, by shifting the focus in this way, we believe investors can move toward a deeper understanding of real impact.

Our contributions play a critical role in grounding our efforts in the social infrastructure space. By ensuring that investments include one or more of the five actions below, it is possible to track how investments lead to positive community and environmental outcomes linked to the Sustainable Development Goals.

1. Aligned, Long-Term Capital

Our objective is to maintain strong-performing assets and enhance underperforming ones to improve the social services and the environmental footprint they render. In some arrangements, like a buy-and-lease-back, we can free up much-needed public capital and provide liquidity to municipalities.

2. Function Enhancements

One of the primary ways we can contribute to impact is with the direct and intentional enhancement of the facilities we purchase through renovation and upgrades. Examples of function enhancement include creating more usable space, improving the comfort and utility of the space for tenants and visitors, and finding alternative uses that benefit the broader community.

3. Environmental Upgrades

We can create positive environmental impact through actions that reduce pollution, reduce net water and material use, and support biodiversity and clean transportation. Examples of upgrades could include installing energy-efficient systems, creating more green space, improving recycling and waste disposal policies and many others.

4. Purpose-Driven Development

Select investments may arise with the opportunity to convert a non-social infrastructure building into social infrastructure. Other opportunities may arise to construct new buildings or to increase the building area used for social infrastructure.

5. Tenant & Community Partnerships

Stakeholder engagement is critical to the success of social infrastructure investments, and in some instances, opportunities may arise to work with local partners to create new ways to serve the community. Examples could include working with local groups to install a business center with free Wi-Fi for underserved residents or partnering with civil servant tenants or health care providers to hear ways we can work together to improve their connection with the community.

A More Standardized, Disciplined Approach

Several efforts are underway to help improve that understanding of impact contributions.

For example, the UN Development Programme's SDG Impact initiative is developing a set of global standards for how investors and enterprises manage and measure their impacts on the SDGs. Meanwhile, the International Finance Corporation has launched the Principles for Impact Management as a standard to provide a common basis for evaluating investor practices.

Other leading methodologies like the Impact Measurement Project's Five Dimensions of Impact and the new IRIS+ system from the Global Impact Investing Network are also gaining broader recognition. These methodologies are helping to standardize and hopefully simplify how we communicate true impact.

The leadership of organizations such as these shows that a more disciplined path to achieving impact, and not just hoping for alignment, is possible.

Our efforts in impact measurement and management have been significant and have involved consultation with outside experts, system design, testing and implementation by a dedicated impact team.

Our early learnings suggest the added discipline of impact management makes for a more robust investment process and creates transparency and authenticity around how we can and cannot contribute to communities and the environment.

The impact investing space is growing and evolving rapidly. As we advance our understanding of what it means to contribute to the SDGs, we will be better equipped to allocate capital to the most attractive investments with the highest potential for meaningful impact.

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