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The Sustainable Development Goals – SDG reporting by banks

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The 2030 Agenda is a global agreement adopted with the aim of reorienting the world's development path up to the year 2030. With a new understanding of prosperity and development, it captures all three dimensions of sustainability – social, environmental and economic – in 17 universally applicable development goals, referred to as the Sustainable Development Goals (SDGs).

The process of transitioning towards achieving the goals of the 2030 Agenda requires extensive investment. Along with the real economy, the financial sector can make an important contribution to more sustainable business practices. But this transition process must be accompanied by appropriate policy measures in order to provide the right incentives for sustainable investment.

A wide range of sustainability initiatives are now linked to the SDGs, such as the EU's 'Action Plan: Financing Sustainable Growth'. Under this action plan, the European Commission aims to, among other things, reorient capital flows to sustainable investments and foster transparency in financial and economic activity.

By introducing SDG reporting, banks can seize the opportunity to expand existing sustainability reporting and align their business activities more closely with the Sustainable Development Goals in the future.

The 2030 Agenda and the Sustainable Development Goals

In September 2015 the United Nations adopted an agenda for the future development of the world that is to be implemented by the year 2030. At the heart of the 2030 Agenda[1] is a set of 17 Sustainable Development Goals (SDGs) with 169 specific targets.

The 2030 Agenda represents a paradigm shift from the previous goals of international cooperation. Under the Millennium Development Goals (MDGs), a distinction was made between the tasks of the developing countries and those of the industrialised economies. The development goals were primarily designed to bring about improvements in the areas of income poverty, water supply, education and health in the countries of the southern hemisphere, while those in the north were predominantly expected to provide financial support in the context of development cooperation. The MDGs succeeded in mobilising additional funds and bring about progress, particularly in the education and health sector. However, they systematically gave too little consideration to ecological aspects such as climate change and global resource consumption and largely ignored developments in industrialised countries.

This is where the SDGs come in. Development should be sustainable everywhere in the world. The United Nations regards this as an obligation of states in particular but also of the private sector. The transformation of the economy must take place particularly in the rich industrialised countries, which consume the most resources. But the fast growth of the emerging economies is also placing increasing pressure on the environment and poorer countries can skip development stages by embarking on a sustainable growth path. The 2030 Agenda therefore created a universal approach that encompasses all countries both in their internal structure and in their mutual relations. The Sustainable Development Goals form a target system that applies to all states, in which their implementation and aspiration levels are determined by the countries themselves based on their starting position and needs.

Figure 1: The 17 Sustainable Development Goals

Source: United Nations / globalgoals.org

Target levels

The overarching goals which the 2030 Agenda aims to achieve are grouped around five key themes known as the '5 P'.

- **People:**

End poverty and hunger in all forms

- **Planet:**

Take action on climate change, preserve natural resources

- **Prosperity:**
Make globalisation fair

- **Peace:**
Ensure human rights and good governance

- **Partnership:**
Move forward in global solidarity

To achieve these objectives, 17 development areas were formulated – the SDGs[2]. Each SDG comprises various targets that are to be met by 2030. These 169 targets were deliberately formulated with a global vision so that each country can determine its contribution to the targets in accordance with its development level and capabilities.

Examples of SDGs and targets

SDG 1: End poverty in all its forms everywhere.

Target 1.2: By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.

SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all.

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

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

International implementation

Every government determines how it will incorporate the global goals into its national planning processes, strategies and policy areas. The global formulation of the SDGs and their targets provides ample scope for this. In addition to public stakeholders, the private sector is also called upon to contribute to achieving the SDGs.[3]

A mechanism for regular and transparent reviews with reporting is to help formulate targets that are as ambitious as possible and achieve the maximum possible progress. The aim is to assess the achievement of the SDGs with the involvement of a variety of stakeholders at national, regional and global level.

The verification mechanism is managed by the United Nations High-level Political Forum (HLPF) on Sustainable Development. The forum convenes once a year and presents the progress achieved in meeting selected SDGs on the basis of a global report with a thematic focus. At the same time, states submit voluntary national reports on their implementation of the 2030 Agenda.

The heads of state and government meet every four years at the UN Sustainability Summit. Here they take stock of progress achieved in implementing the 2030 Agenda. The next UN Sustainability Summit is scheduled for September 2019.

While the countries can choose themselves how they conduct their individual reporting, detailed criteria exist at least for monitoring the SDGs at global level.[4] The UN developed 230 global indicators[5] for the SDG targets for the official reports of the HLPF. However, a large number of these indicators cannot yet be measured because of technical and methodological difficulties. International institutions, as well as NGOs, have therefore developed complementary methods for monitoring progress in the implementation of the SDGs. For example, the OECD prepares a report based on data already submitted by its member states in combination with statistical data of the OECD. The report identifies the remaining steps each member needs to take in order to meet the individual targets.

Public monitoring of SDG progress can be expected to put a broad range of stakeholders under more pressure to set more ambitious targets and show their successes. This is one main reason why many public and private institutions and enterprises already report publicly about their individual contributions to the implementation of the SDGs.

Implementation in Germany

As a signatory to the 2030 Agenda, Germany has developed a comprehensive package for implementing the SDGs. The action plan is described in the 'German National Sustainable Development Strategy'[6]. Individual measures with a total of 63 measurable indicators were determined for all 17 SDGs. Based on the indicator, a report is issued every two years about national progress made in implementing the sustainability strategy. At the same time, the German Federal Government supports emerging and developing economies in meeting their national development objectives in the framework of its development cooperation. It assists partner countries[7] in designing and implementing their sustainable development strategies.

Critique of the SDG framework design

Although the adoption of the 2030 Agenda was preceded by extensive international consultation and despite its broad support, critics see a number of risks in its implementation.

The criticism is mainly directed at the high number of goals and targets and the lack of clear agreements on their implementation. The risk is that states may focus on individual SDGs they can readily meet while neglecting other important development drivers. But transparent reporting mechanisms can help to keep aspiration levels high.

Besides, many policy measures and investments influence various goals at the same time. That means one particular activity and its underlying funding can be mapped to various goals. This can be criticised as multiple counting of funding contributions. On the other hand, the SDGs have been deliberately formulated as mutually complementary and addressing various goals with one development measure is welcomed.

The fact that positive effects of certain goals can adversely impact other SDGs at the same time has gone largely unnoticed thus far. The risk here is that reporting covers only positive contributions but neglects negative impacts. However, there is currently no practical method for the systematic analysis of possible negative effects of SDG contributions. An approach widely adopted by the private sector, however, is to assess and avoid negative impacts e.g. through exclusion lists or environmental and social impact assessments (ESIAs) in the lead-up to a business activity.

Connection between SDGs and NDCs

In December 2015, the same year in which the 2030 Agenda was adopted, the Paris Climate Agreement marked the introduction of a further historic global agenda. Both agreements are closely connected as the Paris Agreement directly refers to the global Sustainable Development Goals and the 2030 Agenda includes a climate action objective of its own: SDG 13.

While the implementation of the 2030 Agenda is specified in the 17 global SDGs, the measures for implementing the Paris Agreement are defined by the individual countries in Nationally Determined Contributions (NDCs). Both agendas influence each other. Sustainable development is the foundation for improving the climate change adaptation capacities and reducing vulnerability. Mitigating climate change and its negative impacts is a prerequisite for achieving the sustainability goals.

Banks' contribution to the 2030 Agenda

The German National Sustainable Development Strategy[8] explicitly mentions that financing aspects can make an important contribution to implementing the 2030 Agenda. On that basis, the German Federal Government in its National Sustainable Development Strategy welcomes the 'Action Plan: Financing Sustainable Growth'[9] submitted by the European Commission in 2018. The Commission pursues three overarching objectives with this action plan:

- reorient capital flows towards **sustainable investment** in order to achieve sustainable and inclusive growth;

- manage **financial risks** stemming from climate change, resource depletion, environmental degradation and social issues; and

- foster **transparency** and long-termism in financial and economic activity.

According to the European Commission, current levels of investment are not sufficient to support an environmentally and socially sustainable economic system (SDG investment gap). Europe has to close a yearly investment gap of almost EUR 180 billion to achieve EU climate and energy targets by 2030.[10]

Transparency of enterprises in sustainability matters is essential to achieving a reorientation of capital flows to more sustainable economic activity. Their sustainability reporting makes it easier for financial market participants to appropriately assess enterprises, while transparency helps enterprises themselves achieve a longer-term and more sustainable position.

One way of meeting transparency requirements – beyond existing sustainability reporting – is to review the enterprise's business activity or a bank's financing activities on the basis of suitable indicators[11] and map them to the universally applicable SDGs.

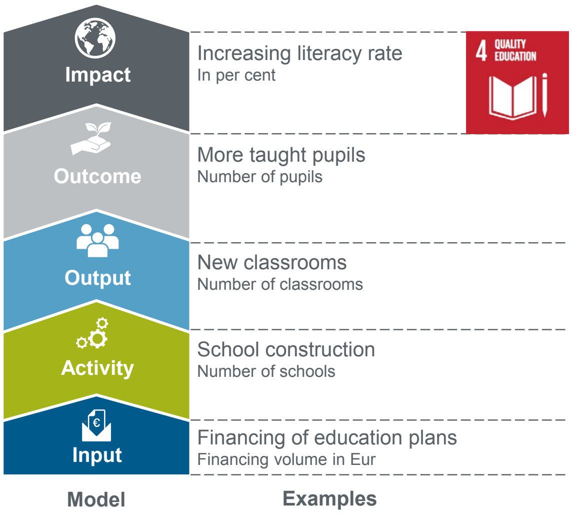
Methodologies and challenges in measuring contributions

The main challenge for SDG reporting lies in understanding the impacts of a financing activity on sustainable development and subsequently mapping them to the SDGs. The theoretical basis for understanding how and why promotional investments operate (impact investing)[12] is the 'theory of change', a theoretical framework. The basic idea of this method is to illustrate the process through to the desired change. It describes interactions between the financial input, the activity and output, the desired or achieved outcome and the impact. This abstract model is also referred to as 'impact value chain'[13] (Figure 2).

Measuring impacts along the impact chain is a particular challenge. First, suitable indicators need to be developed and it must be possible to collect the relevant data. Second, there must be a clear connection within the impact chain. This is relatively easy in the example shown in Figure 2. The connection between input and impact is clear, quantitative indicators exist for all steps of the process and the mapping of the impact to SDG 4 – quality education – is obvious. The corresponding target under SDG 4 is Target 4.6: 'By 2030, ensure that all youth and a substantial proportion of adults, both men and women, achieve literacy and numeracy'.

In practice, however, there are many financing projects in which it is a major challenge to capture the impact along the impact chain.

Figure 2: Impact value chain – example of mapping to SDG 4



Source: KfW Research nach Carol Weiss und Joseph Wholey Weiss[14]

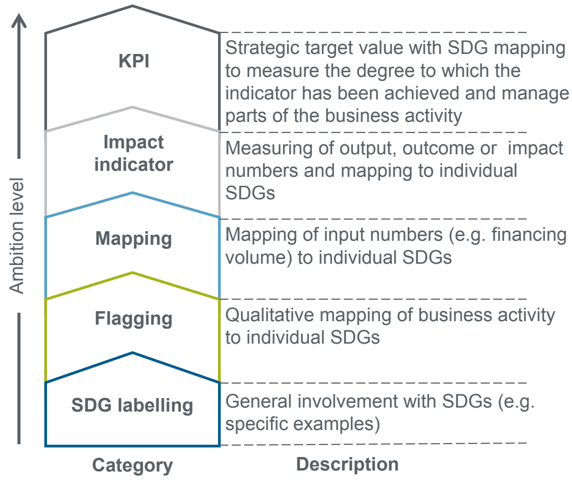
Approaches to implementing SDG reporting by banks

Measuring impacts all across a bank's financing operations often requires a great deal of effort. Sometimes there are no methods for this, so simplified methods of SDG reporting have evolved in practice with different levels of ambition (Figure 3)[15]. Basic 'SDG labelling' provides a qualitative entry into the thematic area. It singles out individual financing activities and maps them to one or more SDGs. Another qualitative approach is known as 'SDG flagging'. Here, however, the entire portfolio is mapped to goals, not just individual activities.

SDG mapping is the quantitative allocation of financing activities, usually across the entire portfolio, based on key input figures or the corresponding indicators. The contribution to the relevant SDG is expressed by the aggregate financing volume in that area, for example. A clear increase in complexity results from the impact measurement along the impact chain via output, outcome or impact indicators. One example is the acquisition of new jobs created by an investment (outcome indicator) with the relevant mapping to SDG 8. The introduction of a 'strategic target value (KPI: Key performance indicator)' with a reference to an SDG is regarded as the supreme discipline. It involves measuring the degree to which the indicator has been achieved and managing parts of the business activity accordingly.

In addition to the stages illustrated in Figure 3, there are further ways to simplify SDG reporting. For example, only part of the portfolio might be evaluated and mapped to the SDGs. Another very widespread simplification is to present only the positive contributions to the SDGs and to avoid target conflicts. For example, a financing operation can contribute to creating new decent jobs while damaging the earth's climate at the same time. Ideal SDG reporting would have to include both impacts. In terms of methodology, however, offsetting positive and negative contributions to SDGs constitutes a hitherto unsolved challenge.

Figure 3: Ambition level of SDG reporting methods



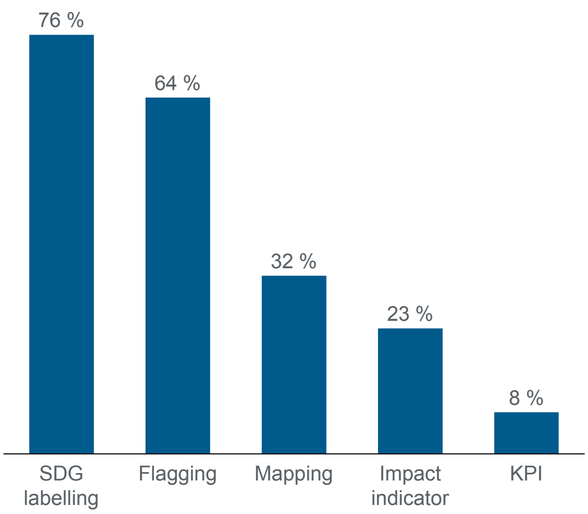
Source: KfW Research

Status quo in the international banking landscape

In order to obtain an overview of the current status of SDG reporting by banks, KfW Research has undertaken a comprehensive sample-based analysis. The relevant banks were selected according to the criteria of regional distribution, size by total assets and affiliation to a group[16]. The aim was to obtain an informative qualitative sample of nationally and internationally active commercial banks and promotional institutions. Under this approach, 53 institutions were identified. The analysis covered the banks' annual reports, sustainability reports and websites (as at June 2019).

In order to assess the banks' activity and ambition level in the area of SDG reporting, all of the analysed banks were categorised according to the criteria shown in Figure 3. The findings of the analysis (Figure 4) revealed a clear picture.

Figure 4: Frequency of SDG reporting methods of selected banks



Note: The ambition levels of the different categories build on one another.

Source: KfW Research

The majority of the analysed banks (76%) has already incorporated the SDGs into their reporting and illustrate contributions to the SDGs with best practice examples. Around one third of the banks already uses a quantitative form to map the portfolio to the SDG (SDG mapping). Only very few banks measure the effects of their financings along the impact chain and have introduced at least one KPI that has relevance to an SDG. They measure the degree to which the strategic target value has been achieved and manage parts of their business activity accordingly. None of the analysed banks addresses target conflicts between the SDGs (positive and negative impacts) or offsets them in their SDG reporting. However, a number of banks manage possible negative impacts of their financings through exclusion lists or compliance with environmental and social sustainability standards.

KfW's SDG mapping

KfW has recently developed a comprehensive SDG mapping for all new commitments of its business areas and plans to report on it annually. The SDG mapping shows the positive effects KfW expects to result from its financings and thus creates transparency on KfW's contribution to achieving the SDGs. Here KfW's approach goes beyond the pure mapping of input values. It comprises financing-related impact indicators, development markers and strategic target values (outcome level), purposes (output level) and selected economic sectors (customer activity level) that were mapped to the SDGs. With respect to the ambition level of the analysed banks, KfW is among the pioneers because it also uses strategic target values (KPIs) with relevance to SDGs for its SDG reporting. The methodology paper contains a detailed description of KfW's approach[17].

Conclusion

The Sustainable Development Goals constitute a target system that applies to all states and takes into consideration all three dimensions – social, ecological and economic – of sustainable development. The investment amounts needed for a transformation to a sustainable economic system are huge and these financing needs are still not being adequately met. The European Commission therefore launched its 'Action Plan: Financing Sustainable Growth' in 2018 with the aim of closing this investment gap. In this context, banks can make a decisive contribution to achieving the goals of the 2030 Agenda.

An initial and important step to reorienting capital flows to sustainable investments is to create transparency. Introducing SDG reporting to complement their existing sustainability reporting enables financial institutions to gain an overview of how their own financing operations contribute to achieving the SDGs for themselves and their customers.

The analysis of the current state of SDG reporting by banks demonstrates that the topic has found its way into banks and a majority of them have already started working on it. Thus far, however, less than one third of the analysed banks has created actual transparency all across their portfolio. But in view of the European Commission's objectives, clearly much more effort will have to be expended on 'reorienting capital flows to sustainable investment'. ■

[1] Messner, D. and Scholz, I. (2015): Die 2030 Agenda – eine Chance für die Stärkung internationaler Kooperation (*The 2030 Agenda – an opportunity for strengthening international cooperation* – our title translation, in German only). In: KfW-Development Research, Development Policy Opinion Forum No. 2, 17 September 2015

[2] German Federal Ministry for Economic Cooperation and Development: http://www.bmz.de/de/ministerium/ziele/2030_agenda/index.html

[3] GRI, UN Global Compact and the WBCSD, SDG Compass – The guide for business action on the SDGs, https://sdgcompass.org/wp-content/uploads/2015/12/019104_SDG_Compass_Guide_2015.pdf

[4] OECD (2019): Measuring Distance to the SDG Targets: An Assessment of Where OECD Countries Stand, OECD Publishing, Paris, https://doi.org/10.1787/a8caf3fa-en

[5] These 230 indicators were developed for public stakeholders. Transferring these policy targets to activities in the private sector, e.g. to SDG reporting by banks, is a challenge.

[6] German National Sustainable Development Strategy 2016, www.deutsche-nachhaltigkeitsstrategie.de

[7] In the framework of official development cooperation, German development cooperation agencies today work with 50 developing countries in jointly agreed country programmes which may comprise all official cooperation instruments. http://www.bmz.de/de/ministerium/ziele/2030_agenda/monitoring/index.html

[8] German National Sustainable Development Strategy, Update 2018, www.deutsche-nachhaltigkeitsstrategie.de (in German)

[9] European Commission, 'Action Plan: Financing Sustainable Growth' 2018, https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

[10] The estimate is a yearly average investment gap for the period 2021 to 2030, based on PRIMES model projections used by the European Commission in the Impact Assessment of the Proposal of the Energy Efficiency Directive (2016), http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1483696687107&uri=CELEX:52016SC0405.

[11] The SDG indicators of the 2030 Agenda were developed by the UN for states and can be used to measure business activities to a limited extent only. It is therefore necessary to develop industry-specific indicators, for example.

[12] Social Impact Investment Taskforce, Established under the UK`s presidency of the G8, Measuring Impact, Subject paper of the impact Measurement Workung Group, 2014

[13] The Impact Value Chain is built on the basic logic model, developed by Weiss, C. and Wholey, J. Weiss, C. H. (1972). Evaluation Research. Methods for Assessing Program Effectiveness. Prentice-Hall, Inc., Englewood Cliffs, New Jersey

[14] ibid.

[15] The chosen classification was further developed on the basis of the following sources: GRI, UN Global Compact and the WBCSD, SDG Compass – The guide for business action on the SDGs, https://sdgcompass.org/wp-content/uploads/2015/12/019104_SDG_Compass_Guide_2015.pdf, p. 21; Novethic, SDGs: a new focus for non-financial rating agencies – September 2018, p. 6.

[16] The selected groups were composed of promotional institutions of the federal states and the federation, commercial, direct, investment and cooperative banks, the International Development Finance Club (IDFC), multilateral development banks and the European Development Finance Institutions (EDFI). At least one institution from each region (Africa, Americas, Asia, Europe) was assigned to each group. The institutions were selected according to their relevance to the topic and size.

[17] Dangelmaier, U. (2019): The SDG mapping of KfW Group - Background information and methodological notes (), KfW Roadmap Sustainable Finance, KfW Group.