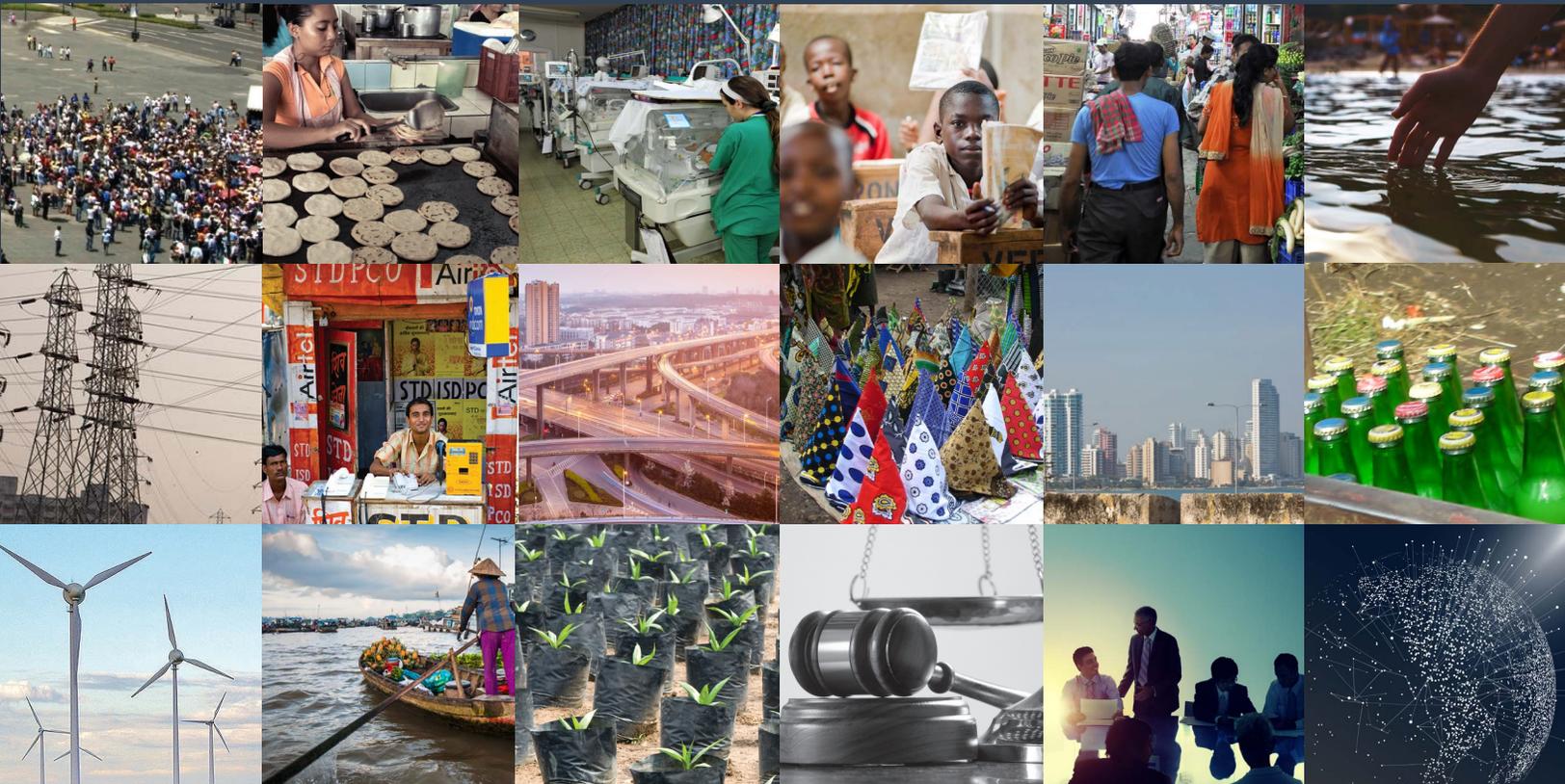


# PRIVATE EQUITY'S ROLE IN DELIVERING THE SDGs:

## Current Approaches and Good Practice



## About the EMPEA ESG Community

The EMPEA ESG Community is open to all individuals at EMPEA member firms who have an active interest in ESG in the emerging markets space. This Community provides a platform to share resources and advice for EMPEA members considering how to build and/or expand their ESG management strategy and offers practitioners and experts a forum to advance the development of ESG best practices through information exchange, research and the aggregation and development of innovative resources.

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# Executive Summary

The U.N. Sustainable Development Goals (SDGs or Global Goals) provide a global framework for addressing the most urgent global social and environmental challenges. They set out a pathway to inclusive growth and represent a call to action for the private and public sectors as well as civil society. The private sector has a critical role to play in achieving the SDGs, and private equity (PE) investors are in a unique position to invest in and influence businesses in a manner that creates positive change. Given that success in delivering the SDGs hinges on the economic growth and progress of developing countries, emerging markets (EM) investors can be particularly influential.

## Interest in SDGs and PE in Emerging Markets

The EMPEA ESG Community expressed an interest in understanding how to approach the SDGs through the lens of private equity in emerging markets. An SDG Working Group was formed to lead the development of a report that would provide guidance to general partners (GPs) and limited partners (LPs) actively investing in emerging markets. A wide variety of PE firms, as well as the broader industry that supports and enables PE investment, recognize the significant opportunities that the SDGs provide for new investments that deliver bigger and more demonstrable development impact.

## Current Industry Practice

PE investors are increasingly dedicating time and effort to engagement with the SDGs, and there is a wide variation in ambitions and approaches to the integration of SDGs across individual firms. Amongst PE investors that are most actively engaged with the SDGs, common practices include mapping existing investments to SDG targets; assessing the magnitude of contribution to the SDGs that PE funds can credibly claim; and exploring investment strategies that specifically aim to achieve SDG targets.

Investors face common challenges when engaging with the SDGs given the breadth of the SDGs, underlying targets and key performance indicators (KPIs), all of which are set at a national level and may not translate easily to a specific investment. This report also identifies a range of additional challenges that require attention, including attribution of impact, additionality and net impact.

## Looking Ahead

Looking beyond current general practice, this report identifies specific opportunities for EM PE funds to deliver important outcomes across key SDG themes, including affordable and clean energy, health care, education, gender equality and decent work. However, seizing these opportunities will require innovative

thinking, partnerships and collaboration with non-governmental organizations (NGOs), peers and regulators. Delivering on the SDGs will also require funds to think differently about their role, as well as collaborate across the PE asset class to define appropriate and applicable KPIs, common and agreed-upon approaches to attribution of impact and reporting to stakeholders. Without this cooperation, the huge potential that PE firms have in aggregate to make a meaningful difference regarding the SDGs will be limited by scale and implementation inefficiencies.

## Call to Action

This report concludes that:

- PE has the potential to drive change at scale and speed. Investors in emerging markets can deliver more meaningful impact in markets which are chronically underserved, not least because their investment strategies often mirror the SDGs.
- LPs will increasingly select fund managers that show credible commitment to the SDG agenda.
- There is now an opportunity for the PE industry to collaborate and build consensus with the goal of developing a common approach to 'investing in the SDGs.'

In addition to this report, EMPEA compiled a compendium of SDG case studies, contributed by EMPEA ESG Community Members, and a companion database of resources. Both can be accessed at [empea.org](http://empea.org). They can also be downloaded directly via the links below.

EMPEA ESG Community Case Studies Provided by:

[Actis](#)

[Elevor Equity](#)

[Emerging Capital Partners \(ECP\)](#)

[Denham Capital](#)

[Global Energy Efficiency and Renewable Energy Fund \(GEEREF\)](#)

[Investisseurs & Partenaires](#)

[TVM Capital Healthcare Partners](#)

[EMPEA ESG Community SDG Resource Database](#)

# Introduction to the SDGs

## Overview of the U.N. Sustainable Development Goals

The U.N. Sustainable Development Goals have provided a global mandate to mobilize around a common set of economic, social and environmental challenges. Organized into 17 goals with corresponding targets and indicators (see Figure 1), the SDGs were agreed upon by 193 countries in 2015 as a way to shape dialogue and action towards the 2030 Agenda.

The SDGs build upon the Millennium Development Goals (MDGs)—a set of eight goals agreed upon by 189 countries in 2000. Unlike the MDGs, the SDGs set priorities not only for emerging and developing nations, but also for developed countries.<sup>1</sup> Additionally, the SDGs explicitly call on businesses to both minimize negative impacts and maximize positive outcomes for people and the planet.

While the SDGs represent an agreed-upon global development agenda, they are intended to be ‘country-led and country-owned,’ and the SDG framework includes specific targets for—and focuses on the contributions of—individual countries. Although there is no universal agreement on responsibility for monitoring progress against the SDGs, an emerging consensus suggests that this process will also take place at the country level.

From a national-level perspective, all countries have progress to make. According to the SDG Index and Dashboards Report, which assesses how close each country is to achieving all of the SDGs, Sweden scores the highest at 84.5%.<sup>2</sup> On the other end of the spectrum, many developing countries often have significant gaps across the SDGs. This reality highlights not only the need for

change, but also compelling opportunities for the private sector in emerging markets.

The SDGs act as a catalyst for change by advocating for a significant shift from business as usual. This shift is necessary to achieve economic development in combination with social inclusion and environmental sustainability. Notably, the SDGs also make explicit that businesses themselves cannot prosper unless the social, environmental and economic contexts in which they operate also thrive.

Ultimately, the SDGs are intentionally ambitious and can only be achieved through concerted global efforts from both public and private actors.

## The Role of the Private Sector in Achieving the SDGs

From the perspective of the private sector, it is widely acknowledged that businesses will play a key role in achieving the SDGs. The SDGs can guide businesses to recognize global systemic risks and likely future regulatory drivers. According to the World Economic Forum’s *Global Risks Perception Survey 2017–2018*, the top risks identified in terms of likelihood and magnitude directly relate to the SDGs (Figure 2).<sup>3</sup> Such risks include: extreme weather events, food security, biodiversity loss and ecosystem collapse, all of which can have material impacts on a company’s operational costs, reputation and profitability.

The SDGs also outline opportunities for the private sector by indicating where businesses can deliver innovative commercial solutions. According to the Business and Sustainable Development

Figure 1: U.N. Sustainable Development Goals



<sup>1</sup> United Nations Development Programme, *Implementation of SDGs Should Be Country-led and Country-owned*, 2017

<sup>2</sup> Sustainable Development Solutions Network, *SDG Index and Dashboards Report*, 2015

<sup>3</sup> World Economic Forum, *The Global Risks Report*, 2018

Commission (BSDC), achieving all of the SDGs could create an estimated US\$12 trillion a year in business savings and revenue.<sup>4</sup> The importance of business-driven initiatives is particularly true in emerging markets, where private sector investment is needed in areas such as health care, energy, education and agriculture.

Several of the goals—such as SDG 8 (Decent Work and Economic Growth), SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action)—have direct relevance to the private sector. Other SDGs—such as SDG 1 (No Poverty) and SDG 2 (Zero Hunger)—also hinge on private sector contributions.

### The Role of Emerging Markets Private Equity in Achieving the SDGs

The U.N. Commission on Trade and Development estimates that meeting the SDGs will require more than US\$5 trillion in annual investment. Only a small proportion of this will come from public funds and development aid, leaving an investment gap in developing countries of around US\$2.5 trillion.<sup>5</sup>

Looking at the wider investment landscape, *The SDG Investment Case*, a report by the United Nations Principles for Responsible Investing (UNPRI), outlines why the investment community should adopt an active role in achieving the SDGs.<sup>6</sup> These reasons range from the potential use of the SDGs to support environmental, social and governance (ESG) data and reporting—which are aligned with an investor’s fiduciary duty—to the notion that achieving the SDGs will be a fundamental driver of economic and business growth. Institutional investors and owners of long-term capital in turn are aligning their investment policies to address the SDGs. For example, two of the largest pension fund managers in the

Netherlands, APG and PGGM, have recently identified investment opportunities linked to 13 of the 17 SDGs.<sup>7</sup>

While the SDGs are applicable around the globe, private equity investors targeting emerging markets have a unique role to play in the delivery of the SDGs. The developing world’s emerging middle classes are expanding rapidly, contributing to an acute need for essential services (e.g. health care, education and financial services) and infrastructure (e.g. clean energy and affordable housing). These needs represent significant investment opportunities for PE funds. By considering investment opportunities through an SDG lens, PE investors will identify fertile investment prospects whilst simultaneously building businesses that contribute to economic and social prosperity in developing markets.

Private equity is also well-positioned to support the achievement of the SDGs, as it can deliver attractive long-term investment returns and can promote the sustainable growth of companies and economies. The private equity industry has increasingly recognized that good ESG management can add value and that poor consideration of ESG practices can have a negative impact on financial performance. In a 2016 survey by PricewaterhouseCoopers (PwC), only 16% responded that the Global Goals were *not* considered to be relevant to their firm. The survey also found that many firms recognized the benefits of aligning investment practices with the SDGs.<sup>8</sup>

In short, the SDGs furnish investors with a common framework to help minimize negative impacts, maximize positive impacts and demonstrate impact to relevant stakeholders using a shared and consistent language.

Figure 2: Top 10 risks in terms of likelihood and impact (WEF Global Risks Perception Survey 2017-2018)

Top 10 risks in terms of likelihood:	Top 10 risks in terms of impact:
• Extreme weather events	• Weapons of mass destruction
• Natural disasters	• Extreme weather events
• Cyberattacks	• Natural disasters
• Data fraud or theft	• Failure of climate-change mitigation and adaptation
• Failure of climate-change mitigation and adaptation	• Water crises
• Large-scale involuntary migration	• Cyberattacks
• Man-made environmental disasters	• Food crises
• Terrorist attacks	• Biodiversity loss and ecosystem collapse
• Illicit trade	• Large-scale involuntary migration
• Asset bubbles in a major economy	• Spread of infectious diseases

<sup>4</sup>Business & Sustainable Development Commission, *Better Business Better World*, January 2017

<sup>5</sup>United Nations Conference on Trade and Development, *World Investment Report— Investing in the SDGs: An Action Plan*, 2014

<sup>6</sup>UNPRI, UNEP Finance Initiative, UNGC and PwC, *The SDG Investment Case*, 2017

<sup>7</sup>PGGM and APG, *Sustainable Development Investment (SDI) Taxonomies*, May 2017

<sup>8</sup>PwC, *Are We Nearly There Yet? Private Equity and the Responsible Investment Journey*, 2016

# Objectives and Methodology

The EMPEA ESG Community expressed an interest in understanding the approach to the SDGs through the lens of private equity in emerging markets. An SDG Working Group was established to lead the development of a background report on the SDGs that the group felt would provide valuable guidance to GPs and LPs in emerging markets. A wide variety of PE firms (and the broader industry that supports and enables PE investment) recognize the significant opportunities that the SDGs provide for new investments that demonstrably deliver bigger development impact. It is equally clear that all parties are grappling with the challenges of integrating the SDGs in a credible and meaningful way into both a fund manager's strategy and the investment decision-making process. The EMPEA ESG Community recognized growing demand for guidance on several topics:

- What motivates PE funds to consider the SDGs in their investments?
- How can stakeholders integrate the SDGs into strategy and investment decision-making?
- What challenges do PE firms face as they move forward on this agenda?

The audience for this report is PE firms, particularly those that are active in emerging markets, but it will also have wider utility, in particular for LPs and for advisors and consultants to the PE sector. The report aims to provide practical guidance to all, recognizing that this is a rapidly evolving conversation and that definitive answers, tools and approaches are not evident. It does not claim to be an authoritative guide to best practice.

The comments, guidance and recommendations in the report have been informed by interviews, reviews of research and the community's own experiences. It has benefitted from over 20 structured stakeholder interviews with private equity managers, LPs and organizations with relevant expertise and experience in working at the intersection of the private sector and the SDGs. Interviews were undertaken on EMPEA's behalf by Impact Value and provide specific examples of current practices, emerging good practices and challenges.



# Private Equity Firms' Current Approaches to the SDGs

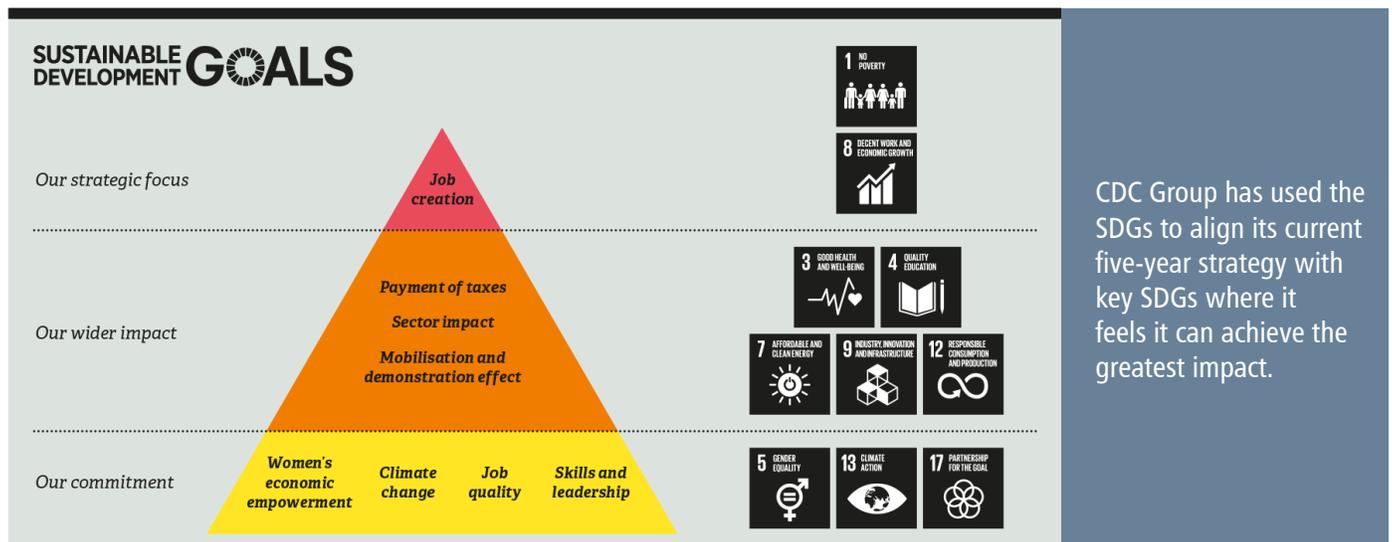
## What Are the Drivers for Engaging with the SDGs?

1. **The SDGs set out a pathway to inclusive and sustainable growth:** The SDGs articulate key issues that must be addressed in the near term to ensure continuing opportunities for economic growth, social equity and the maintenance of environmental goods and services. For many investors, consideration of such issues forms part of their fiduciary duty (often as part of their ESG or 'impact' requirements) and leads to better investment decisions. At CalPERS's January 2018 board retreat, the organization's CEO Ted Eliopoulos and Investment Director for Sustainability Anne Simpson commented, "SDGs are a gift to investors...the Global Goals build prosperity. That's really why we're interested."<sup>9</sup>
2. **Investor interest:** Many fund managers indicate that a driving factor for engaging with the SDGs is interest from existing and potential investors. A growing number of LPs are asking questions regarding how their investments are aligning with and contributing to the SDGs (Figure 3). For some PE fund managers, the SDGs are also a means to proactively engage investors who have not necessarily expressed an interest in the SDGs. It is evident, however, that there is currently no consensus or industry standard for demonstrating how PE firms can most effectively deliver the SDGs, and as a result, there is a growing range of approaches. Ultimately this plethora may confuse and reduce impact.

3. **Common framework for communicating impact:** Consensus among investors is that the SDGs provide a common language, especially to convey impact. For impact investors, many are sourcing or cross-referencing metrics from the SDG framework. For funds primarily focused on ESG safeguards, the SDGs provide a way to demonstrate the impact of their investments and any ESG improvements, including job creation, education outcomes and improvements in occupational safety.



Figure 3: SDG alignment in CDC Group's Strategic Framework 2017-2021



<sup>9</sup>Top1000Funds, CalPERS Examines Adopting SDGS, 2018

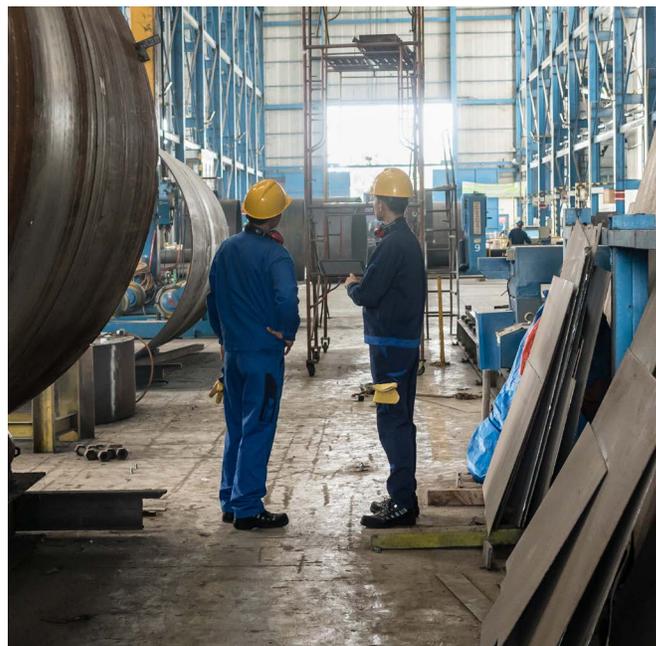
## How Are Investors Engaging with the SDGs?

There is a spectrum of ambition and experience across PE firms that are engaging with the SDGs. (Figure 4 presents a progression of practice and represents one way of thinking through this continuum.) Notably, PE firms may be working at several levels along the continuum concurrently, such as both mapping and driving change.

The interviews conducted for this report highlighted that many investors are engaged in internal dialogue to understand the relevance of the SDGs to their investment policies and practices and to determine next steps.

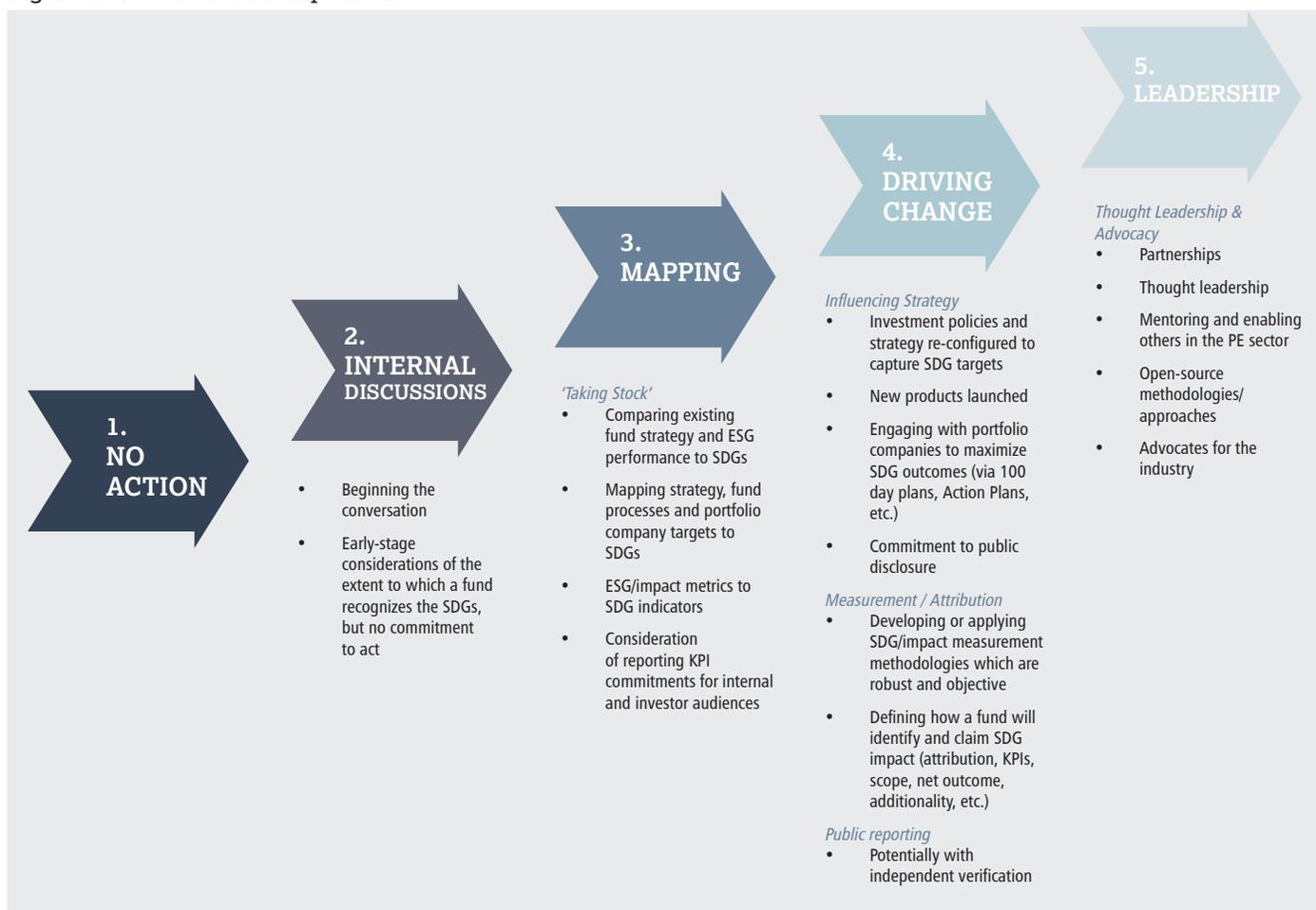
Amongst those investors that have been actively engaging with the SDGs, the most common form of engagement has been 'mapping'—that is, understanding how current investments map to the SDGs.

This is being done on several levels, including investment strategy (fund- and portfolio company-level) and with varying degrees of granularity. Many investors are in a 'taking stock' phase to understand how their current investment strategies stack up vis-à-vis the SDGs.



The SDGs are not yet being widely used by managers to influence strategies, direct investment policies or drive the development of new approaches and products.

Figure 4: Toward leadership on SDGs



## Snapshots of Engagement

As previously noted, amongst those investors engaging with the SDGs, the most common practice is assessing investments to understand how they map onto, align with and/or contribute to the SDGs, though some actors are undertaking this exercise concurrently with deeper engagement on strategy and leadership.

For many investors, the process of mapping is 'bottom up,' starting with the evaluation of portfolio companies. Some asset managers then 'aggregate' the portfolio company level SDG contributions to achieve a comprehensive perspective on how an entire portfolio maps to the SDGs. For example, global impact investor LGT Impact summarized on their website, "Together with our portfolio companies, we (LGT Impact) align with and contribute to the achievement of 12 out of 17 U.N. Sustainable Development Goals (SDGs)."<sup>10</sup>

Some investors map only the core products and services of their companies, while others also encompass non-core activities and secondary impacts. As an illustration, based on its core business alone, an education investment might only align with Goal 4 (Quality Education). However, secondary benefits would not be recognized, such as an improved gender ratio within the workforce, an effect that could arguably be linked to SDG 5 (Gender Equality).

Select examples of how investors are engaging with the SDGs are provided below:

- **Binary decision tree:** Emerging markets-focused fund of funds Sarona Asset Management has developed a methodology that asks a series of yes or no questions for each SDG per investment. The questions have been formulated so that an affirmative response to any question means that the investment is considered to align with the SDGs. For example, for SDG 5 (Gender Equality), the questions are:
  - Does the company develop products focused on women?
  - Is more than 50% of the company's management, staff and/or board women?
- **Mapping existing impact metrics to SDG targets:** Emerging markets specialist fund manager LeapFrog Investments' measurement framework, FIIRM, encompasses financial, impact, innovation and risk management factors. As part of this system, a KPI tracked across all investments is the number of low-income people accessing insurance, financial services and health care products, a metric that aligns directly with targets within SDG 1 (No Poverty) and SDG 3 (Good Health and Well-being).
- **Mapping impact objectives to SDG targets:** Impact objectives of each investment can be linked to specific SDG targets. For example, Social Venture Fund (SVF), the impact investing arm of Mercy Corps, is invested in Kenya-based FarmDrive,

a company that generates credit reports for smallholder farmers, enabling them to access loans for the purchase of agricultural inputs. SVF notes that FarmDrive's outcomes map to target 3 within SDG 2 (Zero Hunger), a target that addresses agricultural productivity and incomes of small-scale food producers, including via financial services.

- **Categorizing the magnitude of SDG contribution:** Accounting for the magnitude of contributions to the SDGs can be challenging. Growth markets investor Actis is testing a methodology that seeks to categorize the magnitude of an individual company's contribution to each SDG through a tiered scale.<sup>11</sup> This process enables Actis to assess which companies are contributing to a greater or lesser extent, as well as compare results within its portfolio. The approach also enables a fund-level view, making it possible to evaluate a fund based on the percentage of its portfolio companies that make significant, moderate or limited contribution to at least one SDG.
- **Assessing multiple dimensions of impact as they relate to an SDG:** As a core feature of their SDG-focused fund PG LIFE, global private markets investment manager Partners Group is developing an SDG alignment and assessment methodology that assesses an investment along the five dimensions of impact as defined by the Impact Management Project (IMP).<sup>12</sup> (See the callout box for more information on the IMP and the SDGs.) An investment will only be considered aligned with the SDG—and therefore considered by the fund—if thresholds are met across the five dimensions set by Partners Group.

### The Impact Management Project

The Impact Management Project (IMP) is a multi-stakeholder effort that has brought together over 700 organizations from different contexts and countries. The focus has not been to agree upon a single framework or tool, but rather to agree on shared fundamentals for defining and managing impact. These five pillars of impact are described in the boxes to the right.

IMP emphasizes that impact information is most useful if kept in the context of all dimensions. Align17, a new investment platform focused on SDG funding gaps, is developing an impact assessment methodology. This impact measurement approach aims to look at all five dimensions as they relate to specific investments and the SDGs.

**WHAT:** What outcomes does the effect relate to, and how important are they to people (or planet) experiencing it?

**HOW MUCH:** How much of the effect occurs in the time period?

**WHO:** Who experiences the effect and how underserved are they in relation to the outcome?

**CONTRIBUTION:** How does the effect compare and contribute to what is likely to occur anyway?

**RISK:** Which risk factors are material and how likely is the outcome different from the expectation?

<sup>10</sup> LGT Impact, *Impact Creation Aligned with the Sustainable Development Goals*

<sup>11</sup> Private Equity International, *Responsible Investment: Why SDGs Are a Game Changer*, 2018

<sup>12</sup> Impact Management Project ([www.impactmanagementproject.com](http://www.impactmanagementproject.com))

## Private Sector Engagement Beyond Private Equity

The interviews conducted for this report provide an important snapshot of current thinking and approaches to the SDGs, and the report highlights themes that seem particularly important.

More broadly, other parts of the private sector (including corporates in particular) have embraced the SDGs with ambition, and companies are now using them to differentiate themselves from peers, report to investors and gauge and demonstrate the impact that their businesses are having. The U.N. Global Compact's (UNGC) 2017 Progress Report notes that 75% of UNGC participants have actions in place to address the SDGs, and 70% report publicly.<sup>13</sup> SDG best practices from the private sector include:

- Publicly reported targets and reporting against performance;
- Inclusion of indirect impacts (including supply and value chains);
- Opportunities for leadership and partnership; and
- Articulation of SDG objectives in both short- and longer-term time horizons.

The EMPEA ESG Community encourages investors and partners to recognize and leverage the work of private sector players beyond the private equity industry, to learn from their experiences and to align tools and approaches with non-PE entities in order to drive efficiency in achieving the 2030 Agenda.

PwC's report, *Working in an SDG Economy*, for example, outlines a potential scenario where "every business will know how their activities and the consequences of their activities (even the unforeseen elements) map across to the Global Goals.... SDG impact awareness won't be confined to a specific showcase project, but will be embedded in a new way of working that prioritizes the impact on SDGs alongside business objectives and business models."<sup>14</sup>

In addition to a varying number of methods used by investors to engage with the SDGs, there are several emerging areas of SDG consensus, including:

- **Using the SDGs to invest for positive change:** The SDGs identify growing markets for businesses that can deliver innovative solutions. This is particularly true in emerging markets where there are investment opportunities such as solar power in rural areas and health care and education for the underserved. For some PE firms, SDG themes are and have been core to their impact strategy; their metrics predate the SDGs (and may therefore not fully map to the SDGs' targets). Mainstream fund managers may be re-focusing investment strategies to demonstrate alignment with the SDGs, or in the case of new funds, specifically framing the investment thesis around the SDGs (e.g. health care, education, gender and renewable energy).
- **Creating shared value through private capital:** By viewing investments through an SDG lens, PE investors can recognize that there are tremendous opportunities for creating economic value in a way that also creates value for society by addressing its needs and challenges. The SDGs also provide a framework through which a business can understand its relationship with local communities—creating opportunities for mutual benefit (including through employment, skills development and supply chains), as well as fostering a long term 'social licence to operate.' Applying an SDG lens may identify new markets or innovative approaches that combine improvement in the financial performance of an investment with positive SDG outcomes.
- **Trade-on vs. Trade-off:** The most progressive investors are thinking carefully about how to account for both positive and negative impacts. The SDGs generate trade-offs (i.e. promoting food for all could result in continuing loss of biodiversity) that need to be acknowledged and managed. Effective delivery of the SDGs requires that negative impacts are at least mitigated and ideally avoided.
- **Partnerships will be an important enabler of change:** Given the complexity of the SDGs, and the fact that achieving impact is not wholly within the control of either an investor or investee, partnerships with others will be an important enabler of impact. Typically, this aim involves engagement with NGOs, regulators, other investors and communities. Evidence suggests that effective partnerships can deliver larger and more sustainable impacts, but there are often additional transaction and financial costs associated with partnerships.<sup>15</sup>

<sup>13</sup> United Nations Global Compact, *United Nations Global Compact Progress Report: Business Solutions to Sustainable Development*, 2017

<sup>14</sup> PricewaterhouseCooper, *Working in an SDG Economy: Aligning Business Activity to the Global Goals*, 2017

<sup>15</sup> Sustainable Development Solutions Network, *Financing Sustainable Development: Implementing the SDGs Through Effective Investment Strategies and Partnerships*, 2015



# What Are the Challenges?

The challenges set out below appear with some consistency across PE investors:

- **The SDG targets and indicators don't relate well to PE reporting:** The 17 Global Goals translate into 169 targets upon which 230 indicators have been agreed. However, these indicators are often benchmarked against national-level statistics and are consequently not well suited for use by businesses or investors. To help address this challenge, several industry groups, including the Global Reporting Initiative (GRI) and U.N. Global Compact (UNGC), are developing sets of metrics such as the UNGC Business Reporting on the SDGs that seek to bridge the gap between the national-level frameworks and what makes sense for organizations to report.<sup>16</sup>
- **Reporting on outputs is easier than reporting on outcomes:** Companies generally understand the outputs of their activities; for example, a drip irrigation company might measure the reduction in water demand or increase in the yield of smallholder farmers. However, how this effect contributes to the farmer's livelihood is much harder to understand and measure. Such outcomes (sustainable livelihood) are more clearly aligned with the SDGs than the outputs (yield), but they are considerably more difficult to evidence.
- **Some industry sectors do not relate clearly to the SDGs:** For example, assessing which SDGs are relevant to a financial services business is not as straightforward as to a health care or education business. The latter two have dedicated goals focused on their key outcomes—in these cases, SDG 3 (Good Health and Well-being) and SDG 4 (Quality Education), respectively. In contrast, benefits arising from the financial services sector, which has a hugely important role to play in enabling many of the SDGs, are spread across various SDGs, including SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequalities).
- **Lack of clarity around the role for middle market investments:** Linked to the above, the SDGs and their underlying targets are predominantly focused on the poorest of the poor. However, many EM investors are investing in businesses that provide products and services for lower-middle income consumers.
- **Accounting for attribution:** Attribution is a broader impact measurement challenge. If a fund manager takes a significant minority stake in a company that is creating thousands of quality jobs, can the investor 'take credit' for all jobs created, or should this value be discounted according to the proportional amount invested? If attribution isn't taken into consideration, double counting may obscure the measurement of progress towards any SDG in absolute terms.
- **Assessing additionality (the 'incremental impact' of the PE fund investment):** There is continuing variation in the approach being taken to additionality and a need to provide greater clarity on the claims that can be credibly made by PE firms regarding the impact they create: what is the impact of their stewardship? Have they catalyzed additional impact outcomes through active ownership? Answering these questions is more straightforward in cases in which the PE fund is invested in a start-up company or buy-and-build strategy, but these concerns can be difficult to address elsewhere.
- **Certification and independent verification:** Amongst some interviewees, there is a sense that certification and independent verification of SDG alignment may be necessary in the future to provide comfort in and credibility of reported impacts. Credible standards for verifying SDG contributions have yet to be developed or disseminated on a meaningful scale. Some, such as the Gold Standard for the Global Goals and the Sustainable Development Verified Impact Standards, are in early development.



<sup>16</sup> Global Reporting Initiative, *Business Reporting on the SDGs* ([www.globalreporting.org/information/SDGs/Pages/Reporting-on-the-SDGs.aspx](http://www.globalreporting.org/information/SDGs/Pages/Reporting-on-the-SDGs.aspx))

# Call to Action

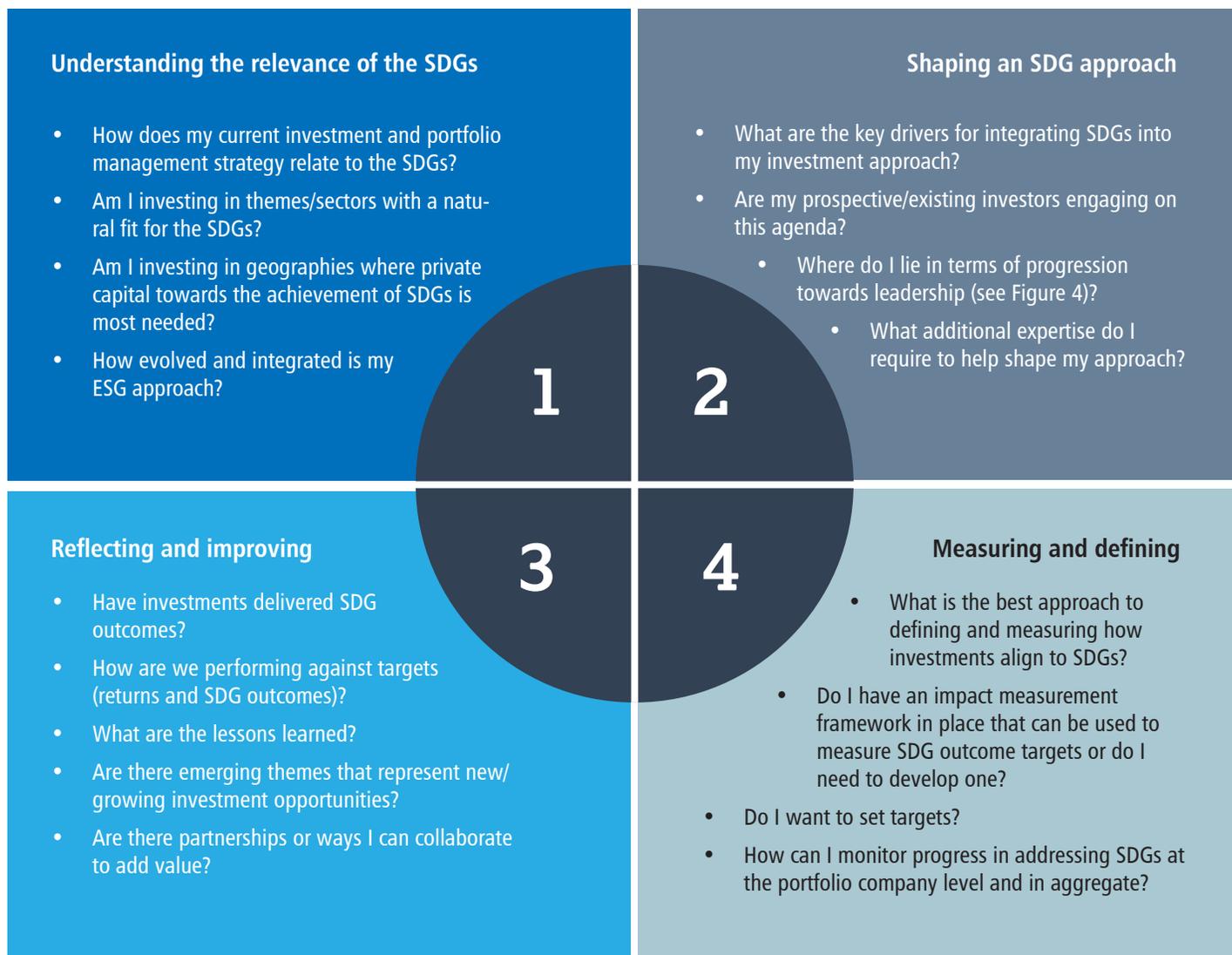
This report shows that there is momentum and ambition for PE firms to engage in the delivery of the SDGs. Activities to date are generally nascent and formative (not unexpectedly), and they represent a range of approaches that ultimately will need to be harnessed and directed to ensure that PE firms can:

- Credibly demonstrate the positive impact they have had;
- Align and simplify the approaches that prove impactful;
- Scale and accelerate these approaches; and
- Leverage others (i.e. lenders, corporates, government, industry bodies, NGOs) who are also engaging with the SDGs.

Figure 5 provides a set of questions that aim to help PE firms, their investors and their advisors to consider how, to what purpose and with which aims a fund can engage with the SDGs. The report

provides the following guidance on future action by PE firms. In doing so, the EMPEA ESG Community acknowledges that these recommendations are partial—in that there are other areas for firms to consider—but that the guidance represents current good practice, which can evolve over time. The graphics (especially Figures 4 and 5) aim to provoke discussion within PE firms, and the SDG Resource Database that EMPEA has developed provides access to many of the most recent reports and analysis on the SDGs. Case studies contributed by a number of EMPEA ESG Community members also provide further insight on how other PE firms are aligning with the SDGs, both at the fund and the company level.

Figure 5: Impact Value’s Embedding the SDGs: Questions to Guide the Approach (adapted from Impact Value, 2018)

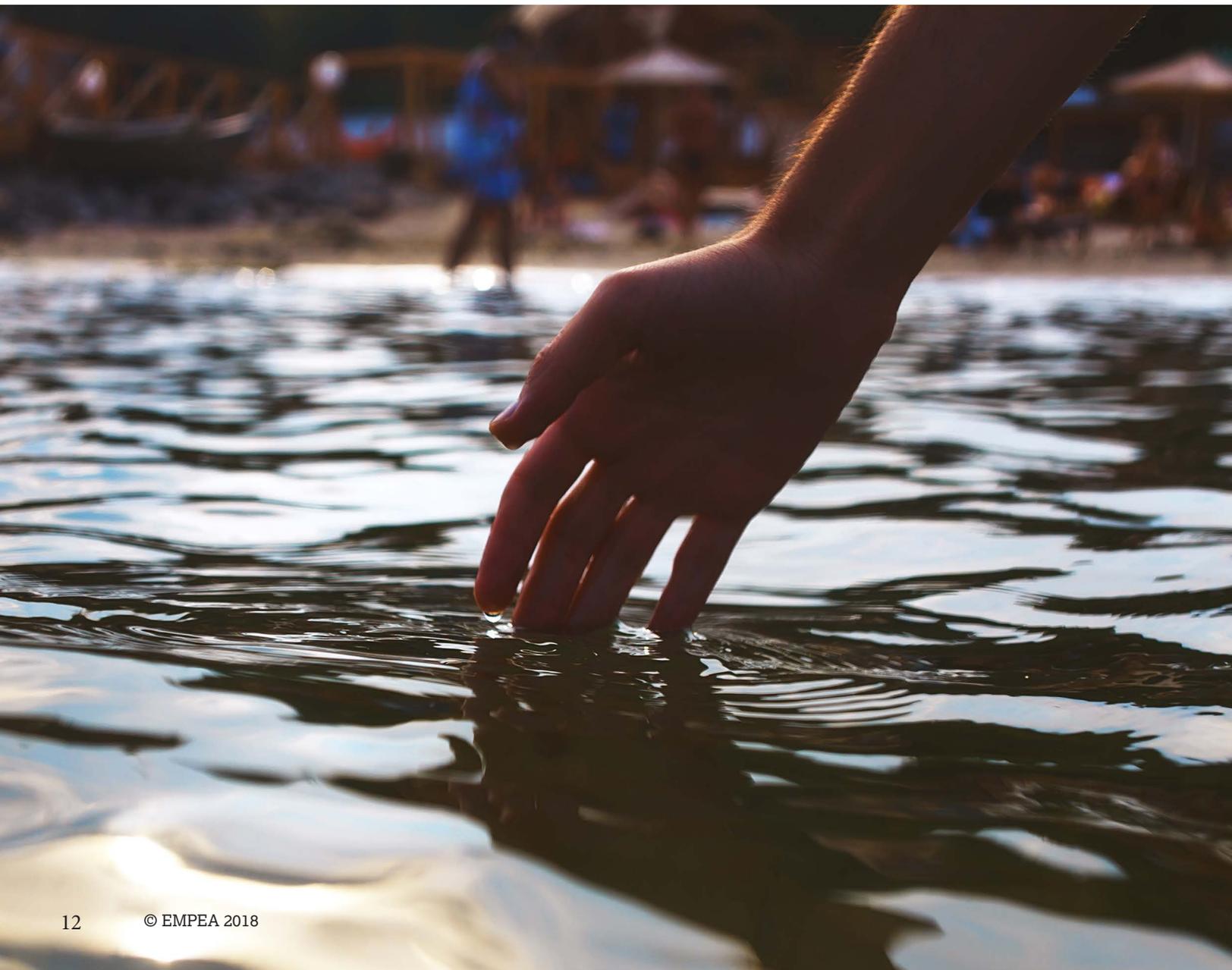


This discussion will become increasingly important to fund managers because:

- PE has the ability to drive change at scale and speed. For investors in emerging markets, this influence can deliver bigger and more meaningful impact, in part because the opportunity to invest in key SDGs (e.g. renewable energy, health care, education, food production and gender) play to the PE agenda.
- Investors will increasingly commit to firms that show credible commitment to the SDG agenda and, more broadly, societal expectation shifts to a 'profit for all' mindset.
- The opportunity to collaborate with others—including NGOs, peers and regulators—in delivering a new business model that brings shared value is becoming a compelling reality. Exits that demonstrate a return on social value will become the norm in the near term.

There is now an opportunity for the PE industry to collaborate and to build consensus with the goal of developing a common approach to 'investing in the SDGs.' There are clearly challenges to achieving this scenario but they are not insurmountable and can be addressed if there is sufficient commitment and momentum within the sector.

It is clear that there is a spectrum of ambition and experience across PE firms that are engaging with the SDGs. To encourage and support PE investors to engage more deeply, this report includes key questions to guide such an approach. The path presented is one of many and can facilitate a starting point for future conversations. Organizations that are already measuring and reporting their contribution are encouraged to go back to Step 1 to assess the relevance of the SDGs to their investment strategies.



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The logo for EMPEA, featuring the word "EMPEA" in a bold, dark blue sans-serif font, followed by two overlapping circles of different shades of blue.

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