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SDG IMPACT MEASUREMENT: MIRACLE CURE OR WINDOW-DRESSING?

THE CONTRIBUTION OF PRIVATE INVESTORS TO THE UN'S SUSTAINABLE DEVELOPMENT GOALS

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Study

SDG impact measurement: miracle cure or window-dressing?

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EXECUTIVE SUMMARY

A mid-term review of progress on the UN 2030 Agenda's Sustainable Development Goals (SDGs) makes for devastating reading: only 12% of the 17 Sustainable Development Goals are on track, inequality and poverty have increased, and the climate crisis and species loss have intensified. If the SDGs are to be reached by 2030, massive investment will be necessary, and the nations of the world will not be able to foot the bill on their own. According to United Nations calculations, US$2.5 trillion in private investment per annum would be needed. That's about 3.75% of global assets under management.

The current reality is that with their colourful square tiles, the SDGs are above all helping to make corporate sustainability reports look better. The reason for this is that while the United Nations calls for corporate contributions to the SDGs to be measured and reported, it has not developed an indicator set that companies can use to report their positive or negative contribution to the SDGs that are relevant to them. This has consequences.

While the majority of publicly listed companies today use the SDGs for sustainability reporting, the data that they publish in this respect is not very transparent and barely comparable. For example, a KPMG study of 5,800 companies from 58 countries showed that only 10% of companies reported on both positive and negative impacts on one or more SDGs (cf. KPMG 2022). Most companies claim to be having only positive impacts, without actually providing sufficient data to back up their claims. In so doing, they are engaging in so-called "SDG-washing".

This means that investors who would like to make targeted investments in companies that make a contribution to the SDGs have a problem: without adequate, comparable corporate data and without information that is disaggregated by country, targeted investments in individual SDG targets via classic mutual funds are rarely made where they are needed most, namely in developing and newly industrialised countries. Indeed, it is more the case that SDG ratings reproduce the problems inherent in corporate reports. For example, a recent working paper from the Center for Financial Research showed that the SDG ratings of the world's four major rating providers concurred by only 30–50% (cf. Bauckloh et al.).

Both the European Sustainability Reporting Standards (ESRS) of the Corporate Sustainability Reporting Directive (CSRD) and voluntary reporting standards such as those from the Global Reporting Initiative (GRI) provide first important pointers for future SDG reporting that can be used by investors to make targeted investments in the Sustainable Development Goals. However, even these standards do not reflect all dimensions of the contribution companies can make or the damage that they can do, especially in terms of the question as to how investments in companies and projects can be directed or where they are particularly needed.

If US$2.5 trillion per annum is to be channelled into sustainable economic activity by 2030 – especially in developing and newly industrialised countries – business and politics must do more:

- Companies must anchor the SDGs in their sustainability strategies and define, monitor and regularly report on set targets. To this end, the first step should be to report on all ESRS indicators that have been tagged as relevant by EFRAG and on all general and sector-relevant GRI indicators relating to the SDGs. They must also disclose country-specific data so that it is clear which SDGs in which states are being positively or negatively influenced.
- Investors who want to use the SDGs as a steering tool for their sustainability products, should make transparent statements on the data they use and the foundations on which their calculations are based. They must also record whether investments are made in countries where the SDGs are particularly at risk. In the case of share and pension funds, they can do this by making targeted investments in companies and states that foster fair economic activity in developing and newly industrialised countries. Investments in products that specialise in the promotion of sustainable economies in the Global South are an alternative. Investors should also align their engagement activities with particularly at-risk SDGs.
- Political decision-makers at EU level in particular must align existing proposed legislation relating to the Green Deal and Sustainable Finance more closely with achieving the SDGs and, for example, include indicators for achieving the SDGs – especially in developing and newly industrialised countries – in the Corporate Sustainability Reporting Directive (CSRD). The Taxonomy Regulation must also be extended to include social dimensions and dimensions that are relevant to the global development goals in order to make investments more targeted.
- The United Nations must also spell out more clearly the responsibility of companies to make a contribution to achieving the SDGs and develop in conjunction with all relevant stakeholders guidelines for companies and a set of criteria.

1 INTRODUCTION

The world community today faces numerous global challenges such as growing inequality and poverty, the intensifying impact of the climate crisis, the destruction of biodiversity, the overshooting of planetary boundaries, the outbreak of new wars and international political tension. To address these enormous challenges, the European Union has launched several pieces of proposed legislation to help make the economy and society climate compatible, more environmentally friendly and more socially just. Because the states cannot complete this task on their own, the private financial sector must make a financial contribution and align investments with sustainability criteria.

In its objectives, the EU references the United Nations' Sustainable Development Goals (SDGs), the 17 goals for a social, economic and environmentally friendly global economy. However, at the midpoint of the implementation of the 2030 Agenda, only 12% of the SDGs are on track. If the SDGs are to be achieved, an additional US$2.5 trillion needs to be invested every year.

Up until now, the SDGs have only played a subordinate role in the EU's proposed legislation. The European Economic Area's path of "just transition", which is often mentioned in the preambles of such legislation, is being trod unilaterally. The top priority is the fight against climate change and the green transition of the economy. The 17 SDGs, however, are much broader and also cover social dimensions such as gender equality, the reduction of inequality, access to education and health services, decent work, and peace and justice. Meanwhile, companies and investors are not waiting for regulatory guidelines, but are using the SDGs on their own initiative as a reference framework to present their products and services as making a contribution to sustainable development.

The SDGs barely feature in EU legislation.

This study begins by providing an overview of SDG impact reporting by companies and investors and critically examines those that currently use the SDGs. It also shows how the SDGs are currently anchored in the European regulation packages on sustainable finance and what gaps have to be closed to ensure that SDG reporting and ratings are not primarily used as marketing tools but really do direct money to the places where it is most urgently needed, namely into the economies of the Global South that are lagging behind.

2 SEVENTEEN GOALS FOR SUSTAINABLE DEVELOPMENT

"WE CAN BE THE FIRST GENERATION TO SUCCEED IN ENDING POVERTY; JUST AS WE MAY BE THE LAST TO HAVE A CHANCE OF SAVING THE PLANET." (UNITED NATIONS 2015, 13)

In autumn 2015, the General Assembly of the United Nations adopted the 2030 Agenda for Sustainable Development, "a plan of action for people, planet and prosperity" (United Nations 2015, 1). In doing so, the member states undertook to achieve 17 goals and 169 targets. The goals are integrated and indivisible and balance the three dimensions of sustainable development: the economic, the social and the environmental. (United Nations 2015, 1)

The 2030 Agenda is based on principles, agreements and declarations of the community of states such as the Universal Declaration of Human Rights, international human rights treaties, the Millennium Declaration and the Rio Declaration on Environment and Development.

The SDGs superseded the Millennium Development Goals (MDGs), which were defined as development goals exclusively for developing and newly industrialised countries and focused on eradicating poverty in the Global South. The SDGs, on the other hand, are based on a global understanding of prosperity that goes beyond the one-sided view of per capita income. They call for a reshaping of the economy and societies equally by all states: it is about more sustainable production, more sustainable consumption to protect the climate and biodiversity, peace and global partnership.

The 2030 Agenda recognises that climate policy, sustainable development and the eradication of poverty are inextricably linked. This is why it also targets all key stakeholders: states, the economy, civil society, the scientific community and each and every individual. Measures are required in five core areas (the five Ps):

- **People**: ending poverty and ensuring that all human beings can fulfil their potential
- **Planet**: protection of the planet through sustainable production and consumption, sustainably managing its natural resources and taking action on climate change
- **Prosperity**: prosperity for all and economic, social and technological progress in harmony with nature
- **Peace**: the fostering of peaceful, just and inclusive societies that are free from fear and violence
- **Partnership**: mobilisation of a Global Partnership for Sustainable Development

THE SDGS: 17 GOALS FOR SUSTAINABLE DEVELOPMENT

No poverty

End poverty in all its forms everywhere.

Zero hunger

End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Good health and well-being

Ensure healthy lives and promote well-being for all at all ages.

Quality education

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Gender equality

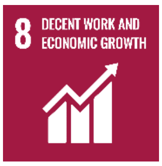
Achieve gender equality and empower all women and girls.

Clean water and sanitation

Ensure availability and sustainable management of water and sanitation for all.

Affordable and clean energy

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



Decent work and economic growth

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Industry, innovation and infrastructure

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Reduced inequalities

Reduce inequality within and among countries.

Sustainable cities and communities

Make cities and human settlements inclusive, safe, resilient and sustainable.

Responsible consumption and production

Ensure sustainable consumption and production patterns.

Climate action

Take urgent action to combat climate change and its impacts.

Life below water

Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Life on land

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Peace, justice and strong institutions

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Partnerships for the goals

Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development.

Source: United Nations 2015

3 THE SDG CONTRIBUTION OF COMPANIES

The aspiration behind the SDGs, namely to reshape the way business is done globally, to which world society has committed itself, is unique. By linking the five core areas, this aspiration provides an opportunity to recognise the interdependencies of the global challenges posed by the multi-facetted crisis the world faces. At the same time, however, the inherent risk in this holistic approach is that it offers too few concrete guidelines for action.

This is illustrated by the SDG indicator set for regular reporting. The 17 goals are divided up into 169 targets, which are measured by over 248 indicators. These were developed as the reporting standard for states. Not every state reports on every target, either because sound statistical data collection cannot be consistently guaranteed in low-income countries or because data is not collected because of national particularities or because there is no political will to publish specific data – which is often the case in authoritarian states. Nevertheless, as a rule, the annual national progress reports provide an adequately good overview of states' current progress and regression with regard to the goals.

No indicators developed for companies

No comparable indicators have thus far been developed for other societal stakeholders – such as business and civil society. Nevertheless, the UN addresses all stakeholders, including the private sector. There are several reasons for this. On the one hand, business enterprises are an essential part of every society. This is why the achievement of many of the targets (for example, work for all or comprehensive access to clean energy or financial services) is inconceivable without the private sector. On the other hand, the activities of companies frequently have direct or indirect impacts on a state's progress on the SDGs, not only in the states where companies manufacture or sell their products but also on other states through foreign production locations and supply chains.[1]

US$2.5

trillion in private investment per annum is needed according to the UN.

Moreover, the states cannot bear the immense costs associated with achieving the SDGs without private sector engagement and investment. The United Nations estimated in 2018 that private investment to the tune of US$2.5 trillion would be needed per annum until 2030. One reason for the empty coffers in many states is the high level of external debt, which has increased strongly in the countries of Africa and Latin America in particular in recent years. According to calculations made by erlassjahr.de, 136 out of a total 152 countries examined in the Global South in late 2021 were critically indebted. Of this number, 40 were very critically indebted (cf. Kaiser et al. 2023, 8). This means that these countries lack the fiscal space to finance development: "in 2023, the estimated debt service of low- and middle-income countries is at its highest level since the late 1990s." (Kaiser et. al. 2023, 2) This further reduces the scope for investing in social structures or in measures for adapting to climate change. As states' financial scope decreases, so the role played by the private sector in achieving the SDGs by 2030 increases – in terms of figures alone.

[1] One example of such interdependencies is, for example, indicator 6.4.2 (Level of water stress: freshwater withdrawal as a proportion of available freshwater resources). In Spain, for example, too much fresh water has for years been withdrawn in the regions where fruit and vegetables are cultivated for sale in German supermarkets and elsewhere. As a result, the level of water stress in Spain's cultivation regions has risen. Without German buyers and the "exportation of water" in the form of the cultivation of fruit and vegetables, the withdrawal of freshwater in these regions would be lower. Correspondingly, companies that import fruit and vegetables from these regions should allow for this "water import" when calculating their net SDG impact and declare it.

In order to evaluate whether private companies are fulfilling the role that has been allocated to them in achieving the SDGs, it is important to know how they have supported the implementation of social and environmental standards and how they measure the contribution they have made – whether positive or negative – to the achievement of the SDGs within their sphere of influence.

For their part, investors, who also want to measure and report on their contribution to the achievement of the SDGs, rely on the data provided by the companies in which they invest. This is why this report first takes a look at how companies determine their SDG impact and what data they generate in the process. The next chapter will examine which corporate data is appropriate for use by investors who want to calculate their SDG impact.

THE ROLE OF SDGS IN CORPORATE IMPACT MEASUREMENT AND REPORTING

While in principle, the SDGs apply to all societal players, not all SDGs are equally relevant for the private sector. The responsibility for reaching some goals lies above all with the state, e.g. SDG 4 (Quality education) or SDG 16 (Peace, justice and strong institutions). Other goals such as health and well-being, equality and environmental protection are cross-sectoral tasks for all societal players (the state, business, civil society) and are, therefore, in principle, also relevant for corporate reporting. However, investment in social sectors that are accessible to economically disadvantaged classes is often too risky or quite simply not profitable for companies. For other SDGs, however, the role of the private sector is very pronounced, namely for:

- SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
- SDG 12: Ensure sustainable consumption and production patterns.

Without the targeted engagement and investment of private companies at global level, the achievement of these SDGs is not realistic (cf. Morazán 2017).

Global requirements: provisions on occupational health and safety at work must be observed and monitored equally everywhere (photo: iStock.com/GCShutter)

While the UN calls on companies to make a contribution to the achievement of the SDGs and to report on this contribution, it has not developed an indicator set – analogous to the indicators for states – that companies can use. Nevertheless, even without clear requirements, many companies are using the SDGs for sustainability reporting.

The problem is that the standard and quality of corporate reports on the SDGs vary considerably. Many companies use the SDGs above all to embellish their sustainability efforts by using vague formulations or linking flagship projects and products to SDG indicators without actually providing details as to what the positive contribution was, how it was measured or what proportion of total turnover these projects account for. Others go one step further: while they consider the SDGs in relation to their own locations and services, they omit any possible negative impacts their suppliers in the value chain could have on the SDGs. To this day, comprehensive reporting that includes qualitative and quantitative data on all the company's activities and value chains that includes both positive and negative impacts is still the absolute exception to the rule.

Guidelines for voluntary SDG reporting do exist

Companies that want to report on their contribution to the SDGs are not operating in a vacuum. In order to give companies and investors a framework of orientation as to how they can use the UN SDGs for voluntary reporting, several organisations that are either closely allied with or part of the UN have developed a number of guidelines since 2016. These include:

UNDP SDG Impact Standards: The SDG Impact Standards of the United Nations Development Program (UNDP), which were presented in 2022, are practical management standards that seek to help companies and investors integrate sustainability into their decision-making processes. They provide a universal management framework for organisations so that they can make a systematic and comprehensive positive contribution to the SDGs. (cf. UNDP 2021) The Impact Standards are not an independent framework of reference for company or investor reports. Instead, they provide principles on how to implement the SDGs in a company's strategy.

GRI and UN Global Compact: Integrating the SDGs into corporate reporting: A practical guide for implementing corporate reporting on the basis of the SDGs that was first published by GRI and UN Global Compact in 2018. According to this guide, companies should take the following steps to ensure good SDG reporting:

1. Prioritise SDG targets for the company

   a) by identifying risks to people and the environment within the SDGs, prioritised according to severity and likelihood, and/or

   b) through the company's products, services or investments that make a special contribution to one or more of the SDGs.

2. Set objectives that can be used to measure the company's contribution to the SDG goals or targets.

3. Measure and analyse data regularly.

4. Produce regular freely accessible reports. These reports should, wherever possible, be based on established international reporting frameworks and adhere to the four Cs. In other words, reports should be: concise, consistent, current and comparable.

5. Finally, SDG reporting should be used as the basis for informed decision-making and the transformation of the company to allow it to make a greater contribution to the SDGs (cf. GRI/UN Global Compact 2018).

Hidden supply chains in the global logistics sector: workers in a shipyard on the Buriganga River in Dhaka, Bangladesh (photo: iStock.com/Habibun Nabi)

The guide is a good starting point for companies that would like to embed the SDGs in their reporting. Companies that follow each of the steps can indeed produce meaningful reports. Nevertheless, the document does not provide an adequate basis for comparable, standardised SDG reporting because it includes neither proposals – or even requirements – for relevant SDG indicators in the different corporate sectors nor requirements for more compulsory reporting. Ultimately, companies are free to select the SDGs that are practical (or easily communicable) for them and to omit making a comprehensive analysis and transforming the company so that it can have a greater SDG impact.

Global Reporting Initiative: Although the Global Reporting Initiative (GRI) is not a UN organisation, it was co-founded by UNEP in 1997 and continually works with organisations such as UN Global Company or the UNPRI (UN Principles for Responsible Investment). The GRI Standards provide a comprehensive reporting framework for voluntary sustainability reporting and include a variety of sectoral standards. The GRI Standards are the most widely used reporting framework in the world (cf. KPMG 2022, 24).

GRI provides a regularly updated document for SDG reporting by linking individual GRI standards to SDG goals and subtargets. SDG links are available for some but not all sector standards. (cf. Global Reporting Initiative 2022) GRI does not claim to provide a complete reporting framework for SDG reporting within the GRI Standards. The reason for this is that not all SDG indicators are covered by GRI Standards, nor has GRI attempted to completely cover all SDG indicators that could be relevant for companies. The GRI-SDG linking document does, however, provide valuable tips for companies on the GRI Standards that they can use for SDG reporting. SDG reports that are based on GRI data are particularly useful for investors because they provide data that allows comparisons to be made within sectors.

In addition to these guides, which provide explicit recommendations for SDG reporting, indicators from other reporting standards can also be used for SDG reporting. These include the indicators provided by the Task Force on Climate-related Financial Disclosure (TCFD), the Taskforce on Nature-related Financial Disclosures (TNFD) or the Carbon Disclosure Project (CDP). However, these standards do not make any recommendations about which of the measures used align with the individual SDG indicators. This means that it is the responsibility of the reporting companies to map these standards with individual SDG indicators. The following comparison of SDG reporting types shows how difficult it can be to compare company reports – even within the same sector.

DIFFERENCES IN CORPORATE SDG REPORTING

By the midpoint of the implementation of the 2030 Agenda, the SDGs have become an established reference for corporate sustainability reporting. Soon after the SDGs were presented for the first time, only a minority of companies reported on them. Now, however, SDG reporting is standard at most companies. According to the KPMG study "Big shifts, small steps", which analysed sustainability reporting by a total of 5,800 companies in 58 countries, the proportion of companies that report on SDGs worldwide increased from 39% in 2017 to 71% in 2022. There were, however, differences between the regions: only 65% of companies in the MENA and Asia-Pacific regions reported on SDGs, while the highest proportion of reporting companies was in western Europe at 79% (cf. KPMG 2022, 57–58).

1. SDG mapping

SDG mapping is the term used to identify activities – products, services or individual projects – that are relevant for a contribution to one or more SDGs or SDG subtargets. This often happens without a clear link or quantitatively verifiable data that indicates how the claimed positive contribution was measured.

Negative example of SDG mapping: Tönnies

The German livestock-slaughtering and meat-processing company Tönnies has identified five SDGs on which it claims to be having a positive impact: no poverty, zero hunger, good health and well-being, decent work, and responsible consumption and production. The company provides no concrete description of or figures on how the company's contribution to these goals was measured and if any negative impacts of the company's activities on the respective SDGs were included:

"End hunger
Meat is an important component of a healthy and balanced diet. As a producing company, we help to meet the global demand for safe and high-quality meat and the meat products created from this. We are always aware that the production of meat requires significant resources. For this reason, we look for production methods that are as efficient as possible and which avoid waste." (Tönnies 2023)

For this reason, Tönnies reporting is an example of SDG-washing. The company claims to have positive impacts on the global fight to end hunger, without providing any evidence of the subtargets to which it claims to have made a positive contribution.[2] It simply makes the blanket claim that the company's meat production activities automatically contribute to the global ending of hunger. Any possible negative impacts on SDG 2 – for example the fact that cultivable land is used to grow feed for livestock instead of for food – are not addressed by the company.

[2] The targets for SDG 2 (End hunger) include, among others, 2.1: By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, [...] to safe, nutritious and sufficient food all year round; 2.2: By 2030, end all forms of malnutrition [...]; 2.3: By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples [...]; 2.4: By 2030, ensure sustainable food production systems (in % of agricultural area).
Source: United Nations 2015

2. Qualitative or quantitative reporting of exclusively positive impacts

Many companies go one step further and underpin SDG mapping that is purely based on written claims with quantitative reporting. In principle, this is a good thing. Nevertheless, this kind of reporting is often not very meaningful. Figures are provided without any explanatory notes on the goals and it is not made clear what the exact contribution is. In other cases, while figures are linked to targets in the indicator set for states, the objective of these targets is not suitable for companies.

Another problem with this kind of reporting arises when only positive impacts are reported without offsetting them against possible negative impacts for this measure. This is the case, for example, when an energy company describes its positive contribution to SDG 7 (affordable and clean energy) by reporting on installed capacities in the form of wind farms and solar parks without reporting on the energy it generates using fossil fuels and the resulting CO_2 emissions and offsetting these effects against each other.

How problematic it can be to apply sub-targets for states to corporate reporting is illustrated by the example of the 2021 sustainability report of the Deutsche Kreditbank (DKB) in relation to SDG 17:

Blue figures 2021: DKB's credit portfolio in accordance with the SDGs

Significant targets	Description	2020 Volume in € billion	Proportion of credit portfolio in %	2021 Volume in € billion	Proportion of credit portfolio in %	Change since 2020 in %	Client group (according to Bundesbank)
17.1	Improve tax revenues	0.1	0.2	0.2	0.2	8.3	Tax consultancy professions

Source: DKB Sustainability Report 2021, 8 (own translation)

The DKB's statement that by lending to tax consultancy professions, tax revenues automatically rise is not tenable in this form. It implicitly assumes that private individuals or companies pay higher taxes by availing of the services of tax consultants. This argument ignores the fact that tax consultants often use tax optimisation or tax minimisation models that explicitly seek to keep their clients' tax burdens as low as possible. Moreover, the implicit assumption that loans to clients in tax consultancy professions – for example for the procurement of new office furniture or infrastructure – leads per se to increased tax revenues is not comprehensible in this form. In order to make reporting about this SDG indicator more viable, the DKB would have to show in a transparent manner the purposes for which the loans were being used and be able to provide evidence that together, these lead to increased tax revenues.

3. Quantitative and qualitative reporting of all effects

Transparent and comprehensive SDG reporting includes all effects that a company has on the respective SDGs or the subtargets. It outlines both positive and negative effects and names target values that will allow the effects to be described over time. Such reporting is currently the exception rather than the rule. Another reason for this is that companies do not as yet have a recognised indicator set to use as orientation when compiling SDG reports. At present, the indicators used for SDG reporting resemble a patchwork blanket. There are recognised reporting standards that have been established for corporate ESG reporting and are also useful for SDG reporting, such as, for example, climate reporting via the Science Based Targets initiative (SBTi) or the Global Reporting Initiative (GRI). The green taxonomy of the European Taxonomy Regulation also offers no clear framework for corporate sustainability reporting that also covers the SDG dimensions of the SDGs. The role of the European Corporate Sustainable Reporting Directive (CSRD) will be addressed in detail in a later chapter.

The problem with all these standards is that although they all name the achievement of the SDGs as a general overarching goal, the SDG subtargets do not play a central role in the definition of measures and target values. At best, SDG mapping was done belatedly in order to create a link to the relevant indicators.

Positive example – VAUDE: comprehensive and transparent

Outdoor clothing manufacturer VAUDE is seen as a sustainability reporting pioneer in Germany. The company has identified all 17 SDGs as relevant for a positive contribution. The depth and transparency of the reporting, which takes into consideration all sustainability standards that are relevant for the textile industry and in some cases also reports on negative or rebound effects, are remarkably good compared with other textile manufacturers.

Since 2019, for example, the company has compiled an annual climate footprint including scope 1, 2 and 3 emissions. While VAUDE does declare that it has been climate-neutral since 2022 with the help of compensation measures, it does report in detail on emissions at its own locations and those in the upstream supply chain. Target conflicts, such as increased CO_2 emissions resulting from increased production volumes even though the relative CO_2 emissions of the products has fallen, are also addressed. Areas in which the company made no progress – such as CO_2 emissions generated by raw material or material consumption – are also presented along with the relevant hurdles that have to be overcome and strategies for medium-term improvements. (cf. VAUDE 2022)

SDG REPORTING – A LACK OF COMPARABILITY

A comparison of the SDG reports published by four of the chemical companies with the highest turnover in the world – BASF, DOW, Bayer and SABIC – shows how difficult it is to compare such reports. All four companies declare their support for the SDGs and report on their respective contributions to the achievement of the SDGs in their annual reporting.

However, there are enormous differences in the SDGs the companies consider relevant. BASF and Bayer each identified seven relevant SDGs, DOW 12 and SABIC ten. Not all of these SDGs overlap. In some cases, the differences can be attributed to the differences in the companies' portfolios. As a manufacturer of fertilisers, for example, BASF identified SDG 2 (Zero hunger) as relevant, while Bayer, with its pharmaceutical division, identified SDG 3 (Good health and well-being) as relevant. It is not clear why BASF, DOW and Bayer list SDG 5 (Gender equality) but SABIC does not. The same applies to SDG 15 (Life on land): "Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss." Why DOW and Bayer identified this goal as relevant, but SABIC did not, it not clear. On the other hand, SABIC is the only one of the four to identify SDG 14 (Life below water) as relevant. Although all four companies list the SDGs that they prioritise for their activities, it is not clear how they arrived at these results and why some SDGs are prioritised and others are not. The reporting on how the companies measure their contribution to the individual goals is just as inconsistent:

- BASF identifies SDGs 2, 5, 6, 7, 8, 12 and 13 as relevant for the company, but only reports on positive contributions to SDGs 5, 6, 8, 12, 13 and 9. It does not report on SDG 2 at all.
  Reporting on SDG 8 (Decent work and economic growth) and SDG 9 (Industry, innovation and infrastructure) is also worthy of a mention. For both, BASF lists the

following success indicators under the heading "Profitable growth": 1) return on capital employed (ROCE) (achieved in 2022), 2) Sales volumes grow faster than global chemical production (not achieved in 2022), 3) EBITDA before special items (achieved in 2022) and 4) Increase the dividend per share (achieved in 2022). This reporting is remarkable because while it does address the SDG subgoal "economic growth", it does so above all in terms of profit and yields for the company itself. There is also no information on the extent to which the indicator "increase in the return on capital employed" contributes to SDG 8, which seeks to achieve "sustained, inclusive and sustainable economic growth".
BASF reports on SDGs 8 and 12 under the heading "Responsible procurement". BASF's objective here is to cover 90% of its relevant spend with sustainability evaluations and for 80% of its suppliers to improve their sustainability performance (both "on track"). BASF also links SDGs 8 and 12 to resource efficiency and sustainable water management and SDG 8 to employee engagement.

- DOW is the only one of the four companies to provide quantitative data for all of the SDGs and subtargets it considers relevant. To this end, the company has set itself one or more goals and reports on its progress in some – but not all of – these areas. DOW provides completely different data to BASF on SDGs 8, 9 and 12. For SDG 8, two targets were selected: 8.6 (youth unemployment), into which spending on philanthropic investments in not-for-profit organisations and companies are subsumed, and 8.8 (safe and secure working environments). With regard to SDG 9, DOW reports under target 9.2 on its progress with the innovation of sustainable products, albeit without giving any targets and quantitative data on the proportion of the overall portfolio already designated sustainable. With regard to SDG 12, DOW reports only on target 12.2 and on the targets for avoiding refuse and the recyclability of products.
- Just like BASF, although Bayer identified several SDGs as being relevant for the company, it does not report on them all. Bayer considers SDGs 1, 2, 3, 5, 6, 13 and 15 relevant. It does not, however, report on SDGs 1 (No poverty) and 15 (Life on land). Nor does it report on SDGs 8, 9 or 12, which are identified as being particularly relevant for companies.
- Although SABIC identified ten SDGs as being relevant for the company and maps these in a graph on the six areas it considers relevant (resource efficiency, climate change and energy, innovation and sustainability solutions, the circular economy, and governance and integrity), SABIC's Sustainability Report 2022 does not contain any further information on what exactly it contributed to the SDGs.

COMPARISON OF SDG REPORTING BY CHEMICAL COMPANIES 2022

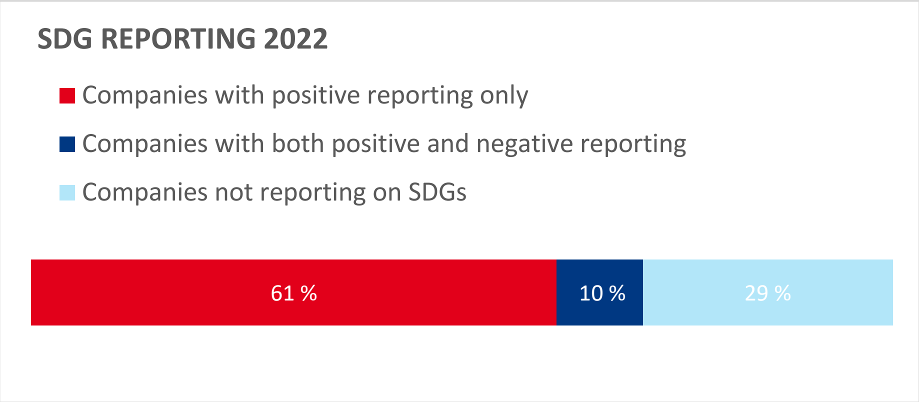
	BASF	DOW	Bayer	Saudi Basic Industries (SABIC)
Declaration of support for SDGs	Yes	Yes	Yes	Yes
SDG reporting available	Yes	Yes	Yes	No
SDGs the company considers relevant	SDG 2: Zero hunger SDG 5: Gender equality SDG 6: Clean water and sanitation SDG 7: Affordable and clean energy SDG 8: Decent work and economic growth SDG 12: Responsible consumption and production SDG 13: Climate action	SDG 3: Good health and well-being SDG 5: Gender equality SDG 6: Clean water and sanitation SDG 7: Affordable and clean energy SDG 8: Decent work and economic growth SDG 9: Industry, innovation and infrastructure SDG 10: Reduced inequalities SDG 11: Sustainable cities and communities SDG 12: Responsible consumption and production SDG 13: Climate action SDG 15: Life on land SDG 16: Peace, justice and strong institutions SDG 17: Partnerships for the goals	SDG 1: No poverty SDG 2: Zero hunger SDG 3: Good health and well-being SDG 5: Gender equality SDG 6: Clean water and sanitation SDG 13: Climate action SDG 15: Life on land	SDG 2: Zero hunger SDG 6: Clean water and sanitation SDG 7: Affordable and clean energy SDG 8: Decent work and economic growth SDG 9: Industry, innovation and infrastructure SDG 11: Sustainable cities and communities SDG 12: Responsible consumption and production SDG 13: Climate action SDG 14: Life below water SDG 17: Partnerships for the goals
Justification for prioritisation of certain SDGs	"To prioritize the SDGs relevant to BASF, in 2022 internal experts again assessed the impacts and positive	"In 2022, Dow introduced more granular mapping of sustainability-aligned markets using the definitions from FTSE Russell Green Revenues	"In this context, we consciously support those Sustainable Development Goals where there is a pressing need to act	"Our six sustainability materiality areas – resource efficiency; climate change and energy; innovation and

	contributions of our products, our corporate targets and strategic action areas."	Classification System and in alignment to U.N. SDGs."	and where we can make the greatest impact through our businesses and their sustainability-focused transformation."	sustainability solutions; circular economy; governance and ethics; and EHSS – are aligned with 10 of the 17 UN Sustainable Development Goals (SDGs), addressing issues such as poverty, climate change, environmental degradation, human rights, labor, and anticorruption."
Quantitative data for the SDGs declared to be relevant	Some	Yes, but according to DOW; not all data is published. Reporting on examples using selected data	Some	
Quantitative data on the targets	No	Yes	No	
Data that was reported on contribution to SDG achievement	BASF targets relating to SDGs 8, 9: Profitable growth Return on Capital Employed (ROCE) 2022: Status: 10%, Target: >9% Grow sales volumes faster than global chemical production every year: Status: -7%, Target: >2.2% EBITDA before special items: Status: -5.2%, Target: increase by 3-5% Increase the dividend per share 2022: Status: €3.40, Target: €3.40 BASF targets relating to SDGs 8, 12: Responsible procurement Cover our relevant spend with sustainability evaluations: Target 2025: 90%, Status 2022: 85% Suppliers improve their sustainability performance upon re-evaluation: Target 2025: 80%, Status 2022: 76% BASF target relating to SDG 13: Effective climate protection: Reduce our absolute CO_2 emissions (Scope 1, 2): Status 2018: 21.9 million t, Status 2022: 18.4 million t, Target 2030: 16.4 million t BASF targets relating to SDGs 6, 8, 12: Resource efficiency and safe production Reduce worldwide process safety incidents: Status 2022: 0.3% Target 2025: < 0.1% Reduce the worldwide lost-time injury rate: Status 2022: 0.3. Target 2025: < 0.1% Sustainable water management at our production sites in water stress areas and at our Verbund sites: Status 2022: 61.6%, Target 2030: 100% BASF targets relating to SDGs SDGs 5, 8: Employee engagement and diversity Women in leadership positions: Status 2022: 27.2%, Target 2030: 30% Satisfied employees: Status 2022: 81%, Target 2022: > 80%	SDG target 8.6: By 2020, substantially reduce the proportion of youth not in employment, education or training Reporting for 2022: 2016-2021 Social impacts (as part of philanthropic investments) Dow supported the academic achievement of 1,219,650 students Dow's investments created, saved or strengthened 2,253 businesses SDG target 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment Detailed reporting according to GRI 403: Occupational Health & Safety 2018, indicators 1-10. SDG target 9.2: Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries. Reporting according to GRI. No targets, but a declaration of support for lifecycle analyses, sustainable innovations and the "Blueprint Safety approach." SDG target 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse Target 1: "By 2030, Dow will transform plastic waste and other forms of alternative feedstock to commercialize 3 million metric tons of circular and renewable solutions annually." Status 2022: report about investments made; no data on progress Target 2: "By 2035, Dow will close the loop by enabling 100% of the packaging applications we sell into to be recyclable or reusable." Status 2022: No figures reported. *(Information about other subtargets is available, but were not included for space reasons)*	Bayer target relating to SDG 2: Empower smallholder farmers 2030 target: Support 100 million smallholder farmers in LMICs with products and services, including innovative business models and digital solutions across the entire crop system. Reference year 2019: 42 million, Status 2022: 52 million Bayer target relating to SDG 3: Health care in underserved regions 2030 target: Provide access to everyday health to 100 million people a year in economically or medically underserved communities by access to self-care, adapted prices and packs Reference year 2019: 41 million, Status 2022: 70 million Bayer target relating to SDG 5: Empowering women 2030 target: Give 100 million women in LMICs access to contraception through fair pricing, local production and capacity-building programmes Reference year 2019: 28 million. Status 2022: 44 million. Bayer target relating to SDG 13: Agriculture and climate change Target 1: to reduce greenhouse gas emissions from our highest-emitting crops by 30% in our sales regions by 2030. Target 2: to reduce the environmental impact of using crop protection products by 30% by 2030 Target 3: Climate neutrality at own sites and achievement of science-based targets While there is reporting on these targets, there is no reference to the SDGs	

Sources: BASF 2023, DOW 2023, Bayer 2023, SABIC 2023

These findings, which illustrate the often poor quality of SDG corporate reporting and the lack of comparability, reflect the results of the KPMG survey. KPMG examined the quality of corporate SDG reports for the year 2022 and identified considerable room for improvement. The survey investigated whether companies reported on SDGs at all and whether they only published positive reports or a "balanced" report detailing both positive and negative impacts on SDGs (cf. KPMG 2022, 60).

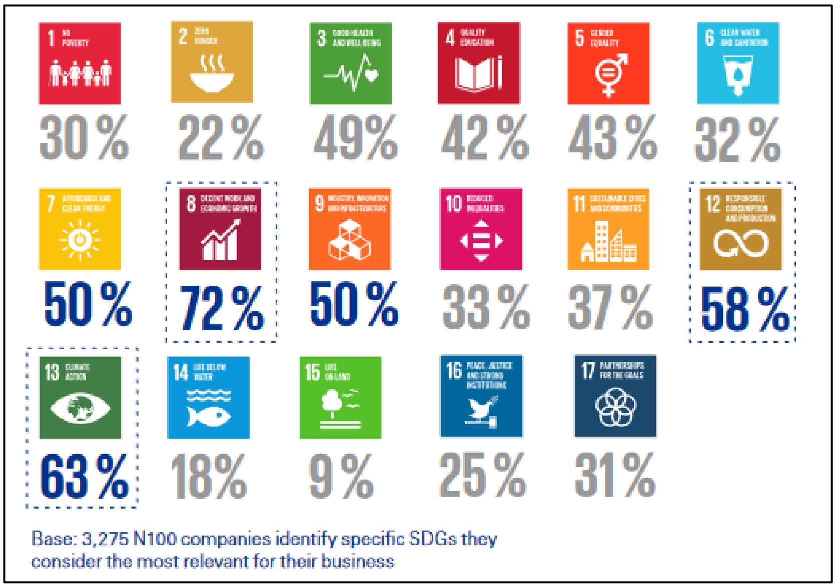
A total of 5,800 companies in 58 countries were analysed. Source: KPMG 2022, 60



The study did not say whether in the cases of "balanced" reporting, positive impacts were balanced against negative impacts or whether information was made available on positive and negative impacts at all. This is why KMPG's finding that 10% of companies had balanced SDG reporting does not mean that these companies engaged in high-quality SDG reporting, but just that they addressed both positive and negative aspects relating to SDGs (such as CO_2 impact). Conversely, it also means that a large proportion of the companies analysed did not report on SDGs (29%) or only reported on their positive impact (61%). It seems reasonable to suspect SDG-washing on the part of the latter group.

The KPMG study also examined which SDGs were prioritised by companies. It concluded that 10% of companies reported on all 17 SDGs. Three SDGs, namely SDG 8 (Decent work and economic growth), SDG 12 (Responsible consumption and production) and SDG 13 (Climate action) were the ones that featured most frequently. Companies reported least frequently on SDG 2 (Zero hunger), SDG 14 (Life below water) and SDG 15 (Life on land) (cf. KPMG 2022, 60).

FREQUENCY OF PRIORITISED SDGS



Source: KPMG 2022, 60

It is interesting that there is an overlap between this finding and two of the three SDGs that Morazán says are particularly relevant for companies, namely SDG 8 (Decent work and economic growth) and SDG 12 (responsible consumption and production). SDG 9 (Industry, innovation and infrastructure), on the other hand, was only prioritised by 50% of companies. Because KPMG's total dataset is not available, no conclusions can be drawn from the data as to what the reason for this could be. However, the KPMG results do show that the companies' prioritisation of SDGs does not necessarily agree with the real impacts that companies have on individual SDGs. For example, only 9% of the companies see a link between their activities and SDG 15 (Life on land) while 18% prioritise SDG 14 (Life below water). Moreover, even though 72% of companies indicate that they make a contribution to SDG 8 (Decent work and economic growth), 28% do not see any relevant link between their company and this goal.

KMPG's results paint a similar picture to the sample of chemical companies. The SDGs prioritised by companies are not selected on the basis of an objective analysis that examines the SDGs on which companies have special impacts. Instead, one gets the impression that the majority of companies use SDGs to embellish positive reporting and often for SDG-washing too. This is the only way to explain the enormous differences in the number of SDGs companies consider relevant. According to KPMG, 10% of companies report on all 17 SDGs. Other companies, on the other hand, only identify individual or several SDGs as being relevant. This is possible because not all companies have relevant influence on all 17 goals, depending on the sector in which they are active and whether they operate at local or global level.

The data above shows that for investors that want to show the impact of their investments on the SDGs or SDG subtarget – whether it be for their own general sustainability reporting or for special SDG fund products – it is virtually impossible to get reliable, comparable corporate data. The next chapter shows how investors deal with this dilemma.

Photo: Green tea festival on a plantation (iStock.com/sueuy song)

4 SDG IMPACTS AND INVESTMENTS

The previous chapters have shown how difficult it is to compare corporate SDG reports and often how little meaningful information can be derived from them. Nevertheless, many investors follow the UN's call and use the SDGs to present their contribution to a more sustainable world. They can do this at two levels: for their own company and for their investment portfolio. This chapter does not consider SDG reporting at company level as this was the main focus of the previous chapter. Instead, the focus here is on how investors use SDGs for investment strategies at the level of the entire investment portfolio and at the level of individual funds. To this end, it must first be clarified how "impact" can be defined exactly in the case of SDG investments and what demands this makes on investors' reporting.

Impact investing: impact-aligned or impact-generating?

To this day, there is no consistently used definition of "impact investment". While "impact investments" initially meant above all loans or equity investments in microfinance or social business enterprises, investors have been using a much broader definition of the term in recent years. In extreme cases, "impact investment" covers everything that makes a "contribution to sustainability" in the wider sense. In recent times, the academic research community has taken a closer look at this phenomenon, focusing primarily on the generation of "impact" as measurable positive (or negative) social or environmental objectives and impacts. The objectives must also, whenever possible, be quantifiable and be supplemented by qualitative reporting.

The white paper "Principles of Impact Investments" from Busch et al. dated September 2023 provides an overview of the current state of the debate and important stimulus for further research. The authors begin by differentiating between the company impact and the investor impact (cf. Brest/Born 2013; Kölbel et al. 2020). The company impact describes the change that a company's activities can have with regard to social or environmental parameters while the investor impact refers to the change in company impact caused by an investor's activities, e.g. through engagement or the exercising of voting rights (cf. Heeb/Kölbel 2021; Wilkens et al. 2023).

Based on this understanding, Busch et al. distinguish between impact-*aligned* and impact-*generating* investments. Impact-aligned investments focus on investments in companies that are already having a positive impact on social and environmental parameters and will continue to do so. They do not require that these impacts can be related back to the activities of the investor. However, that is exactly the idea of impact-generating investments, where an investor seeks to "contribute to solutions for social and/or environmental real-world challenges" (Busch et al. 2022, 14), thereby inducing measurable change as an investor in that company.

If this concept is applied to the SDG impact of investors, it becomes clear that we are in reality far from being able to make impact-generating investments because the necessary data for impact-*aligned* investment in companies is lacking. The vast majority of corporate SDG reports are underpinned by too little robust data for investors to be able to provide evidence of positive impacts beyond niche products or funds.

OVERVIEW OF THE IMPACT INVESTMENT MARKET SITUATION

Figures on market size for global impact investment are based on different definitions and, for this reason, vary considerably. The Global Impact Investment Network (GIIN) has estimated that the global market size for assets under management that are deemed to be impact investments is US$1.16 trillion (cf. Hand et al. 2022). The International Finance Corporation (IFC), on the other hand, said in 2020 that the impact investment market could be as large as US$2.1 trillion – a much higher figure (cf. Gregory/Volk 2020).

The Bundesinitiative für Impact Investment (BIII, English: Federal Initiative for Impact Investment) published a report for the German market for 2022 that provides an overview not only of the entire market, but also of SDG impact investments. To this end, the BIII conducted an online survey, in which it asked 255 participants about their investment approaches, motives and investment strategies. The differentiation between impact-aligned and impact-generating investments was used in the survey for the first time. According to the BIII, impact assets were worth €38.9 billion, which is less than 10% of the overall market. According to those who participated in the survey, €3.12 billion can be described as impact-aligned investments and €9.23 billion as impact-generating investments. In the case of 68% of the assets, it is not possible to make any definite statements about how the investment volumes can be classified. (cf. Bernard-Rau et al. 2022, 15)

What is interesting about these self-assessments is the difference in the size of the two categories, impact-aligned and impact-generating: only €3.12 billion of assets were declared to be impact-*aligned.* According to the self-assessment of the participants, impact-*generating* investments, which measure not only the company impact but also the impact of the investment itself, was estimated to be worth €9.23 billion – almost three times as much. The authors of the study's terse comment on this went as follows: "There is a discrepancy between self-declared impact assets and the measured and/or documented size of the impact. [...] In any case, the result shows that there is need for action in terms of definitional boundaries and impact documentation." (Bernard-Rau et al. 2022, 16).

According to the BIII, the dominant themes were environment, energy and health. This is reflected in the answers on the SDG impact investment focuses.

The BIII study did not record the countries in which investments were made to contribute to the achievement of individual SDGs. The reason for this may be that the authors did not focus on this question. In any case, given the poor data in corporate reporting, it would have been difficult for investors to give a detailed answer. Only some of the companies revealed the countries where they are active, how many people they employ in which countries or what exactly is produced in which country. There was, as a rule, even less information about links in the supply chain. This makes it difficult for those who invest in shares and bonds to make targeted investments in those companies that are active in developing and newly industrialised countries.

When viewed from a global perspective, the regional distribution of private investments constitutes a major problem when it comes to achieving the SDGs. While newly industrialised countries such as India, Brazil, Mexico or Turkey are interesting for private investments via companies that are traded on the stock exchange, it is those countries that need investment the most, namely the world's least developed countries (LDC), that are not as a rule attractive enough for private investment. (cf. Morazán 2017, 11) Institutional investors also face this problem. There are very few publicly listed companies in LDCs that could be included in share funds or mixed funds. For this reason, targeted investments in companies in LDCs via the stock exchange are almost impossible.

Investment opportunities in government bonds from countries in the Global South can also be problematic: either because states do not issue any such bonds or because their bonds get such a poor rating from rating agencies and are not (cannot be) included in risk-averse funds because they are considered high-risk.

SDG impact investment focus

SDG 7: Affordable and clean energy	**51.3 %**
SDG 13: Climate action	**51.3 %**
SDG 3: Good health and well-being	**50.0 %**
SDG 9: Industry, innovation and infrastructure	**31.6 %**
SDG 4: Quality education	**30.3 %**
SDG 8: Decent work and economic growth	**27.6 %**
SDG 1: No poverty	**26.3 %**
SDG 12: Responsible consumption and production	**26.3 %**
SDG 10: Reduced inequalities	**25.0 %**
SDG 6: Clean water and sanitation	**23.7 %**
SDG 17: Partnerships for the goals	**19.7 %**
SDG 11: Sustainable cities and communities	**18.4 %**
SDG 5: Gender equality	**17.1 %**
SDG 2: Zero hunger	**13.2 %**
SDG 15: Life on land	**11.8 %**
SDG 14: Life below water	**7.9 %**
SDG 16: Peace, justice and strong institutions	**3.9 %**
We do not take the SDGs into account in our strategy	**3.9%**

Source: Bernard-Rau et al. 2022, 21

SDG RATINGS ARE NOT TRANSPARENT AND BARELY COMPARABLE

Even if there is data about how much is invested in funds that take into account SDG themes and about the themes that are in focus, it is not clear how investors reach their results. The reason for this is that SDG ratings are, as a rule, proprietary, which means that they are the property of investment companies or external suppliers, who publish neither the data used in their calculations nor the basis on which the evaluations were made. Just how big the differences between SDG ratings are is illustrated by Bauckloh et al., who show that the SDG ratings of the four biggest sustainability rating providers – MSCI, Inrate, Vigeo Eiris and ISS – deviate substantially from each other and agree by only 30–50%. Bayer, for example, gets an SDG rating of -3.29 from MSCI, but 2.5 from ISS. Both providers evaluate on a scale of minus 10 to plus 10 (cf. Bauckloh et al. 2023).

A brief comparison of the biggest investment companies in Germany paints a similar picture: all four companies use SDG ratings, publish an SDG report and have special SDG funds in their portfolios. However, none of the financial institutes published information on how they arrived at their results and on what foundation the calculations for their SDG ratings is based. That this is indeed possible is demonstrated by investors in the Netherlands who disclose their methodology. The investment company Robeco, for instance, gives access to its proprietary database and is open about its evaluation methods as part of the Sustainable Finance Open Access Initiative (cf. Robeco 2022).

INSTITUTIONAL INVESTORS AND SDGS IN GERMANY: A BRIEF OVERVIEW

Company	Assets under management, late 2022	SDG reporting	SDG screening of portfolio	Special SDG funds
DWS Group	€821 billion	Reporting on SDGs 8, 9, 10 and 13 only for the company itself, not for the investment portfolio Positive contribution to goals 8, 9, 10 and 13 identified. "Responsible investing and investments" are mapped as a positive contribution via special SDG funds.	No information available	Yes, several, including: DWS Invest SDG Global Equities, DWS Invest SDG Corporate Bonds, DWS Invest SDG European Equities
Allianz Global Investors	€506 billion	Self-binding of the SDG funds to the EU's Sustainable Finance Disclosure Regulation (Article 8/9) (pp. 47–48)	SDGs are used in the Allianz GI Impact Scoring System. (Sustainability Report 2022, 56) Proprietary system, not made public. Unclear which KPIs are linked to SDGs	Yes, several SDG funds, which take one or more categories into account
Union Investment	€413 billion	According to the sustainability report, focus on SDGs 2, 3, 7, 8, 9, 10, 11, 12, 13, 14 and 15 (p. 8).	Yes. Impact of the portfolios on the 17 SDGs (plus adverse effects) (p. 47). Proprietary system, not made public	Yes, UniInstitutional SDG Equities Other sustainability funds use proprietary SDG scoring (not all)
Deka Investment	€371.753 billion	General commitment, no reporting on SDG impact	Not for the entire portfolio Range of ESG and SDG analyses for institutional clients (Deka Group Sustainability Report 2022, 32)	Unlike other sustainable funds, Deka-Nachhaltigkeit Impact Aktien CF explicitly provides information on the SDGs, albeit without reference to concrete guidelines.

TARGETED OPPORTUNITIES FOR INVESTING IN SDGS

Even if the variants presented here are, as a rule, niche strategies, there are already opportunities to make targeted investments in SDG-promoting economic activities in the Global South via shares and bonds.

- Investments in SDG sovereign bonds: in 2021, Mexico, Uzbekistan and Benin became the first to issue SDG sovereign bonds. Similar to green, social or sustainability bonds, these bonds are used exclusively to (re)refinance public spending that is linked to the achievement of certain SDGs. Since then, other states have followed suit or are planning to issue SDG sovereign bonds.
- Investment in SDG bonds issued by multilateral organisations: several multilateral organisations have issued SDG bonds. One example is the World Bank with its Sustainable Development Bond programme.

- Investments in companies that have their headquarters in industrialised states, but have facilities in countries of the Global South and create skilled, well-paid jobs, contribute to knowledge transfer and/or meet high environmental, social, and labour standards. One example of a fund that pursues such a strategy is FairWorldFonds (English: Fair World Fund). In order to qualify for the investment universe, a company must have a positive result either in the sub-area "Promoting sustainable development in developing and newly industrialised countries" or in the area "socially worthwhile products" or in at least two of the six subs-areas (human rights, promoting sustainable development in developing and newly industrialised countries, socially worthwhile products, environmentally worthwhile products, and environmental management).[3]
- Green, social or sustainability bonds: to date, there is no established market standard for SDG bonds similar to the green, social or sustainability bonds of the International Capital Markets Association (ICMA). In 2023, however, the ICMA published a "High-Level Mapping" (cf. International Capital Markets Association 2023) for GSS bonds. The intention was to help issuers of GSS bonds harmonise their respective bonds with the SDGs. While GSS bonds, which invest exclusively in pre-defined green or socially sustainable activities, are indeed suitable for having a targeted steering effect in the achievement of defined SDGs, they are only one part of existing investment opportunities in SDGs. Moreover, the vast majority of GSS bonds are issued and invested in European states. There are only isolated cases of GSS bonds that promote SDGs in developing and newly industrialised countries.
- SDG corporate bonds: in 2021, the United Nations Development Programme (UNDP) published the SDG Impact Standards for enterprises, private equity funds and bond issuers (cf. UNDP 2021b). Some financial companies, such as the Spanish Caixa Bank, have already published SDG bond frameworks and issued SDG bonds. At the moment, however, these are still isolated cases. To date, no non-financial company has issued SDG bonds. It remains to be seen whether SDG corporate bonds really do promote targeted SDG investments.

5 DISCLOSURE OBLIGATIONS AND SDG FUNDS

The EU's regulation on sustainability-related disclosures in the financial services sector (SFDR, Sustainable Finance Disclosure Regulation) came into force on 10 March 2021. The intention was to include the private financial sector in the financing of the sustainable transition of the European economy as part of the EU's action plan for a sustainable financial sector. The aim was that the requirements of the SFDR would help private and institutional investors to identify more easily how sustainable the investments on which a financial product are based actually are. The SFDR obliges financial companies to disclose the following:

- if and to what extent they integrate sustainability risks;
- for sustainable products (Article 8 or 9): which of the principal adverse impacts (PAI) on sustainability factors are considered.
- For sustainable funds (Article 8 and 9 products): a description of the environmental and/or social characteristics or the sustainable investment objective (for Article 9 funds) and information on the methods that are used to

[3] Disclaimer: The SÜDWIND-Institut was involved in the development of the criteria catalogue for the FairWorldFonds, which was created and is managed by Union Investment and has together with Brot für die Welt been a member of the criteria committee since its establishment in 2010.

evaluate, measure, monitor and report annually on the environmental or social characteristics or the impacts of the sustainable investments selected for the financial product.

The Sustainable Finance Disclosure Regulation defines three categories of investment products:

- **Article 6 funds**: products that do not pursue any sustainability strategy. They must state why they deem sustainability risks not to be relevant.
- **Article 8 funds:** Article 8 funds must disclose whether a proportion is invested in sustainable investments. The investments should in general contribute to the fostering of the promoted environmental or social characteristics. If funds promote an environmental characteristic, they must also disclose conformity with the EU taxonomy.
- **Article 9 funds:** Article 9 products not only have sustainability characteristics, they also seek to achieve environmental or social goals through sustainable investments. Funds with environment-related targets must disclose compliance with the EU taxonomy. Article 9 products can be described as follows:
    - products with a sustainable investment strategy in activities that are in line with the EU taxonomy;
    - products with a sustainable investment strategy in activities that are not in line with the EU taxonomy.

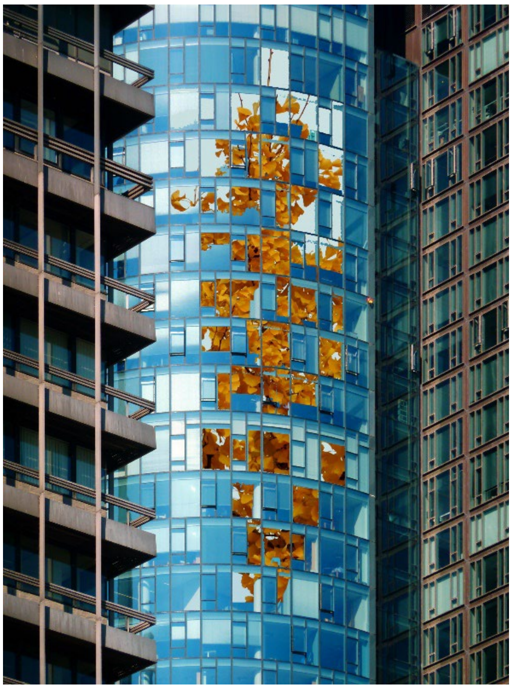
SDG ratings not transparent and barely comparable

Investment companies that want to use the SDGs for sustainable funds, can use SDG indicators to describe the social and/or environmental characteristics and, for Article 9 funds, for investment goals. This is the biggest gap in the system, because at present, funds can either use SDG rating systems from sustainability rating providers or similar providers or they can develop their own proprietary SDG rating system. As mentioned above, these SDG ratings deviate considerably from each other. For the most important principal adverse impacts (PAIs), reports must adhere to the requirements of the Regulatory Technical Standard (RTS). For environmental targets, the content of the Green Taxonomy has been defined. For social goals, however, there are still no requirements in the Taxonomy Regulation. A proposal from the EU's Sustainable Finance Platform for the drafting of a social taxonomy was not taken up by the European Commission. For the SDGs as a complete package too, the Taxonomy Regulation does not as yet provide any concrete pointers or requirements as to how the SDGs could be reflected in the requirements for the Green Taxonomy or how non-environment-related goals could be defined.

In this way, investment companies are on a similar level to companies that want to report on their contribution to the SDGs: they can respond to calls for action and adhere to voluntary guidelines and (or) develop their own SDG rating systems for SDG impact screening or buy them in from third parties.

6 THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

To improve the quality of sustainability reporting by European companies, the EU adopted in 2022 the Corporate Sustainability Reporting Directive (CSRD). The intention was to ensure that companies across the EU provide transparent, comparable information on their sustainability performance. The aim was to put investors, consumers and other interest groups in a position to make more targeted investments in companies that engage in sustainable activities.



Source: pixabay/moritz320

The CSRD broadened the area of application of the Non-financial Reporting Directive (NFRD) of 2014 and added new requirements. In accordance with the NFRD, about 11,000 large publicly listed companies were obliged to publish sustainability figures. In accordance with the CSRD, companies that fulfil two out of the three following criteria must publish sustainability data: 250 members of staff (1) and/or €50 million turnover (2) and/or €25 million balance sheet total (3), and staggered small and medium-sized enterprises whose securities are admitted to trading on a regulated market with mother companies in third countries that have posted net turnover of over €150 million in the EU for two consecutive years. It is estimated that this will increase the number of companies that are obliged to publish reports to 49,000.

Reporting requirements have also been widened. One important new aspect is the principle of double materiality, which stipulates that companies must report on how sustainability themes impact their business ("outside-in") and how its activities impact society and the environment ("inside-out"). In addition, the companies must provide details of their business model, strategy and concepts as well as important performance indicators and goals as forward-looking information.

THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

The European Sustainability Reporting Standards (ESRS) provide details on how to report in accordance with the CSRD. They are based on recommendations made by the European Financial Reporting Advisory Group (EFRAG), which presented a draft for cross-sectoral standards in late 2022.

However, the Commission considerably watered down the requirements outlined in the EFRAG draft. While EFRAG sought to prescribe obligatory reporting on emissions, climate goals and transformation plans as well as key environmental and social factors, the Commission's decision stipulates that with the exception of cross-cutting general disclosures (ESRS 2), companies first carry out an internal materiality analysis. If a company concludes that a certain datapoint – such a climate change, pollution or workers in the value chain — is not material, the company does not have to provide any information on that datapoint. This means that companies can ultimately decide for themselves which sustainability aspects they consider material. Only in the case of ESRS

E1 (Climate change) do companies have to provide a detailed explanation as to why they consider specific areas or datapoints to be not material.

Investment associations and civil society organisations have been unusually united in their stark criticism of this watering down of reporting obligations. The umbrella organisation Eurosif (the European Sustainable Investment Forum), published a press release in which it expressed its grave concern about the draft: "This would effectively allow companies to leave out entire parts of their sustainability disclosures." If the draft delegated act was adopted unchanged, continued Eurosif, it "risks undermining the effectiveness of the CSRD as well as the implementation and coherence of the EU sustainable finance framework" (Bergius 2023).

OVERVIEW OF THE 12 ERS

Category	Code	Title
Cross-cutting	ESRS 1	General requirements
Cross-cutting	ESRS 2	General disclosures
Environmental	ESRS E1	Climate change
Environmental	ESRS E2	Pollution
Environmental	ESRS E3	Water and marine resources
Environmental	ESRS E4	Biodiversity and ecosystems
Environmental	ESRS E5	Resource use and circular economy
Social	ESRS S1	Own workforce
Social	ESRS S2	Workers in the value chain
Social	ESRS S3	Affected communities
Social	ESRS S4	Consumers and end-users
Governance	ESRS G1	Business conduct

Source: European Commission 2023

Large parts of the ESRS are compatible with the GRI. On 4 September, EFRAG and the Global Reporting Initiative (GRI) published a joint declaration on the compatibility of the European Sustainability Reporting Standards (ESRS) and the GRI Standards. Both organisations stressed that companies that already report in accordance with the GRI Standards are well prepared to report under the ESRS. The two organisations are currently planning to enhance their technical cooperation and to work on a multi-tagging system for their respective standards (EFRAG 2023). This interoperability is also interesting for companies that report on the SDGs because while the ESRS refer to a series of SDG indicators, they do not refer to them all (e.g. taxes).

The ESRS and the International Sustainability Standards Board

The ESRS are also supposed to be compatible with the planned sustainability reporting standards of the International Sustainability Standards Board (ISSB). The ISSB has set itself the task of introducing a global and comprehensive framework for reporting that consolidates existing standards and frameworks such as SASB, TCFD and others. The adoption of the ISSB standards is expected to be integrated into many national systems of law and has the support of influential bodies such as the G7 and the G20. However, because the standards IFRS 1 and 2, which have already been published, do not follow the principle of double materiality and focus above all on sustainability risks for the reporting companies, this report will not go into further detail on the IFRS. The reason for this is that a company's contribution to the SDGs can only be measured using the principle of double materiality, which takes into account both environmental, social or governance risks that can have an impact on a company and risks that companies can pose for the environment and societies in which they operate.

THE SDGS IN THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

The UN's Sustainable Development Goals (SDGs) feature in a number of ESRS. EFRAG explains in its explanatory note on the draft European Sustainability Reporting Standards how the SDGs are embedded at thematic level in E (Environment), S (Social) and (G)Governance dimensions. The information from EFRAG was compared with the ESRS, which were issued by the European Commission in July 2023. Where necessary, the numbering has been adapted.

EFRAG's links to the SDGs in the ESRS

SDG 3 (**Good health and well-being**): E2-1 Policies, E2-3 Actions and resources and E2-4 Targets, which relate to the pollution of water, air and soil.

SDG 5 (**Gender equality**): S1-14 Incidents and complaints and severe cases of human rights issues and incidents, which includes data points on human-rights related incidents and complaints

SDG 6 (Clean water and sanitation): E3-1 Policies, E3-2 Actions and resources and E3-4 Water actions relating to water-stressed locations

SDG 7 (Affordable and clean energy): E1 and E1-5 Energy consumption and mix

SDG 8 (Decent work and economic growth):

- SDG target 8.5 (equal pay): S1-13 Compensation indicators incl. pay gap and total compensation
- SDG target 8.7 (measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour) in S1-14 Incidents and complaints and severe cases of human rights issues and incidents, which includes data points on human-rights related incidents and complaints

SDG 10 (Reduced inequalities): SDG target 10.2 (empower and promote the social, economic and political inclusion of all) and SDG target 10.4 (progressively achieve greater equality) in S1-13: Compensation indicators incl. pay gap and total compensation. This is supported by GOV-1 The role of the administrative, supervisory and management bodies that require information about the percentage of such bodies by gender and other aspects of diversity the company considers.

SDG 11 (Sustainable cities and communities): are addressed in several environment standards, especially those relating to environment targets for the protection of our natural heritage (SDG target 11.4), to reduce the impact of disasters, including water-related disasters (11.5), attention to air quality and municipal and other waste management (11.6), adaptation to climate change (11.b), utilisation of local materials (11.c).

SDG 12 (Responsible consumption and production): E5-1 Policies, E5-2 Actions and resources, E5-3 Targets, E5-4 resource inflows and E5-5 resource outflows, including waste

SDG 13 (Climate action): E1-1 Transition plan for climate change mitigation. For SDG target 13.1: SBM-3 Material impacts, risks and opportunities and their interaction with strategy and business model(s). For SDG target 13.2 (climate change measures): E1-2 Policies, E1-3 action plans and resources and E1-4 targets related to climate change mitigation and adaptation

SDG 14 (Life below water): E3-1 Policies, E3-2 Actions and resources and E3-4 Water actions relating to water-stressed locations

SDG 15 (Life on land): E4 Biodiversity and ecosystems: E4-2 Actions and E4-5 Targets, as well as IRO1 Materiality assessment

SDG 16 (Peace, justice and strong institutions):

- SDG target 16.2 (end abuse, exploitation, trafficking and all forms of violence against and torture of children) in ESRS S1-14 Incidents and complaints and severe cases of human rights issues and incidents, which includes data points on human-rights related incidents and complaints
- SDG targets 16.5 (Substantially reduce corruption and bribery in all their forms) and 16.6 (Develop effective, accountable and transparent institutions at all levels) are covered by ESRS G1-3 Prevention and detection of corruption/bribery, ESRS G1-4 Confirmed incidents of corruption or bribery and ESRS G1-1 Corporate culture and business conduct policies (Policies and action on corruption and infringements of the UN Convention against Corruption).

SDG 17 (Partnerships for the goals): The draft ESRS G1-2 Management of relationships with suppliers indirectly supports SDG 17, specifically the targets around trade and capacity-building. The objective of ESRS G1-2 is "to allow procurement process management and the fair behaviour with suppliers. This covers policies to prevent late payment to SMEs as well as its strategy with respect to its supplier relationship management, ESG criteria considered (if any) when selecting suppliers and practices to support vulnerable suppliers and improve their social and environmental performance."

According to EFRAG and/or the Commission, others ESRS can be linked to several SDGs:

S2 AR 37: "undertakings may explain whether any initiatives or processes whose primary aim is to deliver positive impacts for value chain workers are designed also to support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 8 to 'promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all' the undertaking may be providing capacity-building to smallholders in its supply chain, resulting in increases in their income; or it may be supporting training to increase the proportion of women able to take delivery jobs in its downstream value chain." (European Commission 2023: 209)

S3-4 AR 38: "The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for affected communities are designed also to support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 5 to 'achieve gender equality and empower all women and girls' the undertaking may be taking thoughtful measures to include women in the consultation process with an affected community to meet standards of effective stakeholder engagement, which can help empower the women in the process itself, but potentially also in their daily lives."

S4-4 AR 34: "The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for consumers and/or end-users are designed to also support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 3 to 'ensure healthy lives and promote well-being for all at all ages' the undertaking may be actively working to make its products less addictive and harmful to physical and psychological health."

In addition, draft ESRS E4 Biodiversity and ecosystems can also contribute to other goals such as SDG 2 (Zero hunger), SDG 6 (Clean water and sanitation), SDG 14 (Life below water) and SDG 15 (Life on land).

Sources: EFRAG 2023, 12–15; European Commission 2023

ESRS: PROS AND CONS

EFRAG's explanatory note on the draft standard of 2022 shows where SDGs are covered in the ESRS. It also shows, however, that this coverage would be insufficient even in the event of binding reporting obligations for all ESRS – which EFRAG is calling for. For example, while SDG 10 (Reduced inequalities) and SDG 13 (Climate action) are quite comprehensively covered by a number of ESRS, there are no explicit links to several other goals. These goals are:

- SDG 1: No poverty
- SDG 2: Zero hunger
- SDG 4: Quality education
- SDG 9: Industry, innovation and infrastructure

It is logical that EFRAG does not recommend the first three of these SDGs for obligatory reporting within the scope of the ESRS. After all, not all companies in the EU can measure or outline direct impacts on SDGs 1, 2 or 4. For these SDGs, additional indicators that companies would, where necessary, (have to) answer after carrying out a materiality analysis would be needed. It is also remarkable that of all SDGs, SDG 9 (Industry, innovation and infrastructure) is not covered by the ESRS. For this SDG too, indicators urgently need to be developed. These indicators would measure whether companies in developing and newly industrialised countries promote one or more subtargets.

The ESRS does not adequately capture disaggregated information about the countries to which data is assigned. Why this information is important to allow for targeted investment in SDGs in particularly disadvantaged states, is illustrated by SDG 8 (Decent work and economic growth). While the indicator S1-13 (Compensation indicators incl. pay gap and total compensation) is important for a company at global level, these figures only become really interesting when it is transparent how compensation indicators and pay gaps a) vary from country to country in which the company operates and b) within these countries. It is only with this granularity of information that companies can take targeted action to identify imbalances in compensation both within a country and between countries and, if necessary, to adapt their contribution to SDG 8. For SDG target 8.7 (measures to eradicate forced labour) an indication of possible occurrences in accordance with S-1-14 is only adequately informative for investors when there is a detailed disaggregation of the countries where occurrences were reported to allow them to have a targeted impact on companies through their engagement.

Even though the ESRS under consideration only reflect some dimensions of corporate reporting on SDGs, if all companies were to report in accordance with the above-mentioned ESRS it would be a major step forward. If, however, the CSRD is adopted – as intended by the Commission – with an upstream proprietary materiality assessment, it is to be expected that not all companies will report equally on those standards with a link to an SDG. This means that while investors can expect better – i.e. more comparable – information on the individual SDGs, there will at the very least be gaps in this information because of the principle of the materiality analysis and the resulting opportunities for companies not to report in accordance with the ESRS.

7 RECOMMENDATIONS

Recommendations for companies

- Companies must acknowledge their responsibility as players in the societies in which they are active and anchor this responsibility in strategies, policies, processes and reporting. The UNDP guidelines on how to integrate the SDGs can be used as a starting point.
- Companies that make inadequate use of the SDGs for sustainability reporting must cease purely positive, mapping reporting that often does not go beyond SDG-washing and publish transparent reports that include both positive and negative impacts and are transparent about conflicting goals.
- In order to be in a position to monitor and maximise the contribution to the SDGs, companies must define targets, including meaningful indicators, and implement mechanisms to monitor them. To this end, an analysis must be conducted to identify the SDGs on which the company has a particular influence and in which countries this influence becomes effective. The World Benchmarking Alliance, for example, provides assistance in identifying which branches are particularly relevant for which SDGs. (cf. WBA 2023a)
- In order to be transparent about the states where companies make a contribution to the achievement of the SDGs and whether stakeholders in disadvantaged states where the financing gap is particularly large actually benefit, companies must publish SDG reports that include data that is disaggregated by country.
- The first step towards comparable SDG reports is for companies to report in accordance with the ESRS standards that EFRAG has identified as being relevant for the SDGs. Even if the majority of these ESRS are subject to a materiality analysis, companies must report on it in order to make it possible for investors and other stakeholders to access adequate information that will allow them to assess the company's SDG contribution.
- In addition to this cross-sectoral data, companies in relevant sectors should use the GRI standards, which describe SDG-related indicators in their GRI sector standards.

Investors:

- Investors that use (or would like to use) the SDG rating systems for their sustainability funds or as a steering tool for the entire portfolio, should proceed in a transparent manner. They must explain the basis on which they are using corporate data and which parameters they used in their calculations. Supposedly clear statements on impacts in the case of fund investments that are underpinned by extremely detailed figures should be avoided given the present data situation so as not to create false impressions about an SDG impact for which there is no hard evidence.
- For SDG ratings, investors should, wherever possible, use standardised data (ESRS, GRI, see above). In those cases where the quality of the available data is inadequate, they should forgo a rating.
- A large proportion of the required investments in SDGs must be made in the countries of the Global South. SDG ratings for SDG-aligned funds must reflect this target variable in order to be able to allocate in a targeted way investments in these countries and sectors. They must measure the countries in which companies are active and where they influence specific SDG indicators (positively or negatively). This is the only way to ensure a stronger focus on underserved sectors and countries.

Targeted investment opportunities in SDGs

- Investors should use existing instruments, such as SDG bonds from states, to make targeted SDG investments. Other possibilities include private equity funds with a focus on developing and newly industrialised countries that invest in social and environmental companies, blended finance products with an SDG focus or products from suppliers that specialise in investments in companies and projects in developing and newly industrialised countries that are often grouped together as "impact investments".

- In addition to scoring and monitoring systems for investments in SDGs, investors should also align their engagement activities with SDG targets. Here too, they should focus on entering into a discussion with companies as to how they shape their economic activities so that people and stakeholders in economically disadvantaged countries benefit. They should, for example, enter into dialogues about production and supply conditions in countries of the Global South, about whether formal and adequately paid jobs are being created, about whether inclusion and gender sensitivity also applies to workforces in the Global South and about whether supply chains are shaped in such a way that exploitative working conditions are not systematically generated because buyer companies pay too little but that living wages can be paid.

Political decision-makers

- EU: in the case of the CSRD, the European Union must move away from the principle of proprietary materiality analysis and follow EFRAG's recommendations, which consider the majority of cross-sectoral ESRS to be obligatory for reporting.
- EU: In drafting sector-specific standards and standards for SMEs, EFRAG should pay greater attention to the impact companies have on SDGs in non-European countries. For this, and also for the sets that have already been approved, more granular indicators that go beyond exemplary descriptions of individual projects and provide transparent information on interaction with SDGs must be developed. This is particularly true of indicators that relate to production facilities and supply chains outside Europe.
- Political decision-makers must work to ensure that corporate responsibility for the SDGs in future political projects is not just anchored in preambles, but is also systematically taken into account and bindingly anchored in proposed legislation. In this respect, the EU must not only focus on the contribution to the SDGs within the European Union but also beyond its borders, especially in the case of vulnerable groups. A positive example of such proposed legislation is the Corporate Sustainability Due Diligence Directive (CSDDD), which seeks to anchor minimum standards for human rights due diligence for European companies worldwide.
- In order to make the SDGs easier to use for investors, the regulations in the Taxonomy Regulation must be adapted. Criteria for social and development policy-related dimensions that have a direct link to individual SDG indicators must be developed and adopted. To this end, the proposals made by the EU's Platform on Sustainable Finance for a social taxonomy should be taken up and developed.

United Nations

- The United Nations must, together with the member states, spell out more clearly the role of companies in achieving the SDGs. Corporate responsibility and actions must become an integral part of every new or updated global agenda. One example of how the UN can use such guiding principles to provide direction at global level are the UN Guiding Principles on Business and Human Rights (UNGP). Endorsed in 2011, the UNGP define the responsibility of states and companies to observe human rights due diligence. Since then, this "soft law" has been implemented (at least in part) in national legislation procedures for supply chain laws ("hard law") in a number of states.
- Such guiding principles for companies on the implementation of the SDGs, together with an indicator set that – comparable to the one for states – measures companies' influence on and contribution to the SDGs should be accompanied and implemented by a high-level UN body involving all relevant stakeholder groups. As relevant stakeholder groups, those who are indirectly affected by a company's activities – such as the people who live near production facilities or extraction sites

– must be included because they are not covered in an adequately systematic manner in the SDG ratings.

- These guiding principles should not – as many previous initiatives before them – be seen as calls to voluntary action for companies, which then voluntarily integrate them into their sustainability reporting practices where it suits them. They must instead be included in globally valid guidelines for standards, similar to the supply chain laws that are currently being implemented in many countries. The World Benchmarking Alliance, which is also calling for binding corporate reporting (cf. World Benchmarking Alliance 2023), sees the International Sustainability Standards Board (ISSB) as a key organisation. However, until such time as the ISSS doesn't adopt the principle of double materiality and as long as social risks for stakeholders are largely ignored, it is questionable whether there will be adequate political will within this body to integrate a concept as holistic as the SDGs.
- Finally, the SDGs themselves need to be fundamentally revised. In particular, in view of the fact that planetary boundaries are being overshot in a growing number of dimensions and in view of the advancing climate catastrophe, the unquestioned demand for continuous economic growth, industrialisation and the development of infrastructure is no longer tenable. While the SDGs also seek to fight climate change, protect land and sea, and promote more sustainable consumption, conflicting aims concealed by the SDG indicators have not yet been addressed. Further research and consultations are required to set new goals for a more just, equal world community that uses and distributes resources within our planet's boundaries.

8 GLOSSARY

CDP: The Carbon Disclosure Project (CDP) is an NGO that was founded in the year 2000. The organisation's goal is to get companies and public authorities to publish their environmental data. Every year, it collects data on CO_2 emissions, climate risks and reduction strategies via voluntary questionnaires. The data comes from over 2,000 companies in 60 countries.

CSRD: The Corporate Sustainability Reporting Directive (CSRD) is an EU directive that obliges companies to publish information on the sustainability of their business activities. The directive came into force in January 2023 and must be transposed into national law by EU member states by June 2024. Companies will in future have to publish data on environmental, social and governance impacts.

ESG: Environment, social and governance (ESG) is a term used to describe criteria and frameworks for taking in account environmental, social and governance issues in companies and governments. "Environment" relates to the company's impact on the environment. "Social" relates to a company's relations with stakeholders. It covers, among other things, working conditions and human rights. "Governance" describes the way a company is managed and controlled.

ESRS: The European Sustainability Reporting Standards (ESRS) are reporting standards that companies must observe when reporting in accordance with the CSRD.

FDI: Foreign direct investments (FDI) are a form of capital export where assets such as companies, industrial facilities, plots of land etc. are acquired. Unlike portfolio investments, which are above all interested in a company's profits, the motivation behind FDIs is also to acquire control over a company (at least a 10% stake).

GRI: The Global Reporting Initiative (GRI) is an internationally active NGO that came up with the most widely used standard for sustainability reporting in the world today. It helps companies, governments and other organisations to find, collect and report information on environmental and social sustainability themes.

GSS-Bonds: Green, social and sustainability bonds are special company or government bonds that are used exclusively to (re)finance defined sustainable projects or economic activities. For example, green bonds for renewable energy, sustainable housing or energy efficiency projects; social bonds for social housing or products/services for vulnerable groups; sustainability bonds as a mixture of the two other bond categories.

ISSB: the International Sustainability Standards Board (ISSB) is a private board founded in 2021 by the International Financial Reporting Standards (IFRS) Foundation. It develops standards for a comprehensive global basis of sustainability data for investors and financial markets.

Materiality analysis: Companies conduct a materiality analysis with a view to identifying sustainability-related themes that are relevant for them. In accordance with the CSRD, companies do this analysis on their own initiative.

MDG: the Millennium Development Goals (MDGs) were eight development goals published by the UN in the year 2000. The intention was that the MDGs would be reached by 2015. They were superseded in 2016 by the SDGs. The MDGs exclusively targeted countries in the Global South.

Platform on Sustainable Finance: the Platform on Sustainable Finance is a permanent group of experts at the European Commission that was set up in accordance with Article

20 of the Taxonomy Regulation to help the Commission develop its sustainable finance policy, especially in terms of the continued development of the EU taxonomy.

Regulatory Technical Standards (RTS): The RTS on the Sustainable Finance Disclosure Regulation (SFDR) became obligatory on 1 January 2023. They define the content, the methodology to be used and the way the information that has to be disclosed for sustainability reporting by fund managers should be presented.

SBTi: the Science Based Targets initiative (SBTi) is a cooperation between the CDP, the United Nations Global Compact, the World Resources Institute and the World Wide Fund for Nature. Over 1,000 companies have joined the initiative since 2015 with a few to setting for themselves a science-based climate target.

SDGs: the Sustainable Development Goals (SDGs) are 17 goals for economically, socially and environmentally sustainable development. Introduced by the UN, they constitute a global plan for safeguarding sustainable peace and prosperity for all as well as the protection of the planet. The SDGs have a total of 169 targets. They are monitored by an annual high-level political UN forum for sustainable development. The SDGs are at the heart of the 2030 Agenda for Sustainable Development, to which all UN member states have signed up. The intention is that the goals will be reached by 2030.

SFDR: the Sustainable Finance Disclosure Regulation (SFDR) is an EU regulation that regulates the publication of information by financial market participants on the sustainability of their investment decisions. The information must be published on the financial service provider's website, including precontractual information and regular reports. Since 2021, EU member states have been obliged to transpose the regulations into national law.

Taxonomy Regulation: an EU regulation that sets out the requirements for sustainable investments. It contains criteria for determining whether an economic activity can be deemed environmentally sustainable. Financial market participants are also obliged to report on the proportion of environmentally sustainable investments. The regulation came into force in 2020. Since 2022, details must be provided on the environmental objectives climate change mitigation and climate change adaptation. The provision of data on other environmental objectives will become obligatory in 2024.

TCFD: the Task Force on Climate-related Financial Disclosure (TCFD) is an organisation that was founded in 2015 by the Financial Stability Board and the G20 states to develop voluntary information on climate-related financial risks for companies. It provides investors with information on corporate strategies for reducing the risks associated with climate change and provides transparent information on how the company is managed.

TNFD: the Taskforce on Nature-related Financial Disclosures is an international initiative that published a framework and guidelines for the management and disclose of nature-related risks and impacts.

UNPRI: the UN Principles for Responsible Investment is an investor initiative founded in 2006 in partnership with the finance initiative of the UN Environmental Programme UNEP and the UN Global Compact.

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GOT ANY QUESTIONS?

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