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Network India

Assimilate, blend, converge for Sustainable Development Goals

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List of abbreviations

Abbreviation	Full Form
CSR	Corporate Social Responsibility
GDP	Gross Domestic Product
KPI	Key Performance Indicators
MDGs	Millennium Development Goals
NDC	Nationally Determined Contribution
SDGs	Sustainable Development Goals
SIB	Social Impact Bonds
SRoI	Social Return on Investments
USD	US Dollar
UNCTAD	United Nations Conference on Trade and Development

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Source: https://sustainabledevelopment.un.org/sdgs

Assimilating SDGs into businesses

01

This year marks the fourth year of action on Sustainable Development Goals (SDGs) worldwide. The transition from Millennium Development Goals (MDGs) to SDGs marked a landmark of 193 countries collectively agreeing to embrace a vision of creating a sustainable future characterised by societal justice, economic progress and environmental wellbeing. The 17 goals encompassing 169 targets define one of the most holistic, inclusive and ambitious developmental plans agreed upon by the global community. The achievement of this ambition requires transformational change in strategies, institutional ideologies and partnership constructs. Careful planning, design thinking, innovation and global partnerships must coalesce to ensure progress on the goals. Consequently, progress on the SDGs hinges on innovation in technologies, financial mechanisms, policy constructs, institutional designs, programme designs and the nature of partnerships forged.

A distinctive feature of the SDGs has been the emphasis on the need for collaboration and the important role the private sector must play in achieving the SDGs. It is important to note that future action on these goals must occur in a dynamic environment with multifaceted uncertainties that threaten progress. The progress on the goals must remain unfazed in a myriad of challenges, including the impact of climate change, booming global population and urbanization and societal unrest in certain geographies around the world. Such resilience built into SDG action requires all key players of the economy to provide unwavering commitment to the cause. While governments and governance systems have the onus of creating frameworks and policies to anchor action, businesses have the capabilities to be at the forefront of the agenda and spearhead the transition to a more sustainable and equitable future.

Being home to one sixth of the global population, progress of India on the SDGs will be important to ensure the success of the global agenda. The Indian government has been committed to devise policies and strategies to catalyse the realisation of the SDGs. It has chalked out a variety of schemes such as the Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana (world's largest health protection scheme), Pradhan Mantri Jan Dhan Yojana (world's largest financial inclusion scheme) and the Poshan Abhiyaan (National Nutrition Mission) to galvanise the progress on the goals.[1] Public sector financing and efforts alone, however, cannot drive SDG action at the requisite scale. A financing gap of around US$2.5 trillion has been identified between the current funding

1. Localising SDGs early lessons from India, NITI Aayog, July 2019

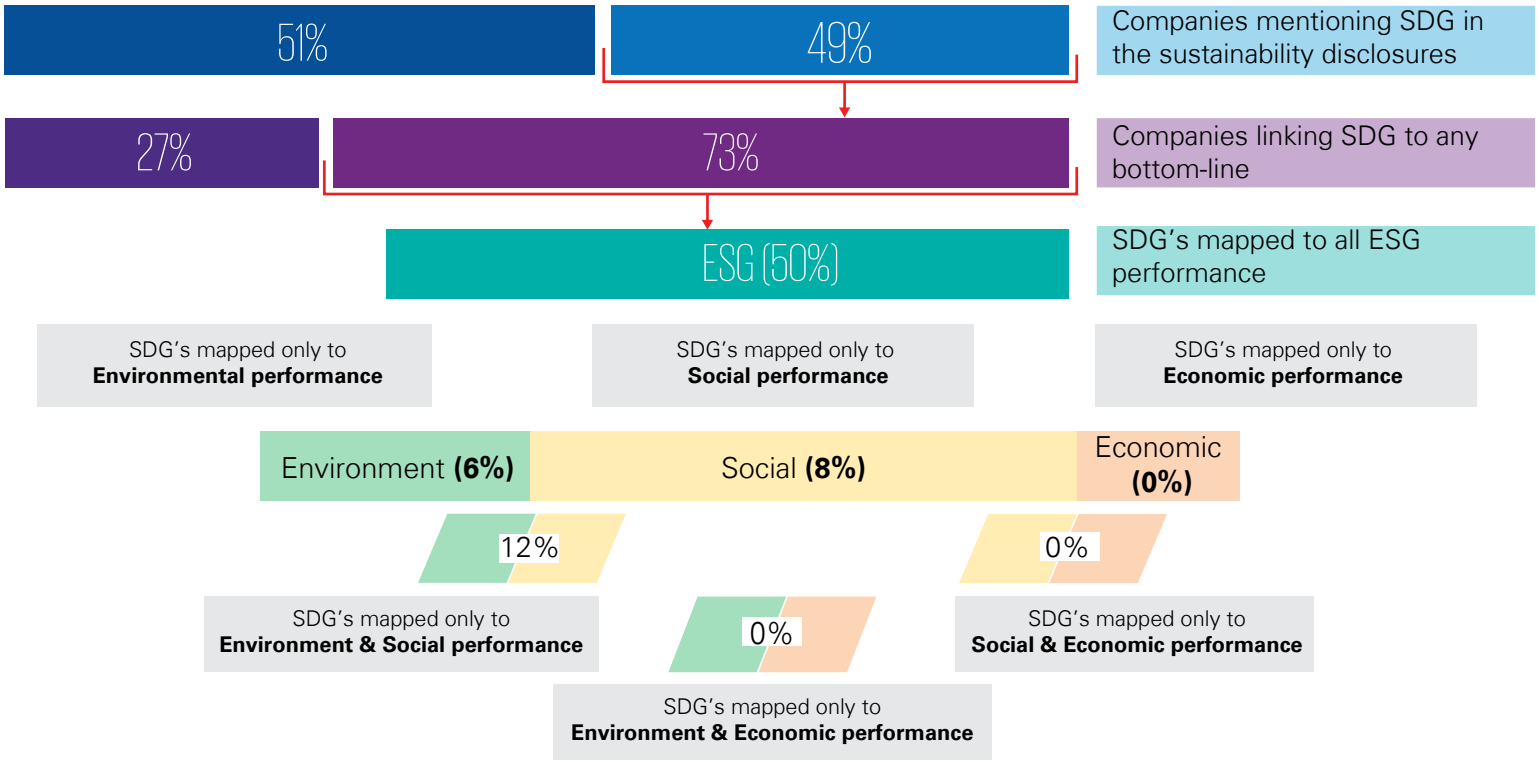
the SDGs receive and the amount of funding required to achieve the goals in developing countries alone.[2] Recognising the need for active participation of the private sector, the Indian government has employed regulatory impetus to ensure active participation of the private sector in SDG action. The CSR legislation (Section 135, Companies Act, 2013) is an exemplar of a regulatory nudge provided to the private sector to ensure participation in SDGs. The legislation mandated companies to invest in the development agenda through their CSR activities.[3]

Figure 1: SDGs as a part of the corporate sustainability communication[4]

How many N 100 Indian companies discuss the SDGs in their sustainability communication?

2. Closing the SDG Financing Gap—Trends and Data, IFC October 2019
3. NITI Aayog and UN, Localizing SDGs early lessons from India, 2019
4. Primary Study by KPMG in India based on publically available data

Figure 2: SDG alignment with companies' ESG indicators[5]



5. Primary research by KPMG in India based on publically available data

Most prioritised SDGs among the N 100 companies in India.[6]

Least prioritised SDGs among the N 100 companies in India.[7]

1.1 Assimilating the business case for action on the SDGs

The context of business operations is a major success-defining factor. Social, economic and environmental challenges have the potential to impede business growth and present a limiting enabling environment for businesses. As the private sector is a driver of economic progress, its role is indispensable in making progress on the SDGs. The need for private sector action on SDGs stems from the capabilities, reach and the organisational knowledge base that can play a vital role in steering SDGs to success by 2030. The private sector has unparalleled capabilities in terms of innovation prowess, management acumen, sectoral knowledge base, access to resources, financial capacity and the sphere of influence that can be effectively leveraged to drive action on SDGs. Furthermore, managing operational and business impact, especially negative impact, on the economic, social and the environmental spheres is an important avenue through which businesses can contribute to the SDGs.[8]

There is a compelling risk and opportunity narrative that underlies the rationale for private sector action on the SDGs. Action for the goals provides the following opportunities for businesses.

1. Long-term value creation proposition: businesses often devise strategies and make decisions based on short-term risks, opportunities and ad hoc operational challenges. Aligning business strategy to the SDGs can help counter this shortsighted approach and aid businesses in devising strategies that are cognisant of national and global developmental needs. This approach will help businesses to enhance resilience while capitalising on opportunities in a timely manner thereby ensuring long-term success.
2. Building resilience to the changing context: the global landscape is witnessing a dynamic natural environment, societal expectations and a regulatory and policy landscape. Aligning business objectives to the SDGs can help businesses thrive in an ever-dynamic enabling environment.
3. Gaining stakeholder trust: positively contributing to the SDGs and aligning business accordingly can help companies gain the trust of key partners, regulators, customers and other business stakeholders.
4. Social licence to operate: embracing an inclusive and holistic approach

6. Primary research by KPMG in India based on publically available data
7. Primary research by KPMG in India based on publically available data
8. Sustainable Development Report, Bertelsmann Stiftung and Sustainable Development Solutions Network, 2019

to business with the SDGs at the core can help in gaining the trust and support of the society at large.

5. Avenues for forging novel partnerships: the SDG action ecosystem can provide new partnership opportunities through blended finance, innovative sectoral collaboration efforts and knowledge partnerships among others.

6. Reputation and branding opportunity: there is increasing awareness about the SDGs among various business stakeholders. Action on the goals can help affirm the reputation of a business as being responsible and resilient.

7. Enabling a robust risk-management strategy: embedding SDGs and the progress on the goals in risk management discussions can aid companies in stepping up operational resilience and gaining a lucid understanding of the varied spectrum of emerging risks that are often overlooked.

While action on the SDGs provides numerous opportunities to businesses, lack of alignment to the goals can lead businesses to face a variety of risks. Some key risks facing businesses include the following.

1. **Regulatory risk:** the regulatory landscape is rapidly evolving to ensure private sector action on the SDGs. Companies that may fail to align their operational practices and business strategy could face risks arising from sudden regulatory mandates.

2. **Reputational risk:** business stakeholders are increasingly aware about global social and environmental concerns. Businesses that represent the ideals of being a responsible corporate citizen and alignment to the SDGs have a competitive advantage. Non-alignment could lead to branding and reputation-linked risks, especially in the minds of business stakeholders who are actively engaged in driving action on the goals.

3. **Operational risks:** this risk stems from operations being stalled by resource constraints, community unrest and extreme weather events among others. An organisation embedding the SDGs in its strategy will have recognition of these risks and would have established measures to mitigate the risks arising from SDG-linked issues.

4. **Competitive disadvantage:** companies worldwide have started contributing towards action on the SDGs. In India, 49 per cent of N 100 companies have started discussing SDGs in their sustainability communication. Companies that are yet to incorporate the SDGs in their business could face operational and reputational risks while also losing out on opportunities that the goals present to businesses, culminating in the company experiencing a competitive disadvantage.

1.2. Assimilating the imperatives for effective action on the SDGs for business[9]

The private sector worldwide must ideate and innovate to unveil new opportunities and possibilities for making substantial progress on the goals. Companies must devise business models that are inclusive and employ an integrated approach to value creation aligned to SDGs. Here are some key imperatives for enabling effective private sector engagement in SDGs.

a. **Aligning SDG action to the triple bottom line:** often, businesses find it difficult to understand the linkage of SDGs to their core

9. Primary Research by KPMG in India based on publically available data

business model. Among the N 100 Indian businesses, only 17 per cent companies mapped SDGs to the triple bottom line (economic, social and economic dimensions). While the first step towards SDG action is to manage business operations and practices in a manner that uphold the highest standards of human rights and environmental and social consciousness, companies have immense opportunities in channelising core business outcomes towards SDG action.

b. **Systematic approach:** prioritising SDGs most relevant to operations can help devise a programmatic approach to effectively channelise value towards progress on the SDGs. Around 13 per cent of the N 100 Indian companies have prioritised SDGs linking the goals to business and CSR activities. Notably, 85 per cent of the N 100 companies that have prioritised SDGs linked to business and CSR initiatives have elucidated the methodology employed to determine the prioritised SDG-focussed areas. It can hence be inferred that most Indian companies that have prioritised SDGs have applied a clear rationale that includes business imperatives and philanthropic vision.

c. **Localising SDG action:** aligning SDG action to the local priorities, needs and context is important for businesses to enhance the relevance of progress made on the goals. For example, for goal 13 (climate action), 12 per cent of the N100 Indian companies discuss the Nationally Determined Contributions (NDCs) in their sustainability communication. Hence, some businesses have started to assimilate the local context of the goals.

d. **Forging partnerships for the goals:** partnerships, collaboration and knowledge-sharing are at the crux of the 2030 agenda. Among the N 100 companies, 16 per cent forge partnerships for SDG-aligned CSR-linked activities. Only 6 per cent of the businesses are, however, forging partnerships for SDG action that touch the environmental, social and economic dimensions of SDGs. There is a great opportunity for Indian companies to widen the scope of forging partnerships to derive the values from unexplored synergies. These partnerships could be key for unlocking finances and resources for making progress on the goals.

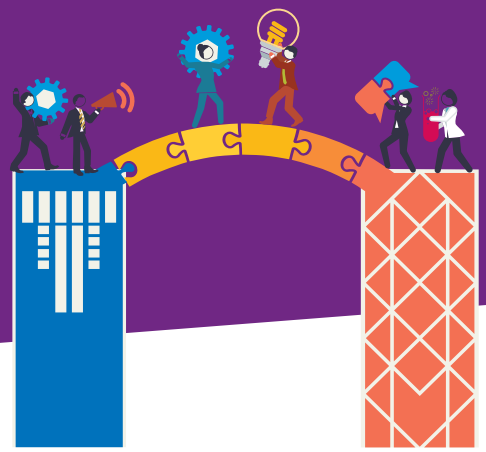
e. **Tapping into the interlinkages between SDGs:** the SDG nexus can enable businesses to deliver high impact with a well-designed intervention that assimilates an understanding of the interconnectedness of SDGs. Moreover, 17 per cent of the N 100 companies have identified projects that deliver value on multiple SDGs.

f. **Monitoring impact and outcomes:** evaluating the effectiveness of implemented programmes is key to ensure that programmes are continuously evolving to maximise impact. Nearly 24% of the N 100 companies monitor the impact of SDG-aligned projects. There are a diverse range of tools and frameworks that have evolved to enable companies to measure the impact and outcomes of programmes undertaken. For example, 4 per cent of N 100 companies are using Social Return on Investment (SROI) to communicate the outcomes of their interventions.

g. **Importance of top management involvement in SDG dialogue:** company boards play an indispensable role in driving the SDG agenda. 17% of the N 100 companies' top leadership messages in their sustainability communication included a mention of SDG.[10,11] The active engagement of company boards and leaders will be key in ensuring private sector engagement in SDGs.

10. A Global Compact fFor Sustainable Development, UNGC, 2019
11. Primary Research by KPMG in India based on publically available data

Blending for SDGs



02

In light of the global call for the realisation of SDGs, the business community has become sensitive towards their role in this dialogue globally. The CEOs of leading private sector organisations, globally, see sustainability as a window of opportunity to recalibrate their efforts in line with these milestones. To achieve results in the "Golden Decade for SDGs", there is a need to blend action, finance and strategic impact evaluation.

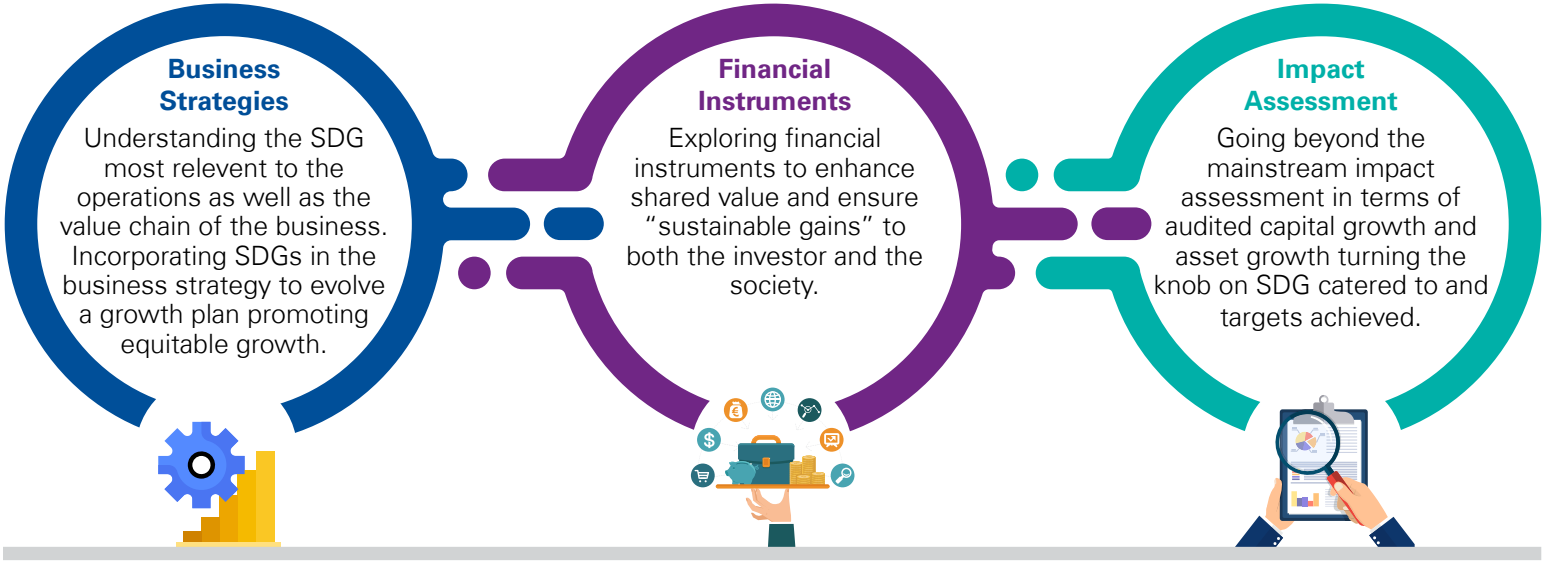
According to the World Development Indicators by World Bank, the combined contribution of the manufacturing and industrial sector to the GDP is about 42 per cent. According to the Better Business Better World report by the Business & Sustainable Development Commission, achieving global goals could open up an estimated USD12 trillion in market opportunities in four economic systems: food and agriculture, cities, energy and materials, and health and well-being. They represent around 60 per cent of the real economy and are critical to delivering the United Nations' SDGs. SDGs need to be seen through the lens through which the private sector can translate 'sustainability' and 'global needs' into business solutions across value chains. This can be understood by acknowledging the goals' underlying objective of a sustainable and inclusive future anchored in peace and prosperity.

Figure 3: SDG realisation pyramid

The realisation of these goals with the premise of shared growth can be attained through blending the three imperative components of 'action', 'finance' and 'impact' in the operations of any private sector organisation. Businesses have a critical role to play as a source of finance, a driver of innovation and technology and an engine of growth. This can be categorised in Figure 4

1. World Development Indicators: Structure of output, World Bank, 2018, More than philanthropy: SDGs are a $12 trillion opportunity for the private sector, UNDP. 2017

Figure 4: Blending SDGs with business objectives



Blending SDGs into business strategies

According to studies, escalating environmental and social burdens begin to restrain future growth prospects and failure to take action on the SDGs represents a mounting business cost. Furthermore, neglecting to integrate the SDGs strategically also poses a long-term regulatory risk and a reputational risk as governments move to reflect the goals in national policy and stakeholders look to businesses to engage meaningfully in this agenda.

The SDGs can be adopted by companies to inform future strategies and shape current impact. The blend of these goals and their subsequent targets in business strategy can help to strategically cater to each goal while holistically moving closer to shared growth. The SDGs bring along a strong business case by impacting the bottom line of businesses by improving their savings or returns through further innovation with the SDGs. Businesses can blend the SDGs at various levels in the strategy mentioned below

1. Identifying the material SDGs for core operations and across the value chain.
2. Ensuring executive-level buy-in for integration of those SDGs in the business strategy.
3. Aligning the business KPIs with the SDGs and growth targets.
4. Developing capacities across the supply chain and integrating the SDGs.
5. Setting benchmarks and targets in alignment with the material SDGs linked to business success.
6. Mapping the SDGs to financial investment and growth indicators

"A new approach to 'shift the trillions' is required to align broader actors and resources in support of sustainable development"[2]

Haje Schütte,
Senior counsellor and head of division, financing for sustainable development division, OECD Development Co-operation

According to a report by UNCTAD, the total investment needs for achieving the SDGs in developing countries alone could be about USD3.9 trillion per year.[3] This translates into a gap of some USD2.5 trillion with the current investment levels. This reflects an urgent need for exploring beyond the 'vanilla' investment strategies used for capital gains and demands the private sector to adopt the lens of sustainable gains to channelise funds to cater to growth. Blended finance is the term given to the use of public or philanthropic capital to spur private sector investment in projects aimed at achieving the SDGs. Blended finance is a critical tool that can mitigate early-entrant costs or project risks, helping re-balance the risk-reward profiles for pioneering investments and enabling them to happen.[4]

In line with the same, blended finance models, in India, can potentially look at bringing together institutional investments, the CSR financial pool and philanthropic funds to a single platform with the aim of achieving the SDGs. Blended finance can be understood through the following financial instruments.

1. **Social Impact Bonds (SIBs):** SIBs are essentially a contract between private investors, service providers and either government or philanthropic organisations (outcome funder), wherein the investors provide the upfront working capital to service providers to implement their programme and the investor is paid back the capital plus interest by the outcome funder contingent upon the outcomes achieved.[5]

Blended Financial Instruments in form of Charity Bonds

A charity bond operates in the same way as corporate bond products, allowing high net worth individuals, foundations and institutional investors (e.g. wealth and pension fund managers) to invest their capital in a charity for both social and financial return. However, currently investment in charitable bonds is largely limited to charitable trusts and wealthy philanthropic investors.

2. **Development aid finance:** Official Development Assistance (ODA) can be leveraged to mitigate the real and perceived risks of repayment, thus lowering the overall cost of capital. This blending of private and public finance leverages far larger flow of capital than could be achieved by concessional finance alone.

2. "TRADE UNION-OECD DAC FORUM , The private sector contribution to the SDGs and the "impact imperative" in financing sustainable development
3. Investing in the SDGs: An Action Plan. For Promoting Private Sector Contributions, World Investment Report, 2014
4. Blended Finance, IFC, 2019
5. Social Impact Bond (SIB), Investopedia, 2019

Blending SDGs into impact assessment

It has been recognised that evaluation processes will play a key role in national and global review systems for the SDGs. Evaluation mechanisms can help promote effective integration and implementation, follow-up and review of SDGs. With greater impetus being laid on businesses to steer the SDG agenda, policies on disclosing social and environmental impact has gained traction with investors. This is making it indispensable for businesses to blend the SDGs into their impact-assessment metrics.

Annual reports need to move beyond the realm of financial health and present a reflection of the company's impact investments and shared value growth. Aligning with the SDGs can be viewed as an authentic way to showcase a company's understanding of the context of its desired impact and its role in the larger global effort for its specific impact area. Localising efforts and impact through a global language can help enhance dialogue with investors, shareholders and beneficiaries alike.

Converging to achieve the SDGs

03

Governments, multilateral organisations, civil societies, private sector, communities and every citizen of the global community has the onus of contributing towards the SDGs to enable the transition to a sustainable and equitable future. All these entities must collectively converge to a point of action to enable effective translation of synergies towards SDG progress. The point of convergence would create a shared vision and strategy for defining roles and future course of action. Here are some constructs for convergence:

1. Geography as a point of convergence for the SDGs

Localising SDG action enables delivering grassroots-level impact. For geographical convergence for the SDGs, effective local governance will play a pivotal role. Many countries have devised country-specific SDG localisation strategies to achieve progress on the goals. In India, NITI Aayog has mapped the SDGs to relevant government ministries, establishing accountability in the strategy adopted to make progress on the SDGs. NITI Aayog has also developed a national indicator framework for tracking progress on the goals at a state level. This strategy has helped India identify key action areas and appoint the respective governance bodies to drive action.

From a organisation perspective, geographical footprint of business operations can be utilised as a point of convergence by setting it as the pivot around which the SDG action agenda is built upon. This would translate to companies defining the SDG focus areas aligned to geographical priorities and forging partnerships with local communities and stakeholders to deliver grassroot-level impact.

2. Leveraging industry sectors as a point of convergence

The risks, opportunities and actionable points share similarity at the industry sector level. The SDG industry matrix provides a good example for this construct of convergence. The matrix has tapped into this understanding to establish a platform for sector-specific knowledge and best-practice sharing. Employing a sector-based methodology to define action on the goals is another example of leveraging this construct of convergence. For example, to drive action on Goal 13 (climate action), a sector-based approach can be adopted wherein companies take on emission-reduction targets based on sectoral carbon budgets.

Sectoral collaboration will play a vital role in defining the contours of the SDG action plan for individual businesses. Sector-specific SDG roadmaps elucidating the current SDG impact of the sector, SDG touchpoints across the value chain of the sector and prioritising SDGs most relevant for the sector will help companies clearly understand their SDG-linked actionables.

Figure 5: SDG Prioritization Matrix for Cement Sector[1]

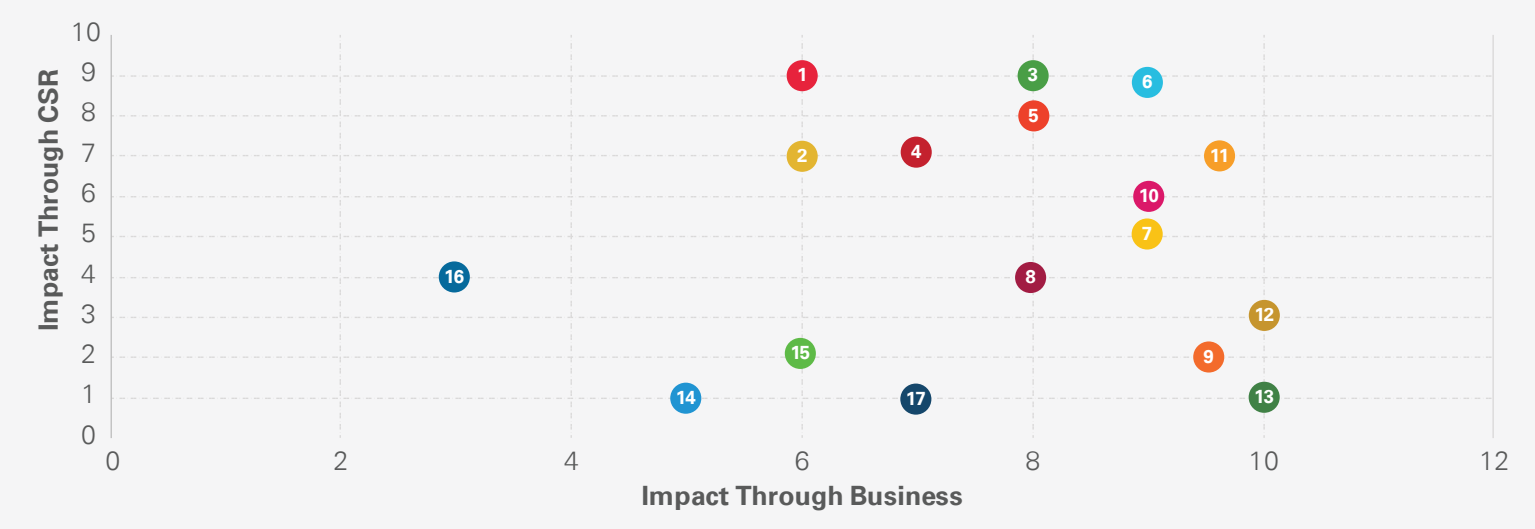
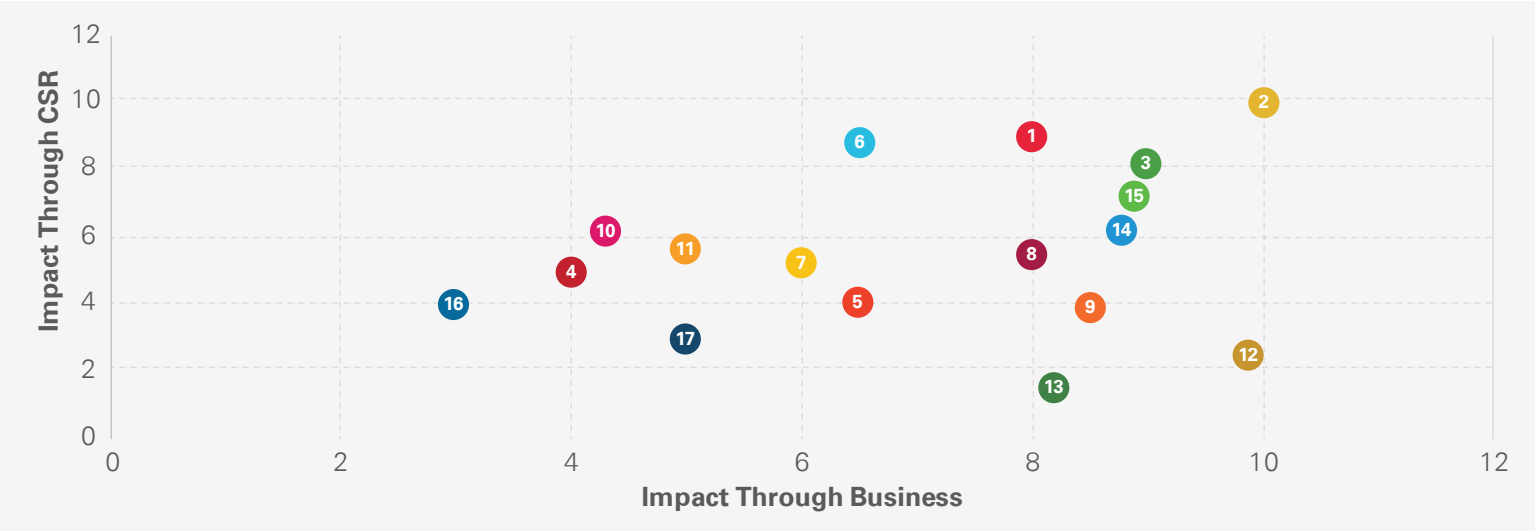


Figure 6: SDG Prioritization Matrix for Food Sector[2]



1. Primary Study by KPMG
2. Primary Study by KPMG

3. A specific SDG as a point of convergence

Converging to galvanise action towards the achievement of a specific SDG is another effective construct. Various partnerships have been forged for achieving progress on a specific SDG theme. For example, the 'Global Action Plan for Healthy Lives and Well-being for All' is a collaboration by multilateral organisations to enable progress on health-related SDGs. Similarly, partnerships have been forged between key stakeholders of the food ecosystem to make progress on goal 2 (no hunger).

There are various possible constructs of convergence, each one enabling, the inclusion of a broader range of stakeholders in SDG action. There are overarching factors that must be considered for ensuring convergence by geography, SDG and industrial sector.

a. Role of governance

For stimulating private sector engagement for SDG action, a conducive policy landscape and regulatory impetus will be key. This has been evident in India from the way companies have responded to the CSR and Business Responsibility Reporting mandate. Governance bodies must also ensure policy coherence to help entities involved in execution define a clear trajectory for action.

b. Private sector stewardship and vision

Proactive engagement of businesses to further the 2030 sustainable development agenda will be vital for SDG success. Some of the world's largest companies have partnered multilateral organisations to infuse SDG action with private sector capital. Such initiatives help unlock private sector finance at a pace in agreement with the ambitions of the 2030 agenda.

c. Leveraging the sphere of influence to drive action

Business leaders, policy makers, local community leaders to individual citizens, every participant in the SDG agenda can effectively leverage their sphere of influence to drive action. Leaders from the private and public sector play an important role of driving awareness and engaging their partners and associates in SDG action.

d. Awareness building

Awareness building of all the relevant stakeholders for action is key to enhance engagement on driving progress on the SDGs. For companies, building cross-functional awareness can enhance the relevance of the goals at a pan-organisational level. This understanding will, in turn, help in tying the goals to the triple bottom line of the business.

e. Tools and framework

There is a need to improve the uptake of available tools and frameworks for aligning SDG action with corporate strategy and measuring outcomes of executed interventions. There are various frameworks available that help businesses understand the linkage between SDGs and the bottom line. Furthermore, there are various tools that can aid in recording the impact and outcomes of the programmes. The measured impact can be overlaid at a sectoral or geographical level to understand the quantum of future action required for achieving success.

Nations and multilateral agencies have started to track progress to discern trends, identify gaps and stimulate action in the right directions. Globally,

it has been found that no country is on track to achieving the SDGs. Moreover, SDG 13, 14 and 15 have been identified as goals that require substantial efforts to attain desirable progress. The analysis conducted by NITI Aayog revealed that some states such as Kerala and Himachal Pradesh have shown good progress on multiple SDGs, whereas some states are lagging behind significantly.

Private sector action with renewed vigour will be a harbinger of success for the goals. Businesses worldwide must translate their understanding of the goals to tangible outcomes.

WAY FORWARD

1

Aligning business strategy to the SDGs can organizations design their growth strategies in cognizance with national and global developmental needs. This approach will augment businesses to enhance resilience while capitalizing on opportunities in a timely manner thereby ensuring long term success

2

Strategically contributing to SDGs and aligning business to SDGs can help organisations gain trust of key partners, regulators, customers and other business stakeholders while mitigating the risk of losing the social license to operate.

3

Aligning SDG action to the local priorities, needs and context is important for businesses to enhance their relationship with the key stakeholders and social ecosystem they operate in.

4

Existing partnerships can be leveraged to widen the scope of reach and derive the values from unexplored synergies. These partnerships could be key for unlocking finances and resources for making progress on the goals.

5

Blended Financial Instruments can be used to deliver to the targets of each SDG while ensuring economic gains. These can help bridge the gap by channelizing the funds in a more streamlined fashion.

6

SDGs bring along a strong business case by impacting the bottom line of the businesses by improving their savings or returns through further innovation with the SDGs. Therefore, mapping SDGs across the value chain can help businesses achieve the targets while enhancing their footprints.

7

The mapping of SDGs is a substantial first step towards understanding the relationship between business operations strategy and the social Impact that can be created through strategic interventions. For example, businesses can generate cross cutting impact by mapping specific targets of SDG 12: responsible production and consumption across their value chain.

8

Localizing SDG action enables delivering grass root level impact. Business groups can converge to work towards a holistic mapping of SDGs in their geography by assimilating their synergies and resources.

9

Convergence on sector specific SDGs should be viewed as an opportunity for businesses to adopt a common goal. Road maps elucidating current SDG impact of the sector, SDG touch points across the value chain of the sector and prioritizing SDGs most relevant for the sector will help companies clearly understand their SDG linked actionable.

10

The current disconnect between the actions taken by businesses and their progress reporting on SDGs needs to be catered through innovative and novel methodologies uniform to all the sectors. This will help strengthen the dialogue on SDGs progress tracking globally.

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