Definition of Sustainable Development Investing

GISD Global Investors for Sustainable Development Alliance

DEFINITION OF SUSTAINABLE DEVELOPMENT INVESTING

A. Introduction

The purpose of this definition is to codify a shared understanding and working definition of ‘sustainable development investing’ for the UN Global Investors for Sustainable Development CEO Alliance. Although various classifications and descriptions exist for related terms, including those put forth by industry bodies and individual organizations, there is no one agreed upon definition of sustainable development investing that can be used by our firms. This definition, which builds on existing initiatives, is filling this gap. It aims to ensure the credibility of sustainable development investing and mitigate the risk of SDG-washing.

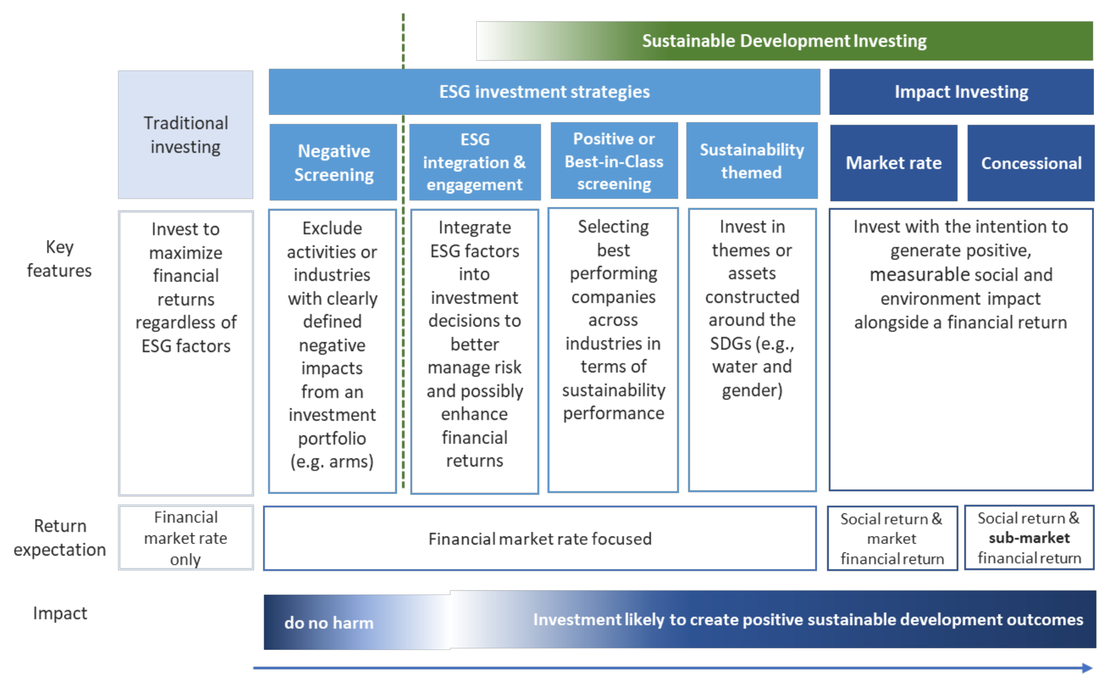
B. Definition

Sustainable Development Investing (SDI) refers to deploying capital in ways that make a positive contribution to sustainable development, using the Sustainable Development Goals (SDGs) as a basis for measurement. The contribution can be made through products, services, and/or operations or through projects financed across asset classes and in multiple sectors or themes. The positive contribution of an investment should not be outweighed by negative impacts from the same investment over the life of this investment. Investors can strengthen their positive contribution through active ownership, such as engagement for more sustainability in companies, sectors and projects they invest in, as well through greater investment in developing countries.

C. Commentary

The definition implies more than the maintenance of status quo; SDI must make positive contribution to the SDGs. SDI may be achieved through impact investing and some ESG investing strategies, though it is broader than both terms (see spectrum diagram below).

<u>Diagram 1: Sustainable Development Investing (SDI) Spectrum</u>

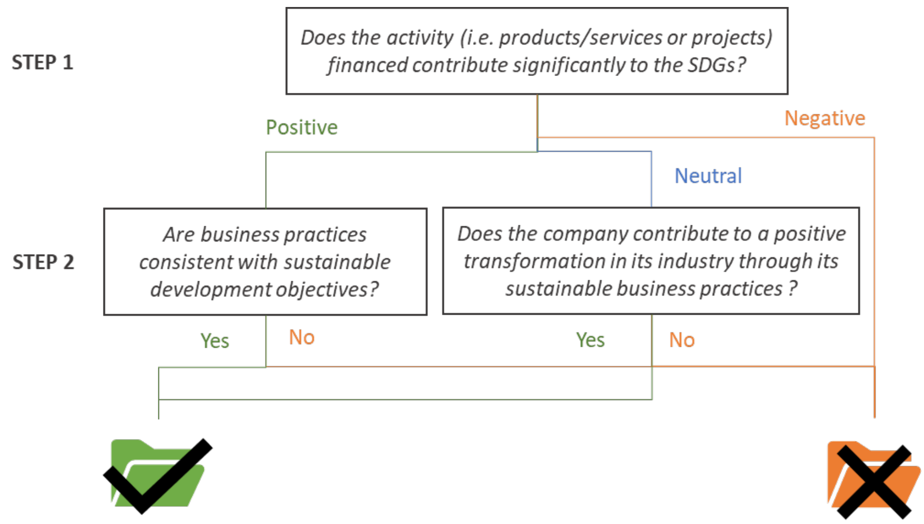


Source: UN/DESA based on RIAA (Responsible Investment Association of Australasia)
Note: By this definition, SDI is broader than impact investing, as it includes some ESG investing strategies that can demonstrate a measurable positive real-economy contribution to the SDGs.

D. Operationalizing the definition

The positive contribution of an investment to sustainable development will be assessed in accordance with the decision tree described below.

Figure 1: SDI decision tree



Step 1: To qualify for a positive contribution to sustainable development investment, the activity financed (i.e., company products/services or a project) will have to contribute to the attainment of the SDGs, checked through fundamental analysis at the company/project level[1] (e.g. it is not sufficient for a company to be active in the health sector more broadly to qualify as contributing to SDG 3). While doing this assessment, investors will need also to make an effort to ensure that contributions to sustainable development are not outweighed by negative impacts from the same investment over the life of this investment[2] and that robust investment practices are in place to measure and manage this positive contribution.[3]

As an initial step:

- For companies, to assess whether products and services contribute to Sustainable Development, investors can draw from taxonomies of sustainable activities[4] with the ultimate aim of covering all related SDGs.
- For projects, financed for instance through fixed-income products, the contribution can be assessed against sustainable-related standards, such as the ICMA Green Bond Principles and Social Bond Principles and the related ICMA high-level mapping to the SDGs.

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[1] While developing guidance for operationalizing the definition, Working Group 3 could include guidance on proper sustainability assessments of project/company, which could be done internally or by external providers.

[2] This remains a complex exercise for the time being, which should become easier over time once methodologies are further developed and the availability of data is improved. The contribution of the investment should be monitored over time to ensure that it continues to be positive.

[3] Working Group 3 will lay out existing assessment tools and investment principles in the Sustainable Development Investing Navigator. Working Group 3 could also work on defining active ownership and corporate governance in line with the SDGs.

[4] Please see the different taxonomies presented in the Sustainable Development Investing Navigator.

Investment in areas neither covered by a taxonomy of sustainable activities nor in line with sustainability-related standards, nor included in an exclusion list,[5] will be considered "neutral." Projects and companies with a majority of their revenue derived from activities with negative impact on the SDGs should be excluded (negative screening supports SDI but is not sufficient - see Diagram 1).

Step 2: To be eligible as SDI, companies will have to be transparent about their business practices and provide adequate sustainability disclosure and reporting.[6] Companies not qualifying as positive contributor under step 1 could still be considered as SDI in limited cases where their strong sustainable business practices lead to positive transformation in their industry and their products and services do not have a known negative impact on the SDGs. Active engagement by investors can help achieve these strong sustainable business practices and create a positive transformation. Company reporting will need to be cross-checked with unreported information (e.g. media) to verify the absence of inconsistencies with sustainable development objectives.[7]

Working Group 3 will continue to develop and revise guidance for operationalizing the definition based on practical experience from GISD members willing to pilot the definition within their own portfolio, business operations, and products.

[5] Exclusion list might differ widely by investors but it is expected that convergence will emerge over time.
[6] Working group 3 intends to work on clarifying what adequate sustainability disclosure means (for example, this could include having a plan/ambition to be aligned with the Paris Agenda and 1,5 degrees)
[7] For example, using the UN Global Compact principles.

The Global Investors for Sustainable Development’ (GISD) is an alliance of 30 business leaders convened by the United Nations Secretary-General to provide decisive leadership in mobilizing resources for sustainable development.

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