SDG

SDG Impact Measurement
A Brief Overview of Providers, Methodologies, Data and Output

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Sustainable Investing

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1. Introduction

The 2030 agenda for sustainable development, set in 2015, introduced the 17 Sustainable Development Goals (SDGs) by the United Nations.[3] Though the SDGs were meant to be adapted on a country level, we believe that the SDGs are an important milestone in effective sustainable investing. As more and more investors are referring to the SDGs as a framework on measuring positive impact. Thus, the SDGs can be seen as helping to shift the focus of market participants and academics towards purpose and positive impact of investments, whereas the implementation of ESG considerations has been considered so far more as prudent risk management.[4]

Aligning SDGs is not as easy as it seems. There are various challenges and constraints that are associated with this[5]:

- **There are many different ways of interpreting the SDGs**. Companies may feel the need to align their business to the SDGs, which could lead to false recognition.
- **Some SDGs are harder to invest in.** Investing in renewable energy projects can be directly related to the SDG 7 “Affordable and Clean Energy”. However, investing in the SDG 16 “Peace, Justice and Strong Institutions” is more subjective.
- **Measuring the impact that an investment might have on society is difficult**. The time between an investment being made and seeing the actual impact can be long and at times even hard to verify.

Thus, important questions arise: How can we measure the SDG related impact of financial instruments and funds? What is actually measured? What is the defined methodology? What kind of data is needed? What is the analytical output?

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[3] Douma, K., Scott, L., Bulzomi, A., PRI, The SDG Investment Case, 2017, https://www.unpri.org/download?ac=6244
[4] Weizsäcker, v., E.U. and Wijkman, A., 2018, pp. 38.
[5] Berenberg ESG Office (2018), Understanding the SDGs in Sustainable Investing, Available at https://www.berenberg.de/files/ESG%20News/SDG_understanding_SDGs_in_sustainable_investing.pdf

We are fully aware that the materiality of specific SDGs varies between sectors.[6] Furthermore, for some SDGs it is not easy to find companies which deliver a high positive impact.[7]

Occasionally results from some SDG impact measurement providers are difficult to comprehend. For example, on one hand a company earns an ESG rating of AAA (which indicates high level of ESG standards and conformity) but on the other hand on its sustainable impact receives an SDG impact score of zero? Thus, the question here lies, how do we determine the positive impact of a company?

Therefore, in this paper we want to establish a market overview of currently available SDG measurement and analysis tools and providers. This is by no means a recommendation of these providers. We have in this paper only included twelve providers who in our view offer their tools to a broader client base.

This text is structured in the way that we briefly describe for every selected provider (1) the methodology to assess the SDG impact, (2) the data source which is often based on publicly available company information, (3) output, which ranges from company and portfolio scores to performance ratings and revenue impact and last but not least (4) data coverage which ranges from a broad universe of 10.000 companies.

Given the dynamics in this highly important field and the evolution of measurement and methodologies for investments' impact towards the SDGs, further key performance indicators and methodologies will be generated.[8]

As we expect the number of providers to grow and the quality of data and methodology to improve over time, we already look forward to writing an updated version of this study in the near future. For this reason, the authors are more than happy to receive any feedback and suggestions.

2. Overview of providers

We organize this paper by alphabetical order of the SDG Impact Measurement providers.

After mentioning the SDG measurement tool name of the provider, we briefly describe their methodical approach on how the providers have measured or aligned the SDGs. We list the thematic sustainability dimensions and present the data sources used by the provider. We also briefly describe the output and their coverage universe. Refer to the appendix for an overview of the data providers.

[6] Betti, G., et al., 2018, p. 12.
[7] Schramade, W., 2017, p. 91.
[8] Wendt, K., 2019, pp. 48.

2.1 Impact-cubed[9]

Impact-cubed´s "Portfolio Impact Footprint" delivers measurement of the investment exposure to a set of 14 ESG factors. The thematic areas covered are for example: Environment, Governance, Products & Services SDG Alignment, and Society. Besides an assessment for the covered companies the tool provides a portfolio level assessment. Impact-cubed uses company disclosed data combined with various public datasets. The outputs are detailed company or portfolio-level reports including a summary impact graph and an impact number, which indicates the portion of risk (tracking error) that was used to reach the ESG exposures. The coverage universe is stated as more than 14.000 companies, however coverage of any listed universe can be provided on an ad-hoc basis.

2.2 Imug[10]

Imug´s "Impact 360" tool evaluates projects for their contribution to the global Sustainable Development Goals and provides a quantitative and qualitative impact assessment of individual projects. The output of the tool is a quantitative calculation of the positive contribution of a project to the global and local sustainability agenda as well as a visualised report with a corresponding label. The coverage is on-demand based.

2.3 Inrate[11][12]

Inrate´s "ESG Impact Ratings" measure positive and negative impacts of production, products and services of companies on environment and society. The thematic impact areas are Environmental, Social, Governance. Furthermore, the ESG Impact Ratings include an assessment of a company's CSR Reporting and a controversy assessment. The analysis is based on data from CSR reports/websites, annual reports, media and NGO reports as well as additional sources. The output is a company profile report including an ESG Impact Rating on a 12-step scale (A+ to D-). The coverage universe is stated as ca. 3,000 companies and countries.

Inrate also has another tool, the "SDG Portfolio Analysis " provides information on how a company or an investment portfolio contributes positively and negatively to the SDGs. The analysis is based on Inrate´s Business Segmentation Analysis which splits a company revenue based on 330 different revenue categories. The basis for this revenue split are sales data from the companies' annual reports on one hand and Inrate's proprietary analysis which defines positive and negative contributions per each of the 330 revenue categories. The coverage for this product is ca. 2,800 companies.

[9] Available at https://www.impact-cubed.com
[10] Available at https://www.imug.de/fileadmin/user_upload/Downloads/imug_rating/Produktflyer/imug_rating_360_wirkungsmessung_2018.pdf
[11] Available at https://www.inrate.com/esg-impact-ratings.htm
[12] Available at https://www.inrate.com/sdg-portfolio-analysis.htm

2.4 IRIS[13]

The tool “IRIS+ Core Metrics” is an identification of generally-accepted performance metrics that measure the social, environmental and financial performance of an investment. This tool describes companies’ impact objectives that apply to 17 different types of metrics and also to 15 out of the 17 SDGs.

2.5 ISS-ESG[14]

ISS-ESG´s “SDG Solutions Assessment” is based on definitions of 15 sustainability objectives, which are closely aligned with the SDGs and delivers assessments of companies' contribution towards sustainable development (revenue based). It contains both, an aggregate assessment in the form of the SDG Solutions Score as well as more detailed information and data points regarding specific sustainability objectives. The thematic areas are eight environmental objectives and seven social objectives. The tool works at a product level (positive/negative impact) and draws on the data obtained through the ISS ESG Corporate Rating. The output is a detailed dataset including 75 individual data points per company, providing detailed information on the percentage of net sales generated with products or services with positive, negative or no direct impacts (assessed on a 5-point scale: Significant Contribution, - Limited Contribution, - No Impact, - Limited Obstruction, - Significant Obstruction. The universe covers 10,000 issuers.

2.6 MSCI ESG[15][16]

MSCI ESG´s “ESG Manager” also delivers SDG impact assessments. The core of the methodology is the identification of the companies’ exposure to sustainable impact themes based on revenue percentages (revenue based). The thematic impact areas are 1) Environmental: Climate Change, Natural Capital and 2) Social: Basic Needs, Empowerment. The analysis delivers results on the company and portfolio level. The data sources are company information and in-house research. The outputs are company, industry and thematic reports and impact scores (impact revenue in percent) for portfolios. The coverage universe is currently ca. 8, 500 companies.

2.7 SEB[17]

SEB´s “SEB Impact Metric Tool” values ESG operations and impact for companies. For every factor such as diversity a specific metric is defined. The impact factors are based on if the company’s products or services are aligned with the 17 SDGs. The tool is used for company and portfolio analysis. The coverage universe contains more than 50.000 companies.

[13] Available at https://iris.thegiin.org/metrics
[14] Available at https://www.issgovernance.com/esg/impact-un-sdg/sustainability-solutions-assessment/
[15] Available at https://www.msci.com/esg-ratings
[16] MSCI, April 2018.
[17] Available at SEB Impact Metric Tool, ESG Portfolio Management, Portfolio Advisory , March 2019.

2.8 Sinzer[18]

Sinzer provides data collection, analysis and reporting functions to measure impact of companies and portfolios. They assist companies on their SDG strategy and help to measure concrete, realistic as well as monitor the results and impact organisations create in relation to these goals, using standard KPIs from their database. Their output is a custom-made SDG impact report. We could not obtain publically available information regarding the data source nor the coverage universe.

2.9 South Pole[19]

South Pole`s "SDG Aligned Impact Assessment "offers qualitative and quantitative analysis to help impact fund managers understand the extent to which the impact contributions of their investments are aligned with the SDGs. The company supports clients to develop frameworks to monitor annual impact from projects or products, selecting from a series of indicators and metrics aligned with relevant SDG sub-targets. South Pole's approach is based on bespoke analysis and is applied on a case-by-case basis to enable detailed impact and alignment analysis, considering project-level data and/or companies' products depending on clients' needs. The coverage is based on data availability and in-house research.

2.10 Sustainalytics[20]

Sustainalytic's "Sustainable Product Research" enables investors to identify companies that, through their products and services, contribute to a more just and sustainable world. The analysis focuses on companies revenues and covers 12 social and environmental themes; for example, affordable housing, green transportation, green buildings, energy efficiency, renewable energy and financial inclusion, among others. Sustainalytics also provides a mapping of how each theme links to a Sustainable Development Goal (SDG). Products and services are identified as 'sustainable' if either (1) through their use, they offer significant environmental or social benefits and/or reduce the impact of business activity or consumption (for example, energy efficiency or water efficiency technologies); or (2) they address basic social needs and that are produced in a sustainable manner (such as sustainable food and agriculture or renewable energy). The coverage universe covers over 10,000 listed companies.

[18] Available at https://www.en.sinzer.org/sustainable-development-goals/
[19] Available at https://www.southpole.com/sustainability-solutions/sdg-impacts-of-investments
[20] Available at https://www.sustainalytics.com/sustainable-products-research/

2.11 Trucost[21]

Trucost´s "SDG Evaluation Service" helps companies, insurers and banks assess their contribution to SDGs in a comprehensive manner. This service provides a quantitative analysis of the performance on the SDGs across the value chain, from raw material inputs to product use and disposal. It delivers scorecards of companies' overall SDG performance and individual scores for each goal, including positive contributions towards the SDGs as well as negative impacts and identifies the most relevant SDGs for a company, with prioritized risks and opportunities.

Besides this, Trucost provides SDG impact specific data for investors on a universe of 15,000 companies (99% of global equity market). This includes data on the X Degree Alignment (SDG 13), Green GWh (SDG 7), recycled waste/% Recycled (SDG 11) and SDG revenue share (several SDGs) of companies as well as the avoided impact/ environmental net benefits (several SDGs) of green bonds, infrastructure, real estate and project-related investments.

2.12 Vigeo Eiris[22][23]

Vigeo Eiris´s "Sustainable Development Goals Assessment" is a measurement of companies' contribution to achieving the SDGs through their behaviour and product offering, across 3 angles of analysis i)acting responsibly ii) mitigating & remediating harm iii) finding opportunities. The output is a scale based on 5 different overall contributions: - Highly adverse, - Adverse, - Marginal, - Positive, - Highly Positive. The coverage universe is stated as ca. 4,500 companies. We could not obtain publically available information regarding the data source.

Vigeo Eiris also has a "Sustainable Goods and Services" tool which evaluates what percentage of a company's activities are contributing to sustainable development. The classification of each company's impact within 9 themes of analysis, in line with the SDGs: Access to information, Capacity building, Energy & Climate Change, Food & Nutrition, Health, Infrastructure, Responsible Finance, Water & Sanitation, Protection of ecosystems. The coverage universe is stated as over 4,500 companies. We could not obtain publically available information regarding the data source.

[21] Available at https://www.trucost.com/trucost-news/sdg-evaluation-tool-launched-by-trucost/
[22] Available at http://vigeo-eiris.com/solutions-for-investors/sdg_assessment/
[23] Available at http://vigeo-eiris.com/solutions-for-investors/sustainable-goods-services/

3. Conclusion

We have above reviewed twelve providers that in our view provide tools that can help both investors and companies in their measurement of impact and alignment to the SDGs. We find that there is a high diversity of methodological approaches to assess SDG impact either from a company level or portfolio level. Most providers use publically available information and/or with internal research. Each of them has their own way of measuring or portraying the impact of companies or portfolios:

- measuring the SDGs based on **ratings/scales/scores** (Inrate (1), ISS-ESG, Trucost (1), Vigeo Eiris (1)).
- measuring SDGs based on **revenues** (MSCI ESG, Inrate (2), Sustainalytics, Trucost (2)),
- **impact number / quantitative calculation** (impact-cubed, imug, Trucost (2)),
- **classification of themes/product & services** based on their suitability to the SDGs (SEB, Vigeo Eiris (2))
- **a targeted SDG framework based on impact themes** (IRIS)
- **custom made SDG report** (Sinzer, South Pole)

It is evident from the 12 data providers above that each one has its own definition or methodology in measuring impact. Regardless of the different methodologies presented, we think the advantages of using the SDGs are fourfold:

1) Engagement: You can base your engagement on whether the company over time has either for example increased its net impact score or percentage of revenue of the products and services the companies contribute to the SDGs.
2) Risk Management: Understanding if the companies in the portfolio do not meet a certain threshold of impact and might propose potential risk.
3) Actual impact measuring for reporting: Providing impact numbers such as the percentage of portfolio aligned to the different SDGs.
4) Opportunities: Finding opportunities in companies that are growing their businesses in a sustainable manner.

Since the launch of the SDGs, more and more companies have been taking a pro-active stand in showcasing how their products/services are aligned to the different 17 SDGs. Companies are increasingly reporting this alignment in their sustainability reports and are also providing measurable metrics in order to demonstrate the positive impact that their products have in society and for the environment.

We acknowledge that aligning SDGs is a good first step, as this is can be seen as the first time that companies and financial markets have a common language towards a purpose driven goal. Though the SDGs have provided a common framework for impact measurement, differentiation in the output metrics remain. For example, should the impact of companies' environmental and social footprint be observed from a revenue perspective, with the creation of an impact score or by actual numbers? For example SDG 3 "Good Health and Well Being", would the impact for companies that provide medication/ equipment for communicable diseases or infectious diseases be measured by their i) % revenue exposure or ii) the number of patients that are using the medication/equipment.

Therefore, from an investor perspective, we feel that it is important that there will be more clarity in terms of how we are able to use the SDGs to measure the positive impact of our investments. Furthermore, there is a need for companies to also provide better impact data to investors and the interested public. Nevertheless, as measuring impact in our view is still non-standardized, regardless which data provider you were to choose, it is important that there needs to be continuous measurement of the growth of the impact the companies are having on the environment and society. Additionally, we would like to recommend the following steps when indicating the use of SDGs. This would hopefully provide clarity and standardization for both data providers, companies and investors and stop what we call "SDG Washing":

1) Quote the source of the information
2) If numbers are only an estimate, provide how these numbers have been populated
3) Be transparent on the methodology and reasoning of matching the SDGs
4) Consistency in impact metrics and provide reasoning if there is a change in methodology
5) Similar to financial statements, to provide Year on Year (YOY) change of the impact either net impact scores or revenues etc

In summary, the SDGs are clearly seen as an easy and pro-active way to articulate how investments are relatable to impact goals. Furthermore, the SDGs have unintentionally created a framework for financial institutions to showcase to their investors how their investments have specific social and environmental impact. The recent GIIN (2019) report states that the estimated overall impact investment industry AUM stands at US$502 billion. However, this is far from the US$3.3 trillion per year that is expected to help reach the 2030 goals[24]. Therefore, we look forward to watching how this SDG alignment/impact measurement journey grows in order for us to reach the 2030 goals.

[24] Available at https://www.sdgfund.org/building-better-engagement-new-sustainable-development-goals

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5. Appendix

Table 1: Overview of the SDG Impact Measurement Providers

Criteria/Provider	**impact-cubed**	**Imug**	**Inrate (1)**	**Inrate (2)**	**IRIS**	**ISS-ESG**	**MSCI ESG**
Tool Name	Portfolio Impact Footprint	Impact 360	ESG Impact Ratings	SDG Portfolio Analysis	IRIS+ Core Metrics	SDG Solutions Assessment	ESG Manager
Description	Delivers measurement of the investment exposure to a set of 14 ESG factors	Evaluates projects for their contribution to the SDGs	Measures positive and negative impacts of production, products and services of companies on environment and society	Provides information on how a company or an investment portfolio contributes positively and negatively to the SDGs	Identification of generally-accepted performance metrics that measure the social, environmental and financial performance of an investment	Based on definitions of 15 sustainability objectives, which are closely aligned with the SDGs and delivers assessments of companies' contribution towards sustainable development (revenue based)	Identification of the companies' exposure to sustainable impact themes based on revenue percentages (revenue based).
Data Source	Company disclosed data combined with various public datasets	n.a.	CSR reports/websites, annual reports, media and NGO reports as well as additional sources	Sales data (revenue) from companies' annual reports and Inrate's internal proprietary analysis	Created by GIIN together with other resources	n.a	Company information and in-house research
Output	Detailed company or portfolio-level reports including a summary impact graph and an impact number (indicating the portion of risk to reach the ESG exposures)	Quantitative calculation of the positive contribution to the global and local sustainability agenda	Company profile report including an ESG Impact Rating on a 12-step scale (A+ to D-)	n.a.	An impact profile which provides the targeted SDGs per the Impact theme and Strategic Goal	Detailed information on the percentage of net sales generated with products or services with positive, negative or no direct impacts (assessed on a 5-point scale)	Company, industry and thematic reports and impact scores (impact revenue in percent)
Coverage Universe	~14,000	On-demand based	~3,000	~2,800	n.a.	~10,000	~8,500

Source: Company website and/or direct from the company

Table 2: Overview of the SDG Impact Measurement Providers (continued)

Criteria/Provider	SEB	Sinzer	South Pole	Sustainalytics	Trucost (1)	Trucost (2)	Vigeo Eiris (1)	Vigeo Eiris (2)
Tool Name	SEB Impact Metric Tool	n.a	SDG Aligned Impact Assessment	Sustainable Product Research	SDG Evaluation Service	n.a	Sustainable Development Goals Assessment	Sustainable Goods and Services
Description	Impact factors are based on if the company's products or services are aligned with the SDGs	Data collection, analysis and reporting functions to measure impact of companies and portfolios	Qualitative and quantitative analysis to understand how investments are aligned with the SDGs	Analysis focuses on companies revenues and covers 12 social and environmental themes and how each theme links to the SDGs	Quantitative analysis of the performance on the SDGs across the value chain,from raw material inputs to product use and disposal	SDG impact specific data	Measurement of companies' contribution to achieving the SDGs through their behaviour and product offering, across 3 angles of analysis	Evaluates what percentage of a company's activities are contributing to sustainable development
Data Source	n.a	n.a	In-house research	Company information and in-house research	n.a	n.a	n.a	n.a
Output	Company and portfolio analysis	Custom-made SDG impact report	Bespoke analysis and is applied on a case-by-case basis to enable detailed impact and alignment analysis, considering project-level data and/or companies' products	Products and services are identified as 'sustainable' through identification of their environmental/social benefits or if they address basic needs	Scorecards of companies' overall SDG performance and individual scores for each goal	Data on the X Degree Alignment (SDG 13), Green GWh (SDG 7), recycled waste/% Recycled (SDG 11) and SDG revenue share (several SDGs) & the avoided impact/ environmental net benefits	A scale based on 5 different overall contributions	Classification of each company's impact within 9 themes of analysis, in line with the SDGs
Coverage Universe	~50,000	n.a	Based on data availability	~10,000	n.a	~15,000	~4,500	~4,500

Source: Company website and/or direct from the company

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