

Beyond Alignment: Contributing to the Sustainable Development Goals

The United Nations' Sustainable Development Goals (SDGs) are a powerful organizational and communications tool for institutional investors and asset managers as they are universally accepted across multiple facets of society. But the SDGs are vulnerable to misuse, misrepresentation and dilution. Investors need to ensure that when a product is labelled as "aligned with the SDGs" that it moves beyond just alignment and makes a real contribution to positive social and environmental outcomes. In this article we explain how we have approached this challenge with an investment in affordable housing, one of the main sectors within social infrastructure.

The Sustainable Development goals are an agreed-upon framework that can be utilized by all parts of society. Governments, companies, investors, charities, NGOs and even individuals can relate their actions and motivations to this unifying language. The goals align the public, private, and philanthropic sectors around 17 broadly recognized social and environmental priorities.

For institutional investors and asset managers, the SDGs act as a common language for discussing, managing and reporting on their impact investment strategies. In fact, one of the most common questions from forward-thinking asset owners to impact asset managers is "are you aligned with the Sustainable Development Goals?" Asset owners, whether motivated by internal reporting requirements, portfolio construction considerations or external client pressures feel the need to know exactly which SDGs are being addressed in each investment. However, if we end the discussion at SDG alignment, there's a risk that these incredibly important ambitions will be met in name only and will lack substance and depth.

Authors: Franklin Real Asset Advisors



RAYMOND JACOBS
Managing Director



JOHN LEVY
Director of Impact

While mapping investments to SDGs is a worthwhile effort, impact field builders are making it clear that "alignment" should be only the first step, and the same—or even more—weight should be given to how investments and active ownership **contribute** to specific targets and indicators behind each Sustainable Development Goal.

From Alignment to Contribution

Understanding the effect that our money has on the planet and society is critically important for the investment world. As we all—asset owners and asset managers—strive for meeting the 2030 goals set by the UN,¹ we realize that additional effort and ambition are required. Our duty as investors is to raise the level of discussion and focus on how we achieve new and better results. In our experience, that starts with an understanding of which SDGs are being addressed, but then turns attention to **how** we contribute to the achievement of the goals. To communicate within the SDG framework but also move past simple alignment with it, we must go beyond the 17 goals, and examine the specific targets and indicators beneath.

1. <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

Connecting Goals, Targets and Indicators

As discussed, by serving a wide audience, the SDGs are, by design, very broad and act as a foundation for others to build upon. Fortunately, behind each goal there are anywhere from 5 to 19 “targets” that speak in greater specificity about sought-after outcomes. And behind each target are “indicators,” which are the data points used to track progress towards each target, as illustrated in the example in Exhibit 1. Backed by these targets, we can define which specific actions—or contributions—we can perform. Because contributions are often measurable, KPIs can be used to monitor progress and improvement. Finally, using research and logic models, the KPIs can be mapped against the indicators tracked by the UN.

As we will later discuss in one specific example, we believe the focus on defining and measuring real contributions should be a key consideration when assessing an impact strategy. This is because it not only results in clearer linkage with the SDGs, but also because of the transparency it brings to the portfolio. Investors will be able to leverage this information as they map their investments against their own goals.

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Exhibit 1: SDG 11, targets and indicators

 11 SUSTAINABLE CITIES AND COMMUNITIES MAKE CITIES AND HUMAN SETTLEMENTS INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE						
TARGET 11-1	TARGET 11-2	TARGET 11-3	TARGET 11-4	TARGET 11-5	TARGET 11-6	TARGET 11-7
						
SAFE AND AFFORDABLE HOUSING	AFFORDABLE AND SUSTAINABLE TRANSPORT SYSTEMS	INCLUSIVE AND SUSTAINABLE URBANIZATION	PROTECT THE WORLD'S CULTURAL AND NATURAL HERITAGE	REDUCE THE ADVERSE EFFECTS OF NATURAL DISASTERS	REDUCE THE ENVIRONMENTAL IMPACT OF CITIES	PROVIDE ACCESS TO SAFE AND INCLUSIVE GREEN AND PUBLIC SPACES
<ul style="list-style-type: none"> • 11.1.1 – Proportion of urban population living in slums, informal settlements or inadequate housing 	<ul style="list-style-type: none"> • 11.2.1 – Proportion of population that has convenient access to public transportation, by sex, age, and persons with disabilities 	<ul style="list-style-type: none"> • 11.3.1 – Ratio of land consumption rate to population growth rate • 11.3.2 – Proportion of cities with direct participation structure of civil society in urban planning and management that operate regularly and democratically 	<ul style="list-style-type: none"> • 11.4.1 – Total expenditures per capital spent on the preservation, protection, and conservation of all cultural and natural heritage, by type of heritage, level of government, type of expenditure, and type of private funding 	<ul style="list-style-type: none"> • 11.5.1 – Number of deaths, missing persons and persons affected by disaster per 100,000 people • 11.5.2 – Direct disaster economic loss in relation to global GDP, including disaster damage to critical infrastructure and disruption of basic services 	<ul style="list-style-type: none"> • 11.6.1 – Proportion of urban solid waste regularly collected and with adequate final discharge out of total urban solid waste generated, by cities • 11.6.2 – Annual mean levels of fine particulate matter in cities 	<ul style="list-style-type: none"> • 11.7.1 – Average share of the built-up area of cities that is open space for public use for all, by sex, age, and persons with disabilities • 11.7.2 – Proportion of persons victim of physical or sexual harassment, by sex, age, disability status, and place of occurrence in the past 12 months

Source: United Nations Sustainable Development Goals.

Utilizing the SDGs in Practice— Social Infrastructure

For our social infrastructure strategy—managed by Franklin Real Asset Advisors—the SDGs and their targets and indicators are not simply a communication tool but inform our entire investment process and are integrated in the Impact Management Model.² For example, in screening and due diligence, the potential to contribute to SDGs and their targets is analyzed. During our full due diligence process, we identify theories of change backed by key performance indicators and

case studies that demonstrate the degree of progress against the Sustainable Development Goals and Targets, which are then used in tracking and reporting. Finally, we prioritize opportunities to manage the assets in ways that will advance the SDGs.

When assessing an investment in affordable housing, we will explore the multiple ways an investment can be impactful. We can express a full theory of change that is guided by the SDGs, as shown in the below graphic.

Exhibit 2: Contributing to the SDGs through an investment in affordable housing

1. IDENTIFY THE PERTINENT SDGs					
2. IDENTIFY THE SDG TARGETS	TARGET 6-4  INCREASE WATER-USE EFFICIENCY AND ENSURE FRESHWATER SUPPLIES	TARGET 7-2  INCREASE GLOBAL PERCENTAGE OF RENEWABLE ENERGY	TARGET 7-3  DOUBLE THE IMPROVEMENT IN ENERGY EFFICIENCY	TARGET 11-1  SAFE AND AFFORDABLE HOUSING	TARGET 11-6  REDUCE THE ENVIRONMENTAL IMPACT OF CITIES
3. DEFINE POTENTIAL CONTRIBUTION	<ul style="list-style-type: none"> Install low-flow toilets, aerators and motion-sensing taps 	<ul style="list-style-type: none"> Install Solar panels 	<ul style="list-style-type: none"> Install smart meters, conduct operator and tenant training 	<ul style="list-style-type: none"> Purchase and maintain affordable housing units 	<ul style="list-style-type: none"> Improve waste management
4. ESTABLISH KPIs FOR OUR CONTRIBUTIONS	<ul style="list-style-type: none"> Volume of water used by residents 	<ul style="list-style-type: none"> Amount of purchased Energy consumed from non-renewable sources 	<ul style="list-style-type: none"> Total amount of purchased Energy consumed by residents 	<ul style="list-style-type: none"> Number of residents in affordable housing units Average Tenant Rent 	<ul style="list-style-type: none"> Waste Disposed: Landfill Waste Disposed: Compost Waste Disposed: Recycling
5. CONTRIBUTIONS MAPPED AGAINST SDG INDICATORS	<ul style="list-style-type: none"> 6.4.1 – Change in water-use efficiency over time 6.4.2 – Level of water stress 	<ul style="list-style-type: none"> 7.2.1 – Renewable energy share in the total final energy consumption 	<ul style="list-style-type: none"> 7.3.1 – Energy intensity measured in terms of primary energy and GDP 	<ul style="list-style-type: none"> 11.1.1 – Proportion of urban population living in slums, informal settlements or inadequate housing 	<ul style="list-style-type: none"> 11.6.1 – Proportion of urban solid waste regularly collected and with adequate final discharge out of total urban solid waste

Source: United Nations Sustainable Development Goals and Franklin Templeton. For illustrative purposes only.

2. "Five Building Blocks for Impact Management. Impact in Practice: Social Infrastructure," Franklin Templeton and Tideline, March 2019.

DEFINING CONTRIBUTIONS

Our contributions play a critical role in grounding our efforts in the social infrastructure space. By ensuring that investments include one or more of the five actions below, it is possible to track how investments lead to positive community and environmental outcomes linked to the Sustainable Development Goals.

1. Aligned, Long-Term Capital

Our objective is to maintain strong-performing assets and enhance underperforming ones to improve the social services and the environmental footprint they render. In some arrangements, like a buy-and-lease-back, we can free up much-needed public capital and provide liquidity to municipalities.

2. Function Enhancements

One of the primary ways we can contribute to impact is with the direct and intentional enhancement of the facilities we purchase through renovation and upgrades. Examples of function enhancement include creating more usable space, improving the comfort and utility of the space for tenants and visitors, and finding alternative uses that benefit the broader community.

3. Environmental Upgrades

We can create positive environmental impact through actions that reduce pollution, reduce net water and material use, and support biodiversity and clean transportation. Examples of upgrades could include installing energy efficient systems, creating more green space, improving recycling and waste disposal policies and many others.

4. Purpose-Driven Development

Select investments may arise with the opportunity to convert a non-social infrastructure building into social infrastructure. Other opportunities may arise to construct new buildings or to increase the building area used for social infrastructure.

5. Tenant & Community Partnerships

Stakeholder engagement is critical to the success of social infrastructure investments, and in some instances, opportunities may arise to work with local partners to create new ways to serve the community. Examples could include working with local groups to install a business center with free wifi for underserved residents, or partnering with civil servant tenants or healthcare providers to hear ways we can work together to improve their connection with the community.

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Towards a Deeper Understanding of Impact

When investors and asset managers think about the movement from alignment to contribution and from goals to more specific targets and indicators, we are, together, moving towards a deeper understanding of real impact, and requiring more work before an assertion of impact is justified. In other words, we are raising the bar for what it means to be an impact investor seeking to further the SDGs. Think of SDG-alignment as the cover of a book. The cover helps us know what the book is about, but only by reading the content will we know if the book is any good. Moreover, a good book has an intriguing story, which in impact investing can be achieved through a research-backed and data-driven theory of change that explains the specific challenge at hand, the way our financial and non-financial contributions directly address the challenge, and the outcomes we expect to achieve.

The work is already well underway, led by field builders committed to helping investors deepen our understanding of impact and the SDGs. The United Nations Development Programme SDG Impact is “developing a set of global standards for how investors and enterprises manage and measure their impacts on the SDGs.”³ The International Finance Corporation (IFC) has launched the Principles for Impact Management as a standard to provide a common basis for evaluating investor practices. Other leading methodologies like the Impact Measurement Project’s *Five Dimensions of Impact* and the new IRIS+ system from the Global Impact Investing Network are also gaining broader recognition, helping to standardize and hopefully simplify how we communicate true impact.

Conclusion

The leadership of field building organizations and practitioners shows that a more disciplined path to achieving impact, and not just hoping for alignment, is possible. Our own efforts in impact measurement and management have been significant and involved consultation with outside experts, system design, testing and implementation by a dedicated impact team. Our early learnings suggest the added discipline of impact management makes for a more robust investment process and creates transparency and authenticity around how we can and cannot contribute to communities and the environment.

The impact investing space is growing and evolving rapidly, and as we advance our understanding of what it means to contribute to the SDGs we will be better equipped to allocate capital to the most attractive investments with the highest potential for meaningful impact.

3. UNDP SDG Impact “Q2 2019 Updates.”



About Franklin Real Asset Advisors

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Germany: FTIS Branch Frankfurt, Mainzer Landstr. 16, 60325 Frankfurt/Main, Germany. Tel: +49 (0) 69/27223-557, Fax: +49 (0) 69/27223-622, institutional@franklintempleton.de.

Netherlands: FTIS Branch Amsterdam, World Trade Center Amsterdam, H-Toren, 16e verdieping, Zuidplein 134, 1077 XV Amsterdam, Netherlands. Tel: +31 (0) 20 575 2890.

Spain: FTIS Branch Madrid, Professional of the Financial Sector under the Supervision of CNMV, José Ortega y Gasset 29, Madrid, Spain. Tel: +34 91 426 3600, Fax: +34 91 577 1857.

Sweden: FTIS Branch Stockholm, Blasieholmsgatan 5, SE-111 48, Stockholm, Sweden. Tel: +46 (0)8 545 012 30, nordicinfo@franklintempleton.com.

South Africa: Franklin Templeton Investments SA (PTY) Ltd which is an authorised Financial Services Provider. Kildare House, The Oval, 1 Oakdale Road, Newlands, 7700 Cape Town, South Africa. Tel: +27 (21) 831 7400, Fax: +27 (11) 341 2301, www.franklintempleton.co.za.

Switzerland: Franklin Templeton Switzerland Ltd, Stockerstrasse 38, CH-8002 Zurich, Switzerland. Tel: +41 44 217 81 81 / Fax: +41 44 217 81 82, info@franklintempleton.ch.

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Australia: Franklin Templeton Investments Australia Limited (ABN 87 006 972 247) (Australian Financial Services License Holder No. 225328), Level 19, 101 Collins Street, Melbourne, Victoria, 3000.

Hong Kong: Issues by Franklin Templeton Investments (Asia) Limited, 17/F, Chater House, 8 Connaught Road Central, Hong Kong.

Singapore: Templeton Asset Management Ltd, 7 Temasek Boulevard, #38-03 Suntec Tower One, Singapore, 038987. Tel: +65 64329754, Fax: +65 63379370, www.franklintempleton.com.sg.



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