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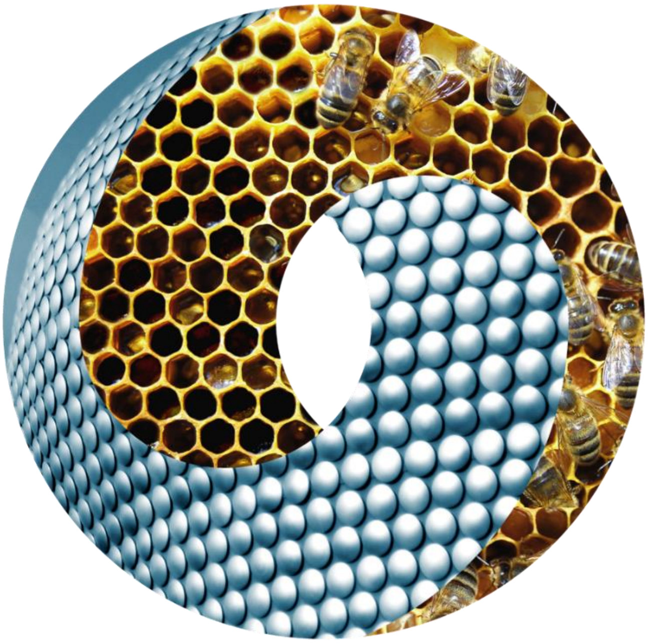


Deloitte Climate & Sustainability Competency Lab

From science to business: providing companies with the knowledge to turn sustainability into action.

LECTURE N°7 | Measuring SDGs for a sustainable transition

Interview with Phoebe Koundouri

Phoebe Koundouri is Professor in Economics at the Athens University of Economics and Business and the Technical University of Denmark. She is also President of the European Association of Environmental and Resource Economists (EAERE) and chairs the World Council of Environmental and Natural Resource Economists Associations (WCERE). She is widely recognized as a pioneer in innovative, human-centric, interdisciplinary systems for the sustainable interaction between nature, society, and the economy. She has founded and chairs the AE4RIA, the largest research team on Sustainability Transition in Europe.

She is chair of the UN SDSN Global Climate Hub and co-chair of UN SDSN Europe. She has been awarded with many prestigious distinctions: the European Research Council Synergy Grant, the Academy of Athens Excellence in Science Award, fellow Academia Europaea, fellow and trustee World Academy of Art and Science (WAAS), fellow European Academy of Sciences and Arts, and member of the Nominating Committee for the Prize in Economics Sciences in Memory of Alfred Nobel, the Royal Swedish Academy of Science.

Q.1

When were SDGs created and why? How did they develop?

The Sustainable Development Goals were voted by 193 countries in September 2015 and, nowadays, **they are in our global agenda for growth strategy**. They developed in the aftermath of the Millennium Goals, after a huge process of negotiation in the UN ecosystem. They are the most holistic, integrated, intra-disciplinary framework that explicitly identifies how we construct **pathways towards sustainability**. This is the **only global agenda in addition to the Charter of Human Rights** and the only issue on which 163 countries **agree**. They identify **17 goals and 169 targets**; it is then up to the international community that signed the UN Agenda 2030 to figure out their ways to achieve the goals and the targets within them.

SDGs' targets derive from the fact that **we are on an unsustainable pathway**: we are facing the climate crisis and the ecosystem collapse crisis. We faced the COVID pandemic and a significantly increased frequency of epidemics. We deal with low growth rates, inflationary pressures, and shrinking physical spaces within countries, and all of this is aggravating inequality and wars around the world. What we need is a global agenda that allows us to **escape from this multi-crisis** and to put our growth on sustainable paths, meaning a growth that integrates **economy, society, and nature** into supporting human welfare.

C-TAKEAWAYS

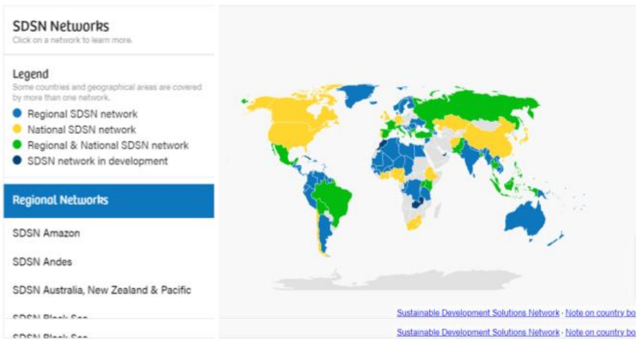
Fast facts for the C-level

- The path we are on is not sustainable and more has to be done to achieve the Goals set by the UN Agenda 2030
- SDGs were voted by 193 countries in 2015 and identify 17 goals and 169 targets
- SDGs are the most holistic, integrated, intra-disciplinary framework that explicitly identifies how we construct pathways towards sustainability, integrating the interaction of the economy, society, and nature into human welfare support and enhancement
- AE4RIA aims to bring together environmental and social sustainability with profit, financial and economic sustainability
- The achievement of the Goals relies on the pace of cost-efficient technological advancements and on SDG-stimulus financial and fiscal instruments accelerating the process towards sustainability
- Be sure to grasp all opportunities offered by regulations and policies as they could allow your company to gain a bigger share of the market and gain first-mover advantage
- Think holistically and make sure to identify synergies between C-level managers and trade-offs for the transformation along the value chain of your company

Q.2

How can they be measured and what tools are out there to do so?

To achieve the implementation of the above-mentioned targets, you need to **measure the current performance** and sketch the **pathways** that will allow you to move **from the current state to the full implementation** of SDGs. Since the launch of the UN 2030 Agenda, the [UN Sustainable Development Solutions Network]() has produced annual reports documenting countries' performances against each of these SDGs and 169 targets, using about 250 KPIs. Firstly, we do that at the **global level**, secondly, at the **EU level, national and subnational levels,** and thirdly at the **company level.** The UN SDSN network counts more than 2000 participating institutions across the globe (see graph on the right for the distribution of the regional and national hubs).



Source: Sustainable Development Solutions Network – Global Climate Hub. The colored areas represent **national governments** *and the respective Sustainable Development Solutions Network (SDSN) National Hubs that have collaborated with the Athens University of Economics and Business in designing* **national and sub-national pathways** *for the transition to a climate neutral and resilient world. These pathways are the result of the optimal dynamic mixture of technologies, policies, fiscal & financial instruments and socio-economic narratives.*

Q.3

What's the advantage of using SDGs to track world progress?

SDGs include all aspects that can support and sustain **social welfare**. It's about **environmental sustainability, social cohesion, and economic and financial sustainability**. This is what we are looking for in the short, medium, and long term: an opportunity to identify social welfare enhancement and **profit opportunities** for the sustainable transformation, which must be seen as a need for survival. In many regions of the world, regulations, laws, and policy frameworks are transforming to support the implementation of SDGs. The **European Green Deal (EGD)** is the flagship example of transposing SDGs into a **policy framework**. It is essential for every company to identify ways in which the EGD framework creates opportunities for **increased cost-efficiency, market share and profitability, while achieving environmental, social and governance goals**.

The transposition of the SDGs framework into a company level quantification e-tool is extremely useful for companies because it integrates all the ESG KPIs with financial sustainability and profitability. We're aware that the main objective of businesses is to make profit, which means we cannot ask businesses and governments for a transformative effort on their **environmental, social and governance footprint,** without indicating that these can also be combined with **profitable opportunities**. This is why we argue that the ESG era is incomplete: it does not allow explicit measurement of the financial footprint of the ESG-transformation. Therefore, we have transposed the SDGs KPIs toolkit, developed under the UN SDSN, which measures countries', cities', and local authorities SDGs' performances, into a company's SDGs KPI toolkit, that allows quantification of company combined ESG' and SDGs' performance. At the same time, it allows identification of profitable ESG-transformation opportunities, along the value chain of the company (see graph below).

Source: SDG Footprint Dashboard By Company/Unit – AE4RIA. The latter is working on the ***SDG company Sustainability assessment framework****, which is consistent with the Corporate Sustainability Reporting Directive. Framework transposes the Company ESG Reporting framework to SDGs by mapping an extended set of sector-specific ESG KPIs to SDGs and provides a dashboard for the implementation of SDGs at a company level.*

Q.4

How will the link between SDGs and technology, research and innovation impact business transformation in the near future?

It's important for businesses to understand that the transformation and the hope that we can reach SDGs and we can implement the European Green Deal mainly derive from: (a) the unprecedented pace of **technological advancements**, which makes available cost-competitive green-digital technologies; and (b) **fiscal measures and financial instruments** that can attract the required blended (public and private) finance and accelerate investments in the needed green-digital-circular-nature based solutions and infrastructures.

Policies, especially in the EU, have been transforming to allow the **most SDGs-driven and innovative companies to gain a bigger share of the market**, because the EGD legal and regulatory framework (e.g. EU taxonomy, Next-Generation EU, Corporate Sustainability Directive, Climate Law, Fit for 55%, Re-power EU) penalizes unsustainable practices and incentivizes sustainable practices and investments. Moreover, these policies create increased SDGs-awareness and, as a result, **demand towards SDGs' proof services and products**. Customers become increasingly aware of the short-medium and long-run welfare benefits, which derive from mitigating and adapting to climate change, reverting ecosystems collapse, achieving water and food security, investing in education, increasing equality and peace across the world. In doing so, they want to engage with companies whose value chains are green and digital, and respect human rights.

Another important issue is the capacity of the **labor force** to engage is the green and digital transition. We need serious investments in education, training, upskilling, and reskilling, to equip the labor force, and all stakeholders (politicians, policy makers, financial institutions, businesses, NGOs, civil society) to become **active partners** in this transition, by engaging in the **co-design and shareholding of the transition investment pathways.**

"Policies have been transforming to allow the most SDGs-driven and innovative companies to gain a bigger share of the market, because the EGD legal and regulatory framework penalizes unsustainable practices and incentivizes sustainable practices and investments."

Q.5

Why is it important that this topic enters the corporate narrative and what benefits can companies get out of it?

Firstly, companies will become **aware of the existing policy framework** and **consistent with their legal obligations**. Secondly, they can realize the array of opportunities for market-benefits, such as **increased market share, lower production and distribution costs, increased profitability, better hedging against SDGs-related risks,** but also **non-market benefits**, such as improved governance and institutional relations, stakeholder trust, and fewer liability risks. There are also stock market opportunities. AE4RIA, in fact, has developed a methodology for constructing ESG-SDGs risk hedging portfolios which prove to outperform all other portfolios (see graph on the right).

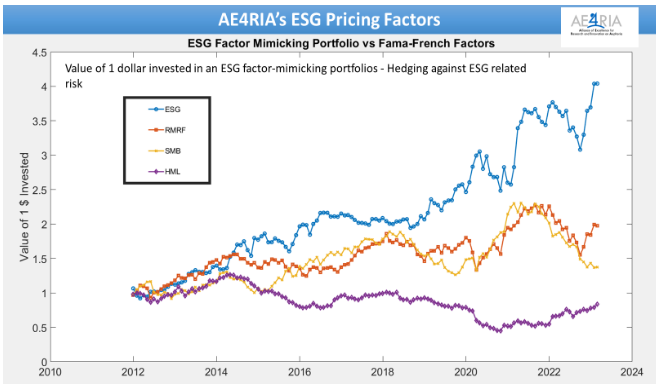
Not only is the global economy facing multiple shocks that are threatening to further reverse progress on the SDGs (COVID-19 pandemic, war in Ukraine, high inflation and weak economic growth escalating the climate emergency), but it is also aggravated by an inefficient global financial system that is short-term oriented and crisis-prone. We need a SDGs stimulus for Agenda 2030, which will (a) **tackle the high cost of debt and rising risks of debt distress**, by converting short-term high interest borrowing into long-term (more than 30 year) debt **at lower interest rates**, (b) massively scale up **affordable long-term financing for development**, especially through public development banks, multilateral development banks, blended finance and by aligning all financing flows with the SDGs.

Q.6

What advice would you give to the C-level?

The C-level needs to see this transformation **as an opportunity**. It can **increase the demand** for its products and services, and it can **lower the cost** of providing them. To capitalize on the opportunity, the C-level needs to analyze in detail the different segments of its value chain, identify underperformance and design the optimal mixture of clean, digital and governance transforming solutions, leading to an increased market share for its products and services, **lower costs** across the value chain, and **improved ESG-SDGs performance. The latter will enable consistency with the firm's legal** obligations (2024 for large companies and 2027 for all SMEs) as well as increase its capacity to acquire cheaper loans within the EU taxonomy framework

The C-level needs to think in a **holistic and interdisciplinary way,** stop working in silos and **consider both short and long run management issues.** It is important that the CEOs and CFOs are in constant co-design mode with the Sustainability Officers, to work out a flexible, adaptive, and resilient transformative business model. The latter will allow them to capture the opportunities of the fast-changing political, legal, financial, business and customer-demands' environments. The **governance** of companies needs to move towards a more inclusive and holistic mode, and the C-level must be constantly aware of the need for continuous education, upskilling and reskilling of both top managers and their employees, to keep up with the pace of technological and policy advancement.



*Source: AE4RIA's ESG Pricing Factors. The graph shows the value of 1 dollar invested in an ESG-SDG factor-mimicking portfolio, using data on 11.400+ companies in international markets, representing **99% of global market capitalization**.*

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Contacts

Stefano Pareglio
Chairman, DCS
Email: spareglio@deloitte.it

Giorgia Ortolani
Communication & Eminence, DCS
Email: gortolani@deloitte.it