

# UN Sustainable Development Goals – The Leading ESG Framework for Public Companies?

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Davis Polk’s series on environmental, social and governance (“ESG”) developments continues with this article on the United Nations (“UN”) [Sustainable Development Goals](#) (“SDGs”), 17 ESG goals which aim to create, by 2030, a “world free of poverty, hunger, disease and want, where all life can thrive.”<sup>1</sup> Davis Polk’s series began with articles earlier this summer covering two UN-related ESG frameworks, the Principles for Responsible Investment (“PRI”) and the Global Compact, available [here](#) and [here](#).

## Executive Summary

Last month and ahead of next week’s UN General Assembly meetings, the UN Global Compact and the Global Reporting Initiative (“GRI”) released a report titled “Integrating the SDGs into Corporate Reporting: A Practical Guide” (the “Guide”).<sup>2</sup> The Guide provides a detailed, user-friendly manual for corporations to identify and prioritize their SDG targets, set objectives and measure and report their progress. If used by corporations, the Guide may shape the future of corporate ESG disclosure. Given the far reach of the SDGs as described in **SDGs – Overview** below, many of these topics and strategies overlap with corporations’ mandatory reporting requirements. Corporations who have committed to the SDGs, and those that commit in the future, will need to coordinate their mandatory and voluntary ESG disclosure carefully to avoid conflict and legal liability.

## Why the SDGs Matter

As of February 2018, approximately 40% of the G250, the world’s largest 250 companies, acknowledge the SDGs in their corporate reporting and include the global goals in their CEO and/or Chair’s message.<sup>3</sup> At the 2017 annual meeting of the World Economic Forum, its International Business Council created the Compact for Responsive and Responsible Leadership (“WEC Compact”). Using the SDGs as a road map for corporations to align their goals “to serve the long-term goals of society,” the WEC Compact commits its signatories to, among other things, ensuring their boards oversee the definition and implementation of corporate strategies that pursue sustainable long-term value creation. At least 100 of the world’s leading companies and enterprises, in their capacity as members of the International Business Council, have signed onto the WEC Compact since it was launched in January 2017.<sup>4</sup>

In 2016, China released an action plan to implement the SDGs, making China one of the first 22 countries to undertake a voluntary national review of efforts to implement the SDG’s 2030 Agenda. This plan could

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<sup>1</sup> The SDGs are the successors to the UN’s 2000 Millennium Development Goals, which expired in 2015.

<sup>2</sup> Guide available at [https://www.globalreporting.org/resourcelibrary/GRI\\_UNGC\\_Reporting-on-SDGs\\_Practical\\_Guide.pdf](https://www.globalreporting.org/resourcelibrary/GRI_UNGC_Reporting-on-SDGs_Practical_Guide.pdf).

<sup>3</sup> <https://home.kpmg.com/xx/en/home/media/press-releases/2018/02/top-companies-risk-missing-out-on-sdg-business-opportunities.html>.

<sup>4</sup> <https://www.weforum.org/events/world-economic-forum-annual-meeting-2017/sessions/responsive-and-responsible-leadership-in-2017>. These 100 entities include one of the top institutional investors in the United States, the top financial institutions by market capitalization and other major, oil & gas, energy, financial services, chemicals corporations and three of the top publicly traded private equity sponsors.

significantly shape the future economy of China and impact entities that do or want to do business there.<sup>5</sup> Some experts believe that achievement of the SDGs by all nations would open up an estimated \$12 trillion in four economic systems – food and agriculture, cities, energy and materials and health and well-being – as a result of new opportunities and efficiency gains.<sup>6</sup>

The SDGs create many opportunities for both investors and corporations. The SDGs have been described by some as “the ‘lingua franca’ of policy makers and other stakeholders.”<sup>7</sup> The value of the SDGs rests in their ability to “offer an effective way to look at opportunities and risks, to translate the impact of ... investment activities into real economy outcomes and provide a useful means of engaging with stakeholders.”<sup>8</sup>

The SDGs also provide a framework and common language for companies to integrate sustainability information into their reporting cycles, providing more information to both investors and shareholders. Currently, no standardized corporate reporting system exists for the SDGs and their targets. Many external organizations have proposed different reporting models which corporations can easily incorporate into their existing corporate social responsibility reporting systems. Incorporating SDGs in a corporation’s reporting establishes a direct line of communication to investors, local governments, clients, and employees to demonstrate the corporation’s commitment to the advancement of the SDGs and to adapting for the new global sustainability agenda.<sup>9</sup>

Disclosing this information is particularly important for institutional investors, like pension and sovereign wealth funds and foundations, who are increasingly interested in aligning their investment portfolios with their sustainability and ethical goals.<sup>10</sup> This information is also critical to impact investors, which some experts believe to manage approximately \$114 billion as of 2017.<sup>11</sup> In addition, third party ESG raters rely on the quality and quantity of ESG corporate disclosure; complying with the Guide could easily have a positive impact on a corporation’s third-party ESG ratings, and could also help lead to inclusion in low carbon and other ESG index funds based on these ratings.<sup>12</sup>

## SDGs – Overview

The SDGs, which are nonbinding on both national governments and corporations, lay out an ambitious plan of action, containing 169 specific targets to be achieved by 2030. Private sector participation is voluntary, relying on market pressure and incentives. One goal, titled “Partnership for the Goals,” is fundamentally about the importance of private sector participation, where it “encourage[s] and promote[s] effective public, public-private and civil society partnerships, building on the experience and resourcing

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<sup>5</sup> <http://sdg.iisd.org/news/china-releases-national-plan-to-implement-sdgs/>. With respect to SDG 3, China endeavors to establish a national centralized and real-time environmental monitoring system and strengthen environmental law enforcement.

<sup>6</sup> <http://report.businesscommission.org/uploads/Executive-Summary.pdf>.

<sup>7</sup> <http://www.ng.undp.org/content/nigeria/en/home/presscenter/speeches/2017/11/21/meeting-the-sdgs-promise-will-depend-on-public-private-and-civil-society-partnerships.html>.

<sup>8</sup> <http://www.pionline.com/article/20171016/PRINT/171019887/asset-owners-push-to-satisfy-un-goals>.

<sup>9</sup> <https://www.greenbiz.com/article/4-steps-walking-talk-through-sdgs-disclosure>.

<sup>10</sup> <http://www.pionline.com/article/20171016/PRINT/171019887/asset-owners-push-to-satisfy-un-goals>.

<sup>11</sup> <https://www.barrons.com/articles/wanted-private-capital-to-tackle-u-n-sustainable-development-goals-1516920761>. Citation by the Global Impact Investing Network, known as GIIN, an impact investing organization.

<sup>12</sup> Our July 2017 memorandum on ESG Reports and Ratings: What They Are, Why They Matter, available [here](#).

strategies of [existing] partnerships.”<sup>13</sup> The 17 SDGs, grouped into five identified areas of critical importance, are as follows:

Area	SDG Goal
<b>People</b>	<ol style="list-style-type: none"> <li>1. <u>No Poverty</u>. End poverty in all its forms everywhere.</li> <li>2. <u>Zero Hunger</u>. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.</li> <li>3. <u>Good Health &amp; Well-Being</u>. Ensure healthy lives and promote well-being for all at all ages</li> <li>4. <u>Quality Education</u>. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</li> <li>5. <u>Gender Equality</u>. Achieve gender equality and empower all women and girls.</li> </ol>
<b>Planet</b>	<ol style="list-style-type: none"> <li>6. <u>Clean Water and Sanitation</u>. Ensure availability and sustainable management of water and sanitation for all.</li> <li>7. <u>Affordable and Clean Energy</u>. Ensure access to affordable, reliable, sustainable and modern energy for all.</li> <li>13. <u>Climate Action</u>. Take urgent action to combat climate change and its impacts.</li> <li>14. <u>Life Below Water</u>. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.</li> <li>15. <u>Life on Land</u>. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.</li> </ol>
<b>Prosperity</b>	<ol style="list-style-type: none"> <li>8. <u>Decent Work and Economic Growth</u>. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.</li> <li>9. <u>Industry, Innovation &amp; Infrastructure</u>. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.</li> <li>12. <u>Responsible Consumption &amp; Production</u>. Ensure sustainable consumption and production patterns.</li> </ol>
<b>Peace</b>	<ol style="list-style-type: none"> <li>10. <u>Reduced Inequalities</u>. Reduce inequality within and among countries.</li> <li>11. <u>Sustainable Cities and Communities</u>. Make cities and human settlements inclusive, safe, resilient and sustainable.</li> <li>16. <u>Peace, Justice and Strong Institutions</u>. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.</li> </ol>
<b>Partnership</b>	<ol style="list-style-type: none"> <li>17. <u>Partnership for the Goals</u>. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development.</li> </ol>

### August 2018 SDG / GRI Guide

The Guide – using real-life examples of how various companies in the extractives, renewable energy, technology and other sectors would prioritize the SDGs – sets out a process of “principled prioritization” through which a company can identify the priority SDG targets on which to focus. The Guide, which is intended to be used with the UN’s 2015 [SDG Compass](#) and its 2017 [Business Reporting on the SDGs: An Analysis of the Goals and Targets](#),<sup>15</sup> lays out the following three-step process of prioritization, measurement and reporting:

<sup>13</sup> <https://sustainabledevelopment.un.org/sdg17>

Step	Action
Step 1 – Define Priority SDG Targets	Addresses the process of prioritization of impacts and the identification of SDGs for a company to act and report on, specifically by understanding the SDGs and their targets, conducting a principled prioritization of SDG targets based on senior management’s vision and strategy and then defining the company’s SDG-related report content.
Step 2 – Measure and Analyze	Covers how to set business objectives, select appropriate disclosures, and collect and analyze data and performance.
Step 3 – Report, Integrate and Implement Change	Provides tips and guidance to companies on reporting and improving ESG performance, including consideration of data users’ needs.

One unspoken aspect of the Guide is that it may push GRI-style reporting to become a leading method for corporate ESG reporting for corporations disclosing SDGs compliance, with some (but not all) in the ESG space already calling GRI the “gold standard”. GRI, as co-author of the Guide, likely acknowledging that many corporations have already disclosed or will disclose against the G20’s Task Force on Climate-related Financial Disclosures (“TCFD”), notes in the Guide that a corporation may include a climate scenario analysis as part of its SDG 13 (climate action) reporting.<sup>16</sup> In fact, on September 20, 2018, the U.S. Senate introduced the Climate Risk Disclosure Act, a bill that if passed into law, would require public companies to disclose in their SEC filings climate risk scenario analysis (or business stress tests under differing climate change regulatory scenarios) along the lines called for by the TCFD guidance. While the Guide does not provide an explicit incorporation of other ESG reporting initiatives, it does acknowledge the help of the CDP (formerly the Carbon Disclosure Project) in providing feedback on drafts, and lists the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council’s <IR> Framework, the UN PRI and the Climate Disclosure Standards Board Framework as other “Select reporting frameworks” in its Appendix. The Guide, however, does not describe in detail, like it does for the TCFD guidance, how a corporation would integrate its ESG analysis and reporting under those frameworks with the ESG model provided by the Guide.

<sup>15</sup> This analysis document lists qualitative and quantitative disclosures for the SDG targets likely to be relevant to all businesses regardless of size or industry sector.

<sup>16</sup> SDG Guide, at 24.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact.<sup>17</sup>

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