Market Opportunities and Investments in the Domain of SDGs

By Namrita Shankar

Evolution of Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a set of global development targets adopted by the member countries of the United Nations (UN) in September 2015. The SDGs aim to guide the global development agenda through 2030. They are universal and broader in scope than the Millennium Development Goals (MDGs),[1] reflecting the view that development needs to be economically, socially, and environmentally sustainable. This was reflected in how many aspects the goals cover and the fluid nature of the targets.

The SDGs are more ambitious than the earlier MDGs and achieving them will require action to address a broad range of issues at both national and international levels. The SDGs focus on five key elements: people, planet, peace, prosperity and partnership.

The MDGs and more importantly SDGs were adopted when it was widely recognised that life on Earth would be difficult if we exploit resources the way we are doing now. Increasing unemployment among youth (12.8 per cent), malnourishment of 750 million people, obesity, poverty, etc. are some of the more daunting facts that drove world leaders to come together and adopt the SDGs.[2]

The SDGs are:

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure
10. Reducing Inequality
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life On Land
16. Peace, Justice and Strong Institutions
17. Partnerships for the Goals

[1]Factsheet —the IMF and the Sustainable Development Goals. https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/46/Sustainable-Development-Goals
[2]Why do we need the SDGS? SDG zone. https://sdgzone.com/learn/why-do-we-need-sdgs/

The goals are broad based and interdependent. The 17 SDGs have a list of 196 targets that are measured with multiple indicators. A very important aspect of understanding the progress made towards these goals is the data made available and understandable on all these indicators.

Financing SDGs

The 17 global goals and 196 targets are very ambitious for any nation to achieve. Initiatives and policy implementations that align with these expansive guidelines require a strong source of funding since it would be very difficult for the public sector to single-handedly raise funds for all the projects and require private sectors and fund managers to help the nations meet their goals for a better world.

In July 2015, the Third UN Conference on Financing for Development held in Ethiopia addressed the issue of how to mobilise the financing resources needed to meet the development goals. The conference concluded with the agreement: the *Addis Ababa Action Agenda* on a sustainable financing strategy. This was later endorsed by the UN General Assembly in its resolution 69/313 of July 27, 2015.[3]

Apart from encouraging the implementation of the 2030 Agenda for Sustainable Development, it provides a general framework for financing sustainable development by keeping all financial flows to align with economic, social and environmental priorities, which comprises over 100 policy frameworks.[4]

Why are Investors Expected to Invest in the SDG Domain?

Private sector contributions can take two main forms; good governance in business practices and investment in sustainable development. This includes the private sector's commitment to sustainable development, and transparency and accountability in honouring sustainable development practices. They also have a responsibility to avoid harm, even if it is not prohibited and support the government by partnering with it on maximising co-benefits of investment.[5]

There is an increasing gap between the funds that are required to meet the standards set by the UN and the current level of investment. According to the UNCTAD, at current levels of investment in SDG-relevant sectors, developing countries alone face an annual gap of US$ 2.5 trillion. According to the UNDP, there is a US$ 30 million shortfall in funding for the Global Goals. According to the IMF, there is a requirement of an additional spending of US$ 520 million every year to meet the targets.

Bridging such a gap is a daunting task, but it is achievable. Part of the gap could be covered by the private sector (in a "business as usual scenario"), if the current growth rate of private investment continues.

[3]Addis Ababa Action Agenda of the Third International Conference on Financing for Development. https://www.un.org/esa/ffd/publications/aaaa-outcome.html

[4]Ibid.

[5]Investing in the SDGS: an action plan for promoting private sector contributions - World Investment Report. https://worldinvestmentreport.unctad.org/wir2014/wir2014-ch4-promoting-private-sector-contributions/#potential-increased-in-infrastructure-food-security-and-climate-change-mitigation

Moreover, investors and corporates have a lot to benefit from investing in the sustainable development markets. Investing in these policies will help result in a stronger economic environment, benefitting businesses. Investors can start a dialogue that will help educate other business people on how to mitigate risks in this sector. This will give a lot of investors the opportunity to support the government in creating a more responsible world.

Initiatives by International Organisations

1. **IMF**

The IMF, with its expertise in macroeconomic and financial issues and its global membership, supports the development efforts of its member countries and promotes global economic and financial stability — a crucial precondition for the success of development efforts. The IMF has launched a number of initiatives to enhance its support for its member countries as they pursue the SDGs. Specifically, the IMF:

- is scaling up support for developing countries to boost domestic revenue mobilisation, including by collaborating with other international organisations through the new Platform for Collaboration on Tax.
- is providing support through an Infrastructure Policy Support Initiative to member countries seeking to increase public investment in infrastructure. The initiative seeks to deepen the IMF's macroeconomic policy advice and capacity building work to help countries tackle large infrastructure gaps without endangering public debt sustainability.
- is also reforming the debt sustainability framework for low-income developing countries
- is bolstering its support to fragile and conflict states to address their specific challenges, and wide and persistent capacity building needs through the new Capacity Building Framework. This also seeks to support institution building goals, strengthen outcome monitoring and enhance coordination with other partners.[6]

2. **Sustainable Development Goals-linked Bonds**

The World Bank launched a new series of bonds that directly link investors to the SDGs. These bonds give retail investors the opportunity to promote SDGs and also invest in them.[7] Returns on the bonds are based on the performance of the companies that are advancing towards targets or initiatives of the SDGs. These bonds were first open to investors in Switzerland, but have now spread to Singapore and Hong Kong.

The Green Bond Market in India

Green bonds are bonds issued by businesses and government entities to raise funds for a range of environmental projects, primarily climate change and environmental solutions.

[6]Factsheet —the IMF and the Sustainable Development Goals. https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/46/Sustainable-Development-Goals
[7]World Bank offers new sustainable growth bonds for investors in Switzerland. https://www.worldbank.org/en/news/press-release/2018/09/12/world-bank-offers-new-sustainable-growth-bonds-for-investors-in-switzerland

Like other bonds, or debt securities, green bonds allow investors to earn interest and receive their principle back at maturity.

The Green Bond Market in India is one financial tool available for Indian investors for financing environmental projects. The Green bond issuance market of India is fast growing, ranking 5th among G20 countries. This could indicate that the "Green Bond Initiative" introduced by Yes Bank in India could be a driver of change for social good.[8]

Investments in Indian Renewable Energy Sector

With the intention of supporting the Indian Government in its ambition of achieving renewable energy goals by 2022, private and public sector establishments and proprietorship firms all over the country came together to invest in the renewable energy sector. They were able to ensure finances at `7 crore per MW.[9] But, not much progress has been made since then.

Do Indian Companies have the Potential to Follow Goldman Sachs Model?

Goldman Sachs (GS) has turned out to be a very important venture capitalist in the field of SDGs and has collaborated with Environmental, Social and Governance (Australia) and the Nature Conservancy. The company has invested in used clothing market, technologies, education, bonds, clean energy, etc. and many such sectors.

It has invested US$ 150 billion in clean and renewable energy, US$ 35 billion in Green and sustainable bonds aimed at 50 per cent reduction in carbon footprint, over US$ 1100 million in education, US$ 425 million in affordable housing and US$ 35 million in Rothy's—an eco-friendly footwear company.[10] With these investments and many more, GS expects its net worth to reach US$ 24 trillion by 2020.

GS plans to invest more than 80 per cent of its six years' cumulative revenue in sustainability. Indian companies though openly support SDGs, there does not seem to be an open record of the investments made or the projects that they support.

Table 1 gives a rough estimate of how much the top 10 Indian companies are capable of investing in sustainable projects and business models. The calculation is done taking into account the revenue of these companies and the general share of funds collected for social ventures.

Table 1: Estimated Potential of Indian Companies to Contribute to SDGS

Tata Chemicals	378 million
Ambuja Cement	3.26 billion
Infosys	2.376 billion
Mahindra &Mahindra	680 million

[8]Unlocking the green bond potential in India. https://www.teriin.org/sites/default/files/2018-05/Report%20under%20NFA%20grant_2018.pdf
[9]IREDA: Green energy commitments. http://2015.re-invest.in/greenenergycommitment.aspx
[10]GS Sustainability Report. https://www.goldmansachs.com/s/sustainability-report/index.html

Tata Motors	1.41 billion
Tata Energy	2.33 billion
Bharat Petrol	1.29 billion
ITC Limited	1.6 billion
Hindustan Zinc	5.216 billion
Indian Oil Company	2.132 billion

Source: www.moneycontrol.com

If these companies and many more in India promised to help contribute in their own way to meeting the targets of the SDGs, there could have been more progress made in terms of the targets. There are issues that require to be addressed immediately, not only for economic growth, but also for social and environmental improvements. Two such examples have been illustrated below.

There is a US$ 1.5 trillion gap in providing women participation in the workforce in India. With only 24 per cent women participating in the workforce, there is a lot of scope for higher women participation.[11] According to NITI Aayog, if the women workforce doubles in India, the GDP would grow between 16–60 per cent. If every company in the list can help 250,000 to 1 million women to become entrepreneurs or employed, they would be able to contribute largely to economic growth.

India generates a total of 25,940 tonnes of plastic waste every day.[12] Indian companies could follow GS model and invest in a similar manner which can help reduce plastic waste dumps, turn them into more useful products and help in the creation of an industry worth almost US$ 30 million. This initiative may also help in creating more employment opportunities for thousands of people. Rothy's usually has an ideal sale of US$ 300 million which not only helps in its expansion of business but also drives the economy.

Why are Indian Companies Unable to Live Up to their Commitments?

There are quite a lot of reasons why the Indian companies are unable to reach their full potential with respect to the SDGs. A lot of these companies have good intentions paired with a constructive plan. There seems to be an issue with the implementation.

A reason could be the absence of a platform that encourages dialogue among companies so that entrepreneurs understand the impact they would have on the society, if they also are aware of mitigating the risk factors. The case for the promotion of renewable energy is a

[11]What prevents women from working in India?
https://www.livemint.com/Politics/jedAN6zwNy0V0eXmc2vMGM/What-prevents-women-from-working-in-India.html
[12]India is generating much more plastic waste than it reports. Here's why
https://www.bloombergquint.com/global-economics/india-is-generating-much-more-plastic-waste-than-it-reports-heres-why

good example. The plan of supporting the government could not pan out because of the absence of dialogue among the investors.

Another problem that companies face is that the CSR mandate of spending 2 per cent of profits to charity cannot be included in the operational investments made by the companies. Thus, the law discourages these companies to invest in SDGs.[13] Moreover, out of the total CSR expenditure in India, around 50 per cent (at `3893 crore) were spent on the education and health sector.[14] This, as a result, benefits the related goals and leaves the other goals at a disadvantage. Goals 3 and 4 of the SDGs show more positive progression on all its targets and indicators.[15]

Funding is another issue that the Indian companies are facing. Start-ups like Sandbox are attempting to expand entrepreneurial opportunities in non-metropolitan cities. They try to provide funding for such businesses that are at a disadvantage because of their geographical location. The idea can help promote businesses in non-metros and contribute to the growth and development. Policymakers can promote and themselves provide similar funds so that SDGs are promoted in all parts of the country.

It is only obvious to state that aligning with SDGs will benefit every form of life on the Earth. The market for SDGs is at its peak and can be taken to our advantage. According to a report published by Barclay's, 90 per cent millennial investors want sustainable investments in their portfolios. This makes it even more profitable to venture into this sector. Constant dialogues and information symmetry are a prerequisite for laws and policies to evolve with changing market conditions.

Namrita Shankar is a Research Intern at CPPR-Centre for Comparative Studies. Views expressed by the author are personal and need not reflect or represent the views of Centre for Public Policy Research.

[13] Indian law requires companies to give 2% of profits to charity. Is it working?
https://www.theguardian.com/sustainable-business/2016/apr/05/india-csr-law-requires-companies-profits-to-charity-is-it-working
[14] Ibid.
[15] SDG India Index Baseline Report, 2018.
https://niti.gov.in/writereaddata/files/SDX_Index_India_21.12.2018.pdf