At a Crossroads: The path forward for the UN SDGs

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The United Nation's Sustainable Development Goals (SDGs) face a critical juncture. At the halfway point to 2030, the world is not on track to achieve the SDGs agreed to in 2015. The 2023 Sustainable Development Report, released on June 21, indicates that only half of the goals have realized significant progress. According to the report, 30% of the SDGs have either stalled or regressed and are unlikely to be satisfied by the 2030 deadline. At a precarious crossroads, advancing the SDGs requires a change in course to put sustainable development back on track.

Since the SDGs' introduction, private sector participation has been a necessity, given a projected annual funding gap of $2.5 trillion. Many large multinational companies supported the SDGs at launch, partly due to the estimated economic impact. However, it is increasingly apparent that corporate strategies and reporting are wanting in terms of advancing these goals. Greater urgency is needed. Achieving these goals necessitates establishing best practices and for companies to redouble their efforts if the SDGs are to get back on a path to success.

To illustrate how current corporate action is coming up short, Evalueserve's ESG team examined the topics of Small and Medium-sized Enterprises (SME) Lending, Palm Oil, and Food Waste to highlight some of the existing shortcomings and how to get back on the right path to reach the linked sustainability goals.

SME Lending

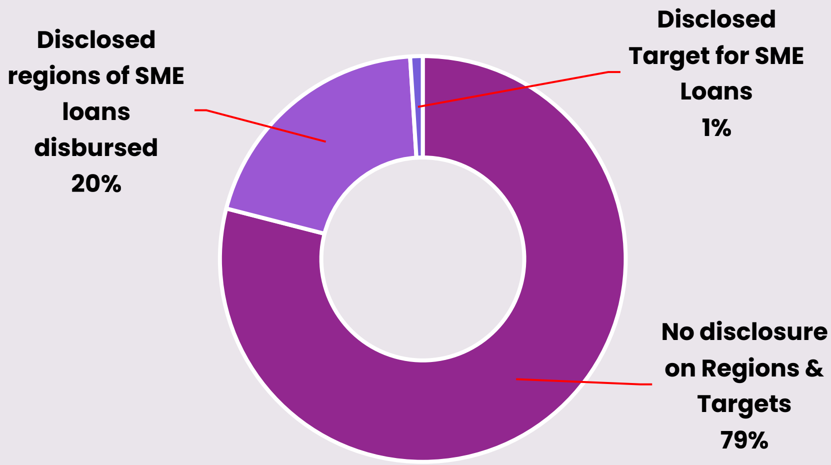
SMEs play vital roles in driving economic growth, creating employment opportunities, and promoting income growth and sustainable livelihoods. The World Bank reports that SMEs represent about 90% of all businesses and support more than 50% of employment worldwide, and therefore, are essential for addressing SDGs goals 1 (No Poverty), 9 (Innovation and Infrastructure), 12 (Responsible Consumption), and 15 (Life on Land).[1]

SMEs must have access to credit to create a sustainable impact. However, this access remains uneven across countries due to various challenges. For example, Sub-Saharan African countries and least-developed countries face a severe lack of credit compared to developed countries. When evaluating how banks contribute to sustainability, it is essential to consider their ability and capacity to support SMEs with affordable access to capital, thus promoting economic development and job creation.

SDG 9.3 expects lending institutions to "*Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.*"

In analyzing 100 commercial banks globally on their alignment with SDG 9.3, Evalueserve's analysts found considerable inconsistencies in reporting relating to SME lending, with most banks not following any specific reporting structure. In some cases, banks disclosed outstanding balances of SME loans, while others reported performing and non-performing exposures and related provisions of SME loans.

Figure 1. SME Lending Analysis by Global Banks



Overall, the muddled nature of the reporting and metrics offered provide little helpful guidance for investors in attempting to evaluate and measure impact. Only a few banks reported the information in a structured and comparable manner, allowing for a meaningful perspective on this critical activity. Too often, the reported loan disbursement data fails to distinguish between developed and developing regions, as expected by SDG 9.3, or, more problematically, is not reported. From the sample of banks examined, only 20% disclosed the regions where SME loans were dispersed.

Other aspects, like explicit targets for SME loans and SMEs' sustainable impact, were negligibly reported (see Figure 1).

If progress on the SDGs is to get back on the right path, bank lending and access to capital for SMEs is critical. The lack of explicit lending targets and reporting of essential metrics to track progress continue to place the sustainable agenda of "Access to Finance" in jeopardy.

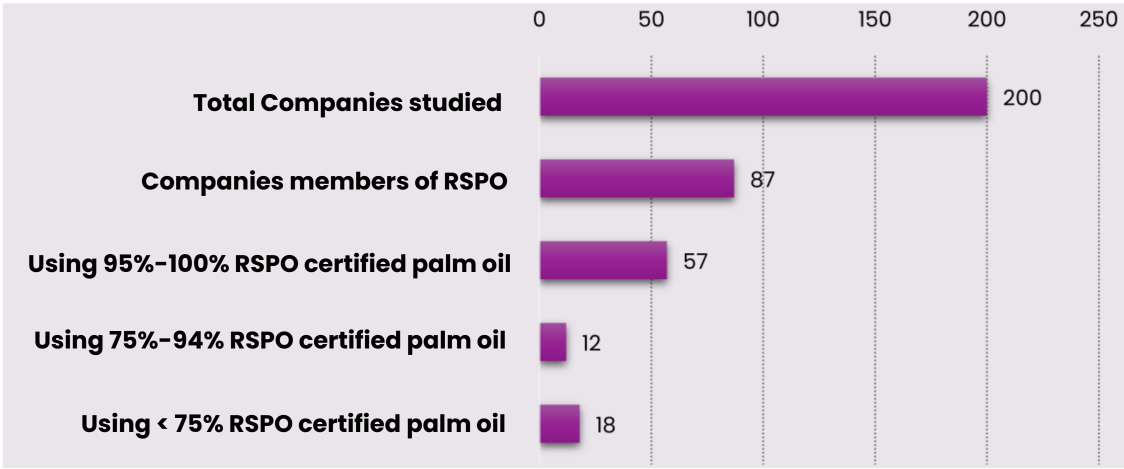
Palm Oil

Palm oil is a highly versatile product with many different applications and found in almost 50% of packaged food products at the supermarket. Unfortunately, palm oil production has significant adverse environmental and social implications. More sustainable means of producing and sourcing palm oil connect with multiple SDGs, including Goal 2 (No Hunger), Goal 5 (Gender Equality), and Goal 15 (Life on Land).

One initiative taken in this area is the establishment of the Roundtable on Sustainable Palm Oil ("RSPO"). This collaborative effort between environmental groups and industry representatives has established rigorous ethical and sustainable standards for palm oil sourcing. Companies that join the RSPO and achieve certification signal their commitment to responsible and sustainable practices. To earn RSPO certification, companies must undergo a verification process that includes annual third-party auditing and submitting progress reports published in the RSPO's "Annual Communication of Progress" (ACOP). By joining the RSPO and obtaining certification, companies can demonstrate their dedication to social and environmental responsibility while improving their reputation and competitiveness in the global marketplace.

Analysis of 200 Food and Beverage companies revealed that less than half (87 companies) are RSPO members (see Figure 2). This implies that the remaining 113 companies are not monitored by any watchdog for palm oil sustainability claims, nor are they obligated to share any long-term plans or progress. Additionally, only 57 of the 87 RSPO member companies reported that 95 to 100% of their palm oil was sustainably sourced based on the 2021 reporting. This alarming statistic indicates that most companies (71%) are not on track to source sustainable palm oil.

Figure 2: Sustainable Palm Oil Analysis



The availability of freely accessible, standardized, and consistent data is critical in making informed comparisons and effective decisions. This is why the Annual Communication of Progress (ACOP) submitted by RSPO member companies is highly sought-after by potential sourcing companies and investors for conducting due diligence or performance evaluation. Companies that fail to provide sufficient information, disclose information regarding their sustainable palm oil sourcing, or do not certify to higher RSPO standards are contributing to the palm oil problem. Companies must prioritize risk management of critical issues like palm oil and take proactive measures to ensure transparency and accountability in their operations. By doing so, they demonstrate their commitment to sustainability and the SDGs.

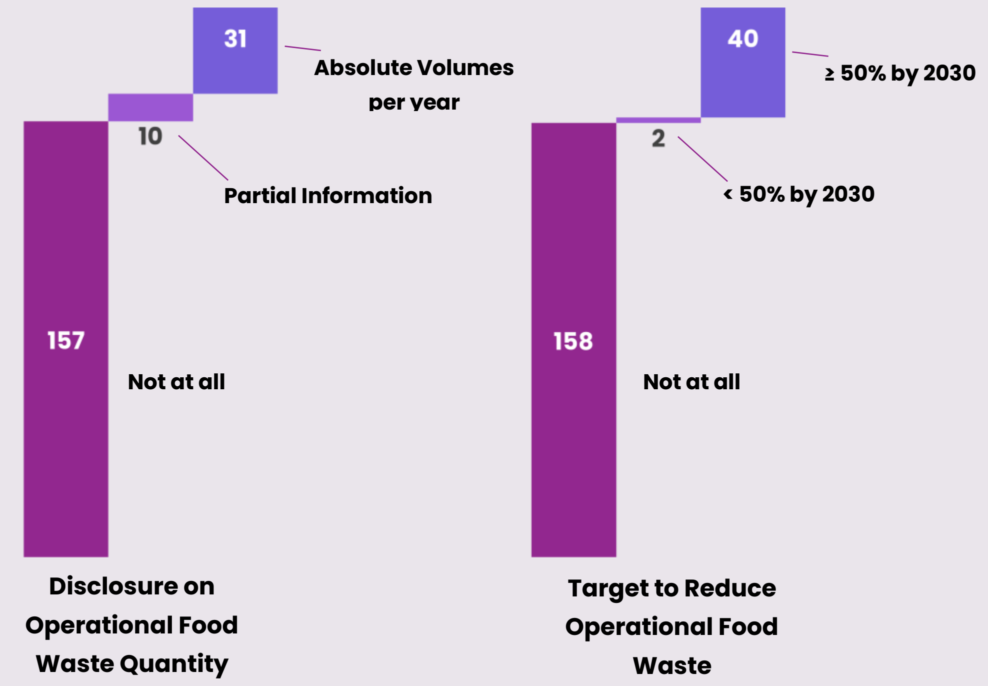
Eliminate/reduce Food Waste

The issue of food losses is connected to efforts to combat hunger, raise income, and improve food security. According to the WFP statistics, approximately one-third of all food produced (approx. 1.3 billion tons) for human consumption is wasted or lost each year, resulting in enormous environmental impact and the economic cost of about US$ 1 trillion spent annually to combat global hunger. Reducing food waste presents opportunities to address all SDGs, but more specifically, Goal 2 (No Hunger), Goal 12 (Responsible Consumption) and Goal 13 (Climate Action).

Evalueserve's analysis of 200 companies from the food industry reveals that only 21% disclose or measure food waste (see Figure 3). Further, only 20% have targets that align with SDG 12.5 to reduce absolute waste by 50% by 2030. To achieve such targets, companies need to go the extra mile by connecting with the community, using innovation and technology, creating awareness through learning and training, and considering the environment at every step of their process. Unfortunately, 80% of companies do not disclose their operational food waste quantity or set reduction targets. These companies may manage food waste risks and adhere to domestic environmental regulations. However, the lack of public disclosure of relevant metrics means that outsiders like shareholders or prospective investors cannot assess if these companies are successfully mitigating the waste risks to which they are exposed.

SDG 12.5 target: *"By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses."*

Figure 3: Food Waste Analysis of 200 Companies, (FY 2020 – FY 2022)



Companies must make a conscious effort to identify and adopt strategies to reduce their food waste effectively. Companies with less ambitious targets, such as aiming for less than a 50% reduction in food waste by 2030, may be on the wrong path. At times, companies may focus solely on reducing the negative end impact rather than addressing the underlying issue. For instance, a company that sets a target to reduce food landfill waste only may opt to divert waste landfill to other types of disposal, such as combustion or composting, to achieve their goal. This approach may not entirely address the fundamental issue of food waste reduction.

Getting the SDGs back on track – Examples of Best Practices

Despite some discouraging findings, there are examples of companies already taking necessary and appropriate actions that can and should be more widely adopted.

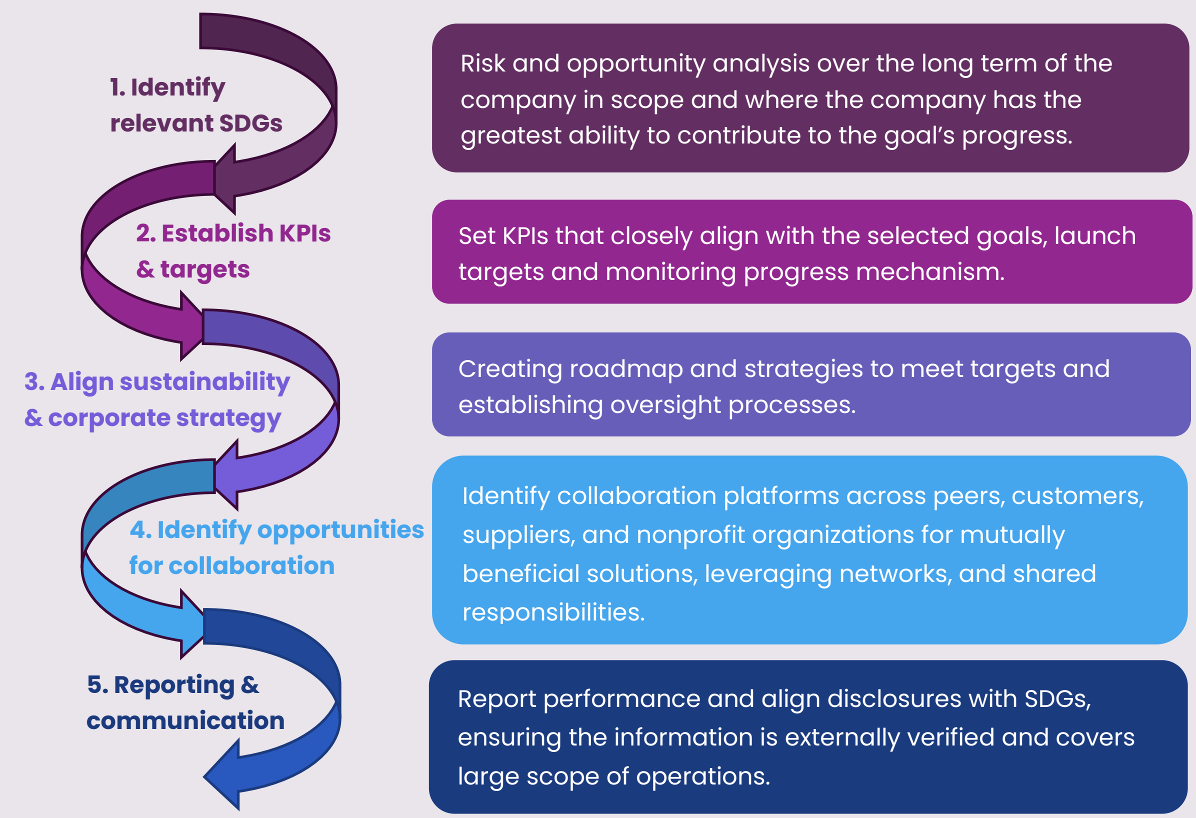
- Regarding SME Lending, banks can publish yearly impact reports highlighting the loans dispersed to the target population in regions that need significant social impact to meet Agenda 2030 and the proportion of those loans provided to total loans. Citigroup is an example of such a bank that aligns its social finance strategy with the sub-goals of the SDG and identifies target populations in underserved countries.

- For palm oil, companies must ensure that palm oil directly or indirectly (e.g., supply chain) sourced is sustainable, free from deforestation and conversion of natural ecosystems. US-based Church & Dwight Co., requires its suppliers to provide quarterly progress reports on palm oil commitments. Additionally, the company has pledged to source 100% RSPO Certified Mass Balance palm oil ingredients by the end of 2025.

- In tackling the issue of food waste, companies need to set 2030 targets reducing waste throughout their operations by at least 50%. Anything less is likely insufficient to reach the linked SDGs. Danone, a French company, has committed to reducing 50% of its food waste by 2030. The company has implemented various initiatives to reduce or eliminate food waste. In Egypt, Danone is launching a "Zero Food Waste" program, while in Europe, it has changed the product date format from 'Use By' to 'Best Before' across its yogurt ranges. In North America, Danone has collaborated with a tech company to reduce food waste.

These are just a few examples of best practices adopted by companies to identify, strategize, and disclose corporate actions in a manner that helps the SDGs. However, achieving the SDGs requires a holistic approach that considers how companies can best act on, report, and advance the SDGs most relevant to their industry. To help companies navigate this complex landscape, Evalueserve suggests a roadmap that outlines the critical steps necessary to contribute to the SDGs more effectively (see Figure 4).

Figure 4. SDG Roadmap – a path forward



In conclusion, pursuing the SDGs is analogous to approaching a crossroads and choosing the right path. It is about making thoughtful choices, taking purposeful actions, collaborating with others, and persevering through challenges. Despite the obstacles, reporting on and assessing progress towards the SDGs is essential for accountability and ensuring that the global community is on track to achieve the goals by 2030.

Evalueserve can help clients tackle the challenges of reporting on and assessing progress towards the SDGs:

- **Develop a comprehensive SDG reporting framework**: Evalueserve can help clients develop a customized SDG reporting framework that aligns with their business strategy and stakeholders' needs.
- **Collect and analyze data**: Evalueserve can help clients collect and analyze data from a variety of sources to track their progress on the SDGs.
- **Identify and assess risks and opportunities**: Evalueserve can help clients identify and assess the risks and opportunities associated with the SDGs.
- **Report on SDG progress**: Evalueserve can help clients produce clear and concise reports on their SDG progress. These reports can be used to communicate their progress to stakeholders, including investors, customers, and employees.
- **Develop SDG improvement plans**: Evalueserve can help clients develop SDG improvement plans that outline the steps they need to take to achieve their SDG goals.

Evalueserve is committed to helping clients work towards achieving the SDG goals. We believe that the SDGs are essential for creating a sustainable and equitable future for all.

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