

Fund Alignment with the U.N.'s Sustainable Development Goals

A Case Study

Provided by Global Energy Efficiency and Renewable Energy Fund in Association with the EMPEA ESG Community

Evolution Fund I

The Fund's Story

Evolution I focuses on investment across clean energy and environmental industries in South Africa. It targets primarily renewable energy generation infrastructure projects. This focus is complemented by energy efficiency and resource efficiency growth capital investments across key climate-impact sectors.

Since the establishment of Inspired Evolution (IEIM) in 2007, the founding members have aimed to deeply embed an integrated approach towards environmental, social and governance (ESG) risk management in all business operations. Inspired Evolution's integrated approach forms the foundation of all business decisions. The fund implements a detailed environmental and social management system (ESMS) to evaluate and mitigate negative or enhance positive social and environmental impacts across its investments.

The fund's ESMS is based on the International Finance Institution Working Group (IFI Working Group) development indicators. In 2012, Inspired Evolution compiled a modified and distilled category list comprising both core and optional development indicators gleaned from the IFI library. This list attempted to integrate the set of development indicators that have been adopted and used by most of the fund's investors.

The Role Played by Private Capital

As specialized investors, Inspired Evolution aims to establish a sustainable foundation that creates momentum and enables long-term value creation and, therefore, aspires to contribute to all U.N. Sustainable Development Goals (SDGs) during investment term and post-exit.

In 2016, Inspired Evolution decided to align the SDGs with the fund's existing ESMS approach, opting for a multi-criteria framework that started by defining intangible inputs (vision, mission and values), then linked those inputs to the fund's investment themes (clean energy and resource efficiency), which led into the metrics and compliance aspects, ultimately feeding into the SDGs (see chart on next page). This approach created a fine balance between responsible investment requirements and pragmatic results that benefitted all stakeholders involved.

While the SDGs have inspired many investors, implementation is not without its challenges. It is often difficult to maintain a sustainable balance between partnership and pragmatism whilst also making the right choices now to improve life for future generations. There were and are many challenges with ongoing implementation of the SDGs, but key obstacles have been ideological (e.g. diverse interpretations of the SDGs and corresponding shareholder buy-in), commercial (e.g. cost of upfront implementation versus longer-term benefits, cost to change behavior of management) and short-termism.

Through a renewed focus on global issues, Inspired Evolution has become more aware of the vital role the firm must play. Incorporation of the SDGs has also enhanced ESG performance metrics. Together, SDG and ESG performance often leads to higher financial performance with reduced long-term contingent liabilities and adds value to investments beyond the medium-term investment horizon.

Measuring Impact

Although the fund's targets and objectives were aligned with the SDGs, Inspired Evolution measured success firstly in terms of compliance with the fund's ESMS and secondly in terms of impact beyond compliance. In other words, the fund reported on the multi-

EVOLUTION FUND I



Essentials

Vintage Year: 2008

Status as of 2018: Fully invested (almost fully exited)

Geographic Focus: South Africa

Fund Type: Infrastructure (primary) and growth equity

Sector Focus: Renewable energy, energy efficiency, resource efficiency

Size: US\$90 million

GP: Inspired Evolution, an investment management business advising on clean energy infrastructure, energy and resource efficiency investments across Sub-Saharan Africa (inspiredevolution.co.za)

Number of Investments: 12

Range of Investment Size: US\$1 million to US\$13 million

Highlights

The fund's ESMS is based on the International Finance Institution Working Group (IFI Working Group) development indicators. Inspired Evolution measured success firstly in terms of compliance with the fund's ESMS and secondly in terms of impact beyond compliance.

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disciplinary compliance and monitoring metrics associated with integrated ESG management, including carbon dioxide equivalent (CO2e) emissions, environmental social impact assessment (ESIA) and taxes and government fees paid. The reason for opting for this approach was to make the impact reports more accessible to readers and to translate compliance requirements into measurable metrics. Inspired Evolution also provided select narratives to illustrate the impact of specific projects and portfolio investments that went above and beyond compliance.

Due to the scale and nature of the fund's business operations, measurements were often integrated during environmental and social impact assessment phases, followed by due diligence. Inspired Evolution preferred to focus on its shared vision with the SDGs and

report accordingly. Using a manageable suite of customized indicators that were easy to read and understand, reports were designed to be concise and were communicated via infographics.

One of the biggest challenges with SDG measurement has been the broad and fragmented nature of the SDGs and proposed measurements, which do not take a focused approach in which the foundations are built on mutual benefits and integrated outcomes. In addition, it does not make sense to duplicate work that was already done during the investment process (e.g. impact assessments and compliance ratings). Therefore, other than aligning objectives and vision, the fund has not included additional metrics and measurement of the SDGs at this juncture.



Inspired Evolution's SDG Alignment Framework

Firm inputs	Investment themes	How Inspired Evolution measures its value and impact				Sustainability contribution
		Guidelines & standards	Output & outcome indicators	Impact		
Vision Accelerating clean energy and resource efficiency for Africa's future Mission Profit Purpose Impact Values Leadership Innovation Sustainability	Clean energy infrastructure	European Investment Bank	<ul style="list-style-type: none"> Cost-effective financial management Internal rate of return Multiple on investment 	Financial	Return on investment	Impact contributing to all SDGs during investment term and post-exit
		The World Bank	<ul style="list-style-type: none"> Meawatts per hour (MWh) clean energy produced Tons of carbon dioxide equivalent emissions reduced Tons of sustainably produced product Resource savings 	Environmental		
	Resource efficiency	International Finance Corporation	<ul style="list-style-type: none"> Employment created Labor spend Training person-hours Local procurement Small and medium-sized enterprise spend Socio-economic development spend Corporate social investment spend 	Social	Impact	
		The Global Impact Investing Network	<ul style="list-style-type: none"> Local ownership Inclusion of women Policy, systems and reporting 	Governance & Transformation		

Membership in the EMPEA ESG Community is open to all individuals at EMPEA member firms who have an active interest in ESG in the emerging markets space. This Community provides a platform to share resources and advice for EMPEA members considering how to build and/or expand their ESG management strategy, as well as offers practitioners and experts a forum to advance the development of ESG best practices through information exchange, research and the aggregation and development of innovative resources.

Find out more and get involved at [EMPEA.org](https://www.empea.org)