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# RAISING THE BAR

## Rethinking the role of business in the Sustainable Development Goals

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**The 2030 Agenda for Sustainable Development gives business a significant role to play in efforts to achieve the SDGs, based on its ability to invest and innovate. However, for companies to truly contribute, they must move beyond current forms of engagement, abandon a narrow focus on the SDGs as an opportunity to increase corporate profits and embrace their wider responsibilities to the societies in which they operate. This paper explores ways in which companies can provide more meaningful contributions to governments' commitments to reach the Sustainable Development Goals.**

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# SUMMARY

Since the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development in September 2015, the Sustainable Development Goals (SDGs) have attracted greater interest from many businesses and business associations. While governments are the key actors in driving the SDGs, business is an important stakeholder on account of its resources, its ability to innovate and its scale and reach.

This paper acknowledges the important role that businesses can play in contributing to the delivery of the SDGs, while cautioning that many companies are currently approaching the SDGs too superficially, making only marginal improvements and uncritically assuming that business and sustainable development agendas will align. Businesses should recognize that their contributions to sustainable development have hitherto been ambivalent – delivering substantive increases in global wealth but also increased inequality, environmental damage and climate change. More substantial changes will be needed in business behaviour to achieve the ambitious vision of the 2030 Agenda.

This paper argues that meaningful engagement by business with the SDGs consists of three steps. First, companies should focus on those areas or goals where their business has the greatest potential impact, either positive or negative. This requires mapping and assessing impact areas to understand the full breadth of connections with the sustainable development agenda. Before any considerations to ‘do good’, businesses should ensure that their current activities do not have a negative impact on sustainable development outcomes and do not hinder the ability of others (governments, other businesses, civil society organizations) to achieve the SDGs.

Second, meaningful engagement by companies requires going beyond cherry-picking SDGs based on win-win opportunities, and instead integrating sustainable development concerns into their core operations. This requires them to look at how their impact is shaped by business functions such as sourcing, employment, tax planning and corporate strategy and to adopt a holistic approach to engagement with the SDGs. This deeper level of engagement requires businesses to raise their level of ambition, identify key areas of tension between commercial practices and the SDGs, and work to find ways to realign them.

Third, we need more transformative ways of thinking about the future role of business in sustainable development. The social, political and ecological crises we are facing require businesses to collectively challenge some of the economic paradigms that have ruled their behaviour for the past few decades and address the structural barriers that prevent more sustainable businesses from flourishing. New business models that to a greater degree align business agendas with societal aims represent another promising avenue to achieve sustainability globally, while leaving no one behind.

This paper also identifies three cross-cutting areas where more work is needed. First, the generic interest of businesses in the SDGs is yet to be matched by commitment to transparency and accountability. Existing reporting frameworks for business – due to their fragmentation and voluntary nature – give companies significant leeway in deciding what to disclose, how much and through what mechanisms. A strong SDG reporting framework with a focus on openly available, comparable data and user-friendly technology could help to create trust and accountability among different stakeholders and business.

Second, the role of private finance in helping to fill the SDG funding gap requires greater scrutiny, including an examination of types of private finance, their modalities and their potential contributions to achieving the SDGs. Similar to the elevation of the role of the private sector in delivering the SDGs, there has been significant enthusiasm for private finance as a funding source. While private sector investment is needed to deliver the SDGs, central questions of risk, accountability and impact need to be asked, as well as recognizing that private investment cannot be a substitute for public investment in key areas such as essential health and education services or social protection. The question of private finance and the SDGs is also intimately linked with discussions of what an SDG-compatible global financial system should look like, and how greater alignment between financial and social returns can be achieved.

Finally, there is a need to reaffirm the role of governments as the main drivers in achieving the SDGs. The increased focus on partnerships with business risks distracting from the fact that more, not less, governance will be required to achieve the SDGs. Governments and regulators are key in setting the norms and expectations and monitoring sustainable behaviour by business, but are often discouraged by strong opposition from corporate interests. Companies that truly wish to support the spirit of the SDGs should actively support government action in promotion of the public interest.

The paper ends with suggested steps for businesses to start making a more meaningful contribution to delivering the SDGs, in the hope of encouraging new thinking and new action.

# 1 INTRODUCTION

*'I am counting on the private sector to drive success. Now is the time to mobilise the global business community as never before. The case is clear. Realising the Sustainable Development Goals will improve the environment for doing business and building markets. Trillions of dollars in public and private funds are to be redirected towards the SDGs, creating huge opportunities for responsible companies to deliver solutions.'*

– Ban-Ki-moon, former UN Secretary-General (2007–16)<sup>1</sup>

The United Nations' Sustainable Development Goals (SDGs) offer an inspiring and inclusive vision of the future: a world free from poverty, injustice and discrimination and a healthy planet for present and future generations. Compared with their predecessors – the Millennium Development Goals (MDGs) – the SDGs lay out a more comprehensive approach in terms of their scope and the actors responsible for delivering them. Most strikingly, the SDGs assume a substantial role for business and its ability to make contributions to their achievement.<sup>2</sup>

The importance of business in the context of the SDGs represents a significant milestone in a longer-term trend that started with a global push for responsible business conduct in the 1980s and 1990s. A backlash against unsustainable business practices expanded the traditional responsibilities of companies to do no harm, and this gradually evolved to focus also on the positive contributions that businesses could and should make towards sustainable development objectives. Today, business is increasingly more than just a driver of economic development confined to creating wealth and employment and providing goods and services. Rather, its all-round presence within the SDGs represents a new development paradigm that attributes to business a more central and diverse role across all aspects of sustainability.<sup>3</sup>

The elevation of business in the context of the SDGs represents both a significant opportunity and a significant challenge: an opportunity as it brings the benefits of additional finance, technology, skills and innovation from the business sector; and a challenge in that it bestows unprecedented power and expectations on business as a development agent purposely seeking to deliver sustainable development outcomes.

Given this ambivalence, it is not surprising that there are diverging views among governments, UN institutions and civil society organizations (CSOs) as to the appropriate role of business in delivering the SDGs. While some maintain that there is no alternative to a business-centric SDG implementation model, others have raised serious concerns about the risks of 'business as usual' continuing under the reputational mantle of the SDGs.<sup>4</sup>

This paper recognizes the importance of business and its ability to shape and transform lives around the world, but it also challenges businesses to focus on achieving much greater alignment between their purpose and conduct and sustainable development. While there have been promising signs of progressive businesses and their leaders rethinking the role and purpose of business in light of pressing global challenges, the majority of the business community remains trapped in an unsustainable cycle of short-term profit motives and marginal consideration of sustainability.<sup>5</sup>

Our hope is for the SDGs to offer an opportunity to change that. However, for the ambition of the SDGs to be realized, businesses will need to engage in more than a few cosmetic changes.

We propose a three-phased approach towards more meaningful business engagement in the SDGs. The three steps for businesses are:

- Prioritize an understanding of impact;
- Align core business strategies with the SDGs;
- Work towards systemic change.

Of course, there are other areas that are vital in helping to support business alignment with the SDGs. In this paper, we discuss three such areas, including issues of transparency and accountability, broader questions on the sustainability of private finance and the role of governments in driving and regulating for the SDGs.

Before going further into the argument, two clarifying statements are in order. First, we take as our starting point the recognition that business is far from homogenous in the way it approaches its role and responsibility in sustainable development. Companies vary greatly in size, in terms of the type and scope of their impact, where their profits go, the nature of their products and services, whether they are driven by a long-term perspective and how they make decisions when profits are pitted against pro-poor outcomes. There is thus a need to develop tailored approaches to the business/SDG relationship, which lies beyond the scope of this paper.

Second, while businesses can assume a variety of roles in working towards the SDGs, this paper focuses on the contributions of companies' core functions. It is aimed at all companies that are grappling with the question of what the SDGs mean for them. It does not provide 'silver bullet' solutions to the challenge of maximizing business contributions to the SDGs, but instead aims to encourage new thinking and ideas and to add to discussions about the role and contribution of business that have already taken place within the SDG community.

## 2 UNDERSTANDING IMPACT

*'Too many companies today put resources into social development initiatives that are worthy on their face, while ignoring serious negative impacts on people in their own operations and value chains. So they end up giving with one hand while taking away – or enabling others to do so – with the other. This is not a pathway to sustainable development.'*

– John G. Ruggie, former UN Secretary-General's Special Representative on Business and Human Rights<sup>6</sup>

More and more businesses are starting to think about engaging with the SDGs, but where should they start? We believe that, too often, the SDGs are presented to and by business as a new commercial opportunity, a new marketing strategy or an avenue to access new markets. Where win-win opportunities exist, this seems innocuous. However, focusing only on areas that drive business growth and profits risks sidelining considerations of how business activities can themselves have negative impacts on development outcomes or can hinder the ability of others to achieve the SDGs. There are many potential negative impacts of business on sustainable development. Businesses can (knowingly or not) destroy natural resources, entrench or legitimize practices that keep women marginalized, replace quality jobs with precarious jobs, fuel corruption and drive a race to the bottom between governments on policies that would otherwise protect the most vulnerable people.<sup>7</sup>

There are three important steps that businesses should take when beginning their engagement with the SDGs. First, they must ensure that their activities do no harm – a principle that underpins the human rights responsibilities of businesses as embodied by the UN Guiding Principles on Business and Human Rights (UNGPs). A number of the world's major business organizations, industry groups and corporate responsibility initiatives have affirmed that respecting human rights is 'a key contribution and vehicle through which business can help achieve the broader vision of peaceful and inclusive societies embraced by the SDGs'.<sup>8</sup> This cannot be offset by investments in social development initiatives.

### Box 1: Invisible business impact

A clear example of business contributing to harm, however unwittingly, is the hidden issue of modern slavery in global supply chains. The International Labour Organization (ILO) estimates that 21 million people work as forced labourers, and that they generate an estimated \$150bn in profits for companies each year.<sup>9</sup>

The world's largest garment companies have all been linked to cotton-spinning mills in India, which routinely use the forced labour of girls.<sup>10</sup> Swiss multinational Nestlé disclosed in 2015<sup>11</sup> that an investigation it had initiated in 2014<sup>12</sup> found that impoverished migrant workers in Thailand were being sold or lured by false promises and forced to catch and process fish that ended up in Purina brand pet food. Nestlé accompanied its disclosure with a detailed action plan,<sup>13</sup> and followed up with a recent update.<sup>14</sup>

Nestlé's disclosure also received media attention, with the *Guardian* highlighting that 'virtually all US and European companies buying seafood from Thailand are exposed to the same risks of abuse in their supply chains'.<sup>15</sup> These examples show that such negative impacts may be several tiers down the supply chain from headquarters and challenging to identify and address, but solving such clear harm to human rights requires the full and immediate attention of the company. This type of harm cannot be offset by social development initiatives on which a company may choose to focus as a contribution to the SDGs.

Second, businesses should not 'cherry-pick' those SDG issues that fall within their comfort zones and most closely align with their profit aims.<sup>16</sup> This approach can provide easy credits for a company but will likely leave significant gaps and lead to minimal gains for the SDGs. Links to the SDGs that will have the most impact can be more difficult to identify and may require significant changes in business models. This may also require collaborating with others to find new solutions to key challenges.

Third, the gap between impact and action is in part why the need for greater due diligence efforts by business, particularly impact assessments, has increased in recent years. Relevant (or 'material') impacts in the context of the SDGs are not limited to topics that have a significant financial impact on companies. Rather, the SDGs require a new materiality threshold that includes a wider set of economic, environmental and social impacts and is set from the perspective of SDG stakeholders, not a company's bottom line.<sup>17</sup>

Furthermore, impacts should not only be considered when they are caused directly by business, but also when a business is contributing or linked to them through its operations, products or relationships.<sup>18</sup> This is the approach taken by the UNGPs,<sup>19</sup> but it is equally relevant for the SDGs.

This raises important challenges in assessing business impact on the SDGs. We have selected three SDGs – SDG 5 (gender equality), SDG 10 (reduced inequalities) and SDG 13 (climate action) – to illustrate how, when business impacts are too narrowly defined, engagement with the SDGs can remain superficial.

## SDG 5: GENDER EQUALITY

Gender equality concerns have in recent years been rising on the agenda. In addition to being a human right and essential for social justice, increasing gender equality offers a range of potential business benefits, including a more talented and satisfied pool of workers, more stable supply chains and greater appeal to consumers.<sup>20</sup> Apart from commercial benefits, there are also many more indirect and non-monetized aspects of equality, including how employment affects women in their daily lives and how public policy positions, the quality of jobs, the level and stability of women's control over income, and assets can affect gender norms or the situation of women in any given context.<sup>21</sup>

A thorough perspective on impacts also means placing greater emphasis on the qualitative aspects of gender equality. Even outside the workplace, companies play an enormous role in shaping women's roles and rights. For example, advertising can play either a positive or a negative role in shaping the way that women are perceived and treated in society, so gender equality interventions must go beyond the factory door to social infrastructure and supportive norms. For businesses to engage deeply in women's empowerment strategies, they must go as far as making broader investments in social infrastructure, supportive norms and related safeguards for decent work. One significant – and often neglected – business contribution to women's empowerment comes in the form of taxes that fund public care services, as women often shoulder the burden of caring for the sick when there is inadequate public healthcare.

## Box 2: Women's empowerment in cocoa supply chains

Worldwide, 143 countries now guarantee gender equality in their constitutions – a greater number than ever before.<sup>22</sup> Yet gender discrimination is still woven through legal and social norms in such a way that often businesses are not even aware of it, even though it can impact their own business.

For instance, there is expected to be a shortfall in cocoa production to meet global demand for chocolate. But as Oxfam's Behind the Brands campaign highlighted in 2013, the three largest cocoa buyers in the world – Mars, Mondelez and Nestlé – were unable at the time to demonstrate that they understood the roles played by women in their supply chains, despite them being critical in the production process.<sup>23</sup>

However, for example in cocoa production in Ghana, dramatic gender gaps exist: female farmers have levels of productivity and income 25–30 percent below those of male counterparts. This is due to having much less access than men to agricultural training (25 percent less) or credit (20 percent less), and being less able to use crucial farm inputs such as fertiliser (30–40 percent difference) according to research from Harvard.<sup>24</sup>

As Monica Aidoo Dadzie of the Kuapa Kokoo cooperative pointed out: 'If you want to empower a woman, it doesn't help unless you also support her to access resources... we need to look at women's specific needs and take away the specific barriers which women are facing.'<sup>25</sup>

In response to actions by Oxfam's supporters, the three companies have made meaningful commitments on gender equality, and Oxfam is now supporting and monitoring their progress. For instance, in 2015 Oxfam facilitated a multi-stakeholder process with the big cocoa companies and traders to identify emerging good practice in the industry in empowering women farmers.<sup>26</sup>

For the SDG on gender equality to be met, companies of all kinds need to routinely identify hidden issues like this and embed equality systemically into their operations. When women have control over their own income or family earnings, they are able to reinvest in their families, children and communities, which has a positive impact on all the SDG targets.

## SDG 10: REDUCED INEQUALITIES

Rising inequality is one of a number of growing sustainability development challenges. For decades, the benefits of economic growth have gone disproportionately to the world's richest people. Oxfam research released at the 2017 World Economic Forum in Davos shows that between 1988 and 2011 the incomes of the poorest 10 percent globally increased on average by just \$65, while the incomes of the richest one percent grew by \$11,800 – 182 times as much. The gap between rich and poor is far greater even than had been previously feared, with eight men now owning the same amount of wealth as the 3.6 billion people who make up the poorest half of humanity.<sup>27</sup> From the distribution of profits to the prevalence of corporate tax abuse and unfair labour and wage practices, business behaviour can affect inequality trends in both direct and indirect ways. However, in a 2015 report by consultancy PwC that surveyed 986 businesses across 10 sectors, inequality was not among the top five SDG priorities in any of the sectors.<sup>28</sup> For example, the financial sector, which has captured the lion's share of wealth gains since the 1980s,<sup>29</sup> did not prioritize inequality as an SDG. Such attitudes risk insulating business from one of the most pressing concerns of our time.

Corporate taxation is a case in point. To tackle inequality, governments need sufficient and continuous revenue streams, of which taxation is a major source, to fund essential public services for their poorest and most vulnerable citizens, including healthcare and education, and to pay for the public infrastructure needed to raise living standards, increase gender equality and build well-functioning and stable economies. These investments also directly benefit companies. However, despite this, corporate tax responsibility has remained a marginal topic within the SDGs and the broader corporate social responsibility field.<sup>30</sup>

# SDG 13: CLIMATE ACTION

Climate change is another defining challenge for sustainable development and, as with the issue of inequality, the business community has struggled to deal with it adequately. The COP 21 Paris Climate Conference in 2015 saw a push by the private sector for climate action,<sup>31</sup> but collective efforts remain insufficient.<sup>32</sup> This is partly due to the fact that the costs of climate change are still not fully reflected in the prices of goods and services that generate greenhouse gas emissions, and that climate impacts are not adequately assessed.

As a result, some sectors are continuing to drive the climate crisis because they do not measure, account for or suffer the impacts themselves of not tackling climate change.<sup>33</sup> Climate-related interventions are often limited to the most commercially viable rather than the most impactful options. Many companies that do set emissions reductions targets, for example, set them in line with what they consider practically or financially feasible, not with what the science requires.<sup>34</sup> On climate change, in particular, the 2030 SDG agenda not only challenges unsustainable business models but even the continuation of entire industries. However, the energy sector, which has a major carbon impact, has been seen to prioritize the goal of energy access (SDG 7),<sup>35</sup> risking repurposing the same dirty energy sources, while neglecting the higher-impact goal of tackling climate change (SDG 13).<sup>36</sup>

These three examples – gender inequality, inequality, and climate change – help to illustrate the complexities of business' impact on the SDGs and highlight why deeper engagement is required. It does not imply that all businesses should engage on all 17 SDGs simultaneously. Any company engaging with the SDGs will have to focus and prioritize due to limited resources and to avoid diluting its impact. However, there is an important difference between meaningful prioritization based on understanding broader impact vs cherry-picking targets without considering what actions will make the biggest contribution to sustainable development.

Further, businesses should pay attention to the interlinkages between the different SDGs and the holistic and interconnected nature of the sustainable development agenda. For example, action by businesses on climate change (e.g. expanding renewable energy inputs through land acquisitions) might have adverse consequences on land access and conflict. Conversely, reaching goals like gender equality will have a positive impact on other goals too. While prioritization is both necessary and inevitable, applying an overly narrow focus can result in companies missing potential synergies and in unintended negative consequences.



### Box 3: Getting to grips with impacts

Determining the positive and negative impacts of any business and its operations on people and planet can be challenging, but it is essential for any business considering its contribution to the SDGs. Fortunately, there is an increasing array of tools, methodologies and partners available to support companies to assess impact and conduct due diligence. There are also increasing opportunities for peer collaboration on issues affecting whole sectors or value chains, which can help share the burden of analysis, particularly for smaller companies.

The SDG Compass, a partnership between the Global Reporting Initiative (GRI), UN Global Compact and the World Business Council for Sustainable Development (WBSCD), provides a compendium of tools that companies can use to understand the impact their operations are having.<sup>37</sup> This useful resource covers the full breadth of the SDGs and, used correctly, can help companies to identify challenges across their supply chains, as well as opportunities to do things differently and to innovate.

A key step to assessing business impacts in the context of the SDGs is committing to and assessing baseline responsibilities under the business and human rights framework, particularly the UNGPs. This is part of the due diligence required of businesses but also supports achieving the SDGs, as human rights are linked to 92 percent of the SDG targets and the two are therefore mutually reinforcing.<sup>38</sup>

While translating the UNGPs into practice is becoming easier thanks to the growing amount of practical guidance available,<sup>39</sup> Oxfam has found that many human rights impact assessments (HRIAs) are based on limited methodologies and are focused predominantly on the company's perspective, assessing risks for the business rather than for people. A fundamental element of HRIAs is engagement with potentially affected stakeholders, for which Oxfam has promoted a specific tool, the community-based HRIA, known as *Getting it Right*.<sup>40</sup>

# 3 INTEGRATING SUSTAINABLE DEVELOPMENT INTO CORE BUSINESS STRATEGIES

*'[Sustainable business] is a movement that's still gathering momentum and authority. There's also a realm of difference [between] those who are trying to make sustainability part of their core business strategy and those who still see it as an "add-on".'*

– Mark Malloch-Brown, chairman of the Business and Sustainable Development Commission

Despite the importance of considering impacts when deciding on which SDGs to prioritize, this approach has to date been the exception and not the rule in business behaviour. As the SDG process has moved from adoption to implementation, arguments in favour of the involvement of business have centred mostly on there being a strong 'business case' for engagement. The business case approach presents the SDGs as opportunities for businesses to achieve greater commercial success. It is reflected in public declarations by the global business community, as highlighted by the World Business Council for Sustainable Development:<sup>41</sup>

*'Pursuing sustainable development makes firms more competitive, more resilient and nimble in a fast-changing world and more likely to win and retain customers. It can also help them find and keep some of the best brains on the market. In addition, it can make them more attractive to investors and insurers, while reducing their exposure to regulatory and other liabilities.'*

Indeed, business has shown itself to be creative in identifying win-win situations where commercial objectives align with better social and environmental outcomes. The recent flagship report from the Business and Sustainable Development Commission describes how business can reduce sourcing risks by creating longer-term, more sustainable supply chains, make efficiency gains through employing new, climate-friendly technologies, as well as adapt products to reach new customers – many companies have started to find and create synergies between commercial success and the social and environmental impacts of their activities.<sup>42</sup>

Beyond immediate commercial incentives, there is also growing recognition that the interests of businesses and societies are intertwined in the long run. This interdependence means that companies cannot operate successfully over the long term in societies where basic rights are violated and where there are high levels of inequality, social conflict and environmental degradation.<sup>43</sup>

Publications offering guidance to business on engagement with the SDGs highlight a range of benefits:<sup>44</sup>

- Opportunities for businesses to grow in new markets;
- Enhanced value and return on investment of corporate sustainability through partnerships;
- Strengthening stakeholder relations;
- Keeping pace with policy developments and priorities and strengthening government relations;
- Reducing risks in the operating environment;
- Stabilizing societies and markets through progress on the SDGs;
- Enhancing business's licence to operate and strengthening social reputation and trust;
- Attracting and retaining employees.

However, we argue that a 'business case' approach that sees the SDGs primarily as a commercial opportunity brings with it important limitations.

First, it is difficult to argue that there is a universal business case to engage in the SDGs.<sup>45</sup> For any company, there are a number of key areas where its profit motives and social and environmental concerns are aligned (e.g. eco-efficiency) or areas that can benefit from responsible and sustainable conduct (e.g. brand reputation). However, there are other areas where profit motives and sustainable development objectives collide. In some instances, a company's business model may be diametrically opposed to aspects of sustainable development (e.g. the fossil fuel sector and climate change). Or there may be short-term costs associated with more sustainable business practices – for example, the direct financial impacts on the bottom line of higher corporate taxes or of paying a living wage. If a company's efforts are focused on the short term, and limited to finding the 'optimal congruence' of private sector SDG interests,<sup>46</sup> then outcomes may only be modest.

Second, a narrow business case approach has limited reach and depth in terms of changing commercial practices. Since a business case approach takes a company's existing strategies as a starting point in looking for commercial linkages with the SDGs, it is unlikely to consider issues that are either difficult to measure, fall outside of that realm, are only achieved collectively or are more indirectly linked. In the case of inequality, a pure business case approach will not address problematic tax practices because tax is generally treated as a cost to be minimized. In the case of climate change, such an approach fails to account for the long-term costs of failing to address climate issues, since those generating profits while driving climate change do not bear the costs. In the case of gender equality, a business case approach is likely to focus on easy fixes at the company level without considering the firm's effect on women's lives.

Third, we should ask who is involved in calculating the business case. A clear limitation to the business case approach is that poor and marginalized people, though impacted by business activities, are not taken into consideration. It can pay off for a business to respond to its most powerful stakeholders but not to others, and rarely to the world's poorest and most marginalized women and men.<sup>47</sup> Addressing the needs of broader society and more indirect impacts is less likely to be a consideration for powerful stakeholders and will thus fail to make it into a business case for action by individual companies.<sup>48</sup>

Even companies actively engaged and widely viewed as leaders on sustainability issues, such as Unilever, encounter such tensions. Unilever gave Oxfam access to its staff, manufacturing operations and suppliers so that it could understand how the company manages labour rights on the ground, using Vietnam as a case study. The study was described by Unilever's Global VP for Social Impact as 'a perfect example of a human rights impact assessment',<sup>49</sup> and it recognized the substantial progress made by the company while helping it to innovate to drive social sustainability. Responding to the findings,<sup>50</sup> Unilever undertook a range of actions, including improving levels of direct (rather than contract) employment and wages and changing its supplier compliance code to a new Responsible Sourcing Policy, in which it has invested heavily to engage suppliers on its expectations. Despite these efforts, however, only a quarter of key suppliers accepted that improving labour standards had benefits for their own company. Eighty percent of suppliers believed that improving standards would incur higher costs, and 45 percent said that overtime could not be avoided due to fluctuations in orders from customers, including Unilever. This example highlights that it takes time, investment and perseverance to achieve systemic change and that even determined sustainability efforts have the potential to conflict with – or be undermined by – commercial imperatives.

The limitations of a business case approach to the SDGs help to explain in part why there continues to be a lack of meaningful business action,<sup>51</sup> a focus on 'sunshine stories',<sup>52</sup> and neglect of some of society's most pressing challenges, such as inequality, in the context of the SDGs.<sup>53</sup> The business case approach limits the range of issue areas and sectors in which the private sector is likely to add positive value to the SDG agenda.

This can ultimately represent a liability for business if its SDG agenda is primarily self-serving. It is unlikely that business case approaches will reverse the widespread erosion of public trust in the role of business around the world.<sup>54</sup> Taking a deeper approach to the SDGs, one that considers priorities from a sustainable development perspective rather than a purely business perspective, can potentially help to rebuild trust with many business stakeholders and thus strengthen companies' social licence to operate.

# TOWARDS GREATER ALIGNMENT BETWEEN CORE BUSINESS AND THE SDGS

If business is to deliver on the SDGs, companies have to broaden and deepen their engagement and start placing greater emphasis on a fundamental alignment between their core business practices and sustainable development. This is not wishful thinking. In fact, there have been encouraging signs among some of the world's business leaders of deepening ambition around the SDGs.<sup>55</sup> Some companies have also acknowledged the inherent limitations of a business case approach. In a 2014 study on company-community conflicts in the extractive sector, respondents stressed the need to avoid taking a classic 'cost-benefit' approach to managing community relations and to tie cost-benefit calculations to values, and not only risks.<sup>56</sup>

How can companies shift from using a narrow business case approach to aligning their core activities with broader societal values and interests? There are at least three pathways to create the conditions for a deeper business approach to the SDGs to evolve:

- **Increase ambitions** around the level of change that is needed by businesses to achieve the SDGs. This speaks to the business and SDG community, which should promote new narratives and a new mindset of what meaningful engagement in the SDGs should look like, supporting thought leaders and disruptive innovators and highlighting the feasibility of adopting sustainable business strategies.
- **Strengthen external conditions for a more ambitious business engagement with the SDGs.** Businesses' cost and benefit calculations for engaging in the SDGs (and how) are shaped by the collective rules, norms and expectations of the external environment (at both national and global levels). Governments, investors and civil society should work together to guide greater alignment between business strategies and sustainable development. By setting agendas and binding rules (governments), rewarding more meaningful SDG engagement (investors) and exposing irresponsible behaviour (civil society), more companies can be brought into the SDGs and the competitive disadvantages that can result from unilateral SDG action can be reduced.
- **Broaden the base of relevant stakeholders and issues.** Women and men living in poverty and marginalized stakeholders affected by business operations rarely have the power to influence the business case calculations of companies. Societal considerations also rarely appear in such calculations. Strengthening transparency and accountability mechanisms that help to raise the importance of affected stakeholders vis-à-vis companies directly but also in the eyes of investors, consumers and governments represents an important step in broadening the basis for business calculations while aligning with the ambition of the SDGs to 'leave no one behind'.

#### **Box 4: Tackling inequality: how business can help**

Goal 10 of the SDGs states as its objective the reduction of inequality within and among countries. This in many ways embodies the SDGs' motto of 'leaving no one behind'. However, it has often been ignored so far as it ranks low on businesses' SDG priority lists.<sup>57</sup> Despite the intricate role it plays in shaping inequality trends (e.g. through its tax or wage strategies), the private sector for the most part considers inequality a social problem – not a problem relevant for business and its most powerful stakeholders (i.e. shareholders). This means that companies are ignoring the challenges posed by severely unequal societies, including their ability to tap into a broad consumer base, find an educated workforce and operate within a peaceful environment.<sup>58</sup>

Tackling inequality requires addressing the level and distribution of profits. We cannot ignore the negative impacts of unbridled wealth generation with regards to the social and environmental costs it causes, the corrupting effect it has on public and private sector officials and the moral implications of a company's stakeholders living in poverty. While companies have to be profitable, there is an important distinction between profitability and profit maximization at the expense of their many stakeholders (workers, governments, communities).

##### **Addressing inequality requires businesses to:**

- Consider their broader (and indirect) societal impacts on inequality and take a long-term perspective on the relationship between business and society's interests.
- Assess inequality impacts across business functions, including remuneration, profit distribution, product impact, tax practices and supply chains.
- Reform business models (including corporate strategy, governance and ownership) towards more equitable profit distribution.
- Pay proper taxes, disclose payments and advocate publicly for tax regimes that reduce inequality. Oxfam and its allies have outlined a proposal on how companies can begin to engage positively on tax issues in a report, *Getting to Good: Towards Responsible Corporate Tax Behaviour*.<sup>59</sup>
- Support governments in creating a regulatory environment that sets rules for businesses to operate in line with inequality-reducing objectives (e.g. disclosure requirements, tax laws).

# 4 TOWARDS SYSTEMIC CHANGE

*'I am utterly convinced that the future depends on our ability to explore and invent new business models and new types of businesses.'*

– Franck Riboud, former CEO of Groupe Danone

The SDGs pose a challenge to 'business as usual' that goes beyond the remit of individual companies. The ambitious vision of the 2030 Agenda for Sustainable Development requires a global economic model that works in the service of sustainable development. The SDGs not only challenge unsustainable business models but even the existence of entire industries.<sup>60</sup> They present a more radical agenda than most business leaders realize,<sup>61</sup> as they require new ideas for how the global economy can work for everyone – not only the privileged few. The ambition of the SDGs means that all actors (civil society, businesses, governments, etc.) need to work together towards a more human economy, in which people are valued equally and where businesses show as much concern for workers, communities and the planet as they do for their shareholders and board members.

At the heart of a human economy lies the need for new business models. Within the existing economic paradigm, many mainstream businesses are constrained by the pressure of creating short-term value for shareholders. They face significant limitations in their ability to consider their societal impacts, as too often enlightened self-interest crumbles when sustainability must compete with commercial practice. Investing in sustainable development is hard to justify within an economic system that rewards the maximization of short-term profit and discourages long-term investment and growth.<sup>62</sup>

As many businesses are constrained by the need to maximize shareholder value, there can be no real step change in their positive contributions to society without a change in the way that the overall purpose of business is defined. Business structures (e.g. the legal form, governance and ownership of companies) can play a critical role in determining the trade-off between a focus on profit maximization and sustainable development objectives. They determine stakeholders' power over key decisions and how to resolve trade-offs between stakeholder interests. Business governance and ownership also determine (and flow from) the mission of the business and are key when a balance needs to be struck between profit maximization, the timescale for those profits, and social and environmental goals.

A growing number of initiatives are experimenting with alternative business models. These initiatives are challenging how business is structured to benefit various stakeholders, addressing questions around the purpose and the governance structures of corporations (e.g. fiduciary duties of corporate boards of directors and managers, metrics for investor decision making and new accountability mechanisms),<sup>63</sup> and experimenting with alternative models (e.g. social enterprises, employee-owned companies, producer-owned cooperatives), channelling investment to them and creating a supportive legislative environment.<sup>64</sup>

Legal advocacy efforts to promote 'benefit corporations' (a type of for-profit corporate entity that includes positive impacts on society, workers, the community and the environment in addition to profit as its legally defined goals) in the US<sup>65</sup> and increasingly across the world<sup>66</sup> provide another example of the growing diversity of organizational models that try to better marry commercial and social purposes. While many of these efforts are in their infancy and there are few systematic analyses of their impacts, they point towards the development of a new economic paradigm.

Similarly, there is growing attention to the need to remove structural barriers that prevent businesses from thinking and acting more sustainably. One example is the growing number of voices that recommend adopting a longer-term view by scrapping quarterly reporting by companies to 'reduce the pressures for short-term decision making that arise from excessively frequent reporting of financial and investment performance'.<sup>67</sup> A number of Wall Street CEOs have started to echo the call to look past quarterly earnings in order to encourage more long-term thinking.<sup>68</sup>

These examples are a hopeful sign that fundamental changes are starting to happen. Yet they need to happen at much greater scale and speed if we want to meet the SDGs by 2030. Business can play a leadership role by taking bold steps that break with some of the structures and practices that limit companies' ability to deliver on the SDGs and by encouraging and enabling governments to take the right steps that would enable this type of change. In the end, sustainable development is about making business more sustainable at its core.

Since national economies are inextricably linked now as never before and policies in one jurisdiction influence policies elsewhere, we need a concerted global effort to redefine what sustainable economic progress and sustainable business look like and to set the rules and policies (e.g. around tax and labour rights) that will enable these changes to happen. To achieve results at scale, governments must play a key role in setting the agenda and changing the rules to allow the transformation of business models to ones that share wealth more broadly and benefit all stakeholders in society. Some countries are already setting out new laws that support the growth of social enterprises (e.g. South Korea,<sup>69</sup> Singapore,<sup>70</sup> Vietnam,<sup>71</sup> Thailand<sup>72</sup> and the UK<sup>73</sup>). It is critical that such measures are expanded globally.

There is also a need to develop and refine how to measure the progress of societies beyond economic metrics such as gross domestic product (GDP) and, similarly, to measure business success beyond profits made. New ideas and tools for measuring quality of life and well-being are emerging,<sup>74</sup> and these should be built upon in the SDG monitoring and review process. Second, there is a clear need to analyse the many formal and informal characteristics that drive the social and environmental performance of businesses, as well as to gain a deeper understanding of the factors that enable them to 'do good' even when it hits their bottom line.

#### **Box 5: Diverse business models in service of the SDGs**

The 'private sector' is not a uniform set of organizations. Changing business models seems a daunting task, but the global economy encompasses a constantly shifting mix of publicly listed companies, cooperatives, family-owned businesses, state-owned enterprises, social businesses, foundation-owned models, community-owned enterprises, social enterprises and employee-owned companies. This diversity is a rich starting point for exploring how alternative business models can be adopted.

Examples to learn from and build on abound. Take the rich array of profit sharing and shared ownership models, which include alternative trading organizations such as Cafédirect, of which Oxfam is a founding partner. Cafédirect, one of the largest UK coffee and tea brands, follows a business model that channels profits back to farmers and includes them on its governance board. Mondragon is a Spanish company owned by its employees which shares its profits among thousands of members. Amul, owned by the Gujarat Cooperative Milk Marketing Federation, is one of the largest milk brands in India and the 13th largest dairy organization in the world.<sup>75</sup> It combines a successful commercial brand with a farmer-owned business model that has an annual turnover of \$5bn, with profits shared among 3.6 million farmers.

Alternative ways of doing business can also be gradually introduced in companies that are moving their business models in a more sustainable direction. Often these changes are spearheaded by forward-looking leadership.<sup>76</sup> For example, US company Chobani, which holds more than 10 percent of the US yoghurt market,<sup>77</sup> has decided to transfer ownership to its employees.<sup>78</sup>

None of these alternative ways of doing business is perfect and none is a silver bullet to sustainable development challenges. But they demonstrate that there are viable alternatives to 'business as usual' that are better suited to serving the needs of all stakeholders and that might help to align business and sustainability concerns. The key is to create the space for these and other models to emerge, cross-fertilize one another and flourish.

# 5 MEETING EXPECTATIONS THROUGH ACCOUNTABILITY

*'[C]ompanies' social development initiatives cannot substitute for measures to address the negative human rights impacts their operations and relationships may have.'*

– John Ruggie, former UN Secretary-General's Special Representative on Business and Human Rights<sup>79</sup>

*'Respect for people's human rights is not just part of a social development agenda. It is its essential bedrock.'*

– Shift<sup>80</sup>

With growing expectations come growing responsibility and subsequently the need for accountability. While there has been quite a lot of interest<sup>81</sup> and support from business leaders wanting to contribute to achieving the SDGs, this interest is yet to be matched with commitment on their accountability to stakeholders. The increased pressure on business to contribute to the SDGs means that diverse stakeholder groups, such as communities, workers, customers, civil society, investors and governments, have a diverse set of expectations. Managing and addressing these expectations effectively will require an accountability framework that ensures that they are being met.

The need for accountability is a cross-cutting requirement for businesses to engage with the SDGs. The UNGPs represent a logical starting point for thinking about how business accountability could be assessed, by whom, and based on what areas. The focus on respecting human rights as the guiding criteria for engagement can not only minimize the risks of potential negative business impacts, but also help to harness positive business contributions.

Increasing data availability and access will play a key part in meeting the SDG accountability challenge. The High-Level Panel on the Post-2015 Agenda has made a call to action for a new data revolution for stronger monitoring and evaluation and to help guide decision making around the SDGs.<sup>82</sup> The Global Partnership for Sustainable Development Data, which has been set up on the panel's recommendation,<sup>83</sup> has the potential to be an important tool to strengthen business transparency and accountability.

It is a hopeful sign that businesses are making transparency and disclosure commitments. However, they still have a long way to go and relevant data is of low quality or remains unavailable. For instance, regulation requires the top 100 companies listed on Indian stock exchanges to publish environmental, social and governance (ESG) data which has improved the quantity of disclosed data. However, its utility has been minimal (for example, of the 81 companies that reported having a policy in place, only 16 had functional web links to it<sup>84</sup>). Similarly, although about 12,000 companies globally report on frameworks such as the Carbon Disclosure Project (CDP) or the Global Reporting Initiative (GRI), many fall short of investors' expectations and needs, such as those of Aviva.<sup>85</sup>

For businesses to deliver on the SDGs in an accountable manner, integrated and jointly owned monitoring and review systems need to be in place. The three-pillar approach of the UNGPs, which emphasizes the distinct responsibilities of states and businesses to protect, respect and provide access to remedy for human rights violations, is the most widely endorsed framework for private sector accountability.<sup>86</sup> Guidance is also available through other reporting frameworks, some of which are recalibrating themselves to align with the SDGs. For example, the GRI is mobilizing businesses to align their sustainable reporting with the SDGs.<sup>87</sup> Other signs of progress on accountability include the indicators being developed by the Inter-Agency Expert Group on the SDGs (although these are focused on governments),<sup>88</sup> the Human Rights Guide to the SDGs by the Danish Institute for Human Rights<sup>89</sup> and the SDG Compass developed by GRI, the UN Global Compact and the WBCSD.<sup>90</sup>

However, the current fragmentation and voluntary nature of these frameworks gives businesses significant leeway on what to disclose, how much and through what mechanisms. Unilateral transparency and



disclosure can also create competitive disadvantages for individual companies. Reporting frameworks give companies the option to choose which issues are relevant or material for them to include in their disclosure reports.<sup>91</sup> A materiality threshold that allows companies to choose which issues are important for them and which are not makes it easier for them to stay in their comfort zones when reporting on their SDG contributions. Similarly, large companies with global value chains can conveniently choose a threshold that makes any human rights abuses immaterial for reporting.<sup>92</sup>

Governments have a crucial role in establishing the baseline for the issues to be reported by companies. In the USA, the 2009 Dodd-Frank Act requires companies to publicly report on due diligence in their mineral supply chains.<sup>93</sup> More recently, in the UK the Modern Slavery Act requires companies to report on action taken to ensure that neither slavery nor human trafficking exist in any part of their business operations or supply chains.<sup>94</sup> In France, at the time of writing, legislation had been drafted that would require companies to implement due diligence plans to identify risks to human rights and the environment (including of their subsidiaries and suppliers).<sup>95</sup> These types of disclosure and accountability requirements will help to inform evidence-based decision making around the practices and impacts of businesses.

Another requirement concerns the usability of business accountability data. Data buried in flashy corporate sustainability reports is of limited use. Only when data is made openly available will it fulfil its true potential. Business leaders and industry associations should support an open data approach and find ways to overcome the hurdles of data sharing posed by proprietary and trade secrets. Without active and timely support from the business community, greater accountability on the SDGs will remain a commitment on paper only. It is important to note that transparency is not an end in itself, but should be judged by its ability to help improve accountability and limit harm.

Businesses have to play their part in helping to ensure the availability of timely, comparable and open data on their SDG performance; this will be the tipping point for a data revolution as it will empower different stakeholder groups to use the data and make it meaningful, making the leap from transparency to accountability. Civil society actors can use the metrics to analyse data, flag existing or potential risks for the communities they represent and together with communities propose solutions. Investors can make informed decisions around their resource allocations by placing greater weight on sustainability data (and not only financial data). Donors can better select development partners and intensify their support for slower-moving goals. Governments can use the data to reward or sanction business performance and take corrective action on the SDG process. By making data transparent, accessible and comparable, the power centre shifts from the few who are in control of business to the many who are affected by it.

## Box 6: Civil society and business accountability

Civil society plays many roles in ensuring that business has a positive footprint in society; a crucial one is ensuring businesses' accountability to the SDGs. The contributions of community groups, national organizations and global NGOs go beyond monitoring and exposing business practices to include the creation of spaces for citizen participation at the national and sub-national levels, the elevation of local voices to global centres of decision making and the analysis of existing data to flag potential risks before harm occurs. Regarding the SDGs, an important accountability mechanism for civil society will be the follow-up and review process, to which businesses will also have to contribute.

Indices and scorecards represent a potentially powerful mechanism for monitoring progress and holding companies accountable. Examples of these tools include the Corporate Human Rights Benchmark,<sup>96</sup> the Know the Chain benchmark<sup>97</sup> and Oxfam's Behind the Brands scorecard.<sup>98</sup> The comparative nature of indices and scorecards allows a floor to be set on acceptable behaviour across a peer group and raises the bar on best practices, as high-performing companies can easily be distinguished. CSOs, as designers and users of indices and scorecards, can influence change by:

1. Holding companies accountable by highlighting gaps and campaigning against lack of transparency or inaction;
2. Working with companies to ensure they make changes that signify real progress;
3. Advocating to governments for stricter regulations and mechanisms to hold companies accountable and prompt systemic change.

# 6 PRIVATE FINANCE TO FILL THE SDG FUNDING GAP

*'Finance for Development (FfD) is not a fundraising event. It focuses on systemic issues such as illicit financial flows, sovereign debt crisis, private financial flows, trade, investment and global governance. Improving these would greatly contribute to the eradication of poverty and to financing sustainable development.'*

– Tove Maria Ryding and María José Romero, Tax Justice Network<sup>99</sup>

Similar to the elevation of the role of the private sector in delivering the SDGs, there has been significant enthusiasm for private finance as a funding source. According to the governments that gathered at the Third International Conference on Financing for Development (FfD3) in July 2015, the private sector could help to close the SDG investment gap, which is estimated at between \$1.9 trillion and \$3.1 trillion per year<sup>100</sup> over the proposed delivery period.<sup>101</sup> While the SDG financing framework still recognizes the importance of official development assistance (ODA) for low-income countries, it also places greater emphasis on all sources of finance, including private sources, both domestic and international.

The elevation of private sources to finance the SDGs is not surprising, considering that private capital has accounted for over 80 percent of long-term flows to developing countries since 2000.<sup>102</sup> It is the dominant source of external capital for middle-income countries, and even in 30 percent of low-income countries foreign direct investment (FDI) is larger than ODA.<sup>103</sup> As a result, private finance actors including banks, pension funds and other institutional investors have become key SDG stakeholders, as governments call on them to align their financial agendas with social and environmental goals.

While the need for private finance in service of the SDGs is undeniable, the question is what role it should play (e.g. vis-à-vis public finance) and how it should be governed. To date, these questions have taken a back seat to efforts to mobilize private investment in the SDGs. Yet we argue that these two questions cannot be separated and that both quantity and quality aspects of private finance need to be part of the SDG agenda. Issues that stand out include the difference between public and private finance, the challenge of aligning social and commercial returns, the growth of blended finance, accountability and transparency challenges and the need for structural reforms of the global financial system.

First, we need to clearly distinguish between the functions of private and public investment in the context of the SDGs. Private finance serves a different purpose from that of domestic public finance or international public finance flows, such as ODA. Private investment, done right, can contribute to the SDGs by creating jobs, providing tax income, building infrastructure and promoting inclusive growth.<sup>104</sup> However, core government competencies like the provision of social protection, health and education should not be funded by private capital that seeks financial returns. Similarly, private investment does not generally constitute a reliable source for those countries most in need of external financing, as most private investment is directed to middle-income countries. Mobilizing private investment should thus be selective and not a substitute for public investment in the SDGs, and the democratic ownership of countries over their development plans needs to be safeguarded.

Private investment also faces similar challenges of misalignment between incentives for engaging with the SDGs and expected outcomes. Its potential role and impact as an SDG funding source is equally limited due to the common trade-off between maximizing the social and financial returns of private investment vehicles. Private financial institutions that are characterized by corporate structures and commercial incentives are not designed to maximize social impact, partly because negative impacts are not adequately understood or valued and tend to be externalized. Even the impact investing field, which has made significant efforts in trying to marry social and financial objectives, has struggled to balance achieving social impact and market rate returns.<sup>105</sup>

Despite these challenges, private investment has made significant inroads as a source of development finance. Aid donors are increasingly aiming to help private finance invest in developing countries when purely commercial motives would have precluded this – and to use ODA to remove investment barriers. However, these ‘blended finance’ mechanisms should only use scarce aid resources if they can ensure that they achieve financial and development outcomes that would not have occurred without the aid investment. This is commonly called ‘additionality’, and it remains a challenge for governments when they aim to leverage or mobilize private investment. A study by the UK Aid Network (UKAN) of 19 available evaluations of ‘leveraged’ projects using ODA found very little evidence of either financial or developmental additionality. It also found that few evaluations had been carried out of such projects, and that there was no common or robust approach to measuring additionality.<sup>106</sup> This makes an evidence-based policy dialogue around the role of blended finance in the context of the SDGs a difficult endeavour.

There is also a broader obstacle of applying the same development effectiveness principles and safeguards that have been established for public aid flows to private or blended finance.<sup>107</sup> Transparency, accountability and the right of redress for affected communities are key challenges when it comes to private finance. While there has been significant progress in scaling up the responsible investment field (over 1,300 investors managing around \$60 trillion have committed to the UN Principles for Responsible Investment (PRI)), the field remains diverse, with individuals, institutions, investment companies and financial institutions displaying varying degrees of prioritization of financial and social impact and addressing the positive versus the negative contributions of their investments.

Under the SDG framework, transparency of private finance should receive a much-needed boost. The listing and disclosure requirements of stock exchanges will continue to be important mechanisms for driving transparency on ESG issues. Of the 82 stock exchanges, which are part of the UN-supported Sustainable Stock Exchanges (SSE) initiative, 12 have already incorporated ESG listing rules. Similarly, efforts by institutions like the UN Environment Programme Finance Initiative (UNEP FI) and PRI<sup>108</sup> on the fiduciary duty of investment regulators and stewardship codes for stock market regulators, while still voluntary, strengthen the mandate for ESG alignment of investments. There also is a strong need to align the banking sector, which is crucial for domestic lending to the private sector, with the SDGs, as it currently has little guidance from leading central banks, institutions or frameworks, such as the Bank for International Settlements (BIS) or the Equator Principles.

#### **Box 7: Fiduciary duties of investors**

In 2005, UNEP FI<sup>109</sup> laid out a useful framework on the fiduciary duties of investors on ESG issues. Since then, UNEP FI, PRI and Global Compact have continued to strengthen the narrative around the fiduciary duties of investors. These are defined as duties to ensure that those who manage other people’s money act in the interests of beneficiaries, rather than serving their own interests.<sup>110</sup> Loyalty and prudence are considered to be the most important of these duties.

The responsible investment landscape has undergone substantial changes since 2005 as ESG disclosure requirements have become more common. Stock exchanges in Australia, South Africa and India are among the 12 exchanges that now have ESG disclosure requirements. Despite this progress, investors continue to face the challenge of delivering financial returns to beneficiaries while ensuring that their investments are responsible. One of the key challenges is limited knowledge of the relationship between ESG and financial performance, due to a general lack of transparency on investors’ performance and outcomes, the low quality of ESG reporting and the incomparability of data. Weaknesses in enforcing legislation also remain an overarching concern.

The SDGs have also started to make inroads in this field. A recent report on 52 institutional investors, based in every region of the world and with over £4 trillion of assets under management, showed that 95 percent of respondents planned to engage with investee companies on issues covered by the SDGs; 84 percent intended to allocate capital to investments supporting the SDGs; while 89 percent claimed that they would support regulatory reforms that promote the SDGs.<sup>111</sup> Much of this change has come as a result of increased regulatory pressure, improved awareness of ESG risks and increasing demands from civil society groups.<sup>112</sup>

Finally, questions around SDG financing should not be addressed in isolation, but should be embedded within a broader discussion about what a global financial system that serves sustainable development should look like. The 2008 financial crisis highlighted (once again) the volatility of the global financial system and the risks of the growing size and influence of the financial sector in the global economy. This includes the proliferation of private loan and investment tools that aim to create value from transactions and speculation often unrelated to output, value creation or productivity in the real economy. It has also led to the exponential growth of the global financial market, with the cumulative size of global financial assets reaching \$156 trillion, which is many times the size of global GDP.<sup>113</sup>

The financial inequities that result from the accumulation and concentration of financial wealth stand in clear conflict with the ambition and spirit of the SDGs. This conflict is worsened by the fact that developing countries continue to be net losers from participating in the global financial system. Illicit financial flows are estimated to amount to \$1 trillion annually, and the tax revenue lost by developing countries to \$170 billion.<sup>114</sup> As they continue to lose huge sums to capital flight, corporate tax abuse and illicit financial flows move to the forefront as key problems to be addressed. Furthermore, many investments, even when supported by development institutions like the World Bank's International Finance Corporation, continue to be made in commercial banks and financial institutions that are linked to private sector projects involving human rights and environmental abuses.<sup>115</sup> The lack of accountability and control over the impact of investments is having devastating impacts on many poor communities and on the environment.

These caveats highlight the fact that a blanket reliance on private finance to fill the SDG funding gap is a risky approach, and that a more nuanced consideration is needed of the type of private finance, its modalities and its potential contributions. While we need to utilize private sector investment for the SDGs, there is a need to first address central questions of risk, accountability and impact.

# 7 GOVERNMENTS AND BUSINESS

*'While the SDGs are not legally binding, governments are expected to take ownership and establish national frameworks for the achievement of the 17 Goals. Countries have the primary responsibility for follow-up and review of the progress made in implementing the Goals.'*

– United Nations, Sustainable Development Agenda document<sup>116</sup>

As the adopters of the SDGs, governments are responsible for taking the lead in collectively tackling the world's most pressing sustainable development challenges. At the same time, the range of possible contributions by business across SDG areas (infrastructure, telecommunications, health, labour issues, water, education, food sustainability and security, access to finance, human rights and security) shows that public and private roles and responsibilities are increasingly becoming intertwined. This allows for significant access and influence of business over political decisions relevant to the SDGs and creates a renewed need to discuss the challenges and potential ways forward around these new public-private interfaces.

The most basic role that business should play in the context of the SDGs is to not obstruct the ability of governments to govern. For some SDG issues involving business, the most feasible solutions are simply better regulation and restraint on pursuing profit through public policy. Similarly, many of the governance functions related to the SDGs can best be carried out by accountable governments (e.g. the protection of the most vulnerable members of society, enforcement of the rule of law and the provision of public goods and services). Governments are also generally best positioned to coordinate SDG efforts at the national level since most SDG areas are cross-sectoral and involve multiple stakeholders, requiring a collective effort rather than company-based initiatives.

However, the growing political role and influence of business represents a direct challenge to the SDGs. Research has shown that corporations – many of them in the resource extraction, technology, chemical and pharmaceutical, and food and beverages sectors – have been involved in multiple UN processes related to the post-2015 agenda, creating a significant channel for influence.<sup>117</sup> All too often, businesses' lobbying efforts have limited the ability of governments to govern in the service of sustainable development by fuelling a belief that attracting investment and trade requires keeping the cost of doing business as low as possible and the business environment as unregulated as possible. Therefore, extreme caution is required to ensure that the SDGs do not further accelerate the race to the bottom on public governance in the name of attracting business support and investment.

Raising the bar on the approach of business to the SDGs involves businesses aligning their public policy positions with their sustainability commitments and initiatives. It is a hopeful sign that there are an increasing number of examples of companies extending their commitment to sustainable development to transparent, public support for policy development that matches their actions, even when doing so might appear to undermine short-term commercial viability. One of the best examples to date concerns the climate negotiations in Paris in 2015, when it was imperative for governments to know that they had the support of business to act on climate change.<sup>118</sup> A significant number of business voices in support of strong government action on climate change represented a credible countervailing force to the fossil fuel lobby,<sup>119</sup> sending the unanimous message to world leaders that there is global, social and economic support for tackling climate change.

In a new SDG era, where business has underwritten the importance of a sustainable future for people and the planet, the idea that regulation for the public good is anti-business seems increasingly anachronistic. The SDGs require greater business participation along with strong labour protections, environmental codes and tax laws. Companies publicly showing support for these types of government policy can not only be a game changer on difficult issues, but can also be a tool for business to level the playing field and overcome the competitive disadvantages of unilateral sustainability actions. Businesses that are serious about sustainable development should also have an interest in raising the bar for their peers, and hence should be actively supporting greater regulation rather than lobbying against it or staying silent. Of course, words must be matched by action.

## Box 8: Using corporate influence in service of the SDGs

Another example of the changing political role of business relates to SDG 8 (decent work and economic growth). On 29 June 2015, the Government of Myanmar announced a minimum wage of 3,600 kyats (about \$3) per day, following a year of consultations between unions, government and employers. There was strong opposition to this, as many businesses felt that it would undermine their commercial viability.<sup>120</sup> Several Chinese and South Korean garment manufacturers threatened to close down their factories if the proposed minimum wage was introduced.<sup>121</sup> On 15 July, the Ethical Trading Initiative (ETI), on behalf of its member companies (including Gap, H&M, Marks & Spencer and Primark) and the Fair Labour Association (FLA) and 17 of its affiliated companies (including Adidas), sent a letter to the Myanmar government supporting international calls for the proposed minimum wage to apply to the garment sector.<sup>122</sup> On 1 September 2015 the minimum wage of Ks 3,600 per day came into effect.<sup>123</sup> While many factors played a role in the making of this decision, business support likely contributed to bolstering government confidence.

## WHERE NEXT?

This paper makes the argument that, for business to truly contribute to the achievement of the SDGs, a fundamental rethink is required of the role of business in society. Instead of taking a narrow, short-term and profit-focused approach in much of the current discourse, companies should base their engagement on their own impacts, align their core business strategies with the SDGs and work with others towards a system-level change and a more human economy. Underlying this engagement should be the fundamental notion that the health and prosperity of both businesses and societies are interdependent in the long run.

For companies that want to raise the bar, we suggest that the following areas are key in making progress.

### On prioritization of the SDGs

Companies should understand their impact as the starting point for SDG engagement. They should conduct impact assessments and stakeholder consultations before identifying SDG priorities. They should involve all stakeholders in robust assessments that meet the needs and expectations of all stakeholders, starting by assessing negative impacts.

### On aligning the SDGs and their core business

Companies should not look at what the SDGs can do for them, but at what they should do for the SDGs. They should look at how core commercial practices around issues such as wages and taxation either detract from or enable a world without poverty. They should change their core business functions to align them with the SDGs.

### Towards systemic change

Companies should go beyond their own boundaries and move towards system-level change. They should explore and promote new business models (e.g. the legal form, governance and ownership of companies) and remove barriers to sustainable business behaviour (e.g. quarterly reporting). They should engage peers and collectively tackle issues common to their sectors.

### On transparency and accountability

Companies should improve the quality of disclosure and reporting aligned with the SDGs in annual reports and financial reporting to strengthen transparency and accountability. They should collectively advance

global, national and regional data that is standardized, comparable, reliable, accessible and clear (including benchmarks and indices), paving the way for a truly open reporting framework.

## **On private finance**

Companies should shift the debate towards quality (not just quantity). They should distinguish between the functions of public and private finance and identify areas of (mis-)alignment between private finance and the SDGs. They should encourage a broadening and deepening of the ESG agenda within the investment community, and promote transparency and accountability standards and mechanisms for private and blended SDG finance. They should embed discussions of SDG financing in broader discussions around reform of the global financial system.

## **On relationships with peers and government**

Companies should recognize the limits of the private sector in delivering the SDGs and support the ability of governments to govern in service of the SDGs (including environmental and social regulation). They should challenge and encourage peers to meaningfully engage with the SDGs, and raise the bar for all by working towards making intransigent issues such as living wages a non-competitive issue. They should play an active role in reversing the race to the bottom on public governance to attract investment. They should treat tax as an investment in the communities they operate in, not as a cost to be minimized.



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