



United Nations Global Compact

The Role of Business and Finance in Supporting the Post-2015 Agenda

White Paper: 2 July 2014

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I Introduction and context

As the terms of the UN General Assembly's Open Working Group on Sustainable Development Goals and of the Intergovernmental Committee of Experts on Sustainable Development Financing near their conclusions, important questions remain as to the magnitude and range of business engagement, its accountability within the Post-2015 project and how business can be a more positive force for sustainable development.

These discussions and questions occur amid a highly transitional time for the international business community. In recent years, rising numbers of for-profit organizations – from the largest global multinationals to the smallest micro enterprises – have embraced the tenets and principles of responsible business, for both commercial and ethical reasons. While it is arguably the case that the majority of business organizations are in the nascent stage of this shift, there is a compact but global and ever-expanding group of enterprises, both private and state-owned, for whom responsible business and “corporate sustainability” are strategic imperatives. The defining feature of these organizations is a growing desire to link their policies and behaviour – rooted in accountability and transparency – with broader sustainable development priorities and objectives. Fundamentally, they recognize that what is good for societies and the planet is also good for business over the long term.

This paper attempts to bring the perspective of responsible business to these issues of current discussion, which are likely to remain matters of interest and even of some dispute throughout the formulation and implementation of a new set of sustainable development goals (SDGs).

In 2013, the UN Global Compact carried out extensive consultations on this prospective agenda, centred on the role of responsible business in the Post-2015 era. Participant businesses in 43 countries in Africa, Asia, Europe and Latin America were surveyed. These results, combined with consultations within Global Compact LEAD and a number of the UN Global Compact Issue Area platforms, formed the basis for a report that had been requested by the UN Secretary-General, which included a proto-set of sustainable development goals and targets (*see pyramid graphic below*). In anticipation of intergovernmentally-agreed SDGs, an “architecture” was designed for bringing companies large and small into engagement with the Post-2015 agenda, and was launched at the UN Global Compact Leaders Summit in September 2013.

In 2014, the question of how to implement such an agenda is under discussion. Acting under the coordination of the UN Development Group, the UN Global Compact, in close partnership with the UN Industrial Organization (UNIDO), is once again carrying out local and regional consultations around the world, with an eye towards advancing thinking and practical approaches in relation to the role of business in the Post-2015 era.

II Corporate sustainability – a dynamic element within the business sector

A new paradigm in development thinking is recognizing the centrality of private enterprise in pursuit of the development agenda – and vice versa. For their part, corporate leaders are beginning to understand the business imperative of integrating environmental and social risks and opportunities within their core operations as part of a larger global agenda. This understanding may be taking place in any number of ways: in conceptual terms; as a pragmatic response to material needs and interests of companies operating with multilingual, multi-ethnic workforces in multinational settings and in a world of strained natural resources; as a function of executive thinking; or in response to shareholder and other stakeholder pressures.

As economic growth migrates to the developing world, for example, business is investing not merely to obtain low-cost inputs, but increasingly to build strong markets and societies, and contribute positively to them. They have an incentive to overcome bottlenecks – to train workers, technicians and managers; support the health of work forces; support dependable infrastructure; maintain rather than degrade the viability of the natural environment; and reduce transaction costs brought on by corruption, illicit money flows and other impediments to trade and investment.

For multinationals seeking to expand, as well as domestic corporations and small- and medium-sized enterprises (SMEs), and even the impoverished entrepreneurial class that sells goods and services in the informal sector and the tillers of small-sized farms, the lack of proper enabling spaces for markets to deliver inclusive prosperity remains the biggest obstacle. Characterized by low levels of consumption/purchasing power, depletion of human capital, weakened work forces, and undercutting stability, poverty is the antithesis of a successful business environment.

Furthermore, it is becoming clear that access to core inputs such as energy, water, minerals, forest and farm products is no longer purely a question of marketplace acquisition. Resource availability can be limited or even curtailed by breakdowns in the integrity of the natural environment.

As these convergences of interest between the public and the private sectors accumulate, companies that once enacted their social responsibilities as a philanthropic sideline, and later as a risk management technique, are now bringing sustainability into the heart of their business models.

The UN Global Compact has a clear and multifaceted definition of corporate sustainability: the delivery of long-term value in financial, environmental, social and ethical terms. This embodies the dual approach of respecting and supporting universal principles. It means that businesses must avoid causing or contributing to harm, for example, in the form of adverse human rights impacts or environmental degradation. In addition to this minimum responsibility to respect, businesses are encouraged to take additional supportive actions through their core business, philanthropy, collective action and public policy advocacy – which is done as a voluntary complement and not a substitute or trade-off for the requirement to respect universal principles. Thus, corporate sustainability is effectively rearticulating the concept of responsible business, with an orientation towards the “sustainability” in sustainable development.

This new business imperative also entails a multi-stakeholder approach – that is, an effort to involve a range of key stakeholders – including civil society organizations, labour groups, academia, and other interests – in strategy setting and implementation.

While growing steadily, the number of enterprises committed in practice, as well as principle, to corporate sustainability remains proportionately small. These numbers need to grow. With respect to the seriously committed companies that can show the way forward, there is expanding interest in developing or retooling strategies and practices to better align with broader global issues – issues that have either direct or materially indirect relevancy for business and markets.

A new set of SDGs would provide inspiration, prioritization, direction and ambition in this regard. They would help companies understand the urgency of the challenge and also realize the potential to meet it head on.

Given the ubiquitous character of economic activity, this engagement will be necessary if the United Nations is to achieve a scalable and transformative effort starting in 2015.

III Towards a new set of global sustainable development goals

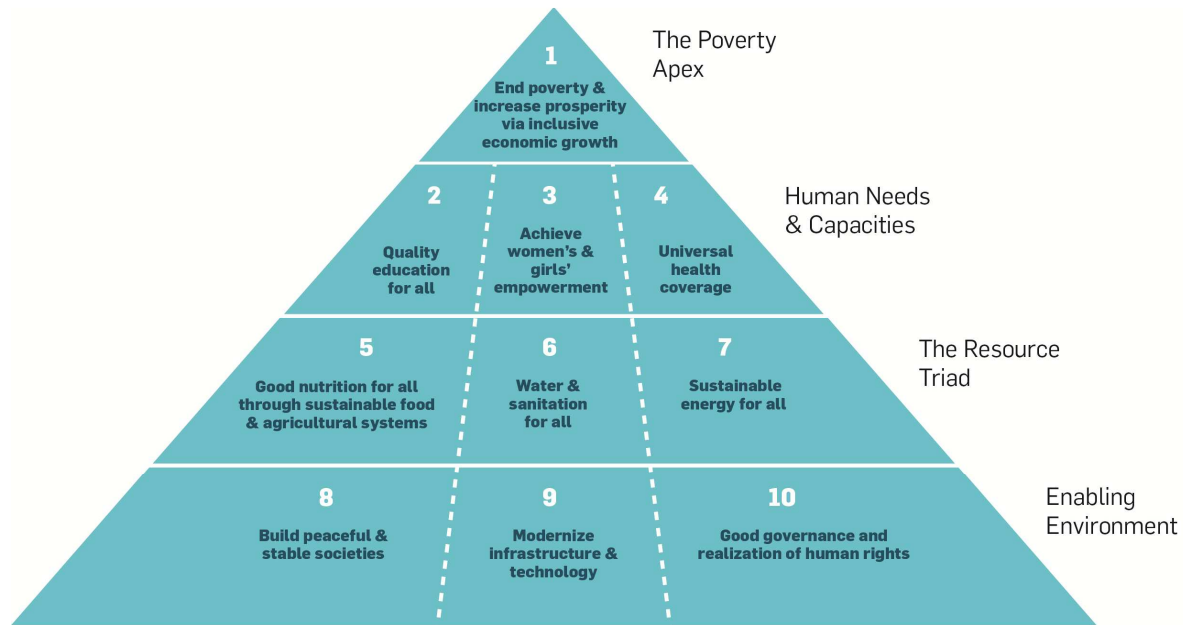
Strong business support for a linkage with the Post-2015 agenda emerged as Member States first called for the establishment of SDGs at the UN Conference on Sustainable Development in Rio de Janeiro in June of 2012. Meeting in parallel, corporations voted by acclamation to take part in formulating and enacting this new set of goals. Many of these firms were and are utilizing the Millennium Development Goals (MDGs) to orient their sustainability programmes and as a means of motivation.

In subsequent consultations in 2013, businesses agreed with the baseline set down by Governments in Rio: goals should be bold, easily stated and understood; universal in nature and limited in number; and strike a balance between the social, environmental and economic aspects. In the framework of business thinking, consideration was given to the multiplier effect – meaning that, for any single goal that might be chosen, how many other important objectives would be pulled forward by its achievement. As well, targets should be “SMART” – specific, measurable, attainable, realistic and time-bound.

One very broad conclusion was that, for all its notable successes, the MDG system tends to underplay economic factors that are driving forces in achieving social well-being, while subsuming an important array of environmental and human-need challenges under the single Goal 7 on environmental sustainability.

A Post-2015 agenda, therefore, should finish the job of the MDGs in social priority areas of health, education, and women’s empowerment, while expanding the envelopes of Goal 7 and Goal 8, on the partnership for development, and strengthening the pillars of good governance and anti-corruption.

A leading edge of companies worked out and proposed a post-MDGs goal structure, a visualization of which is set out below in the form of a pyramid.



Source: UN Global Compact LEAD

At the apex is the overarching vision of moving away from poverty and towards a level of worldwide prosperity. The next level down contains social and human-need factors that are also closely related to poverty and its eradication. Together, these four incorporate the heart of the current MDG programme.

The resource triad areas immediately below fully integrate the environmental-social-economic aspects of sustainable development within each one of them. They are key to economic development, meeting human needs, and protecting planetary resources. The enabling factors at the base of the pyramid set the foundation for successful action in the levels above; that is to say, without a solid base, the entire edifice is in danger of collapse.

It was strongly felt that the starting point of a new development agenda should be a continuation of the main point of address of the Millennium Development Goals – a concentrated attack on poverty. The growth of business activity in the South is probably the single most direct reason why the MDG target of cutting the extent of poverty in half was achieved, and achieved ahead of schedule.

The condition of poverty overlaps with other social needs and its existence in an extreme form is not only an affront to human dignity, but also in practical terms a negation of human rights. On the economic side, poverty represents a main impediment to the benefits that markets and entrepreneurship can deliver. Environmentally, a realistic hope for a minimal level of prosperity for all is the single best means of building a global consensus in favor of planetary protection. Safeguarding rural areas where most of the poor live, and protecting the soil and water from which they obtain their livelihoods, effectively brings together the environmental, social and economic aspects of the SDGs.

Alignment with the Open Working Group

The UN General Assembly's Open Working Group on Sustainable Development Goals (OWG) has embraced the parameters of SDGs enunciated in Rio. It is encouraging that so many of the priorities emerging from business consultations have turned out to be in alignment with the revised OWG "zero draft" released on 30 June – notably including stand-alone goals on education, gender equality and women's empowerment, water and sanitation, sustainable energy for all and climate change, as well as poverty.

Accomplishments of the OWG include a target on the reduction of corruption under proposed goal 16. Good governance, rule of law and comprehensive anti-corruption efforts are essential to economic growth and poverty eradication, and could perhaps figure even more prominently in the OWG's goal structure.

Among additional areas for potential consolidation and greater coherence:

- i. The proposal for goal 1 on ending poverty incorporates important targets on rights to property ownership and access to credit for the most marginalized within the population, as well as to ensure significant mobilization of resources from a variety of sources. OWG targets on growth, employment, productivity and industrialization appear in goals 8 and 9. In pursuit of a more compact set of proposed SDGs, the three goals could be integrated into one, thereby emphasizing the importance of inclusive economic growth and industrialization as effective means to eliminate poverty.
- ii. The means of implementation outlined in proposed goal 17 in the revised draft include important references to trade, finance, technology and multi-stakeholder partnerships – all areas in which companies can and should play a significant role. In fact, the practice of corporate sustainability, understood as both eliminating negative impacts and improving the positive contribution of business to sustainable development, has a crucial role to play as an implementation mechanism across the entire spectrum of the Post-2015 agenda and the proposed SDGs, and can advantageously be included as a means of implementation across the board.
- iii. To that effect, the important principles on sustainable consumption and production under proposed goal 12, most importantly target 12.5 on the integration of sustainable development principles as well as sustainability/integrated reporting, could be included instead as a means of implementation under proposed goal 17. This would support the crucial role that companies must play not only through engaging in partnerships, but by aligning their core business strategies, investments and operations with global priorities.

IV Modalities for unleashing the resources of business

In anticipation of intergovernmentally-agreed SDGs, a *Post-2015 Business Engagement Architecture* was unveiled by the UN Secretary-General at the UN Global Compact Leaders Summit 2013 – a CEO-level summit held just prior to the General Assembly plenary discussion of the MDGs and their follow-up.

The *Architecture* outlines a broad framework for how to engage companies on sustainable development and increasingly support the alignment of corporate strategies and processes with UN development priorities.

Five themes drawn from the *Architecture* have been singled out as key areas for further consultation and debate¹.

1) SMEs: The upside to the potential of small- and medium-sized enterprises – comprising 95 per cent of all registered companies worldwide – is highest where it arguably counts the most: among the least developed countries. Moreover, an upgraded capacity among companies of this scale is likely to improve the quality of jobs on offer, including for women and marginalized groups – improving remuneration and building skill levels in countries at all levels of development. This business segment has enormous potential to pilot and eventually scale up entirely new business models and technologies.

To upgrade their value chains – and avoid complicity in misconduct or workplace abuses and mitigate adverse impacts directly linked to their business relationships and suppliers – large-scale companies have a vested interest in the success of SMEs. They are transferring knowledge and technology and helping them to build capacity. Social enterprises, a subset of SMEs, utilize their capacity to produce a revenue stream and turn a profit as means to sustain their primary purpose of producing positive social and/or environmental outcomes. Empowering the SME sector could benefit significantly from the active involvement of local sustainability networks and foras.

2) Partnerships: In order to unlock the full potential of the private sector, it will be crucial for companies to complement their individual activities with partnerships and other collaborative arrangements. Partnerships with and within the private sector that allow for pooling resources, sharing risks and overcoming systemic challenges will be particularly important to the successful implementation of the SDGs – requiring creativity, perseverance and the support of public trust through transparency and accountability. Complex development priorities depend on multi-sector partnerships that connect funding and expertise with local resources, implementation capacities and ownership. The range of such collective action is increased through new combinations, including between businesses, businesses with civil society organization, with different levels of government, or among stakeholders from multiple sectors.

While partnerships for sustainability are often thought of as large-scale, elaborately planned global projects tied to static, long-range targets, partnerships in fact most often take place locally as well regionally. They are springing up in large numbers and diverse formats, often in spontaneous and

¹ These are equally the themes of the joint UNGC / UNIDO consultations cf. page 2

rapid response to new situations – sometimes tackling systemic issues and involving multiple stakeholders. Due to this multiplicity and wide pervasiveness of formats, centralized monitoring in detail may prove to be difficult and even self-defeating. An important step forward may be to develop guidelines for public interest partnerships, especially those involving the United Nations and its agencies, funds and programmes, which can serve as a window on the integrity and long-term efficacy of initiatives.

3) Transparency and accountability: Transparency and disclosure to stakeholders concerning a company's impact on sustainable development, and its commitments to improve on that record, is a chief measure for ensuring that companies are making progress and lending credibility to their commitments to sustainable development. This responsibility is an addition, of course, to compliance with all legal regulations as to corporate practices and provision of information. Businesses taking part in consultations on implementing a Post-2015 development agenda recognize the need to increase the number of companies that publicly commit to integrating sustainable development principles into their strategies and operations and then report on their progress.

Member States cited transparency and disclosure in the outcome document from the Rio+20 UN Conference on Sustainable Development, which encourages companies to integrate sustainability information into their reporting cycles. A similar impulse is contained within the proposals of the Open Working Group (*see above*). Taking this mandate one step further, standardized terms of measurement can allow for benchmarking across companies. This will give stakeholders the information needed to grasp the impact of a company or industrial or commercial sector on global sustainable development priorities.

4) Enabling government policies: Governments hold in their hands a unique opportunity to scale up the contribution of business to development by supporting and helping to shape corporate sustainability. This entails a policy framework that facilitates, sets incentives and otherwise encourages the uptake of voluntary corporate and public-private initiatives in alignment with the Post-2015 development agenda.

Government assistance in setting prices that reflect their true costs and benefits can improve the functioning of markets, while providing a tool to advance sustainability and tackle threats such as climate change. Many environmentalists and economists, for example, contend that the most salient measure to limit greenhouse gas emissions and get ahead of the climate change crisis, rather than continue to lag behind, is to set a price on carbon that reflects the toll that fossil fuels are taking on the planet and its inhabitants. The same principle increasingly is being applied to a wide range of environmental public goods: not only clean air, but clean water, biodiversity, healthy ecosystems and stocks of fish in the open seas. It can also be applied to social capital valuation – e.g., community health, worker conditions, peace and stability.

Public procurement is an area of expenditure that comprises a substantial part of a national income. Applying sustainability criteria to bids from vendors and contractors, or for opening opportunities for women- and youth-owned enterprises, can be an important means for motivating businesses to adopt sustainability practices. It is also an important avenue for transparency in public practice.

Transparency in all procurement offers and payments would play a notable role in driving a stake through the heart of corruption.

5) Private sustainability finance: Addressing Post-2015 funding needs will require a significant increase in financial resources that address social, environmental and economic development needs, likely to run into a trillion or more dollars *per annum* in incremental investments. Private investment is increasingly recognized as an essential component, from institutional investors holding ever-larger volumes of funds and companies representing a major component of domestic finance, to foreign direct investment (FDI), which contributes the largest share of incoming flows to developing countries (including, especially, from other developing nations). The Committee of Experts in Sustainable Development Financing is actively considering these issues.

It is clear that mobilizing private investment for sustainable development finance should not be seen merely as a supplemental budget item. Private investment will be most effective when redirected away from areas with negative externalities and towards sustainability issues.

Mirroring the thinking of the corporate sustainability movement, private sustainability finance is shifting towards a longer-term time horizon and a deeper adoption of sustainability considerations in investment decision-making throughout the investment chain: from responsible investment and active ownership, to sustainable FDI and catalytic philanthropy. This will mean moving beyond the current priority on investment volume for the sake of volume to a focus on quality and an assessment of the positive social and environmental impact of investments. Several noteworthy global initiatives include the UNEP Finance Initiative, the UN-supported Principles for Responsible Investment, and the Equator Principles. Public action will also be critical. By establishing the right incentives and regulations, Governments can level the playing field and create competition to direct private investment in a way that advances sustainable development.

V An early start on Post-2015 business engagement

In July 2014, as a set of ambitious goals that incorporate a balanced social-economic-environmental approach take shape, with points of engagement for business already finding their way into the intergovernmental drafts, it is hardly too soon for the business community to prepare for a useful contribution.

The MDGs were hampered, in part, by a slow start. Translation of the inspiring purposes set forth in the Millennium Declaration were not set into the form of goals and targets until well into 2001. There was a time lag in discerning progress on indicators, even though the benchmarks were set ten years in the past, in 1990.

This time, the UN Global Compact and like-minded organizations are committed to get business off to an early start in contributing to the implementation of the SDGs.

Building on its 15 years of experience in engaging more than 8,000 companies from over 140 countries on social and environmental sustainability, the UN Global Compact is actively looking for

means to leverage the Post-2015 development agenda to significantly enhance the business contribution to sustainable development.

One notable effort that is taking shape is the development of a toolkit to support corporate measurement and goal setting in alignment with the final SDGs. Three organizations with well-established credentials in this space have partnered to develop tools for corporate reporting: the Global Reporting Initiative (GRI), the World Business Council for Sustainable Development (WBCSD) and the UN Global Compact.

Three precepts form the basis for this project:

- i. The business expression, “if you can measure it, you can manage it” – and its converse. It will not be possible to gauge sustainability results and improve on them without: a measure for a company’s current impacts – negative and positive – on a particular sustainable development theme; timely access to data; and, more important, a framework to indicate which data is important and relevant.
- ii. The need to build trust. Businesses need to be able to demonstrate to their stakeholders using a recognized methodology the impacts of their actions, whether acting on their own behalf or in local, national or global partnerships, to be seen as credible partners acting in good faith. They should be able to match or exceed similar levels of transparency expected of public sector and civil society partners.
- iii. Flexibility. SDGs and related targets are almost certain to cover wide-ranging areas of a diversified nature – energy and natural resource management; women’s empowerment and social justice; poverty and sustained, inclusive economic growth. Different issues possess varying degree of relevance to different industries. Companies should monitor and set goals where they have the most significant impacts. A simplified toolkit should also be available for less sophisticated firms, such as SMEs or farmer cooperatives, for example.

Scheduled for release in October 2015, the toolkit should be fully aligned with the Sustainable Development Goals that will be adopted by Governments.

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