CHAPTER 1
The Right Kind of Partner

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> ***"The implementation of the sustainable development goals will depend on a global partnership for sustainable development with the active engagement of Governments, as well as civil society, the private sector and the United Nations system."***
>
> Open Working Group of the UN General Assembly on Sustainable Development Goals[23]

1. Framing the Discussion

Business is driven primarily by profit. It can be argued whether this is a good thing or a bad thing but a profit agenda is certainly different from a sustainable development one. Closer alignment between the two is desirable but far from straightforward. It cannot be achieved without an honest recognition of what separates business from sustainable development and proper attention to what realistically can be done to bridge the divide.

The last few decades of globalisation have generated unprecedented growth but also unprecedented levels of inequality. According to Oxfam's estimates, one percent (1%) of the world's population will soon own more wealth than the other 99% and the richest 85 people on the planet as much as the poorest half of humanity.[24] The result of this rising inequality is not merely popular outrage but more deeply entrenched poverty for some and slower growth for everyone.[25] The global economic system is seen to be failing many and endangering future generations.

In environmental terms, it is unsustainable as well. Climate change is a present threat as well as a long-term one. Pollution has risen in step with growth and it too has a disproportionate impact on the poorest.[26] Experts agree that the world needs to limit the increase in global warming to 2 degrees Celsius[27] and doing so requires profound changes, including leaving significant amounts of fossil fuel deposits in the ground.[28]

The stark reality is that an economic system that contributes significantly to inequality and environmental damage cannot also deliver sustainable development. This is a principal rationale underpinning the SDGs. At the heart of the problem lies the question of how to reconcile economic growth with broad based and sustainable development: how to combine private sector dynamism with a greater emphasis on equality and environmental sensitivity. The challenge of doing this has been taken up by the SDGs, if perhaps more by accident than by design. What began as an effort to 'finish the job that the MDGs started'[29] has expanded into something substantially more ambitious.

This has inevitably meant a greater focus on the role of business. If states have shaped the current system, business has powered it. This recognition represents a remarkable change from 2001 when business was mentioned more in passing than in earnest. The private sector's new prominence in achieving the 2030 development agenda compared with the MDGs reflects not only a recognition of the importance of private financial resources but also the deeper shift away from a poverty reduction focus to a more rounded emphasis on sustainable development.

Yet, even if the logic of business involvement is inescapable, it has passed by with relatively little critical reflection. A quick glance at the proposed Goals illustrates private sector significance, most notably in respect of energy, economic growth, employment, sustainable production and infrastructure. On deeper inspection, it becomes clear just how important business really is to the implementation of the SDGs. As financier, job creator, tax payer, wealth generator and innovator, the private sector is viewed as being fundamental to sustainable development.

Those who have worked to craft the SDGs assume both a direct and indirect contribution from business:

- **Direct** – through financing and partnering on SDG-related projects (e.g. infrastructure) where business will be called upon to invest more in developing countries, particularly the least developed countries (LDCs) and a higher proportion of that increased investment will need to be channelled towards meeting the Goals.
- **Indirect** – through an increase in business activity. The emphasis on equitable economic growth as a motor of development implies a significant global expansion in the private sector itself. Developing countries need more businesses to create jobs, move people out of poverty and expand the domestic tax base.

Despite the numerous inputs to the post-2015 process that explore the potential contribution of business,[30] including many from business and business organisations,[31] the difficulty of addressing business performance has been downplayed. The SDGs are based largely on the hope that business really has hitched its wagon to the sustainability locomotive, and fear that a closer look might reveal that it has not; hope that framing business as a responsible development partner will placate those sceptical of greater business involvement; and fear that too much of a focus on business will provoke more vocal opposition. Too little attention has been paid to what it would really take for business to fulfil its role as a fully-fledged partner. The resulting consensus – don't ask, don't tell – cannot be described as a conspiracy of silence but it is an unlikely, presumably unconscious, and almost certainly temporary alliance of business enthusiasts and sceptics.

In promoting business as a partner, the SDGs have rightly acknowledged the importance of the private sector to sustainable development. But in neglecting to outline the terms of the partnership, they have not properly considered the tensions that threaten it. The final draft of the SDGs notes that companies should be encouraged (no more than that) 'to adopt sustainable practices'.[32] For an issue of such importance, this is a strikingly cautious formulation that offers neither guidance nor the prospect of ensuring real accountability. And if the negotiations around financing have yielded more detail in this respect, there remains a gap between ambition and substance.[33]

> *A first and inevitable step in the transition must be the willingness of the private sector to become part of a global compact to promote employment, ensure minimum labor and environmental standards, and respect human rights. But far more is required of the private sector. Private agents, especially the corporate sector, must serve to be recognized as full fledged development partners.*
>
> Asian Development Bank Working Paper Series[34]

Is there a common understanding of the private sector's relationship to sustainable development? If business involvement in the SDG agenda is predicated on it being responsible, sustainable and development-orientated, then it is important to establish whether there is even consensus on what "responsible business" actually means in the context of sustainable development and whether and how it can be assessed and monitored. Clarifying these points is necessary because the credibility and effectiveness of the SDGs is at stake. If the private sector is neither equipped, nor maybe even suitable, for the kind of role the SDGs have assigned to it, then its practical contribution will prove far more limited than hoped. This in turn will weaken the prospects of actually meeting the Goals by 2030.

2. Mind the Gap (Part One): A Business Perspective on Sustainable Development

Traditionally, business leaders have been quite clear about their primary contribution to development: jobs, taxes and innovation. This understanding is well supported by the evidence – look no further than the example of China. In statistical terms at least, China is the hero of the MDGs. It is not so much its success in meeting and exceeding many of the targets, which is striking but the sheer numbers involved. Between 1990-2005, China managed to cut absolute poverty (based on the US$ 1.25 a day measurement)

by some 471 million people, over 76% of the world's total during the same period.[36] This phenomenal achievement came about through high and sustained rates of economic growth, in large part driven by a burgeoning private sector financed through foreign investment, and state-owned companies operating under a market-based paradigm.

> *Business has a critical role to play in accelerating progress towards sustainable development as an engine of economic growth and employment, as a key contributor of government revenues, and as a driver of innovation, capacity building and technology development.*
>
> Major Group Position Paper: the Business and Industry's vision and priorities for the Sustainable Development Goals[35]

Impressive though it is, China's success still falls short of the SDG vision and not only in political and social terms. The Chinese economic model may not be identical to the Western one – for example in relation to the role of the state – but it has yielded many of the same results: rising living standards alongside increases in inequality[38] and pollution,[39] displacement of people[40], and corruption.[41]

At one level, there is a simple conflict between the consequences of current economic orthodoxy which lead to widening inequality, and the vision of sustainable development which aims to ensure that nobody is left behind. The private sector has grown exponentially in recent decades, and mainly through the opportunities afforded by globalisation widened its reach. Globalisation may have triggered a business boom but in many cases it has also sharpened the focus on short-term profitability (rather than broader and longer-term development considerations), driven greater competition (which may prompt innovation and widen choice, but also encourages the search for lower labour costs, which benefits consumers but not workers, and weakened regulation),[42] and increased problems of pollution and environmental degradation. These business drivers are not conducive to the kind of future envisaged in the SDGs.

Although many individual companies and business associations do strive to integrate a more holistic view of sustainability into their operations, this is still far from the norm. The standard business response to development falls short of what is needed – the SDGs expect much more from the private sector than jobs, taxes and technology.

3. Mind the Gap (Part Two): An SDGs Perspective on Business

The private sector has not been welcomed as a development partner on a 'business as usual' basis. A profit agenda does not always sit easily with one focused on development. At best, both are mutually reinforcing but there is no disguising the private sector's potential for undermining development efforts. Growing prosperity, a healthy population and an educated workforce offer many long-term benefits to business, but cheap labour, weak regulation and corrupt officials can provide more immediate advantages – to some companies at least. In addition, the perception that business actors exercise undue control over political and economic agendas is prevalent and certainly not restricted to the Global South.[43] Suspicion of private sector involvement in the public sphere generally, and in the development agenda specifically, is very real amongst some governments and civil society groups.[44]

Maximising these contributions is only part of the challenge. Reconciling growth with development is also a matter of reconciling current business practices with the goal of sustainability. Sustainable development does not simply require greater business involvement *per se* – but the right sort of business involvement: quantity with quality, returns with responsibility, investment with ethics and with development purpose. Growth is important but must be inclusive, jobs matter but must be properly rewarded and workers treated fairly and with dignity, energy must be provided but more sustainably. In short, the SDGs need business but not business as it is (or often is).

Belief in the argument that business (as a whole or in large part) is on the cusp of profound change is a core assumption in the SDGs agenda. If the prevailing business perspective on development is too narrow, the perspective on business implicit in the SDG vision may be too optimistic.

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.

UN Global Compact[45]

The explosive pace of technological change and business innovation, whether in the information and communication technology (ICT) sector or in global supply chains and financial transactions, has not been matched by similarly rapid advancements in the sustainability agenda of business, certainly when viewed globally. Traditionally, business has operated with only two real constraints: the law and the market. A successful company was viewed as one that maximised income while adhering to regulations. Although the understanding of what an ideal "successful" company looks like has evolved over the last 20 years, the vision of sustainability the SDGs presents is still limited to a relatively small number of companies.

The evolution of business performance has been driven by two complementary 'push and pull' arguments. On the push side, civil society groups have long argued that the balance between benefits and impacts has tipped too far in favour of business. Businesses too rarely account for the significant impacts they can have – environmental, social, human rights, even political – that can be both harmful to individuals and communities and undermine the benefits of their activities for the wider society. In other words, profits are privatised but too many costs of doing business remain externalised and imposed on society. Sustainability is partly about rewriting the terms of this 'social contract'[46] to ensure a better balance in which negative impacts are minimised and benefits enhanced – to society as well as business. This requires drivers that prompt companies to internalise those costs.

This argument is mostly focused on preventing harm and has largely been employed by civil society groups to push or pressure companies into adopting higher standards across a wide range of issues, including the environment, labour rights and human rights and corruption. Through this process, companies' legality principle – in which adherence to the law is the sole determinant of a company's responsibilities - is widening gradually to encompass broader notions of 'legitimacy'[47] – a concept which, at the very least, assumes an effort to abide by more demanding international norms, standards and principles as well as meet societal expectations whether or not these are enshrined in law.

On the pull side, there is an emerging acceptance that sustainability is in companies' best interests. Development is both a moral imperative and a commercial one. Environmental degradation, natural resource depletion and widespread poverty damage and shame us all while also increasing transaction costs for business and closing off potential markets.[48] This argument is about incentivising companies into contributing more to society as a whole. As an approach, it suffered in the past from association with traditional models of corporate social responsibility (CSR).[49] More recently, it has been re-energised through the advocacy of business leaders themselves[50] with a clearer and more credible agenda around harnessing the market for sustainability to make money sustainably – a triple bottom line "people, planet, profit" business model. In this way, companies' profit principle is being stretched to include a notion of 'shared value'[51] in which business is encouraged to consider its overall contribution to society rather than simply its financial returns.

Taken together, these two concepts provide the basis for understanding the business role as a development partner: responsibilities shaped by international standards and societal expectations (legitimacy) and profit pursued alongside a contribution to the public good (value) – doing right and doing good. The concepts are evident, to some degree at least, in the UN Global Compact's[52] (UNGC) definition of "corporate sustainability" which combines a requirement to do no harm with an encouragement to make additional positive contributions to society. In relation to the SDGs specifically, this can presumably be taken to imply no harm to any of the Goals and pro-active support for at least some of them. As the largest voluntary corporate responsibility initiative in the world, the UNGC has undoubtedly been an influential advocate for a more prominent business role in the post-2015 agenda. Its own understanding of "corporate

sustainability" is one that has helped guide the approach to the private sector in the SDGs and supporting processes. Several key challenges must still be addressed:

- **Lack of a common understanding of core terms** – there is no clear consensus around what "corporate sustainability" actually means in practice nor what a business contribution to sustainable development might really entail. The UNGC has its own understanding but companies will also interpret the concept as they see fit with a real risk of confusion over even the most basic underlying assumptions. For most in the private sector, "sustainability" is, first and foremost, a matter of the enduring success of the company; adding "corporate" to it only increases the perception that the company's long-term viability is the priority rather than its relationship with society. All other considerations will necessarily be secondary (even if still important). For a small but growing number of companies, the social and environmental dimensions of sustainability lie at the heart of their business model. For others, they are an opportunity to strengthen their brand, drive efficiency savings or improve community relations. For others still, they are a burden necessitated by reputational considerations. For the rest, sustainability concerns remain largely irrelevant. Unless strategies to implement the SDGs establish a framework that sets out clear expectations for all companies, the concept of sustainability will unfortunately remain a confusing and confused one.

> *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.*
>
> UN Global Compact[53]

- **Implementation deficits** – beyond the problem of interpretation lies the issue of implementation. The SDGs assume that business is increasingly becoming sustainable. Yet, this is far from the case. Even the UNGC has described progress as *'nascent'*.[54] For example, its own 2013 Global Sustainability Report recognises the challenges its participating companies face in conducting human rights and labour impact assessments[55] even as these standards have been core UNGC principles since its inception in 2000. In 2013, out of the then 7,000 signatory companies to the UNGC, only 339 had incorporated a specific policy or statement on human rights.[56] In other words, even if the commitment is there, practice is lagging some way behind. And UNGC participating companies constitute a tiny fraction of the private sector worldwide. This is not a criticism but a simple statement of reality. Even if there were consensus on what sustainable business means, the challenge of actually doing it remains enormous.

- **Voluntarism vs. regulation** – like implementation, regulation has not kept pace with advances in thinking around business responsibilities. In part, this is a side effect of globalisation. Regulation is often constrained by national boundaries in a way that businesses are not. Governments are still inclined to view new regulation on private sector activity as a barrier to attracting investment, just as the instinctive reflex from business associations is to lobby against further regulation.[57] The general wish for stronger rule of law by some larger multinationals does not translate into globally articulated positions of business associations, even where doing so would help level the playing field. As a result, global, non-binding standards have proliferated but it has proved difficult to enshrine these in international law and domestic legislation. There is no doubt that the proliferation of voluntary initiatives addressing specific issues or sectors have significantly advanced the corporate responsibility agenda. And they are obviously important in compensating for the reluctance or inability of governments to institute and enforce standards of corporate conduct in line with international norms. Nevertheless, for so long as corporate responsibility remains largely dependent on voluntary commitments, it will continue to be a peripheral concern for many companies worldwide.

Chapter 1 Conclusions and Recommendations
Closing the Gap – The Business Role in a Partnership for Development

The SDGs stress partnership but do not elaborate.[58] Goal 17 speaks of partnership but not of partners. It speaks of the tools of business: finance, trade, capacity-building and technology but not of the private sector itself. If business is to play a substantial part in implementing the SDGs then the basis of the partnership must be better articulated. Is business a means to sustainable development or is development partly about making business more sustainable? The answer may be both but the second underpins the first and must be the foundation of any cooperation.

The SDGs are addressed to governments and it will be governments that translate the Goals into action (whereas the Financing for Development Outcome Document[59] is addressed to a wider range of audiences including business and provides more detailed reinforcing messages set out below). There are a number of SDG targets that can quite readily be translated into goals for business – on decent work, industrialisation, taxation and energy – but among the 169 targets of the SDGs, there is only one target that specifically mentions business[60] – a surprising gap for all the attention given the private sector in the SDGs. The focus now should be on ensuring that business performance is given proper consideration in the practical discussions around implementation of the Goals – specifically through the process of developing and finalising indicators that will drive the implementation of the SDGs.[61] Including specific targets for the private sector in the SDGs themselves would have sent a clear signal to all – business, but also governments and civil society – setting out core expectations for business conduct that begins the transformation towards better alignment with the vision set out in the SDGs. There is a clear opportunity for political leadership that demonstrates that political capital can drive financial capital.

The Report suggests the following two sets of indicators to be included as part of the forthcoming set of SDG indicators that will drive SDG implementation:

SDG 17: Proposed Implementation Indicators for Business

Indicator 1. Businesses operate according to internationally recognised standards of responsible business conduct.

This is the baseline expectation of business and is the foundation of any business role under the SDGs. It means meeting minimum requirements set by national legislation and international standards of responsible business conduct, further informed by the principle of "do no harm" with respect to impacts on any of the specific Goals. More specifically, to implement this vision, there is a need for an **SDG Framework for Responsible Business** (see Figure 2 below) – a framework that ensures businesses operate according to internationally recognised standards of corporate responsibility and do so across four core elements of the way business functions:

(i) Operations

(ii) Products and Services

(iii) Taxation

(iv) Accountability

Indicator 2. Businesses contribute directly to the Goals according to capacity and expertise.

If the international community should set the targets on standards, businesses themselves should set the targets on their voluntary contributions to meeting the SDGs and in particular around:

(i) Alignment of social investment strategies with SDG targets

(ii) SDG Development partnerships

Indicator 1: Businesses operate according to internationally recognised standards of responsible business conduct

If meeting the SDGs requires the involvement of responsible business, then making business responsible surely must be a core part of SDG implementation strategies. And since collective government action in support of sustainable development is the core premise of the SDGs, the time has come for more collective government action to drive better standards amongst businesses everywhere. The SDGs offer a real opportunity to help normalise and globalise corporate responsibility as a minimum requirement for business operations, promoting better, faster and more accountable implementation of international standards amongst leading multinationals and encouraging greater uptake of progressively higher standards amongst other companies across the world.

"Responsible business conduct" standards include standards on human rights, labour rights, environment, corruption, communities and consumers – covering the three components of sustainable development – economic, environmental and social. Such international standards already exist and are embodied in multiple instruments – from the UN, international Labour Organization (ILO), Organization for Economic Cooperation and Development (OECD), International Finance Corporation (IFC) and voluntary initiatives such as the UNGC. In addition, there are numerous industry or sector specific standards (for example, in agriculture or the extractive industry) that also provide basic guidelines on expected conduct. There is no definitive list, as new standards will inevitably continue to develop to respond to new issues.[62]

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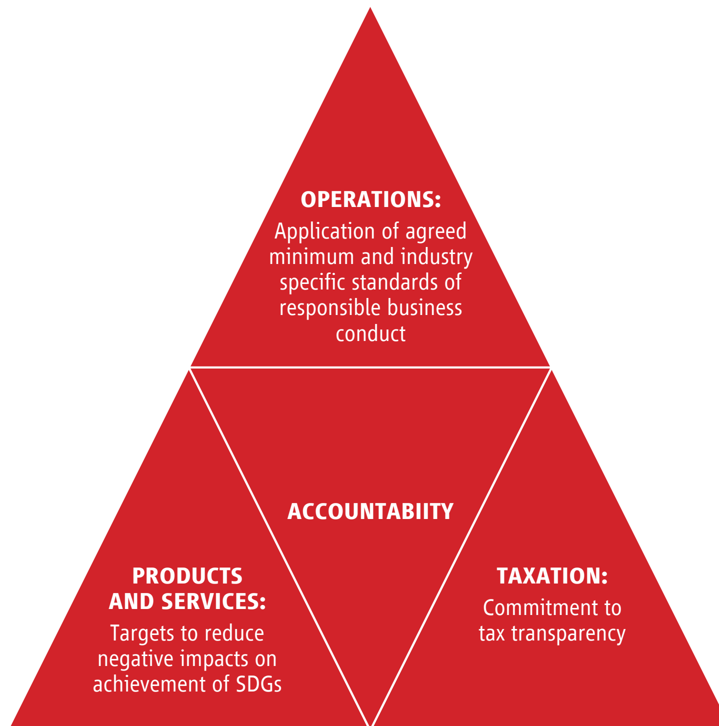
UN Working Group on the issue of human rights and transnational corporations and other business enterprises (2015)[1]

In the context of the SDGs, international standards on responsible business conduct are a critical safeguard against threats to sustainable development posed by irresponsible business actions. They are also a critical component of strengthening the means of implementation. They can unlock the door to a truly tri-partite cooperation between states, civil society and the private sector. The SDGs cannot impose corporate responsibility but by establishing expected standards, they can give more substance to the ambition of making all companies responsible, offer greater support to civil society's efforts to hold companies to account and provide better incentives for companies to change their practices.

To implement this vision, there is a need for an **SDG Framework for Responsible Business** to support this new proposed SDG indicator. The proposed Framework is based on four core elements of the way business functions: (i) operations; (ii) products and services; (iii) taxation and; (iv) accountability, as set out in Figure 2 and described further below.

At a national level, internationally recognised standards of corporate responsibility will need to be phased in by absorbing the approaches in the proposed SDG Framework for Responsible Business into national development strategies or industrialisation strategies and adapting it to the individual circumstances of the country – just as other areas of the SDGs will be implemented. This will happen both by governments implementing those standards through their domestic legal frameworks – the classic approach to domesticating international standards – but also through a more creative, "smart mix" of measures. In the near-term, more is expected both of rich countries and large companies (regardless of provenance) with the long-term objective of ensuring that all companies operate to international standards.

Figure 2: SDG Framework for Responsible Business



i. Operations

At a minimum, sustainable development assumes a "do no harm" approach – to people and planet. Taking responsibility for negative impacts (harm) – on the environment, on society, on human rights, on consumers – is at the core of the responsible business agenda.[64] "Corporate responsibility" or "responsible business conduct" involves preventing or mitigating these impacts – whether or not they are regulated by national law.

> *We will develop policies and, where appropriate, strengthen regulatory frameworks to better align private sector incentives with public goals, including incentivizing the private sector to adopt sustainable practices, and foster long-term quality investment. Public policy is needed to create the enabling environment at all levels and a regulatory framework necessary to encourage entrepreneurship and a vibrant domestic business sector.*
>
> Financing for Development Outcome Document[63]

The final SDGs text on the responsibility of the business sector draws on the Outcome Document of the 2015 Financing for Development Conference. While the reference to regulatory frameworks around labour rights and environmental and health standards was dropped from the Financing for Development and SDGs documents[65] as was the requirement for mandatory reporting on environmental, social and governance practice,[66] the Financing for Development Outcome Document specifically recognises the need for policies and regulatory frameworks "to better align private sector incentives with public goals." In addition, both documents refer to additional standards, including, significantly, the UN Guiding Principles on Business and Human Rights. These references are in the "Follow Up" section of the SDGs but do not set out specific targets for business – or for governments – indicating a clear opportunity to strengthen the forthcoming indicator framework and demonstrate leadership from government, the private sector and civil society in making this an important element of SDG implementation.

The importance of such signals to the capital markets – that were captured in the Financing for Development Outcome Document – cannot be overemphasised. The indication that standards and regulations will be forthcoming, aligned to the public goals in the SDGs, sends signals to capital markets about what conduct is

expected and which businesses (or types of business) should be rewarded through increased investment – and which should not (see box). Clear signals in these documents that governments will take action to require the internalisation of the costs of the many externalities that the current mode of economic growth creates – pollution, a lack of decent work, and uncompensated use of natural resources – reinforces the incentives for business to get ahead of the curve and to capital markets about where investment should be made.

ii. Products and Services

Sustainable development assumes 'sustainable consumption and production patterns'[68] but what does this mean for companies? There has been an understandable focus on the enormous potential of business to contribute to development through its products and services, for example: new and greener technology, more impact investing and better harnessing of the market at the bottom of the pyramid. In this way, the SDGs can be transformed from development targets into business opportunities.

While the potential may indeed be significant (assuming the right conditions are in place to facilitate this kind of investment), it should not deflect attention away from the more urgent challenge of reducing and minimising the negative impacts caused by unsustainable consumption or production patterns. Neither the SDGs nor the Financing for Development Outcome Document provide much guidance on these bigger conundrums.

> *We see the primary failure of the capital markets in relation to sustainable development as one of misallocation of capital. This, in turn, is a result of global governments' failure to properly internalise environmental and social costs into companies' profit and loss statements. As a consequence, the capital markets do not incorporate companies' full social and environmental costs. Indeed, until these market failures are corrected through government intervention of some kind, it would be irrational for investors to incorporate such costs since they do not affect financial figures and appear on the balance sheet or – therefore – affect companies' profitability. This means that corporate cost of capital does not reflect the sustainability of the firm. The consequences of this are that unsustainable companies have a lower cost of capital than they should and so are more likely to be financed than sustainable companies.*
>
> An Aviva White Paper on a Roadmap for Sustainable Capital Markets (2014)[67]

This is an important gap because business operates along a spectrum in terms of its relationship to specific Goals. Some industries (e.g. arms, tobacco) are clearly associated with harmful impacts even if they employ millions and deliver substantial tax revenues. Others (e.g. renewable energy) operate at the opposite end of the spectrum in which their products and services actively contribute towards particular Goals. But most industries occupy some space in between.

For example, fossil fuels provide energy at a cheap cost to many countries that need it to grow. On the other hand, fossil fuels raise significant sustainable development concerns because they contribute to pollution and climate change. Soft drinks manufacturers or fast-food providers provide much-needed investment in the poorest countries in the world and create jobs where they are scarcest. These industries also have a multiplier effect on employment through their supply chains and distribution networks. Equally, they do not necessarily provide long-term value in social terms given their reported adverse impacts on health and nutrition.[69] In other words, it is evident that different companies impact on development in multiple and complex ways, both good and bad.

The SDGs did not dictate new regulation to eliminate products and services that are inconsistent with sustainable development objectives – that is a choice for governments implementing the SDGs. But a much clearer acknowledgement of the potential contradictions surfaced by an emphasis on the private sector as a development partner is needed. There is a need as well to reflect on how different industries can impact negatively on specific development outcomes. In turn, this can inform specific industry targets (for example, in emissions reductions, water conservation, levels of sugar and salt in food products and

responsible sourcing) to minimise negative impacts. Such industry specific targets should become an integral part of a "do no harm" approach to the SDGs.

> *Life sciences and pulp and paper companies are sourcing raw materials from small farmers; mobile phone companies are facilitating banking services for the poor; cement companies are offering low-income housing solutions; energy engineering companies are enhancing the access to clean and affordable electricity, cooking and heating; banks and insurance companies are providing micro-credits and micro-insurance respectively; mining companies are investing in local enterprise development; and electric engineering companies are enhancing the access to health services to rural populations.*
>
> World Business Council on Sustainable Development[70]

iii. Payment of Tax

Sustainable development certainly depends on countries having resources to fulfil the agenda, and a major source of revenue for governments is through the collection of tax revenues. Domestic taxation has been identified as a significant, perhaps the most significant source of financing for the SDGs.[71] Tax avoidance is high on the agenda in rich countries[72] because they have experienced slow growth in recent years and need resources to finance their own development plans, and it has also been identified as a major drain on developing countries' finances.[73] Not surprisingly, tax reform features heavily in discussions around meeting the SDGs.[74]

> *Just as compensation has been claimed from rich countries because of their "climate debt" rooted in their excessive pollution, the tax debt creates a moral obligation on developed countries to reform a global tax system which is structurally unfair to poorer countries and prevents them from raising domestic revenues which could help them to fill the financing gap.*
>
> ActionAid[75]

Many of the measures employed by companies with cross-border arrangements to reduce their tax bills might survive the legality test but are widely questioned in terms of legitimacy. It is awkward for businesses to claim a commitment to development if they are at the same time exploiting loopholes and differences in national tax policies to minimise their payments to impoverished governments.[76] It is no less awkward for the international community to enlist private sector support in meeting development targets in the full knowledge that many of the same companies may be using sophisticated techniques to reduce their tax bills on profits earned in developing countries. This is not to suggest that all impoverished governments have an exemplary record of putting tax revenues to good use for their population, nor is this often a key driver in tax planning strategies.

Tax transparency is clearly a sustainability issue and is surely a requirement for any company claiming to be contributing to implementation of the SDGs. In contrast to other issues around corporate responsibility, the Financing for Development Outcome Document is explicit on the importance of combating tax evasion and on promoting tax transparency[77] through mandatory reporting. Welcome though this is, it is likely to prove a long struggle. Tax transparency needs to be made an integral part of the corporate responsibility agenda. The revised OECD Guidelines for Multinational Enterprises already contain a chapter on taxation that calls for enterprises to "to comply with both the letter and the spirit of tax laws and regulation of the countries where they operate."[78] Other organisations working on the corporate responsibility agenda could make it a core part of their activities as well. Increased tax transparency is seen by many as inevitable[79] and the model pioneered by the Extractive Industries Transparency Initiative (EITI)[80] which requires companies to report on all payments to national and local governments, including profit taxes, and governments to report on what they receive, needs to be expanded to encompass a much wider range of sectors. Greater transparency by governments on how they are spending such revenue is the necessary next step.[81]

iv. Accountability

> *Attempts to include more stringent commitments in the SDGs regarding corporate regulation, human rights impact assessments, mandatory due diligence reporting, and fiscal transparency and accountability have been vehemently resisted…*
>
> Open Democracy blog[82]

Accountability has been repeatedly emphasised throughout the post-2015 discussions especially since the MDGs are judged to have been weak in this area.[83] It has been emphasised in relation to business as well.[84] As a development partner and key vehicle for implementation, accountability is critical to the measurement and assessment of the private sector contribution. But accountability for the business role in the SDGs is complex, mainly because there is little for which the private sector is directly seen as accountable. The emphasis in the SDGs is on setting clear targets, allocating responsibility accordingly and instituting appropriate mechanisms for review and enforcement – at least for governments. As has been noted, no targets for business have been set. This might be a concern for civil society but should be worrying for business as well. It raises the possibility of a kind of ad hoc 'accountability without responsibility' – companies coming under fire for failing to do something no one told them they should have been doing.

The UN Office of the High Commissioner for Human Rights (OHCHR) refers to three main dimensions to accountability: responsibility, answerability and enforceability[85] – all of which are relevant for building greater business accountability under the SDGs:

- **Responsibility** – As highlighted above, the most important signal SDGs implementation strategies can send is in establishing a framework that details expected standards of responsible business conduct.
- **Answerability** – Many of these standards include processes to understand and assess adverse impacts by business and to develop appropriate prevention and mitigation measures.[86] The SDGs focus on inclusivity should prompt far more significant investigation and consideration of the most vulnerable among those business affects than has heretofore been the practice in processes such as impact assessments or due diligence. Equally as important, these standards include requirements to engage with stakeholders in determining and measuring impacts and to communicate outcomes. Stakeholder engagement is a core part of building answerability into the business agenda.
- **Enforceability** – Standards need to be enforced through better oversight at an international level (e.g. OECD National Contact Points), through strengthened institutions at a national level (e.g. National Human Rights Commissions or equivalent), and through an enhanced monitoring role for civil society and community groups. Additionally, several multi-stakeholder initiatives have specific accountability mechanisms to enforce their own standards, which might also serve as models in the context of the SDGs.

Indicator 2: Businesses contribute directly to the Goals according to capacity and expertise

If the international community should set the targets on standards, businesses themselves should set the targets on their voluntary contributions to meeting the SDGs. All Businesses have responsibilities to individuals, communities and societies in relation to their own operations but are not beholden to a wider set of development objectives that may lie outside core mandates any more than any private individual would be. Beyond core activities, contributions to the SDGs should be determined by companies themselves even if these can be encouraged, promoted and incentivised by others. The two most obvious and significant mechanisms for such contributions are social investment and partnerships.

i. Alignment of Social Investment Strategies with SDG Targets

Some companies already allocate resources to a variety of projects and initiatives designed with positive social, environmental (and reputational) considerations in mind. These initiatives will be along a spectrum – ranging from social investments intimately linked to operations (in which case they are better seen and treated as part of operations) to pure philanthropy. Other types of initiatives are harder to place – addressing philanthropic objectives but potentially creating business opportunity as well. Aligning these more explicitly with SDG targets would ensure greater coherence and promote better cooperation between companies, governments and development agencies on the ground.

The nature of these commitments will inevitably differ from industry to industry highlighting the need for industry-based targets. For example, an oil or mining company might frame its support around the health, education and living standards of affected communities. An insurance company might be more focused on vulnerable groups' capacity to manage external shocks, such as natural disasters. An ICT company might concentrate on ensuring affordable access to mobile networks and Internet services amongst the most disadvantaged communities while a consumer goods company could provide infrastructure in isolated areas in order to encourage the growth of local markets. It is these kinds of targets, owned and set by businesses themselves according to expertise, capacity (and indeed self-interest) that will deliver the greatest benefits.

There are important initiatives underway to develop guidance and indicators for companies in relation to the SDGs (see box). These offer a valuable basis for shaping companies' contribution but they need to be adapted and integrated in ways that yield specific commitments. A proliferation of targets and indicators can cloud accountability by ensuring that there is always something positive to report.

Examples of Initiatives to Support Alignment with the SDGs

Insurance Sector and the SDGs – the Insurance 2030 Roundtable[87]	The Extractive Sector and the SDGs	SDG Compass[88]
UNEP Inquiry on the Design of a Sustainable Financial System and the UNEP FI's Principles for Sustainable Insurance together with over 70 participants of global insurers and regulators from around the globe recognised the need for a coordinated process to assess the outcomes of the 2015 milestones for the insurance industry. One option could be the development of ***Insurance Development Goals*** – clear global targets for risk reduction and resilience to natural and climate-based hazards, access to sustainable insurance products, and investments to support the transition to a low-carbon climate-resilient economy.	The World Economic Forum (WEF), UN Sustainable Development Solutions Network (SDSN), United Nations Development Programme (UNDP) and Columbia Center on Sustainable Investment (CCSI) are working with partners in industry, government, and civil society to create a shared understanding of how the mining industry can most effectively contribute to the SDGs. The product of this collaboration will be a mapping document for the industry that traces the many points of intersection between mining and the SDGs, including ways in which the mining industry can contribute toward the realization of the SDGs.	The UN Global Compact Office together with the Global Reporting Initiative (GRI) and World Business Council on Sustainable Development (WBCSD) are developing a toolkit designed to guide companies on how they can contribute to the realization of the SDGs. The 'SDG Compass' provides a five-part framework that help businesses to: • Understand the SDGs • Assess SDG impacts • Set goals • Implement goals • Report and communicate.

At an international level, broad areas could be set by global industry associations with the detail on specific and measureable targets more fully elaborated by national or local level industry associations – or even individual businesses.[89] Whether set within the framework developed with an industry association or set by companies themselves, the key point is that companies need to own their commitments and prioritise measurability and accountability in designing, setting and implementing them. Commitments should be small enough in number to be manageable, targeted enough in scope to be both appropriate and effective and concentrated enough to yield tangible benefits for individuals and communities and against which they can be held accountable.

At the same time, a 'do no harm' approach is vital. Carbon offsetting is a scientifically justified approach to carbon reduction, but no such concept works for many other parts of the SDG agenda. As the UN Guiding Principles on Business and Human Rights note, human rights harms in one area cannot be offset against positive contributions or donations in another – nor in the process of making positive contributions themselves. An approach which prioritises impact and accountability over scale and scope will prove much more effective and indeed sustainable.

ii. SDGs Development Partnerships

The need for more and better partnerships – between governments, donors, civil society and the private sector – has been a constant refrain throughout the discussions on the post-2015 agenda.[91] The urgency, ambition and scale of the SDGs mean that partnerships are viewed as one of the critical elements in designing, financing and delivering progress towards the Goals. The current emphasis on the role of business in development means that it is also becoming the default term for describing the intended relationship with the private sector. With its connotations of equality and cooperation, a partnership with business seems to offer the prospect of a perfect marriage between public good and private resources.

> *Forge a new global partnership. Perhaps the most important transformative shift is towards a new spirit of solidarity, cooperation, and mutual accountability that must underpin the post-2015 agenda.*
>
> A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development[90]

This trend towards partnering with business is underpinned by two factors: first, the need for resources – businesses are seen as a key source of added value in terms of resources, knowledge, skills and technology for wider multi-stakeholder partnerships targeting specific SDGs; second, the wider scope of the SDGs. While the MDGs were tightly focused on a few specific development outcomes, the SDGs are more numerous and expansive. Progress towards targets on health and education is less dependent on the private sector than targets on growth and infrastructure. These two factors carry important implications. Not only are more and bigger partnerships required; some will need to look very different. And the role of business in these partnerships will also vary considerably.

All these variations tend to be masked by the use of 'partnership' as a general term to describe what are fundamentally different arrangements. There is little comparison between a partnership designed to combat the spread of disease (for example, the Global Fund to fight AIDS, Tuberculosis and Malaria[92]) and a partnership designed to leverage private investment in infrastructure (for example, the Private Infrastructure Development Group).[93] The likely expansion of these different models of partnership emphasises the need to establish a set of baseline expectations. Even if there is a huge diversity in terms of objectives, governance structures, division of responsibilities, operating guidelines or implementation mechanisms, there still needs to be consistency and coherence with the principles that underpin the SDGs.

Recent studies focused on so-called 'Type II' or 'Johannesburg' partnerships developed following the 2002 UN World Summit on Sustainable Development have concluded that a significant number produced little by way of measurable output (such as research, capacity building, service provision, etc.).[94] Also concerning, only approximately 15 per cent of the total provided a clear budget plan, only 30 per cent reported dedicated and identifiable staff members and only about 5 per cent of all partnerships have an

openly available memorandum of understanding (that would outline the precise roles and responsibilities of partners).[95] Other studies point out that Type II partnerships lack commonly agreed ground rules to foster accountability, capacity building and evaluation to ensure learning. These also note that the UN secretariat was not given the mandate to undertake review and monitoring of the partnerships.[96]

A review of selected global partnerships[97] that are targeted in particular at delivery of specific health and education goals suggests there is too little consistency on core principles. As these global, multi-stakeholder development partnerships to deliver on specific SDGs are likely to increase, as are smaller, national-level multi-stakeholder partnerships, the SDGs implementation process should include the development of core principles all SDG partnerships are expected to meet. While a more comprehensive partnership framework is appropriate for complex public private partnerships (PPP) that use public aid funding to leverage private sector resources in SDG relevant investments (see Partnership Principles in Chapter 3), any development partnership that is specifically targeted to delivering on the SDGs should live up to core principles underpinning the Goals themselves. At a minimum, development partnerships should be guided by three core principles:

- **Transparent governance arrangements**

  SDG partnerships should be setting an example through clearly accessible information on governance structures, decision-making processes, roles and responsibilities. They should have, clear conflict of interest policies, given the wide range of stakeholders involved in many of the partnerships, and some involving pecuniary interests. Transparency in contracting would provide a far clearer picture of who benefits from development partnerships. Particularly where public funds have been used, financial statements should be published, including funding sources and disbursements.

> *Better reporting is also needed for funds committed to multi-stakeholder initiatives, such as "Every Woman, Every Child" or "Sustainable Energy for All." While these initiatives claim billions of dollars in pledges and investments, it is usually difficult to assess where money has gone, whether it has been really new and additional to existing commitments, and which impact it had.*
>
> Misereor, Global Policy Forum, BROT[98]

- **Commitment to meeting international standards**

  As the UN has noted "[a]ctions in support of UN goals cannot substitute for a failure to respect international standards."[99] Given that many development partnerships focus on topics directly related to human rights, a more explicit human rights based approach should be a core part of operating standards. Human rights due diligence and required consultation with relevant stakeholders should be core parts of partnership processes. At a minimum, partnerships would be expected to adopt a "do no harm" approach but as many such efforts are geared at least in part to supporting the fulfilment of specific rights, that ambition is too limited. For partnerships contributing to the realization of economic, social and cultural rights (ESCR) such as health, education and food,[100] consistency with a rights-based approach requires that the relevant service must be: available in sufficient quantity, accessible to all, culturally and socially acceptable, and of sufficiently high quality in line with the "Availability, Accessibility, Acceptability, and Quality" (AAAQ) standard.[101]

- **Accountability**

  Accountability among the partners within the partnership and to the broader set of stakeholders involved should be at the heart of all SDG partnerships. Accountability mechanisms, such as a formal grievance procedure to address adverse impacts or other concerns would provide concrete, accessible evidence of living up to principles underpinning the SDGs. More rigorous monitoring and evaluation to demonstrate measurable output would also help more definitively answer questions about whether the rhetoric is backed up by realistic and measurable deliverables.

Chapter 1 Endnotes

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[59] Third International Conference on Financing for Development Outcome Document – Resolution adopted by the General Assembly on 27 July 2015: Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda) (A/RES/69/313). Available at: http://undocs.org/A/RES/69/313

[60] SDG 12.6 is within SDG 12 on sustainable consumption and production and "encourages" companies to adopt sustainability practices.

[61] See the SDG Indicators home page: http://unstats.un.org/sdgs/

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[64] Despite the inclusion of the term "responsibility" in the term "corporate social responsibility", the emphasis in many discussions was posed as a voluntary v regulatory approach, with voluntarism often trumping. The discussion has shifted to a focus on the responsibility of business to be accountable for adverse impacts linked to its operations – the UN Guiding Principles on Business and Human Rights refer to the corporate responsibility to respect human rights, the OECD uses the term "responsible business conduct," the EU has changed its definition of CSR to focus on the responsibility of businesses for their impacts. The SDGs provide the opportunity to focus on businesses responsibilities for impacts on the topics covered by the Goals.

[65] See Revised Draft Outcome Document paragraph 36 (May 2015) *"We will adopt regulatory frameworks that foster a dynamic and well-functioning business sector..."*. Available at: http://www.un.org/esa/ffd/wp-content/uploads/2015/05/revised-draft-outcome.pdf

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[72] Speech by UK Prime Minister at World Economic Forum in Davos (2015). Available at: https://www.gov.uk/government/speeches/prime-minister-david-camerons-speech-to-the-world-economic-forum-in-davos

[73] Guardian article (13/02/15) http://www.theguardian.com/global-development/2015/feb/13/uk-tax-avoidance-bill-save-developing-countries-billions

[74] See: Third International Conference on Financing for Development Outcome Document – Resolution adopted by the General Assembly on 27 July 2015: Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda) (A/RES/69/313). Available at: http://undocs.org/A/RES/69/313

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[76] Tax avoidance by multinationals costs developing countries an estimated $100 billion a year. UNCTAD figures quoted in http://www.taxjustice.net/2015/03/26/unctad-multinational-tax-avoidance-costs-developing-countries-100-billion/

[77] Outcome Document. Paragraph 27 – although this too has been weakened from earlier drafts – *"We encourage countries, in accordance with their national capacities and circumstances, to work together to strengthen transparency and adopt appropriate policies, including multinational enterprises reporting country-by-country to tax authorities where they operate".*

[78] OECD Guidelines on Multinational Enterprises (2011), Chapter XI. Taxation.

[79] Ernst and Young, "Tax Transparency: Seizing the Initiative". Available at: http://www.ey.com/UK/en/Services/Tax/Tax-Transparency-Report

[80] www.eiti.org

[81] See for example, the Open Government Partnership. Available at: www.opengovpartnership.org/ and the Open Budget Initiative. Available at: http://internationalbudget.org/opening-budgets/open-budget-initiative/

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[83] UN Office of the High Commissioner for Human Rights and the Center for Economic and Social Rights, "Who will be Accountable? Human Rights and the Post-2015 Development Agenda", (2013). Available at: http://www.ohchr.org/Documents/Publications/WhoWillBeAccountable.pdf

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[85] Ibid. OHCHR/CESR 2013

[86] For example, The UN Guiding Principles on Business and Human Rights set out a series of steps to guide companies in carrying out human rights due diligence. (UNGP 17-21). There is a wide range of tools, available to business to help them in doing so across a spectrum of the sustainable development agenda. See for example, Second Draft SDG Compass Impact assessment tools 7 July 2015.

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[88] https://sdgcompass.wordpress.com

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[97] Pingeot, Lou, "Corporate Influence in the Post-2015 process", Misereor, Global Policy Forum, Brot (2014), p.6. Available at: https://www.globalpolicy.org/images/pdfs/GPFEurope/Corporate_influence_in_the_Post-2015_process_web.pdf

[98] Based on work carried out by University of London, School of Oriental and African Studies, International Human Rights Clinic, 2014-15 on behalf of IHRB. See acknowledgment section.

[99] The UN currently has a set of criteria for registering a company's sustainability goals public as a commitment to the Sustainable Development Goals (SDGs). To register, corporate commitments to action are expected to meet certain criteria: (i) Advance one or more UN Goals and Issues; (ii) Include time-bound target(s) that can be measured for success; and (iii) Include an agreement to publicly disclose, on an annual basis, progress made to realise the commitment, throughout its duration. Although not a specific criteria, the following is also noted: "[a]ctions in support of UN goals cannot substitute for a failure to respect international standards." Available at: https://business.un.org/en/commitment_form

[100] See OHCHR Fact Sheet, No. 33: "Frequently Asked Questions on Economic, Social and Cultural Rights," (2008), p. 10. Available at: http://www.ohchr.org/Documents/Publications/FactSheet33en.pdf

[101] This definition is adapted from the ICESCR. Mads Holst Jensen and Marie Villumsen, "The AAAQ Manual and the Right to Water – Contextualizing Indicators" The Danish Institute for Human Rights (2014). Available at: http://www.humanrights.dk/publications/aaaq-manual-right-water-contextualising-indicators. However, the specific requirements for fulfilling the different human rights differ in their detail – for example the requirements around the right to food differ from the right to water.