State of Play

Business and the Sustainable Development Goals:

Mind the Gap – Challenges for Implementation

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

> ***"As we embark on this collective journey, we pledge that no one will be left behind."***
> **Transforming Our World:** The 2030 Agenda for Sustainable Development[1]

This State of Play report

The United Nations Sustainable Development Goals (SDGs)[2] 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. It is a vision that requires a global partnership of nations and peoples – from the poorest communities to the richest countries – and it is a vision that demands unprecedented changes in both thinking and behaviour. It is a universal vision that applies to all countries and to all sectors of society. It also assumes a substantial contribution from business – and perhaps to a greater extent than has been officially acknowledged. As the SDGs move from pledges to practice, a much wider and better-informed debate is needed around how and in what circumstances business can add the most value. This State of Play report, the fourth in a series[3] by the Institute for Human Rights and Business (IHRB), is a contribution towards this debate.

Throughout the consultation and negotiation process leading to the adoption of the SDGs, the private sector has been highlighted as a partner with the potential to contribute in multiple ways to development objectives: by stimulating economic growth and job creation, providing investment and finance and sharing the resources and knowledge needed to shape innovative solutions to global challenges. The relationship between business and development – between private gain and public good – is not as straightforward as it would appear from some of the current discourse. The contribution of business is about much more than creating jobs, paying taxes and developing technology. It is also about determining the nature and purpose of business in a world where economic growth has delivered wealth alongside inequality, and prosperity alongside environmental damage.

There is a clash between urgency and ambition. The needs are great and the scale of the challenge enormous but business is not an immediate fix and there is a danger in imagining that it might be. While the SDGs stress the importance of a global partnership that includes the private sector, they do not elaborate on what this might mean in practice, nor do they touch on the difficulties of making partnerships work. This may be understandable given the political and the aspirational nature of the Goals. The SDGs seem to have quietly re-imagined a new model of business, reshaped as an agent of development, harnessed and channelled by governments and set to work on alleviating poverty and fostering sustainable economic growth for all. Under this model, business pays decent wages, respects the environment, manages resources sustainably and contributes substantially to meeting development priorities.

But business is not an adjunct of aid. Economic activity cannot easily be directed to where the need is greatest. It prospers when provided with the right conditions and the right opportunities. Where these are lacking or absent, business will not drive growth for the whole society. Nor are companies beholden to a set of development objectives. The majority of businesses will need to be strongly encouraged, and often obliged, to adopt practices consistent with the principles of sustainable development. Poor governance, undiversified economies and weak standards are very real obstacles to realising a transformative role for business in relation to the SDGs. While no one doubts the dynamic role business plays in the economy, this role is heavily dependent upon the kinds of political, economic and social structures that do not yet exist in all countries.

Donors in particular need to tread carefully in determining the extent and nature of their relationship to the private sector. It is too simplistic to assert that because business drives growth and employment, aid should be used to drive business. Development efforts should be focused on accountable institutions and appropriate policy frameworks combined with targeted support to business centred on explicitly pro-poor projects. If donors dilute sustainable development objectives in order to attract more private capital, they will undermine trust and confidence in development assistance and they will not succeed in delivering on the most fundamental principle of the SDGs that no one should be left behind.

This Report examines the underlying and at times unrealistic assumptions about the role of business that seem to underpin current discussions and challenges of involving business in development. The analysis in this Report offers a challenge to the notion that business can be a transformative force in development but also rejects the argument that it cannot be a constructive one. There is space in between. Perhaps the issue is not so much what business can do for the SDGs but how the SDGs can add impetus to broader debates on business responsibilities and the wider rules that shape the market. The Report offers constructive ideas for action grounded in a conviction that the private sector can play a positive role but that to do so, government actors to whom the SDGs are addressed need to set out appropriate incentives and disincentives for that transformational change and business actors need to embrace core concepts of responsibility and accountability.

The inclusion of business as a partner in a global development framework is therefore not straightforward. It assumes companies of all different sizes and all different sectors will increasingly operate according to environmental, social and human rights standards. It assumes business models will be reconfigured as necessary to ensure sustainability of products and services, sometimes perhaps at the expense of higher profits. Finally, it assumes that the business community, in partnership with states and civil society, will channel a greater share of its resources towards meeting SDG targets, through investment as well as philanthropy.

This is certainly a transformative vision of business – one that implies not only significant changes in how many businesses operate, but more fundamentally in the way the global economy functions. Change on this scale cannot simply be assumed. **Three main challenges** present themselves:

1. The Right Kind of Partner

The business role in helping achieve the SDGs is predicated on it being responsible, sustainable and development-orientated. This is problematic on many fronts not least because it does not confront the tensions that often exist between profit (and current models of responsibility towards its owners) and development. These tensions need to be surfaced and addressed. Is business a means to sustainable development or is development partly about making business more sustainable? The answer may be both but the SDGs do not establish a process or a framework for either. A development partnership with business needs to be based on a mutual understanding of responsibilities as well as on agreement around practical contributions. The terms of the partnership need to be set in order to provide both clarity and accountability.

2. The Right Kind of Growth

The SDGs place a strong emphasis on the mobilisation of domestic resources through economic growth. Amongst other things, this will require an expansion in business to create jobs and increase tax revenues. And while private sector-led growth is a well-trodden path to industrialisation, the SDGs are calling for a different model: fast and sustained but also green and inclusive. This is a model without historical precedent and one that makes a number of assumptions. The model assumes the right conditions will exist to enable business to flourish. It also assumes the right opportunities can be identified to generate large numbers of good jobs and the right standards put in place to ensure responsibility and sustainability in business operations. These are all significant challenges.

3. The Right Kind of Financing

Financing the SDGs provides the international community with its biggest test. The sums involved are enormous and the timeframe is short. The needs are particularly acute in infrastructure - not just transport, energy and telecommunications but schools, hospitals and clinics. With public resources insufficient, there is increasing enthusiasm for the potential of foreign investment and private capital to fill the funding shortfall partially. Attracting foreign investment into developing countries on the scale and at the pace required will prove difficult (especially considering the demands for inclusivity and sustainability) and in some cases may not even be appropriate. The trend towards innovative financing mechanisms designed to harness the complementary strengths of public and private sectors and overcome barriers to foreign investment is one option favoured by many in the donor community. But is using aid to leverage more private capital the most effective use of limited development assistance funds? And how much emphasis do these financing mechanisms place on achieving sustainable development outcomes?

Recommendations for SDG Implementation

While the objectives expressed in the SDGs might be shared by many within the private sector, the gap between business priorities and development objectives remains significant. The gap will not be closed by blind faith or vague promises and assumptions. It will be closed because a common understanding begins to emerge – one that is grounded in responsibility and informed by clear commitments as outlined in the Recommendations elaborated in the Report (Chapters 1 & 3) and summarised below. The follow-up process to the SDGs is an opportunity to close that gap.

- **Recommendations from Chapter 1: Indicators for Business under SDG 17**

  The SDGs are addressed to governments and it will be governments that translate the Goals into action. 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[4] – a surprising gap for all the attention focused on the private sector in the SDGs. The priority 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.[5] 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 in Chapter 1 Conclusions) – 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

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

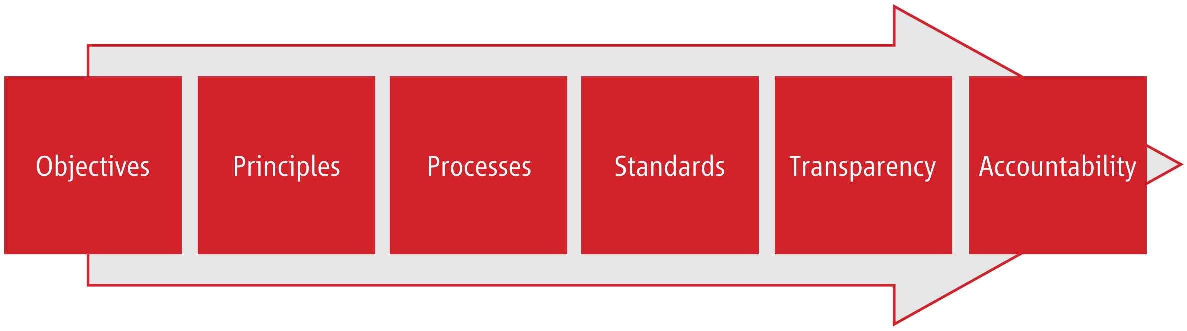
(ii) SDG development partnerships

- **Recommendations from Chapter 3: SDG Partnership Principles**

  The lesson of the last 15 years is that although economic growth has delivered prosperity to many, growth remains uneven; it is a blunt instrument. Too many people are blocked from sharing in its benefits. Individual achievements have not matched the wider ambition of delivering development for all. The SDGs reflect important changes in our understanding of development – that human capital development is crucial for economic development – growth without sustainability is a false promise of advancement. Projects that deliver economic growth are essential (assuming they are carried out responsibly) but it is not the role of development assistance to subsidise them unless other public or social objectives are being met. Aid needs to be more carefully targeted at public private partnerships (PPP) or projects that specifically support the poorest and most disadvantaged.

  To get there, a clear framework is required for the use of public funds for blended mechanisms under SDG 17. Such a framework would help ensure that public funding is used for programmes and projects that not only support the SDGs in theory but in practice. A higher bar should be set for projects that draw on public money. As is recognised repeatedly in this Report, there is certainly value in engaging the private sector in the huge task ahead to deliver on the SDGs. There is also real value in using development assistance to leverage private finance – but only where that partnership is focused on delivering on the SDGs. A shared set of **SDG Partnership Principles** is needed as part of the SDG implementation process to clarify what constitutes compliance with the SDGs and therefore when it is appropriate to use public funds. The Principles could be used by all partners – governments (as host, home or donors), business and civil society – as a framework for implementation of partnerships involving the private sector and public funds under SDG 17.

Figure 1: Proposed Approach to Establish SDG Partnership Principles



SDG Partnership Principles All SDG partnership programmes or projects should:	
Objectives	Be explicitly pro-poor, inclusive and targeted at: • Defined objectives that specifically focus on one or more SDG • Facilitating access to services • Enhancing capacity to participate in the economy
Principles for Service Design	Apply a human rights based approach and in particular: • Be designed to respond to the Availability, Accessibility, Acceptability, Quality Standard[6] to help ensure that such services benefit the poorest communities
Processes	Be informed by: • social, environmental and human rights due diligence • broad based and inclusive engagement with potentially affected stakeholders and other relevant stakeholders
Standards	Apply relevant standards of responsible business conduct to the private sector participants, including at a minimum: • UN Guiding Principles on Business and Human Rights • ILO Conventions – the ILO core labour standards & ILO conventions relevant to the partnership area • UN Convention against Corruption • International environmental standards set out in multilateral environmental agreements • Relevant international standards for the areas covered by the partnership (e.g. CFS Principles for Agriculture)[7]
Transparency	Be transparent by default (with permitted exceptions limited to well-defined and justified areas of confidentiality), covering: • Governance arrangements for the PPP explaining clearly how the partnership is structured and funded, listing participants and directors and others in key roles. Entities at each level of governance should be both responsible and accountable for appropriate aspects of applying the relevant standards; • Financing arrangements, (including private sector and government obligations, liabilities, including contingent liabilities and debt implications); • Operating agreements, concession contracts or other contracts; • Impact assessments, action plans, monitoring results, evaluations; • Revenue payments, taxes, royalties or other payments made to a government and received by a government; • Periodic reporting to the public on the outcomes of the partnership.
Accountability	Include a range of accountability mechanisms: • Ensuring that the PPP tracks and takes accountability for its development impact, and in particular is measuring impacts on the poorest communities and those who are the hardest to reach; • Carrying out independent evaluations throughout the life of the PPP, including with input from relevant stakeholders; • Put in place specific mechanisms (such as grievance mechanisms, ombudsman, or other arrangements) that can accept and effectively address and remedy grievances from stakeholders who have been negatively impacted by the PPP.

A Note on Terminology

This Report includes a number of commonly used terms to describe the private sector: the private sector, business, companies, enterprises and corporations. There is a huge variety of organisation types, sizes, models, and levels of formality that fall under some of these more general terms – especially "business" and "enterprises." Throughout the Report efforts are made to draw out differences where appropriate. Apart from the discussion on micro, small and medium sized enterprises in Chapter 2, the Report focuses on businesses that operate at a certain level of formality and those with the capacity to make some level of choice about operations.

Executive Summary Endnotes

1 Preamble, Outcome Document for the UN Summit to adopt the Post-2015 Development Agenda, "Transforming Our World: The 2030 Agenda for Sustainable Development", (2015). Available at: https://sustainabledevelopment.un.org/content/documents/7888TRANSFORMING%20OUR%20WORLD_final.pdf

2 Outcome Document for the UN Summit to adopt the Post-2015 Development Agenda, "Transforming Our World: The 2030 Agenda for Sustainable Development", (2015). Available at: https://sustainabledevelopment.un.org/content/documents/7888TRANSFORMING%20OUR%20WORLD_final.pdf

3 See, IHRB State of Play series: http://www.ihrb.org/publications/reports/state-of-play-series.html

4 SDG 12.6, is within SDG 12 on sustainable consumption and production and only "encourages" companies to adopt sustainability practices.

5 See the SDG Indicators home page: http://unstats.un.org/sdgs/

6 These elements are drawn from the international human right framework, more particularly from the Committee on Economic, Social and Cultural Rights that uses these to explain the core elements of various economic, social and cultural rights. See for example: http://www.humanrights.dk/publications/aaaq-manual-right-water-contextualising-indicators

7 http://www.fao.org/cfs/cfs-home/resaginv/en/