Scaling Up Business Impact on the SDGs

Franklin Murillo (Social Progress Imperative),
Estefania Charvet (Southern Voice),
Kenichi Konya (National Graduate Institute for Policy Studies, Japan),
Izumi Ohno (Japan International Cooperation Agency (JICA)),
Hiroaki Shiga (Japan International Cooperation Agency (JICA))

May 6, 2019 | Last updated: December 10, 2020  Tags: SDGs and Development Cooperation

Achieving the Sustainable Development Goals (SDGs) requires redefining the purpose of business and scaling up their impact. However, there are challenges such as the gap between good intentions and real actions; conflict between the current economic system and SDG thinking; limited understanding of how business is embedded in society; and capacity constraints in developing countries to take full advantage of emerging business opportunities. We propose that the leaders of the G20 take necessary action in four areas: a) encourage corporates to embed SDGs into their core business strategies and operations; b) reshape the economic system around the common good; c) create a "sustainable ecosystem" for shaping a beneficial environment for all stakeholders; and d) upgrade the enterprises and policy/regulatory capabilities of developing countries to maximize the potential benefits of their participation in Global Value Chains.

Challenge

Three years have passed since the adoption of the Sustainable Development Goals (SDGs) by all 193 United Nations (UN) member states in September 2015. However, according to the latest SDG Index research, not a single country is on track to achieve all SDGs by 2030. We must renew our commitment and reinvigorate efforts to implement effective and feasible measures to accelerate progress on the SDGs. The SDGs mark a departure from the Millennium Development Goals (MDGs) in two important ways. First, the SDGs are universal and applicable to both developed and developing countries. Second, business is increasingly regarded as a key player in driving sustainable inclusive development for several reasons. First, business contributes financially to SDG achievement (by filling the annual investment gap estimated at USD 2.5 trillion (UNCTAD 2014)). Second, business is good at applying innovations to societal needs and diffusing them and thus contributes to improving our quality of life in novel ways. Third, business activities can have significant impacts on society and the environment, for better or worse. Lastly, the SDGs provide a big opportunity for business. It is estimated that fully embracing the goals could generate 12 trillion USD a year in sustainable and inclusive business opportunities (the equivalent of 10% of global GDP by 2030) (BSDC 2017). The role of the G20 countries is crucial because they produce 86% of global GDP (IMF 2017), 87% of outward Foreign Direct Investment (FDI) flows (UNCTAD 2018), and support two-thirds of the world’s population. However, there are four main challenges that restrain their corporates from making full-fledged contributions to SDG acceleration:

- The gap between good intentions and the real actions by business. While SDG awareness is rising in the business community and enlightened corporate leaders are emerging, the majority remain unaware of the SDGs and of the societal challenges they aim to address. Even many of the enlightened are yet to convert their SDG awareness into concrete actions or make them part of their core strategy. It is important to encourage and support those companies with good intentions and new business cases to embed the SDGs into their core business strategies, operations, and performance indicators;
Proposal

The 2030 Agenda demands a new way of doing business aligned with social progress and sustainable development. Contributions should go beyond Corporate Social Responsibility (CSR) practice, or mere financing. In this light, we present four proposals to the leaders of G20 countries, calling for action to facilitate the scaling up of business impact on the SDGs.

Proposal 1: Embedding the SDGs into core business strategy and operations

1.1 Converting SDG awareness into concrete business actions

A survey on inclusive growth shows that while 92% of business executives support the SDGs, only 17% have plans or policies to achieve them (Deloitte 2018). Another recent survey indicates that although 72% of global companies mention the SDGs in their annual corporate sustainability reports, only 50% had undertaken the crucial process of prioritizing which SDGs were most relevant to their business (PwC 2018). Thus, there is a need to convert SDG awareness into concrete business action. Companies must embed the SDGs into their core business strategy and operations. This requires each company to establish a coordinated and well-sequenced SDG strategy, by reassessing its business and the value it brings to employees, shareholders, and society, and also by taking account of the local country context which the company operates (Figure 1).

More specifically, companies must prioritize the SDGs based on their relevance given their countries and sectors of operation. Companies must strike a balance between business growth and societal and environmental impact, by considering all three dimensions of sustainable development (social, ecological, and economic). In doing so, they have to understand interconnectivity of the goals and targets and evaluate which ones they can best use to realize inclusiveness, ensuring that “no one is left behind.” They must identify business risks in relation both to core products and activities, and more broadly across the supply chain on a country by country basis. They have to target potential opportunities (where business activities could help significantly more) in relation to core products and activities and the wider supply chain. It should also be noted that the vast majority of businesses remain unaware of the SDGs and their role in delivering social progress; this is the case in Japan but probably also elsewhere. Hence, it is important to raise corporate awareness of their responsibility and potential for contributing to the achievement of the SDGs.

Figure 1: Mapping the SDGs against the Value Chain
In this regard, it is worth noting the recent initiative by Keidanren (the Japan Business Federation) to revise its Charter of Corporate Behavior with the aim of leading the realization of a sustainable society, and also to formulate related Implementation Guidelines. More than 1,000 large member companies are expected to use the Charter and guidelines. This initiative could serve as reference for G20 governments to motivate and encourage their respective business organizations and companies to follow suit.

1.2 Linking corporate reporting to the SDGs, by using the common framework and standards

As stated in Goal 12, corporate reporting is important for concerned stakeholders, such as investors and consumers, to monitor corporate performance. Although many companies have pledged commitment to the SDGs, their Key Performance Indicators (KPIs) do not necessarily reflect SDG thinking. The existing survey shows that only 7% of companies link KPIs to societal impact (PwC 2018). Corporations need to improve the quality of their reports by linking KPIs to the SDGs more directly.

A range of international frameworks, indices, and standards to prepare sustainability reports (e.g., Global Reporting Initiative (GRI), Social Progress Index (SPI), UN Global Compact, International Organization for Standardization (ISO)) are available to corporations. Moreover, each G20 country has its domestic reporting guidelines. In Japan, the Ministry of Environment introduced Environmental Reporting Guidelines, and the Government Pension Investment Fund (GPIF) calls on companies to further disclose their CO2 emissions. However, due to multiplicity and inconsistency of these standards and guidelines, not a few companies seem to face difficulties in following them. This is particularly so for small and medium enterprises (SMEs) (METI Kanto 2018) and those of developing countries, which have capacity constraints and limited access to information (Sommer 2017).

Evidence shows that consumers are increasingly trustful of—and loyal to—products or brands that contribute to society (Deloitte 2017). Therefore, the use of common standards for corporate reporting should be encouraged so that consumers can make accurate comparisons and informed choices.

1.3 Promoting joint business action for the common good, utilizing major international events as showcases

International events and symbolic momentum provide good opportunities to promote business alliances toward the common good as well as to increase corporate awareness of the SDGs. Such occasions can be used to solicit new and innovative ideas and engage enlightened corporates to jointly act for sustainable business. For the G20 Japanese Presidency, the 2020 Tokyo Olympics and Paralympics, as well as the 2025 Osaka EXPO, could serve as excellent opportunities to demonstrate business leadership in this regard.

For example, sustainable food supply chain management can be promoted by urging a business to observe Good Agricultural Practice (GAP) at major events such as the 2020 Tokyo Olympics. Similarly, the provision of inclusive and fair services to handicapped persons can
Proposal 2: Reshaping the economic system around the common purpose of sustainable development

2.1 Developing a sustainable capital market

Investment and disinvestment that incorporates environmental, social and governance (ESG) factors into decision-making can significantly change corporate behavior toward the SDGs (Figure 2). Recent years have seen the adoption and implementation of major international initiatives to promote ESG investments. These include the UN Principles for Responsible Investment (PRI) and the Task Force on Climate-related Financial Disclosures (TCFD).

Encouragingly, ESG investment has increased in G20 countries, as well as divestment of environmentally and socially harmful projects. However, the degree of interest and acceptance of ESG investment varies across countries and regions, with Asia (including Japan) scoring lower than the global average. Much needs to be done to develop a sustainable capital market.

Therefore, it is vitally important to devise measures to further promote ESG investment and mainstream it in the capital market. We urge the governments of G20 countries to adopt policy measures which properly incentivize investors to pay due attention to the agenda of sustainable development, and to increase ESG investment. Such measures could include preferential tax treatment, training and fostering asset managers specialized in ESG investment.

Figure 2: ESG Investment and Sustainable Capital Market

Source: Financial Services Agency of Japan (modified by the author).

2.2 Promoting sustainable procurement in the public sector

Procurement occupies 20-30% of total government expenditures in developed countries (OECD 2018, see Figure 3). Hence, sustainable procurement by the public sector can facilitate sustainable development. Wellbeing indices like the Social Progress Index are being used by local authorities in the UK to compel firms bidding for government contracts to compete not just on price or services offered, but also on the social and environmental impact they will create for the community. Governments at every level can build similar requirements into their procurement procedures to encourage sustainable business practices by ensuring firms awarded public contracts are also generating societal good. We urge that leaders in G20 member countries, in particular, take the lead in promoting sustainable procurement.

As global leaders that serve as models for the rest of the world, governments of developed countries can facilitate the adoption of sustainable procurement in developing countries. International cooperation can support capacity development for sustainable public procurement in developing countries.
Proposal 3: Creating a “sustainable ecosystem” for shaping beneficial environment for all stakeholders

3.1 Promoting the understanding and the notion of a “sustainable ecosystem” among all stakeholders

For business to thrive, it needs a thriving economy, society and environment. This is the essence of a “sustainable ecosystem,” where all actors in the system are incentivized to behave in a concerted manner to make social progress (Figure 4). In order to mobilize the potential of corporates toward the achievement of the SDGs while minimizing their negative impacts, it is necessary to create a sustainable ecosystem. Governments, citizens, corporates, and other stakeholders have key roles in this.

One way to create and maintain such a sustainable ecosystem is by ensuring that activities undertaken by businesses do not hinder the potential of other actors such as governments, civil society, or other businesses to achieve the SDGs. It is important that the leaders of G20 member countries acknowledge the importance of creating a sustainable ecosystem, promote this notion to the broad segments of the society, and encourage the corporate sector to make their interests compatible with wider societal and environmental interests, particularly those of consumers.

3.2 Raising consumers’ awareness of sustainable development

Corporates are key actors supporting the delivery of the 2030 Agenda. Likewise, the SDGs represent an opportunity for them to rethink their approaches to sustainability. But corporates are yet to respond to this challenge adequately. Nevertheless, growing demand for production that considers social and environmental factors has been creating market incentives for corporations to respond to. General awareness of the importance of sustainability throughout the supply chain has the potential to increase the number of responsible consumers.

More fundamentally, for a sustainable ecosystem to work, there is a need to create a virtuous cycle where consumers’ perspectives and needs are effectively transmitted to businesses, inducing corporate behavioral changes toward greater sustainability. In this regard, the experiences of consumers’ cooperatives (these originated in the UK and are now spread widely) are notable because they connect consumers’ needs with businesses. For example, the Japanese Consumers’ Cooperative (JCCU) collaborates with members and manufacturers, and manages the process of development, production, supply chain and distribution of ethical products with the CO-OP brand.\textsuperscript{12}

3.3 Building accountability frameworks
Corporates are also market competitors and can compete with each other on achieving sustainability. In this regard, the existence and use of common standards in each industry allows consumers to make accurate comparisons and informed choices between similar goods and services. Similarly, independent, third-party analyses can improve accountability when used to assess the social and environmental impact of firms. By making the social impact of different types of economic activity more visible, indices like the SPI or the SDGs Index empower regulators, consumers, and civil society organizations to hold corporates accountable and encourage sustainable business practices.

Proposal 4: Upgrading the enterprise and policy/regulatory capabilities of developing countries to maximize the potential benefits of their participation in GVCs

4.1 Promoting “Quality FDI” to developing countries, which gives due attention to the sustainable management of entire value chains (including people and companies in the host countries)

From the perspective of developing countries, the expansion of GVCs led by multinational corporations provides both opportunities and challenges to their economies and societies. According to the Business and Sustainable Development Commission, 380 million new jobs will be created by SDG-related business opportunities by 2030, with almost 90% in developing countries (BSDC 2017). Nevertheless, unless multinational corporations give due attention to sustainable and responsible management of their supply chains, there is a risk that host countries face negative consequences in terms of fair labor, environmental damages, safety, etc. There is also the risk that developing countries’ domestic firms will be excluded from participating in GVCs (Dolan and Humphrey 2000; UNIDO 2015; Kaplinsky 2016).

Therefore, G20 countries should urge their respective corporate sectors to be engaged in “Quality FDI,” which embraces the Triple Bottom Line of sustainability (satisfying economic, social, and environmental standards) throughout their entire value chains. G20 governments are also requested to embrace the SDGs and to translate that relationship into policy measures that enable greater corporate action. Also, lead firms can facilitate the inclusion of low-income country producers in GVCs by providing skill upgrading and technology transfers, as well as monitoring their effective implementation of regulations and standards. There is a well-known story that the local human resources trained by a Korean lead firm in the late 1970s made critical contributions to developing today’s garment industry in Bangladesh.

In this regard, it is also worth noting an emerging public-private partnership for building an eco-industrial park in Ethiopia (Hawassa Industrial Park (HIP)). Here, PVH Corp.—one of the largest global apparel companies based in the US, and a lead firm in HIP—has been playing a key role in advising the Ethiopian government on the importance of social and environmental sustainability at the time of HIP establishment (World Bank Group 2017).

4.2 Supporting the capacity development of host country governments to upgrade their GVC industrial policy and improve their business environments

Attracting Quality FDI requires vigorous efforts by both the public and private sectors of host countries to enhance their policy, human and enterprise capabilities. To become reliable partners of lead GVC firms, local companies must improve the quality, productivity, and competitiveness of their products and services so that they can meet international standards and continue upgrading their position in GVCs. Moreover, the host country government needs to embrace strategic industrial and FDI policies to attract Quality FDI. Typical measures include: identifying and directly interacting with critical global companies, maximizing collaboration with them to create strong linkages with local firms, upgrading local enterprise capabilities to meet standards requirements and implementing outreach programs for small-scale producers (JICA and GRIPS Development Forum 2016; Feshehaie and Morris 2018).

The governments of G20 countries and international agencies should provide various support programs for value chain inclusion of local companies, with the above capacity development measures. In this respect, the East Asian experience is a useful reference because one-by-one, countries in different development stages have participated in the dynamic production network created by private multinational corporations. With strong trade, FDI, and aid linkages and technology transfer, a regional division of labor with a clear order and industrial structure has emerged. This is how East Asia has become the global factory for manufactured goods (often called the ‘Flying Geese’ pattern of development) and achieved inclusive growth (Shimomura & Wang 2013; Ohno & Ohno 2019). More recently, new opportunities are emerging for a developing country to participate in GVCs by becoming part of a particular chain where the country has comparative advantage—regardless of the existence of the Flying Geese pattern. The Mexican automobile industry is a promising case of the growth and
advantage—regardless of the existence of the Flying Geese pattern. The Mexican automobile industry is a promising case of the growth and integration of local car parts makers into automobile value chains. Here, international cooperation has played a facilitating role in upgrading capabilities of local enterprises and linkages with FDI.\(^{17}\)

The SDGs need business, and business needs the SDGs, too. We believe that political leadership has a critical role to play in driving our world toward a thriving economy, society, and environment.

We urge the leaders of G20 countries to call for the following actions to scale up business impact on SDG achievement:

- Urging business to embed the SDGs into core business strategy and operations;
- Taking supportive measures to reshape the current economic system around common goals and to create a beneficial ecosystem for all stakeholders; and
- Supporting the industrial and social upgrading of developing countries so that they can benefit from inclusive and sustainable GVC participation.

Acknowledgements

The authors are grateful to Bethan Grillo (PwC) and her colleagues for their input into the drafting of this policy brief. The Policy Brief has also benefitted from discussions with and comments from: Sachin Chaturvedi (RIS), Akio Hosono (JICA Research Institute), Homi Kharas (Brookings Institute), Kwang Wook Kim (Asia Foundation), Adolf Kloke-Lesch (SDSN Germany), Kohei Kubo (Keidanren), Brent Nagel (Social Progress Imperative), Hyuk-Sang Sonh (Kyung Hee University), Mustafizur Rahman (CPD), and Imme Scholz (German Development Institute). Any errors and omissions remain the sole responsibility of the authors.

For the appendix, please refer to the full text policy brief here.

---

1 See Berteslmann Stiftung and Sustainable Development Solutions Network (2018), viii.

2 This is based on the 2018 Deloitte Global Inclusive Growth Survey which surveyed 350 company executives.

3 This is based on the 2018 PwC SDG Reporting Challenge that surveyed 729 global companies.

4 In this regard, the Mars Corporation’s initiative is notable. This company is experimenting with a new business model based on the concept of the “Economics of Mutuality,” which incorporates long-term sustainability and responsibility to people, planet, and performance (see Appendix (1)). In the latest corporate strategy, Mars is committed to sustainable sourcing, a healthy planet, thriving people, and nourishing wellbeing through the value chain process (MARS 2015).

5 According to a survey commissioned by a regional bureau of METI (METI Kanto 2018), 84.2% of SMEs are not familiar with the SDGs, and only 2% of the 500 respondents answered that they are planning to take or have already taken specific actions in relation to the SDGs.

6 See Appendix (2) for more detail.

7 The Goal 12 (Responsible Consumption and Production) states: “Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle. It also specifies the corresponding target (12.6) of ‘number of companies publishing sustainability reports.’

8 GAP is a collection of principles promoted by the UN’s Food and Agricultural Organization (FAO) in relation to on-farm production and post-production processes, in order to realize safe and healthy food and non-food agricultural products, while taking into account economic, social and environmental sustainability.

9 A separate Policy Brief will be prepared on sustainable finance for development. See also Zadek and Kharas (2018) for a Policy Brief submitted to T20 Argentina.

10 According to the Global Sustainable Investment Alliance (GSIA), in 2016, the proportion of Sustainable Responsive Investment relative to total managed assets was highest in Europe (52.6%), followed by Australia & New Zealand (50.6%), Canada (37.8%), and the United States (21.1%). Asia was the lowest at 0.8% with Japan scoring at 3.4%. The global average was 26.3%.

11 United Nations Environment Programme (UNEP) has been supporting sustainable public procurement in developing countries, in collaboration with the Swiss government. http://www.unep.fr/scp/marrakech/pdf/SP2paquer_eu.pdf
12 JCCU has about 320 consumer co-ops and consumer co-op unions, with total of 28 million members. Each consumer co-op is an autonomous association of consumers uniting voluntarily to meet their common needs and aspirations. They cover retail, insurance, healthcare, and welfare businesses. JCCU collaborates with members and manufactures, and manages the process of development, production, supply chain and distribution of 4,500 ethical products with the CO-OP brand. They received the 2nd Japan SDGs award in December 2018 from the Japanese government.

13 “Quality FDI” may be characterized as contributing to the creation of decent and valueadding jobs, enhancing the skill base of host economies, facilitating transfer of technology, knowledge, and knowhow, boosting competitiveness of domestic firms and enabling their access to markets, as well as operating in a socially and environmentally responsible manner (Görg et al. 2017).

14 A Korean lead firm, Daewoo, trained the staff of Desh Garments Ltd (local partner) in Bangladesh, sending 130 workers and management trainees to its Pusan plant in 1979. After six-months training, Desh started to operate six lines with 600 workers, giving a 5 million pieces per year capacity in its modern factory in line with Daewoo’s specifications. While 115 of Desh’s 130 initial workers left to establish or join newly set-up local garment firms, they contributed to the expansion of the ready-made garment sector in Bangladesh (Rhee 1990; Yunus and Yamagata 2012).

15 See Appendix (3) for further information.

16 These normally include satisfying both QCD (quality, costs, delivery time) and sustainability standards.

17 During 2012-2017, Mexico’s annual car production increased from 3 to 4 million, while Japanese car manufacturers’ production in Mexico expanded by 66%, from 800,000 to 1,330,000. This increase was accompanied by a rapid expansion in car parts production in Mexico, with international cooperation playing a key role in facilitating this process. In the case of Japanese auto firms in Mexico, the Japan External Trade Organization (JETRO) collaborated with Mexico’s trade promotion agency, ProMéxico and provided direct capacity building for local SMEs. In 2012, JICA initiated a program with the help of Japanese firms, to increase the productivity of potential Mexican suppliers, through training in Japan’s Kaizen management practices. In addition, the two governments established a “Committee on the Improvement of the Business Environment” in the context of the EPA, which meets regularly to discuss issues arising in the operations of Japanese firms in Mexico (IDB 2016; Hosono 2018).

References


presented to the Inter-American Dialogue conference, Washington DC.


International Monetary Fund (IMF). (2018). World Economic Outlook Database.


Existing Initiatives & Analysis