



Government Policies that Drive Corporate Sustainability Implementing the Post-2015 Development Agenda

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

National strategies to engage the private sector

The establishment of national regulatory and policy frameworks that enable business and industry to advance development priorities was supported in the outcome to Rio+20, the UN Conference on Sustainable Development¹ as well as in the most recent General Assembly resolution on partnerships².

In recent post-2015 consultations, engaged businesses stressed that governments would be best off encouraging corporate sustainability on a systemic basis, rather than being limited to specific public-private partnerships or campaigns,

Legal and regulatory structures, including those entailed in “soft law” -- guidelines, declarations and opinions, which, in contrast to directives, regulations and decisions, are not binding on those to whom they are addressed -- set the tone for such private-public engagement. A “whole of government” approach can instill sustainability in overall policy making when it comes to development priorities. Governments more frequently are reviewing new or proposed agreements on trade and investment in terms of impact on environment and inclusive growth, and directing private investment towards critical areas such as infrastructure, energy, climate, health, and education.

On a broader scale, drawing up National Action Plans to implement the Guiding Principles on Business and Human Rights, as endorsed by the UN Human Rights Council³, helps to instill freedoms and shore up the rule of law. So does ensuring universal entry to all markets, allowing full and fair access to credit, titles and ownership, and the right to a personal identity, which will advance the key objective of poverty alleviation, and help to generate entrepreneurial opportunities among small farmers and informal sector suppliers or service providers.

In a post-2015 context, businesses engaged in multi-stakeholder collaborations can provide valuable input to national action plans and their implementation across sectors. Through structures such as the UN Global Compact's Local Networks, such councils can contribute significantly to development by the public sector of post-2015 strategies, target setting, achievement and measurement of results.

In post-2015 consultations, businesses expressed the view that government highly appreciate their financial resources, but do not draw on other important corporate resources -- expertise, technology, capacity for innovation, resource management, workplace skills development. While business benefits from capacity building by the public sector, it can also provide a decisive contribution to building capacity, especially in developing economies. The ultimate outcome of a transformative set of sustainable development goals will

¹ *The Future We Want*, A/RES/66/288

² A/RES/68/234

³ A/HRC/17/31, annex

require new way for people to engage with each other, with the economy and with the environment. With commercial activity at the fulcrum of so many facets of economic and social activity, helping to change the way businesses do business is the straightest line to implementation of priority global goals.

Encouraging adoption and disclosure of corporate sustainability policies and practices

The General Assembly also urges Governments, along with other stakeholders, to develop models for corporate sustainability reporting and for identification of best practices⁴.

Scores of specific industries, business sectors and trade associations have developed sustainability benchmarks, codes, and standards, recognizing that the different industrial sectors face different challenges. Such industry-defined organizations, be they national, regional or global, are well positioned to reach deeply and widely into a sector, drawing in firms not currently engaged with voluntary corporate sustainability. Governments can recognize and help to shape such standards in relation to the post-2015 agenda.

Already, more than a dozen of the world's largest stock exchanges have set sustainability-oriented reporting requirements, and Governments can back up this success by encouraging other steps to standardize sustainability.

Finally, Governments are in a position to lead by example. State-run companies or those in which government holds a majority position are estimated to carry out 40 per cent of business activity. State-owned enterprises, (SOEs), by virtue of their public ownership, have responsibilities and opportunities that go beyond the simple avoidance of harm. With positive public outcomes written into their bylaws, SOEs should be leaders on corporate sustainability, particularly with respect to governance, transparency and accountability.

Expansion of public-private partnerships and other collaborative approaches

Attention is often focused on large-scale, global partnerships taking on single issues. In the coming era, it will be important to encourage public-private partnerships at a grassroots or country level. These efforts can involve government partnerships with smaller and mid-sized domestic firms as well as multi-national affiliates, or those involving other actors such as civil society and academia, with a view to achieving deep-set, transformative change.

Policies that extend to cooperation with neighbouring nations or to the sub-regional or regional arena are important also. In cases such as the interaction between landlocked and transit access nations, business can help government in finding means to facilitate and speed the passage of goods, without which landlocked economies will remain crippled. Business and finance are also crucial to developing shared infrastructure, such as electricity grids, pipelines and dams and waterworks along shared river basins.

Incorporation of corporate sustainability considerations into procurement and public investment decisions – including the fight against corruption

On the domestic front, this signifies an openness to new and different ideas, to government seeing the national situation from the viewpoint of all of its varied constituencies, and to integrating social, economic and environmental aspects with the political. Public procurement, an area of expenditure that comprises a

⁴ A/RES/68/234

substantial part of the national income, is an important means of resource mobilization when sustainability criteria, such as those that consider the complete life cycle of products and services, are applied to bids from vendors and contractors. Or, for instance, when bidders with inclusive sourcing from enterprises owned by youth, women, indigenous people or marginalized groups are provided this consideration.

Just as SOEs can be natural leaders on corporate sustainability, a similar principles applies to sovereign wealth and natural resource funds and other pools of public monies such as pension funds, development banks and official foreign exchange reserves,

It also means transparency in monetary transactions, especially public procurement. Corruption is a cancer that strikes directly at the operation of business as well as at the quality of governance. In fact, the real cost of bribes taken by public officials is not in the amount that is palmed by the incorrect party. It is the demotivation for businesses to pursue quality, innovation, integrity and pricing as means to advance, if bribes or cronyism are more secure paths to success.

Due to the mechanics of corruption, the only workable approach is to involve businesses in numbers with state agencies and civil society watchdogs in collective pacts to minimize or eliminate its practice, while at the same time improving corporate and government transparency.

Pricing of externalities and natural capital to reflect social and environmental costs

Government assistance in setting prices that reflect their true costs and benefits can improve the functioning of markets while providing a tool to advance sustainability and tackle threats such as climate change. For example, commercial activities that cause air pollution impose health and cleanup costs on the whole society, and add to greenhouse gas emissions that spur climate change. The principle works in reverse, as many business operations such as research and development produce benefits for society that exceed the immediate return on investment.

Many environmentalists and economists contend that perhaps the most salient measure to limit greenhouse gas emissions and get ahead of the climate change crisis, rather than continue to lag behind, is setting a price on carbon that reflects the toll that fossil fuels are taking on the planet and its inhabitants.

More widespread application of this principle nationally and internationally would send a signal that renewable energy and low-carbon projects are, in fact, very profitable. While the focus on carbon pricing is often assumed to be in the developed world, the World Bank maintains that at least 16 emerging economies are looking to emissions trading, carbon taxes and other instruments to scale up their greenhouse-gas mitigation efforts.

The principle is being increasingly applied to a wide range of environmental public goods: not only clean air, but clean water, biodiversity, healthy ecosystems and stocks of fish in the open sea. This movement is aided by the development of detailed corporate accounting systems to place valuations on natural capital and measure and disclose the impact of business activities on valuable natural resources. It can also be applied to social capital valuation – i.e., community health, worker conditions, peace and stability.