

# **EXECUTIVE SUMMARY**

SDG 16 Business Framework Inspiring Transformational Governance



## THE URGENCY OF NOW: BUSINESS MUST DO ITS PART

Since the creation of the United Nations 75 years ago, there has been no more urgent time to mobilize the international community. This decade, that has begun with the world in crisis, can end differently. Disruption must give way to transformation toward greater security and prosperity, equality and dignity for all. But progress requires ambition and determination. Success requires stronger alignment of Governments and multilateral institutions and, in turn, deeper solidarity with both civil society and businesses. All actors and sectors must now do their parts, not least businesses which have benefited so materially from global cooperation and international standards.

In September 2020, more than 1,300 CEOs of companies from more than 100 countries came together to sign "United in the Business of a Better World: A Statement from Business Leaders for Renewed Global Cooperation". The Statement committed business leader signatories to demonstrate ethical leadership and good governance; to invest in addressing systemic inequalities and injustices; and to partner with the United Nations, Governments and civil society to strengthen access to justice, ensure accountability and transparency, provide legal certainty, promote equality and respect human rights. The signatories, in turn, called on Governments to protect human rights, ensure peace and security and uphold the rule of law; to create an enabling environment through strengthened international cooperation and national legal frameworks; and to enhance multilateralism and global governance to combat corruption, build resilience and achieve the Sustainable Development Goals. The tenets of this Statement are underpinned by the targets under Sustainable Development Goal 16.

Peace, justice and strong institutions, bound together as SDG 16, are vital enablers and catalytic accelerators to sustainable development, bringing together Governments, civil society and businesses in common interest. Even as the elements of SDG 16 are key ingredients to business success, their relevance to business is not well understood. Businesses and investors are major beneficiaries of the enabling environment created by the elements of SDG 16 — it is imperative that they also become greater contributors to securing peace, justice and strong institutions at all levels.

SDG 16 is highly relevant to businesses for two reasons. First, peace, justice and strong institutions are the building blocks that enable Governments, civil society and businesses to focus on the other SDGs. When those factors are in place, progress towards achieving the other SDGs can accelerate. Second, peace, justice and strong institutions are essential to profitable and sustainable environments for business and investment. When those factors are in place, businesses and investors can spur economic innovation and development, generate jobs and incomes, diminish poverty and expand opportunity.

The "SDG 16 Business Framework | Inspiring Transfor-

mational Governance" is a tool for businesses, developed by businesses. It presents the what, why and how of transformational governance through each target under SDG 16. While the principal responsibility for achieving these targets rests with Governments, businesses have an important role to play in strengthening internal and external activities consistent with corporate purpose and stakeholder capitalism. It represents an opportunity for responsible businesses to be a key contributor to achieving the transformational governance the 21<sup>st</sup> century requires.

### TRANSFORMATIONAL GOVERNANCE: INSPIRING AN EXPANSIVE APPROACH TO THE "G" IN ESG

Corporate purpose and stakeholder capitalism are crystallizing attention and galvanizing action by businesses to meet rising challenges and expectations. These twin agendas have been gaining traction with a still limited but growing number of companies, mostly large multinationals that have long been committed to corporate responsibility and sustainability. That traction appears to be accelerating amidst a convergence of global crises including climate change, economic instability, social inequality and a global pandemic. The question now is whether the views of stakeholders will be heeded and corporate purpose will be demonstrated — whether statements will translate into actions and commitments into impacts towards the business of a better world.

The answer is the growing interest of businesses in SDG 16 pointing to an expansive approach of the "G" in ESG. **Transformational governance** is a prism through which businesses can expand their understanding of the "G". It demonstrates **how** businesses can assess and implement SDG 16 through three interrelated dimensions:

**CONVENTIONAL GOVERNANCE:** broadening the traditional notion of corporate governance to include board and management oversight, values and culture, strategies and policies, operations and relationships.

**SUSTAINABLE GOVERNANCE:** strengthening governance with respect to managing environmental and social risks and opportunities.

**GLOBAL GOVERNANCE:** inspiring businesses to contribute responsibly to public institutions, laws and systems at the international, national and municipal levels.

Transformational governance will take many forms. It will deepen business values and strategies, policies and operations and internal and external relationships. It will encompass corporate functions from Government relations and public affairs to legal and compliance. It will focus due diligence processes applied to investment risks and opportunities and environmental and social considerations. It will embrace a distinct corporate purpose that reflects and reinforces stakeholder capitalism. It will also better align Governments, civil society and businesses towards a common agenda of leaving no one behind.

## PURPOSE OF THE FRAMEWORK

The Framework sets out the theory of transformational governance and how it is underpinned by the targets and tenets of SDG 16: peace, justice and strong institutions. Transformational governance is a **principles-based philosophy, not a new legal concept** that calls on businesses to be more accountable, ethical, inclusive and transparent as a driver to responsible conduct, enhanced ESG performance and strengthened public institutions, laws and systems. This means fostering a culture of integrity, fairness and inclusion beyond legal formality **asking not just what is legal but what is right**.

Businesses are increasingly being compelled to act on unconventional issues, chiefly due to rising expectations from:

- **Consumers** calling on businesses to be responsible societal actors, including by delivering goods or services that do not harm people or the planet and by speaking out on social issues that affect the communities they serve.
- **Investors** including institutional investors, sovereign funds managers and others who develop and/or use indices that include ESG factors to determine which companies to invest in and, in some cases, to take action against those that have underperformed.
- **Governments** and regulators are increasingly introducing directives or legislation on ESG issues and increasingly enforcing such instruments.
- **Employees** and prospective employees aligned with certain values, culture and commitments in order to increase attraction to, and decrease attrition from, the business.

These expectations raise the bar for businesses to adopt an ethical and values-based approach to culture, governance and leadership resulting in greater shared value for the business, employees, investors, consumers and communities. The Framework serves as a tool for businesses to embrace transformational governance. It does not aim to create new commitments or standards but to:

- 1. Deepen **understanding** of the targets of SDG 16 by businesses
- **2.** Strengthen **cross-functional engagement** across these targets
- Encourage businesses to assess where they are on the transformational governance journey and to identify opportunities for improvement
- **4. Incorporate** into board and management oversight, values and culture, strategies and policies, operations and relationships

It covers each of the targets of SDG 16. Each target has been interpreted **in spirit rather than in literal meaning** to highlight the relevance and application in a business context. Each target section includes:

- What the target means for businesses
- How businesses should implement the target
- Ways that businesses can take action internally and externally to their organization
- Examples of individual and collective business action
- A mapping of the target against industries and intersections including the UN Guiding Principles on Business and Human Rights ("UNGPs"), the UN Global Compact Ten Principles ("Ten Principles") and the Sustainable Development Goals

The guidance presented in the Framework builds upon international standards for responsible business including the Ten Principles and the UNGPs, among others. Businesses are encouraged to integrate the underlying values and principles of transformational governance — to be accountable, ethical, inclusive and transparent — in their internal and external activities, including throughout their supply chains.

#### INTERNALLY, business can advance SDG 16 through:

- Values and culture
- Board, committee and management composition and oversight
- Education, employment and training
- Policies and processes including ethics and compliance programs
- Contract provision, due diligence and grievance mechanisms
- Risk management and reporting

#### EXTERNALLY, business can advance SDG 16 through:

- Advocacy including lobbying
- Community dialogue
- Policy engagement
- Capacity building
- Collective action and partnerships
- Supporting Government monitoring and reporting

Ultimately, the Framework is intended to inspire all businesses to embrace transformational governance to strengthen performance and partnerships — as a complement to, not a substitute for, Government action. While the themes of the Framework impact all businesses, they will understandably engage at varying levels of maturity. Investors are also an important parallel audience. And the Framework aims to inform, Governments, the multilateral system and civil society on how to better engage with **responsible businesses** to advance peace, justice and strong institutions.



Violence (including violent conflict) comprises physical, psychological and sexual violence and undermines the conditions most conducive to thriving businesses and societies. Peaceful environments require a well-functioning Government; respect for the rights of others; peaceful relations with neighbors; the free flow of information; high levels of human capital; low levels of corruption; a sound business environment and equitable distribution of resources. Businesses have a strong interest in reducing instances of violence and working to foster conditions of peace. Moreover, businesses must ensure they do not unintentionally widen inequalities or further drive tensions in violent, fragile and conflict-affected settings.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

While Governments are chiefly responsible for establishing the attitudes, institutions and structures that foster peaceful societies, businesses have an important role to play. The UNGPs and the Voluntary Principles on Security and Human Rights ("Voluntary Principles") establish that businesses have an express and inherent responsibility to take all practical and reasonable steps to "do no harm" to any persons including to not cause or contribute harm through their own activities. Implementation of conflict-sensitive business practices is essential. Further, businesses can "make positive contributions" to peace by providing employment opportunities, generating economic development and supporting efforts to reduce the drivers of violence in the communities where they operate.





PROTECT CHILDREN FROM ABUSE, EXPLOITATION, TRAFFICKING AND VIOLENCE

#### WHAT DOES IT MEAN FOR BUSINESSES?

Violence against children is especially harmful given the unique circumstances of a child's exposure and vulnerability to violence and exploitation as well a lack of agency in exercising his or her fundamental rights. In this context, this target calls on Governments, civil society and businesses to recognize their special responsibility to protect, respect and support children's rights and keep children from harm's way.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

Businesses have a responsibility to comply with relevant legislation (including international standards where possible) and to effectively manage any risk related to violence against children within their own operations and throughout their supply chains. While such conduct can take many forms, the most common risks to businesses include the abuse, exploitation or trafficking of children as a source of inexpensive labour or sexual exploitation. Moreover, businesses should pay particular attention to the growing prevalence of social media and the susceptibility of children to bullying and harassment, graphic content and invasion of privacy. All of these can have a devastating effect on a child's development and can last throughout his or her life.



The rule of law may be characterized as providing clear, fair and predictable laws to which all are equally accountable and ensuring that such laws are enforced impartially, independently and consistently with international human rights norms and standards. Access to justice is a fundamental tenet of the rule of law whereby all persons are aware of their rights and responsibilities and are able to seek legal recourse or remedy should the need arise. Businesses have an interest in access to justice for all as an indicator of strong rule of law as well as of social equity and inclusion.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

Business respect and support for the rule of law can be demonstrated in a variety of ways. Businesses must respect the rule of law in the countries where they operate and are encouraged to apply international standards wherever possible. In addition, they are increasingly advocating on procedural issues, such as upholding free and fair elections and separation of powers, and substantive issues, such as upholding fundamental freedoms and gender, racial and social equality. Businesses ultimately recognize the mutuality between protecting the rule of law and providing access to justice for all and the impact this has on the social license to operate and on customers, employees and communities.



#### WHAT DOES IT MEAN FOR BUSINESSES?

Illicit financial flows are defined as "the movement of money across borders that is illegal in its source, its transfer or its use". These flows move through bribery and corruption, money laundering, tax evasion and financing of terrorism or other forms of organized crime including illegal arms flows, sex trade and drug trade, human trafficking and wildlife trafficking. Businesses may find themselves at the center of such activities in a variety of ways — whether as direct beneficiaries or as "professional gatekeepers". For instance, while tax evasion is illegal, businesses will often seek ways to reduce their tax obligations through aggressive tax avoid-ance schemes and complex corporate structures that are legal. These practices have come under increasing scrutiny in recent years with calls from responsible businesses and civil society for ultimate beneficial ownership transparency and the adoption of responsible taxation principles.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

Businesses and professional gatekeepers play an important role in subverting illicit financial flows and illicit transfer of assets and in combating organized crime. Implementing robust anti-corruption and human rights due diligence policies and practices and collaborating with relevant law enforcement authorities in the prevention and remedy of these illicit and illegal activities are a key means of doing so. In addition, businesses can support Governments in developing and maintaining responsible business environments, helping to build trust in themselves and in Government by focusing on ethical compliance and conduct particularly in jurisdictions where governance institutions are weak.



Corruption and bribery are among the greatest impediments to economic and social progress, undermining institutions of governance and the rule of law and subverting progress with the other elements of SDG 16. Corruption and bribery limit the capacity of Governments to provide essential public services including law and enforcement, health and education and investment and infrastructure — each of which foster stable business environments. While the role of Government officials on the "demand side" of corruption is more likely to consume news headlines, the "supply side" requires equal attention particularly as it is often fueled by businesses and other opaque entities.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

Businesses have the ability and influence to work against all forms of corruption in a variety of ways. First and foremost, businesses should "do no harm" by adopting a zero-tolerance approach to accepting, engaging or otherwise facilitating any form of unethical or illegal conduct. Beyond that, businesses can make a "positive contribution" by acting collectively and using their influence to level the playing field, promote business integrity and ultimately build trust.



#### WHAT DOES IT MEAN FOR BUSINESSES?

Effective, accountable and transparent institutions are core to the enabling environment in which businesses and societies can thrive. They provide the laws, policies and systems necessary for creating sustained peace and security, for providing essential infrastructure and services and ultimately for attracting responsible investment and market opportunities. All institutions — public and private — must be effective, accountable and transparent in ways that instill confidence and trust among them and by the public in them. This imperative ranges from how communities and workers are supported and how human rights and the environment are protected.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

Governance is evolving in a way that requires businesses to not only strengthen corporate governance practices but also to assume more responsibility in sustainability governance and engage more deliberately in global governance — or collectively referred to in the Framework as transformational governance. Notably, there are directives, legislation and regulation that are placing greater responsibility on businesses and ultimately encouraging them to adopt an expanded view of governance. Businesses must embrace ethical and moral leadership in order to rise to this challenge and to be more effective, accountable and transparent organizations.



Responsive, inclusive, participatory and representative decision-making at all levels should be at the core of any Government, institution and organization. Without them, we are unable to appreciate the challenges faced by many sections of society nor benefit from their diverse ideas and opinions in finding effective and sustainable solutions. Groups including women and children, first peoples and racial minorities, persons with disabilities and the LGBTI community — are often left on the margins with respect to commercial, financial or political participation. The elements of this target reflect the interdependencies of transforming all institutions — public and private — and of empowering the citizens and customers they serve.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

There are a significant number of ways that businesses could and should contribute to this target within their own organizations and through working with Government and civil society. These contributions can include having balanced representation and participation on boards and in leadership positions and other critical functions of the business. Moreover, many businesses recognize the need to review their policies and practices from recruitment and promotion to products and marketing to ensure they reflect the many faces and voices in our societies. Many have developed and implemented action plans to address systemic racism and other inequalities within their own organizations and are committed to providing resources and platforms to advance public policy focused on these objectives.



#### WHAT DOES IT MEAN FOR BUSINESSES?

Global governance consists of the systems, institutions and decision-making processes created to address a variety of global challenges. The foundations of peace and security, human rights and development that the institutions of global governance have established over decades are of fundamental significance to businesses. While decision-making must remain the responsibility of accountable, effective, inclusive and transparent public institutions, the business community can — and is increasingly being called upon to — contribute to tackling these global challenges at the global and local levels.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

With the converging crises of climate change, economic instability, social inequality and global pandemic, businesses are calling for greater global cooperation. Businesses have a critical role in promoting ethical leadership and building trust both between public and private institutions and in them by civil society — consistent with the tenets of SDG 16 to foster peaceful, just and inclusive societies. Responsible businesses have the ability to engage with Governments and civil society toward a form of transformational governance that includes strengthening corporate governance, sustainable governance and global governance — at the global and local levels.



Without legal identity or birth registration, more than 1.1 billion people live in the shadows of the informal economy. They are denied access to basic rights, including the right to vote and the freedom of movement. While it may appear that the role of business in providing legal identity is limited, the relevance to a business' operations and reputation is significant as a number of marginalized populations including women, children, migrants and refugees may be exploited, manipulated or trafficked to work across various industries. This problem is not only relevant to undocumented persons but also those who have had their passport confiscated denying them access to their legal identity and, in effect, forcing them into indentured servitude — or what is now commonly referred to as modern slavery.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

Businesses have a responsibility to avoid causing or contributing to any human rights abuses and should seek to prevent, mitigate and, where appropriate, remediate any harm caused. This responsibility includes conducting the necessary human rights due diligence and auditing to identify whether there are any undocumented or unprotected workers in their operations or supply chains. Businesses in the ICT and related sectors can proactively support UN agencies, Governments and civil society organizations in bringing people out of the informal sector by providing birth registration and legal identity — while respecting human rights including the right to privacy.



#### WHAT DOES IT MEAN FOR BUSINESSES?

This target has a significant impact on all businesses and on the communities in which they have an interest or operate. The protection of fundamental freedoms is a core tenet of the International Bill of Rights and, by extension, the UNGPs as it relates to businesses. Businesses have a strong interest in the work of activists and journalists, who provide critical and quality information and expose civil, economic and political risks that limit businesses' ability to operate in free, open and secure societies.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

Businesses play a critical role in achieving this target by providing citizens access to credible information and supporting fundamental freedoms including the freedom of expression and the right to assembly or participation. In addition, businesses across sectors are increasingly in possession of sensitive personal information and, as such, are being called upon to protect the right to privacy and the right to be forgotten by customers, employees and communities.



Businesses have a strong interest in this target as it goes to the heart of global governance which comprises institutions, laws and systems at the municipal, national and global levels. To be sure, building capacity of relevant national institutions provides the necessary conditions of clarity, certainty and consistency for businesses to operate responsibly, profitably and sustainably. These institutions include the executive, judicial and legislative branches of a functioning democracy and independent regulatory bodies including anti-corruption or fair labour commissions, consumer protection or environmental protection bureaus; national human rights institutions; law enforcement agencies; births, deaths and marriages or intellectual property and land registries; securities exchange commissions and more.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

Businesses should also consider whether they have within their own organizations the right priorities, functions and responsibilities for robust governance. For instance, how are businesses structuring their own governance frameworks to ensure that there is adequate oversight of organizational culture, strategies, policies, operations and relationships in order to adequately manage financial, legal and reputational risks and environmental, social and governance risks. Moreover, businesses should ensure they are not impeding the ability of Governments to establish and exercise discretion over core public institutions or the ability to enact and enforce laws that are necessary to protect the public interest within a given jurisdiction.





PROMOTE AND ENFORCE NON-DISCRIMINATORY LAWS AND POLICIES

#### WHAT DOES IT MEAN FOR BUSINESSES?

This target reinforces the need for Governments and businesses to apply a nondiscriminatory lens to laws, policies, products and services in order to protect marginalized groups from discrimination as citizens, employees, customers and investors. These include women and children, first peoples and racial minorities, persons with disabilities and the LGBTI community. Consideration should also be given to how people are treated based on their age (especially the elderly), religious affiliation, political persuasion or financial situation, among other capacities.

#### HOW SHOULD BUSINESSES IMPLEMENT IT?

Businesses should ensure they "do no harm" in their lobbying efforts or by adopting practices that fuel systemic inequalities or injustices to advance their own interests. Businesses should foster a culture of diversity, equity and inclusion through their policies and practices and are encouraged to raise their voices and focus their investments in order to drive legislative and systemic change in ways that align their interests with those of their customers, employees and communities.

## REPORTING: A CALL TO BUSINESS AND INVESTORS

Corporate reporting is a means of generating, and making available to stakeholders, information necessary to understand and mitigate risks and to capture opportunities. It is also a vehicle for transparency and a key means of holding businesses to account and, as such, is intrinsic to good corporate governance. Beyond the businesses themselves, expanded corporate reporting on SDG 16 would generate value for a range of stakeholders, including:

**INVESTORS**, for whom corporate disclosures and reporting on SDG 16 would provide greater insight into factors central to a business' ability to succeed, including levels of corruption, the rule of law and the strength of institutions, among others.

**GOVERNMENT**, for whom corporate disclosures and reporting on SDG 16 would help in assessing compliance with existing laws and exposing gaps in the existing regulatory environment. Businesses can also responsibly support Governments in their own monitoring and reporting of SDG progress.

**CIVIL SOCIETY**, for whom corporate reporting on SDG 16 can provide further data and insight on sustainability performance around which to organize advocacy and engagement.

While there is no emerging consensus on how businesses should report on SDG 16, developments in the business and investor communities offer opportunities to strengthen such reporting. A recent survey by Engageability and Swisspeace (commissioned by the PeaceNexus Foundation in collaboration with the UN Global Compact), found that 84 per cent of participating investors and ratings agencies believe that reporting on SDG 16 is "very relevant"; that businesses view the SDGs as a complementary framework alongside their existing ESG/sustainability reporting frameworks and that there is awareness within the business community of SDG 16 and its targets. Notably, the GRI and the UN Global Compact have done initial work to map existing standards to SDG targets and an enhanced Communication on Progress (CoP), the main accountability mechanism of the UN Global Compact, will be launched in 2022. This provides the foundation for further expansion of SDG 16 reporting over time. Central to this effort is the involvement of the investor community, including the UN-supported Principles for Responsible Investment, in building consensus on how business could and should report on these issues in a comparable way.

## THE JOURNEY AHEAD

The Framework shows businesses why and how a focus on SDG 16 - peace, justice, and strong institutions — can both strengthen corporate governance and inform corporate purpose. Those businesses which take up the challenge will also improve sustainable governance and global governance at a time when such improvement is urgent. As we experience a period of historic crises this has also led us to a period of epic opportunities, for Government, civil society and businesses, to create the world we want — and we all need. While we are at the beginning of the journey toward more ambitious engagement by the business community on peace, justice and strong institutions, there is much to be built upon and a unity of purpose to be harnessed. Transformational opportunity awaits.

## THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

#### HUMAN RIGHTS

- Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2 make sure that they are not complicit in human rights abuses.



#### LABOUR

- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4 the elimination of all forms of forced and compulsory labour
- **5** the effective abolition of child labour; and
- **6** the elimination of discrimination in respect of employment and occupation.



#### ENVIRONMENT

- **7** Businesses should support a precautionary approach to environmental challenges;
- 8 undertake initiatives to promote greater environmental responsibility; and
- **9** encourage the development and diffusion of environmentally friendly technologies.

#### ANTI-CORRUPTION

**10** Businesses should work against corruption in all its forms, including extortion and bribery.

#### ABOUT THE UNITED NATIONS GLOBAL COMPACT

As a special initiative of the UN Secretary-General, the United Nations Global Compact is a call to companies everywhere to align their operations and strategies with Ten Principles in the areas of human rights, labour, environment and anti-corruption. Our ambition is to accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the Sustainable Development

Goals through accountable companies and ecosystems that enable change. With more than 12,000 companies and 3,000 non-business signatories based in over 160 countries, and 69 Local Networks, the UN Global Compact is the world's largest corporate sustainability initiative — one Global Compact uniting business for a better world.

For more information, follow **@globalcompact** on social media and visit our website at **unglobalcompact.org**.



**United Nations** Global Compact

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The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.