



BEYOND RHETORIC: WHY FOREIGN POLICY NEEDS TO FOSTER PRIVATE SECTOR SDG IMPLEMENTATION

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From conflict prevention to human rights protection – companies are vital for the success of the 2030 Agenda and foreign policy alike. But progress on SDG implementation in the business world is at a turning point. Foreign policy can and must play a decisive role by building a robust knowledge base, making use of economic diplomacy instruments and bringing trade and foreign direct investment in line with the SDGs.

Central foreign policy objectives directly depend on SDG progress. This is very clear with regards to the private sector: in the globalised world economy, supply chains link one part of the world with another. As a consequence, decision-making in corporate headquarters in Europe has an impact – both negative and positive – on the environment and societies abroad. Companies are thus vital for the success of the 2030 Agenda and foreign policy alike, by contributing skills, knowledge and resources for implementation as well as running their business more sustainably.

But progress on SDG implementation in the business world is at a crossroads. While many companies began to integrate the SDGs in their business strategies and their sustainability reporting, it is now key to scale up these practices and, crucially, drive positive impact, ensuring to minimise the risks of “SDG-washing” and cherry picking. Governments need to play a stewardship role in this undertaking to help create an enabling environment in which companies embrace SDGs and focus on impact. And foreign ministries need to be at the forefront, connecting business engagement on SDGs with foreign policy objectives, streamlining SDGs in current economic diplomacy instruments and enabling corporate action through alignment of trade and foreign direct investment (FDI) with SDGs.

THE PRIVATE SECTOR: MORE EFFORTS ARE NEEDED TO AVOID UNDERMINING SUSTAINABLE DEVELOPMENT

Since the 1950s, trade and foreign direct investment have significantly increased. For example, the percentage of exports of goods and services of GDP accelerated from approximately 12 per cent in the 1960s to approximately 37 per cent in 2015.¹ Foreign direct investment inflows have similarly risen from about USD 10 billion in the 1970s to USD 1.95 trillion in 2017.² Simultaneously, the number of multinational enterprises³ (MNEs) has increased and MNEs now account for approx. 33 per cent of global gross output in 2014 (total economic activity). As a result, a web of ever more complex supply chains has emerged that links one part of the world with another.

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As negative impacts of transboundary business activities on the environment and society became more apparent, the core role of the private sector for reducing these impacts became very clear. Impacts on the environment and society to a significant degree now arise at the beginning of the supply chain,⁴ potentially affecting existing political conflicts. For example, in the German textile sector, water and land are predominantly used during the production of raw materials abroad; roughly two thirds of the water is consumed in areas experiencing water stress.⁵ Reduced access to water resources may lead to local grievances that fuel conflicts (as was the case with water privatisation in Bolivia).⁶ Another problematic case represents foreign direct investment in fragile contexts where companies' activities may "do harm by contributing to human rights violations, corruption and lack of trust – all of which are causes of conflict and fragility".⁷





Private sector is a pivotal actor in the implementation of SDGs, and is involved through manifold channels in the international processes around the 2030 Agenda. Matamela Cyril Ramaphosa, President of the Republic of South Africa, makes remarks at the UN Private Sector Forum in 2018.

In order to avoid undermining sustainable development, more awareness and increased efforts among businesses *and* governments are needed, focusing on where companies' (potential) negative impacts are most severe.⁸

THE PRIVATE SECTOR: POSITIVE CONTRIBUTIONS ARE INDISPENSABLE FOR SDG IMPLEMENTATION

Through business activities, asset allocation and investment decisions as well as by contributing skills, knowledge, resources and transparent reporting the private sector may play a key and decisively positive role for SDG implementation.

Companies are in a unique position to implement the 2030 Agenda on the ground, for example by creating more decent jobs along the supply chain (SDG 8). Such measures would have a major global impact, considering that more than 700 million workers are employed directly and indirectly in global supply chains.⁹

Resources from the private sector are needed for successful SDG implementation. These comprise skills and knowledge to spur innovation as well as financial resources which should be channelled towards the SDGs rather than harmful and unsustainable activities. According to the UN Commission on Trade and Development (UNCTAD), financing the SDGs will require five to seven trillion US dollars per year,¹⁰ with developing countries facing an annual gap of over two trillion US dollars.¹¹ A major influx of capital towards sustainable development could be a game changer for SDG implementation, especially since Official Development Assistance (ODA) remains low and global sustainable investment remains a niche.^{12,13}

Resources from the private sector are needed for successful SDG implementation.

The engagement of the private sector in SDG implementation is not only positive for sustainable development but also for the companies. Integrating the SDGs in business strategies opens companies to new markets and business opportunities estimated at 12 trillion US dollars just for four SDGs (food and agriculture, cities, energy and materials, and health and well-being) which could also create 380 million jobs.¹⁴ For example, developing new technologies to prevent food waste losses occurring during harvesting would help reduce pressure on the environment as well as open up markets in developing countries where post-harvest losses often occur (e.g. in India and Rwanda).¹⁵



SDG IMPLEMENTATION IN THE PRIVATE SECTOR – FROM AWARENESS AND ENGAGEMENT TO IMPACT

While private sector awareness and engagement is indispensable for SDG implementation, it currently does not live up to its potential.

On a very basic level, the SDGs can be regarded a success story for private sector engagement. Many multinational companies now publicly acknowledge the SDGs, due in part to the fact that the business world was integrated by means of the post-2015 business engagement architecture and had a voice in the form of a major group (“business and industry”) in the intergovernmental negotiations leading to the 2030 Agenda.

The interest in SDGs by the private sector is observable in numerous initiatives, which provide tools, outreach material and engage in dialogue on specific SDGs and crosscutting issues such as indicators and benchmarking. For example, the “Business Call to Action” encompasses 230 companies in 70 countries and aims to strengthen private sector SDG implementation.¹⁶ Interestingly, from a foreign policy perspective, these initiatives and contributions directly address business activities and impacts abroad and connect SDGs with establishing sustainable

The number of companies integrating SDGs in their business strategies has increased in the past two years.

supply chains. For example, in the SDG compass, a leading tool created by the World Business Council on Sustainable Development (WBCSD), UN Global Compact and GRI (Global Reporting Initiative), private sector implementation implies “understanding the SDGs”, “defining priorities”, “setting goals” and “integrating”. Priorities are to be defined by “map[ping] the value chain to identify impact areas.” In the section on “understanding the SDGs”, the compass also links private sector SDG implementation with compliance of, among others, the UN Guiding Principles on Business and Human Rights and the UN Global Compact Principles, which address some of the negative impacts that arise in the supply chain.

Also, the number of companies integrating SDGs in their business strategies has increased in the past two years.¹⁷ This encompasses major companies from those sectors particularly relevant to trade and FDI related externalities (e.g. the textile, food and mining sectors).

Nevertheless, when looking in more detail at the current progress with regard to private sector implementation, it becomes apparent that further efforts are needed to create impact, i. e. protecting the environment, fostering human rights and helping create more equitable and inclusive societies wherever companies operate.



Rag pickers search for recyclable material in the garbage in Amravati, Maharashtra (India), in 2014.

From “SDG-referencing” to additional action: Firstly, notwithstanding some “best practice cases”, a big pending question is whether the SDGs guide business action and lead to additional measures at a company level. For example, a survey of 250 larger companies across sectors and continents found that 44 per cent merely reflect on the positive relationship between SDGs and their corporate strategy, while 41 per cent took concrete measures to integrate SDGs in their company; some companies do not yet take the framework into account, and some have just begun to think about SDGs.¹⁸ With regard to reporting, companies differ in how they take the SDGs into account: some only mention them, others relate them to existing strategies. Furthermore, small and medium size companies are very reluctant to adopt or implement the SDGs.

Companies are primarily interested in SDGs as the framework helps them structure their existing sustainability approach, and committing to it is expected to improve corporate image and render competitive advantages.¹⁹ They to a larger degree focus on the positive impact of the SDGs, usually within their “direct operations” rather than the wider supply chain.²⁰ They are also more interested in the general SDG “themes” or goals, and focus less on specific targets.²¹

Very importantly, from a foreign policy perspective, this means that current links to themes with high priority (such as FDI in fragile contexts) have often not yet been made. In principle, companies serious about reporting should assess impacts where they occur, i.e. also in the supply chain. However, this understanding is not yet part of the mainstream – the implementation is still at a very basic level where, to use an image, flow diagrams indicate that SDGs are somehow addressed.

From cherry picking and “SDG-washing” to impact-based prioritisation of SDGs:

Secondly, most companies also engage in prioritisation of SDGs, selecting a subset of SDGs for their engagement. MNEs in particular prioritise implementing SDGs which are related to their core business activities and internal processes.²² This is also visible in the SDGs favoured by businesses: According to the 2018 United Nations Global Compact Progress Report, in the past two years the top three SDGs respondent companies target were SDG 8 on Decent Work and Economic Growth, SDG 5 on Gender Equality and SDG 3 on Good Health and Well-Being.²³ Companies in consumer-facing sectors are more prone to address SDGs than companies in heavy industry sectors.²⁴ Companies focus more on the

There are risks of “cherry picking”, where companies select the most relevant and “easiest” SDGs, and of “SDG-washing”, where companies mainly use the framework for public relations, concentrating on positive contributions.

SDGs to which they can directly relate (such as economic growth), less on the ones their activities affect indirectly (poverty, inequality).²⁵ There are also regional differences: in BRICS countries, for example, MNEs focus more on SDG 9 – Industry, Innovation and Infrastructure.²⁶ Companies also tend to favour some SDGs among others according to their PR-strategy or depending on the profitability of the investment. A business might be more inclined to finance projects in infrastructure rather than community-based social services. Companies also tend to be more willing to participate in additional projects rather than adjusting their business strategy to the SDGs.²⁷

Prioritisation is necessary as the SDGs encompass such a wide array of different goals and targets, and action should focus on the “big points”. Nevertheless, companies are still very reluctant to prioritise measures according to their impacts on the SDGs and many also do not provide enough information on how and why they select the SDGs.²⁸ There is hence currently the risk of cherry picking, when companies select SDGs according to whether they are relevant to them and “easiest”,²⁹ and also of “SDG-washing”, where companies mainly use the framework as a PR tool and solely “report on positive contributions”.³⁰

From a foreign policy perspective, this is very problematic as it means those SDGs which are of great concern (e. g. 1, 2, 13, 14, 15, 16) risk being left out. To put it differently: the problem is how to prioritise. More effective due diligence processes, based on the UN Guiding Principles for Business and Human Rights and the OECD

Guidelines for Multinational Enterprises, are needed for companies to prioritise efforts on the most severe negative impacts and the most promising contributions they can make.³¹

From low to high corporate integration – building a “foreign policy” business case:

Thirdly, from an institutional perspective, the SDGs currently do not permeate all units of the committed companies. Mostly, sustainability departments are tasked with implementation, followed by communication departments and CEOs.³² Several challenges remain, including making the “business case” for SDGs, helping understand how SDGs relate to current regulation, adding benchmarks to the SDGs and connecting them with data from the companies. This is in part a knowledge problem – what would be helpful is to outline from a foreign policy perspective how e. g. conflict-sensitivity helps to increase business performance.

Private sector implementation is at a crossroads: while important steps have been taken, more is needed to create additional impact. There is a real risk that instead of transformative activities, more business-as-usual is taking place.

In sum, private sector implementation is at a crossroads: while important steps have been taken, more is needed to create additional impact. There is a real risk that instead of transformative activities, the reality is more business as usual.³³ But there is also room for hope: “SDG front-runner” companies do exist. Occasionally private sector’s commitment to the 2030 Agenda goes beyond governments and legal obligations, taking the lead to tackle social or environmental challenges (e. g. the campaign against a hydropower dam in the Balkan region).³⁴ Furthermore, SDGs are a suitable platform for a more thorough discourse within companies and between companies, civil society and governments. A positive development in this regard is the establishment of the World Benchmarking Alliance, which intends to “measure and incentivise business impact” on SDGs; the initiative could help in inducing a market-driven race to the top.³⁵

BUSINESS ENGAGEMENT ON THE SDGS AS A FOREIGN POLICY GAME CHANGER? POTENTIAL AREAS OF ACTION

The analysis so far has made the case for increased presence of foreign ministries in current discussions on SDG implementation in the private sector. As outlined before, key foreign policy objectives are concerned. Furthermore, the SDGs also provide a good entry point to discuss with companies their activities, whether current commitment is enough to meet the vision of the Agenda 2030 (additionality) and how they should focus on specific SDGs (such as inequality, poverty, human rights violations). Foreign policy should use the opportunity to contribute to the discussion to push themes such as fragility and private sector impact on conflict and cooperation.



While global supply chains are efficient, they also bear significant risks of supply shocks. These shocks need to be gradually reduced through sustainable trade and investment promotion. Here, foreign policy must engage with the private sector.

Three areas of action warrant specific attention from foreign ministries:

1 Connect business engagement on the SDGs with foreign policy objectives

In order to manoeuvre successfully in the political arena, it would be very beneficial to build a knowledge base, linking SDG-related business activities with foreign policy objectives. Data could e.g. come from CDP and sustainability reporting in general. However, this data is not yet connected comprehensively either to the SDGs (and targets and indicators) or to foreign policy objectives. An important first exercise would thus be to identify priority areas in the private sector with larger impacts on SDGs (e.g. food sector, textile sector, IT-sector) to compile data on sustainability-related activities by companies in this sector and to relate this data to foreign policy objectives. One interlinkage could be conflict models, to see how the private sector impacts conflict level. Such an endeavour could also build on the data currently compiled as part of the monitoring exercise of the National Action Plans on Business and Human Rights.

This would provide for a very powerful argument why foreign ministries need to engage in the discourse and also help understand what activities to undertake. Importantly, this would be a major leverage point to engage businesses further.

2 Streamline SDGs in current economic diplomacy instruments

It is crucial that foreign ministries support private sector SDG implementation through economic diplomacy instruments such as business delegations, chambers of commerce and German embassies in host countries (similar to the energy export initiative, which supports primarily SMEs in the areas of renewable energy and energy efficiency).

One important area would be to highlight the “blind spots”, that is e. g. that SDG prioritisation in fragile contexts necessarily involves looking at negative impacts on SDG 16 as well as SDG 10 and the environmental SDGs (e.g. with regard to water and land grabbing). In other words, foreign ministries should use the SDGs as another means to induce conflict-sensitive business activities. Foreign ministries should also provide guidance, especially with regard to how SDGs are interlinked with other processes, such as the National Action Plans on Business and Human Rights and the G20 Compact for Africa.

3 Enable corporate action on SDGs through alignment of trade and FDI to SDGs

SDGs resonate well with businesses and trade, and FDI play a major role in achieving sustainable development for all in a globalised economy. The 2030 Agenda provides a consistent framework on which foreign ministries can rely to foster sustainable development through trade and FDI. On the one hand, the worlds biggest economies such as Germany, should use their leverage to ensure that trade policies support SDG implementation. On the other hand, through the promotion of foreign trade instruments like Hermes guarantees, foreign ministries should encourage private actors to integrate sustainable development and human rights in their business activities throughout the world. One angle would be to connect private sector SDG implementation with already existing criteria for foreign direct investment, such as the OECD guidelines for FDI³⁶ which call for “carry[ing] out human rights due diligence as appropriate to their size, the nature and context of operations and the severity of the risks of adverse human rights impacts”.

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