DEVELOPMENT COOPERATION ACTORS

Companies facing the climate crisis: sustainable commitment or greenwashing?

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As the world emerges from the COVID pandemic and grapples with the impacts of Russia's invasion of Ukraine on supplies of food and energy we need to be thinking about changing the way things work more than ever. COVID has wreaked havoc with economies. The World Bank estimates that COVID has pushed over 147 million people into absolute poverty, wiping out some of the gains of the last 10 years and the war in Ukraine has sent wheat and oil prices spiralling, threatening the chances of reaching the Sustainable Development Goals (SDGs) by 2030.

The Intergovernmental Panel on Climate Change (IPCC) reported in August that we are running out of time to avert catastrophic climate change. 2020 was the second hottest year on record, 0.6 degrees above the long-term average, yet the Glasgow Climate conference (COP26) failed to agree reductions in carbon emissions that would keep us below a 1.5C degree rise in temperatures. While the Global Assessment Report on Biodiversity and Ecosystem Services (IPBES) from the UN documented that we are losing species at a faster rate than ever before, threatening not just the natural world but our food supplies and availability of clean water. These challenges of inequality, climate change and nature loss are global but felt most acutely in developing countries and it is increasingly recognised

that business has a key role to play in addressing them.

Sustainability from the SDGs and the Davos Forum

The SDGs —a product of a negotiation agreed globally in Sep 2015— are a useful starting point for a discussion about business and sustainability. They provide for shared ownership and buy in from governments, civil society and business to a common agenda. Business was involved in their development and they cover the root causes of poverty and protecting the environment in developing and developed countries. There are seventeen goals and 169 targets and while no business is unlikely to impact all of them materiality assessments can help business identify the area's most pertinent to their operations.

This year Covid has delayed the World Economic Forum gathering in Davos to May and the war in Ukraine is likely to be high on the agenda but recent Davos events have seen industry leaders making 'resolutions' to support global sustainability challenges. For example, in 2018, Larry Fink, CEO of Blackrock, one of the world's largest investors with $9.4tr under management said that "Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate." Again in 2021 Fink grabbed the headlines again saying companies needed to take the lead in moving towards net zero carbon emissions and that this was central to good business not 'woke' posturing. On the other hand, Oxfam's annual Davos report 'Inequality kills' found that the world's ten richest men doubled their wealth since the pandemic began while 99% of us are worse off because of COVID.

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This dichotomy goes to the heart of whether the private sector can really make positive contributions to sustainable development and the SDGs or if their actions are fundamentally undermining a more equitable, climate safe and biological diverse world. This article explores some of the drivers of business addressing sustainable development, the approaches they take and how to assess if their actions are having positive impacts or it is in fact 'greenwashing'.

What influences company behaviour?

Looking first at external market levers, such as regulation and finance, voluntary guidelines and consumer behaviour. These play an important part of influencing companies. There is an increasing trend in social and environmental regulations promoting sustainability. For example, the UK 2015 Modern Slavery Act was designed to combat forced labour, including child labour in the UK.

However, civil society organisations highlighted that it was in fact the supply chains of UK companies in developing countries that were more likely to have incidences of forced child labour. They successfully lobbied for the creation of the Transparency in Supply Chain Provision (TISC) as part of the Act requiring businesses with annual turnover of £36 million to assess ALL operations for any incidence of slavery and/or human trafficking. However, a review of compliance in 2019 showed that while the Act had increased awareness of modern slavery in supply chains, only around 40 per cent of eligible companies were complying with the legislation.

Financing is also an important driver of company behaviour. The new EU Sustainable Finance regulation takes a comprehensive approach to pushing private investors to support sustainable development. It includes developing an EU-wide classification system for sustainable finance; a green bond standard to help improve the credibility of the market; guidance for companies on how to report on the impacts of their business on climate and on the impacts of climate change on their business and standards for climate and Environment, Social and Governance (ESG) measurement. Importantly investors have to publicly report on the ESG considerations in their investments. The legislation was launched in March 2021 and the first reports will be due in June 2022. The quality and quantity of these reports will give an initial indication of the success of the regulation in promoting business contributions to sustainable development.

Turning to the internal drivers of increased business consideration of sustainable development, several factors stand out. An increasing number of business leaders speaking out and publishing company strategies on sustainability such as Paul Polman and his successor Alan Jope at Unilever with their Sustainable Living (2010) and Planet and Society (2020) plans. Although Unilever has recently been criticised by investors for focussing more on sustainability rather than on profits the company has outperformed rivals, such as Heinz with less focus on sustainability, over the past ten years. Business leaders are also recognising that many social and environmental issues in their supply chains, such as child labour, deforestation or plastics can’t be addressed by companies individually and collective action is needed. For example, the Consumer Goods Forum brings together over 400 retailers and manufacturers globally and includes initiatives such as ‘Forest Positive’ to eliminate deforestation and forest degradation from their supply chains and the ‘Human Rights Coalition to end Forced labour’ addressing worker exploitation in palm oil supply chains, among others.

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Worker attraction and retention has become another reason for businesses to improve their environmental and social impacts. Millennials and Generation Z make up the largest group of workers globally and polling research by organisations like Gallup show that they are more concerned about climate, oceans/plastics, biodiversity loss and want to work for companies that are addressing these issues. As well evidence of concrete sustainability plans, initiatives that enable employees to make a personal contribution have grown in popularity. The Intrapreneur Lab is such an initiative, where companies enable staff to test social and environmental innovations to help demonstrate the business case. Nineteen multinational companies such as Barclays, BASF and MARS have supported 50 ventures in 7 global cohorts and generated $15 million of corporate investment.

How companies address their sustainability impacts?

As well as companies increasing their commitments to sustainability and the SDGs, the way they are addressing the issues is evolving. Companies with significant environmental and social impacts such mining and agricultural commodities firms recognise they can damage the environment affecting the communities in which they operate. Traditionally they established foundations or used profits to fund health and education programmes, thereby giving them a ‘license to operate’. However, this did little to address the actual negative impacts directly and in the 1970s a greater focus on avoiding or mitigating company impacts emerged with Corporate Social Responsibility (CSR) initiatives integrated directly into company activities. This approach linked activities much more directly to company operations and often included the creation of a CSR department to initiate and run activities such as purchasing Fairtrade or other ethically certified products or running initiatives such as the Intrapreneur Lab, mentioned above.

Many companies also established partnerships with Non-Governmental Organisations (NGOs) like Oxfam, Save the Children or the WorldWide Fund for Nature WWF as part of their CSR work. These NGOs often had a better understanding of the social and environmental challenges facing producers in developing countries and worked with companies to design initiatives to improve development impacts. As the recognition of the contribution of the private sector to meeting development challenges grew, bilateral aid donors also began to explore partnerships with business to test innovations to deliver development outcomes such as including the poorest populations in supply chains. These initiatives have served to both address business challenges and deliver development outcomes. Some examples of these approaches are outlined below.

Challenge	Innovation

A cost effective and reliable way to trace a commodity from source to demonstrate it is produced sustainability.	Sainsburys and Barclays collaborated to pilot the use of blockchain to track tea supplies from Malawi for 'fairly traded' certification. Farmers also able to use blockchain records to demonstrate guaranteed tea purchases and improve terms of access to credit.
Expand access to low-cost versions of health and hygiene products where subsidised distribution is not commercially viable.	Reckitt Benckiser Pakistan worked with supply chain experts to identify local business product partners (including Shield Corporation, Shan Foods, Santex and the Rural Support Programmes Network NGO) to develop a social business model with a basket of products to improve profitability and women's incomes.

Source: Business Innovation Facility (DFID supported inclusive business project 2018).

These experiences have helped demonstrate that incorporating social and environmental concerns into core business activities can be profitable and helped move on from separate CSR departments and 'add on projects' to being integrated into the core business of a company. This has the potential to significantly increase positive impacts as well as creating new business opportunities for companies with a vision for the future.

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Many of the companies publishing sustainability commitments and engaging in business and multistakeholder platforms to address climate, nature and inequality issues are now in this space. The most forward leaning have gone a step further, to legally bind themselves to sustainability. So called B Corporations have included in their articles to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment and to report on this annually to their shareholders and the market. Currently there are nearly 4,500 B corporations across 153 industries and 78 countries. These range from large multinational corporations such as Danone (North America) to financiers like Lombard Odier and specialist beverage forms like Mulanje Tea in Malawi. However, the majority of firms do not demonstrate their sustainability impacts so clearly and how to identify how commitments and words are leading to action and impact is a growing challenge.

How to assess business impacts?

As the number of companies committing to sustainability has grown so have the ways to assess progress. There is a myriad of commitment frameworks, reporting formats, audit mechanisms, indices and benchmarks on sustainability. This makes it difficult to judge the credibility of the plans or rigorously assess actual impacts, leaving consumers and investors confused about whether a company is sustainable or just engaging in 'greenwashing'. Governments could agree to set standards to underpin these tools, however the global nature of supply chains means these would need to be universal, which would be challenging both in terms of finding common ground and avoiding a lowest common denominator approach. Governments have also shown relatively little interest so far to regulate in this area (some exceptions are mentioned above). So, what are the alternatives for an investor, consumer or employee wanting to assess the seriousness with which a company is taking its sustainable development impacts? While it is relatively easy to make a commitment, acting on it and being transparent requires more effort. It's useful to look for evidence of all of these in a company's sustainability strategy. For example:

- Company commitment – is the company signed up to a robust set of recognised commitments such as the United Nations backed Global Compact or the UNFCC Race to Zero?
- Strength of sustainability reporting – does the company report transparently and regularly on progress, using robust indicators such as the Global Reporting Initiative?
- Independent assessment of performance – how does the company perform on independent indices and benchmarks?

If you're interested in understanding better what a company is doing to support positive social, environmental and climate impacts here are some suggestions on indicators to consider and their strengths and limitations.

Commitment indicators

Recognised initiatives where companies adhere to a set of standard principles or commitments such as the UN Global Compact (UNGC), UN Principles for Responsible Investment (UNPRI) and the UN Guiding Principles on Business and Human Rights (UNGPs or Ruggie Principles) are good staring points. These cover the range of responsible and inclusive business areas, their size and international dimension, recognition among business and reputation from a development perspective.

UNGC is a comprehensive global corporate sustainability initiative under UN auspices for companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption to take actions that advance the Global Goals. It encompasses over 5000 businesses. UNPRI focuses on investors rather than business so less useful for identifying responsible companies. The Ruggie Principles are robust and have a strong social focus but there is no formal reporting requirement or central list of

companies signed up making it difficult to easily assess compliance. So pick your starting point depending on the issues you're most interested in.

Strength of Sustainability Reporting

Assessing the progress a company is making on its commitments to sustainability requires information from the company. Many multinationals now produce Environment, Social and Governance (ESG) reports as part of their Annual report. However, the quality of this reporting varies considerably. Therefore, reporting to an externally recognised standard is an important indication of a company's real commitment to changing its behaviour. There are a growing range of corporate reporting sustainability standards, the Global Reporting Initiative (GRI), ISEAL and IRIS+ are widely respected and comprehensive.

ISEAL is not a standard itself but sets the minimum levels for reporting across other sustainability standards. The desire to develop a list of companies across sectors and countries would therefore require identifying multiple reporting initiatives conforming to ISEAL standards. IRIS+ is an extremely comprehensive set of impact indicators developed across responsible and inclusive business activity but is mainly used for specific investments, making it more complex to use to assess company-wide performance.

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GRI Standards are one of the most widely adopted global standards for sustainability reporting with nearly 15,000 companies currently using them. They are also comprehensive across key areas of business relevant for assessing responsible and inclusive behaviour (eg carbon footprint, environmental impact, workers' rights, minimum wage levels, gender representation in workforces etc). GRI is probably the most comprehensive if you're looking at a company's overall sustainability or SDG impacts.

Independent assessment of performance

There is a growing market of indices and benchmarks assessing business and investment sustainability and promoting year on year improvement in performance. These are not necessarily comparable or easy to rank in terms of their robustness or how they influence company behaviours.

Factors contributing to the strength of a benchmark are the scope of inclusive and responsible business performance, their robustness and independence, reputation among investors, development credibility and incorporation of corporate governance issues including gender and the accessibility of information (i.e. freely available or behind a

paywall). Initiatives worth considering include, S&P SAM, FTSE4Good, Carbon Disclosure Project, Behind the Brands/Barcodes, Arabesque, Corporate Knights 100.

There are a number of strong sector or issue focussed benchmarks such as Oxfam's behind the Barcode/Brand, the Carbon Disclosure Project (CDP), and the Corporate Human Rights Benchmark. These tend to be very thorough in their analysis of corporate impacts along the value chain, undertaking independent research, sending companies questionnaires on performance but are limited by sector or issue. Indices with more extensive and comprehensive coverage include:

S&P SAM ESG Ratings (covering around 3,200 companies) provide a robust measure of company's financially material ESG factors. SAM ESG Scores are based on the SAM Corporate Sustainability Assessment to identify companies well-equipped to recognize and respond to emerging sustainability opportunities and challenges in the global market. It is strongly rated by investors and experts on ESG. Arabesque S-RAY is a relatively new index that grew out of the UN Global Compact. It is a quantitative data tool that analyses the sustainability performance of 7000 of the world's largest listed corporations using self-learning quantitative models and data scores. It is aimed at and highly regarded by investors. It produces two 'scores' for a company.

The ESG Score identifies companies that are likely to outperform over the long term, based on their ESG activity in areas that are financially material to the business. The UN Global Compact Score analyses companies based on their performance on the four core UNGC principles: human rights, labour rights, the environment and anti-corruption. Corporate Knights 100 has a strong focus on corporate governance so the 'G' in ESG. It is made up of the top 100 independently assessed global publicly listed companies. Twenty one key performance indicators covering resource management, employee management, financial management, gender, clean revenue and supplier performance are used. Efforts are being made to try and simplify this landscape and make information more accessible and digestible to the public. The World Benchmarking Alliance (WBA) was created in 2018 to assess major global companies impacts across seven key transformation areas necessary to achieve the SDGs: Social, Food and agriculture, Decarbonisation and energy, Circular, Digital, Urban and Financial Systems. It aims to have a comprehensive set of rigorous assessments to change business behaviour and help deliver the SDGs.

If more companies resolve to improve the sustainability of their operations and more workers, investors and consumers resolve to scrutinise their performance against those commitments we stand a better chance of addressing the climate, COVID and conflict crises we now face.

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