Towards a Sustainable Economy:
opportunities and risks for the private sector

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Christian Aid is a Christian organisation that insists the world can and must be swiftly changed to one where everyone can live a full life, free from poverty.

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Cover: Melanie Niyonzima grows sunflowers following training from Christian Aid partner Warubizi. Warubizi supports a centre where the sunflower seeds are processed into oil. Having focused on improving packaging and branding, the demand for sunflower oil is increasing. The seeds are also nutritious and farmers use them to supplement their diets as well as selling them to earn money. The co-op was given an extra 5 hectares of land by the government after lobbying from Warubizi.

Image: Christian Aid/Sarah Rowe

Foreword

Benet Northcote, Director, Corporate Responsibility, John Lewis Partnership

Any experienced director will know that running a company involves extensive discussions about risks and opportunities. These are two lenses through which a business can explore choices, set strategies and assign resources. But these lenses are only truly effective when they are used together. A relentless focus on risk will blind us to the potential of new opportunities. And tunnel vision about opportunity will leave us no room to consider the consequences of action; consequences that could prove fatal to the success of an enterprise.

This is especially true for how business responds to the social and environmental challenges facing the planet. For too long, the debate has been framed as either a tremendous opportunity for innovation, leading us to climate stability and perfect social justice, or a series of nihilistic risks that will destroy jobs and the Nature on which all our lives depend.

I wouldn't want to underestimate the scale of the challenges we face – the footnotes, alone, in this report are enough to dispel any sense of complacency about that – but understanding both the risks and opportunities ahead is crucial if we are to deliver on the SDGs.

The case studies in this report are welcome. They demonstrate many of the opportunities available to businesses while, at the same time, spelling out the very real risks that jeopardise humanity's peaceful existence. Not every opportunity will be right for every business, and not all the risk mitigation approaches will be appropriate for all companies, but this report is a valuable source of insight for those charged with examining these challenges.

Executive summary

This report is based on case studies from Christian Aid's programmatic and advocacy work undertaken with the support of the private sector. It looks at emerging models of change that, in the shift to a sustainable economy, will be of interest to the business community.

The private sector in all its diversity – small and medium-sized enterprises (SMEs), cooperatives and multinational enterprises (MNEs) – is integral to this shift towards economic sustainability. Businesses are already recognising the value of inclusive business models and the opportunitities of aligning their businesses with aspects of environmental and social sustainability.

However, businesses also recognise that there are significant global risks that must be addressed. Global risk assessments highlight the need for business to have greater accountability and take greater responsibility on issues such as severe income disparity, climate change, taxation, modern day slavery, land rights and natural resource rights.

This report argues that the Sustainable Development Goals (SDGs), the UN Financing for Development process, and the Paris Agreement have opened up a dialogue between NGOs, governments and the private sector about the opportunities and risks around the transition to a sustainable economy. The first section of the report addresses some of the most promising business opportunities, and the second addresses some of the most urgent risks to global development, particularly in relation to the UN Guiding Principles on Business and Human Rights, but also other models of dialogue with stakeholders and governments.

The case studies that follow demonstrate ways to contribute to the transition towards a sustainable economy, through examples of inclusive business models:

- models that explicitly aim to benefit the community
- social enterprises and cooperatives in which decision-making power is not based on capital ownership
- identification of joint opportunities for linking MNE supply chains with domestic SMEs
- facilitation of technology that can connect agriculture value chains with distributors and consumers.

The following measures can address global risks, through increased business accountability and dialogue:

- shifting energy use away from fossil fuels to investment in renewables
- developing a responsible tax policy, and publishing country-by-country tax reporting as evidence
- making public statements about tackling modern day slavery in supply chains through commitments and transparency
- conducting human rights risk assessments, based on the UN Guiding Principles on Business and Human Rights.

The private sector's role in international development

The private sector has had a longstanding role in international development and climate change. And with current, ambitious, international development frameworks now in place, its contribution to the processes for achieving climate goals is all the more important. All of the three main frameworks, including the Sustainable Development Goals (SDGs), Financing for Development (FfD) and the Paris Agreement also relate to the business sector.

In the 2030 Agenda for Sustainable Development, the private sector was recognised as a key stakeholder for achieving the Sustainable Development Goals. Its engagement in research and innovation, technology facilitation and partnerships with governmental and non-governmental actors makes it a crucial partner. SDG goals that directly address the role of the private sector include Goal 8, around decent work and inclusive economic growth, and Goal 10, concerning inequality between, and within, nations.[1]

The FfD process, which addresses issues including debt, tax, aid, private investment and financial market regulation, seeks to mobilise additional resources for developing countries through greater international cooperation. Among the issues being advanced in annual intergovernmental negotiations are illicit financial flows, standards for public-private partnerships, and social protection floors. Foreign direct investment may fill some of the gaps, but other types of investment, including impact investment, are crucial. There is also a call for greater transparency and standard setting for investments, so that they can better address the opportunities and risks faced by businesses and communities.

The Paris Agreement on climate change[2] is relevant to both businesses and investors. It invites the private sector to participate in reaching national climate change targets. Businesses that came together in the We Mean Business coalition believe that by 2030, businesses that have voluntarily signed up to their set of climate change initiatives could cut greenhouse gas emissions by 3.2-4.2 billion tonnes (BT) per year below current trends. That's equivalent to up to 7-9% of the world's 2010 emissions. That said, with the right government policies in place to regulate all businesses, emissions could be cut by around 10BT. That would go considerably closer to closing the gap between the 61BT, projected without the Paris Agreement, and the 42BT limit if we are to keep global warming below 2°C by 2030.[3]

The following report demonstrates some of the change models that Christian Aid has implemented with the support of the private sector, and illustrates of some of the opportunities and challenges that lie ahead.

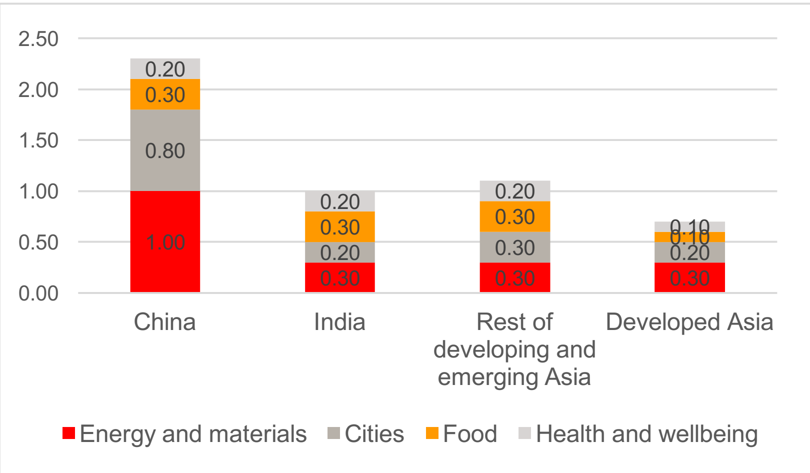
Market opportunities and inclusive business models

This section explores some of the business models and models of change that help to create inclusive business opportunities across different sectors – from energy to healthcare to food and agriculture, where some of the most important sustainable economic transformation opportunities lie.

Market opportunities in a sustainable economy

There are a number of initiatives looking at ways to better integrate SDGs into business decision making and models. According to the Business Commission on Sustainable Development, the SDGs could, if attained, increase global employment by up to 380 million by 2030, of which 230 million jobs would be in Asia. Indeed, in terms of inclusive growth, the SDGs could unlock US$5tn in additional output per year in Asia alone.[4] (See Figure 1.) The Business Commission on Sustainable Development identified that new business opportunities in Asia, presented by the SDGs, were in the sectors of energy and materials, health and wellbeing, cities, and food. The business opportunities identified in four systems alone will be worth more than US$5tn in Asia by 2030.

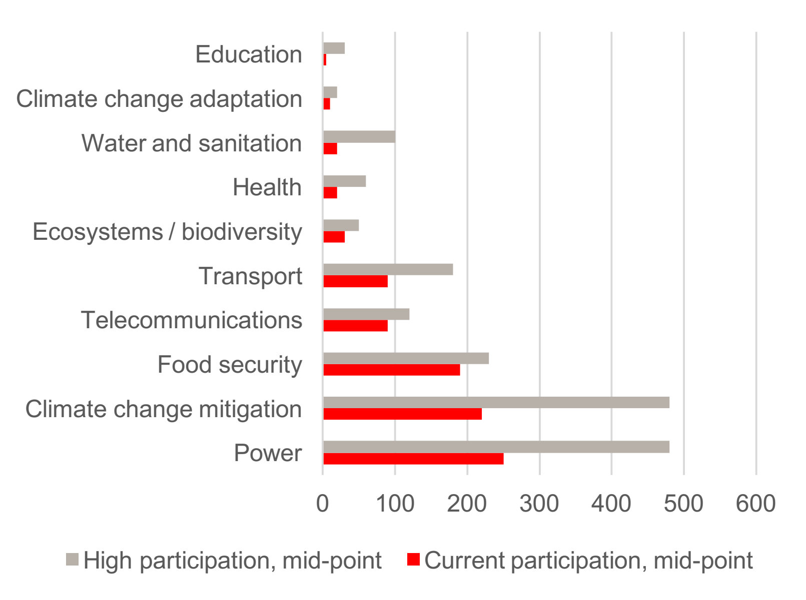
Figure 1: Size of incremental opportunity by 2030 (US$ trillions at 2015 values).



Source: Business Commission on Sustainable Development, 2017.

One indication of the scale of private sector investment needs and opportunities in developing countries is revealed in the United Nations Conference on Trade and Development's 2014 assessment of private sector participation in sectors of developing economies. The private sector participation gap in developing countries is estimated at US$2.5tn.[5] (Also see Figure 2.)

Figure 2: Potential private-sector contribution to investment gaps at current and high participation levels (in US$ billions).



Source: UNCTAD, 2014.

The Addis Ababa Action Agenda, of 2015, recognised various roles for private sector actors: from scaling up access to financing for SMEs to improving the effectiveness of financing (by directing the efforts of public development banks towards areas of high social and environmental impact) to acting as responsible investors, especially in technology and innovation. In addition, curbing illicit financial outflows and advancing tax cooperation would contribute greater financing for development.

Implementation of the Paris Agreement on tackling climate change also opens up opportunities for a sustainable economic transformation. According to the World Bank, developing countries will need about US$100bn of new investments every year over the next 40 years to build resilience to the effects of climate change. Mitigation costs are expected to be in the range of US$140-175bn per year by 2030.[6] The commitment to reduce global warming to less than two degrees also requires the mobilisation of private financial assets. The Task Force on Climate-related Financial Disclosures (TCFD) estimated that the expected transition to a lower-carbon economy will require around US$3tn of ongoing investment every year.

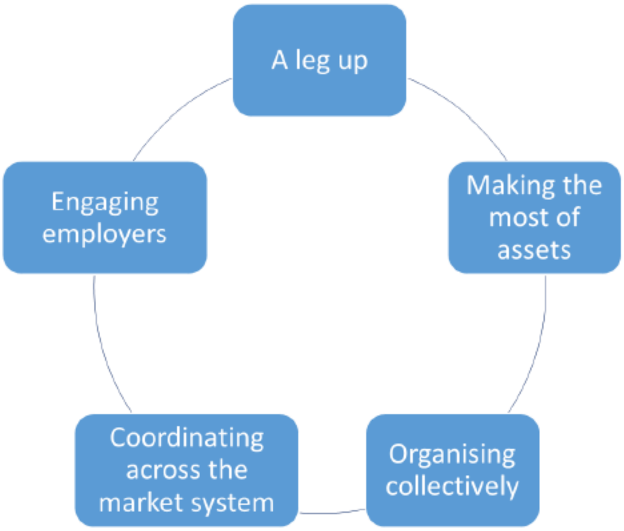
Inclusive business models

The Institute of Development Studies (IDS), with ADD international and COADY, developed a framework to look at some of the market-based models that contribute towards achieving SDGs.[7] The following illustrate specific opportunities to develop market inclusion:

- **Supporting marginalised actors to engage in markets** – ensuring pre-market social protection that supports the most marginalised to be in a better position to engage in markets.
- **Accessing finance and making the most of existing assets** – identifying the skills and assets of marginalised people and linking them with specialised product or labour markets.

- **Organising collectively to meet opportunities** – creating mutual help and solidarity as a collective response to exclusion.
- **Coordinating with other actors across the market system –** so that marginalised people benefit from expanded markets for services, trade or employment within a community or region.
- **Engaging employers and multinational enterprises** – improving employment opportunities so that structural barriers are removed and training meets market demand.

Figure 3: Five entry points for market inclusion.

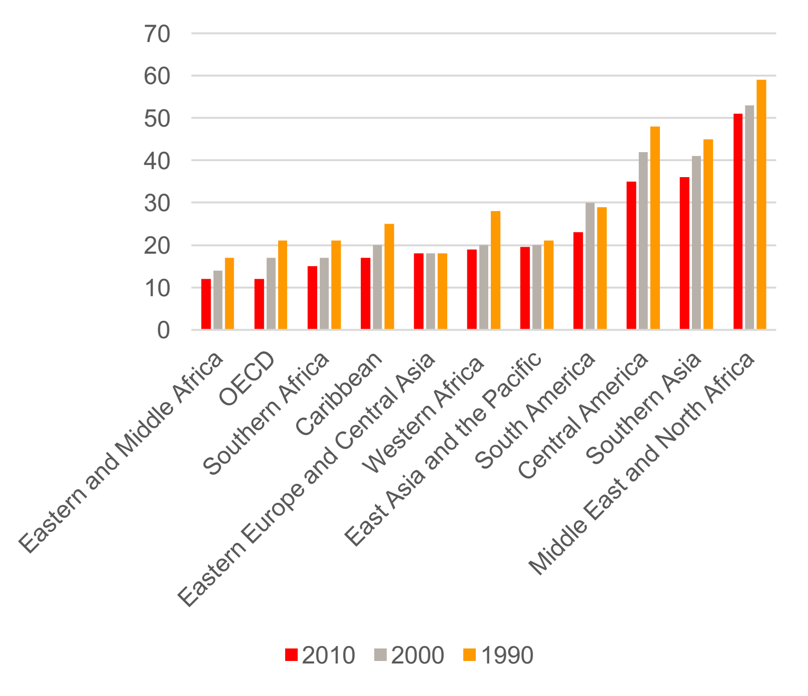


The following case studies exemplify some of these entry points into market inclusion. The case study on Afghanistan silk production looks at support given to some of the most marginalised producers. The case study on Organic Africa demonstrates mobilising new and existing assets for greater growth, while the case study on addressing HIV/AIDS stigma shows the need for coordinating across the market system. Finally, the study of renewable energy in Kenya shows how engaging MNEs and employees can create inclusive business opportunities.

Supporting economic transformation for women in Afghanistan

In low-income countries in 2013, there were double the number of women with a secondary education out of work as there were men. The global average for paid employment for men is 78% and 50% for women. In South Asia, the average is 30% and in Afghanistan just 15%.[8] The reasons for this discrepancy are conservative social norms, lack of personal security and skills gaps. In Afghanistan, only 17% of women are literate. But conservative social norms are persistent at even higher levels of education.

Figure 4: Gender gaps in labour force participation, by region.



Source: IMF, 2014.

RAADA (Rehabilitation Association and Agricultural Development for Afghanistan) has been working with farmers since 2005 to revitalise the silk industry in Zindajan District, where conflict has badly affected the local economy and infrastructure and has displaced much of the population to Iran. Silk uses local resources and, importantly, requires little land, but requires inputs such as silk worms. RAADA has also worked to provide solar electrification, improve market linkages and modernise equipment in processing centres.

It was recognised that women's roles in silk value chains were largely restricted to cocoon production. Women tended to work alone, from home, often unpaid. Processing, weaving and marketing was mainly done by men. Social norms that associate participation in education, training or work outside the home with a loss of family honour have prevented many women from participating in the industry or benefiting from a fair share of the silk value chain.

In 2012, a partnership with UK retailer Monsoon started to change this. Monsoon is a founder member of the Ethical Trading Initiative, and seeks to make sustainable improvements in working conditions and livelihoods wherever they do business. The objectives of the partnership included establishing a production company for women; increasing quality and quantity of silk products; helping disadvantaged women rebuild their skills for silk production; and creating markets for silk products and working with Monsoon for greater brand awareness.

The Zanan Herat Silk Production Company (ZHSPC) is a production company that RAADA helped to establish in 2016, and it provides work for 1,500 women, offering them fair pay, greater equality and dignity, and safe working conditions. Women and other low-income and disadvantaged groups now benefit from income throughout the year, complementing income lost from agricultural crop production affected by climate change.

Women's missing role in the economy

Access to decent work is integral to the SDG framework. SDG Goal 8 seeks to 'promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all'. This includes inclusive growth through entrepreneurship and in micro, small and medium enterprises (MSMEs).

It has been estimated that if women were to participate in labour markets at the same rate as men, women would be earning an additional US$6tn. This is almost twice the GDP for the whole of Africa and the Middle East in 2013. If women were guaranteed equal pay, the combined effect would be US$9tn in additional earnings.

With additional funding, RAADA created a project of saffron cleaning and raisins processing with the National Horticulture Livelihood Program. The budget for the project is 30,000 AFN (US$440).

In 2016, the cooperative sold 23,772kg of cocoons, earning 5,969,432 AFN (US$87,000). Up to September 2017, the company had already sold 22,650kg of cocoons and earned 7,927,500AFN (US$115,000). Until 2017, ZHSPC had only sold the raw cocoons, but they have now started a tailoring business to get greater value from the silk. They've produced 12 Afghan traditional dresses, which they rent out for wedding ceremonies; shawls, which they've sold for 70 AFN each; neck ties and bags.

As well as a contributor to economic development in the district, ZHSPC serves as an advocacy group. It has contributed to development interventions for other local women's groups, addressing gender-based violence, promoting women's role in community peace building and contributing to an increase in girls accessing education as a result of participating in district and provincial authority meetings.[9]

At the national level, women in Zindajan have elected a board of 15 women who, through registration with the Afghan Investment Support Agency, are developing management and accounting skills and working on a business plan with the Afghan Ministry of Agriculture, Irrigation and Livestock. These advocacy efforts have contributed to Afghanistan's national development plans, which recognise the potential of MSMEs to create millions of jobs and reduce poverty.

The government recognises the need to modernise and expand investment in the processing of primary products, to create downstream jobs and increase value-addition. There is still a lot to do, especially in strengthening industry associations such as the National Silk Production Board, Silk Producers and Traders Associations, Silk Producers' Cooperative structures and unions across the country. As the production and distribution of key inputs, such as silk worm eggs, is hindered by lack of transport and appropriate facilities, the government should step in and produce these intermediary inputs in the absence of private sector provision. Finally, 'future proofing' the industry may need greater consideration to climate and other environmental changes such as the depletion of groundwater resources.

One of the key lessons from this case study in Afghanistan is the importance of linking inclusive market development with national policies, in order to scale-up the impact of changes in market systems and address intersecting inequalities.

Organic Africa accessing financing to scale-up

Established in 2005, Organic Africa, was set up in Zimbabwe to facilitate socially responsible entrepreneurship. It produces and markets high-quality, high-value organic products, ethically and sustainably.

Organic Africa trains small-scale farmers, many of whom are women, in efficient and profitable farming techniques and then buys their produce to sell to industrial buyers. The company supports various international certifications, including Fairtrade and Organic

'My family didn't have trust in me and always said that women cannot work. I had an interview with Herat National TV and talked about our company and the women's activities. My friends and neighbours saw it and told my father, and he was very happy then and encouraged me to continue working for the community'
Maryam Sheikh, Afghanistan

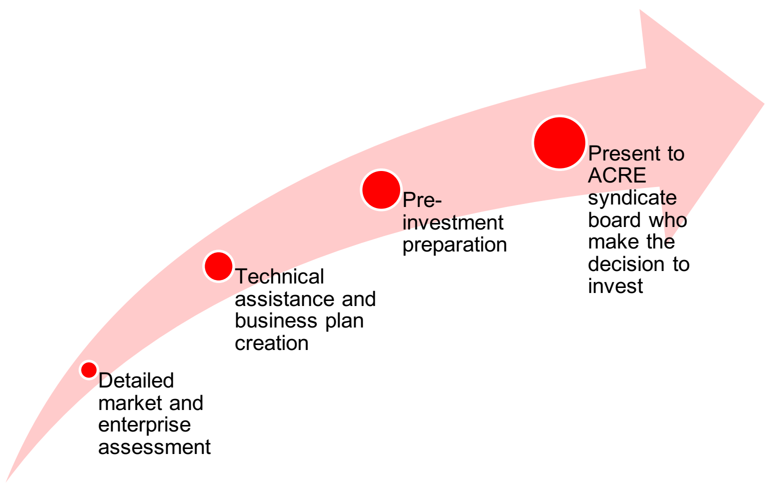
certification for their high-value crops, which include organic oils, herbs and spices. This certification allows small-scale producers to escape the cycle of reliance on imported inputs, moves them away from environmentally unsustainable farming practices and protects them from price instability in markets.

Organic Africa guarantees to pay a predefined price for produce at the start of every season, paying producers in cash on the spot, or through mobile money transfers. Reliable pricing, as well as the premiums that are paid to Fairtrade producers, allow farmers to better manage their finances and plan for the future. Small farmers, particularly women, are typically marginalised in Zimbabwe. By improving their incomes and moving them away from subsistence farming and into commercial agriculture, Organic Africa is empowering smallholders to raise their standards of living. The company's performance has been robust. Revenue grew from US$25,000 in 2007 to a turnover of more than US$750,000 today.

However, Organic Africa faces considerable challenges in accessing the financial resources it needs to grow sustainably. Political uncertainty makes Zimbabwe a difficult place to do business. Interest rates in the local banking sector are prohibitively high, sometimes hitting 40%. The strict capital adequacy requirements of regional banks mean that few are willing to work with small and medium-sized businesses, particularly those in the agricultural sector.

Organic Africa turned to Access to Capital for Rural Enterprises (ACRE), an initiative of Christian Aid, Traidcraft, Twin Practical Action and Challenges Worldwide. ACRE is an investment platform that offers business support and access to finance for agriculture in the global South.

Figure 5: The ACRE investment process cycle.



To help Organic Africa overcome those obstacles, ACRE provided a technical assistance package delivered by in-house experts from Christian Aid and Challenges Capital. It advised the business on how to increase its revenue, and to better align its work with the SDGs. By creating a coherent business plan and better articulating its social impact, Organic Africa secured a multimillion-dollar investment from a German institution in 2016.

SME challenges in accessing finance

The SME sector is the largest employer in many developing countries. Non-agricultural employment in South Asia is at more than 82%, and in Latin America and the Caribbean at 51%. Many of the enterprises in the informal sector both keep books and plan ahead. Of around 500 million SMEs worldwide, only 9% are formal (excluding micro-enterprises) and 80-95% are in low- and middle- income countries.

The UN's Economic Commission for Latin America and the Caribbean notes that promoting SMEs is 'a cornerstone for achieving greater social equality'. Despite these benefits, financing SME growth is proving difficult across the developing world.[10]

(i) SMEs are regarded by creditors and investors as high-risk borrowers, due to insufficient assets and low capitalisation and asset buffers.

(ii) SMEs' lack of accounting records, inadequate financial statements or business plans makes it difficult for creditors and investors to assess the creditworthiness of potential SME proposals.

(iii) High administrative and transaction costs of lending or investing small amounts do not make SME financing a profitable business.

Business support and technical assistance in these areas can make SME financing work better.

With this financing, Organic Africa has been able to expand its 'out-grower' scheme to new farming regions of the country, and to develop an 'in-grower' scheme, through which it closely supports some smallholder producers. The company has also established a farmer training centre in organic production. The impact is already visible. **The number of farmers selling their produce into Organic Africa has grown from 1,500 at the start of 2016 to more than 2,000 in mid 2017, and is expected to reach 5,000 within four years.**

Organic Africa is just one of the companies given technical and business planning support by ACRE. ACRE prepares rural enterprises to become investment-ready and to access patient capital investment from a syndicate of social impact investors. While business support plays an important role in improving business efficiency and profitability, as well as social and environmental impact, scalability and growth come from SME's access to appropriate financing.[11]

Organising collectively to provide access to medicine and reduce HIV/AIDS stigma

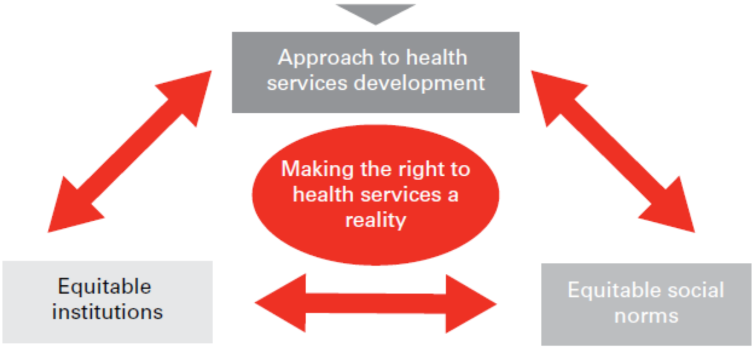
Gilead Sciences is a for-profit pharmaceutical company with a portfolio of 18 products that it markets worldwide. It has more than 200 further trials and studies underway. The company's products include medicines to treat HIV and hepatitis.[12] Gilead is focused on providing access to its drugs to everyone who can benefit from them, and in some cases adjusts pricing policies based on affordability.[13]

Gilead sells its medications both via branded distribution partners across the globe and its own channels. Distribution partners have to deal with issues such as product registration in local markets, medical education and training, as well as tiered pricing structures. Gilead and its distributor partners are also often involved in helping build health system infrastructures in given markets. In addition, generic licensing and knowledge transfer to partners allows for low-cost, in-market drug production to serve a market. For example, through a generic licensing arrangement, an HIV drug that might cost US$10,000 a year in the US could be produced and made available in a country for US$50 or US$100 a year.[14] Entities that license Gilead's technology pay no fee for doing so; they pay a 3-5% royalty upon production.

In certain countries or communities, essential drugs are provided free of charge through Gilead Foundation's philanthropic efforts, with importance placed on reaching vulnerable and marginalised communities. Christian Aid has worked with Gilead Sciences Foundation since 2011, particularly in South Africa, in contexts where there is a lot of stigma around HIV/AIDS. Addressing stigma and norms is just one element of improving access to drugs. To increase equitable access and uptake of services, it is also essential to address underlying power dynamics and ensure that appropriate health services are available.

> 'The Gilead access principles come from, and are endorsed by, our senior leadership… This is not a profit centre for Gilead Sciences, this is a responsibility to ensure access to those in need.'
>
> Elizabeth Murray, Gilead Sciences, Latin America and the Caribbean

Figure 6: Christian Aid's community health framework.



Our partnership with Pietermaritzburg Agency for Community Social Action in South Africa, supporting an HIV peer educator project, has been in place since 1988, and received funding from the Gilead partnership from 2011-2015. This programme has helped to improve understanding of HIV and gender-related issues among young people. It provided HIV testing, and worked to reduce gender-based violence in KwaZulu-Natal province. It raises awareness of HIV though publications and stories of resilience, so as to effect behaviour change. In its final three years, the project reached 3,000 young people across 10-12 communities, helping to change sexual behaviour and attitudes to HIV/AIDS, reduce transmission and increase access to appropriate health services.[15]

Meanwhile, a new project is being developed in partnership with Christian Aid Nigeria, involving faith leaders and communities in Abuja, Anambra and Benue States. It aims to reduce HIV-related stigma and discrimination and to promote the knowledge and use of Nigeria's Anti-Discrimination Act 2014. It encourages collective action to meet SDG goal 3, to end AIDS by 2030. This initiative, running from 2017-2020, recognises the strategic importance of faith leaders and communities in moulding opinions and influencing behavioural change. The strategy engages, equips and empowers religious leaders to understand the existence of HIV and its burden on people living with HIV. It advocates for key religious leaders and organisations to collaborate in the project and to build capacity, through faith congregations, to address the prevailing HIV-related stigma and discrimination.

Engaging with multinational enterprises for accessing clean energy in Kenya

In Kenya, almost 80% of households are living without basic energy services. Access to clean, affordable and reliable energy emerged as an important concern ahead of the country's 2017 general election. With growing media interest and public awareness, polling revealed that 64% of Kenyans were more likely to vote for a political party that promoted it. Renewable energy access is set to remain a hot topic in Kenyan politics and for the country's development agenda.

Meanwhile, the country has substantial renewable energy resources. Hydro and geothermal account for more than 60% of the power currently generated, while off-grid biogas and solar energy systems show significant potential to meet the demand for clean and safe energy for cooking and lighting. These solutions can be rolled out relatively quickly and are increasingly seen as a preferable option by poor and rural households for whom connecting to the main electricity grid can be prohibitively expensive and subject to long delays.

Figure 7: Energy ladder.

Despite some of the advances in accessing modern energy through local or national grids, households still find themselves falling back on less efficient forms, because of problems with reliability, affordability and electricity outages on these grids. Kenya's economic development blueprint, Vision 2030, aims to connect all Kenyans by 2020, and will require enhanced focus on sustainable energy generation. Renewable energy, especially through decentralised systems, will play a key role in ensuring that energy-poor communities have access to clean, affordable and reliable energy. As the political support for renewables increases, so too will investment opportunities.

Indeed, a transition to low-carbon energy is already happening in Kenya, where the Mumias Sugar Company (MSC) is using sugarcane bagasse (waste from sugar production) to generate 35MW of electricity, with 10MW for internal consumption by the factory and 25MW exported to the national grid.[16] Such provision of renewable energy to local communities in turn allows wider manufacturing-based economic transformation to take place.

However, for the widest transformation, government policy needs to emphasise the energy transformation agenda. Good laws and consistent enforcement are crucial components of an effective policy intervention. The most successful renewable energy policies are characterised by ease of execution, which facilitates the political will and capacity to implement them. Research in Kenya and Sri Lanka has shown that promoting demand through awareness raising, and working with local producers, employees, MNEs and service providers to facilitate improvements in value chains, can generate more effective, efficient and affordable services and products.[17]

Renewable energy is a growing market

Investment in renewables has increased substantially in recent years. According to the International Renewables Energy Association (IRENA), to have a two-thirds chance of limiting global temperature increases to even two degrees by 2050, we need to see additional net investments of US$29tn in the energy system globally, compared to 'business as usual'. This would include an extra US$16tn of investments in renewable energy and US$23tn in energy efficiency. We also need to avoid making US$23tn of investments in fossil fuels.

These figures spell out why such a big shift in the way we finance energy is needed. There is still a long way to go, as the lack of access to modern energy for those in the developing world is a factor keeping families in poverty and slowing economic development. 1.3 billion people lack access to electricity, hindering the provision of health and education services and reducing quality of life.

Addressing global risks: seeking to change how business does business

This section demonstrates, through further case studies, how different global risks can be addressed by using stakeholder and human rights engagement models. The key reference is to the UN Guiding Principles (UNGPs) on Business and Human Rights, the practices concerning which are still evolving. Constructive dialogue, new standards and practices need to be developed in addition to the UNGPs, expanding their scope and including issues such as climate change and responsible taxation.

Three analyses of global risks

The annual *Global Risks Report* is based on a survey among World Economic Forum's attendees – leaders from business, government, academia and non-governmental and international organisations – with almost half of the respondents being from the large business sector. For more than a decade, the report has monitored the greatest risks facing global society and economy in the form of economic, environmental, geopolitical, societal and technological risks. These risks are mapped both in terms of likelihood and potential impact.

Figure 8: Global risk likelihood.

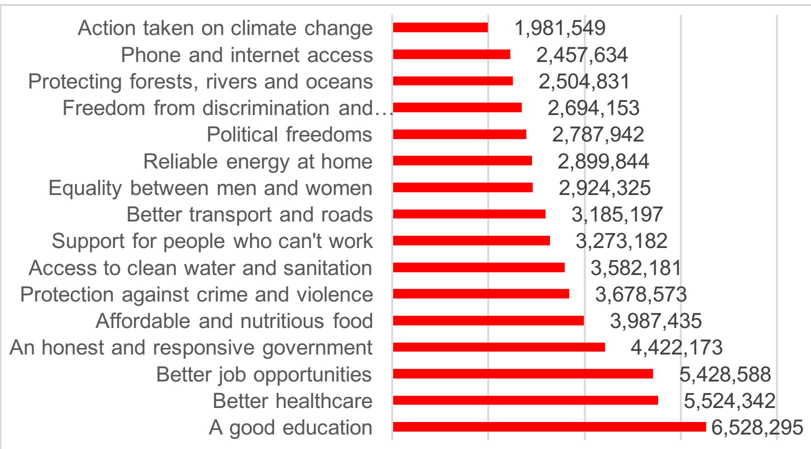
2012	2013	2014	2015	2016
Severe Income Disparity	Severe Income Disparity	Income disparity	Interstate conflict with regional consequences	Large-scale involuntary migration
Chronic fiscal imbalances	Chronic fiscal imbalances	Extreme weather events	Extreme weather events	Extreme weather events
Rising greenhouse gas emissions	Rising greenhouse gas emissions	Unemployment and underemployment	Failure of national governance	Failure of climate-change mitigation and adaptation
Cyber attacks	Water supply crisis	Climate change	State collapse or crisis	Interstate conflict with regional consequences
Water supply crisis	Mismanagement of population ageing	Cyber attacks	High structural unemployment and underemployment	Major natural catastrophies

Source: World Economic Forum Global Risk Reports 2012-2017.

For three consecutive years, 2012-2014, the global risk monitor scale of likelihood placed income disparity at the top of the list of global concerns. Also highly ranked were the related issues of unemployment and chronic fiscal imbalances. From 2014-2016, extreme weather events were listed at number two, while in 2015 interstate conflict, and in 2016 large-scale involuntary migration, topped the scale.[18] The assessment of impact of risks reveals a slightly different picture. Inequality, for example, a critical concern in terms of likelihood, is not considered by the respondents, heavily drawn from the business sector, as having a great impact.

Another analysis of global risks was done by the SDG Action Campaign and the UN Development Programme in 2015 to feed citizen perceptions of key global issues the SDGs should address. The resulting 'MY World' survey collected more than 7.5 million responses from 194 countries. The respondents ranked education and healthcare as highest priorities. The next greatest concern was job opportunities – an issue closely linked to the role of the private sector. Fourth, and rather surprisingly to many, was honest and responsive government – especially in developing countries. The high-ranking of this led to the creation of SDG Goal 16 on promoting peaceful and inclusive societies for sustainable development through inclusive institutions at all levels. Christian Aid is committed to working with local communities already in Sierra Leone to identify risks through participatory monitoring of governance issues, and hopes to replicate similar citizen perception studies in many more places.[19]

Figure 9: MY World survey results.



Source: UNDP 'MY World' Survey.

A third survey of global risks is conducted annually by Pew global research, a polling company. Their survey had a wider group of respondents and a narrower set of questions. The research in 2016 highlighted the importance of tackling the threat of terrorism as well as climate change.[20] Concern over the global economy was highlighted in countries suffering from deep economic crises. This was the highest concern in the Middle East and, in Latin America, was second only to climate change. Questions were not explicitly asked about unemployment, fiscal crisis or income disparity.

Engaging with stakeholders on global risks

There's no single framework or change theory that can encompass all global risks. The United Nations Guiding Principles on Business and Human Rights (UNGPs) address the business duty to respect all human rights through three pillars: protect, respect and remedy. It is the first set of human rights instruments that distinctively apply to business-related human rights abuses.

Although the UNGPs clarify what, in general terms, business entities should do, they do not set out how they should do it. The approach adopted by a business may vary according to whether the project is new or already in existence; the size and structure of the business entity; and/or whether several projects are carried out in the same/similar region. There are various ways in which a business entity could comply with the UNGPs.

Figure 10: The three pillars of the UNGPs.

Source: UN Guiding Principles on Business and Human Rights.

The UNGPs are a framework for business responsibility, but they are voluntary. As we see in the case studies below, government legislation that creates mandatory requirements may be more appropriate to ensure that every business meets the standard. Furthermore, various important areas of stakeholder dialogue and risk assessment typically sit outside the focus of the UNGPs – issues such as responsible taxation and climate change, which are key public concerns that businesses should address.

Land matters in Colombia

Farmers in Colombia have been displaced from their lands because of armed conflict inspired by economic interests and land use. This case study explores the voluntary and mandatory accountability mechanisms used to support peasant farmers and indigenous groups.

A recent report by ABColombia, of which Christian Aid is an active member, states that, as of May 2016, almost 7 million people had been internally forcibly displaced in the country.[21] This is, in part, caused by the dramatic growth of agribusiness, particularly in the production of palm oil, putting increased pressure on land use.

In 2012, more than 450,000ha of land had been planted with oil palms, producing over 960,000 metric tonnes of palm oil – an invisible ingredient in many household products from soaps to detergents.[22] Production has increased by 80% in the last decade and Colombia is now the world's fifth largest and fastest growing producer of palm oil.[23] The Colombian government seeks to increase output six-fold by the end of the decade.[24]

With the help of pro-bono legal partner Simmons and Simmons, an internal scoping report was prepared on the potential application of the UNGPs in the context of land rights in Colombia. The Report examined the potential application of the UNGPs to two specific industries – mining and agribusiness. These were chosen because of their associated human rights concerns, particularly (although not exclusively) in respect of indigenous and Afro-descendant communities.

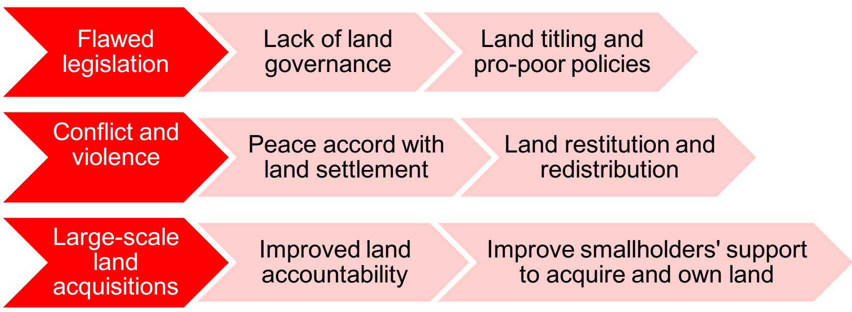
In 2011, the 'Victims and Land Restitution Law' (Law 1448) was passed as mandatory national legislation to facilitate the restitution of land that had been abandoned or stolen through violation or abuse of human rights. Other legal avenues for remedy include legislation concerning environmental permits and child protection. Over the long term, there is still a need to support those who have managed to recover their land.

ABColombia noted that in two months in the first half of 2016, more than 6,000 people fled their homes and land in Chocó (one of Colombia's 32 departments) to escape armed clashes, as groups fought for territorial control. Simmons and Simmons has helped prepare a Risk Assessment of this land dispute, enabling Christian Aid to maintain support to the community.

Many landowners who obtained their land as a result of the forced displacement of peasant farmers by right-wing paramilitary groups voted 'no' in the referendum on the Colombian peace deal. However, it is hoped that ultimately the revised peace accord, approved by the Colombian Senate and Congress, will bring the violence to an end.

A shift in attitudes about land ownership in Colombia has come from a shared understanding that unequal ownership (in which 0.5% of farmers owned 68% of productive land) led to extreme economic inequality and was both a factor in the country's long-standing conflict and now provides an opportunity to secure peace.

Figure 11: Addressing root causes of unequal access to land.



Land titling and formalisation are put forward as a means to enhance security of tenure, and to act as a safeguard against arbitrary or violent seizures of land by state, corporate or other interests. In one case, Simmons and Simmons submitted an Amicus (a legal text based on international jurisprudence), which argued that an afro-descendent community is a flexible concept in which all the members don't physically need to be similar, but that there can be community members who have been adopted by the community –

Investment in land is on the rise

International investment contributes to land evictions in many developing countries. The UN has stated that forced evictions represent a 'gross violation of human rights', and in 2007 the Special Rapporteur for adequate housing developed basic principles and guidelines to assist states and the international community in significantly reducing the practice of forced evictions.[25] By the end of 2014, 59.5 million individuals were forcibly displaced worldwide as a result of persecution, conflict, generalised violence or human rights violations. This is 8.3 million more people than the year before, and the highest annual increase in a single year.[26]

Colombia has a functioning and independent judicial system. In 2009, Colombian police forcibly evicted 120 families in Las Pavas, telling them the farmland had been sold to palm oil companies. In 2011, the Colombian Constitutional Court ruled that the community could return to their land, pending the re-examination of legal title to it. Two years later, the State Institute of Rural Development declared that most of the land was public, not the property of the palm oil companies, and that it should be returned to the Las Pavas community. Unfortunately, the process has been delayed due to legal action by the company.

living by the same rules and with the same culture. It argues that it is the community themselves that define the members. The case was not very successful, but established a legal case and aimed to develop jurisprudence in this area.

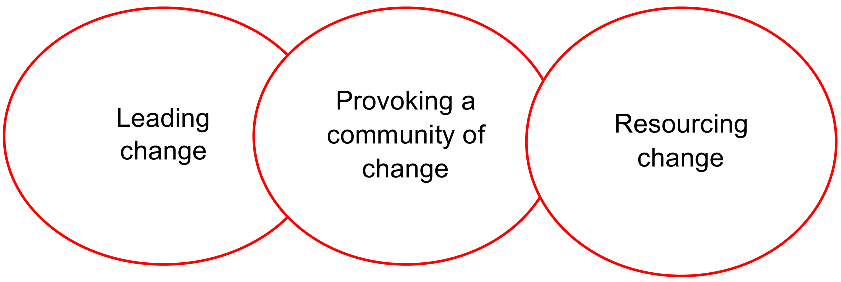
However, even legal titles are no guarantee against dispossession. In formalising property rights, and therefore encouraging land to be used as collateral or sold, legal titles may inadvertently encourage processes that contribute to dispossession. Land can also be seized at the moment of titling due to competing claims, and common property can be transformed into private property.[27] In settings marked by a high degree of inequality and power imbalance between social classes, legal titles are likely to benefit local elites over the rural poor.[28]

Salt Network tackles modern day slavery

Launched in October 2016, the Salt Business Network is a Christian business network that has been created to give business leaders a platform for working together to achieve a world without poverty. The network is unique in that it is action orientated and rooted in experiences from Christian Aid's partners in developing countries. It challenges its members to take on pledges to change their own businesses. In doing so, it creates a stronger, more united, more powerful voice and advocates for others to initiate change as well.

The network is currently composed of business leaders in the UK, and the format is relatively simple. Members commit to three workshops of three hours per year, and at each workshop to make tangible and measurable pledges on a specific topic. In its first workshop, in February 2017, Network members decided to tackle the issue of modern slavery. Although the network development is in its early stages, regional hubs are launching in the UK in 2017 and 2018 and there is hope of launching global hubs in 2020.

Figure 12: Three areas of impact of the Salt Network.



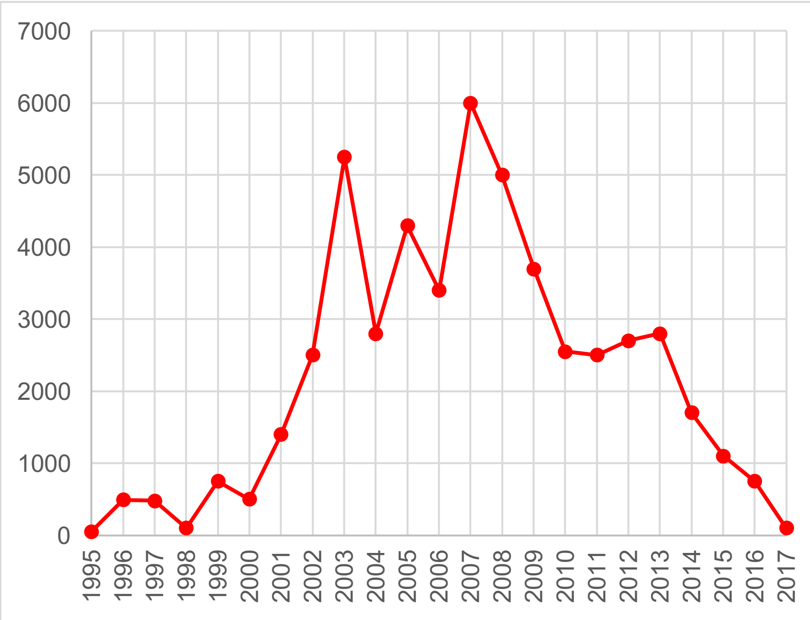
The debate was informed by INESC, a Christian Aid partner in Brazil, which is advocating for more frequent and stringent labour inspections[29] and tougher fines for those found guilty of modern slavery. As recently as March 2016, Nestlé and Jacobs Douwe Egberts admitted that they cannot guarantee that the origin of coffee in Brazil is from conditions free from slave labour, because they do not know the plantations from which their coffee originates.[30] Journalists have highlighted problems with plantation owners hiring informal labourers, including children, on coffee plantations.[31]

Modern slavery in supply chains

Modern slavery, which includes forced labour, debt bondage and human trafficking, sits at the extreme end of human rights abuses and touches an estimated 21 million people across the world who are living in conditions of forced labour – 19 million of whom are women and girls. Most of the individuals living in conditions of modern slavery are in the private sector – estimated at 14.2 million people – primarily in agriculture, construction, domestic work, manufacturing, mining and utilities. A further 2.4 million people are affected, at any given moment, by the issue of human trafficking. The UK Modern Slavery Act, passed in 2015, asks any business with a turnover above £36m to produce a yearly statement, visible from a link on their website homepage, outlining the actions they have taken to combat slavery in their supply chains.

While Brazil has vigorously tackled modern slavery in the past 20 years, the budget cuts by the current government are reducing the funds available to conduct inspections by the Ministry of Labour. The group responsible for inspections can only attend one-in-ten of the cases reported to the authorities.[32] Brazil's reputation on the issue is at stake – it risks falling in the international rankings (from its current position at 33rd out of 198 countries).[33]

Figure 13: People freed from modern slavery in Brazil.



Source: INESC, 2017.

In addressing modern day slavery, Salt Network members were asked to reflect, in the workshop, on the following questions:

- How can companies like Nestlé, and others who sell coffee across supermarkets in Britain and Ireland, know whether their coffee comes from plantations that have adequate safeguards against modern day slavery?
- Should companies attempt to change suppliers if there is a risk of modern slavery, or seek to influence supplier behaviour in tackling the issue? What forms of influence do businesses have to change the situation on the ground?

Many members of the Salt Network are leaders in businesses that have a turnover of less than £36m and are not obliged to comment publicly on the actions they have taken to combat slavery in their supply chains. The discussion in the network led to a number of them making voluntary pledges. One business, NG Bailey,[34] with a turnover above the threshold, was already advanced in making their statement and had taken action to change their worker-clothing provider. Christian Aid also made a statement on modern slavery, which has been a reference point for building good practices, including a supplier due diligence questionnaire and procurement policies.[35]

The learning that took place in tackling modern day slavery was passed on to other business leaders and the wider public at an event organised at the London Institute for Contemporary Christianity

Jorge Ferreira dos Santos Filho is a coordinator for ADERE, the social movement Articulação dos Empregados Rurais de Minas Gerais, in Brazil. He drives from one coffee plantation to another, speaking with workers and notifying the authorities when he uncovers breaches of law. 'The problem still exists,' he says. 'Children work on about one out of every five plantations.'

(LICC) in May 2017. At the event, two members of the Salt Network explained how, through examples in their own businesses, they have tackled some of the risks around practices linked to modern day slavery, in their supply chains and in operations in developing countries.

Tax dialogue on corporate responsibility

Tax issues have significant human rights impacts in developing countries, but often they are not considered human rights issues. This is despite a growing body of evidence from the UN Human Rights Council, the International Bar Association, and NGOs who place tax in the context of human rights.[36]

For instance, in 2010/11, the Kenyan government spent more than twice the amount of the country's health budget on providing tax incentives (the estimate for the incentives was 100bn Kenyan Shillings (KES), or US$1.1bn),[37] jeopardising the right to health of Kenyan citizens. In Kenya, partners such as Tax Justice Network-Africa are influential in an on-going campaign that has involved taking the Kenyan government to court over the revenues potentially lost due to an unfavourable Double Tax Treaty with Mauritius.[38] The case raised public awareness of the issue and has succeeded in delaying ratification from 2014 to at least 2017.

Tax has for a long time been an area of compliance rather than considered part of business responsibility and human rights impact assessments. As a result, according to benchmark assessments, businesses are slow to adopt responsible tax practices in this area. The theme is relatively new, and most companies still rate low on the FTSE4Good[39] indicator of tax transparency. Danish companies and selected banks are among those scoring higher. The Dutch Association of Investors for Sustainable Development published a tax transparency benchmark,[40] noting that a total of 45% of Dutch listed companies had published their tax strategies in 2015 (compared to 16% the previous year), but only 3% had published a country-by-country break-down on taxes paid.

Christian Aid, ActionAid and Oxfam have convened the 'Tax Dialogue' in the UK, as an opportunity to address key areas of tax responsibility. The structure of the Tax Dialogue is based on a joint report by the same organisations called *Getting to Good*.[41] This report, on responsible corporate taxation, highlights eight propositions against which companies can address their responsibility to move the debate from what not to do, towards what constitutes good behaviour. The intention is to create a space for open and frank dialogue in a private setting, giving both corporates and NGOs opportunities to air their views and engage in discussion. Each Tax Dialogue covers a distinct topic. So far the good behaviours addressed have been:

- the publication of country-by-country reports to show how much tax companies pay in every country in which they operate.
- regular audits of the use of tax incentives and reliefs, so as to ensure investment, employment and other benefits are delivered to developing countries.

Tax abuses risk tax revenue mobilisation

It is widely estimated that tax avoidance on its own costs developing countries more than US$200bn in lost revenue, on an annual basis, due to aggressive corporate tax avoidance. An additional US$100bn is lost as a result of routing financial arrangements through territories that, because of abusive tax and secrecy laws, can be identified as tax havens. Multinational enterprises (MNEs) have become increasingly international in terms of their foreign affiliates, with the top 100 enterprises having, on average, more than 500 affiliates across more than 50 countries.

Much of world trade today is intra-firm trade, with estimates ranging from 30%- 60% of world trade taking place between related parties of the same MNE group, rather than between two independent entities. These intra-firm supply chains are important in terms of allocating taxable revenue in developing countries, but there is no global consensus on how taxable revenue is allocated. Many developed countries follow OECD rules, while a number of developing countries have separate rules that substantially diverge, taking into consideration the local contexts of MNEs.

There are also reputational gains when companies take steps towards responsible tax practices. Dialogue has highlighted that at times it is possible to reach positive consensus – including on issues such as tax incentives, where collaboration between business and NGOs is now emerging on good governance principles.

Initiatives such as Responsible 100[42] have seen Legal & General, a UK-based investor, report more fully to wider stakeholders on tax, and the UK-based energy company SSE be awarded the Fair Tax Mark (FTM),[43] an independent verification of tax policies and public tax disclosure. Reputation and trust are also key themes in the Confederation of British Industry (CBI) responsible tax principles,[44] while Vodafone[45] and SAB Miller[46] already disclose tax payments geographically and globally, by type of taxes paid.

These examples demonstrate that a company that is serious about being tax-responsible needs a publicly transparent system for assessing the impact of a given tax-driven decision – on tax revenues, broader socio-economic effects and the human rights of workers and citizens. The principle is no different from a company showing, as aspects of responsible procurement and core business operations, that it respects human rights in its supply chains.[47]

Big Shift from fossil fuels to renewable energy

Similarly, climate change issues are not ordinarily discussed in terms of business and human rights due diligence, partly due to the lack of a binding international human rights understanding of the impact of climate change on human rights obligations. The motivation to address climate-related financial risk is that it addresses risks borne by asset owners, while the impact of climate change on the poorest communities requires implementation of the loss and damage mechanism.[48] Its inclusion as a standalone article is a crucial component of the Paris Agreement.

However, despite many businesses signing up to a declaration about being committed to a pathway to a zero-carbon world, we find that:

- banks are still financing the building of coal-fired power stations, which will lock countries into high carbon infrastructure, making the impacts of climate change worse
- there is still far greater financing of oil and gas companies than renewable energy projects
- there is reluctance to set measurable targets for scaling-up support for renewables and phasing out fossil fuels.

To look at the responsibility of the financial sector, Christian Aid analysed the policies of the UK's leading banks and asset management firms to better understand what role they play in funding fossil fuels and to what extent they are transitioning towards renewable energy financing – and thus aligning with the Paris Agreement. While the top four UK banks all had a 'D' in their ranking, showing poor overall readiness to tackle climate-related risks, there was a considerable divergence in terms of top 10 UK-based asset management firms. AVIVA Investment Partners scored a full 'A' and Legal & General scored 'B'. Five asset managers scored 'F', the lowest possible grade, with no preparedness for addressing climate-related risks.[49]

Addressing climate risk

In December 2015, world leaders meeting in Paris made history with a momentous global agreement to tackle climate change. They pledged to keep global warming below 2°C above pre-industrial levels and to aim to limit the increase to 1.5°C. The global consensus has never been stronger: the climate is changing, largely due to the burning of fossil fuels in industrialised countries, and we must act fast to protect our neighbours and the Earth – our shared home. We must move towards a zero-carbon world.

Climate change is an increasingly material risk for insurers, pension funds and any asset manager with exposure to key areas. Task Force on Climate-related Financial Disclosure (TCFD), established by Michael Bloomberg and a set of experts, was a partnership with government and private sector actors to tackle climate related risk in financial markets. However, the cost of inaction is far riskier. The Economist Intelligence Unit states that the average losses to these assets by 2100, due to climate change, are valued at US$4.2trn in case of a plus 2°C scenario – roughly on a par with the combined GDP of Brazil and India. However, if climate change spirals out of control, the expected value of a future with 6°C of warming represents present value losses worth US$43trn – 30% of the entire stock of manageable assets or combined GDP of the European Union and the USA. Inaction on climate change also puts at risk any advances made in terms of reducing poverty and in achieving the SDGs.

Our assessment led to a public campaign – part of a long-standing campaign to address the harm that climate change presents to people living in poverty. Having a government-to-government treaty in Paris was important, but more important still will be to implement it through the private sector. The sector must engage in shifting assets and investment instruments, of all types, towards a low-carbon and renewable-energy future. Christian Aid supporters have been busy during 2016, writing to the CEOs of the banks where they hold their funds, and presenting their wishes to bank branch managers. This public pressure is highlighting that climate risk is important. Public trust is a key vehicle for banks and asset managers to gain new customers and to hold on to existing ones.

The results, so far, are that banks are not yet demonstrating firm targets to phase out support for fossil fuels or increase support for renewables. If they want to remain profitable in the long term, they need to think about the type of world they are creating through their short-term lending decisions. A more unstable and unpredictable climate may damage their assets and make operating more difficult. A continued focus on the short-term profitability of fossil fuel-dependent businesses may be preventing them from reshaping their organisations to take advantage of the long-term opportunities presented by the low-carbon economy.

We can see some increased engagement from asset managers, but little clarity as to when they may divest from fossil fuel companies. A policy of engagement can only work if companies feel under pressure to demonstrate improvement. We are unconvinced that engagement policies are driving change at the pace needed. The relationship between asset managers and owners continues to prove a sticking point. It is taken for granted that if asset owners have greater understanding of the risks posed by climate change they will give asset managers a wider mandate to change their investments.

Conclusion: accelerating a transition to a sustainable economy

This report has looked at both the business opportunities and global risks related to moving towards a more sustainable economy. While businesses are starting to seize some of the opportunities and are managing some of the risks, a more comprehensive approach is still needed to address them both together. Nevertheless, this represents a step-change in terms of better managing the global risks highlighted by the SDGs. While there's no single score-card or benchmark for business alignment with SDGs, models and theories of change are now emerging.

The case studies in this report demonstrate that voluntary action by businesses can contribute significantly towards SDGs. Addressing these business models, and better understanding the factors that make it possible to pursue them, are critically important. Among other types, it is important to emphasise value-based business models; democratically owned businesses, such as cooperatives; and social enterprises.

However, the case studies also show that in managing risks, government regulation and policy guidance are necessary to create a level playing field for better practices across different sectors and industries. Front-runners in the business sector can lead the way in working proactively with stakeholders to address global risks – because doing so contributes to long-term business success as much as social and environmental progress. Front-runner businesses should support government regulations ensuring that no one is left behind by poor business practices.

Rather than focusing on the positives and overlooking the negatives, there is a need to look at the total impact of business practices. The UN Guiding Principles on Business and Human Rights provide a voluntary framework, but as the case study in Colombia and other examples from extractive industries show, government regulation – on health and safety; free, prior and informed consent with respect to land rights; and government tax and revenue transparency – is critical for ensuring human rights are embedded in business actions.

In summary, if we were to provide a to-do list for businesses in implementing the SDGs it would have the following six points:

Co-create: Networks of inclusive businesses or responsible companies are sources of innovation, shared learning and peer support for those striving to be more sustainable and inclusive.

Join forces: To find greater resources, businesses may need to look further to improve their impact. They may need to partner with government agencies, non-governmental organisations or academia.

Strive for an impact: To achieve a greater impact, companies are increasingly asked to demonstrate their engagement on diverse issues, from labour issues to climate change. Sometimes labels and certificates do the job; sometimes bespoke indicators are needed.

Be holistic: It isn't credible to simply pick and promote positive examples from one end of a business' operations if there are negative impacts at the other. Being holistics means presenting both sides of the coin.

Be transparent: In cases ranging from mining-sector health risks to fossil-fuel investments to country-by-country tax reporting, businesses are expected to be more transparent than in the past. They have to demonstrate that they are applying their principles.

Be accountable: Accountability shoud be based on mutual trust between companies, governmemts, communities, civil society, trade unions and other stakeholders. The UNGPs may provide a platform for accountability, as may national regulation, legislation and voluntary guidelines that seek to improve accountability.

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