THE FUTURE WE WANT

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Foreword

We live in tumultuous times. Political upheaval, the continued risk of economic crisis and environmental disaster, and persistent inequity are driving decision makers of all kinds to seek more sustainable courses of development. As societal expectations evolve regarding the role of the private sector, the opportunities for businesses to contribute have never been greater.

The Rio+20 Corporate Sustainability Forum seeks to harness the initiative of the private sector in order to meet the challenges – and reap the promise – of our time. It offers a unique opportunity for business leaders to reconsider the imperatives and aspirations for greater sustainability in their operations and strategies, with a particular focus on specific actions to bring responsible practices to scale, advance innovation and complement public policy. The Forum also serves as a venue for a diverse array of stakeholders to work together towards building markets, promoting the ten principles of the UN Global Compact and facilitating broader UN Sustainable Development Goals.

Several factors make business engagement in the public arena a matter of necessity. Expectations of business are undergoing a transformation – from increased government scrutiny and regulation driven by diminished public resources, as well as the emergence of social media narratives about corporate practices and products that have far more power than what any advertising campaign can deliver.

What is more, the social contract that has underpinned value creation in the market economies of the past thirty years is under serious strain. The transitions witnessed in North Africa and the Middle East are in large measure about the breakdown of that compact between the rich and poor, young and old, educated and uneducated. In the crisis economies of the West, widening income inequality is combining with soaring long-term unemployment among young people to create a potentially permanent underclass.

The global volatility that has marked recent years demonstrates that the challenges facing business and society are immense, demanding responses formulated in the context of broad trends. This is the true sustainability challenge for the private sector. The interlinked trends of resource scarcity and lack of access, climate change and demographic shifts inform the six themes on which the sessions of this Forum focus.

We hope you find the analysis in this report to be a useful and engaging point of reference as we begin what will certainly be a thoughtful, fruitful and successful time in Rio.
The relationship between fossil fuel use and climate change has led to efforts in recent decades to seek ‘clean’ and sustainable solutions for economic growth and development. While political solutions are a fundamental part of this process, the engagement of the private sector is needed to align public interest with the innovative engines and transformative capital potential that come through business.

**APPROACHES**

The Rio Earth Summit in 1992 crystalized the international vision for sustainable development, initiated the international approach to addressing climate change and launched the international process under the UN Framework Convention on Climate Change (UNFCCC). This has since helped focus discussions on how best to approach the challenges of reducing global greenhouse gas emissions, adapting to climate change and ensuring sustainable economic development.

While pursuing high-level policies — such as project-based mechanisms, cap-and-trade or carbon pricing — many governments have in recent years promoted bottom-up solutions or incentives that more directly engage the private sector in innovation and technology deployment. Simultaneously, a number of international initiatives are emerging to address energy and development goals. Such initiatives that deliberately seek to engage the private sector — for example, Caring for Climate and Sustainable Energy for All (SE4A) — aim to mobilize private-public partnerships, promote action at multiple levels and link access to cleaner and more efficient forms of energy to poverty eradication and other internationally agreed development goals.

**CHALLENGES**

Core challenges related to energy, climate and development are inextricably connected. These include:

- Climate change will not only affect and be extremely costly for countries across the world — and the global marketplace — but it will be particularly
Energy and Climate

devastating for the poorest and most vulnerable communities. Sea level rise, increases in extreme events and changes in ecosystems are likely to affect an array of economies and communities, such as small island states. Maintaining tolerable levels of risk would likely require keeping global surface temperature change below 2 degrees Celsius.

Energy poverty is a challenge for sustainable development. Over 1 billion people currently have limited or no access to electricity and around 3 billion have no access to clean fuels for cooking. Without them, they are unable to achieve minimum standards of well-being, let alone prosperity. For example, energy is a precondition for education (lighting schools), health (refrigerating medicines and replacing unhealthy cookstoves), improved agricultural productivity (irrigation), and entrepreneurial and manufacturing activity.

However, simply expanding the use of fossil fuels would increase the risk of dangerous climate events. This is why initiatives such as SE4A, led by UN Secretary-General Ban Ki-moon, seek to both double the rate of energy efficiency improvements and the share of renewables in the global energy mix and to ensure that every person has full access to modern fuels and electricity by 2030.

Many developing countries have achieved significant economic success in recent decades, and as a result a ‘new global middle class’ is emerging. As its members move from basic consumption to discretionary spending, they become more intense energy users, making it more urgent to promote the use of sustainable sources.

Some degree of change in global climate is inevitable, and hence safeguarding the most vulnerable and poor communities is paramount. Policy targets are at this stage fairly clear. For the most part, points of consensus exist across many development contexts. However, addressing all of these issues will require diverse policy approaches.
A key development of the past twenty years is the emphasis on harnessing the power of entrepreneurship and private sector innovation to reach sustainable energy and climate goals. Success will only be possible by integrating the interests of the business community in four major areas.

ENERGY ACCESS Energy access refers to the need to increase the number of people with access to higher-quality energy and to improve the quality of the energy for those who already have it. While much international discussion remains focused on energy access, decades of experience and scholarship indicate that maximum flexibility is retained if policies focus not only on increasing the quantity of energy delivered, but also the services that energy provides. Therefore, energy efficiency is a fundamental element of expanding energy access.

LOW-EMISSIONS DEVELOPMENT Recent and productive multilateral conversations highlight the benefits of the well-conceived deployment of new or re-tooled lower-emissions energy technologies. Such strategies focus on alternate pathways toward economic prosperity. These would not depend on large, generation technologies and, at the same time, would replace more polluting energy sources with cleaner ones.

INNOVATION AND CLEAN TECHNOLOGIES In past decades, innovation has often, and perhaps unfairly, been viewed as a process rooted in wealthy countries that can afford expensive research and laboratories. The emergence of economically vigorous middle-income countries has illuminated the possibility for encouraging a diversity of innovation in different development contexts. This means various entrepreneurial cultures and domestic and international policy can be put at the service of research and development seeking solutions to the profound challenges that stem from the association between climate change and energy.

NEW FINANCIAL INVESTMENT IN RENEWABLE ENERGY
in billions of dollars

[Graph showing new financial investment in renewable energy from 2004 to 2010 for developed and developing countries.]

Sources: Bloomberg, UNEP
**GREEN GROWTH** The emphasis here is on using environmental technologies as part of economic and industrial policy so that national interests, social goals and the environment can benefit from increased focus on new and greener technologies. Within this agenda, the aforementioned challenges can be addressed simultaneously.

Developments in the four clusters listed above — energy access, low-emissions development, innovation and clean technologies, and green growth — can be achieved by harmonizing policy goals with institutions and incentives centered on private sector innovation and capital deployment.

**IMPLICATIONS FOR BUSINESS**

The challenges of climate change and energy access can present both risks and opportunities for private sector actors.

**RISKS** Climate change will increase the costs and risks associated with doing business.

- Some industries are directly affected. This is the case of agriculture, which could suffer from lower yields resulting from extreme climate, and insurance, which will face higher claims as climate events become more frequent.
- However, almost all sectors will be affected by lower availability of raw materials, interrupted supply chains and other indirect but potentially extremely serious economic consequences.
- Ultimately, climate change will lead to increased regulation across several jurisdictions, creating further compliance costs for businesses.

Energy poverty presents its own set of challenges to societies, including risks associated with economic inequality, social unrest, limited growth and education potential, and corruption.

**OPPORTUNITIES** However, assessments of their exposure and opportunities could reveal that many private sector enterprises can contribute both to their own bottom line and to larger societal goals.

- Most obviously, through improving operating efficiency — notably of electricity use — companies can lower their costs.
- New products and services can be developed for the growing market of environmentally aware consumers, a trend that will be further supported by governments that implement ‘green procurement’ policies.
- Corporate partnerships with NGOs, government and international institutions can help solve local and global problems related to low-emissions development and energy access, with potential bottom line and public relations consequences for companies, as well as progress towards sustainable development and poverty reduction targets.
- By being proactive in lowering its carbon footprint and promoting sustainable practices throughout its supply chain, a company will enjoy a first mover advantage when new regulation is implemented — in other words, it will be favored by stricter rules when competitors struggle with compliance costs.
Difficulties in international negotiations, greater focus since 2008 on the global financial and economic crisis, and low carbon prices have indicated to some that climate is a diminished priority. Indeed, there are a number of drivers that could lead to significant losses for businesses that do not monitor them closely.

**INTERNATIONAL PROCESS** While achieving a deal to succeed the original Kyoto Protocol has been a challenging exercise, this should not be assumed to be a linear and unchangeable trend. Indeed, informal and more modest talks among major emitters suggest that progress is viable. Signals that major developing countries are moving towards some kind of emissions target would reinforce this; however, such moves may not be visible to the public for some time. Since business adaptation often takes time, waiting for a new treaty to be signed and enter in force before starting to take action is a risky strategy.

**DOMESTIC POLICY** Independent of the international process, a number of national and regional governments have adopted steps to curb emissions and adapt to consequences of climate change. This will favor firms that offer ‘green credentials’ in procurement processes and products and services that support attainment of these objectives. By contrast, the establishment of cap-and-trade systems and carbon taxes will increase the costs of inaction.

**BUSINESS STRATEGY** Many businesses take time to react to new environmental problems. Yet competitive, first-mover advantages to be gained from early action means that firms that act before their peers are likely to reap benefits. A key indicator here is the behavior of companies that give a climate-focused director a seat at the board, report the climate impact openly and engage with authorities to try to address environmental problems. Waiting for other businesses to take such steps could be costly.

**CONCLUSION**

The coming decades have the potential to be the time when the world’s energy system is transformed and basic energy services are provided — cleanly and with low environmental impact — to all people of the world. These development goals are ambitious but they are also feasible with the private sector at the core of the process.

In order for restructuring to happen, markets must be transformed and new business models pioneered. This in turn requires entrepreneurial individuals and forward-thinking firms to delay capital toward new opportunities. However, sustainable energy and climate goals cannot be achieved without partnership with governments and regulators to ensure that the incentives for success are properly aligned.
Consumption of fresh water has more than doubled since the middle of the twentieth century and is expected to jump another 25% by 2030. This has been caused primarily by demand growth related to food and agriculture, energy, and manufacturing, as well as strains on the balance of ecosystems on which societies rely for supply. The net effect of demand growth is increasing scarcity.

Water scarcity and pollution and, more widely, threats to ecosystems and global biodiversity jeopardize human welfare and economic activity. Therefore, stakes in addressing these challenges are high for local communities, governments and businesses alike. While these problems often have dramatic effects on individual jurisdictions — for example, when drought affects rural communities, undermining agriculture and, as a consequence, livelihoods — they are global issues by nature.

**GLOBAL RESOURCE**

Water is a classic global resource for a number of reasons.

**SHARED SOURCES** Rivers cross, and often mark, international borders. Many lakes are also shared between two or more countries. This means that pollution upstream denies people living in a country further down a river access to clean water, posing a risk to health and undermining economic activity. Likewise, overfishing frequently generates political tensions among neighboring countries.

**CLIMATE PATTERNS** Climate phenomena and their consequences impact water availability across borders. For example, climate change can increase the frequency and intensity of droughts and floods. Extreme weather events are unconstrained by national borders, and uncoordinated responses to them will often be less cost-effective and less likely to succeed.

**TRADE** Since both agricultural and industrial processes use water, trade in their products involves ‘virtual water flows’. It is estimated that this reached an average of 2.3 trillion cubic meters of water per annum in 1996–2005.
Even while water is a global resource, it is also an inherently local one. Unlike commodities such as oil, it is not economically feasible to transport water globally. Thus many countries must rely on their own local and regional supplies.

**DRIVERS, COMPLEXITY AND UNCERTAINTY**

Agriculture, demographics, the economy, ecosystem dynamics, infrastructure and technology are all drivers that affect water availability and sustainability more directly. Yet, as a recent UNESCO study notes, at a more fundamental level, the ‘ultimate drivers’ are governance, ethics, politics and society. This greatly increases the complexity of managing water, and while addressing both types of drivers in a single jurisdiction is a challenge, the global character of water as a resource makes it a mammoth task. Observers have noted that environmental policy in general also faces the challenge of overcoming a ‘double complexity’ that results from dealing simultaneously with environmental and socio-economic systems, both of which are extremely intricate.

Climate change can both increase the intensity and frequency of extreme weather events and gradually shift the seasonal and geographic distribution of precipitation. In the case of water management, experience shows that temporal and spatial changes in rainfall are key to creating abundance or scarcity. The problem is that such variation is often difficult to model. The El Nino-Southern and North Atlantic Oscillations provide an enlightening example. Experts participating in a recent survey expressed hope that by the 2020s the phenomenon would finally be understood to the point where it would be possible to model it. Meanwhile, it continues to produce unanticipated changes in water availability that undermine agriculture, destroy livelihoods and force farmers and companies to write off investments and change business plans. Countries eventually may need to reconfigure their economies in order to adapt to changing resources.

A further complication is the need for collective action, which the UN CEO Water Mandate defines as multi-stakeholder, cross-sector efforts to address water challenges. Collective action is particularly important because water and ecosystem-related risks affect a range of different actors in complex natural and social environments. However, this often creates a ‘tragedy of the commons’ situation, in which stakeholders have an incentive to maintain their unsustainable behavior while being ‘free riders’ who enjoy the benefits of the efforts others make.

Despite all these challenges and high levels of uncertainty, risk managers in businesses and governments cannot afford to ignore threats posed by water-related problems — the economic and human cost of not addressing them is simply too high.

**CORPORATE SUSTAINABILITY AND STEWARDSHIP**

While uncertainty and complexity are fundamental features of water management, specific challenges for water users across the economy vary. To some extent, all businesses rely on the availability of water. Agriculture is responsible for over two-thirds of global water use, but industrial production also depends on it — manufacturing an average car tire needs around two cubic meters of water, for example, while making a ton of steel requires 237 cubic meters. Commercial services are often perceived as having a smaller impact, but their water footprint through the supply chain can be enormous.
Corporate water stewardship is a vast challenge that includes:

- driving improvements in water use efficiency and wastewater discharge;
- engaging with suppliers to improve performance;
- collaborating with others to facilitate sustainable water management at the watershed level;
- collective action; and
- communicating company water performance, risks and response strategies to a wide range of stakeholders.

A focus on short-term results often leads companies to avoid taking these steps in the absence of regulation or other forms of pressure, such as the presence of market-based mechanisms. Research has found that most businesses respond to environmental issues in a reactive way that often fails to anticipate the long-term challenges to their operations.

The good news is that this picture is now changing, with institutional investors increasingly aware of the damage that ignoring water stewardship may inflict on corporate performance. Last year, 354 investors with assets of 43 trillion dollars asked the Carbon Disclosure Project to request corporations to answer a questionnaire about their practices in this area. Among the respondents:

- 59% reported exposure to water-related risk;
- more than one-third said that they had suffered recent water-related business impacts, with financial costs as high as 200 million dollars; and
- nearly two-thirds also identified water-related opportunities.

**BUSINESS RISK AND OPPORTUNITY**

Indeed, risks and opportunities are difficult to disentangle in corporate water and ecosystem stewardship. A business can simultaneously face ‘company risk’ deriving from how it manages its water as well as ‘basin risk’ stemming from circumstances outside its immediate control, such as water scarcity and inadequate infrastructure. Often managing risks will reduce losses and also create unforeseen opportunities.

**PHYSICAL AVAILABILITY** Very few companies in even fewer industries are able to manage on their own the risks posed by insufficient or excessive amounts of water. These companies need local, national and even international cooperation. Businesses also face risks through the supply chain. Hence, water scarcity or pollution even in a different continent may mean that raw materials or other input are unavailable or uneconomical.

**REGULATION** Experience indicates that environmental problems which become increasingly prominent, such as water scarcity and biodiversity loss, are very likely to be addressed by new regulation or other restrictions. Therefore, initial corporate investment in good stewardship may pay dividends if it gives a company a ‘first mover’ advantage in taking steps that precede the introduction of regulations that imposes further costs on its competitors.
REPUTATION The world today is characterized by instantaneous communication and active stakeholders. In this context, business reputations can be seriously affected by news reports of poor environmental stewardship. Conversely, openness and proactive management of water-related and other environmental issues can boost corporate image. Governments and companies are increasingly encouraging ‘good behavior’ through supply chain links by including environmental criteria in their tenders.

CONCLUSION Managing water, ecosystems and biodiversity is a complex undertaking. The plurality of actors involved means that the participation of governments, businesses and civil society groups is essential. It is also in the long-term interests of businesses to engage proactively in this cooperation and to be stewards of resources.
Meeting the challenge of providing nutritious and affordable food for 9 billion people by 2050 — in a changing physical, political and economic climate — will require enormous efforts from multiple stakeholders. The contribution and collaboration of the private sector must play an essential role, with close cooperation between government agencies and the private sector, among companies, among governments and with civil society.

Response and action will need to be formulated in the context of the broad trends that will constrain and condition the ability of the food system — broadly defined as everything related to the production, commercial exchange, distribution and consumption of food — to respond to the challenges of food security and to contribute to sustainable agriculture.

**DRIVERS AND DETERMINANTS**

Developments in food security and sustainable agriculture depend on several different drivers. Progress in all of them is needed to improve the global outlook.

**POLITICAL COMMITMENT** The most effective driver for greater food security and sustainable agriculture would be political commitment on the part of governments to provide the conditions under which farmers large and small can respond to the growing demand for food. Such commitment is required at both the national and the multilateral level. However, at present this commitment is lacking in many countries, where inadequate investments in social services, infrastructure and information hinder development.

The UN Food and Agriculture Organization (FAO) Food Price Index rose by 85% from early 2005 to early 2012. This indicates both that there is surging demand for food — driven by welcome income growth in emerging markets — and that global supply has not increased commensurately to meet it. The extent to which there is an increase in investment, particularly in the rural sectors of developing countries, will determine whether the hidden potential of increased productivity, with improved nutrition and environmental sustainability, is unleashed.
**COOPERATION** Governments will also have to work together to build a framework of commonly accepted rules and improved information that will be increasingly needed to guide global food markets. Some improvement has been achieved recently. For example, in late 2011 several countries and nine international and non-governmental organizations seeking to increase information and transparency launched the Agricultural Market Information System (AMIS) to collect and publish data on food markets. Yet much remains to be done. One among many possible positive steps would be to strengthen the disciplines on the use of export restrictions and taxes, which have the general effect of undermining the ability of trade to meet the needs of consumers.

**CLIMATE CHANGE TALKS** Equally important as a driver of sustainability in agriculture is the extent of progress towards the goals established twenty years ago at Rio, including accepting restrictions on greenhouse gas emissions. Climate change itself poses a challenge to agriculture, as rainfall and temperature patterns shift. Drought, flooding and other extreme weather conditions will pose additional problems and accentuate the need for improved agricultural practices with a smaller carbon footprint. Failure of international climate change initiatives will increase the uncertainty surrounding agricultural markets, as the farming and forestry sectors need unambiguous signals regarding their role in mitigation.

**VOLATILITY** Continued growth in emerging economies has led to a surge in demand for — and the price of — many commodities over the last decade. This ‘commodity super cycle’ has brought about significant changes throughout the global economy, but the process has not been a smooth one. Oil prices are positively correlated to food prices, given oil’s current role in food production and distribution. Higher oil prices are also part of the ‘super cycle’ phenomenon that pushes up food prices.

Food price instability may remain an unwelcome feature of markets. Price shocks, which disproportionately affect the most vulnerable, are a major concern for consumers and their governments. Income growth will attract investment to the food sector; however, the risk remains that concerns over price instability may adversely affect investment, and therefore productivity and production. In a market that
is already tight, insufficient investment may fuel further volatility, as otherwise less significant factors can have a considerable impact. Private investment has an important role in reducing volatility in commodities markets and improving agriculture in ways that are socially and environmentally aware.

**POPULATION** Demographic drivers will always play a major role in the agricultural and food system. Growing populations can be fed only through increasing production, decreasing food losses and waste and the environmentally sound use of land and water, both of which are vital but diminishing global resources. Few countries have the luxury of good agricultural land that is currently idle. Thus, most additional food will have to come from more efficient use of land and better incorporating smallholder farmers into markets. Trade helps to decouple food security from the local availability of land. However, with the bulk of population growth occurring in low- and middle-income countries, much of the extra food supply must also come from those countries. The good news is that the potential for increasing yields and food quality through training, better agricultural practices, technology and rural development is substantial.
**THE ROLE FOR BUSINESS**

An array of opportunities exists for the private sector to help meet the challenges of food security and contribute to agriculture that protects the environment, workers’ rights and the integrity of local communities.

**SOURCING AND DISTRIBUTION** The role of commercial enterprises in sustainable food sourcing and distribution is central to ensuring food security. Each government will have to develop a strategy for dealing with market access issues, price instability, temporary shortages of foodstuffs, emergency food distribution, nutrition and obesity, which now is broadly recognized as a key challenge to food security.

Businesses can become a fundamental part of such strategies. Information flows are an important part of well-functioning food production and distribution systems, and present a significant opportunity for public-private cooperation.

**RESEARCH AND TECHNOLOGY** Sustainable agriculture will require significantly increased investments in research and in the application of available technology to improve yields and reduce losses, including bringing this technology to scale for poorer regions of the world. Especially at a time when many countries face fiscal constraints, the private sector will need to be significantly involved. Increased private sector activity has offset some of the reduction in public spending on research; however, a better use of scarce research funds may include public-private partnerships and joint projects. Creative ways of rewarding private sector actors for such joint activities will be required, as well.

**RESOURCE MANAGEMENT** One aspect of the challenge facing global food markets is how to increase productivity in a situation where resources — most importantly land and water — are becoming scarce. Water, taken for granted by many, will become a vital resource in meeting production goals in the years to come. The private sector can often take the lead by introducing methods and practices that save water. Other resource constraints such as soil erosion can also be addressed through appropriate incentives for private sector activities, such as benefits for afforestation and other conservation measures. As each country examines the sustainability of its existing agricultural systems, cooperation with diverse stakeholders — from smallholder farmers to agribusiness firms — will be essential to ensure coherence and success.

**CONCLUSION**

Food security is a function of the availability of nutritious food, access to markets and effective purchasing power. Sustainable agriculture is a function of economic opportunity, research and technology, investment and the wise use of natural resources. Ultimately, food security will depend on sustainable agriculture; at the same time, no agricultural project will be sustainable if it is unable to contribute to food security. The private sector can play important roles in each of these areas. The challenge of the next few decades is to devise new means of cooperation among participants and policy-makers in the food system to achieve the common goals laid out at Rio and at subsequent meetings.
An overarching theme of the Rio +20 Corporate Sustainability Forum discussions is matching business interests with societal and environmental imperatives. At a minimum business must comply with all applicable law and ensure that they are not causing or contributing to abuse of human rights, labour standards and the environment, or engaging in corruption. Indeed, in contrast to a sense of calculated trade-offs is the business realization that sustained commercial success is inextricably linked to helping societies to meet their development needs and aspirations. Business flourishes in peaceful and prosperous societies. Its enlightened self-interest in helping to build such societies will remain the main driver of business engagement in social dimensions of sustainable development, beyond the need to manage the risk of adverse impacts.

The concerns of the UN-led social development agenda — from inequality, exclusion and poverty to corruption and unacceptable labour standards — are also those likely to erode market growth potential or seriously disrupt commercial operations or plans. It is thus not surprising that for many global firms, the focus has shifted from ‘why’ to engage in helping address such issues to ‘how’ to do so effectively and legitimately.

**FORCES DRVING CHANGE**

Risk and reward are the twin main interests driving the growing contemporary corporate focus on making contributions to sustainable social development. Among other motivations, firms are interested in mitigating their regulatory, reputational or business continuity risks. There are also risks of causing or contributing to harm, which are increasingly being seen as business risks, as well. At the same
time, business is also driven by the potential value and commercial advantage to be gained from being creative, credible and consistent about their social development practices and profile.

**EXPECTATIONS AND REALIZATIONS** Global youth unemployment reached a record high of 81 million people, or 13%, in 2009 and has since remained high. What is more, these figures from the International Labour Organization (ILO) do not take into account the underemployment, lack of decent and secure work arrangements, and high levels of economic uncertainty that often face the growing ranks of young workers.

Last year witnessed unprecedented political unrest across North Africa and the Middle East, where youth unemployment rates are nearly double global levels. The role that inequality and the unmet socio-economic aspirations of bulging youth populations played in these events (among other factors) will continue to drive business reflections on the need to make more explicit contributions to social stability and shared prosperity all over the world.

Meanwhile, in the last few years the global financial crisis and consequent ‘Occupy’ movements — along with energy-related environmental disasters and increased attention to issues of corruption — have given new urgency to already-changing societal expectations of business conduct and responsibility.

Increased easy use of instant communication technologies is one obvious driver of greater demand by citizens and communities for accountable and representative government; the corollary for business is no different. In the extractive sector, government demands for a greater share in natural resource developments are matched by demands on firms for greater social investment, coming from increasingly well-informed local populations.

Clear, considered strategies for environmental, social and governance issues continue to attract significantly higher priority at the board level. Social development positions are going from something ‘nice to have’ to something firms ‘need to
have’. Rather than adversarial relations, firms and governments will continue finding strong incentives to cooperate on delivering sustainable social services for populations.

**NORMS AND STANDARDS** The maturing of corporate social responsibility and self-regulation debates — along with initiatives to stimulate voluntary responsible business conduct and develop human rights norms for business — has given these expectations greater institutional and normative substance.

The United Nations Human Rights Council’s endorsement in 2011 of the Guiding Principles on Business and Human Rights means that the overarching trend has turned from debating the content and status of relevant norms, to what is involved in giving meaningful expression to these norms in policy and practice. Attention can now be given to collaborative ways for business, government and civil society both to ensure compliance and move well beyond it.

**SHIFTING STATE ROLE** Corporate sustainability debates take place against a broader and shifting canvas of changes in shared perceptions of the overall role of the state relative to the private sector. For a period after the Cold War ended, ‘consensus’ prevailed about the attractions of market economy models in which the state retreats to being an ‘invisible hand’ steering largely private economic activity; one manifestation was found in outsourcing and privatization of social services.

Reaction to the excesses perceived to follow from relative deregulation and the resonance in many emerging economies of a state-led model of economic development have witnessed the return of the state; many ‘private’ global actors are state-owned firms. These broad processes have consequences for patterns of corporate contribution to social issues. However, an understanding of the centrality of public authorities deploying a ‘visible hand’ does not preclude innovative and dynamic public-private partnerships. Indeed, it can foster them, especially in countries where state capacity to meet development goals is still fairly weak.

**SPECIAL RESPONSIBILITIES** Recent norm-building has paid particular attention to the needs and complexities of more fragile societies, especially those experiencing or recovering from serious armed conflicts. Particularly where control and use of natural resources was central to the conflict dynamic, there will remain a delicate balance between the need for private sector engagement to revive economic activity, and the propensity for corporate activity to exacerbate — often unwittingly — social fault lines. The windows of opportunity in high risk areas to develop effective multi-stakeholder solutions to pressing challenges will remain guided by norms — especially UN Global Compact principles — intended to prevent private economic activity undermining social cohesion.

Just as special approaches are needed for more vulnerable societies, corporate contributions to social development will be considered misconceived without special focus on the need to promote gender equality and women’s empowerment, as well as to respect and support children’s rights through companies’ operations and business relationships.

Firms designing relevant gender policies can draw on the considerable experience existing within the UN system and be guided by the Women’s Empowerment Principles developed by the UN Global Compact and UN Women. Such approaches can help turn equality aspirations into reality. Furthermore, projects to empower...
and enable women — for example, through promoting education, social enterprise and financial inclusion — can also have significant multiplier effects in local economies. A World Bank study shows that increasing the share of women with secondary education by 1% lifts a country’s per capita income growth by 0.3 percentage points, and that women reinvest 90% of their earned income in their families and communities, as compared to only 30–40% for men.

On children’s rights, UNICEF, Save the Children and the UN Global Compact have launched the Children’s Rights and Business Principles in order to help guide companies on what types of actions can maximize positive impacts on children. Several areas for further progress exist. For example, while under-five mortality is declining in all regions of the world, rates are still 50% higher, on average, in rural areas than they are in urban ones. In addition, although significant advances have been made toward universal primary education, there is more to be done in terms of access to secondary education. According to UNICEF data, 60% of secondary school-age children attend secondary school across the globe, but this figure drops to just 29% in the world’s least developed countries.

### OPPORTUNITIES AND RISKS FOR BUSINESS

#### MITIGATION AND MARKETS
The broad trend of growing mutual openness of government and business to collaboration creates opportunities for firms both to minimize social risks to their resource base or supply chain, and to contribute more explicitly to developing prosperous societies that will in turn offer greater market opportunities. A period of austerity in developed countries contrasts with current corporate cash reserve levels, suggesting prospects for a greater contribution by private actors to maintaining and enhancing social cohesion.

#### INNOVATION AND VALUE
The acute challenges of meeting social needs in a resource-constrained world will continue to foster innovations by firms aimed at providing more affordable, accessible and socially legitimate products and services. In addition, firms open to exploring their capacity for social engagement will find value-adding opportunities. For example, many sovereign wealth funds and institutional investors are shifting from mere negative screening (not financing firms that do social harm) to positive screening (seeking out firms that will add social value).

#### SHAPING REGULATION
As the models for contemporary and future public-private partnerships evolve, and as social expectations crystallize into regulation, there will remain opportunities for socially engaged business leaders to shape the tone and content of regulation in appropriate ways. One clear role for firms is not only to self-regulate in situations of weak governmental capacity, but also, through appropriate partnerships, to help such authorities build the capacity to regulate responsible business conduct.

#### LEVEL PLAYING FIELD
Corporations often tend to focus on competitiveness when contemplating their contributions to social development. At least for larger firms with global brand recognition or potential exposure to adverse regulation or reaction, one particularly discernible trend is the realization that investment in building more socially responsible and sustainable supply chains — as well as strong, transparent community and government relations — is a condition for remaining a competitive market player in the longer term.
Corruption remains a serious problem for companies operating in most parts of the world and across industries and sectors; total bribes paid amount to at least 1 trillion dollars every year, according to World Bank estimates. The cost to society is also enormous. Corruption poses massive obstacles to economic and social development by distorting markets, stifling economic growth and undermining the rule of law.

More recent efforts by companies to collectively take a stand against corruption — and also shift towards transparency within their operations and supply chain — are steps in the right direction. Yet, considerable work remains to foster incentives for collective action and to level the field by putting an end to corruption in all of its forms. As changing social norms manifest into regulatory requirements and consumer preferences, the companies that will prosper will be those with an early recognition of the long-term competitive advantages of socially-sustainable practices.

**BLURRING BOUNDARIES?** Properly delineating a public role for the private sector will remain a challenge. The notion that the social responsibility of corporations is merely to generate profit and pay taxes and wages is now largely discredited. However, an element of this idea continues to endure. While private enterprise wields influence and sustains livelihoods directly and indirectly, corporations are not — and should not be — analogous to public authorities. Amid all the opportunities and imperatives for corporate engagement in social development are risks of blurred responsibilities.

For companies, the danger is that direct involvement in providing public goods creates potentially unmanageable expectations by local communities, while over time local authorities may come to neglect their duties. Corporations are usually ill placed to manage alone the socio-political difficulties that can then arise.

For publics, over-reliance on corporate delivery of core social services can lead to government becoming unresponsive and unreachable. In the future both principle (questions of legitimacy and representation) and pragmatism (corporate caution about over-commitment) will continue to point to a need to carefully manage the balance between aiding social development and avoiding displacing government. Resolving where the appropriate lines lie is itself an opportunity for greater public-private dialogue.

**CONCLUSION**

The existing will for a positive business role in social development issues requires clear and uncomplicated principles that both delimit and guide business engagement. Spanning various initiatives and drawing its legitimacy from the United Nations as the apex forum of consensus-based international order, the UN Global Compact will continue to give succinct institutional expression to evolving understandings of the role of business in society and its development.

It is clear that as corporate leaders explore innovative ways to align ‘people, planet and profit’, one theme will continue to recur — partnership. If the main challenge for 21st century companies is to manage the risks and opportunities around sustainable growth and social development, then the main avenue for achieving this is forging local and global compacts between business, government and society in pursuit of shared benefits. The firms most likely to succeed will be those that embrace their role as contributors and catalysts for cooperative, careful societal development.
For the first time in history, more than half of all humanity — some 3.5 billion people and rising — reside in urban areas. Cities enable income and business growth, market development, and efficient transport and communications. They are where most wealth and innovation are produced, and account for about 70% of global GDP, a figure that is expected to rise in coming years. However, urban areas also present challenges related to the environment, social disparities and infrastructure.

THE CHALLENGES

Urbanization simultaneously drives economic growth and exacerbates cross-cutting environmental, demographic and development challenges, namely:

- The tension between infrastructure demands and ecological consequences of growth, including climate change;
- The impact of demographic changes, including increasing numbers of people on the planet and the global shift towards urbanization as rural people are increasingly drawn to the cities; and
- The consequences of increased resource use, including the sprawl of cities into rural hinterlands.

These challenges signal the urgent need to attend to the long-term implications of near-term investments and urban developments. The urban forms that rapidly developing economies establish over the next decade will lock in energy-use patterns for generations to come.

THE GOALS

There are several categories of actions that businesses and governments can take in order to manage these challenges and move toward more sustainable urbanization.
RESPOND ADEQUATELY TO DEMOGRAPHIC CHANGES As steady global population growth converges with the long-term process of urbanization, the pressure on city infrastructure and social life is immense. More than 180,000 people migrate to cities every day. The number of city dwellers is likely to grow to 5 billion by 2030, when six out of ten people will be urban residents, according to UN Population Fund (UNFPA) estimates.

Most of the growth will occur in countries that are least able to cope with the increased burden. The emergence of the mega-city (over 10 million inhabitants) and the meta-city (over 20 million inhabitants) will characterize the 21st century. By 2020, there will be 12 mega-cities in Asia alone, and all but four of the world’s mega-cities will be in the developing world. At the same time Mumbai, Delhi, Mexico City, Sao Paulo, New York, Dhaka, Jakarta and Lagos will have joined Tokyo by attaining the meta-city status.

FOSTER GREEN INFRASTRUCTURE As urban demands increase, the need for ecologically sustainable infrastructure and for retrofitting existing infrastructure becomes more imperative. Buildings and transport account for one-third and one-quarter, respectively, of global energy consumption and related greenhouse gas emissions. Cities are responsible for up to 70% of global greenhouse gas emissions, according to a recent report by the UN Human Settlements Programme (UN-HABITAT). These emissions mostly are related to the consumption of fossil fuels for electricity generation, transportation, industrial production and waste.

However, at various levels of economic development, there are vast differences between the best and worst performing cities in terms of economic productivity, environmental quality, and social functionality and equity. For example, retrofitting and upgrading cities and slums after they have emerged under weak political governance frameworks is an expensive and problematic approach.

It is more equitable and efficient to engineer infrastructure that mitigate or adapt to environmental challenges and natural hazards. Yet the reality is that vast areas of many developing cities have already reached the point that upgrading and retrofitting is required, in parallel with opportunities for smart green-fields growth.

ENCOURAGE SUSTAINABLE URBANIZATION AND RESILIENT URBAN FORMS As expectations and desires increase in relation to achieving higher standards of living, the pressure on resource-use intensifies. Partly as a result of their higher incomes, urban residents typically consume more energy and resources than rural residents. However, cities can take a multitude of forms and host vastly different levels of consumption at equivalent levels of economic development.

Patterns of urbanization are a key determinant of performance, and urban density and energy consumption vary across a wide array of cities worldwide. For example, high-income cities with dense, compact and mixed-use patterns of development and high levels of walking, cycling and public transport use exhibit vastly higher efficiency (per capita GDP) than low-density, sprawling cities. The former typically achieve much higher performance against diverse sustainability indicators than the latter. As such, one task is to increase urban density and reduce both sprawl and increased resource use through long-term planning that enhances rather than reduces livability.
Urban form also affects the efficiency and effectiveness of other urban systems, services and infrastructure, including building energy efficiency, water and sewage services, and the provision of electricity, heating, cooling and telecommunications. Transport investment and regulation, land-use management, the pricing of energy and utilities, and tax and financing structures shape urbanization patterns. In turn, they are responsive to governance, information and management initiatives that underpin the evolution of markets, consumer choices and investment decisions.

In economic terms, urban resilience is defined as the ability of an urban area or system to provide predictable benefits and utility to residents — and sound returns to investors — under a wide range of circumstances and challenges. Urban form and resilience have important implications for social and environmental sustainability and broader development agendas. For example, rapid urban growth in the absence of adequate planning can yield a spiral of infrastructure inadequacy, sprawling slums and environmental degradation. People living in such areas often suffer from poor sanitation, vulnerability to natural hazards such as flooding and landslides, degraded public health and poor access to employment and services. According to UN-HABITAT, over 800 million urban dwellers live in slums worldwide; in the developing world, one-third of the urban residents live in slums.

Furthermore, the resilience of cities and towns depends on the quality and performance of the overall urban system, not on the climate change adaptation of single infrastructure elements.

**RETHINKING APPROACH** Smarter cities will be the foundation for further gains in social welfare, social wellbeing and prosperity, as well as for the mitigation of environmental risks. Governments will have an essential role in setting goals and facilitating market engagements to meet them. The private sector will have to play a major part, as well, in designing more efficient buildings adapted to local requirements and upgrading water, sanitation and utilities to meet the expectations of the growing urban middle classes and the needs of the poor.
Managing urban development for a long-term sustainable future requires rethinking the usual triple-bottom-line approach to sustainability. One alternative approach that the UN Global Compact is currently advancing through its Cities Programme examines sustainability through four integrated domains of the social: economics, ecology, politics and culture. The approach calls for municipalities, companies and civil society to work together across all four domains.

**TOWARDS SUSTAINABLE AND RESILIENT URBANIZATION**

When governments, business and civil society cooperate to advance and implement finance and regulatory approaches that foster sustainable patterns of urban development, the result is lower long-term ecological, political and cultural costs and higher overall economic sustainability. Several areas for potential public-private initiative exist.

**REDUCE AND MITIGATE RISK** Preparing, structuring and managing large-scale development and redevelopment that integrates risk reduction and environmental mitigation measures into other performance enhancements can build a pipeline of sustainable investments.

The quest for high short-term returns for investors in a market that often fails to recognize externalities can leave the public with long-term infrastructure costs and high vulnerability to natural or human-made hazards, such as floods, earthquakes and sea-level rise. Climate and disaster risk-reduction and climate mitigation can be brought into the mainstream as factors in conventional planning, project design, financing and development decision-making. Specialized financial instruments can be developed for the risk-oriented components. For example, various forms of real estate value-capture increasingly are being used to more equitably spread costs and benefits of urbanization and to enable the financing of infrastructure vital to long-term urban viability.

**ADVANCE POLICY** Developing or retrofitting urban land across precincts rather than simply piece by piece — especially when supported by resilient networks of public infrastructure, with appropriate mitigation of environmental impacts — can ensure the sustainability of urban population growth. Adopting standards for sustainable and resilient urban development, embodied in national urban policies, transportation and urban design codes, green-building standards, and environmental and health assessment and mitigation policies can help businesses compete on a level playing field while boosting productivity and corporate economic sustainability.

**AGREE ON BENCHMARKS AND STANDARDS** Increasingly, codes, standards and principles are being adopted to promote long-term sustainability. Financing, technical support and requirements for system planning, monitoring and reporting can ensure that national policies support local initiatives. Having more robust systems to measure, benchmark, monitor and report on the performance of urban systems — including transport, air pollution, water quality, public space, public safety, housing, education and health — contributes to the creation of high-quality information and the promotion of achievements in urban sustainability.
Transforming investment procurement and contracting processes through managed, competitive, bottom-up sourcing mechanisms and processes can drive innovation and productivity gains, while enabling governments to focus on goal-setting and monitoring. Performance-based contracting can be used for provision and maintenance of urban services, such as rapid-transit bus networks, parking management and sanitation.

**CONCLUSION**

Sustainable development — the means for achieving maximum global economic social and environmental sustainability — has at its core sustainable and resilient urban development. Achieving this worthy goal will require substantial cooperation between the public and private sectors. Some of the most profitable business opportunities in the coming decades will lie in transforming inefficient informal urban markets into urban systems with higher productivity and more user benefits.
Financing decisions are, at their core, about balancing risk and reward in the search for yields. As the world’s economies undergo a steady convergence in living standards for the first time in history, new criteria for protecting future long-term returns are emerging. Alongside this trend, investors are giving more weight to environmental, social and governance (ESG) criteria.

A growing number of institutional investors — the custodians of sizable long-term asset pools that figure prominently in the global economy — understand sustainability considerations as a fiduciary responsibility. In addition, other important financial actors, including banks, insurance companies and stock exchanges, are incorporating ESG issues into their finance and policy decisions.

THE NEED FOR A NEW PARADIGM

The performance of a long-term investment strategy — be it relative to another long-term strategy or to a shorter-term one — can only be measured over an extended horizon, from ten years to a generation. This places a heavy burden on datasets. Further, in the case that robust data are available, the strategies they indicate might be of little use in a world that has become almost unrecognizable compared to the one in which the strategies were first set forth. Both points are inescapable now that growth is centered in the developing world, which is generating the returns needed by demographically mature developed-world investors. For example, according to the International Monetary Fund (IMF), output in emerging and developing economies grew by 6.2% in 2012, as compared to 1.4% in advanced economies.

The need thus exists for a strategic framework that anticipates risks and rewards over a longer time-span by paying attention to non-financial factors such as environmental, social and governance issues. There is a rich academic literature suggesting the concrete reasons why an investment strategy that ignores these issues might present medium- to long-term risks to the investor — whether from a reputational or regulatory risk standpoint.
The adoption of ESG investment criteria has been called a form of ‘enlightened self-interest’. However, it is more precise to describe these criteria as seeking to maximize long-range returns, while also delivering social value. It is therefore responsible in the fiduciary sense as well as in the social sense, which sets it apart from pure socially responsible investing (SRI).

The members of the UN-backed Principles for Responsible Investment (PRI) embody the voluntary adoption of ESG norms. The PRI has grown massively since its establishment in 2006. At present, more than a thousand asset owners, asset managers and professional service partners are signatories, with assets under management worth approximately 30 trillion dollars. This reflects a view that ESG criteria make sense from an investment perspective, as well as in terms of sustainable development.

To make such an ESG-led approach operational, collaboration is essential. Joint efforts by institutional investors and associated stakeholders are addressing the game-theoretic problems inherent to an ESG investment approach. At present, long-term investors’ engagement with their target company managements is uneconomic, creating a gap that third-party ESG rating providers currently attempt to fill. The next step is heightened collaboration among fund owners in seeking ESG compliance from their target investments, particularly in high-growth, emerging-market economies.

These institutional investors have the power to direct their fund managers to participate actively on the boards of invested companies, where they can make an explicit linkage between the achievement of ESG targets and allocation of increased capital positions. The UN Global Compact and UNEP Finance Initiative – through their joint PRI Initiative – are facilitating this kind of collaboration through the PRI Engagement Clearinghouse and other initiatives. The benefits are potentially massive. Collaboration addresses a significant governance gap, as international law stops well short of affecting the ‘externality’ problems inherent to global economic production, particularly in countries experiencing rapid industrialization and modernization.
PRI signatories have also committed to reporting on their ESG practices. One of the significant challenges to an ESG-led approach is the dearth of information. The market is not able to fully value sustainability issues based on the reporting methods and measures that most businesses currently use. Many companies fail to report, and others do not report on material issues. Given the power of informed investors to drive corporate sustainability performance, transparent reporting is an integral component to managing risk and to enabling business activity that is oriented to more long-term and sustainable investments.

DRIVERS

The global crisis of 2008-09 demonstrated how financial decision-making can set back development when it is divorced from social objectives. However, responsible investment trends — and increased attention to market-based approaches to development more generally — reflect recognition of the promise and transformative power of markets. Investors have a stake in a wide range of global sustainability challenges, which make this long-term investment framework more salient today than arguably at any point in history.

CLIMATE AND WATER

Externalities are costs of production that are imposed on society at large, rather than borne at the source, for example those related to greenhouse gas emissions and water abstraction. The logic of ESG for long-term investors is that these costs will eventually be forced back onto their source.

There exists broad international consensus that climate change, extreme weather events and resource scarcity pose grave — and growing — risks and costs to the planet and societies. Businesses and investors have an enormous stake in the establishment of provisions and incentives for non-state actors, for example carbon pricing and water governance. Many corporations have embraced the climate agenda or taken proactive steps to stem the challenges and risks they face from the emerging water crisis, among other steps. Yet given the potential consequences for the functioning of markets and economies, mainstream investment markets still pay insufficient attention to the interlinked issues of climate and water sustainability.

Private investment has a critical role to play in supporting growth and development through the enablement of vital and productive societies.
POVERTY AND HEALTH Sheer economic growth in significant emerging economies is narrowing global income disparities; however, endemic poverty and disease remain in many parts of the world. These ‘bottom billions’ represent a huge potential market and workforce. Private investment — including corporate sustainability efforts — has a critical role to play in supporting growth and development through the enablement of vital and productive societies.

CORRUPTION Corruption remains a scourge of business across the world. It exacts a toll on societies through diverted resources, on economies through market distortion and on businesses through costs and risks. The fight against corruption has been taken up by a number of governments and multilateral and intergovernmental organizations, but it also requires further private sector engagement.

LOOKING AHEAD

Societal expectations and the promise of material returns are powerful forces in bringing about behavioral change. Global financial flows are so massive that even slight shifts in investment criteria have the potential to have as much impact as formal political pressures.

Through responsible investment activities, investors can make valuable contributions to sustainable development. An affirmative stance on ESG among institutional investors, combined with heightened collaboration among them and increased reporting, can nudge policymakers in the right direction. However, as clearly reflected in the PRI, the consideration of ESG criteria also makes financial sense because it forms an essential part of prudent long-term investment strategy. Especially in light of growing global awareness of business practices, the timing for adoption of ESG-informed investment strategies has arguably never been better.
Global Analysis and Advisory

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Oxford Analytica is a global analysis and advisory firm that draws on an extensive network of experts and an in-house team to support the strategy and performance of its clients. Our insights and judgments on global issues help give clients an edge in understanding existing and emerging issues at the nexus of politics and economics, state and business, and business and society.

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UK
5 Alfred Street, Oxford OX1 4EH
t +44 1865 261 600
8 Queen Street, London W1J 5PD
t +44 207 036 3870

USA
405 Lexington Avenue, Suite 54B
New York, NY 10174
t +1 (646) 430 9014
1069 Thomas Jefferson Street, NW
Washington, DC 20007
t +1 (202) 342 2860

France
5, Rue de Surene, 75008 Paris
t +33 1 42 89 08 36

oa@oxford-analytica.com
www.oxan.com