

Management Of Sustainable Development Goals

The Human-Centered Business Model and its relevance to the achievement of the SDGs

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Why a more sustainable world?

Poverty and inequality are growing, with 767 million people, or 10.7 % of the global population, estimated to be living below the international poverty line of \$1.90 per person per day.

Some 4.5 billion people lack proper sanitation, and 2.1 billion people do not have ready access to safe drinking water.

According to the World Bank, global inequality – defined as inequality among all citizens worldwide, regardless of country of residence - is wider today than it was in the 1820s.

In the rank of the 100 richest economic entities sixty-nine are businesses; child and bonded labor are still widespread in countries that, supposedly, are run under the rule of law.

Water, air, and soil pollution are making many areas of the planet inhabitable or unfit and changing our climate with devastating impacts on people and natural environment.

The net worth of the world's top ten billionaires is higher than the GDP of Myanmar, Ethiopia, Luxembourg, Croatia, Belarus, Tunisia, Lithuania, Jordan, Libya, and Ghana combined, while the world's eight richest people now have as much wealth as the bottom half of the world's population.



Background

- The Human-Centered Business Model is a project developed by 46 partners within the **Global Forum on Law, Justice and Development**
- The project aims at developing an alternative approach to doing business that potentially combines, on an equal level of importance:
 - Economic Sustainability
 - Social Sustainability
 - Environmental Sustainability
 - Ethical and Integrity Sustainability
- The Project seeks to create a practical business model that provides a real choice for entrepreneurs who are looking for an opportunity to conduct their enterprises in a sustainable way

Development Objective

- The development objective of the Project is to provide a more **equitable** and **sustainable** model of doing business that will pursue inter-generational and intra-generational equity as well as shared prosperity and inclusive economic growth
- The new Model will have a primary impact on employment and work conditions, local communities and the environment, compliance with integrity principles
- The new Model should be flexible so to be adaptable to both developed countries and low and middle-income countries



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The HCBM project will also be instrumental to the realization of the United Nations Sustainable Development Goals (SDGs) 8.3, 8.4, 8.5, 8.7, 8.8, 10.2, 10.4, 12, and 16.5:

8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead

8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value

8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms

8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment

10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality

12 Ensure sustainable consumption and production patterns

16.5 Substantially reduce corruption and bribery in all their forms



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Why is the HCBM attractive to *governments*

- In line with governments' national objective to increase environmental and social sustainability (including human rights, fair wages, healthier and safer working conditions, gender equality, the right of the child, etc.) and to improve ethical behaviors (including combatting corruption, money laundering, tax evasion etc.)
- Consistent with governments efforts to pursue the Sustainable Development Goals (SDGs) nr 8, 10, 12 and 16.5
- In compliance with international agreements on social and environment sustainability (the Paris Agreement etc.)
- Provides a system of fiscal incentives/disincentives potentially applicable to ALL enterprises towards increased social and economical sustainability
- The level of sustainability of the HCBM can be used as a benchmark for investments by foreign companies in developing countries



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Why is the HCBM attractive to *entrepreneurs*

- New option to (a) for-profit entrepreneurs who wants to do business in a more sustainable way without abandoning the pursue of profit objective; (b) social entrepreneurs looking for economic sustainability without abandoning the pursue of social and environmental objectives; and (c) to State-owned enterprises that already pursue objectives of public interest
- The HCBM provides a stronger commitment to social and environmental sustainability than the CSR business approach used by many for-profit enterprises today
- “A market brand” providing competitive advantage with customers and investors increasingly aware of and interested in sustainable production and consumption

Why is the HCBM attractive to *consumers*

- In line with the global trend of increasing consumer awareness relating to how, where and by whom products and services are produced with reference to e.g. fair wages and safe working conditions, child labor, human rights, ethical aspects and impacts on the environment
- Consumers will also, as workers and as individuals, benefit from this more socially and environmentally sustainable model of doing business in terms of better health, economy and other aspects related to a better quality of life.



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Why is the HCBM relevant to the EU

- The **Europe 2020 Strategy** “emphasizes smart, sustainable and inclusive growth as a way to overcome the structural weaknesses in Europe's economy, improve its competitiveness and productivity and underpin a sustainable social market economy”. The HCBM contributes to achieving the key Europe 2020 targets on: *(i)* Employment, *(ii)* Climate change and energy, and *(iii)* Poverty and social exclusion
- The EU is committed to pursuing **the 2030 Agenda and the Sustainable Development Goals**. The HCBM is instrumental for the realization of SDGs n. 8, 10, 12 and 16.5
- The **European Commission Work Program 2016** launched the new initiative **Next Steps for a Sustainable European Future** to “set out a new approach to ensure Europe's economic growth and social and environmental sustainability beyond the 2020 timeframe, taking into account the Europe 2020 review and the internal and external implementation of the United Nations Sustainable Development Goals”.

Why is the HCBM relevant to the EU

Multiple opportunities of cooperation with the EU could be envisaged, for example:

- the HCBM could be an opportunity for developing a **“European Framework/Strategy for Sustainable Business”**, in furtherance of the Europe 2020 Strategy and the Sustainable Development Goals
- The European region enjoys the highest human rights, social and environmental standards in the world → the Framework/Strategy could represent a more advanced and focused version of the UN Global Compact, establishing a set of principles on human rights, labor, social inclusion and environment, and suggesting a system of incentives for complying businesses
- The Framework/Strategy may constitute a policy-normative model for EU and non EU Member States



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Accomplishments (1/3)

- **Partnership**: during the last 26 months we were able to convene over 46 partners, organized in 6 different pillars
- **Concept Note**: a concept note was developed as working document that contains the key elements of the project and annexes with details on specific issues. It has been the base of the formal project proposal
- **Inputs from Partners**: under the leadership of the respective leader/s, each pillar has provided extensive inputs and indicative budget figures that has been used for the development of the formal project proposal
- **Reach-out and fund raising**: a number of development actors and donors have been approached to scout their interest
- **The French Ministry of Foreign Affairs has provided seed funding** for the development of the project in July 2016
- **Development of project proposal**: November 2016



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Accomplishments (2/3)

- Guiding Principles: a very first draft matrix of principles has been produced and circulated among partners for comments. The matrix includes a preliminary list of principles of economic, social, environmental sustainability and, ethical/moral principles broadly agreed and embedded in international legal instruments



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Accomplishments (3/3)

- Project dissemination:

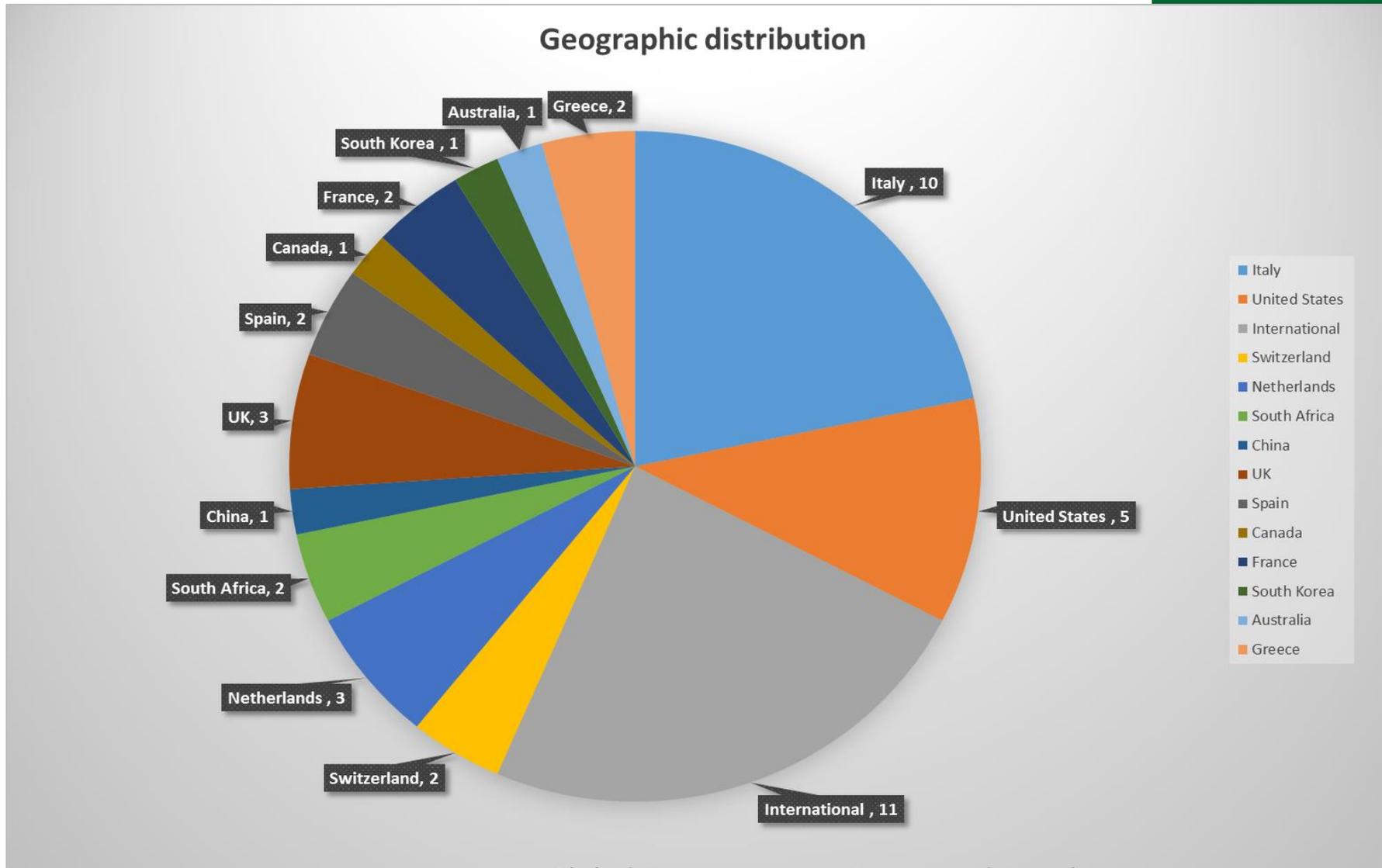
- September 2016 Spetses (Greece), hosted by EPLO
- December 2016 Washington DC, hosted by the WORLD BANK
- February 2017 Rome, hosted by UNIDROIT
- June 2017 Barcelona, hosted by TRASJUS/University of Barcelona
- November 22, 2017 Paris, hosted by French Ministry of Foreign Affairs and Union International du Notariat
- November 24, 2017 Brussels, hosted by the WORLD BANK office in Brussels



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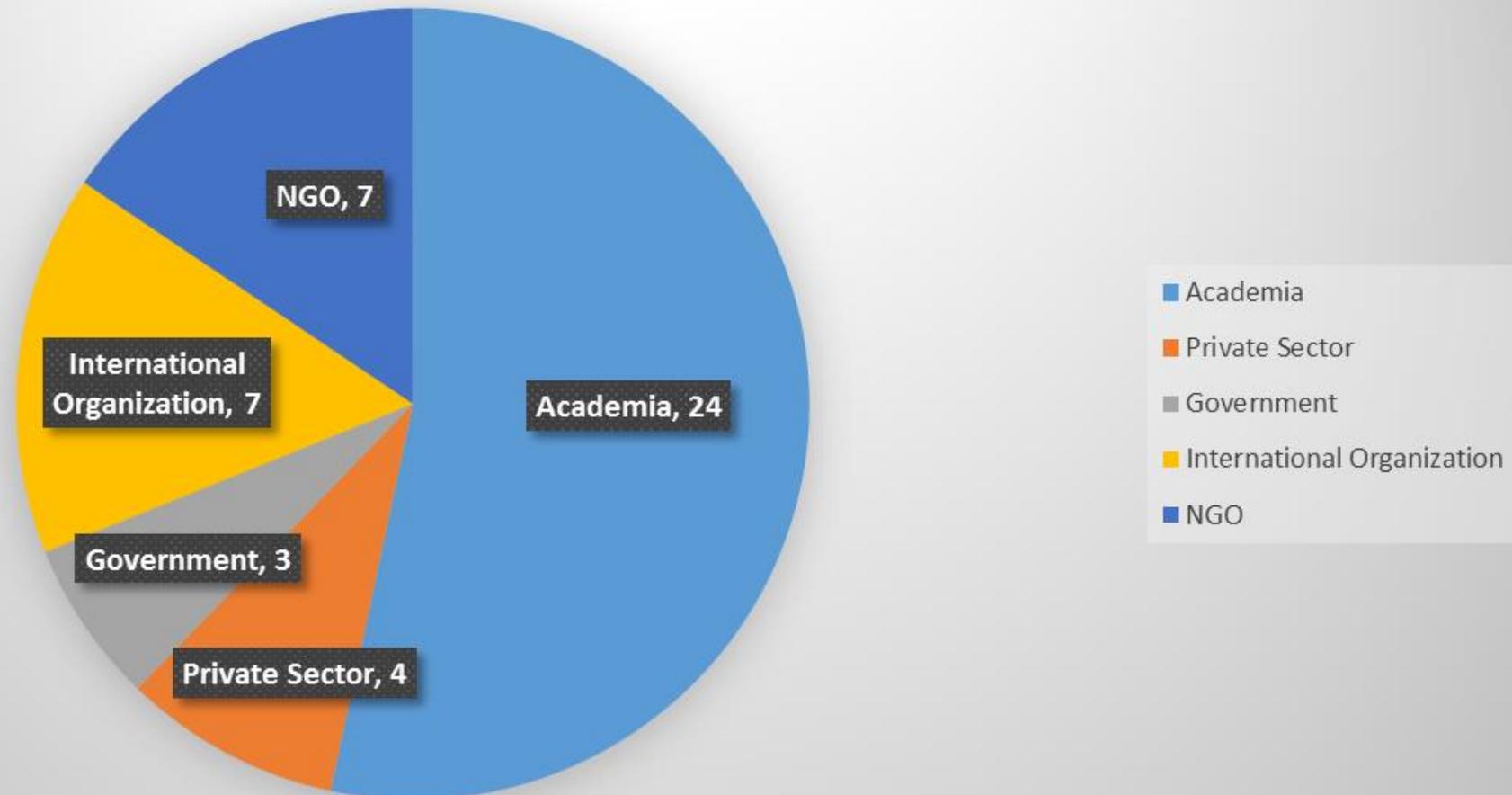


Partners by Country



Partners by institution

Institutions distribution



Main Pillars

- ❖ The HCBM is structured along the lines of **six pillars** that are intellectually guided by one or more co-leaders
- ❖ The pillars will develop:
 1. A set of guiding principles common to all the Human-Centered Enterprises (HCEs)
 2. Legal and corporate governance options coherent with the guiding principles
 3. Suitable forms of financial instruments
 4. Elements of enabling fiscal regime
 5. Procurement policies (both corporate and public procurement)
 6. Specific forms of stakeholders relationship



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Outputs

- The main output is to develop a model that will enable businesses to pursue environmental and social goals at par with profit, in an enforceable way, that will give a protection to the ones who have invested in the company by reason of its “human-centered nature”
- This goal will be reinforced thanks to *ad hoc* financial instruments, fiscal system, public and corporate procurement policies and mechanisms of stakeholders involvement
- The model is indeed a holistic model, that aims to reflect on the entire ecosystem in which businesses operate
- Same result through two different approaches: the ***Theoretical Approach*** and the ***Country Approach***



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The Theoretical Approach

- 1) Worldwide inventory of "good practices" from initiatives relevant to the HCBM (for each pillar)
- 2) Draft of the theoretical Model
- 3) Globally validated final version of the HCBM through online platforms and focus-groups
- 4) Dissemination of HCBM, indicators, innovative solutions and explanatory materials to interested parties.
The theoretical Model will be available for **voluntary adoption**
- 5) Pilot projects at national or sub-national level



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The Country Approach

- 1) Preliminary analysis of the legal framework of the selected country
- 2) Worldwide inventory of "good practices" from initiatives relevant to the HCBM (for each pillar)
- 3) Development of the Model as targeted to the country
- 4) Piloting
- 5) Extrapolation from the country projects of a general (theoretical) model for adoption and adaptation by other countries



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Guiding Principles

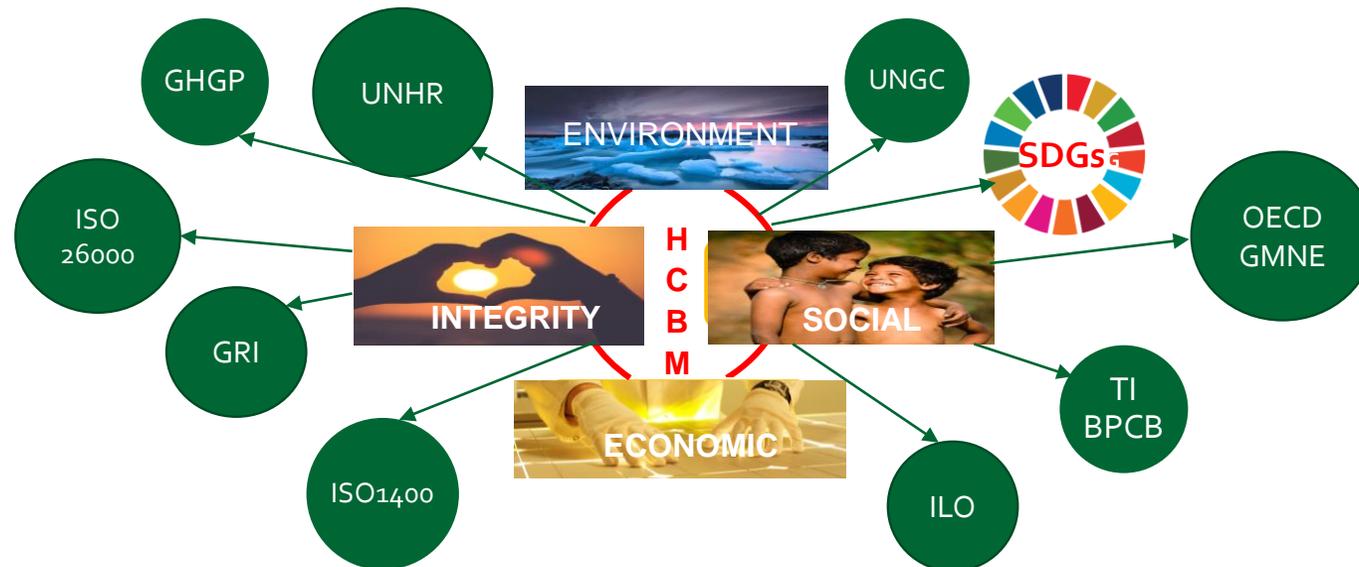


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Pillar 1: Guiding Principles (1)

- Guide the development of the other pillars
- Must be included in the HCEs bylaws and mission
- Existing economic, social, environmental and ethical principles, largely agreed upon by the international community to regulate sustainable business conduct



Pillar 1: Economic Principles

Examples:

- E-1.1. The Human-Centered Enterprise should put profit on the same priority level with ethical, social and environmental principles
- E-1.3. Economic value and impacts generated by the company should benefit the company, its shareholders and its stakeholders



Corresponding SDGs



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Pillar 1: Social Principles



Corresponding SDGs

Examples:

- SS-3.1. Respect/comply with labor rights and promote safe and secure working environments for all workers.
- SS-4.1. Elimination of discrimination in respect of employment and occupation
- SS-9.1. The company should aim for positive community impact from its operations
- SS-10.1. The company must ensure protection of its customers' health and safety



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Pillar 1: Environmental Principles

Examples:

- ES-3.1. Enterprises commit to prevent environmental damage and ensure damage repair. Enterprises are subject to the polluter pays principle and to the principle of environmental liability
- ES-4.5. Enterprises commit to avoid environmental damage to water sources significantly affected by withdrawal of water
- ES-7.1. Enterprises commit to reduce and minimize both direct and indirect greenhouse gas (GHG) emissions and their intensity

Corresponding SDGs



Pillar 1: Integrity Principles

Examples:

- IS-1.1. Businesses commit to principles of mutual respect, stewardship, honesty, trustfulness, justice, interdependence, caring for the poor, protection of human dignity, legitimacy of business and profit that serves the interests of society, obligation to avoid fraud, obligation for timely payments and stable and honest prices.
- IS-3.1. Businesses commit to fight corruption in all its forms, including extortion and bribery
- IS-2.3. Businesses commit to respect the principle of good faith and avoid abuse of rights in their relationships with stakeholders



Corresponding SDGs



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Pillar 1: Development ^(1/2)

For each HCBM Principle, based on HCBM benchmark research of global best practices:

- **Elaboration of HCBM performance indicators**, with defined metrics and measurement methodologies
- **Corresponding HCBM performance targets assigned**

HCE measures progress towards the performance targets.

Environmental Sustainability Principle
ES-11.3. Minimization of the negative environmental impacts in the supply chain

ESI-11.3.1. Metrics/Measurement (a-e)

a) Percentage of new suppliers that were screened using environmental criteria (GRI Disclosure 308-1)

ES Performance Indicator
ESI-11.3.1. New suppliers were screened using environmental criteria (GRI Disclosure 308-1)

ES Performance Target EST-11.3.1.(a)
100% of new suppliers screened using environmental criteria



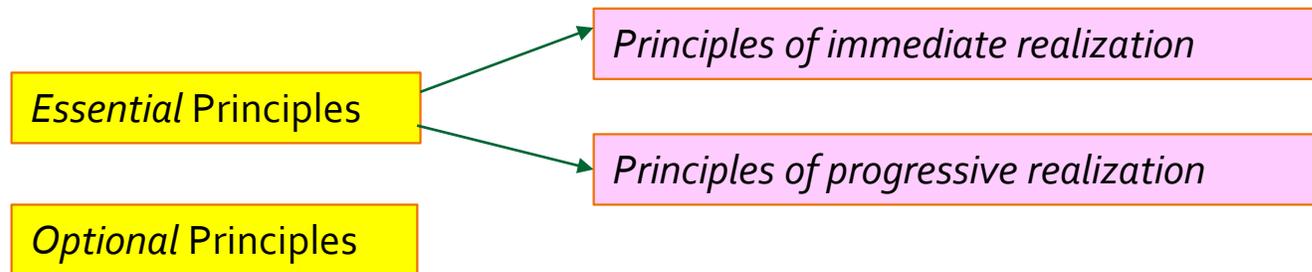
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Pillar 1: Development (2/2)

1) **Inventory** and **selection** of principles – draft HCBM Guiding Principles Matrix (11/2017)

2) **Elaboration of the guiding principles:**



3) **Elaboration of performance indicators**



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Legal Framework and Governance



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2) Legal Framework and Corporate Governance (1/5)

- **Legal Framework:** the Model's application will require - depending on different legal, socio-economic and cultural environments - either the adaptation of existing legal entities or the introduction of new ones
- **Corporate Governance:** Elaboration of innovative corporate governance schemes that can ensure the pursuit of goals other than profit  Social and/or environmental interests are no longer “third/external” interests that managers *may* consider to increase their profit but are proper corporate goals, as well as profit sustainability, and directors have consequently to strive also for them, in compliance with their duties of administration



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2) Legal Framework and Corporate Governance (2/5)

Development of **several alternatives of governance**

- to be suitable to different business sizes, sectors, socio-economic and legal environments
- with common characteristics (including participatory, democratic, transparent, ethical and accountable model)
- and supported by compliance and monitoring strategies to control the fulfilment of the legal model within the corporate governance



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2) Legal Framework and Corporate Governance (3/5)

Main issues

A. Impact on the structure of business organizations

1. Not all laws enable the pursuit of not-for-profit goals by business organizations → the HCBM provides for options
2. Even when laws are enabling, a certain degree of standardisation is positive:
 - Reduces ink costs
 - Creates network effects and familiarity
 - Facilitates comparison (e.g. enables better pricing of security)
3. Ensure lock-in of “social” capital (equity and debt)



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2) Legal Framework and Corporate Governance (4/5)

B. Disclosure

- Many instruments already in place (e.g. Directive 2014/95, private reporting standards)
- Need to be adapted to micro and SMEs
- Problems when reputation is not key > need for other enforcement mechanisms

C. Governance

- Independent directors; special committees
- Representation of stakeholders interests within the organization
- Stakeholders in the board of directors?

2) Legal Framework and Corporate Governance (5/5)

D. Compliance

- Compliance programs
- Organisational models
- Whistleblowing

E. Fiduciary duties

- Need to define duties taking into account the interests of stakeholders
- Problems: defining damages and standing to sue

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Financial



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3) Financial Pillar ^(1/4)

Outline

1. Intermediaries, Instruments & Markets
 - Alternative Banks
 - Ethical/SRI Asset Managers
 - Sustainability Footprint Financial Assets
 - Web Based Direct Finance
2. Heightened Need of 'Sustainable Footprint Certification'
3. Further Incentives for 'Clustered HCBs'?
4. Public Private Partnerships

3) Financial Pillar ^(2/4)

Intermediaries, Instruments & Markets

1.1 Alternative Banks:

- Need to improve current banking regulation (e.g. Basel Accord on Minimum Capital Requirements for Banks)

1.2 Ethical/SRI Asset Managers:

- Do we need fiscal incentives for ethical/SRI asset managers?

1.3 Sustainability Footprint Financial Assets:

- (e.g., Social Bonds, Green Bonds, etc.): do we need fiscal incentives?

1.4 Web Based Direct Finance:

- (e.g., crowdfunding, etc.): Do we need a specific infrastructure?



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3) Financial Pillar ^(3/4)

Heightened Need of 'Sustainable Footprint Certification'

- Ethical Ratings
- Sustainability Ratings
- ESG Ratings
- ...

3) Financial Pillar (4/4) *Public Private Partnerships*

- So indispensable to almost any action ...

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Fiscal System



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4) Fiscal Pillar (1/5)

Taxation is in the spotlight



4) Fiscal Pillar (2/5)

Tax System

Objective

The Fiscal Pillar will design a tax system that links tax incentives and disincentives to the real economic resource, and the real social and environmental performances of the enterprises, using specific performance indicators

Target

The tax system should apply to all enterprises in order “level the playing field” and to broaden the ultimate impact of a more sustainable behavior of ALL enterprises

4) Fiscal Pillar (3/5)

Tax systems are used as policy instruments for governments to pursue public policies

The tax system of incentive and disincentives creates a tool consistent with the objectives of economic sustainability, social sustainability, environmental sustainability, and integrity

Economic sustainability: Placing profit on same level as ethical, social, environmental principles, Empowering directors and governing bodies to pursue these principles

Social sustainability: human rights, adequate wages and dignified family living, healthy treatment and equal employment opportunities

Environmental sustainability: water pollution, waste generation and Disposal, air pollution, energy consumption

Respect of Integrity principles: anti-corruption, anti-money laundering, anti tax avoidance, anti trust,

4) Fiscal Pillar (4/5)

Principle	Performance	Fiscal Deductions	Fiscal Increase
Compliance Social Sustainability targets (combined performances on specific targets)			
- Human Rights	Level 5	-0.9%	
- Adequate wages and dignified family living	Level 4	-0.6%	
- Healthy and Safe Work Environment for Workers	Level 3	-0.3%	
- Equal treatment and Equal Employment Opportunities	Level 1-2		+0.9%
Compliance Environmental Sustainability targets (combined performances on specific targets)			
- Water pollution	Level 5	-0.9%	
- Waste generation and Disposal	Level 4	-0.6%	
- Air pollution	Level 3	-0.3%	
- Energy Consumption	Level 1-2		+0.6%
Compliance Integrity targets (combined performances on specific targets)			
- Transparency (Anti-Corruption policies and practices)			
- Anti-Tax Avoid Measures			
..... Others			



4) Fiscal Pillar (5/5)

Additional benefits of the H-CMB

Benefits for the enterprises

- ❖ **New image for groups to relay** on since public sensitivity to the respect of economic, social, and environmental indicators constitute a real stake of reputation
- ❖ **Define new strategic choices of investment** relaying on clean technologies. Even if many associate environmental sustainability with expense, companies that have embraced it are financially outperforming. DuPont for example has saved \$2.2bn through energy efficiency.
- ❖ Since taxation includes issues relating to corporate, social, and environmental sustainability, a **strategic communication** should relate the effects the enterprise exercises vis-à-vis of the society, and respond to the need of employees: work in a company with a high moral sense

Benefits for the States

- ❖ Help States to **comply with the Paris climate agreement** and achieve better results

5) Procurement

- The **Corporate procurement** (upstream supply chain) is expected to abide by the highest legal and ethical standards. Business relationships should take into consideration suppliers' compliance with the Human-Centered Business Model principles
- **Preferred procurement** (downstream supply chain)
 - based on the guiding principles' performances, the new business Model may be granted selective preferred procurement conditions with the public sector (e.g. *Green Procurement*);
 - *ad hoc* mechanisms of preferred procurement could be developed in dealing with other enterprises in the private sector



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6) Stakeholders Relationship

Human-Centered Enterprises should develop an effective **interaction with local stakeholders**, such as:

- Local communities,
- Academia for capacity building in the areas of business planning, marketing, accounting, budgeting, ICT, legal, and financial literacy
- Professional Associations for pro-bono legal support during the start-up phase
- Retirees for furthering forms of mentoring support through knowledge transfer from outgoing workers to new workers or apprentices
- Etc.



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