



**Business for Millennium Development Summit**

October 24<sup>th</sup> 2008

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“The United Nations Global Compact, the MDGs and Governance”



**Improve Business, Reduce Poverty**

As an expatriate Australian, working in the CSR/sustainability space at the international level, it is an honour to join you today in the pursuit of two vital goals. These are to advance Australian business interests, while at the same time advancing the UN Millennium Development Goals and the global 'public goods' they enshrine.

In the next 20 minutes, I would like to answer three related questions. These are:

- i) What is the UN Global Compact?
- ii) How does it relate to the MDGs? and
- iii) How can Australian business use the UNGC and MDGs to enhance their performance and at the same time contribute to building a better world?

In short, how can you 'do well – or even better - by doing good?'

While I have the privilege of being an honorary adviser to the UNGC, I am not a UN official and my remarks today are made in a personal capacity. However, as someone who routinely advises governments, intergovernmental agencies and businesses on the complex corporate social responsibility and sustainability landscape, I hope my remarks will be helpful in setting today's discussion in this wider framework.

It is no exaggeration to say that the business sector – in Australia and worldwide - is at a turning point in history. As recent events in the financial sector have shown, business can only provide goods and services on a sustainable basis if it:

- Measures, manages and is transparent about risk
- Is alert to changing business conditions and opportunities, and
- Grounds itself on both the law and globally recognised ethical principles.

The wisdom of the old proverb that 'Trust comes by foot and goes on horse back' has been illustrated again this year on a massive scale. If the business community is to regain the trust it needs from regulators, investors and the wider community, it will need to engage with all its stakeholders and build these fundamental truths back into its operational DNA.

My central message today is that the UNGC and the MDGs can and must play a key part of this process.

## What is the UN Global Compact?

While the United Nations is first and foremost a governmental body, most UN agencies nowadays work closely with business, and have some form of designated business contact point. However only two bodies – the UNGC and the UN Office for Partnerships – have been created with the express purpose of engaging with the private sector.

The UNGC for business is the world's largest corporate citizenship initiative, with over 4,000 active participants in 120 countries, including businesses (large and small), governmental bodies, employee organisations and NGOs.

At its core, it has a set of ten principles covering all three dimensions of sustainable development: economic, social and environmental. For business, these ten principles have a special value.

First, they provide a clear and readily accessible list of the main principles which can help a company understand how it should understand widely accepted expectations of responsible business behaviour.

Second, since these principles are derived from existing (and often lengthy!) international agreements, they have a level of authority and legitimacy enjoyed by only a handful of global CSR instruments in the market place. If you use the UNGC, wherever you operate in the world, you can be confident you are basing your actions on principles agreed by the world's governments.

But the UNGC is much more a useful summary of guiding principles.

As a consultant on global CSR instruments and initiatives, I see the UNGC having a number of almost unique characteristics.

## Business Context

At the top of the list I would point to its historic reminder of *business context*. Business today operates in a very different context from even ten years ago.

When I mention words like 'climate change', 'melamine', 'credit default swaps', you know what I mean. They conjure up immediate and, sadly, negative associations with business.

While globalisation has lifted many out of poverty and brought the fruits of growth and development to millions, these fruits have not been shared equally. Endemic poverty and hunger are not only ethical human rights issues. They have profound political, economic and peace and security dimensions. Abuse of employee or consumer rights threatens communities and respect for the law. Overarching all this, climate change threatens massive long-term disruption of economies, ecosystems and cultures.

Although generic in nature, the UNGC principles help to anchor business – in any sector and any country – in this wider global context.

Indeed, in response to business interest in specific challenges, the UNGC has established a number of initiatives to give focused attention to a particular issue.

These include the 'Principles for Responsible Investment', the 'CEO Water Mandate' and the 'Caring for Climate Initiative'.

### Communication

Next on my list is its attention to *external communication*. One of the conditions of GC participation is that the signatory organisation makes an annual 'Communication on Progress'.

In the shift from the 'trust me' world of the last century to the 'show me' world, we have seen a growing recognition of the importance of companies communicating to their stakeholders on an agenda far wider than just financial performance.

Thousands of companies worldwide now produce CSR or sustainability reports. A phenomenon hardly known 10 years ago, these commonly contain information about the company's mission, its social and environmental values, and how it using markets to help solve issues of local or global concern.

Smart companies understand that they have impacts. These can be both positive and negative. In the 'show me' world, they are using reports to communicate – to employees, investors, consumers, local communities and regulators – to build trust, gather and test ideas, and to grow a sustainable business.

Whether using an internationally recognised reporting framework such as the Global Reporting Initiative (GRI) or another approach, communication on both financial and non-financial business performance is now a hallmark of modern management.

In this context, the UNGC's requirement for CoPs encourages companies to assess their progress on one or more of the ten principles, and to celebrate this publicly.

In a 'two for the price of one' arrangement, GRI-based reports can also be considered as CoP for UNGC purposes.

## Partnerships

The third aspect on my list would be its vital *partnership* characteristic.

An initiative that brings together business and other stakeholders, the UNGC increases the opportunities for business to hear – and respond to – others' perspectives, as well as to share experiences and learn.

As we move into what looks set to be an increasingly turbulent and testing 21<sup>st</sup> century, businesses that are not well engaged with society, and not seen as responsible social partners, seem unlikely to be successful in the longer term.

Whether in the form of its Leaders Summits, its issue specific initiatives and conferences, or its array of Local Networks – national level associations – the UNGC offers business a variety of platforms for learning, fostering creativity and for partnership development.

## UNGC and Australia

Let me pause a moment here to consider how Australian companies are using the UNGC, and how it might be used more effectively.

Just under thirty Australian companies are classified as 'active' UNGC signatories, which means that they are participants that issue 'Communications on Progress'. These include 'Big Australians' such as BHP Billiton, Fosters and Westpac, but also a respectable proportion of SMEs.

There are also many non-Australian companies with active subsidiaries in Australia. These include Coca Cola, Dow, HP, Microsoft, Nike, Shell, and Veolia.

In this respect, Australia is roughly comparable with South Africa (25) and the Netherlands (29), but well behind the UK (102), the US (163), Spain (366) and France (452).

I am not suggesting that businesses in these latter countries are necessarily more responsible or responsive than Australian business. The different levels of participation reflect a variety of drivers. These include the level of government encouragement, the level of interest in understanding global issues, and the strategic interest in associating with global 'public goods'.

In addition to the arguments already made, I would note two things that speak in favour of a more active engagement by Australian business.

Firstly, in the 2006 report by the Federal Parliamentary Joint Committee on Corporations and Financial Services, entitled 'Corporate responsibility:

Managing risk and creating value', the Committee concluded after detailed consideration that it believed '*...there would be value in encouraging more Australian companies to participate in the UN Global Compact.*'

Participation thus has a high level of official blessing.

Secondly, while unlike the 70 plus countries and regions that have a UNGC Local Network structure, an Australian network has yet to emerge. Things, however, are about to change. With the support of the Federal Treasury department, the Sydney-based St James Ethics Centre is currently exploring how to expand responsible business practices in the Australian business community.

In its work so far, I understand that the Centre has recognized the fundamental role the UNGC plays in advancing universally-agreed principles, and is now exploring the creation of an Australian network of GC participants, with itself as the hub. The mission of the Network will include raising awareness about the UNGC in Australia, increasing the level of engagement by the business sector, and stimulating greater action.

In this, the Centre will doubtless be helped by its role as the national focal point for the GRI, announced last week.

#### Relationship with MDGs?

Let me turn now to the Global Compact's relationship with the MDGs.

It will come as little surprise that they are largely complementary. They are both children of the Millennium (being established in the Year 2000), and of the United Nations system.

Both seek to synthesize and prioritize complex and urgent international issues in a convenient and accessible framework to which business can relate and respond.

Both contain a framework for how business might approach sustainable development – the notion of balancing economic development with its social and environmental counterparts, sometime described as a 'people, planet and profit' approach.

And, as flexible voluntary instruments, both invite and enable creative, diverse and business-specific approaches that can be pursued individually or in partnerships (a concept that both encourage).

The UNGC and MDGs can be thought of as two sides of the same coin, reinforcing and complementing each other.

For example the two UNGC principles on human rights are given more specific application by the MDG goals on poverty, hunger, education, gender equality, child mortality, maternal health.

Similarly, the UNGC environment principles help to flesh out the MDG goal of ensuring environmental sustainability.

In areas where the MDGs are less detailed, such as on labour and anti-corruption, the UNGC principles can provide valuable additional guidance.

Reflecting the importance it attaches to the MDGs, the UNGC co-organised the first-ever UN Private Sector Forum on 'The Millennium Development Goals and Food Sustainability' in New York on 24 September 2008.

Addressed by UN Secretary-General Ban Ki-moon, the forum brought together approximately 100 chief executives from around the world, Heads of State and Government, civil society leaders, heads of foundations and heads of UN Agencies, Funds and Programmes to identify and discuss action needed to achieve the MDGs, particularly in the context of the longer-term response to the global food crisis.

#### How to enhance corporate governance?

This brings me to the last question: how can participation in the UNGC and the adoption of the MDGs can enhance corporate governance?

Good governance is built on several pillars.

The first is that organisational structures, policies and processes fully respect legal and market requirements.

But, as we know, compliance-based governance alone is insufficient.

Especially in the eyes of investors, good governance is increasingly measured by the quality of information management. How well does a company gather and use information to make its decisions? In this context, how well does it assess risk, and identify changing market expectations and opportunities?

Indeed, the investment community routinely rates companies on the basis of how well they address their unique ESG issues – environment, social and governance. In other words, how well social and environmental issues are handled is now seen as a central responsibility of, and indicator of, good governance.

Transparency and accountability are also pillars of good governance.

It might be argued that only by using recognised international frameworks, can businesses hope to understand globally agreed policies and principles,

and related trends, and therefore be in a position to develop strategies that respond to them, be they risks or commercial opportunities.

This may explain why around half of the companies listed on three leading global CSR indices in 2008 – the DJSI, the FTSE4good, and the Innovest/White Knights Global 100 'Most Sustainable' companies - reference the UNGC in their 2007 CSR or sustainability reports.

You've already heard today many local/regional examples of how companies are integrating the MDGs as part of a business proposition, so let me share with you some examples from further afield.

### Poverty/Hunger

While government leadership is crucial for addressing the implications of the food crisis, business also has a vital role to play in partnership with others to develop and implement innovative responses.

Achieving sustainable solutions to the crisis depends on the concerted commitment of all sectors. Companies from a broad range of industry sectors have an impact on food security. These include agribusiness, finance, information and communications technology (ICT), manufacturing, transportation, retail, infrastructure, water and energy, extractive, life sciences and healthcare sectors.

A recent report by the UNGC, entitled 'Food Sustainability: A Guide to Private Sector Action', provides examples of the diverse activities which many companies – both large and small, and from developed and developing countries - are already engaged in.

These include everything from production, infrastructure, retail and nutrition and creating and enabling environment.

Let me illustrate with a few examples provided in the UNGC report.

The Israeli company *Netafim* delivers Sustainable Water Management solutions addressing current water challenges. The company has pioneered innovative, low-volume irrigation systems and has developed new 'drip irrigation' methods, which help minimize water resources depletion, significantly reduce usage of nutrients and therefore reduce water sources pollution. These advanced irrigation methods, coupled with agronomic know-how, enable irrigation of areas that suffer from water shortage and accessibility, increase yield per soil and water unit, and preserve soil fertility by preventing soil erosion.

Poverty, hunger, child mortality, environmental sustainability are all improved by the more efficient and responsible use of water.

In 2007, The *Coca-Cola Company* announced its response to the global water shortage crisis. The goal of the company's water strategy is a zero water footprint - to return to communities and nature the equivalent amount of water that it uses in all of its beverages and production. The strategy involves reducing the amount of water used to produce beverages, recycling the water used for manufacturing processes, and replenishing water in communities and nature through locally relevant projects.

Coca-Cola is engaged in over 100 projects in 49 countries around the world as part of their community water partnership program. The projects include a wide range of locally relevant initiatives, such as watershed protection, expanding drinking water access, rain water harvesting, reforestation and agricultural water use efficiency.

*Munich Re*, a global reinsurer, is working to develop new risk management systems that guarantee safer and more sustainable agricultural production with regard to natural catastrophes. New solutions have been necessitated by climate change, with the situation most pressing in developing countries, where creditors hesitate to invest because of the higher exposure to natural catastrophes and the lower security this implies. In the worst case, the risk factors mentioned lead to food shortages at the macroeconomic level.

Munich Re has developed multi-peril crop insurance (MPCI) to help maintain and foster more efficient farming. MPCI functions as a risk partnership between a government, the insurance industry (insurer and reinsurer) and farmers. Instead of directly compensating farmers for a loss, the state subsidizes the insurance premiums payable by farmers. There are clear advantages for both sides: the scheme allows farmers to protect themselves against risks, while public expenses become more manageable.

While there are no examples of practices of Australian companies in this publication, Australia's expertise in dry land farming and related water and agricultural technologies make it a natural partner in helping the world address the global food crisis. Hopefully the activities of Australian companies will feature prominently in future such publications.

### Universal education

Let me turn now to education, an area where Australia has also demonstrated capacity and leadership, both at home and as an export service.

There are many ways that a company can contribute to this goal, and at the same time build brand and the bottom line.

One example.

The Finnish company Nokia – a GC signatory - has been exploring how the mobile phone – linked to a computer or television - can do more than just

help conversations, or conduct business. It has developed approaches for remote education that enable everyone from schools to health clinics to share and access state-of-the-art information and learning programmes, wherever they are in the world.

In a recent pilot project in South Africa, Nokia has also built educational material into their phones to help students do than call friends and play games.

Another example.

In Europe, Microsoft – another GC participant - has identified the elderly and unemployed as a growing social issue. Its 'Unlimited Potential' campaign provides funding, curriculum and software to disadvantaged communities, with the aim of helping them re-train and re-enter the workforce with modern IT skills.

In both cases, we see a company using its core products and competencies to improve education, at the same time as growing the number of customers and the vitality of the communities in which they work. In short, win/win outcomes that not only improve education, but help promote gender equality and fight poverty.

In bringing renewable energy and lighting to remote villages, helping establish micro-finance schemes that favour rural women, educating employees about hygiene or HIV/AIDS, or adopting or advocating ILO labour standards in local manufacturing plants, businesses around the world are now active in advancing the MDGs in diverse, creative and profitable ways.

### Closing Remarks

Whether the business community likes it or not, it needs to recognise a new chapter of world history is being written. The rate, scale and urgency of addressing the complex economic, social and environmental challenges have increased expectations of the business sector.

While it might be comforting of thinking about a return to 'business as usual' after the current financial crisis resolves itself, the stark reality is that a 'business as usual' world is not a real option.

If humankind is to come through the 21<sup>st</sup> century in any form we would recognise and want our children to live in, the business sector will need to radically rethink its role in society as well as its production and marketing strategies.

Revolutions will be necessary in the levels of efficiency we achieve in using raw materials, in how energy is produced and used, and in building healthy societies and ecosystems.

The good news is that business is best placed to deliver the processes and products that will enable humankind to mitigate and adapt to problems such as climate change and help realise all eight MDGs.

Good news also is that there are now partnerships and frameworks – with the UN Global Compact as the first 'port of call' – to make this journey a less daunting - and more inspiring - one.

Let me close with a set of specific recommendations for actions that Australian business could take to strengthen its position in this 'Grave New World'.

- Adopt the MDGs as an inspirational framework for developing a long-term business strategy. (Between 10-20% of companies listed on DJSI, FTSE4good and Innovest explicitly already do this.)
- Join the thousand of others that have become signatories of the UNGC, both as a set of guiding principles and to signal to stakeholders – from employees to customers - your commitment to building a better world, and a better company.
- Integrate the MDGs and UNGC in your business strategy, using them to add value – whether in terms of developing brand, profile, partnerships, new products and services, markets, or understanding of risk.
- Support and join an Australian UNGC Local Network and use this as a platform for sharing best practices and learning.
- Use the GRI framework for measuring and reporting your contribution to key sustainability goals. This counts as a UNGC CoP.
- Encourage Australian governments, at the Federal, State and local levels, to support business in its efforts, and to engage themselves in these vital global initiatives. Point to overseas initiatives such as the UK 'Business Call to Action' initiative and explore local counterparts. Remind them of the PJC recommendations.
- Advocate progressive policies that provide the necessary incentives for Australian business to grow in this space.

Yesterday's Melbourne Age carried an advertisement that chillingly underlines the challenge of change. Against a photo of a melting ice sheet, it notes that the 'melt down' on Wall Street was not the only thing that would affect pensions. Its message is applicable as much to every MDG as it is to climate change:

*'It's not just about investing for the future, it's helping secure a future to invest in.'*

Thank you.