

2030 AGENDA FOR SUSTAINABLE DEVELOPMENT

Scaling Up Business Impact on the SDGs

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Abstract

Achieving the Sustainable Development Goals (SDGs) requires redefining the purpose of business and scaling up their impact. However, there are challenges such as the gap between good intentions and real actions; conflict between the current economic system and SDG thinking; limited understanding of how business is embedded in society; and capacity constraints in developing countries to take full advantage of emerging business opportunities. We propose that the leaders of the G20 take necessary action in four areas: a) encourage corporates to embed SDGs into their core business strategies and operations; b) reshape the economic system around the common good; c) create a “sustainable ecosystem” for shaping a beneficial environment for all stakeholders; and d) upgrade the enterprises and policy/regulatory capabilities of developing countries to maximize the potential benefits of their participation in Global Value Chains.

Challenge

Three years have passed since the adoption of the Sustainable Development Goals (SDGs) by all 193 United Nations (UN) member states in September 2015. However, according to the latest SDG Index research, not a single country is on track to achieve all SDGs by 2030.¹ We must renew our commitment and reinvigorate efforts to implement effective and feasible measures to accelerate progress on the SDGs.

The SDGs mark a departure from the Millennium Development Goals (MDGs) in two important ways. First, the SDGs are universal and applicable to *both* developed and developing countries. Second,

¹ See *Bertelsmann Stiftung and Sustainable Development Solutions Network* (2018), viii.

business is increasingly regarded as a key player in driving sustainable inclusive development for several reasons. First, business contributes financially to SDG achievement (by filling the annual investment gap estimated at USD 2.5 trillion (UNCTAD 2014)). Second, business is good at applying innovations to societal needs and diffusing them and thus contributes to improving our quality of life in novel ways. Third, business activities can have significant impacts on society and the environment, for better or worse. Lastly, the SDGs provide a big opportunity for business. It is estimated that fully embracing the goals could generate 12 trillion USD a year in sustainable and inclusive business opportunities (the equivalent of 10% of global GDP by 2030) (BSDC 2017).

The role of the G20 countries is crucial because they produce 86% of global GDP (IMF 2017), 87% of outward Foreign Direct Investment (FDI) flows (UNCTAD 2018), and support two-thirds of the world's population. However, there are four main challenges that restrain their corporates from making full-fledged contributions to SDG acceleration:

- **The gap between good intentions and the real actions by business.** While SDG awareness is rising in the business community and enlightened corporate leaders are emerging, the majority remain unaware of the SDGs and of the societal challenges they aim to address. Even many of the enlightened are yet to convert their SDG awareness into concrete actions or make them part of their core strategy. It is important to encourage and support those companies with good intentions and new business cases to embed the SDGs into their core business strategies, operations, and performance indicators;
- **Conflict between the current economic system that values short-term profit maximization and shareholder returns and the SDG focus on long-term societal purpose.** Even accounting



for a handful of enlightened corporate leaders, the fact remains that all organizations will struggle to deliver on the SDGs because they operate in a system that prioritizes short-term financial performance rather than social progress. Systemic change is urgently needed. Consistent reporting across much broader indicators is needed to understand progress against the SDGs;

- **Limited understanding among corporates, citizens, and other stakeholders of how their interactions impact sustainable development.** Because business is embedded in society, the connection between it and various stakeholders should be addressed as a two-way relationship. Business can affect and influence stakeholders to do more to advance the SDGs. At the same time, stakeholders can influence the way businesses operate and contribute to sustainable development; and
- **Capacity constraints in the developing countries affect their ability to take advantage of opportunities emerging from Global Value Chain (GVC) participation and to avoid the risk of inappropriate supply chain management by FDI companies.** While GVCs offer new prospects for growth, competitiveness and job creation at all levels of development (APEC 2014), the expansion of GVCs by multinational corporations into developing countries can bring negative social and environmental consequences to the host countries, unless they are managed in a responsible and sustainable manner (UNIDO 2015; Kaplinsky 2016). Furthermore, developing countries need to upgrade their industrial capacity so that they can attract quality FDI in the light of changing economic, social, and environmental standards.

Proposal

The 2030 Agenda demands a new way of doing business aligned with social progress and sustainable development. Contributions should go beyond Corporate Social Responsibility (CSR) practice, or mere financing. In this light, we present four proposals to the leaders of G20 countries, calling for action to facilitate the scaling up of business impact on the SDGs.

Proposal 1: Embedding the SDGs into core business strategy and operations

1.1 Converting SDG awareness into concrete business actions

A survey on inclusive growth shows that while 92% of business executives support the SDGs, only 17% have plans or policies to achieve them (Deloitte 2018).² Another recent survey indicates that although 72% of global companies mention the SDGs in their annual corporate or sustainability reports, only 50% had undertaken the crucial process of prioritizing which SDGs were most relevant to their business (PwC 2018).³ Thus, there is a need to convert SDG awareness into concrete business action. Companies must embed the SDGs into their core business strategy and operations. This requires each company to establish a coordinated and well-sequenced SDG strategy, by reassessing its business and the value it brings to employees, shareholders, and society, and also by taking account of the local

² This is based on the 2018 Deloitte Global Inclusive Growth Survey which surveyed 350 company executives.

³ This is based on the 2018 PwC SDG Reporting Challenge that surveyed 729 global companies.



country context which the company operates (Figure 1).⁴

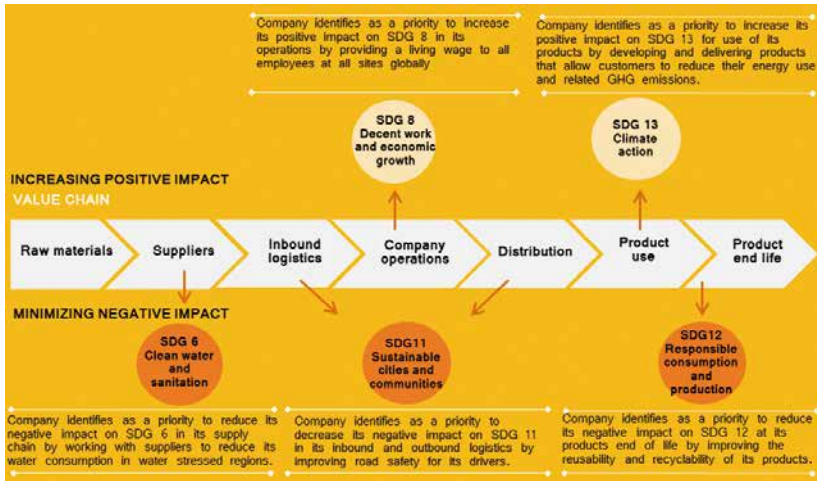
More specifically, companies must prioritize the SDGs based on their relevance given their countries and sectors of operation. Companies must strike a balance between business growth and societal and environmental impact, by considering all three dimensions of sustainable development (social, ecological, and economic). In doing so, they have to understand interconnectivity of the goals and targets and evaluate which ones they can best use to realize inclusiveness, ensuring that “no one is left behind.” They must identify business risks in relation both to core products and activities, and more broadly across the supply chain on a country by country basis. They have to target potential opportunities (where business activities could help significantly more) in relation to core products and activities and the wider supply chain.

It should also be noted that the vast majority of businesses remain unaware of the SDGs and their role in delivering social progress; this is the case in Japan⁵ but probably also elsewhere. Hence, it is important to raise corporate awareness of their responsibility and potential for contributing to the achievement of the SDGs.

⁴ In this regard, the Mars Corporation’s initiative is notable. This company is experimenting with a new business model based on the concept of the “Economics of Mutuality,” which incorporates long-term sustainability and responsibility to people, planet, and performance (see Appendix (1)). In the latest corporate strategy, Mars is committed to sustainable sourcing, a healthy planet, thriving people, and nourishing wellbeing through the value chain process (MARS 2015).

⁵ According to a survey commissioned by a regional bureau of METI (METI Kanto 2018), 84.2% of SMEs are not familiar with the SDGs, and only 2% of the 500 respondents answered that they are planning to take or have already taken specific actions in relation to the SDGs.

Figure 1: Mapping the SDGs against the Value Chain



Source: GRI, UN Global Compact, and WBCSD (2015), 12.

https://sdgcompass.org/wp-content/uploads/2015/12/019104_SDG_Compass_Guide_2015.pdf

In this regard, it is worth noting the recent initiative by Keidanren (the Japan Business Federation) to revise its Charter of Corporate Behavior with the aim of leading the realization of a sustainable society, and also to formulate related Implementation Guidelines.⁶ More than 1,000 large member companies are expected to use the Charter and guidelines. This initiative could serve as reference for G20 governments to motivate and encourage their respective business organizations and companies to follow suit.

⁶ See Appendix (2) for more detail.



1.2 Linking corporate reporting to the SDGs, by using the common framework and standards

As stated in Goal 12⁷, corporate reporting is important for concerned stakeholders, such as investors and consumers, to monitor corporate performance. Although many companies have pledged commitment to the SDGs, their Key Performance Indicators (KPIs) do not necessarily reflect SDG thinking. The existing survey shows that only 7% of companies link KPIs to societal impact (PwC 2018). Corporations need to improve the quality of their reports by linking KPIs to the SDGs more directly.

A range of international frameworks, indices, and standards to prepare sustainability reports (e.g., Global Reporting Initiative (GRI), Social Progress Index (SPI), UN Global Compact, International Organization for Standardization (ISO)) are available to corporations. Moreover, each G20 country has its domestic reporting guidelines. In Japan, the Ministry of Environment introduced Environmental Reporting Guidelines, and the Government Pension Investment Fund (GPIF) calls on companies to further disclose their CO₂ emissions. However, due to multiplicity and inconsistency of these standards and guidelines, not a few companies seem to face difficulties in following them. This is particularly so for small and medium enterprises (SMEs) (METI Kanto 2018) and those of developing countries, which have capacity constraints and limited access to information (Sommer 2017).

Evidence shows that consumers are increasingly trustful of—and loyal to—products or brands that contribute to society (Deloitte 2017).

⁷The Goal 12 (Responsible Consumption and Production) states: “Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle. It also specifies the corresponding target (12.6) of “number of companies publishing sustainability reports.”

Therefore, the use of common standards for corporate reporting should be encouraged so that consumers can make accurate comparisons and informed choices.

1.3 Promoting joint business action for the common good, utilizing major international events as showcases

International events and symbolic momentum provide good opportunities to promote business alliances toward the common good as well as to increase corporate awareness of the SDGs. Such occasions can be used to solicit new and innovative ideas and engage enlightened corporates to jointly act for sustainable business. For the G20 Japanese Presidency, the 2020 Tokyo Olympics and Paralympics, as well as the 2025 Osaka EXPO, could serve as excellent opportunities to demonstrate business leadership in this regard.

For example, sustainable food supply chain management can be promoted by urging a business to observe Good Agricultural Practice (GAP)⁸ at major events such as the 2020 Tokyo Olympics. Similarly, the provision of inclusive and fair services to handicapped persons can likewise be promoted at the Paralympics.

Proposal 2: Reshaping the economic system around the common purpose of sustainable development

2.1 Developing a sustainable capital market⁹

Investment and disinvestment that incorporates environmental, social

⁸ GAP is a collection of principles promoted by the UN's Food and Agricultural Organization (FAO) in relation to on-farm production and post-production processes, in order to realize safe and healthy food and non-food agricultural products, while taking into account economic, social and environmental sustainability.

⁹ A separate Policy Brief will be prepared on sustainable finance for development. See also Zadek and Kharas (2018) for a Policy Brief submitted to T20 Argentina.

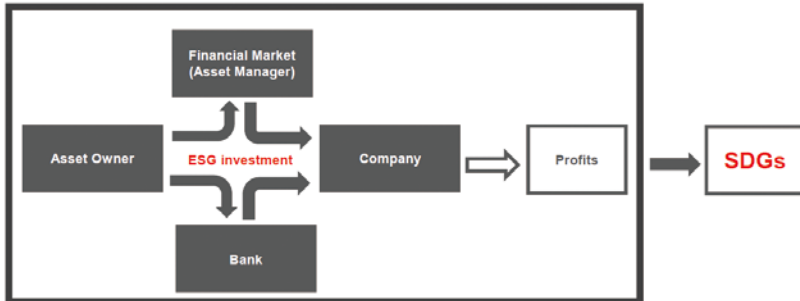


and governance (ESG) factors into decision-making can significantly change corporate behavior toward the SDGs (Figure 2). Recent years have seen the adoption and implementation of major international initiatives to promote ESG investments. These include the UN Principles for Responsible Investment (PRI) and the Task Force on Climate-related Financial Disclosures (TCFD). Encouragingly, ESG investment has increased in G20 countries, as well as divestment of environmentally and socially harmful projects. However, the degree of interest and acceptance of ESG investment varies across countries and regions, with Asia (including Japan) scoring lower than the global average.¹⁰ Much needs to be done to develop a sustainable capital market.

Therefore, it is vitally important to devise measures to further promote ESG investment and mainstream it in the capital market. We urge the governments of G20 countries to adopt policy measures which properly incentivize investors to pay due attention to the agenda of sustainable development, and to increase ESG investment. Such measures could include preferential tax treatment, training and fostering asset managers specialized in ESG investment.

¹⁰ According to the Global Sustainable Investment Alliance (GSIA), in 2016, the proportion of Sustainable Responsive Investment relative to total managed assets was highest in Europe (52.6%), followed by Australia & New Zealand (50.6%), Canada (37.8%), and the United States (21.1%). Asia was the lowest at 0.8% with Japan scoring at 3.4%. The global average was 26.3%.

Figure 2: ESG Investment and Sustainable Capital Market



Source: Financial Services Agency of Japan (modified by the [author](#)).

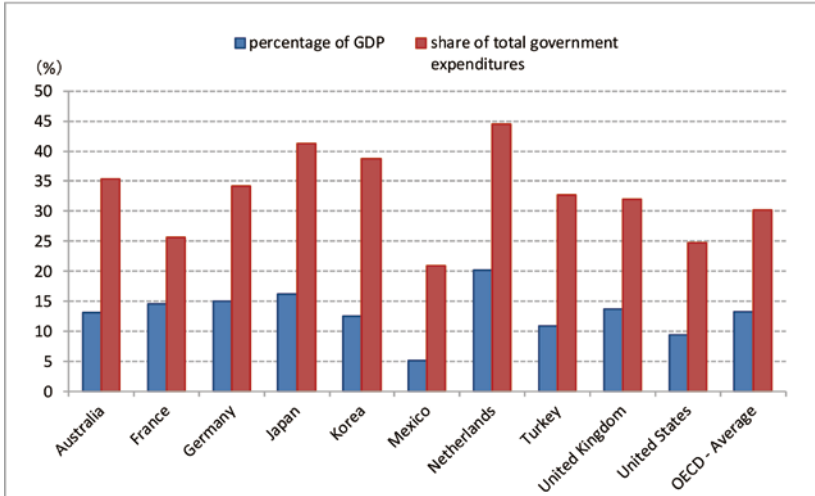
2.2 Promoting sustainable procurement in the public sector

Procurement occupies 20-30% of total government expenditures in developed countries (OECD 2018, see Figure 3). Hence, sustainable procurement by the public sector can facilitate sustainable development. Wellbeing indices like the Social Progress Index are being used by local authorities in the UK to compel firms bidding for government contracts to compete not just on price or services offered, but also on the social and environmental impact they will create for the community. Governments at every level can build similar requirements into their procurement procedures to encourage sustainable business practices by ensuring firms awarded public contracts are also generating societal good. We urge that leaders in G20 member countries, in particular, take the lead in promoting sustainable procurement.

As global leaders that serve as models for the rest of the world, governments of developed countries can facilitate the adoption of sustainable procurement in developing countries. International cooperation can support capacity development for sustainable public

procurement in developing countries.¹¹

Figure 3: Government Procurement Spending as a percentage of GDP and Total Government Expenditures



Source: OECD (2017) Government at a Glance 2017 edition.

Proposal 3: Creating a “sustainable ecosystem” for shaping beneficial environment for all stakeholders

3.1 Promoting the understanding and the notion of a “sustainable ecosystem” among all stakeholders

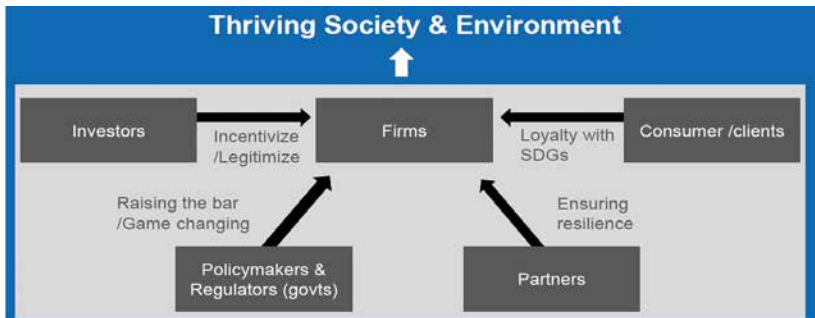
For business to thrive, it needs a thriving economy, society and environment. This is the essence of a “sustainable ecosystem,” where

¹¹ United Nations Environment Programme (UNEP) has been supporting sustainable public procurement in developing countries, in collaboration with the Swiss government. http://www.unep.fr/scp/marrakech/pdf/SP2pager_eu.pdf

all actors in the system are incentivized to behave in a concerted manner to make social progress (Figure 4). In order to mobilize the potential of corporates toward the achievement of the SDGs while minimizing their negative impacts, it is necessary to create a sustainable ecosystem. Governments, citizens, corporates, and other stakeholders have key roles in this.

One way to create and maintain such a sustainable ecosystem is by ensuring that activities undertaken by businesses do not hinder the potential of other actors such as governments, civil society, or other businesses to achieve the SDGs. It is important that the leaders of G20 member countries acknowledge the importance of creating a sustainable ecosystem, promote this notion to the broad segments of the society, and encourage the corporate sector to make their interests compatible with wider societal and environmental interests, particularly those of consumers.

Figure 4: Sustainable Ecosystem



Source: Elaborated by the author.

3.2 Raising consumers’ awareness of sustainable development

Corporates are key actors supporting the delivery of the 2030 Agenda.



Likewise, the SDGs represent an opportunity for them to rethink their approaches to sustainability. But corporates are yet to respond to this challenge adequately. Nevertheless, growing demand for production that considers social and environmental factors has been creating market incentives for corporations to respond to. General awareness of the importance of sustainability throughout the supply chain has the potential to increase the number of responsible consumers.

More fundamentally, for a sustainable ecosystem to work, there is a need to create a virtuous cycle where consumers' perspectives and needs are effectively transmitted to businesses, inducing corporate behavioral changes toward greater sustainability. In this regard, the experiences of consumers' co-operatives (these originated in the UK and are now spread widely) are notable because they connect consumers' needs with businesses. For example, the Japanese Consumers' Cooperative (JCCU) collaborates with members and manufacturers, and manages the process of development, production, supply chain and distribution of ethical products with the CO-OP brand.¹²

3.3 Building accountability frameworks

Corporates are also market competitors and can compete with each other on achieving sustainability. In this regard, the existence and use of common standards in each industry allows consumers to make accurate comparisons and informed choices between similar goods and services. Similarly, independent, third-party analyses can improve

¹² JCCU has about 320 consumer co-ops and consumer co-op unions, with total of 28 million members. Each consumer co-op is an autonomous association of consumers uniting voluntarily to meet their common needs and aspirations. They cover retail, insurance, healthcare, and welfare businesses. JCCU collaborates with members and manufactures, and manages the process of development, production, supply chain and distribution of 4,500 ethical products with the CO-OP brand. They received the 2nd Japan SDGs award in December 2018 from the Japanese government.

accountability when used to assess the social and environmental impact of firms. By making the social impact of different types of economic activity more visible, indices like the SPI or the SDGs Index empower regulators, consumers, and civil society organizations to hold corporates accountable and encourage sustainable business practices.

Proposal 4: Upgrading the enterprise and policy/regulatory capabilities of developing countries to maximize the potential benefits of their participation in GVCs

4.1 Promoting “Quality FDI” to developing countries, which gives due attention to the sustainable management of entire value chains (including people and companies in the host countries)

From the perspective of developing countries, the expansion of GVCs led by multinational corporations provides both opportunities and challenges to their economies and societies. According to the Business and Sustainable Development Commission, 380 million new jobs will be created by SDG-related business opportunities by 2030, with almost 90% in developing countries (BSDC 2017). Nevertheless, unless multinational corporations give due attention to sustainable and responsible management of their supply chains, there is a risk that host countries face negative consequences in terms of fair labor, environmental damages, safety, etc. There is also the risk that developing countries’ domestic firms will be excluded from participating in GVCs (Dolan and Humphrey 2000; UNIDO 2015; Kaplinsky 2016).

Therefore, G20 countries should urge their respective corporate sectors to be engaged in “Quality FDI,” which embraces the Triple Bottom Line of sustainability (satisfying economic, social, and



environmental standards) throughout their entire value chains.¹³ G20 governments are also requested to embrace the SDGs and to translate that relationship into policy measures that enable greater corporate action. Also, lead firms can facilitate the inclusion of low-income country producers in GVCs by providing skill upgrading and technology transfers, as well as monitoring their effective implementation of regulations and standards. There is a well-known story that the local human resources trained by a Korean lead firm in the late 1970s made critical contributions to developing today's garment industry in Bangladesh.¹⁴

In this regard, it is also worth noting an emerging public-private partnership for building an eco-industrial park in Ethiopia (Hawassa Industrial Park (HIP)). Here, PVH Corp.—one of the largest global apparel companies based in the US, and a lead firm in HIP—has been playing a key role in advising the Ethiopian government on the importance of social and environmental sustainability at the time of HIP establishment (World Bank Group 2017).¹⁵

4.2 Supporting the capacity development of host country governments to upgrade their GVC industrial policy and improve their business environments

¹³ “Quality FDI” may be characterized as contributing to the creation of decent and value-adding jobs, enhancing the skill base of host economies, facilitating transfer of technology, knowledge, and knowhow, boosting competitiveness of domestic firms and enabling their access to markets, as well as operating in a socially and environmentally responsible manner (Gorg et al. 2017).

¹⁴ A Korean lead firm, Daewoo, trained the staff of Desh Garments Ltd (local partner) in Bangladesh, sending 130 workers and management trainees to its Pusan plant in 1979. After six-months training, Desh started to operate six lines with 600 workers, giving a 5 million pieces per year capacity in its modern factory in line with Daewoo's specifications. While 115 of Desh's 130 initial workers left to establish or join newly set-up local garment firms, they contributed to the expansion of the ready-made garment sector in Bangladesh (Rhee 1990; Yunus and Yamagata 2012).

¹⁵ See Appendix (3) for further information.

Attracting Quality FDI requires vigorous efforts by both the public and private sectors of host countries to enhance their policy, human and enterprise capabilities. To become reliable partners of lead GVC firms, local companies must improve the quality, productivity, and competitiveness of their products and services so that they can meet international standards¹⁶ and continue upgrading their position in GVCs. Moreover, the host country government needs to embrace strategic industrial and FDI policies to attract Quality FDI. Typical measures include: identifying and directly interacting with critical global companies, maximizing collaboration with them to create strong linkages with local firms, upgrading local enterprise capabilities to meet standards requirements and implementing outreach programs for small-scale producers (JICA and GRIPS Development Forum 2016; Fessehaie and Morris 2018).

The governments of G20 countries and international agencies should provide various support programs for value chain inclusion of local companies, with the above capacity development measures. In this respect, the East Asian experience is a useful reference because one-by-one, countries in different development stages have participated in the dynamic production network created by private multinational corporations. With strong trade, FDI, and aid linkages and technology transfer, a regional division of labor with a clear order and industrial structure has emerged. This is how East Asia has become the global factory for manufactured goods (often called the ‘Flying Geese’ pattern of development) and achieved inclusive growth (Shimomura & Wang 2013; Ohno & Ohno 2019). More recently, new opportunities are emerging for a developing country to participate in GVCs by becoming part of a particular chain where the country has comparative advantage—regardless of the existence of the Flying Geese pattern.

¹⁶ These normally include satisfying both QCD (quality, costs, delivery time) and sustainability standards.



The Mexican automobile industry is a promising case of the growth and integration of local car parts makers into automobile value chains. Here, international cooperation has played a facilitating role in upgrading capabilities of local enterprises and linkages with FDI.¹⁷

The SDGs need business, and business needs the SDGs, too. We believe that political leadership has a critical role to play in driving our world toward a thriving economy, society, and environment.

We urge the leaders of G20 countries to call for the following actions to scale up business impact on SDG achievement:

- Urging business to embed the SDGs into core business strategy and operations;
- Taking supportive measures to reshape the current economic system around common goals and to create a beneficial ecosystem for all stakeholders; and
- Supporting the industrial and social upgrading of developing countries so that they can benefit from inclusive and sustainable GVC participation.

¹⁷ During 2012-2017, Mexico's annual car production increased from 3 to 4 million, while Japanese car manufacturers' production in Mexico expanded by 66%, from 800,000 to 1,330,000. This increase was accompanied by a rapid expansion in car parts production in Mexico, with international cooperation playing a key role in facilitating this process. In the case of Japanese auto firms in Mexico, the Japan External Trade Organization (JETRO) collaborated with Mexico's trade promotion agency, ProMéxico and provided direct capacity building for local SMEs. In 2012, JICA initiated a program with the help of Japanese firms, to increase the productivity of potential Mexican suppliers, through training in Japan's Kaizen management practices. In addition, the two governments established a "Committee on the Improvement of the Business Environment" in the context of the EPA, which meets regularly to discuss issues arising in the operations of Japanese firms in Mexico (IDB 2016; Hosono 2018).

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Appendix Appendix (1)

Mars: The Economics of Mutuality as Innovative Management Concept

The Mars Corporation, with \$35 billion annual revenues and known for such products as M&Ms and Snickers, has been experimenting a new business model based on the concept of “Economics of Mutuality (EoM)” since 2010. This concept was developed by Catalyst (the internal think-tank for the Mars Corporation), and the Said Business School at Oxford University and adopts the idea that when sharing (Mutuality) drives business performance, greater value can be created than through profit maximization. EoM is a major corporate measurement initiative that incorporates long-term sustainability and responsibility to people, planet, and performance in a company’s business model, affecting accounting and valuation. Thus, it differs from CSR (Corporate Social Responsibility - mostly charity) and CSV (Creating Shared Value) which is *ad hoc* in nature and is a customized consulting solution to determine the best alignment of profits and social impact.



Source: MARS 2017

Source: MARS Corporation 2017, Mars Catalyst, and Said Business School, University of Oxford 2015.



Appendix (2)

Keidanren - The Charter of Corporate Behavior and the Implementation Guidelines

In November 2017, Keidanren revised its Charter of Corporate Behavior with the primary aim of proactively delivering on the SDGs (“The Charter of Corporate Behavior: For the Realization of a Sustainable Society”). The Charter is a code of conduct composed of 10 principles that member corporations pledge to observe in taking the lead in the realization of a sustainable society:



1. Sustainable economic growth and the resolution of social issues;
2. Fair business practices;
3. Fair disclosure of information and constructive dialogued with stakeholders;
4. Respect for human rights;
5. Relationships of trust with consumers and customers;
6. Reform of working styles and enhancement of workplace environments;
7. Engagement in environmental issues;
8. Involvement in community and contribution to its development;
9. Thorough crisis management; and
10. The importance of the role of top management and the implementation of the Charter.

Keidanren also formulated a set of *Implementation Guidelines* for the use of member corporations, specifying 49 key implementation items under the 10 principles. These documents encourage corporate behavioral change not only within their own companies, but also in their group companies and supply chains, and, by fostering partnerships with various organizations, help them act toward the realization of the SDGs.

Source: Keidanren 2017.

Appendix (3)

A Public-Private Partnership for Building an Eco-Industrial Park in Ethiopia

The Hawassa Industrial Park (HIP), inaugurated in July 2016, is a flagship eco-industrial park developed and supported by the Ethiopian government and specializing in textile and garment production. Faced with rising production costs and wages in Asia, the US-based PVH Corp. decided to invest in Ethiopia and bring its Asian suppliers to HIP. As an apparel giant, PVH Corp. attaches high importance to building responsible and sustainable supply chains, and the company's executives advised leaders of the Ethiopian government on concrete measures to be taken on environment, safety, and sustainability standards to make HIP compatible with international standards, and the government seriously put them into action. These actions included: (i) A Zero-Liquid-Discharge Common Effluent Treatment Plant; (ii) Renewable Energy; (iii) Compliance with Relevant Fire and Building Standards; (iv) Compliance with the Customs-Trade Partnership Against Terrorism (C-TPAT); and (v) the creation of a Tenant's Association.



Source: Elaborated by the author, based on World Bank Group (2017). Photos by the author