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What Business Models Best Suit the Private Sector in Achieving the SDGs

The Sustainable Development Goals, or the SDGs, were adopted on September 25, 2015, by all United Nations member states. These 17 goals have provided a comprehensive and interconnected framework for solving the world's most pressing issues, ranging from poverty and climate change, but most importantly, setting a roadmap to ensure that we are able to balance the needs of the present and the future. However, despite the efforts of member nations to achieve the targets set by the SDG framework, it is nowhere near enough in delivering the necessary support to solve these challenges. According to the United Nations Conference on Trade and Development (UNCTAD), achieving the SDGs will require $3.9 trillion/year of public and private investment in developing countries alone, while the level currently stands at just $1.4 trillion/year[1]. To gain the necessary social and financial support for member nations to meet the ambitious challenges highlighted in the SDGs, more private-sector contributions are required.

The role of the private sector has become increasingly pivotal to global efforts to solve the obstacles enshrined within the SDG framework, and many corporate leaders are recognizing that. In the 2023 U.N. Global Compact-Accenture CEO Study, 98 percent of more than 2,600 chief executives across 18 industries in 128 countries agreed that sustainability and social responsibility is a core aspect of their company's operations.[2] Moreover, According to the Global Sustainable Investment Alliance, $30.7 trillion in assets under management currently target sustainable development, and another additional $120 trillion of private sector assets, including insurance companies, sovereign wealth funds, and bond markets, could be tapped to support the efforts in achieving sustainable development.[1]

However, many private-sector companies currently struggle to find a balance between generating profit and developing new strategies to meet the Sustainable Development Goals.

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[1] Ford, Neil. 2021. "Private sector key to achieving the SDGs." African Business, April 2021, 54+. Gale In Context: High School (accessed July 18, 2023). https://link.gale.com/apps/doc/A665433631/SUIC?u=hkis&sid=bookmark-SUIC&xid=3dfb8ead.
[2] Nelson, Jane, and George Ingram. 2023. "Scaling Private Sector Engagement in the SDGs." Brookings. April 5, 2023. https://www.brookings.edu/articles/scaling-private-sector-engagement-in-the-sdgs/.

This is primarily due to the current business models that many private and corporate companies utilize being incompatible and unsustainable, which comes at an extreme detriment to the overall progress to achieve the SDGs. Furthermore, a study by the Global Reporting Initiative and Support the Goals found that 83 percent of 206 companies surveyed said they support and approve of the SDGs, but only 40 percent set measurable commitments, and only 20 percent included evidence to assess their impacts.[3] This demonstrates that many current sustainability commitments by the private sector are not entirely consistent with the specific targets within the SDG framework. The commitments set may be used as a social responsibility marketing strategy, rather than for genuine social impact.

Thus, to encourage more private-sector financial contributions to solving the SDGs, new or existing business models that balance both profit and social responsibility must be implemented at a larger scale in the private sector. This paper will be discussing 2 of such business models that could be beneficial for the private sector in building concrete commitments to the SDGs, all while maintaining consistent revenue streams. Namely, these business models include Public Private Partnerships (PPP) and Corporate Social Responsibility (CSR).

Public Private Partnerships

1. What are Public Private Partnerships in the first place, and why do they matter to the SDGs?

According to Investopedia, a public-private partnership involve collaborations between a government agency and a private sector company to develop and operate projects. It also involves concessions from both parties including concessions of tax and other operating revenue. Financing mostly comes from the private sector but also requires public sector payments throughout the project's lifeline and development process.[4] Furthermore, the risks involved in these partnerships and projects are distributed among both the public sector and private partners.

A historical example of how Public Private Partnership operates is the Rhone-Rhine River Canal in 1833, in order to stimulate trade and economic growth in Europe and France by connecting the Mediterranean Sea with the North Sea. However, since the canal construction cost a large amount of money that the French government could not cover on its own, it made

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[3] Ford, Neil. 2021. "Private sector key to achieving the SDGs." African Business, April 2021, 54+. Gale In Context: High School (accessed July 18, 2023).
https://link.gale.com/apps/doc/A665433631/SUIC?u=hkis&sid=bookmark-SUIC&xid=3dfb8ead.
[4] "Public-Private Partnerships (PPPs): Definition, How They Work, and Examples." 2022a. Investopedia. April 28, 2022.
https://www.investopedia.com/terms/p/public-private-partnerships.asp.

some concessions by selling previous canals to private companies.[5] As a result, it allowed the government to access additional funds and private-sector construction support for the canal.

2. What are the benefits of PPPs

According to the World Bank, the usage of Public-Private Partnerships can be beneficial such that it helps increase innovation, increase access to capital.[6] This would be critical in supporting sustainable development in all aspects because it creates more opportunities for governments and companies to develop innovative and advanced solutions to solve the problems within the scope of the SDGs as well as being able to use the high amount of private capital to fund sustainable development projects. Furthermore, as previously mentioned, developing strong partnerships will be key to engaging more corporate and private sector involvement in the SDGs and help close the wide financial gap needed to achieve the SDGs, as shown in a study from the US National Institute of Health, which estimates that almost 5 to 7 Trillion USD is needed to build and maintain sustainable infrastructure to combat extreme poverty globally. [7]

3. Potential Drawbacks of using PPPs to support the SDGs

Despite the fact that PPPs have the potential to promote innovations in the sector of sustainable development and increase access to financial support and capital, PPPs have numerous drawbacks and may not be worth the risk.

Even though PPPs are able to attract capital, PPPs are more expensive in the long run. This is because leasing payments and financial responsibility to private partners do not replace the debt incurred if the Sustainable Development project were to be solely state-funded. In fact, this type of debt can be more expensive due to the fact that governments can raise funds for projects at lower interest rates compared to the private sector. Furthermore, an alternative option that governments have when conducting PPPs is when governments save expenditures by transferring the right to charge user fees to a private company, however, that will force governments to give up the future revenue generated from the project, which has been derived from public investment as well.[7]

Additionally, the use of PPPs, especially in the infrastructure sector, could spark inequalities in terms of private investment in sustainable development projects aiming to

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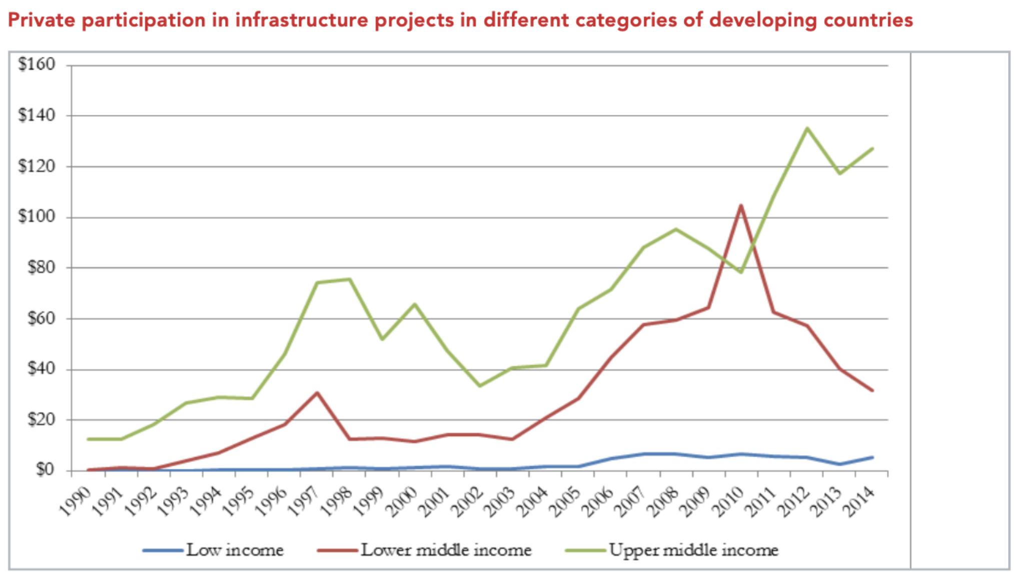
[5] David Edwards May. n.d. “French Waterways in Detail //Canal Du Rhône Au Rhin.” French Waterways. Accessed July 31, 2023. https://www.french-waterways.com/waterways/north-east/rhone-rhin/.

[6] Mohieldin, Mahmoud. 2018. “SDGs and PPPs: What’s the Connection?” April 12, 2018. https://blogs.worldbank.org/ppps/sdgs-and-ppps-whats-connection.

[7] National Academies of Sciences, Engineering, Health and Medicine Division, Board on Global Health, and Forum on Public-Private Partnerships for Global Health and Safety. 2017. Public–Private Partnerships for the Sustainable Development Goals. National Academies Press (US). https://www.ncbi.nlm.nih.gov/books/NBK464294/.

improve living conditions in low to middle-income developing countries. This is due to a selection bias among PPP projects initiated in Less Economically Developed Countries (LEDCs)

Figure 1
Source:
https://www.un.org/en/desa/public-private-partnerships-and-2030-agenda-sustainable-development-fit-purpose



As shown in Figure 1, the presence of infrastructure projects involving the private sector is mainly biased toward upper-middle-income developing countries. This shows that PPPs may not be the most effective in bringing adequate social development in low-income developing countries, as the priority of the private sector involved in a PPP project is to generate an appropriate financial return, and investment in lower-income countries may not be the most profitable. Furthermore, out of the 6449 instances of private sector involvement in infrastructure projects from the period 1990-2014, only 504 projects were finalized in Sub-Saharan Africa[8], demonstrating that in terms of providing adequate sustainable development initiatives in LEDCs, PPPs may not be the most appropriate as private sector involvement could exacerbate the existing inequalities in which the SDGs aim to solve.

4. How can PPPs be optimized and structured to achieve the SDGs

In order to fully optimize PPPs to create genuine progress towards the SDGs and create economic benefits for both the public and private sectors, governments should be responsible for regulating and leading the PPP process, considering the fact that the Sustainable

[8] Jomo , KS, Chowdhury Anis, Sharma Krishnan , and Platz Daniel . 2016. “Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for Purpose?” https://sustainabledevelopment.un.org/content/documents/2288desaworkingpaper148.pdf.

Development Goals and the 2030 Agenda were agreed upon by world leaders. However, this does not overshadow the pivotal role that the private sector has to play in achieving the SDGs. There are 3 steps that governments must take in order to ensure that PPPs are able to achieve an impactful development towards achieving the SDGs.

Firstly, the public and private sector should be advised to first identify areas where PPP projects can be effectively implemented, in order to reduce the overall final cost of certain sustainable development projects. Research from the European Network of Debt and Development has shown that currently, many PPPs suffer from an "optimism bias", where there is a large overestimation of demand for the projects, due to a lack of incentive on both the public and private sectors to conduct rigorous analysis on the details of the project.[9]

For example, using infrastructure development projects in Less Economically Developed Countries (LEDCs), In Tanzania, a PPP project had the state-owned electricity company Tanesco sign a power purchasing agreement with Independent Power Tanzania Limited. However, this project was highly controversial due to its high cost and the potential lack of demand for power, as well as the fact that government officials did not conduct any proper feasibility studies and analysis on how beneficial the project will be to Tanzanian residents.[9]

Secondly, governments and private companies are recommended to collaborate and structure partnerships that ensure feasible pricing, sufficient resources, and most importantly, an appropriate transfer of risk for both parties. This is important especially to governments because projects related to sustainable development tend to be more expensive, and if a project fails, the public sector may have to rescue the project, therefore transferring private debts to the government.[9]

Lastly, when developing partnerships with the private sector, governments are advised to establish transparent and comprehensive reporting metrics when measuring the success of PPPs. Furthermore, both the private sector and governments must ensure that the success of PPP projects is measured in the amount of social impact created.[10] For example, a renewable energy PPP should be measured in the amount of greenhouse gas emissions reduced, rather than the amount of financial return through the partnership. This is imperative to ensure that they are intended to provide positive social outcomes, instead of just being a tool to generate profit. Also, it helps both the public and private sectors identify the effectiveness of these partnerships and make informed decisions on how to improve and re-allocate resources to create further progress toward sustainable development.

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[9] Romero, María José. What Lies Beneath? A Critical Assessment of PPPs and Their Impact on Sustainable Development. April 30, 2015. Accessed July 23, 2023. http://www.world-psi.org/sites/default/files/documents/research/

[10] National Academies of Sciences, Engineering, Health and Medicine Division, Board on Global Health, and Forum on Public-Private Partnerships for Global Health and Safety. 2017. Public–Private Partnerships for the Sustainable Development Goals. National Academies Press (US). https://www.ncbi.nlm.nih.gov/books/NBK464294/.

Corporate Social Responsibility

1. What is Corporate Social Responsibility, and what role does it have in the private sector today

Corporate Social Responsibility, or CSR, is a self-regulating business model that aids companies in being more accountable for their social, environmental, and ethical practices. In recent years, it has increasingly gained traction among many private companies, especially those that have a large presence in the world economic markets. An estimated 90% of companies in the S&P 500 in 2019 published CSR reports, as compared to 2011, where only 20% did[11], showing that the CSR business model is becoming more and more prevalent in the private sector, as a way for companies to promote transparency and accountability in their business practices, in order to build trust among stakeholders and consumers, as well as building a positive reputation of social, environmental and economic impact on the world.

The CSR Business Model is often categorized into 4 parts[12]

1. Environmental Responsibility
2. Ethical Responsibility
3. Philanthropic Responsibility
4. Financial Responsibility

2. What are the Benefits of Corporate Social Responsibility for the SDGs

There are a wide range of benefits for private sector companies adopting an effective CSR Business Model. One of which is that it improves the amount of innovation, creativity, and intellectual capital. Almost 80% of the value of new economy companies is their intellectual capital[13]. This means that their treatment of internal stakeholders is becoming increasingly imperative. Adopting a positive CSR strategy does not just promote transparency about a company's social and environmental practices but also helps builds trust and social accountability among internal and external stakeholders.

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[11] Bennett, Steve. "Corporate Social Responsibility (CSR) Statistics 2022 - Everything You Need to Know." WebinarCare, 11 July 2023, https://webinarcare.com/best-corporate-social-responsibility-software/corporate-social-responsibility-statistics/.

[12] Fernando, Jason. 2023. "Corporate Social Responsibility (CSR) Explained With Examples." Investopedia. April 23, 2023. https://www.investopedia.com/terms/c/corp-social-responsibility.asp.

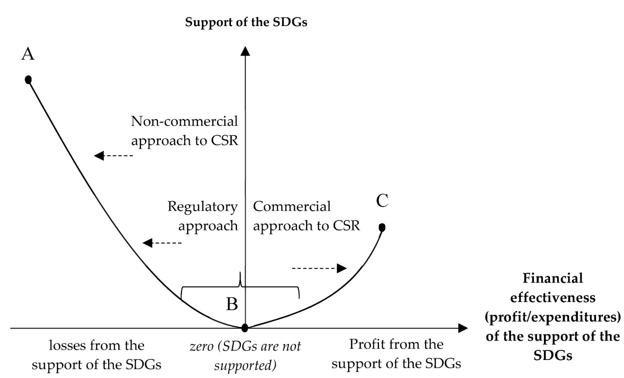
[13] Hopkins, Michael. 2016. "CSR AND THE UN's (SDGs): THE ROLE OF THE PRIVATE SECTOR," April. https://www.academia.edu/34177766/CSR_AND_THE_UNs_SDGs_THE_ROLE_OF_THE_PRIVATE_SECTOR.

Another advantage of private companies adopting a CSR strategy is that it would help private sector companies positively build strong relationships with host governments, stakeholders, and investors. This would not only help provide a competitive financial advantage for companies with a strong CSR strategy but would also help promote technological and economic innovation to help UN member governments meet the challenges highlighted in the SDGs.

3. Drawbacks of using CSR as a business strategy to support the SDGs

However, the usage of CSR to aid private companies to achieve the SDGs may not be the most reliable to measure social impact and may also be detrimental to the financial profitability of private sector companies.

Figure 2
Source: https://encyclopedia.pub/entry/24304



As shown in Figure 2, points B to A, highlight the fact that a regulatory approach and a non-commercial approach to Corporate Social Responsibility would entail more financial losses for the company. This is due to the fact that a non-commercial approach to CSR prioritizes social impact and the SDGs, instead of financial gain and profit and with less regard to the company's core business values.[14] While a non-commercial approach would help private companies gain access to new markets and opportunities due to their impact on the SDGs, it could create short-term financial cost increases, due to high investments into new sustainable business strategies. Furthermore, the non-commercial approach often cannot extend to the field of private entrepreneurship, because it is not effective for scaling the SDG related practices into corporate strategies, which could lead to poor CSR regulations for entrepreneurs wishing to make an impact on the SDGs.[15]

[14] Bogoviz, Aleksei, et al. 2022. Corporate Social Responsibility in Corporate Strategies of SDGs. https://encyclopedia.pub/entry/24304. Accessed 24 July 2023.
[15] Jackson, Susan T. 2021. "Risking Sustainability: Political Risk Culture as Inhibiting Ecology-Centered Sustainability." Risks 9 (11): 186. https://doi.org/10.3390/risks9110186.

Meanwhile, points B to C, show that a more commercial approach to CSR would be more financially suitable for private companies, as a commercial approach would primarily focus on the company's core business values and strategies in order to make a profit, while simultaneously integrating effective social and environmental regulations are also a major priority. This would result in a lower CSR risk for the private sector's profit.

However, while a commercial approach toward CSR would result in a lower financial risk, some private sector companies would use CSR only as a marketing strategy without creating any measurable or genuine impact toward the SDGs. An example of this was the company Coca-Cola in India. Through shareholder and consumer pressure, the company was forced to begin creating a CSR strategy. However, Coca-Cola executed these strategies, solely based on profitability and would tend to ignore business practices that indicated adverse impacts on society and the environment.[16] This goes to show that a commercial approach to CSR could come at a detriment to the SDGs, due to the private companies conveying misleading sustainability information to shareholders and consumers.

4. How can CSR be better optimized to help companies contribute to the SDGs and improve financial performance

In order to mitigate the drawbacks of CSR as mentioned above, companies should focus on 3 major areas of improvement, in order to effectively balance social responsibility and financial gain

Area 1: Context-based Philanthropy

Placing Emphasis on context-based Philanthropy, for example, donations of resources to civic organizations and increasing engagement can help improve private companies' reputation in terms of their social responsibility initiatives, and provide them with a competitive context, essentially the quality of the business environment in the locations where they operate.[17] However, companies wishing to engage in effective philanthropy must first identify appropriate contexts where philanthropic efforts are able positively influence sustainable development. An instance of this is through providing adequate education and training to underprivileged students. Dream Works, the film production company, previously hosted a charitable program, that trains low-income students in Los Angeles the skills required to work in the entertainment industry. They worked with local high schools to develop specialized curriculums combining classroom mentoring and internships to help boost future employment opportunities. This is

[16] Kulkarni, Vikrant, and Ashish Aggarwal. 2022. "A Theoretical Review of Whether Corporate Social Responsibility (CSR) Complement Sustainable Development Goals (SDGs) Needs." Theoretical Economics Letters 12 (2): 575–600.https://doi.org/10.4236/tel.2022.122033.
[17] Porter, Michael E., and Mark R. Kramer. 2002. "The Competitive Advantage of Corporate Philanthropy." Harvard Business Review, December 1, 2002. https://hbr.org/2002/12/the-competitive-advantage-of-corporate-philanthropy.

significant because not only was it able to promote concrete social impact, but it also strengthened the entertainment sector that the company depends on.[18]

Area 2: Transforming the traditional business strategies

While a strong focus on philanthropy is important for the social impact of the private sector, there also needs to be a fundamental adjustment on the traditional business strategies, and shift them to specifically address social, economic, and environmental challenges. An example of this form of shift is from an Indian consumer goods company called Hindustan Unilever. Instead of using their previous wholesaler to retailer to consumer model to reach rural villages, they recruited and employed female villagers and provided them with training on how to develop hygiene products door-to-door and microfinance loans. As a result, more than 65,000 women were able to gain access to decent jobs and double their household income, all while improving public health in rural regions. Furthermore, this also benefitted the company financially, because in 2012, they gained 100 million USD in sales through this program[19]. If private sector companies are able to transition to business models that place a prioritized emphasis on social responsibility, it will help them meet CSR regulations and see financial gains in the long term.

Area 3: Develop new and effective metrics to measure CSR performance

Currently, there are 3 well-established CSR reporting standards and regulations that are adhered to by a significant number of private companies. One of these standards is the Global Reporting Initiative, which includes over 79 indicators related to social, environmental responsibility, and economic aspects of a company's performance. However, these metrics currently being used are primarily applicable only to large multinational private companies, and lack models for smaller-sized enterprises. Furthermore, different CSR initiatives created by private companies have varying objectives. Consequently, the measurements of success for these programs will also differ[19]. Therefore, private companies need to develop different categories of metrics corresponding to the CSR initiatives' primary focus in order to aid private companies in identifying areas of social responsibility they need to improve on.

In conclusion, the private sector plays a crucial role in Sustainable Development, and traditional business models that are used by companies may not be compatible to the SDGs. Thus, companies must develop new or existing business strategies like PPPs and CSR in order to balance financial gains and social impact. However, recognizing that these business models have numerous flaws, both private sector companies and UN member nations must work together to must be able to create evidence-based targets that ensure that private sector contributions to the SDGs can establish a genuine impact.

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[18] Porter, Michael E., and Mark R. Kramer. 2002. “The Competitive Advantage of Corporate Philanthropy.” Harvard Business Review, December 1, 2002. https://hbr.org/2002/12/the-competitive-advantage-of-corporate-philanthropy.
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