inside:
A business wish list from COP17

Joined up thinking to bring down aviation emissions

a multi-stakeholder magazine on climate change and sustainable development

outreach.

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Developed nations – led by US, UK and Japan - try to turn green climate fund into greedy corporate fund

Yesterday, 163 civil society organisations from 39 countries released a letter exposing an attempt led by the US, the UK and Japan to turn the Green Climate Fund into a “Greedy Corporate Fund” at UN climate talks in South Africa.

News from COP17

The Green Climate Fund was created to support people in developing countries – people who are the most affected by the climate crisis but are the least responsible for it. But at the climate negotiations this week, developed countries are trying to allow multinational corporations and financiers to directly access GCF financing. This means companies could bypass developing country governments and their national climate strategies to get to public money.

“Turning the Green Climate Fund into a Greedy Corporate Fund would be shameful, yet this is what is being attempted at the Durban climate talks,” said Meena Raman from Friends of the Earth South Africa. “This will greatly undermine the legitimacy, and ultimately the effectiveness, of the Green Climate Fund.”

Karen Orenstein from Friends of the Earth US.

“The role of private investment in financing climate activities must be decided at the national and sub-national levels in line with countries’ priorities, not corporate bottom lines. The move to allow the private sector to go directly to the Green Climate Fund for money undermines the possibility of a democratic, participatory process for meeting the needs of communities struggling to fight climate change,” said Lidy Nacpil of Jubilee South Asia/Pacific Movement on Debt and Development.

Few adaptation measures in developing countries will be attractive to the private sector, as they will not generate revenue. Some key mitigation programs may also not be financially lucrative. Groups also warned against closed door negotiations on the Green Climate Fund by South Africa, the US and other developed countries.

“Whatever happens in Durban must be fully transparent. We are deeply concerned by reports that South Africa is informally consulting behind closed doors on the Green Climate Fund decision,” said Bobby Peek of groundwork / Friends of the Earth South Africa. “This will greatly undermine the legitimacy, and ultimately the effectiveness, of the Green Climate Fund.”

The concerns expressed in the letter come on top of the long-held rejection by many in civil society of any role for the World Bank in the Green Climate Fund.
A business wish-list for COP17
Rohitesh Dhawan
Resource Economist for KPMG South Africa

The private sector has a complex relationship with the process of international climate negotiations. The scale of the problem and the response by governments means that virtually every sector has a vested interest in the outcome of the COPs (Conference of the Parties).

Many of these sectors are also expected to do the heavy lifting in responding to climate change, especially with regards to financing. Yet, business does not have a seat at the negotiating table. The private sector’s participation at COPs is largely limited to self-organized events held at the sidelines of inter-governmental negotiations. With COPs essentially being meetings of governmental bodies, business’s ability to influence the actual negotiations and their outcomes is limited, although there are processes at a national level to inform the negotiating position of the country.

As an interested party but largely passive participant, businesses watch the outcomes of COP meetings closely for policy directions and resulting market changes. COP17 is particularly significant for the private sector on a number of key issues. Firstly, businesses will look to the meeting for an indication of the direction in which international climate policy is headed post-2012, when the first commitment period of the Kyoto Protocol expires. Businesses are concerned with the national target each country will take on under a second commitment period of the Kyoto Protocol or a new agreement, and the consequent carbon budget for their sector and operations. South African companies will look to understand how the country’s international goal to reduce emissions by 34% below business as usual by 2020 interacts with the quantified national emissions intensity of the country’s electricity mix. The positions of countries with regards to unilateral and bilateral measures on climate change will become clearer at COP17 and provide companies with a sense of the potential impact of future regulations on their products and markets.

Secondly, the private sector will be watching COP17 closely for positive signs on the future use of carbon markets such as the Clean Development Mechanism (CDM). Companies are innately comfortable with markets, but seek certainty in the rules of the market and its continued existence. The outcomes of COP17 will determine if there is a gap in current market systems post-2012 and if new market systems, such as those for Reducing Emissions from Deforestation and Forest Degradation (REDD+), will be implemented. South African companies would be particularly interested in capitalising on future opportunities in carbon markets, given that the country’s participation in CDM has thus far been extremely limited.

Thirdly, businesses will be hoping that COP17 delivers for technology and financing that previous rounds of negotiations have promised. Companies hold the potential for profitably solving many of the challenges to reducing emissions and adapting to the impacts of climate change, but often require support to guarantee a return on their investment. As a middle-income developing country, South Africa’s access to international finance and technology support is relatively lower than that afforded to Least Developed Countries (LDCs). However, the country’s advanced financial infrastructure and relatively rich base of intellectual property will allow it to leverage future flows of climate finance and low-carbon technologies. COP17 can stimulate such action by mobilising international finance through operationalising the Green Climate Fund, and through promoting the transfer of technology by empowering the Technology Executive Committee.

Finally, companies will be monitoring the implications of COP17 for their markets and products. Business risks and opportunities are increasingly changing in response to climate change and its related policy measures at a national and international level. For South African companies, any response measures that make South African products less competitive in international markets through cross-border tax adjustments would be particularly significant, given the emissions intensity of the country’s electricity mix. The positions of countries with regards to unilateral and bilateral measures on climate change will become clearer at COP17 and provide companies with a sense of the potential impact of future regulations on their products and markets.

Businesses call for action - The 2°C Challenge Communiqué
Eliot Whittington,
Director, UK Corporate Leaders Group on Climate Change

Big business is portrayed as the enemy by many environmentalists – especially if the company’s activity involves substantial carbon emissions or the extraction of natural resources. But business can also provide a powerful voice in favour of reform – and indeed for more pragmatic and headstrong reasons than others might marshal.

For example, the Corporate Leaders’ Network for Climate Action is a group of progressive business leaders from a range of sectors who are calling on governments to act urgently on climate change for the sake of future sustainability.

In a communiqué issued earlier this year and due to be formally presented at COP 17, more than 340 companies from 38 countries urge governments to agree “a robust, equitable and effective UN agreement on climate change, built on the existing foundations.”

The communiqué warns that “the window to stabilise global warming to less than 2°C has almost closed” and says “failure by governments to end the deadlock in international negotiations will risk permanent damage to their credibility.”

The UN remains “the only credible location for agreeing a global deal” say the signatories, but in the meantime, governments must adopt “rational policies and measures that drive action” and pave the way for a future global agreement.

The importance of this message should not be underestimated. Politicians faced with the tough task of agreeing ways to limit their countries’ emissions without compromising competitiveness or impacting on the quality of life of their citizens (and voters) will be supported by the strong voice of the business community.

At a time when a global financial crisis and dramatic events in the Middle East are distracting many policy-makers from the need to make progress on climate change, businesses with an eye on longer-term sustainability are reminding them that the issue is too important to ignore or delay. As Mike Brown, Chief Executive for Nestlé, one of the signatories says, “time is running out – Durban should be the turning point towards higher ambition.”

Brown’s remarks were echoed by Joan MacNaughton, Senior Vice President at Alstom, who said, “the business voice at this summit should be heard loud and clear: inaction is not acceptable”, and by Murat Sungur Bursa, CEO of Turkish Zorlu Energy Group who warned, “failure to act collectively will impact all of us.”

Other signatories to the communiqué include major global brands such as Shell, Unilever, Nestle, Coca-Cola, De Beers, Philips, Nike, Proctor and Gamble, and Rolls Royce. Alongside these companies are smaller businesses. All are committed to doing their bit to promoting sustainable development and the green economy but all are warning governments that without a global agreement “business lacks the clarity and certainty needed to invest to its fullest potential.”

The communiqué was developed by the Prince of Wales’ Corporate Leaders’ Group on Climate Change, which is hosted at Cambridge University, as part of the Cambridge Programme for Sustainable Leadership.

For more information
To find out more, visit http://www.2degcommunique.com/
Will private finance really support adaptation in developing countries?

Aaron Atteridge
Stockholm Environment Institute

The importance of private finance, amongst efforts to scale up resources for developing countries to respond to climate change, is touted enthusiastically by multilateral finance institutions, international climate negotiators, United Nations agencies, the research community and the finance industry itself. Since the COP16 commitment to raise USD 100 billion annually by 2020 for climate actions in developing countries, a substantial focus has been on the role that private sources of finance will need to play. Certainly most commentary within industrialised countries argues that private sources will make up the bulk of these funds.

Debate on international finance has so far focused almost exclusively on the mitigation of greenhouse gas emissions, yet from a developing country perspective there is an arguably greater need for resources to ensure adaptation to the unavoidable impacts of climate change.

At first glance an assumption that the private sector might really deliver the financial resources needed by developing countries for adaptation seems ahistorical. Private investment has long been flouted as the solution to improving livelihoods and reducing poverty, yet in much of the developing world poverty and vulnerability remain as persistent today as decades ago. If the risks associated with climate change are closely linked with those of poverty, why should we expect the private sector to now succeed at addressing these problems, given its track record?

Although private “climate finance” is a relatively new term, private investments in developing countries are not. Decades of historical data on equity and debt flows show us where private finance goes, what activities it is used for, and who benefits. These patterns of behaviour are a useful starting point if we want to go beyond the rhetoric of “scaling up private finance”. On the whole, private investment activity is unevenly distributed amongst countries and economic sectors, and often it appears not to match developing countries’ most pressing adaptation needs.

It is clear that both equity and debt finance are heavily concentrated in a relatively small number of countries, rather than evenly spread across the developing world. The major share of foreign direct investment (FDI) inflows to developing countries is directed to large emerging economies such as China, Brazil, Mexico and India. South Africa receives about a quarter of international bank lending to the African continent. Globally, there is a clear long-term pattern of middle-income countries attracting a much greater volume of private capital compared to low-income countries. The Least Developed Countries (LDCs) see around 3% of total FDI flows to developing countries, despite being home to around 15% of the developing world’s population.

The private investment that does reach LDCs is also unevenly distributed. Inflows to Africa have been directed heavily towards the primary sector, in pursuit of vast natural resources, and to a lesser extent service sectors often as a result of privatisation programmes. According to UNCTAD data, almost a third of FDI inflows to Africa between 2000 and 2006 went to just six major petroleum exporters – Algeria, Angola, Congo, Gabon, Libya and Nigeria. Mining activities are also a common focus for investors in Africa.

Few of the sectors used by the UNFCCC to categorise priority actions, in the National Adaptation Programmes of Action (NAPAs) prepared by LDCs, appear well matched with private patterns of investment and lending. Some investments in telecommunications might play a positive adaptation role, for instance in supporting storm warning systems, while closer analysis is needed to ascertain how investments in the energy sector might interact with adaptation objectives.

Otherwise, coarse level patterns do not look promising for adaptation outcomes. Agricultural FDI tends to follow cash crops for export rather than local food staples, and to benefit industrial-scale production rather than small-scale farming. It therefore may not be generating food security benefits, nor buffering livelihoods and reducing wider vulnerabilities amongst local communities. Tourism FDI consists mostly of capital flows to hotels, while private participation in water sector infrastructure is highly concentrated in East Asia. There are virtually no significant private flows to either the health or education sectors.

It is also apparent that the ratio of different financial instruments – portfolio equity, direct investment equity, international lending and bond finance – varies between regions and countries. This could have implications for the ability to invest in certain kinds of activities. Africa attracts lesser amounts of lending than other regions (as a portion of overall foreign capital), which is problematic since adaptation measures generating public rather than private benefits are generally unsuited to attracting equity and will therefore rely on debt finance.

These patterns of private sector behaviour have important implications, not least that the discussion on private finance needs to sharpen. It must dissect different kinds of financial flows - from portfolio equity, to direct investment, to commercial bank lending, to bond finance. Each of these implies a different quality of finance, with implications for how it might support adaptation efforts. It must also more closely scrutinise data on private finance. Labels like “Green FDI” disguise the fact that FDI actually consists of several different kinds of flows and that many private financiers are more interested in profit than in the long-term security benefits, nor buffering livelihoods and reducing wider vulnerabilities amongst local communities. Tourism FDI consists mostly of capital flows to hotels, while private participation in water sector infrastructure is highly concentrated in East Asia. There are virtually no significant private flows to either the health or education sectors.

The gaps in delivery of private finance also pose a major challenge for public finance, which must not only leverage new resources specifically for adaptation but also redirect investments to countries and sectors that currently miss out.

LITERATURE ON FDI IN DEVELOPING COUNTRIES suggests that it often follows the transition to economic growth and development, rather than acting as the catalyst. If so, this raises a concern that countries that are particularly susceptible to climate-related threats may in fact become less attractive for private financiers than they are now, because of degrading domestic conditions. This is not good news for the many developing countries that already struggle to get access to foreign capital.

It should thus not be taken for granted that the private sector will succeed in tackling adaptation challenges, particularly since in the past it has, on the whole, failed to alleviate poverty rather than just managed to weather threats in many of the poorest parts of the world. More robust analysis is needed of what the private sector might actually contribute towards adaptation efforts – both what this contribution will look like and who will benefit.
The aviation industry connects the world. Literally. Over 1,700 airlines operate to 1,600 airports around the globe, allowing over 2.6 billion passengers last year to do business, visit family or simply see the world. It employs some 33 million people and generates nearly 8% of world GDP. But it also uses around 10% of the fuel used for transport and generates some 2% of the world’s CO₂ emissions.

In 2008, the leaders from across the aviation sector joined in the only global sectoral commitment to action on climate change to set the pathway to targets for reducing aviation emissions. The industry will cap its net carbon emissions from 2020 and to halve its net CO₂ output by 2050, compared to 2005. These targets are ambitious, particularly for an industry that will continue to grow its passenger numbers by around 5% per year, but thanks to a four-pillar strategy outlined below, we are confident that they can be achieved.

The driving force behind efficiency measures is not just environmental stewardship. Fuel is the number one operating cost for airlines – over 30% this year, at an expected cost to the industry of some $176 billion. This provides impetus for airlines to reduce fuel use as much as possible. The environmental imperatives provide a strong reason for all players in the industry – air traffic control, airport authorities, the aircraft and engine manufacturers – to work alongside airlines to realise fuel saving potential, demonstrating truly ‘joined-up thinking’ on this issue.

Technology is the first of our four pillars and is most readily seen in the design and production of new aircraft. Each new generation of plane brings around a 20% reduction in fuel use from the one it replaces. Because aircraft can remain in service for anything up to 25 years, we often see a cyclical regeneration of aircraft and we are in the middle of a new aircraft cycle right now.

While the step-change technologies are the most ‘high-profile’ aspect of the first pillar, there are a great number of technologies that are being applied to aircraft already in service every day. One example is the winglets that are appearing on a great number of aircraft and which have so far reduced fuel consumption worldwide by some 2.5 billion gallons, by increasing the aerodynamic efficiency of the wing.

Operational measures are the second pillar and provide further incremental reductions, in both fuel use and time spent flying. A project is underway across Europe to implement continuous descent operations (CDO) at 100 EU airports. CDO is a technique whereby aircraft in effect glide from cruising altitude to landing, rather than using a traditional stepped approach. New navigation and surveillance technologies made this possible and the technique is showing significant fuel and emissions savings. Up to 150 kg of fuel can be saved with each of these operations.

The Airport Carbon Accreditation programme being rolled out across Europe’s airports has, in a few short years, resulted in savings of over 700,000 tonnes of CO₂ at airports representing 43% of Europe’s air traffic.

While our industry has control over the first two pillars, the third, infrastructure improvements, is not within our control. In fact, governments play a very important role particularly when it comes to control over the skies of Europe and the United States. The SESAR project to operationalise the single European sky, and NextGen in the United States are worthy projects that will bring about significant savings in aviation emissions, not to mention more airspace capacity and decreases in delays. But the political will needs to be strengthened and progress needs to be sped up if we are to fully benefit from these programmes.

The last pillar is economic measures and the industry’s position on the impending European inclusion of aviation in its emissions trading scheme is well known. Let me use this opportunity to reiterate that the industry is not against emissions trading as a concept. We have been pushing for such a market-based measure at the International Civil Aviation Organisation (ICAO) for some time. But for such a scheme to have any hope of reducing emissions effectively whilst avoiding competitive distortion, it must be done at a global level.

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Indeed business has a major role to play in all aspects of sustainability, and a vital element of this role is providing meaningful information to stakeholders through its reporting processes. Over the last decade there has been growing criticism of corporate reporting practices. A recent study done jointly by CIMA and PWC sums it up by saying “Corporate reporting [...] has got too big, too cumbersome and incomprehensible”.

To tackle this issue, a new framework for corporate reporting has recently been launched by the International Integrated Reporting Committee (IIRC) for public comment. This new framework, launched in September 2011, intends to provide stakeholders with a more useful and balanced picture of corporate performance. It also provides information that enables stakeholders to make assessments about a company’s ability to create and sustain value in the future. Environmental, social and economic issues are critical elements of a company’s business today; therefore they need to be integrated into corporate strategy, performance reviews and in assessments of future prospects.

Many corporate annual reports today contain huge amounts of detailed information on financial performance, sustainability, governance and other aspects of the business, but most of this is presented in unconnected silos and it is largely backward looking. The discussion paper calls for a more integrated approach with connections between strategies, risk, governance and performance on the one hand and economic, social and financial issues on the other. It also proposes that reports should be concise and include only material information, and this should be available to stakeholders who want it through the company website. Reports should also contain information that enables stakeholders to make assessments about the sustainability of the business and its ability to create value in the future.

Professor Mervyn King, who is chairman of the IIRC, often borrows words from Victor Hugo noting “Nothing else in the world...is so powerful as an idea whose time has come”. The way in which integrated reporting is capturing the imagination of the world suggests that its time has come.

### COP17 Side Events Calendar

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<td>03/12/2011</td>
<td>Green Climate Fund: The private financial sector's perspective</td>
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<td>Climate Forced Migrants: Human Rights Perspective</td>
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<td>03/12/2011</td>
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The recent banking and financial crisis has reinvigorated the debate around the role of corporations in delivering societal benefits. This debate is gaining momentum every day in the mainstream media with new societal expectations on businesses’ behaviour. With this change in public perceptions, we’ve also seen an explosion of sustainability reporting and indexes, the rise in sustainable investments; and the uptake of international initiatives such as the Global Reporting Initiative (GRI), UN Global Compact, Principles of Responsible Investment, ISO 26000 standard on social responsibility, and the ‘UNEP Statement of Commitment by Financial Institutions on Sustainable Development’, among many others.

Although some businesses have demonstrated genuine commitment in incorporating social responsibility principles into their practices, the sector is not responding evenly to these efforts. As a consequence, general distrust in the sector grows, together with the pressure for immediate action to address current social and environmental challenges. Felix Dodds, Executive Director of Stakeholder Forum, said:

“The parallels of the ecological problems with the financial crisis are clear. The banks and financial institutions privatised the gains and socialised the losses. We are doing the same with the planet’s natural capital. Our present lifestyles are drawing down the ecological capital from other parts of the world and from future generations. We are increasingly becoming the most irresponsible generation our planet has seen.”

This situation has enhanced the urgency to go beyond voluntary initiatives and develop a legal framework that ensures business practices are aligned with society’s expectations towards long term sustainability.

With the upcoming 2012 Earth Summit (20-22 June, 2012) marking the 20th anniversary of the Rio 1992 Conference and 30 years since the Brundtland Commission, the dialogue on the need for a convention on social responsibility has been restarted. The call for a stronger contribution from the private sector in sustainable development efforts has come from many sectors: governments, businesses and civil society organisations.

It has been mentioned repeatedly through their Rio+20 zero draft submissions. Therefore, we need to build up the momentum and use the platform provided by the Rio+20 summit to encourage governments to adopt a binding commitment, to develop a national framework on corporate social responsibility that ensures wide compliance of sustainable development principles throughout the sector.

Dialogue on a Convention on Corporate Social Responsibility and Accountability

In order to mobilise support for this initiative, a global multi-stakeholder process engaging civil society organisations, corporations and corporate social responsibility initiatives is being convened by Stakeholder Forum for a Sustainable Future and Vitae Civilis. This dialogue joins forces with the recently launched ‘Corporate Sustainability Reporting Coalition’, convened by AVIVA with the support of 40 like minded organisations. We welcome this initiative as a serious contribution which we can build up a dialogue around.

Our objective is to enable a global dialogue among existing corporate social responsibility initiatives, corporations and civil society organisations from North and South in order to build consensus around the need for a Convention, and on the content and format that such a Convention should have. This draft will be used as a starting point once the UN process for having a convention is approved with a resolution at Rio+20.

More information can be found at http://www.csradialogue2012.org/

Outreach is made possible by the generous support of