

Good Governance For Sustainable Development

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Good Governance for Sustainable Development

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Good Governance: Building Sustainable Societies

Dr. Yilmaz ARGÜDEN

2015 marks a milestone year for sustainable future: On September 25, world leaders came to an agreement on UN Sustainable Development Goals (SDGs). In November, under the Turkish Presidency, G20¹ that is made up from the largest 20 economies of the world, had agreed on establishing a World SMEs Forum to disseminate the understanding of sustainability by focusing to the inclusive growth.²

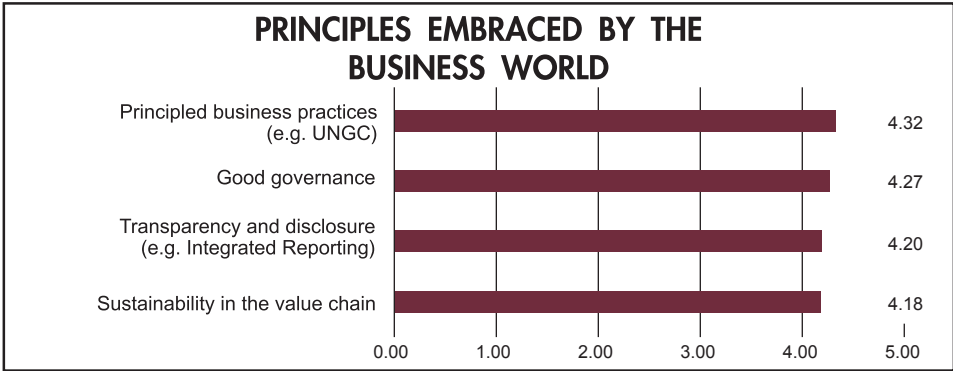
In December, in Paris, around 200 countries had committed to hold the increase of global warming under 2°C and to pursue efforts holding it below 1,5°C.

Corporations are at the center of this progress. For this reason, in the forthcoming period board of directors' role, in providing guidance and oversight, is essential to increase inclusiveness and sustainability of corporations.

As populations grow and mobility increases, the world continues to get smaller, our mutual interdependence

increases and all institutions need to be able to mobilize the resources and goodwill of others to achieve their goals. Earning the trust of stakeholders is the key to mobilizing resources towards a common vision and, therefore, the key to good governance and sustainable success is in ensuring that the principles of Consistency, Responsibility, Accountability, Fairness, Transparency, and Effectiveness are Deployed (CRAFTED) throughout the organization and its sphere of influence (stakeholders in the value chain, members, and the citizens).

The trust that must be built externally with stakeholders must first be created internally, if trust is to be robust. Openness in public and private institutions is essential; we must be confident that information is being openly shared and that differences of opinion are being openly discussed and resolved, while also making sure that a vision and core values truly penetrate every layer of each institution.



Graph 1: Principles Embraced by the Business World

*1 Turkish Presidency has highlighted three issues for the G20: Inclusiveness, Implementation and Investment.

*2 Dr. Argüden is the Chairman of ARGE Consulting (B20 Knowledge Partner on Governance & Sustainability) and Rothschild Türkiye & Founder of the non-profit Argüden Governance Academy (C20 Governance Working Group member) operating under the aegis of the Boğaziçi University Foundation.

Leaders could set the tone for successful implementation, which would encourage questioning and discussion at all levels of institutions and society.

Recent research findings show that societies thrive, in a sustainable way, when inclusion and innovation help to expand the circle of opportunity, and when strong governance standards lead to sound civic decision-making. Such an approach requires an open government, public consultations with stakeholders, impact assessments, evidence-based decision making, rule of law, and continuous monitoring and improvement of results that are shared openly.

An inclusive society is a society that overrides differences of race, gender, class, generation and geography, and ensures inclusion, equality of opportunity as well as capability of all members of society to determine an agreed set of social institutions that govern social interaction. Stakeholder engagement and creating equal opportunities in public and private institutions for all are cornerstones of building inclusive societies.

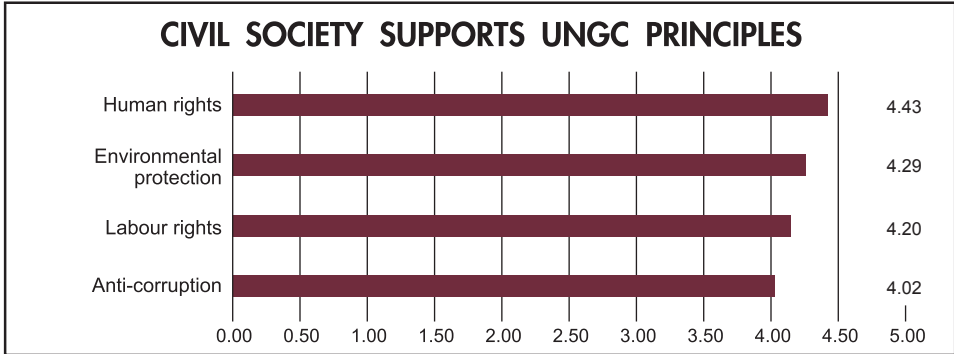
A sustainable global economy is one that combines long-term profitability

with ethical behavior, social justice and environmental care. Good governance is at the heart of a global sustainable economy. Business can play a fundamental role in creating a sustainable future by embracing this challenge as an opportunity for innovation and long-term value creation.

Active Engagement and Responsible Behavior

Most businesses understand that their sustained success depends upon the economic, social and ecological contexts in which they operate. But the stability of those contexts can no longer be taken for granted. As sustainability issues have become more global and pivotal to success, businesses are realizing that they cannot go it alone and there should be a collaborative approach among businesses, governments and civil society.

The surveys we have conducted among the business taskforce members of the B20 and the civil society organizations for the C20 had a clear message: both the business community and civil society support principled business practices such as the UN Global Compact (UNGC), an initiative whose mission is to create a



Graph 2: Civil Society Supports UNGC Principles

sustainable and inclusive global economy that delivers lasting benefits to people, communities and markets.

The UNGC is a voluntary initiative that calls for publicly reporting the performance of institutions on 10 principles, covering human rights, labor, environment and anti-corruption issues. Implementation of the UNGC by businesses, civil society and academic institutions would help to achieve the UN Sustainable Development Goals (SDGs) and would help to improve well-being and quality of life.

An emerging framework for such reporting is the Integrated Reporting <IR> Framework. An Integrated Report is a concise communication about how an organization's strategy, governance, performance and prospects affect its external environment and lead to the creation of value in the short, medium and long term, to best tell an organization's value-creation story.

Good governance is a culture and a climate in which trust for institutions flourishes. As stated in the post-2015 development agenda for the UN Sustainable Development Goals,

"Building effective, accountable, and inclusive institutions at all levels" is crucial to enabling the effective, efficient and transparent mobilization and allocation of the world's resources.

The following recommendation has transpired from the surveys we have conducted for the B20 and C20:

"Implementation of inclusive and sustainable development will depend on the active engagement of the public, private, and non-governmental sectors, including but not limited to the increasing number of actors signing the UN Global Compact and UN Principles for Responsible Investments (UNPRI). Good governance and responsible behavior by all actors should be established by creating a regulatory environment where transparency in the public and private sectors is the norm. Embracing reporting best practice and encouraging market-led initiatives, such as Integrated Reporting, focused on communicating value creation and sustainability performance across the economy would be the most effective way of improving transparency and building trust."

Good Governance for Sustainable Development

Dr. Erkin ERİMEZ

INTRODUCTION

Sustainable development can be achieved through inclusive growth and inclusive business practices. 660 million people have been lifted out of poverty and income level of millions more have been increased in the last twenty-year period. The most important contributor to this development is the economic growth all around the world.

However, growth has been achieved at the expense of environment. Resources have been used inefficiently and still in use due to failure in developing right policies. Unless we align our incentive systems with the actions to bring sustainable and inclusive development, we will continue to incur economic, social, and environmental costs.

2015 was an important year for the future of the world.

- **Sustainable Development Goals (SDGs)** have been agreed on by world leaders and accepted in September 2015. There are 17 SDGs that are determined by UN as priority areas for development in next 15 years.
- COP21 has been realized in Paris in December 2015 where close to 200 countries accepted to adopt Paris Agreement to fight climate change.
- Türkiye was the organizer and the leader of G20 Summit. G20 Summit has been realized in November 14 – 15 in Antalya, Türkiye. A key outcome of the Summit was to promote inclusive and sustainable growth through supporting policies and investments.

Platforms like B20, C20, W20, which have been formed with representatives from G20 countries, have supported and contributed the efforts of G20 leaders. Platforms developed recommendations and prepared action plans to be proposed to the G20 Leaders. Leaders discussed these recommendations and G20 Summit outcome has been decided after all these processes.

In 2015, the B20 Turkish Executive Committee has decided to establish a specific work stream for “Governance and Sustainability” Cross-Cutting Theme to support the ongoing six Task Forces established who will focus on recommendations for enhancing global growth and job creation. B20 Executive Committee has asked ARGE Consulting to serve as the Governance & Sustainability Knowledge Partner. ARGE is the first and only Turkish company to have served as the Knowledge Partner for the B20.

ARGE has conducted research and analysis throughout 2015 and surveyed 600 members of B20 Task Force members. The responses have been analyzed and a report prepared on sustainable development and inclusive growth according to the findings of the research.

ARGE partners attended a number of meetings and participated teleconferences during the process (Program has been shared in Annex 2). ARGE has also organized a panel discussion in June 1, 2015 at the OECD in Paris under the umbrella of second B20 meeting. Panel speakers were;

- Dr. Yılmaz Argüden
Moderator – ARGE Consulting
Chairman

- John Danilovich
ICC – General Secretary
- Paul Druckman
International Integrated
Reporting Council (IIRC) – CEO
- Stefan Emblad
World Bank – Europe
Representative
- Nickolai Malyshev
OECD – Head of Regulatory
Policy Group
- Sir Mark Moody Stuart
UNGC Foundation – Chairman

Findings of the analysis of the responses B20 Task Forces’ members have been shared in Paris Meeting. Participants have contributed to the results and raised new issues. Final recommendations and action plan items have been prepared according to the findings and contributions obtained during Paris meeting. This final Policy Report has been shared with B20 Secretariat and incorporated into the B20 recommendations to the G20.

Summary recommendation is;

Good governance is the key for inclusive and sustainable development.

Therefore, G20 governments need to focus on creating a regulatory environment where transparency in the public and private sectors is the norm, by advocating the adoption of principled business practices, such as those advanced by the United Nations Global Compact, and actions towards the achievement of the United Nations Sustainable Development Goals.

Governments should also embrace Integrated Reporting across the economy as the most effective way of improving transparency and building trust.

Principled business practices which is the fundamental concept of the above recommendation, shared as a key message of the B20 Turkish Chairman’s message. The recommendation has been included in other B20 Task Force recommendation reports as well. Türkiye has shown leadership and has been praised for incorporating transparency and inclusive growth as key priorities for G20. We have decided

to share this findings of the study, since the project contains valuable views of a number of business people and the issue is important for the future of the planet. We believe that the findings could trigger further research on the subject.

SUSTAINABLE DEVELOPMENT

Experience shows that growth alone is not satisfactory for improving quality of life. Economic growth improves income levels. However, if social and environmental issues are not considered, growth may have destructive effects on environment and society. Countries' history and culture may differ, but sustainable development issues and principles are the same all around the world. Cooperative action is required to find solutions to the problems.

Inequalities has become more and more visible while economic growth has been achieved. Developed countries have excess supply while emerging and developing countries have resource scarcity. Access to drinking water and sustainable energy are two critical issues for developing countries. Water scarcity creates health issues. On the other hand, an OECD Report shows that main problem is mostly related with mismanagement of resources rather than resource scarcity³.

Developed countries have achieved economic growth and improved the welfare of their society in the 20th century. Externality costs of growth has been disregarded at the beginning. When the awareness on the created damage has increased and has become a threat for the welfare of the society, people have started to question if this growth is sustainable. China and India have achieved enormous growth in the last quarter of 20th century. But it has been realized that such a growth strategy could not be sustainable if it continues at the same manner. The forecasts show that if we continue to

operate with the business as usual practices, welfare could not be achieved in the long term and even current level of welfare could not be sustained.

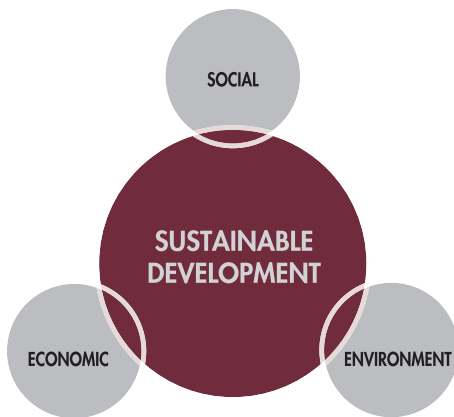
Current economic development path which improves welfare, creates problems like climate change and rapid degradation of resources. The problems are so big that any single country's action will not be sufficient to solve them. Collective action is required for achieving a sustainable solution path. For instance, Sub-Saharan Africa has limited capability to solve fundamental problems by itself and they need assistance of other countries. Sustainable Development Goals target to eliminate poverty, achieve access to health services and equality in education.

Current problems are the results of long term unsustainable business practices and policies. Determining economic growth as the main target has created problems on environmental degradation, resource scarcity, increase in income inequality and treat peace in the society. Economic growth is not the only component of sustainable development. Current way of problem solving and thinking is not satisfactory to solve existing issues. Albert Einstein stated that "Problems cannot be solved by the same level of thinking that created them". This quote shows that we need to change our way of thinking and problem solving capabilities.

*3 Sustainable Development, Linking Economy, Society, Environment, OECD, Tracey Strange and Anne Bayley, 2008, p.14

Report of the World Commission on Environment and Development: Our Common Future which is known as Brundtland Report has pointed two important issues;

- 1 There is a critical interdependence between society, environment and economy where growth cannot be achieved by focusing only on economic issues,
- 2 Global cooperation is needed for sustainable development.



Sustainable development is a path where all stakeholders and future generations can continue their life by having the welfare and quality of life. This path is global, borderless, and focusing on the future. Anything happens in one part of the world affects the whole world (like climate change) and quality of life of future generations.

Sustainable development requires good governance for managing complex relations between society, environment and economy.

Ecosystems are important for economic development and

improving quality of life. Efficiently working ecosystems are needed for resources to realize economical activities, food production, clean water, and clean air. Environmental degradation causes inefficiently working ecosystems which harms economic activities and decreases quality of life.

Humanity could survive with healthy and productive individuals. Growth and improving quality of life would be very difficult in a society where there are problems of poverty, diseases, and security. Economic growth and social welfare are two interdependent phenomena. On the other hand, a healthy ecosystem is a must to achieve economic growth and social welfare.

Sustainable development is a challenge that needs to be addressed with a multi-disciplinary approach. Brundtland Report stated that; sustainability is not a steady state but it is an ongoing process of change to keep system working in a steady manner.

Sustainable development;

- is a holistic and inclusive approach to create stable societies and a sustainable world,
- encourages to use integrated thinking methodology in all decision making processes,
- is an approach where the main effort is to find sustainable solutions for poverty, social discrimination, health problems, environmental degradation, resource scarcity, and employment issues.⁴

*⁴ Sustainable Development, Linking Economy, Society, Environment, OECD, Tracey Strange and Anne Bayley, 2008, p.30

INCLUSIVE SOCIETY AND INCLUSIVE GROWTH

World Summit for Social Development has been held in Copenhagen in March 1995.⁵ Inclusive society concept has been defined as; stable, safe, just, tolerant, respect for diversity (race, gender, religion, geography, social class, generation), equal opportunity and participation for all. Inclusive society is a society where human rights and freedoms, rule of law, democratic participation, social just, tolerance for diversity is a norm. Inclusive society is the founding stone for growth. An inclusive society could be achieved by elimination of poverty, creation of employment opportunities and engagement of all society for reaching growth target. Inclusive society could be achieved with inclusive growth.

Inclusive Growth: Inclusive growth is a model where economic and social welfare has been improved by providing fair share from growth and creating business opportunities for the lower end of pyramid.

Sustainable development can be achieved if inclusive growth is achieved. Significant growth has been realized in the last 20 years, this growth has lifted close to 700 million people out of poverty. However, there are still problems: 1.3 billion people have no access to electricity, 2.6 billion people have limited health services, and 900 million people have no clean water.⁶ Therefore, it is very difficult to tell a success story without solving these problems even if growth has been

realized. Furthermore, the current path to growth is causing environmental degradation and resource depletion.

Sustainable development is important for lifting 1 billion people above poverty line and development of less developed countries. Growth without environmental degradation has critical importance because sustainable development could not be achieved by harming environment and inefficient use of resources.

Fair sharing of economic growth between each layer of society is an indicator for inclusive growth. Inclusive growth decreases poverty and support sustainable growth path. (Berg 2011, Kraay 2004).

Growth and fair sharing of the GDP growth between layers of society is a requirement for inclusive growth. Inclusive growth is needed for a sustainable growth pattern.⁷ A research conducted by IMF regarding the important issues effecting inclusive growth have been determined as; macroeconomic stability, structural reforms, free market economy, increase in infrastructure investments, and educated labor force.

Inclusive growth becomes more and more important on a global scale. Global value chains have an important role in achieving inclusive growth. Inclusion of SMEs to the global value chains is very important to achieve inclusive growth target.

A research conducted by World Bank shows that, SMEs from

*⁵ Creating an Inclusive Society: Practical Strategies to Promote Social Integration, DESA 2009, p.4

*⁶ Inclusive Green Growth A Pathway to Sustainable Development, The World Bank, 2012, p. xi

*⁷ Inclusive Growth IMF Working Paper, Rahul Anand, Saurabh Mishra, and Shanaka J. Peiris, May 2013

less developed countries⁸ has limited access to global value chains. The reasons for that have been stated as; SMEs of less developed countries are working on low value added sectors which are mostly labor intensive and there is limited expertise due to insufficient quality of education and lack of good governance. Although those countries have disadvantages, their share of business in global value chains have been increased from 6% to 11% in the last 20 years. However, further improvement seems difficult due to above stated reasons. When SMEs of emerging and developed countries have been analyzed there are companies at low and upper end of value added spectrum. The reason for that is the quality of education in those countries. The finding is critical to show the importance of education for inclusive growth.

IFC has shared a report⁹ where they have explained how companies from less developed countries contributed inclusive growth with the support of IFC. The report explains the benefits of creating business opportunities for the bottom of the pyramid and the effects of that action for the long term sustainable growth. For example, people who have been educated during business processes improve competitiveness of their businesses. Some entrepreneurs form cooperatives which enables them to reach finance easier for growing their business.

GOOD GOVERNANCE

Trust is the essence of good governance. Organizations need others' resources when they would like to grow. Trust is the only way to get resources from others in an economic manner.

Good governance principles are; consistency, responsibility, accountability, fairness, transparency, effectiveness, participation and deployment.¹⁰

Consistency of the policies of a corporation is necessary to ensure that right expectations are formed throughout the value chain, thereby making the whole value chain stronger. Value creation requires measured risk taking, and risk is the kin of profit; therefore, taking initiative and **responsibility**, which naturally involves risk taking, is a critical element of value creation. An organization must be **accountable** and **fair** to all the stakeholders whose resources are entrusted to it, if access to those resources is to be sustainable. **Transparency** in relationships is the key to earning trust. Success requires **effective** use of the resources entrusted to a corporation. Sustainability of success requires continuous improvement and innovation, which in turn requires continual learning and the participation and involvement of everyone in the organization. Hence, the key to sustainability is the creation of a climate that emphasizes good governance principles and **deployment** of a good corporate governance culture throughout the

*⁸ Inclusive Global Value Chains Policy Options in Trade and Complementary Areas for GVC Integration by Small and Medium Enterprises and Low-income developing countries, OECD, World Bank Group, October 2015

*⁹ Shared Prosperity through Inclusive Business: How Successful Companies Reach The Base Of The Pyramid, IFC, 2014

*¹⁰ ARGE Kurumsal Yönetişim Modeli, Dr. Yılmaz Argüden, Pınar Ilgaz, Burak Erşahin, 2007

organization.

Each organization needs good governance regardless of activities and type (government, private, NGO, etc.). The success of an organization is important for itself and its stakeholders. Good governance framework enables to achieve sustainable development and inclusive growth.

OECD Corporate Governance Principles have been released on September 2015 after two years of consultation. Stakeholder views have been collected and developments in the last decade have been reviewed during consultation process. New principles bring new approaches like; respect for stakeholder rights, participation of stakeholders to decision making processes, easy access to information by stakeholders.¹¹ The main idea is to create value for organization and the society at the same time and to resolve potential conflicts of interest by the participation of the stakeholders. Transparency and disclosure have been stated as two important issues to gain trust of stakeholders.

Good governance principles need to be implemented by both private and public institutions to achieve sustainable development and inclusive growth. Government's implementation of good governance principles in regulatory and enforcement processes are important for effective markets and inclusive societies.

Continuous improvement of decision making process quality in

government is important for improving quality of life. Encouraging stakeholders to participate regulation making processes, using competitive market mechanism in delivering services and listening voice of people will improve governance quality in public.¹²

OECD released Recommendation of the Council on Regulatory Policy and Governance in 2012 according to better policies for a better life principle.¹³ The main purpose of this recommendation is to promote participatory preparation of regulations to reach the targets in a short period of time. Such an approach will improve effectiveness and decrease costs.

OECD's recommendations are;

Holistic Approach; Before making any decision, its implementation, economic, social, environmental and distribution effects, implementation costs and interaction of the decision with previously made decisions on related issues must be analyzed.

Transparent and Participatory Process; Participation of citizens and NGOs must be encouraged to participate to the decision making processes of public sector. To achieve this purpose; proposals must be shared transparently before reaching a decision, views of different groups must be obtained, language of the regulation must be simple, effects and difficulties of implementation must be analyzed and measures to eliminate imbalances must be determined at the beginning of the process.

*¹¹ OECD Corporate Governance Principles, September 2015

ARGE Consulting and Argüden Governance Academy are among the 75 institutions contributed to the review process of OECD Principles of Corporate Governance.

*¹² Kamu Yönetiminde Karar Kalitesi, Dr. Yılmaz Argüden

*¹³ OECD Recommendation of the Council on Regulatory Policy and Governance, 2012

Regular Audit of Decision Making Processes; Unaudited process may become inefficient by the time past. Therefore, audit mechanisms to audit public decision making processes need to be formed. The main purpose of the audit is to improve effectiveness not fraud. The audit could cover; if a research has been conducted to determine the effects of implementation of the regulation, the quality of research is adequate, the decisions have been reassessed after a while, the findings of impact assessments after implementation have been used in the following decision making processes, a regulator training program for decision makers exist and the content is appropriate to transfer experiences. Auditors of the processes must be audited by independent parties. This independent audit process improves effectiveness and enables to benchmark with other countries' experiences.

Regulatory Impact Assessments; The effects of regulatory process could be analyzed by using regulatory impact assessments. Regulatory impact assessment is an analysis where the potential effects of regulations before implementation and actual effects of implementation after the decision process have been systematically reviewed. The effects of government decision on the market is important for effective markets.

Regular Assessment of Validity of Existing Regulations; This is a process where existing regulations have been reviewed regarding their validity, consistency, cost benefit position, simplification, deployment, enforcement and elimination of inequalities created by implementation. If such a process has not been

performed this may cause; inconsistencies between regulations, unnecessary burden on economic activities, corruption.

Transparency; the effectiveness of regulations must be shared openly with stakeholders. Disclosures regarding how impact assessments have been conducted, how participation processes have been conducted and how existing or old regulations have been reviewed and independent audit processes would improve the effectiveness public decision making processes.

Objective, Unbiased and Consistent Decision Making; This process is regular independent audit of decision making processes of all government institution with regulatory power regarding; objectiveness, unbiasedness and consistency terms. This approach would help to decrease conflicting regulation making by different government authorities through clearly defining authorities of each institution, to transparently communicate with their stakeholders, to compare the results with targets and to be audited by independent parties.

Effective Independent Enforcement; Effective independent enforcement mechanism would help to resolve issues in fast and less costly manner for all stakeholders.

Risk Management Regarding Regulations; This is analysis, management and communication of risks related with implementation of regulations. This process would help to determine how regulations will be implemented and monitored. It would also help to determine measures for improving implementation.

Consistency of Central and Local Governance; Establishment of coordination mechanisms should be encouraged to coordinate regulation making, to share best practices and to improve transparency between different government bodies.

Local Capacity Building; Local capacity building is important for improving implementation and monitoring of regulations in local level. Capacity building would allow to make regulations with minimum cost to society rather than creating new revenue stream for governments which would help to achieve fairness.

Consistency with International Agreements; Consideration of all issues that have been agreed by being a party to international agreements in regulation making processes. This behavior would allow to benchmark, to eliminate conflicts and to form international standards.

Good governance is a requirement for an inclusive society. Recommendations above would help to improve the quality of life.

TOOLS FOR RESPONSIBLE BUSINESS CONDUCT

Responsible business conduct is important to achieve sustainable development and inclusive growth. Organization could use some tools for responsible business conduct. Some of the key initiatives and tools for responsible business conduct are explained below.

UN Global Compact

UN Global Compact is the largest global business platform on sustainable development. UN Global Compact asks organizations to build their strategies considering human rights, labor, and environment, and anti-corruption issues and to support Sustainable Development Goals (SDGs).¹⁴

Sustainability journey starts with inclusion of human rights, labor, environment, and anti-corruption issues to the values of the organizations. When an organization implements responsible business conduct, it would behave in same manner in all the places of its operations. The organizations that develop strategies by inclusion of UN Global Compact's ten principles would have better chance to reach their goals.

Ten principles of UN Global Compact;

| | |
|---|---|
| Human Rights Principle 1: Businesses should support and respect the internationally proclaimed human rights. Principle 2: Make sure that they are not complicit in abuses. | Environment Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: The elimination of all forms of forced and compulsory labor; Principle 5: The effective abolition of child labor; and Principle 6: The elimination of discrimination in respect of employment and occupation. |
| Labor Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: Undertake initiatives to promote greater environmental responsibility; and Principle 9: Encourage the development and diffusion of environmentally friendly technologies. | Corruption Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. |

*14 www.unglobalcompact.org

The UN Global Compact's Ten Principles are derived from the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

UN Global Compact is a voluntary initiative. Signatory organizations commit to behave in line with these ten principles. They issue annual Communication on Progress (COP) reports regarding the realization of commitments. Reporting improves transparency and drives organizations to reach their determined goals.

Integrated Reporting <IR>

The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by Integrated Reporting <IR> as the corporate reporting norm.¹⁵

Integrated Report is communicating an organization's strategy, governance structure, business model, goals, performance, future perspective and how it will create value in the short, medium and long term to stakeholders. Report needs to be concise, based on material issues for the organization. Materiality is disclosing information about matters that substantively affect the Organization's ability to create value over the short, medium and long term.

How the goals have been achieved and which resources have been used for realization has been communicated to stakeholders by integrated report

under the concept of materiality. One of the main differences of an Integrated Report is focusing on the future. Current reporting practices are mainly focused on past performance. However, Integrated Reports utilize past performance as an input for future performance and focuses on how an organization implements its strategy and create value and what is its business model.

Integrated Reporting framework;

Strategic focus and future orientation: An Integrated Report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals.

Connectivity of information: An Integrated Report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.

Stakeholder relationships: An Integrated Report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

Materiality: An Integrated Report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.

Conciseness: An integrated report

^{*15} The International Integrated Reporting Framework

should be concise.

Reliability and completeness: An Integrated Report should include all material matters, both positive and negative, in a balanced way and without material error.

Consistency and comparability: The information in an Integrated Report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

Integrated Report is a tool to communicate to stakeholders the value creation model and the impact of the corporation's activities on current and future stakeholders in a transparent manner to create trust.

Sustainable Development Goals (SDGs)¹⁶

UN Member countries have agreed on 17 Sustainable Development Goals (SDGs) on September 25, 2015 in UN General Assembly.

Goal 1. No Poverty - End poverty in all its forms everywhere

Goal 2. Zero Hunger - End hunger, achieve food security and improved nutrition and promote sustainable agriculture

Goal 3. Good Health and Well Being - Ensure healthy lives and promote well-being for all at all ages

Goal 4. Quality Education - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Goal 5. Gender Equality - Achieve gender equality and empower all women and girls

Goal 6. Clean Water and Sanitation - Ensure availability and sustainable management of water and sanitation for all

Goal 7. Affordable and Clean Energy - Ensure access to affordable, reliable, sustainable and modern energy for all



*16 www.sustainabledevelopment.un.org

Goal 8. Decent Work and Economic Growth - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Goal 9. Industry, Innovation and Infrastructure - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Goal 10. Reduced Inequalities - Reduce inequality within and among countries

Goal 11. Sustainable Cities and Communities - Make cities and human settlements inclusive, safe, resilient and sustainable

Goal 12. Responsible Consumption and Production- Ensure sustainable consumption and production patterns

Goal 13. Climate Action- Take urgent action to combat climate change and its impacts

Goal 14. Life Below Water - Conserve and sustainably use the oceans, seas and marine resources for sustainable development

Goal 15. Life on Land - Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Goal 16. Peace, Justice and Strong Institutions - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels to achieve

good governance

Goal 17. Partnership for the Goals - Strengthen the means of implementation and revitalize the global partnership for sustainable development

Private, public and NGO cooperation is critical to achieve these 17 goals.

When organizations could shape their strategies based on 17 goals, they might be able to get new business opportunities for growth and could support sustainable development and inclusive growth globally.

**B20 “GOVERNANCE AND SUSTAINABILITY”
THEME RESEARCH ON VIEWS OF
BUSINESS FOR PRINCIPLED BUSINESS
CONDUCT**

Methodology

ARGE as the Knowledge Partner of B20 “Governance and Sustainability” Theme has conducted a survey and has organized a workshop to determine the policy recommendations to the B20 Secretariat.

It has been decided to send surveys to all Task Forces members of B20. The reason behind this decision is the members of Task Forces of B20 represent the business world of B20 countries. The main purpose of the Task Forces were to develop recommendation of the business world to be presented to G20 Leaders. Important business associations like International Chamber of Commerce (ICC) were among those who contributed to our work.

The survey was an e-survey which enabled to reach all members of Task Forces and improved the reply rate. B20 survey has 25 questions. (Survey has been shared in Annex 1).

Participants rated each survey question between 1 and 5 based on their agreement (1 strongly disagree– 5 strongly agree). 600 surveys have been sent and 112 reply has been received. This rate is equal to 19% reply rate.

In the analysis of results, if average score of any question is equal or above 4 level then it has been accepted that there is an agreement on the importance of the issue.

The second activity was organization of a workshop. The workshop has been organized in B20 meetings which has been held in Paris on June 1 – 3 in OECD. The workshop has been conducted on June 1, 2015 in Paris in OECD. There were 120 participants in the workshop.

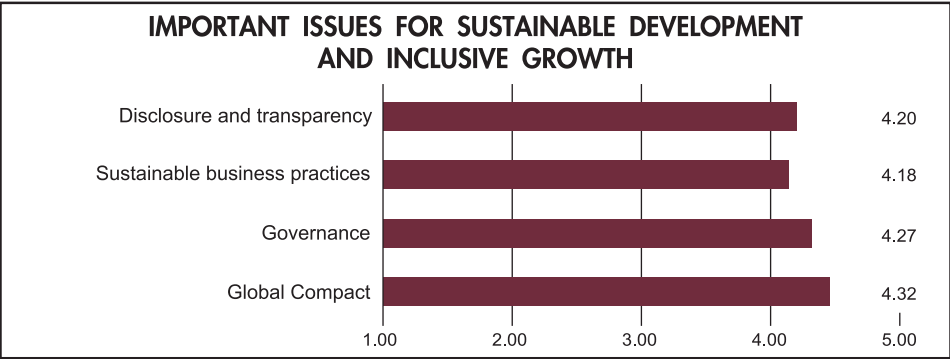
There was a panel discussion in the first part of the workshop. Panel has

been moderated by the Chairman of ARGE Dr. Yılmaz Argüden.

The participants were; John Danilovich (General Secretary of ICC), Nicholai Malyshev (OECD Head of Regulatory Division), Paul Druckman (Integrated Reporting (IIRC) CEO), Martin Raiser (World Bank Europe Representative) and Sir Mark Moody-Stuart (UN Global Compact Foundation). The importance of governance and sustainability for private and public sectors have been discussed in the panel. Some common issues related to SDGs that would be released in September 2015, have been raised by panelists. Workshop participants have shared their views regarding governance and sustainability in the second part of the workshop.

Recommendations have been prepared based on survey findings and ideas stated in the workshop.

Research Findings



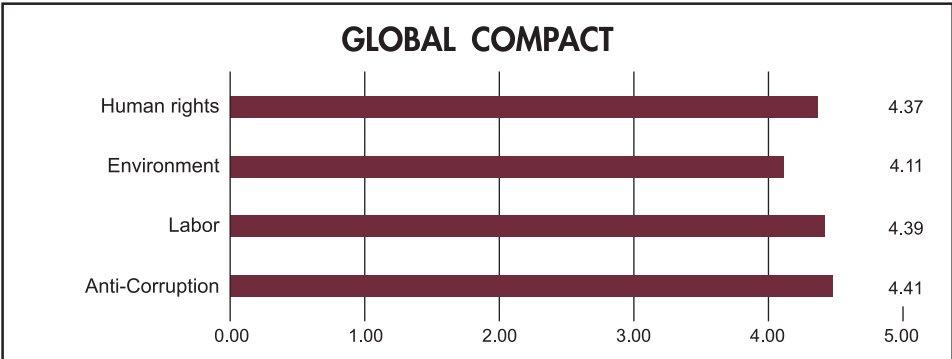
Graph 3: Important Issues for Sustainable Development and Inclusive Growth

Survey findings showed that, B20 Task Forces members believe that; good governance, transparency and principled business conduct are required to achieve sustainable development and inclusive growth.

Findings regarding the above issues have been analyzed below;

UN Global Compact

UN Global Compact is a strategic initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.



Graph 4: Global Compact

UN Global Compact enables business to behave in same manner in different places of operations. This allows to implement Global Compact principles throughout value chain.

The importance of contribution of UN Global Compact’s four focus areas to support sustainable development and inclusive growth have been given below.

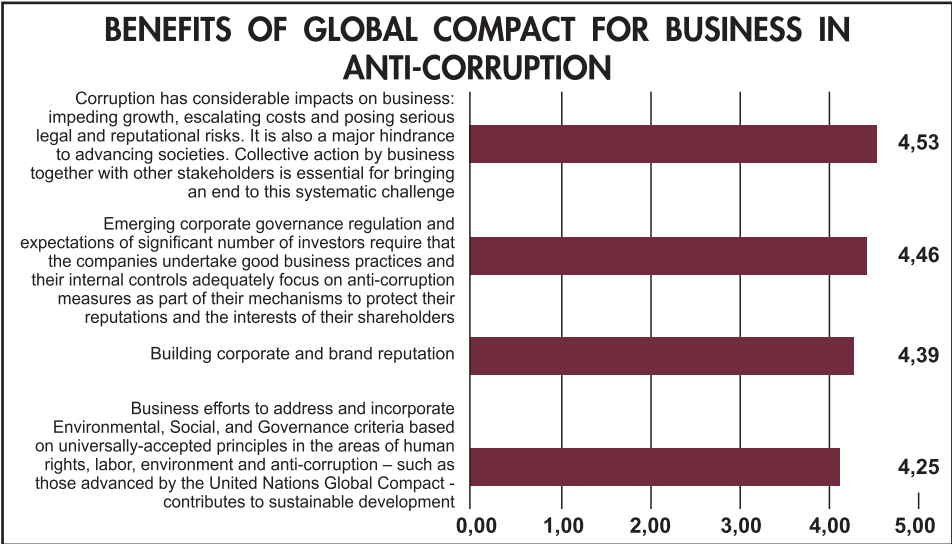
Business believes that, adopting UNGC approach to business strategy will create important improvements in all four areas. The effect of UNGC

would be more on Human Rights, Labor and Anti-Corruption issues compared to environmental issues.

Even though UNGC effect on environmental issues are important, environmental considerations are already in the agenda of business due to efficiency gains and resource scarcity. This fact results in other areas receiving higher scores.

The reasons behind this scoring have been analyzed below;

Anti-Corruption



Graph 5: Benefits of Global Compact for Business in Anti-Corruption

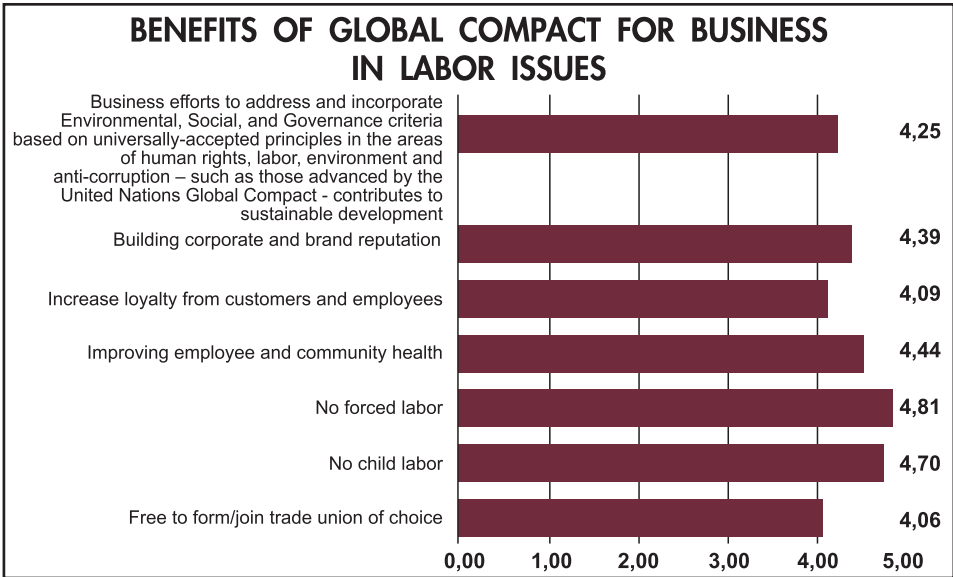
Business believes that,

- Adoption of principle based business approaches promote good governance which helps to deal with corruption,
- Two important components of anti-corruption are: strong internal audit which is a requirement of good governance, and all stakeholders' processes,
- If all stakeholders collaborate to fight corruption that will decrease the chance of

corruption since parties would not be part of the corruption process,

- Recent research findings show that corruption increases the cost base for business while it is uncertain to be profitable in a corrupt transaction,
- Internal audit function is important to eliminate corruption,
- Being a signatory of UN Global Compact decreases the risk for reputation due to corruption cases.

Labor



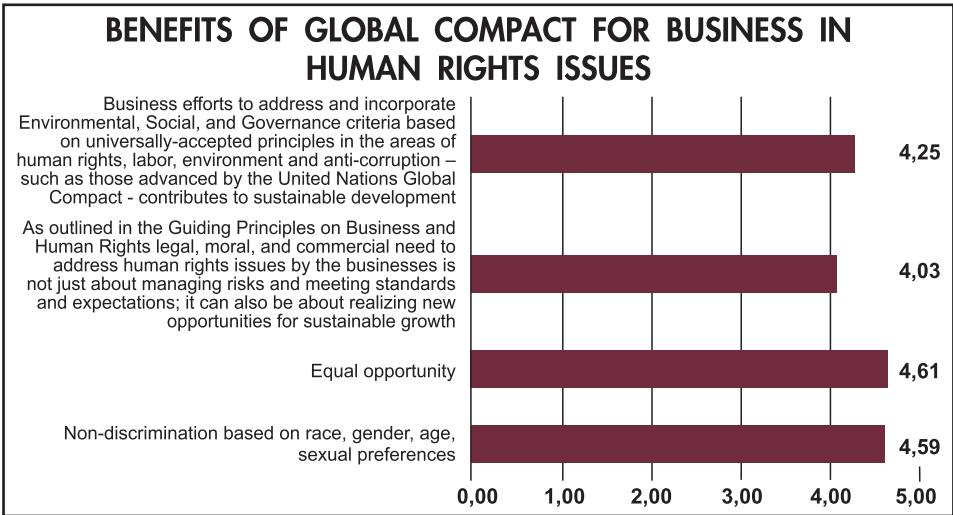
Graph 6: Benefits of Global Compact for Business in Labor Issues

***Business believes that
UN Global Compact has;***

- A very important impact on decreasing forced and child labor all around the world,
- Positive impact on improving operational health and safety,
- Positive impact on reputation of the business,

- Enabled the inclusion of human rights issues in making business strategies,
- Helped to build a customer and employee loyalty,
- Positive impact on collective bargaining and unionization of labor force.

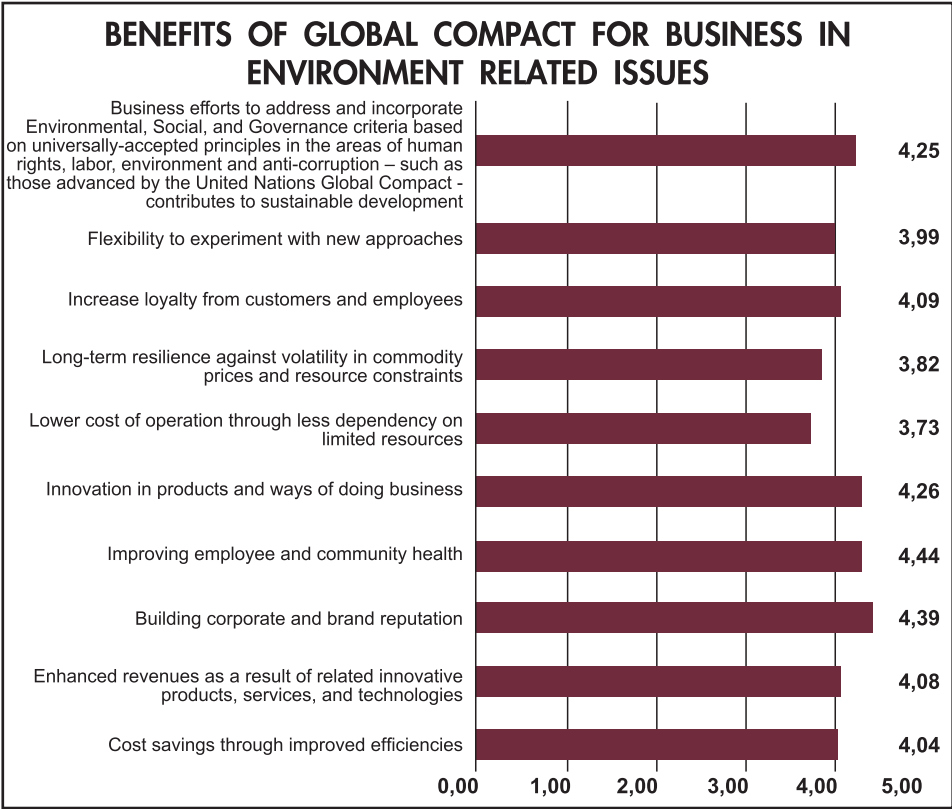
Human Rights



Graph 7: Benefits of Global Compact for Business in Human Rights Issues

Business believes that UN Global Compact has;

- Helped to decrease discrimination,
- Helped to create equal opportunities for all,
- Enabled the inclusion of human rights issues in making business strategies,
- Positive impact on managing risks related with human rights issues



Graph 8: Benefits of Global Compact for Business in Environment Related Issues

Business believes that UN Global Compact would;

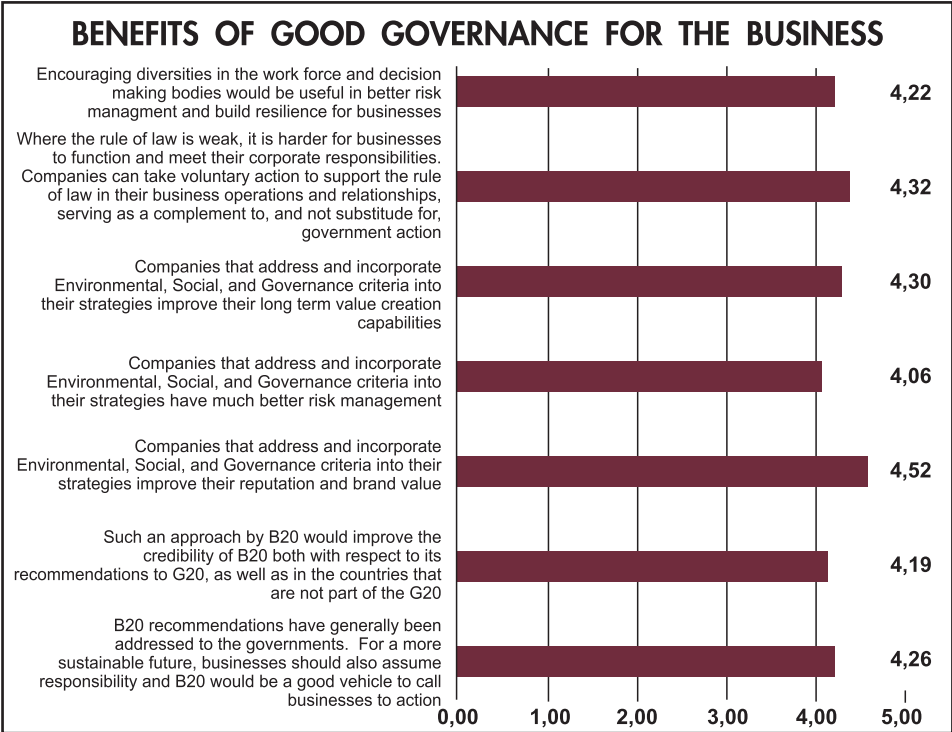
- Have positive impact on reputation regarding environmental issues,
- Help to innovate to deal with environment related issues,
- Help to embed principle based business policies to corporate strategies,
- Have positive impact on customer and employee loyalty,
- Help to focus on development of new innovative business models, products and technologies,

- Help to decrease costs due to efficiency improvements,
- Help companies to be more flexible for new approaches,
- Help to deal with resource scarcity in the long term and improve sustainability,
- Help to deal with cost issues related with resource scarcity in the long term.

Business believes that good governance would;

- Make companies to embed environmental, social and governance issues to strategy development which would contribute to reach the goal of

Good Governance



Graph 9: Benefits of Good Governance for the Business

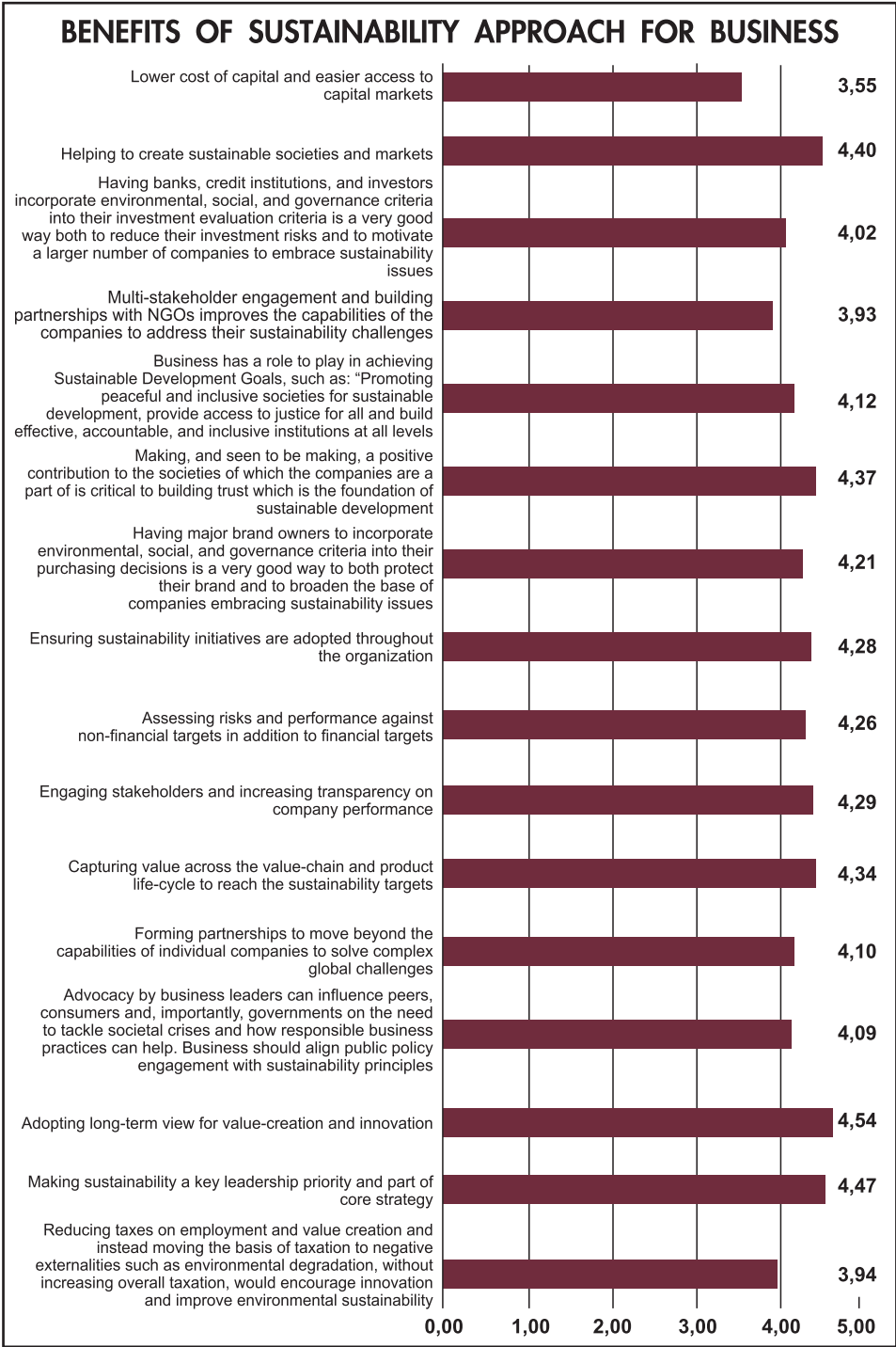
sustainable development and inclusive growth. Their reputation would improve,

- Help to take voluntary action to improve rule of law in places where rule of law is not implemented. Companies stated that if rule of law is not implemented it is very difficult to conduct business activities. Improving rule of law implementation would help to reach the goal of sustainable development and inclusive growth,
- Improve value creation capability if environmental, social and governance issues are included in strategy making process,
- Be helpful to make B20 as the

platform to take responsibility and communicate with G20 regarding problems of business,

- Improve diversity which would help for better risk management for sustainable development and inclusive growth.
- Make business to take responsibility and recommend G20 through B20 about principle based and responsible business conduct and this approach would improve reputation of business on G20.

Sustainable Business Practices



Graph 10: Benefits of Sustainability Approach for Business

Business believes that sustainable business practices would;

- Help companies to innovate and to create value in the long term which is important for sustainable development and inclusive growth,
- Help make sustainability part of leadership of business which is important for sustainable development and inclusive growth,
- Help to build sustainable societies,
- Help to build good reputation for organizations which support sustainable development and inclusive growth,
- Help to deploy sustainability in whole value chain,
- Help to build transparent and trust based relationships with stakeholders,
- Help to deploy sustainable business practices in the organizations,
- Help to identify and focus on non-financial risks and performance on non-financial issues,
- Help to improve peace and equality in societies,
- Help to build cooperation between different institutions (public, private, NGO, etc.) to

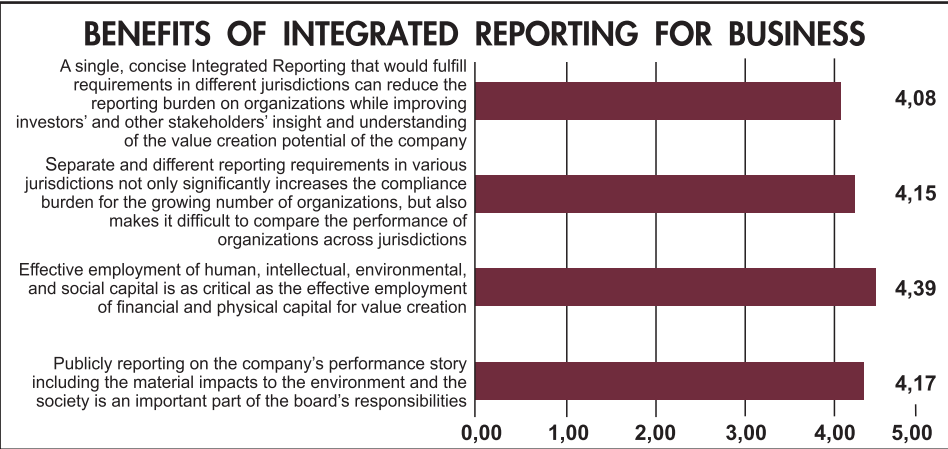
reach the goals of sustainable development and inclusive growth.

- Help to mobilize governments through leading the effort for sustainable development and inclusive growth as business,
- Make banks to include environmental, social and governance issues in their credit rating methodologies. That approach would improve risk management and make companies to deploy sustainable business practices to reach financing. This would fuel sustainable development and inclusive growth.

The below three issues have been considered as fairly important for sustainable development and inclusive growth.

- Decreasing tax burden, on the labor and taxing environmental harm without increasing total tax burden would support the efforts for sustainable development and inclusive growth.
- Collaboration with NGOs would have limited impact on efforts for sustainable development and inclusive growth.
- Sustainable business practice would have limited effect to reach financing. There would be limited effect on the cost of funding.

Transparency and Integrated Reporting



Graph 11: Benefits of Integrated Reporting for Business

Business believes that transparency and Integrated Reporting would;

- Help business to include human, intellectual, natural and social capitals in addition to financial and produced capitals in planning processes.
- Help to fulfill boards' responsibility regarding explaining impacts of organization on environment and society based on materiality,
- Decrease compliance burden on companies in different jurisdictions by having a common reporting and cooperation base in all jurisdictions.
- Help to form a disclosure and reporting standard in which integrated thinking is embedded within mainstream business practice in the public and private sectors, as the corporate reporting norm by showing how the business creates value for itself and for its stakeholders with a strategic future perspective.

Conclusion

B20 Business representatives believe that;

Sustainable development and inclusive growth could be achieved by;

- Implementation of good governance practices in private and public institutions,
- Being a party to UN Global Compact and implement ten principles,
- Making Integrated Reporting as the reporting standard which includes both financial and non-financial information based on materiality principle with future looking perspective. This approach is very useful for the company and for the investors.
- Adopting responsible and principled business practices as the standard for business processes.

***Being a signatory of
UN Global Compact;***

- Would help business to deal with human rights and labor abuses and to fight with corruption,
- Would have limited impact on environmental issues since business already works on the issues for a long term.

Implementing good governance practices;

- Would support to be deployment of good governance practices in public and private institutions,
- Would help the inclusion of social, environmental and governance issues in strategy development of business which would improve ability to create value for all stakeholders,
- Would improve diversity which will be very important for improving decision quality.

Implementation of responsible and principled business practices;

- Would help to develop a strategic long term vision by the business which will also support innovation and new business models,
- Would help to spread sustainable and responsible business practices in the value chains,
- Would help to build trust in the society by improving transparency,
- Would help to make business to focus on non-financial issues,
- Would improve cooperation and

collaboration between institutions.

It has been stated that;

- Sustainable business practices would have limited effect on reaching financial resources and decreasing the cost of funding. However, there are views which conflicts this statement. A research conducted by Beiting Cheng, Ioannis Ioannou and George Serafeim¹⁷ showed that sustainable business practices would help to reach and improve the cost of financing and would decrease risks by forming transparent relations with stakeholders.

Transparency and Integrated Reporting;

- Would improve transparency on communicating value creation capability of the business with stakeholders,
- Would decrease compliance burden on business in different jurisdictions by having a common reporting and cooperation base in all jurisdictions,
- Would improve benchmarking in and between companies.

^{*17} Corporate Social Responsibility and Access To Finance, Beiting Cheng, Ioannis Ioannou and George Serafeim, Strategic Management Journal

B20 "GOVERNANCE & SUSTAINABILITY" RECOMMENDATIONS AND ACTION PLAN TO B20 SECRETARIAT

The following issues have been determined as important for a better world to improve quality of life, inclusive societies and successful private and public institutions.

- Adopting good governance practices both in public and private institutions
- Adopting good sustainability practices both in public and private institutions
- Adopting a transparent reporting approach based on materiality and future looking perspective.

To address these issues, the B20 Governance and Sustainability Theme adopted following recommendation;¹⁸

"Implementation of inclusive and sustainable development will depend on the active engagement of the public, private, and non-governmental sectors, including but not limited to the increasing number of actors signing the UN Global Compact and UN Principles for Responsible Investments (UNPRI). Good governance and responsible behavior by all actors should be established by creating a regulatory environment where transparency in the public and private sectors is the norm. Embracing reporting best practice and encouraging market-led initiatives, such as Integrated Reporting, focused on communicating value creation and sustainability performance across the economy would be the most effective way of improving transparency and building trust."

The context is;

Paragraph 46 of Rio + 20 document of "The World We Want" states that; "We acknowledge that the implementation of sustainable development will depend on the active engagement of both the public and the private sectors. We recognize that the active participation of the private sector can contribute to the achievement of sustainable development, including through the important tool of public-private partnerships. We support national regulatory and policy frameworks that enable business and industry to advance sustainable development initiatives, taking into account the importance of corporate social responsibility. We call upon the private sector to engage in responsible business practices, such as those promoted by the United Nations Global Compact."

Paragraph 101 of 2015 OECD Corporate Governance Principles states that;¹⁹

Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. In order for boards to effectively fulfill their responsibilities they must be able to exercise objective and independent judgement. Another important board responsibility is to oversee the risk management system and systems designed to ensure that the corporation obeys applicable laws, including tax, competition, labor, environmental, equal opportunity, health and safety laws. In some

*18 B20 Governance and Sustainability Theme Policy Summary B20 Türkiye, 2015

*19 OECD Corporate Governance Principles, September 2015, sf 51

countries, companies have found it useful to explicitly articulate the responsibilities that the board assumes and those for which management is accountable.

• *French Foreign Minister
Laurent Fabious, who was the chair*

of 2015 Paris Climate Summit stated that, the agreement has a wide coverage and balanced. The agreement is the proof of commitment to keep temperature increase below 2 degrees Celsius and if possible limit it at 1.5 degrees Celsius.

The key performance indicators to monitor our recommendations could be;

| | |
|----------------|---|
| Reference | Encourage Private Sector to engage principled business practices GS1 |
| Recommendation | Adoption of UNGC, UN SDG, transparent reporting and good governance practices by business with the encouragement and support of governments through creating regulatory environment |
| Owner | G20 governments, ICC, OECD, World Bank, UNGC, UN |
| Timing | 2016 onwards |
| Value | <p>1. Determination and implementation of a deep carbonization strategy consistent with 2 degrees Celsius and GHG target for 2020, 2030, 2050. (COP21)</p> <p>2. Creating a regulatory framework by G20 Governments for supporting the implementation of UNGC Principles by business, NGOs and public institutions as stated in Paragraph 46 of Rio + 20 document.</p> <p>3. Increase the number of UNGC signatories.</p> <p>4. Creating a regulatory framework by G20 Governments for supporting transparent reporting practices in integrated thinking manner.</p> <p>5. Adaption and implementation of OECD Regulatory Policy Development Governance approach by G20 Governments for inclusive and sustainable growth to reach a better quality of life level.</p> <p>6. Creating a regulatory framework by G20 Governments for supporting the implementation of Revised OECD Corporate Governance Principles.</p> |

The action plan for implementation of recommendations;

| Action | |
|---------------|--|
| GS1.1 | Creating a principles based regulatory framework in COP21 that aims to create a fairly distributed responsibility for all related parties. |
| GS1.2 | Developing plans and creating regulatory framework by G20 Governments to implement COP21 decisions. |
| GS1.3 | Establishing mechanisms for implementation of UN SDGs and measuring the performance of implementation by all countries (governments) to reach the goal of inclusive and sustainable growth for better life. |
| GS1.4 | Creating a regulatory framework and soft mechanisms by G20 Countries to promote and incentivize adoption of UNGC Principles in private and public sector and increasing number of signatories all around the world as stated in Rio+20 Document. |
| GS1.5 | Adoption of OECD Good Regulatory Governance Principles by G20 Governments to include all effected parties in to regulation making process and effective implementation of regulations regarding above approach. |
| GS1.6 | Widely using impact assessment approach by G20 Governments before and after the implementation of regulation to improve the effectiveness and to eliminate unnecessary burdens on the community |
| GS1.7 | Adoption of Revised OECD Corporate Governance Principles in each G20 jurisdiction by considering the countries' specific circumstances through laws, regulations and soft mechanisms. |
| GS1.8 | Creating a cross-border cooperation platform to harmonize government actions on governance and sustainability related issues. |
| GS1.9 | Improving transparency, quality of disclosure and ease of compliance through a reporting approach based on materiality, future looking perspective, common standards accepted by all related parties and stakeholders. |
| GS1.10 | <p>Policymakers should explicitly recognize that productive societies and strong economic growth are fundamental for inclusive growth.</p> <p>Effective implementation of structural reforms in product and labor markets is vital, and should promote equal opportunities in our economies, and inclusive growth requires improving employment opportunities to all segments of the society, providing an environment whereby affordable products are available for all, and an enabling environment for all to have access to both public services and to be able to contribute to public decision making.</p> |

Rationale Regarding Recommendations and Action Agenda

GS1.1 – GS1.2 Creating a principles based regulatory framework in COP21 that aims to create a fairly distributed responsibility for all related parties. Developing plans and creating regulatory framework by G20 Governments to implement COP21 decisions.

COP21 will be held in December 2015 in Paris. Parties expect the determination of sound and fair responsibilities and mechanisms for all related parties to create an acceptable deep carbonization strategy and action plan of implementation including targets for 2020, 2030 and 2050 to limit average temperature increase of 2 degrees. Creating a platform to follow the developments regarding decisions taken in COP21 could be useful for quick mobilization of governments and effectively reaching the goals. This mechanism needs to be discussed and decided in COP21 and needs to be structured and established immediately after the summit.

GS1.3 Establishing mechanisms for implementation of UN SDGs and measuring the performance of implementation by all countries (governments) to reach the goal of inclusive and sustainable growth for better life.

In September 2015, a summit of heads of state will adopt Sustainable Development Goals (SDGs). The goals will chart out a universal, holistic framework to help set the world on a path towards sustainable development, by addressing all three dimensions of economic development, social inclusion, and environmental

sustainability. Indicators will be the backbone of monitoring the SDGs at local, national, regional, and global levels. They will serve as a management tool to help countries develop implementation strategies and allocate resources accordingly, and as a report card to measure progress towards achieving a target and to ensure the accountability of governments and other stakeholders for achieving the SDGs. The monitoring framework and indicators for the SDGs should reflect the lessons from the MDGs. the full indicator framework and a sound baseline needs to be adopted in time for the High Level Political Forum (HLPF) in July 2016.

GS1.4 Creating a regulatory framework and soft mechanisms by G20 Countries to promote and incentivize adoption of UNGC principles in private and public sector and increasing number of signatories all around the world as stated in Rio+20 Document.

Paragraph 46 of Rio + 20 document of “The World We Want” states that;

“We acknowledge that the implementation of sustainable development will depend on the active engagement of both the public and the private sectors. We recognize that the active participation of the private sector can contribute to the achievement of sustainable development, including through the important tool of public-private partnerships. We support national regulatory and policy frameworks that enable business and industry to advance sustainable development initiatives, taking into account the importance of corporate social responsibility. We call upon the

private sector to engage in responsible business practices, such as those promoted by the United Nations Global Compact.”

Creating incentive mechanisms by G20 Governments to promote to be a signatory of UN Global Compact network will promote sustainable business practices in voluntary manner. G20 Governments leadership could attract other countries in activating similar frameworks. This action would also enhance especially SMEs to be part of global value chains which would improve welfare and GDP in all economies. UN Global Compact becomes a requirement of multinational value chain platforms. Incentives mechanism needs to be determined according to each country's special conditions.

GS1.5 Adoption of OECD Good Regulatory Governance Principles by G20 Governments to include all effected parties in to regulation making process and effective implementation of regulations regarding above approach.

The global financial and economic crisis has uncovered major failings in governance and regulation, which have undermined trust in public and private institutions alike. Amid ongoing economic uncertainty, establishing a well-functioning national regulatory framework for transparent and efficient markets is central to re-injecting confidence and restoring growth. The principles recommend;

- Provides governments with clear and timely guidance on the principles, mechanisms and institutions required to improve the design, enforcement and review of their regulatory

framework to the highest standards;

- Advises governments on the effective use of regulation to achieve better social, environmental and economic outcomes; and
- Calls for a “whole-of-government” approach to regulatory reform, with emphasis on the importance of consultation, co-ordination, communication and co-operation to address the challenges posed by the inter-connectedness of sectors and economies including multinational platforms.

Implementation this approach will decrease bureaucracy, will create in inclusive approach by including all related parties in regulation making process and improve the ease of enforcement and implementation. Increasing multinational trade relations creates a pressure on harmonization of some regulations which could be part of this approach. Open and transparent government approach would be very helpful tool in fight against corruption. OECD needs to advise and monitor the implementation of this approach by G20 Governments who could be pioneers to flourish this approach to other countries.

GS1.6 Widely using impact assessment approach by G20 Governments before and after the implementation of regulation to improve the effectiveness and to eliminate unnecessary burdens on the community.

Integrating Regulatory Impact Assessment (RIA) into the early stages of the policy process for the

formulation of new regulatory proposals would be helpful to identify policy goals, and evaluate if regulation is necessary and how it can be most effective and efficient in achieving determined goals. Sometimes this approach could promote means other than regulation and could identify the tradeoffs of the different approaches analyzed to identify the best approach. OECD and G20 Governments could play a pioneer role in adoption of this policies and show its benefits to other countries which could implement by seeing the benefits.

GS1.7 Adoption of Revised OECD Corporate Governance Principles in each G20 jurisdiction by considering the countries' specific circumstances through laws, regulations and soft mechanisms.

The main intention of OECD Corporate Governance Principles is to help policy makers to evaluate and improve regulatory and institutional framework for corporate governance with a view to support economic efficiency, sustainable growth and financial stability. This could be achieved by providing right incentives to all stakeholders. The role of governments is to create mandatory or voluntary mechanisms that takes into account country specific economic, legal and cultural differences. OECD could play active role in adaption of this approach first in G20 Governments and flourish to other counties.

GS1.8 Creating a cross-border cooperation platform to harmonize government actions on governance and sustainability related issues.

Creating supranational bodies with rule making powers could be

encouraged to develop tools to diagnose regulatory issues that cut across governments to identify and reform overlapping regulations and where appropriate to use measures to achieve harmonization, or to use mutual recognition agreements.

GS1.9 Improving transparency, quality of disclosure and ease of compliance through a reporting approach based on materiality, future looking perspective, common standards accepted by all related parties and stakeholders.

Integrated thinking and reporting approach could result in efficient and productive capital allocation and support financial stability and sustainability. The corporate reporting for an inclusive and sustainable future needs to show the ability of organization to create value in short, medium and long term. The report needs to contain past performance, materiality based performance and future strategic focus. The reporting standard needs to be consistent with internationally accepted standards and could be used commonly in different jurisdiction which would decrease compliance costs, improve access to finance and global value chains.

G20 Governments would support the formation of reporting standards to improve transparency in all aspects for companies including performance in financial, social, environmental aspects and future plans. This approach will improve disclosure standards and will help to fight against human rights abuses, corruption and environmental degradation.

GS1.10 Policymakers should explicitly recognize that productive

societies and strong economic growth are fundamental for inclusive growth. Effective implementation of structural reforms in product and labor markets is vital, and should promote equal opportunities in our economies, and inclusive growth requires improving employment opportunities to all segments of the society, providing an environment whereby affordable products are available for all, and an enabling environment for all to have access to both public services and to be able to contribute to public decision making.

Given the prominent role of productivity for the success of our economies, it is important to ensure that the underlying sources of economic growth should be well understood in the public debate on inclusive growth.

We should make clear that reforms promoting economic growth do not necessarily have negative impacts on equality. In fact, quite the opposite can be true. Finding the right synergies and using the right mix of policies is key.

Recent research by the OECD finds that many structural reforms have little or no impact on income inequality, because they have offsetting employment effects.

Regulatory reform in support of inclusive growth could be;

- Reforms that reduce regulatory barriers to domestic competition, trade and FDI;
- Reforms that increase job-search support and activation program; and

- Reforms that tighten unemployment benefits for all categories of jobseekers are found to deliver stronger income gains for low-income households. They help to narrow inequality in disposable incomes.

One important factor for increasing the implementation of proposed reforms would be to improve the effectiveness of the regulatory consultation process. Effective regulatory consultation processes contribute to improve the design of new regulations and help to ensure key stakeholder support their implementation. The methodologies that are stated in GS 1.5 and GS 1.6 would help to achieve effectiveness.

ANNEX 1 - SURVEY: GOVERNANCE & SUSTAINABILITY **CROSS-CUTTING THEME**

Last year under the Australian Presidency of B20 a significant number of B20 recommendations were linked to the need for better governance.

2015 is a milestone year in which the United Nations will be adopting the Sustainable Development Goals (SDGs) and the Paris Climate Summit is expected to be a turning point for environmental protection by achieving significant commitments from key players.

Furthermore, this year under the Turkish Presidency of B20, inclusive growth strategies and incorporating SMEs

into such commitments were identified as key priorities.

Therefore, the Executive Committee of B20 has decided to establish a separate cross-cutting work stream to address ‘Governance & Sustainability’ issues.

Please address the following questions to help the Executive Committee of B20 to come up with a few focused and effective recommendations for inclusive and sustainable development:

| SURVEY QUESTIONS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|-------------------|----------|---------|-------|----------------|
| 1. B20 recommendations have generally been addressed to the governments. For a more sustainable future, businesses should also assume responsibility and B20 would be a good vehicle to call businesses to action. | | | | | |
| 2. Such an approach by B20 would improve the credibility of B20 both with respect to its recommendations to G20, as well as in the countries that are not part of the G20. | | | | | |
| 3. Companies that address and in corporate Environmental, Social, and Governance criteria into their strategies improve their reputation and brand value. | | | | | |
| 4. Companies that address and in corporate Environmental, Social, and Governance criteria into their strategies have much better risk management. | | | | | |

| SURVEY QUESTIONS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|-------------------|----------|---------|-------|----------------|
| 5. Companies that address and in corporate Environmental, Social, and Governance criteria into their strategies improve their long term value creation capabilities. | | | | | |
| 6. The following practices are important to embrace sustainability challenges for innovation & long term value creation: <ul style="list-style-type: none"> a. Making sustainability a key leadership priority and part of core strategy b. Adopting long-term view for value-creation and innovation c. Forming partnerships to move beyond the capabilities of individual companies to solve complex global challenges d. Capturing value across the value chain and product life-cycle to reach the sustainability targets e. Engaging stakeholders and increasing transparency on company performance f. Assessing risks and performance against non-financial targets in addition to financial targets g. Ensuring sustainability initiatives are adopted throughout the organization | | | | | |
| 7. As outlined in the Guiding Principles on Business and Human Rights legal, moral, and commercial need to address human rights issues by the businesses is not just about managing risks and meeting | | | | | |

| SURVEY QUESTIONS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|-------------------|----------|---------|-------|----------------|
| standards and expectations; it can also be about realizing new opportunities for sustainable growth. | | | | | |
| <p>8. The following employment practices are important for sustainable business development:</p> <p>a. Non-discrimination based on race, gender, age, sexual preferences</p> <p>b. Equal opportunity</p> <p>c. Free to form/join trade union of choice</p> <p>d. No child labor</p> <p>e. No forced labor</p> | | | | | |
| <p>9. Adoption of sustainability approaches for environmental challenges such as climate change; water availability and water pollution; loss of biodiversity and long-term damage to ecosystems; pollution of the atmosphere; waste production and disposal; impacts of chemicals use and toxic substance disposal; damaged aquatic ecosystems; and deforestation and land degradation helps business generate benefits:</p> <p>a. Cost savings through improved efficiencies</p> <p>b. Enhanced revenue as a result of related innovative products, services, and technologies</p> <p>c. Building corporate and brand reputation</p> <p>d. Improving employee and community health</p> | | | | | |

| SURVEY QUESTIONS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|-------------------|----------|---------|-------|----------------|
| e. Helping to create sustainable societies and markets f. Innovation in products and ways of doing business g. Lower cost of capital and easier access to capital markets; h. Lower cost of operation through less dependency on limited resources i. Long-term resilience against volatility in commodity prices and resource constraints j. Increase loyalty from customers and employees k. Flexibility to experiment with new approaches | | | | | |
| 10. Emerging corporate governance regulation and expectations of significant number of investors require that the companies undertake good business practices and their internal controls adequately focus on anti-corruption measures as part of their mechanisms to protect their reputations and the interests of their shareholders. | | | | | |
| 11. Having banks, credit institutions, and investors incorporate environmental, social, and governance criteria into their investment evaluation criteria is a very good way both to reduce their investment risks and to motivate a larger number of companies to embrace sustainability issues. | | | | | |
| 12. Having major brand owners to incorporate environmental, social, and governance | | | | | |

| SURVEY QUESTIONS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|-------------------|----------|---------|-------|----------------|
| criteria into their purchasing decisions is a very good way to both protect their brand and to broaden the base of companies embracing sustainability issues. | | | | | |
| 13. Making, and seen to be making, a positive contribution to the societies of which the companies are a part of is critical to building trust which is the foundation of sustainable development. | | | | | |
| 14. Business has a role to play in achieving Sustainable Development Goals, such as: "Promoting peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels." | | | | | |
| 15. Corruption has considerable impacts on business: impeding growth, escalating costs and posing serious legal and reputational risks. It is also a major hindrance to advancing societies. Collective action by business together with other stakeholders is essential for bringing an end to this systemic challenge. | | | | | |
| 16. Where the rule of law is weak, it is harder for businesses to function and meet their corporate responsibilities. Companies can take voluntary action to support the rule of law in their business operations and relationships, serving as a complement to, and not substitute for government action. | | | | | |

| SURVEY QUESTIONS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|-------------------|----------|---------|-------|----------------|
| 17. Publicly reporting on the company's performance story including the material impacts to the environment and the society is an important part of the Board's responsibilities. | | | | | |
| 18. Effective employment of human, intellectual, environmental, and social capital is as critical as the effective employment of financial and physical capital for value creation. | | | | | |
| 19. Separate and different reporting requirements in various jurisdictions not only significantly increases the compliance burden for the growing number of organizations, but also makes it difficult to compare the performance of organizations across jurisdictions. | | | | | |
| 20. A single, concise Integrated Reporting that would fulfill requirements in different jurisdictions can reduce the reporting burden on organizations while improving investors' and other stakeholders' insight and understanding of the value creation potential of the company. | | | | | |
| 21. Reducing taxes on employment and value creation and instead moving the basis of taxation to negative externalities such as environmental degradation, without increasing overall taxation, would encourage innovation and improve environmental sustainability. | | | | | |

| SURVEY QUESTIONS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|-------------------|----------|---------|-------|----------------|
| 22. Advocacy by business leaders can influence peers, consumers and, importantly, governments on the need to tackle societal crises and how responsible business practices can help. Business should align public policy engagement with sustainability principles. | | | | | |
| 23. Encouraging diversity in the work force and decision making bodies would be useful in better risk management and build resilience for businesses. | | | | | |
| 24. Multi-stakeholder engagements and building partnerships with NGOs improves the capabilities of the companies to address their sustainability challenges. | | | | | |
| 25. Business efforts to address and incorporate Environmental, Social, and Governance criteria based on universally-accepted principles in the areas of human rights, labor, environment and anti-corruption—such as those advanced by the United Nations Global Compact – contributes to sustainable development. | | | | | |
| | ANSWER | | | | |
| 26. Which Task Force are you a member of? | | | | | |
| 27. Which country are you from? | | | | | |
| 28. Which industry do you represent? | | | | | |
| 29. Gender | | | | | |
| 30. Age | | | | | |

ANNEX 2 - B20 "GOVERNANCE AND SUSTAINABILITY" THEME 2015 BUSINESS PLAN

| | Date | Location | Theme |
|-----------|-------------|---------------------|--|
| 1 | 1 January | Istanbul | Establishment of Governance and Sustainability Theme by B20 Secretariat and ARGE Consulting as Knowledge Partner of Theme |
| 2 | 6 March | Istanbul | Participation of SME Task Force Kick Off Meeting as Task Force member. Importance of governance and sustainability subjects including integrated reporting for SME has been pointed |
| 3 | 25 March | Teleconference Call | Participation to Teleconference of SME Task Force on initial review of long list of potential recommendations and draft prioritization based on collaborating institutions views. Importance of Integrated Reporting and UN Global Compact has been stated again during teleconference |
| 4 | 8 April | Ankara | Participation to G20/B20 Inclusive Business Workshop |
| 5 | 16/17 April | Washington DC | Face to face meetings with collaborating institutions representatives |
| 6 | May | Survey | Survey regarding the importance of governance and sustainability issues for business has been prepared and sent to Task Force members of B20 to provide inputs for the policy paper |
| 7 | 2 June | OECD, Paris | Panel discussion with participation of ICC, OECD, World Bank, UN Global Compact, and International Integrated Reporting representatives |
| 8 | 9 July | Teleconference Call | Refine and finalize policy paper of SME Task Force and inclusion of UN Global Compact and Integrated Reporting in the recommendations of SME Task Force |
| 9 | July | Policy Paper | Finalization of Governance and Sustainability Theme Recommendations and Policy Paper |
| 10 | 3-5 Sept. | Ankara | B20 Conference |
| 11 | 14-15 Nov. | Antalya | G20/B20 Summit |

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