

The potential contribution of the energy industry to the Millennium Development Goals: model proposal and evaluation

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Commissioned by CEALCI**

Objective

- ❑ To present the **methodologies and results** of a study conducted in 2006 (data from financial year 2005) on the **contribution of Spanish utility firms** to the MDGs in **three countries of South America** (Argentina, Colombia and Mexico).
- ❑ Currently, conducting the **second stage**: analysing the contribution of **TNCs in utilities industry - 11 companies: AES, BP, Endesa, Unión Fenosa, Iberdrola, Gas Natural, Chevron, Exxonmobil, Repsol YPF, Shell, Total** - to the MDGs in **Argentina, Colombia and Mexico** (data from financial year 2007) [results to be released in December 2009]
- ❑ It is important to bear in mind that from 2006 to 2008 there has been a shift in the debate:
 - from **why** to take part to **how** take part
 - from IGOs calling businesses to action, to firms accepting the challenge and involving in the global alliance against poverty, in different ways

Outline

- Firms and MDGs
- Research: objectives and methodology
- Results
- Implications

Firms and the MDGs

What should be...

Companies (especially MNCs) should take actively part in the global alliance for development

- Growing power
- Key role as main actors in FDI process and/or export process

MDG will not be achieved unless companies get involved in the global alliance

(IMF, World Bank, OECD, UN, EU)

Framework	Methodology	Results	Implications
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Firms and the MDGs

How can firms contribute to the MDG?

- ❑ By being in Southern countries (FDI and economic growth). **NOT ENOUGH**
- ❑ By being responsible: minimise negative externalities and harness positive externalities and linkages. CSR and accountability are the main strategic choices to frame firms' contribution to MDG
- ❑ By marketing specific products for the bottom of the pyramid

Framework	Methodology	Results	Implications
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Firms and the MDGs

How can business contribute?

Our hypothesis:

firms contribute to the MDGs by being responsible

UN, World Bank, EU and OECD establish a link between CSR and contribution to the MDG

Framework	Methodology	Results	Implications
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Previous research

4 potential areas of contribution

- ❑ Core economic benefits: paying taxes, employment creation, technological transfer, capital transfer, employee training...
- ❑ Responsible business operations: responsible value-chain management, dialoguing with stakeholders
- ❑ Community investments (philanthropy): corporate giving, corporate voluntarism, alliances with NGOs to tackle social problems
- ❑ Lobby, awareness-raising: support for CSR initiatives, support for MDG, support for good governance (fight and denounce corruption, pressures to democratise countries)

Framework	Methodology	Results	Implications
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Previous research

Despite the official discourse there is not a framework linking CSR and MDG achievement.

The potential of companies to contribute to MDG has limitedly been explored

(exception Dutch Sustainability Research MDG Scan version 1 - test on one company and one ONG -)

Framework	Methodology	Results	Implications
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Objectives

Create a tool (MDG Scorecard)

- **to evaluate corporate efforts to achieve the MDGs**
- **to link CSR policies to the MDGs**
- **focused specifically on the energy industry**

Evaluation, not description, of the effort to contribute to MDGs



Step 1. Create benchmark: MDG Scorecard

To create indicators, several sources were used.

- Support documents: enlightening
- Direct input: used to generate indicators

Sources

Support documents	Commission for Private Sector Development, 2005; Forstater et al, 2002; IBLF and WBCSD, 2004; Shell Foundation, 2005; UN, 2001; UN, 2003; WBCSD, 2005
Direct input	Dutch Sustainability Research, 2005; GRI2, 2004; Nelson and Prescott, 2003

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Step 1. Create benchmark: MDG Scorecard

Indicators

74 indicators

- 48 related to core business operations
- 26 to corporate community investments

Indicators grouped into the 8 MDG and several sub-goals
(taken from Dutch Sustainability Research)

MDG1 (eradicate poverty): employment creation, training, respect of labour rights, trade with local companies, infrastructure

MDG2 (education): avoid child labour, grants for employees' children

MDG3 (gender equality): equal opportunities and non discrimination, conciliation

MDG4 (child mortality): health and safety for customers

MDG5 (maternal health): OHAS systems

MDG6 (VIHs et al): specific health and safety programmes for employees and/or customers

MDG7 (sustainable environment): reduce inefficiency, protect biodiversity, climate change, technology for slum-dwellers

MDG8 (global partnership for development): tackle corruption, avoid anticompetitive practices, cooperation with international standards, participation of employees and communities in decision making

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Step 1. Create benchmark: MDG Scorecard

Score

0	No information	No evidence found
1	Incidental	No deliberate effort
2	Informal	Deliberate but it lacks a formal commitment
3	Formal	Deliberate, there is a formal commitment
4	Internalised	Deliberate, formal commitment, management system
5	Results	Deliberate, formal commitment, management system, it has yielded results

Public information provided (CSR reports, local websites, Financial Reports, press releases)

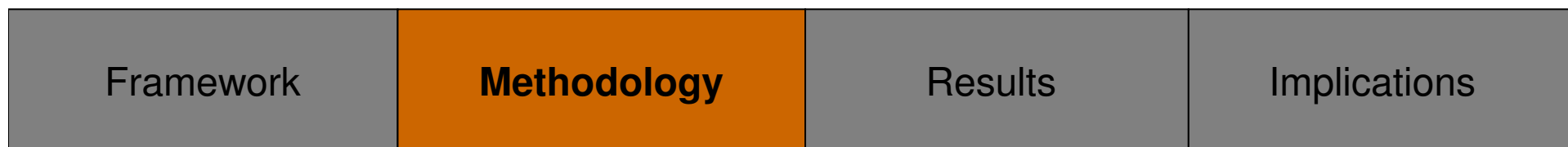
- negative (positive) contributions reported by independent agents

Framework	Methodology	Results	Implications
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Step 2. Test the benchmark: universe of firms

Spanish energy companies (utilities and oil)

- Endesa
- Gas Natural
- Iberdrola
- Repsol YPF
- Unión Fenosa



Step 3. Test the benchmark: sample of countries

Middle income countries in Latin America **strategic for Spanish FDI**

- Modal countries: where more companies operate
- Representing different priorities as regards MDG

Argentina

Colombia

México

Framework

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Step 4. Test the benchmark: process

1. Review of public company-issued information
2. Review of public information issued by other organisations + EIRIS reports
3. Preliminary report sent to firms
4. Interviews with firms to correct mistakes and provide more information. Only Unión Fenosa refused to participate

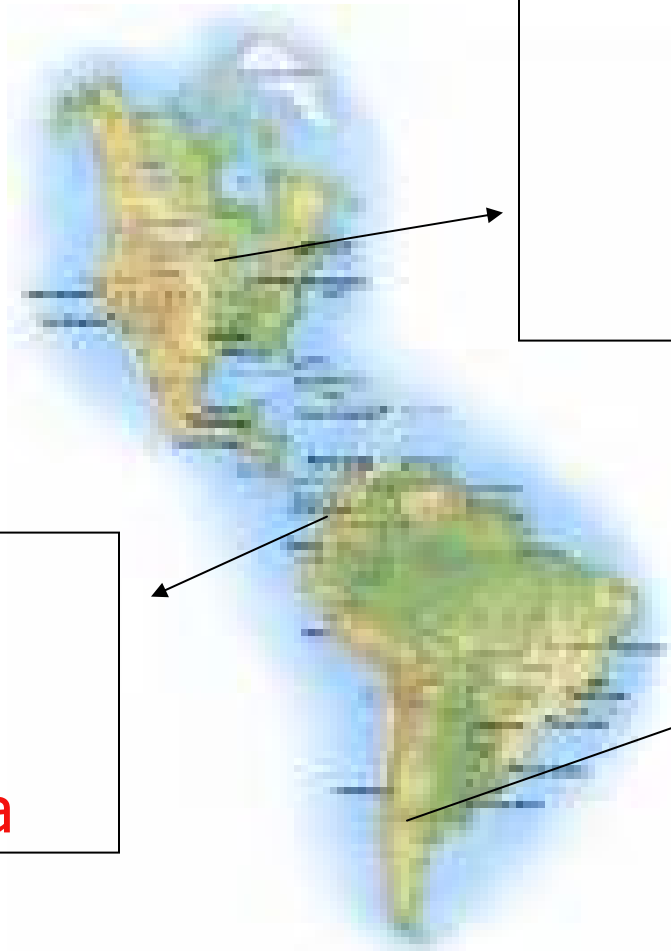
Framework	Methodology	Results	Implications
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Results

- Most companies scores lie in the area of **incidental effort** towards MDG achievement (no formal policies, lesser management systems)
- The highest contributions observed to MDG 7 (**environment**)
- Companies focus on the areas with **greatest negative externalities** (environment, labour rights and labour climate).
- As regards **Corporate Community Investments**, concentration on specific MDG: MDG 1 (**poverty**), 8 (**global partnership**, by involving employees in fundraising) and to a lesser extent 7 (**environment**)

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Ranking per country



Iberdrola
Repsol-YPF
Gas Natural
Unión Fenosa

Endesa
Repsol
Gas Natural
Unión Fenosa

Endesa
Repsol-YPF
Gas Natural

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Conclusions

- ❑ **Inspiration stage:** necessary to go the incorporation stage (implement policies and show results)
- ❑ **Parent and affiliates:** different pace of CSR development
- ❑ **Lack of external consistency:** CSR strategy in developing countries is not linked to country priorities
- ❑ **Focus on internal consistency:** there is a strong link between negative externalities and internal priorities
- ❑ Strategy more oriented towards reducing **negative externalities** than harnessing **positive linkages (more reactive than proactive)**.
- ❑ **Not embedded CCI.** Its goal does not seem “to improve the competitive context”. Few long-term, structural projects in relation to MDGs

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Implications of research

Outputs for the organisations involved in this project

For businesses

Gain fresh and deep insight into their practices: know what to maintain and what to change

For the Watchdog NGO

Scientific evidence that eradicating poverty demands a coordinated action. It goes beyond philanthropy. And they're not doing that well...

For CEALCI (sponsor of this research)

Cases of best practice to be used as guidelines for other companies

For AECI (Development Aid Agency)

Tool for screening out the worst companies. Give grants to firms actually contributing to the MDG in Latin America.

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**mdgscan: focus on impact (economic linkages). External.
Contributions to each country.
No country specific. No industry specific.
Based only on corporate self-reported data
Focus on scope: many companies**

**Mdg scorecard: focus on effort. Internal. Corporate practices and their
results. Data per country and industry (replicate to other industries
with slight changes). Introduces third party reports (allows for
negative contributions): more credible.
Focus on depth: know a lot about TNCs and MDGs in a given industry**