



The impact of multinationals in developing countries

A framework for benchmarking

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World
Benchmarking
Alliance

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Introduction: World Benchmarking Alliance



Time is running out and pressure is growing to deliver on the Sustainable Development Goals (SDGs). The World Benchmarking Alliance (WBA) has set out to develop a range of free and publicly available benchmarks to assess, by 2023, the progress of 2,000 keystone companies towards the SDGs.

Recent research demonstrates that while some progress has been made, defining issues such as climate change and inequality require ever-more urgent action, with poverty, climate vulnerability, hunger and disease continuing to be concentrated in the poorest and most vulnerable groups of people and countries¹. As the coronavirus pandemic is vividly illustrating, when food, energy, social, financial and other critical systems lack resilience, the vulnerable and marginalised in society, particularly in developing countries (see box on p.31), are hit disproportionately hard.

In order to deliver on the ambition of the SDGs and the Paris Climate Agreement, developing countries will require an additional \$4 trillion annually. Through financing, employment, supply chains and products and services, the private sector has a vast and critical role to play in creating a more sustainable and resilient future for the developing world².

Our mission and impact

Our mission is to build a movement to measure and incentivise business impact towards **a future that works for everyone**. For this reason, across our organisation, in all of our benchmarks and research, engagement and operational activities, we focus on impact in developing countries. Impact has been defined in a number of different ways.

For WBA, impact is the change in positive or negative outcomes for people and planet³. This impact can be quantitative or qualitative and is often, but not always, measurable. More specifically, impact is the influence or effect that a company has on the economy, environment and/or the society within its sphere of influence. In turn, this contributes, either positively or negatively, to sustainable development⁴.

In January 2020, WBA published a list of the 2,000 keystone companies that we believe will be most influential for achieving the 2030 Agenda. They are headquartered in 74 countries with supply chains, operations and customers spread across the world. These companies were specifically selected for their global impact, influence and reach – with particular emphasis on those with an impact in developing countries.

Some keystone companies have a greater impact on the developing world than others. As part of our monitoring, evaluation and learning, WBA is seeking to better understand these impacts and use the resulting insights to inform our benchmarking and engagement.

This report sets out our current thinking on the impact (whether positive or negative) of **companies** on developing countries. It does not cover the **content** (i.e. topics) of our benchmarks, which are detailed in our methodology publications.

Section A details the theoretical underpinning and explains the different dimensions that matter to impact. Section B outlines how WBA selects companies to benchmark alongside a new assessment tool we are developing to analyse and understand companies in scope when it

comes to impact. The findings from this research will be used to better inform our benchmarking processes and to define the impact of our keystone companies in a more material and quantifiable way as we work towards our ambition of benchmarking 2,000 companies by 2023.

We would very much welcome feedback from interested Allies and other partners on what additional steps we can take to better understand, gather further data on and ultimately increase WBA's positive impact in developing countries.

What is a developing country?

WBA uses the term 'developing country' to refer to countries in the OECD's list of countries and territories eligible to receive official development assistance – the 'DAC List'. It consists of all low- and middle-income countries based on gross national income per capita as published by the World Bank, with the exception of G8 members and EU members (and countries with a firm date for entry into the EU). See the Annex for the list.

Section A: Multinationals' growing footprint in the developing world



Companies with a global impact are nothing new. For centuries, multinational corporations (MNCs) have had an impact in developing countries: organisations like I.M. Singer have been investing in Mexico since 1914; even earlier was the British East India Company, which, founded in December 1600, is often referred to as the first ever MNC⁵.

Traditionally, due to the presence of advanced technologies, supporting institutions and other infrastructure, MNCs have been headquartered in the United States, Western Europe and Japan⁶. More recently, emerging market multinationals (eMNC's) have appeared in Brazil, India, China and other countries. As a result, 19 of the top 100 global

corporations ranked by market capitalisation are headquartered in developing countries (see box)⁷. Similarly, 511 of WBA's 2,000 keystone companies are headquartered in developing countries.

Nineteen of the 100 largest global corporations headquartered in developing countries⁷

Brazil - 1 : Petrobras

China - 15: Among others; Alibaba, Tencent, ICBC, China Mobile

India - 2 : Tata Consultancy, Reliance Industries

Section A: Multinationals' growing footprint in the developing world

MNCs are growing in number as well as the impact that they have on developing countries. In recent decades, MNCs have been increasingly attracted to developing countries for purchasing raw materials, outsourcing production and selling to new consumers. This shift has been driven by a globalising economy, new capabilities and financial incentives such as tax breaks by local governments². The increased footprint of these companies in the developing world has had a significant impact – both positive and negative – on the host country and beyond.

This can be seen in several areas. For example, foreign ownership may raise labour productivity, expand the scale of production, improve working conditions and result in an increase in wages⁸. MNCs can also play a major role in stimulating the technological development of developing countries⁹. Developing countries' share of global foreign direct investment (FDI) rose to 54% in 2019, a record, with an 11% increase in Africa, 4% in Asia and 2% in developing economies overall. Regional investment hubs play a key role in facilitating intraregional and South-South FDI¹⁰. However, there is evidence that some MNCs conduct their operations in host countries with much lower environmental and social standards than their home countries, with legal disputes often further complicating the regulation of MNC environmental practices¹¹. In addition, MNCs can stifle economic development by locking in host economies to low value-added activities and by crowding out local investments and jobs¹². MNCs' political influence has also come under scrutiny¹³, as has the 'tax gap', which undermines governments' ability to fund essential services that in turn can help deliver the SDGs¹⁴.

Alongside economic impacts, environmental and social impacts can also be positive or negative. Environmental impacts range from local air pollution to water extraction, deforestation to waste production, packaging and e-waste to climate vulnerabilities. Overall, climate impacts can have large distributional consequences; developing countries are suffering the bulk of the damage from climate change compared to the richest countries¹⁵. Human rights impacts, alongside issues like gender discrimination, are also highly relevant for developing countries. The impact of MNCs in developing countries is multifaceted and complex, particularly because they are interconnected. For this reason, WBA has adopted a systems approach to benchmarking keystone companies. Systems thinking considers the individual company as part of a web of relations: with other companies (including peers, suppliers or corporate customers); with citizens, consumers and employees; with regulators and governments; and with investors and the media. For more on this approach, see Section B.

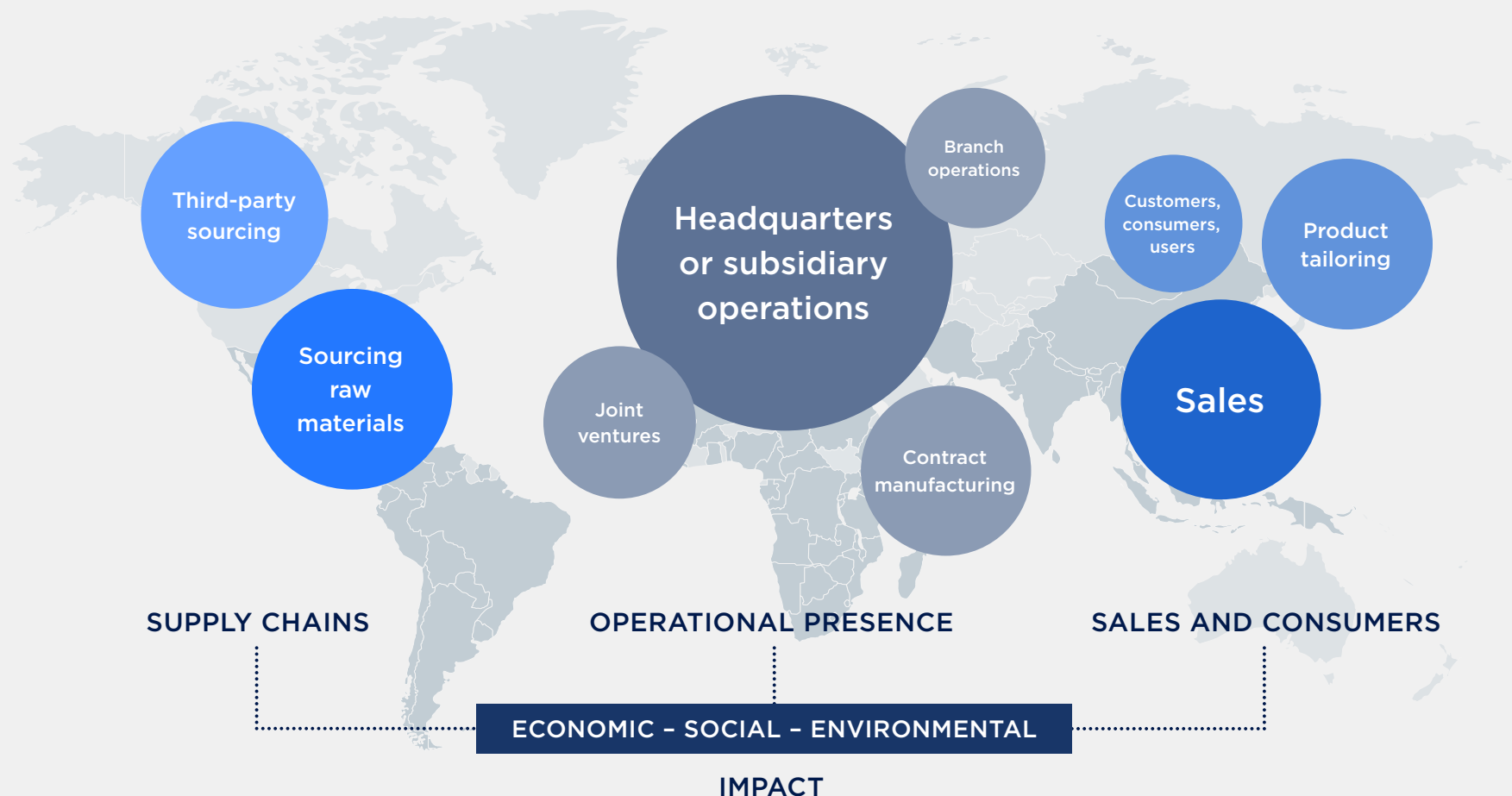
In an ideal situation, MNCs can be at the forefront of development and investment within their sector, serving as a model for other firms to follow. They work with thousands of business partners throughout their value chains – from suppliers to distributors and customers. In addition, they shape the lives of billions of consumers through the products and services they innovate and bring to market. By setting sustainability standards, creating incentives and working with others in the system, MNCs can have substantial leveraged impact on the transition towards more sustainable, responsible and inclusive value chains and so help to deliver the 2030 Agenda.

A framework for assessing impact

MNC activities influence a range of stakeholders in the developing world, predominantly through **operational presence**, **supply chains** or **sales and consumers**. MNCs with an operational presence are either headquartered or own subsidiaries within the country. We use a simple

three-part model to diagnose the different impacts and better categorise them (see figure 1). It illustrates that operational presence is just one part of a wider story about impact.

FIGURE 1: WBA FRAMEWORK FOR ASSESSING IMPACT



A framework for assessing impact

Operational presence

Company headquarters are the preeminent decision-making centres within corporations, typically determining how company resources are allocated¹⁶. As such, the headquarter location of an MNC reflects where significant impact on people is felt – directly through employment by the business but also a host of knock-on impacts on wages, skills, taxes, human rights, environmental degradation, technology transfer, infrastructure development and so forth.

MNCs headquartered in developing countries tend to be founded there, which brings its own set of benefits. These include being well-equipped to deal with institutional infrastructures that may be less developed than OECD markets, an ability to tap into capital and talent markets and a willingness – often lacking among foreign MNCs – to tailor their business strategies to local markets¹⁷. Furthermore, these companies often have a more explicit focus on their home or regional markets compared to foreign MNCs. Examples of companies headquartered in developing countries include Petrobras (Brazil) and PetroChina (China), two of the world’s largest petroleum corporations, with Petrobras currently employing over 60,000 people¹⁸. In fact, among companies in the fossil fuel industry, seven of the top ten emitters are headquartered in developing countries¹⁹.

Other benefits include local distribution networks (which could take years for a foreign multinational to replicate), long-standing relationships with government officials or distinctive products that appeal to local tastes. Any of these competitive advantages can form the basis

for a successful defence of the home market and contribute greater benefits to local economies, suppliers and consumers²⁰. Physical presence in a country can indicate significant investment, job generation and the introduction of otherwise unavailable technologies and skills¹⁷. One example is South African insurance company Old Mutual, which raised \$320 million to finance infrastructure deals across Africa²¹.

These effects also extend beyond headquarter location to subsidiaries (and branches), as these are directly influenced by their parent company²². MNCs can have a significant impact in developing countries by establishing individual, or networks of, subsidiaries. MNC subsidiaries can benefit primarily from financial gains within developing economies; many developing countries offer tax incentives to attract FDI²³. However, the localisation of overseas activities is no longer merely for financial gain and the search for cheaper resources, as it also stimulates innovation and learning within the subsidiary itself²⁴.

Studies have demonstrated that variations in innovation performance among MNC subsidiaries is often predicated on the extent to which these subsidiaries actively learn from and collaborate with local organisations²⁵. Furthermore, the impact on the host country can be significant. FDI from MNCs remains the largest external source of finance for developing economies: roughly 39% of total incoming finance comes from FDI²⁶. In addition to FDI, MNCs are considered important sources of employment and valuable channels of technology transfer²⁷.

A framework for assessing impact

Indirect operational presence: Contract manufacturing and joint ventures

Contract manufacturing and joint ventures are useful proxies for impact in developing countries. Although ownership and control may vary, they are both forms of indirect operational presence. Sourcing goods and services by initiating joint ventures results in job creation and skills transfer in developing countries. For example, Boeing and Tata have formed an aerospace joint venture in India, the partnership capitalising on Boeing's competitive advantage and Tata's industrial capability to help propel Indian growth in the aerospace sector.

Contract manufacturing with a partner in a developing country is another form of indirect operational presence. There are often advantages to contract manufacturing (essentially, outsourcing production) for a parent company, including reduced production costs due to lower labour costs. MNCs can also compensate for a lack of production capacity and avoid the capital investment otherwise required for equipment and facilities⁸. Advantages also exist for processing companies, notably reduced working expenses, job creation or preservation and even guarantee of work through contract agreements. For example, UK-based Dyson has made Senai, Malaysia its global manufacturing hub. This has helped local firms, some of which have grown into large, publicly listed companies²⁸.

Nonetheless, there are a number of negative consequences that can arise under these arrangements. Studies in India have demonstrated that a steep rise in contract manufacturing has been followed by increased wage inequality, discrimination and job insecurity²⁹. Similarly, Foxconn,

a leading manufacturer for companies such as Apple, Dell and Huawei, has come under fire for the conditions to which contractors are subjected in its consumer electronics supply chains³⁰.

Supply chains

In addition to operational presence, MNCs can impact developing countries through their global supply chains. MNCs that source materials (raw materials, primary or secondary inputs etc.) from developing countries can have a considerable impact on local actors and communities and their economic development, the environment and society as a whole³¹.



A framework for assessing impact

UNCTAD, the UN's trade, investment and development body, estimates that the developing country share in global trade grew from 20% to 40% between 1990 and 2013³². Around 80% of global trade now flows through MNCs, and one in five jobs are tied to global supply chains³³. It is clear, therefore, that a significant proportion of MNCs' impact occurs outside of their operational presence.

One example can be seen in the apparel and footwear industry. Hennes & Mauritz has long been one of Bangladesh's largest apparel buyers, purchasing roughly \$5 billion in apparel goods annually³⁴; overall, 80% of the company's products are sourced from Asia. However, it has been accused of sourcing apparel at prices so low that critics say they compromise the wages and safety conditions of local workers³⁵. Another example can be found in the agricultural goods industry. Cargill, a US-based corporation and one of the world's largest traders of agricultural commodities, maintains that smallholder farmers account for roughly 40% of its palm oil supply³⁶. With such a large proportion of smallholders, Cargill's ability to impact worker livelihood and smallholder capacity and to support sustainable farming practices is enormous.

For developing countries, participation in global value chains has been shown to spur initial benefits, including increased productivity and reduced poverty. Countries like Bangladesh, Cambodia and Vietnam experienced large growth spurts when transitioning from commodity exporting to basic product manufacturing economies³⁷. Nonetheless, the risk of becoming 'resource traps' leads to iniquitous outcomes, whereby value is captured overwhelmingly by MNCs and not domestically³⁸.

Commodity dependency is a common characteristic when becoming more integrated within global supply chains. According to UNCTAD, this trait is also heavily concentrated within developing countries, with 85% of least developed countries, 81% of landlocked developing countries and 57% of small island developing states being commodity dependent, compared to just 13% of developed countries³⁹. As such, MNCs that heavily source commodities such as cobalt⁴⁰, cotton⁴¹, palm oil⁴², coffee⁴³ and oil⁴⁴, among others, can be shown to have a significant impact in developing countries through their supply chains. In East Africa alone there are roughly 5 million coffee farmers, the vast majority of which are smallholders⁴⁵. Furthermore, the combined oil exports in 2018 of Iran, Iraq, Nigeria, Kazakhstan, Angola, Libya, Mexico and Venezuela was \$340 billion, 30% of the global market share⁴⁶.

Sustainable supply chain management⁴⁷ is an increasingly critical issue facing MNCs, particularly with expansion into developing countries. These countries often have low levels and/or weak enforcement of regulations, a lack of financial incentives for sustainable business practices and insufficient transport infrastructure, and they frequently suffer from corruption and mock compliance among companies⁴⁸. Therefore, there is a need for greater accountability and responsibility among MNCs to ensure that the full impacts of their supply chain are integrated into their business models⁴⁹. However, information on the structure, scope and impacts of MNC supply chains is severely limited, and thus judging the scale and nature of these impacts is difficult (see Section B).

A framework for assessing impact

Sales and consumers

The products and services provided by MNCs in developing countries are a third lens through which impact can be assessed. Emerging markets are predicted to account for 40% of all consumer spending – more than \$20 trillion – by 2020⁵⁰. At the same time, the middle class in Brazil, Mexico, Pakistan and Indonesia is expected to reach 100 million people each, with Egypt, Nigeria and Vietnam not far behind⁵¹; and by 2030, India and China are both expected to outstrip the United States in terms of global purchasing power, with \$46.3 trillion and \$64.2 trillion respectively⁵². These trends demonstrate

the huge market opportunities and challenges that MNCs will face imminently and further into the future with respect to their activities in developing countries.

The Boston Consulting Group gives the example of Unicharm as an MNC that has capitalised on these opportunities by providing innovative products and pricing. The company has captured two thirds of Indonesia's baby-care market by selling its mass-market nappies for 40% less than its major competitors, achieving these margins through higher dependence on local suppliers and the use of different materials and production equipment⁵⁰. Another primary example is the Coca-Cola Company.



A framework for assessing impact

In 2018, 70% of the company's soft drink sales came from developing economies like China, India and Mexico⁵³. The influx of such products has wide-ranging impacts at the societal level, including for health and nutrition, as well as the environmental level given the huge amount of waste and packaging involved. MNCs from all sectors seem to be increasing their sales in emerging markets and developing countries. Colgate Palmolive, for instance, now derives 25% of its revenue from Latin America alone, while Procter & Gamble generates 35% of its revenue from emerging markets⁵⁴.

MNCs can have a significant social impact in developing countries through the implementation of differential pricing models and/or the importance of their products. The benefits of such pricing models in the pharmaceutical industry have been demonstrated over the last decade by the [Access to Medicine Index](#). The index highlights the example of AstraZeneca, which since 2016 has worked with a leading data provider, utilising socio-economic information to implement a specific affordability model in Brazil and helping to increase the affordability of medicine for hypertensive heart disease for 150,000 patients⁵⁵. In addition to affordability, MNCs can improve accessibility to essential pharmaceutical products in developing countries. These countries consume a large percentage of the world's pharmaceuticals and their healthcare systems increasingly rely on prescription drugs⁵⁶. Conversely, drug labelling failures and distribution can negatively impact the health and safety of local consumers.

Similarly, in 2019, the [Access to Seeds Index](#), now part of WBA, highlighted the activities of the Syngenta Foundation, which has developed

insurance schemes in India, Indonesia, Kenya, Tanzania and Rwanda to help farmers manage their business risks while addressing climatic hazards. By 2017, over 1 million farmers across the five countries were insured through one of these schemes, which are delivered through local insurance agents⁵⁷.

Like supply chains, the downstream impacts of MNCs are also challenging to ascertain. This is because reporting by companies varies and processes such as impact assessment for products is not widespread. For these reasons, relevant data is hard to identify.

WBA's [Digital Inclusion Benchmark](#), the first iteration of which will be published later in 2020, will highlight the efforts of leading ICT companies to bring digital services to billions of underserved developing country consumers. For instance, by choosing to skip traditional voice cellular networks and focusing only on voice over LTE, India-based Jio, one of the companies being benchmarked, has not only created a lower cost option but forced the incumbent telecom operators to reduce their rates. This complex technology innovatively used for a simple service has changed the telecommunications landscape in the country and allowed for progress towards multiple SDGs via services such as telemedicine, digital agricultural extension advice and digital banking.

A framework for assessing impact

Spotlight: Poverty

With more than 1 billion people living in deep poverty, and the majority of population growth taking place in the poorest countries, MNCs play a vital role in alleviating poverty in the countries where they operate. Although directly and cumulatively employing hundreds of millions of people in the developing world is a key contributor, the impact goes beyond simply employment.

The reasons are twofold. First, poverty reduction depends on the growth of businesses: MNCs help connect local businesses with world markets and facilitate access to credit and technologies. Second, MNCs can drive the institutional change necessary for poverty reduction: they may have leverage with local governments, invest in infrastructure projects and provide competitive jobs⁵⁸. MNCs can therefore drive poverty reduction if it is conducted in a responsible way – not least by focusing on paying living wages but also formal employment opportunities, social security protections, health and safety and the diversification of livelihood opportunities for local workers.

Sustainable development by MNCs can be a force for positive change, including poverty reduction, given the financial capabilities and managerial skills to undertake development projects that they possess⁵⁹. For example, MNCs that invest in the empowerment of disadvantaged groups are directly helping in the fight against poverty. In fact, it is estimated that raising women's participation in

the labour force could boost India's GDP by 27%⁶⁰. Other factors, such as increasing wages or providing social protections, can also contribute to poverty reduction. One report found that raising wages by 10% would reduce the number of people in poverty by 2.4%⁶¹. These topics are the primary focus of WBA's social transformation work – 'social' being the seventh system transformation that underpins and enables the six other transformations WBA believes are vital to accomplish the 2030 Agenda (see Section B) – alongside tax, which contributes to the financial resources governments have at their disposal to reduce poverty, on which all 2,000 keystone companies will be assessed.



Spotlight: Gender

Gender-based discrimination remains a persistent issue globally. However, progress towards gender equality and women's empowerment is particularly important for developing countries, where cultural and legal norms often reflect patriarchal views (e.g. the Middle East, North Africa, India) and where gender-based discrimination is more severe⁶².

For most metrics that measure aspects of gender-based discrimination, the numbers are far worse in developing countries. For example, far fewer women than men are employed in the formal economy, and those who are earn on average 77% of men's wages. However, this number understates the real extent of the gender pay gap, as informal self-employment is prevalent⁶³. In sub-Saharan Africa, around 20% of women who work are in wage-earning or salaried jobs, compared to around 35% of men; and for every 100 men aged 25-34 living in extreme poverty, there are 127 women. Beyond the economic sphere, 22.3% of women and girls aged 15-49 reported experiencing physical and/or sexual violence by an intimate partner within a 12-month period, compared to 20% globally⁶⁴.

MNCs can play a key role in promoting gender equality in developing countries, by implementing and promoting best practices (e.g. on paying living wages and provision of benefits such as paid parental leave), thus raising the bar for the local private sector. In addition, many MNCs have wider targets relating to the SDGs and gender

equality (either due to shareholder and investor pressure or as pioneers in the field), introducing specific key performance indicators on gender equality (e.g. on female representation at various levels in the company). It is thus imperative to research and evaluate MNCs on gender equality, identify best practices as well as gaps in their strategies. This is the focus of WBA's Gender Benchmark, which in 2020 will cover the apparel industry.



A framework for assessing impact

Spotlight: Coronavirus

Since early 2020, the world has been in the grip of a once-in-a-century pandemic. Currently, 209 countries and territories are affected. The novel coronavirus (COVID-19) has infected millions and claimed the lives of hundreds of thousands. Although the measures to contain the virus – notably social distancing and quarantine – have in many countries only been in place for several weeks, the health, social and economic costs are already vast. Healthcare systems, even those in some of the world's wealthiest nations, are overburdened and reaching critical capacity. In many developing countries massive disparities exist between population size and intensive care unit (ICU) beds; in Bangladesh there are 432 public health ICU beds for 170 million people⁶⁵, while countries including Angola, Burundi, Malawi, Niger and South Sudan have no ICU beds available at all⁶⁶. Furthermore, the International Labour Organization predicts the virus could cause the equivalent of 195 million job losses globally⁶⁷, and with one in five people worldwide under lockdown, unemployment and domestic violence figures are rising rapidly^{68, 69}.

The impact is expected to be most severe in developing countries. In economic terms, those that are dependent on tourism and commodity exports or global manufacturing production are already feeling the effects⁷⁰. Migrant workers are a particularly at-risk demographic, with loss of jobs likely to have significant knock-on effects in remittance-dependent countries such as El Salvador, Haiti, Honduras, Nepal and Kyrgyzstan⁷¹. The full impact of the pandemic are still unknown,

but its relevance for companies and their role in society is not in doubt. Put simply, MNCs' impact on and contribution to development has never been more important. As with poverty and gender, MNCs have a vital role to play in tackling this pandemic, particularly in developing countries where the effects will be most keenly felt. The World Business Council for Sustainable Development, a WBA Ally, has set up a COVID-19 response programme, with a call to action covering three areas:

- vital supply chains – with a focus on a short-term supply chain resilience plan, starting with the food system
- return to 'normal' scenarios – with a focus on employee health and business recovery
- long-term impacts – with a focus on COVID-19 vulnerabilities, revealed by the crisis and lessons for future resilience and stakeholder capitalism.

Companies within the council's network are already responding by donating equipment, shifting manufacturing capabilities, offering financial support and working on vaccines and treatments. WBA has begun its own programme to analyse and respond to the coronavirus and will be feeding these insights into the MNC research detailed in this report.

Section B: Keystone companies and classifying their impacts



Keystone companies

Research by the Stockholm Resilience Centre has shown that MNC impact on the planet and people is highly concentrated. A 2019 study in Nature showed that “a handful of transnational corporations” were responsible for most of the impacts across agriculture, forestry, seafood, cement, minerals and fossil energy⁴⁰. The idea of keystone influence originally came from a 2015 paper⁷² where the concept of ‘keystone actors’ was introduced using the example of the seafood industry. Inspired by the ‘keystone species’ term in ecology, Österblom et al. use the concept to illustrate that the largest companies in a given industry can operate similarly to keystone species in ecological communities. This means that they can have a disproportionate effect on the structure and function of the system in which they operate.

WBA’s SDG2000

Inspired by this insight and further research, WBA identified the most impactful and influential companies to assess their progress on the SDGs. We found that by selecting just 2,000 keystone companies, half of the global economic output was in scope. We also built on the Stockholm Resilience Centre’s four keystone characteristics (see table), adding a fifth principle, namely that companies have ‘a global footprint, particularly significant in developing countries’. Consequently, all 2,000 companies that WBA will benchmark were selected with consideration for their impact globally.

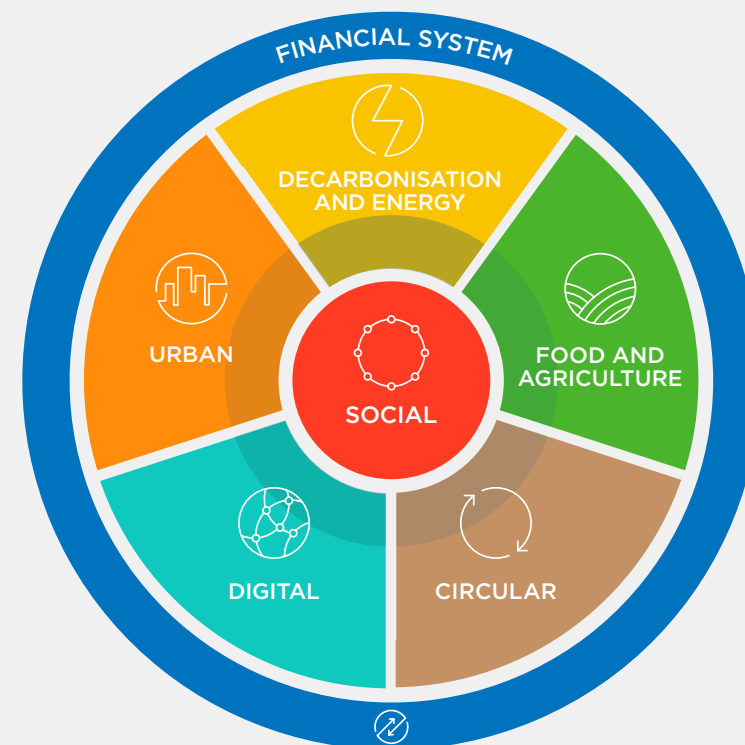
Section B: Keystone companies and classifying their impacts

The list of 2,000 companies [was first published in January 2020 as the 'SDG2000'](#). WBA is committed to assessing the impacts of all these companies, which account for \$43 trillion in annual revenue and are headquartered in 74 different countries, by 2023.

Stockholm Resilience Centre keystone characteristics	WBA principles for keystone companies
They dominate global production revenues and volumes within a particular sector	They dominate global production or service revenues and volumes within a particular sector
They control globally relevant segments of production	They control globally relevant segments of production and/or service provision
They connect ecosystems globally through subsidiaries	They connect (eco)systems globally through subsidiaries and supply chains
They influence global governance processes and institutions	They influence global governance processes and institutions
	They have a global footprint, particularly significant in developing countries

WBA uses a systems approach to develop its benchmarks, placing a strong emphasis on transforming the systems that have the greatest potential to drive economic, environmental and social progress and achieve the SDGs. Based on research from a number of other organisations, the [seven systems transformations](#) are those that we believe are vital to put our society, planet and economy on a more sustainable and resilient path to accomplish the 2030 Agenda.

FIGURE 2: SEVEN SYSTEMS TRANSFORMATIONS



Company selection for the SDG2000

Company selection for each transformation followed a set process. We first began by identifying key industries embedded within each of the seven transformations. We used revenue as an initial metric to identify leading players within each of the chosen industries. This list included a mix of public, private and state-owned companies and cooperatives.

Section B: Keystone companies and classifying their impacts

To complement this primary list, we then identified companies dominating globally relevant segments of production and/or service provision, with a particular focus on developing countries. In addition to ensuring an equitable geographic spread of companies, this principle allowed for the identification of leading players in specific food groups (for the food and agriculture transformation) or those active in certain commodities that are highly relevant in developing countries such as cobalt (for the digital transformation) and oil (for the decarbonisation and energy transformation), to give just three examples. The third lens, connecting globally through subsidiaries, is relevant in terms of how WBA deals with the complexity of MNC business models and structures. For the SDG2000, relevant companies were identified and selected at the parent, or upper-most relevant, level of operations for assessment.

Underpinning the SDG2000 selection was a consideration of impact in developing countries, made explicit through the addition of the fifth principle, described in the previous section: for each industry we aimed for a fair geographic balance and representation of companies, both to ensure sufficient global coverage and, specifically, coverage within developing countries. This resulted in 511 of the SDG2000 being head-quartered in developing countries, over a quarter of the total list. This figure is far higher than the typical representation of developing countries in other published lists (and investment universes)^{73, 74}. Further information on the methodology used to select the keystone companies is available on our [website](#).



Section B: Keystone companies and classifying their impacts

‘Significant impact’ assessment tool

While all 2,000 keystone companies were selected based on their global influence on the seven systems, there are huge differences in terms of their impact in developing countries. WBA has now begun a programme of work to better understand these differences, allow for the comparison of performance between companies and tailor our benchmarking and engagement processes to accelerate corporate progress on the SDGs, particularly in developing countries.

As part of this work, we developed an **assessment tool** to identify keystone companies that have the most ‘significant impact’ in developing countries. Although this impact is difficult to quantify, the tool is designed to determine, with a high degree of accuracy, the keystone companies that have a direct and large impact on people and communities in developing countries.

The first iteration of the tool (‘version 1.0’) is based on public information and draws on the research and theory in Section A to estimate impact. One of the major constraints in developing the tool was a lack of data. For most keystone companies, very little information is available on their supply chain, distribution, sales and product/service impacts. As a result, this first iteration of the tool focuses on direct operational impacts (including manufacturing and joint ventures). Thus, the true impact of keystone companies on developing countries is likely underestimated. However, our initial assessments of companies to be benchmarked by WBA in 2020 suggest that with the ‘strict’ criteria applied, over half of all keystone companies would be classified

as having ‘significant impact’. As more data becomes available through the benchmarking process, we will seek to update the tool. Further limitations are listed in the table at the end of this section.

SIGNIFICANT IMPACT ASSESSMENT TOOL 1.0

Keystone companies are classified as having ‘significant impact’ if they meet any one of three criteria:

- 1 Have their major operational headquarters in a developing country
- 2 Directly employ 25,000 or more people in developing countries
- 3 Have at least 100
 - a manufacturing facilities and/or
 - b major, published suppliers and/or
 - c subsidiaries and/or
 - d joint ventures (with a majority/controlling stake)

in developing countries OR any of the above in at least 25 different developing countries.

Assessment tool criteria	Description and rationale	Examples from the SDG2000	Data quality, sources and limitations
1 Major operational headquarters in a developing country	<p>Keystone company headquarter location is a strong indicator of impact. Companies headquartered in developing countries tend to be founded there, with these locations typically determining how company resources are allocated. Physical location is likely to indicate impact in a wide range of significant framework areas, particularly employment but also other social and environmental impacts of operations. In addition, headquarter location in a developing country may also be indicative of larger supply chain and sales/product impacts in the region.</p>	<ul style="list-style-type: none"> • Ethio Telecom (Ethiopia) • Petroleos de Venezuela (Venezuela) • Flour Mills of Nigeria • Attijariwafa Bank (Morocco) 	<p>Headquarter locations are easily identifiable for all keystone companies. In a minority of cases, legal or registered headquarters may be different from the major operational presence (this is particularly true when tax havens are the legally registered location of a holding company). Where identifiable, we always seek the major operational or 'real' location (for example, by checking the company website and comparing it to the legal location in corporate databases).</p>
2 Directly employs 25,000 or more people in developing countries	<p>Keystone companies directly employ tens of thousands of people, and employment in developing countries has significant impacts on other framework areas. A sample of keystone companies showed that the average number of workers employed in developing countries, per company, was around 10,000, with a median of 900. To err on the side of rigour, we chose a figure well above the mean.</p>	<ul style="list-style-type: none"> • Walmart (United States) employs over 280,000 people across Latin America and sub-Saharan Africa • Falabella (Chile) employs over 78,000 people in six developing countries • Ericsson (Sweden) employs over 34,000 people in 11 developing countries • Ford Motor Company (United States) employs over 81,000 people in seven developing countries 	<p>Number of employees per subsidiary (with subsidiary location data) is available for many keystone companies in corporate databases. For others, research on individual company websites can be used to identify the total number of employees per location. It is likely that this approach underestimates the true levels of employment in developing countries as it is limited to registered entities and published information (and does not include the possibly very large indirect impacts on employment, such as through supply chains).</p>
3 At least 100 <ul style="list-style-type: none"> • manufacturing facilities and/or • major, published suppliers and/or • subsidiaries and/or • joint ventures (with a majority/controlling stake) <p>in developing countries OR any of the above in at least 25 different developing countries</p>	<p>Keystone companies impact developing countries through their operational presence (such as manufacturing facilities, subsidiaries and joint ventures). Some companies subcontract manufacturing to third parties and publish information on this. At least 100 such facilities or arrangements in total (or facilities/arrangements in at least 25 different developing countries) gives a good indication of high levels of impact, according to sampling we undertook.</p>	<ul style="list-style-type: none"> • LVMH Moët Hennessy Louis Vuitton (France) has over 550 subsidiaries and contractual suppliers in developing countries • Associated British Foods (United Kingdom) has 103 subsidiaries across 26 developing countries • Barrick Gold Corporation (Canada) is operationally active in 46 developing countries • Samsung Electronics (Japan) is operationally active in 28 developing countries 	<p>Corporate databases can be used to identify subsidiary locations. A limited number of companies also publish details of their operational or manufacturing locations (and a few also list major contract suppliers by location, but this data is rare). This approach is severely limited by a lack of available data alongside differences in business models (whereby not all companies establish legal subsidiaries in order to conduct operations). It therefore also likely underestimates the true scale of impact.</p>

Section B: Keystone companies and classifying their impacts

Future development of the tool

Assessment tool 2.0 – some initial ideas

The initial application of the tool has demonstrated that some companies one would expect to have a high impact in developing countries do not show up as ‘high’. This is due to a lack of available data, particularly on their supply chains.

We intend to use the benchmark process to gather more insights and data to further our understanding of companies and tailor the benchmarking to maximise its impact. The cyclical nature of benchmarking gives us the opportunity to refine this approach with every WBA benchmark that is produced as well as better informing stakeholders.

As our activities accelerate towards benchmarking all 2,000 keystone companies by 2023, the assessment tool has the potential to be significantly improved, providing a more robust and material assessment of the impact of MNCs in developing countries. We would welcome feedback and additional ideas on what data is available publicly or might be requested from all 2,000 companies in scope, to deepen our understanding and analysis. Some initial ideas of the types of metrics we would like to collect are outlined below.

Supply chains

- Number of local actors (e.g. smallholder farmers, small-scale distributors) employed or engaged upstream and downstream in value chains.

- Sourcing and procurement data on key commodities with a disproportionate impact in developing countries (e.g. palm oil, cobalt, oil).
- Keystone company partnerships with small- and medium-sized enterprises in developing countries.

Sales

- Proportion of sales of products and/or services in developing countries and regions.
- Companies holding leading or dominant market positions, across different industries, in key developing countries – for example, countries with populations over 100 million.
- Leading market positions across industries, companies and countries.
- Differences between products/services in terms of their impacts on developing countries.

System-specific criteria

In addition to these cross-industry metrics, there are a number of measurements that are specific to certain systems that might aid a fuller assessment of impact. For the seven transformations:

- for financial, the proportion of assets under management in developing countries
- for circular, estimates of the volume in inputs (raw materials) as well as waste outputs and impacts in developing countries
- for digital, the number of platform or product subscribers or users in developing countries

Section B: Keystone companies and classifying their impacts

- for decarbonisation and energy, the distribution of projects and customers by developing country
- for urban, the proportion of materials and activities focused on developing countries
- for food, the impact on dietary diversity and health through tailored products in developing countries.





Limited public disclosure and recent data

Due to the scale of the research across 2,000 keystone companies, we are relying on publicly available sources as well as data from a corporate database. We also sought to check some of this information with third-party sources to verify company selection for the SDG2000. However, particularly for private and state-owned companies, reporting may be out of date or not available. In some cases, this made it challenging to cross-check information and find consistent, standardised data with which to assess companies across our seven systems.

Supply chain opacity

The impact of MNCs stems to a large degree from the raw materials they purchase through their supply chains. However, information in a standardised and comparable format that would allow for analysis across our systems does not currently exist. For this reason, it is not included in the assessment tool (except where details of major contract suppliers are published). Published information on company supply chains, such as who suppliers are and what countries they are located in, is extremely rare. For example, our most recent [Corporate Human Rights Benchmark](#) found that only 7% of agricultural products companies and just 3% of companies in ICT manufacturing publicly disclosed any mapping of the most significant parts of their supply chains⁷⁵.

Sales impact uses differing reporting standards and structures

When reporting on sales of products and services, companies do not adhere to a standardised or specific means of reporting. For instance, companies sometimes report using different regional classifications (e.g. combining the Middle East and North Africa into one region

Limitations

[MENA], which can be difficult to assess due to the varied OECD classification of countries in this region). Similarly, a lack of data at the national level can lead to issues in impact measurement. Although we considered metrics looking at company sales impact (for example, proportion of products sold in developing countries), a lack of comparable data in annual reporting meant this was not possible to include in the assessment tool at this stage.

Limited data on environmental and social metrics

The lack of coherent reporting on environmental and social issues and metrics and the resulting limited availability of (comparable and quality) data is another significant limitation for the assessment of company impacts on the systems transformations. Wherever possible, we used relevant criteria to guide the inclusion of companies by transformation. However, relevant, meaningful data is often missing, not publicly available or inconsistent across the universe of potentially relevant companies.

Next steps and outstanding questions

This report has set out our current thinking on how to better understand the impact of keystone companies. However, there are many things we do not know, and we would welcome feedback on new ideas or data sources that we can use to further this work.

Specifically:

- 1 What data is publicly available – across all industries – that can help us better analyse impact in developing countries?

- 2 What additional data should WBA benchmarks be requesting from companies to shed light on this topic (mindful of the need not to burden companies with overly long questionnaires as this will reduce the response rate)?

We aim to improve our understanding of the impact of keystone companies on developing countries through our Alliance as well. Through our work with the Impact Management Project, we would like to incentivise the right disclosures by keystone companies. By working with our Allies, we hope we can receive new insights and ideas as well as partner on this cause. Feedback on any of the ideas in this report and practical suggestions for how to improve the assessment tool can be sent to:

Nathan Cable (n.cable@worldbenchmarkingalliance.org)

Luiza Margulis (l.margulis@worldbenchmarkingalliance.org)

As our benchmarks get underway, we will be asking for additional data directly from participating companies to better understand the scale and depth of their impact. With our previous benchmarks, such as the Access to Seeds Index, Corporate Human Rights Benchmark and Seafood Stewardship Index, we learned the value of collecting tailored, first-hand data from companies. For instance, after data collection in 2019, the Access to Seeds Index was able to present, for the first time, detailed reports for individual countries across sub-Saharan Africa and South and South-east Asia. These reports showcased granular breakdowns of the activities of both regional and multinational seed

Limitations

companies in each location, including the number of companies breeding, producing and processing new seed varieties and training smallholder farmers, as well as the availability of portfolios of both field crops and vegetables. The consolidation and presentation of this data has provided the seed industry with previously unavailable insights into the breadth and depth of private sector activities across these crucial agricultural regions.

In 2020, WBA will publish the following benchmarks:

- Corporate Human Rights Benchmark
- Digital Inclusion Benchmark
- Food and Agriculture Benchmark (baseline)
- Gender Benchmark
- Electric Utilities Benchmark

Each of these will strengthen our institutional narrative on the impact of keystone companies – with the potential to ask targeted questions helping to fill existing data gaps, as outlined in the example of the Access to Seeds Index above. More specifically, the Gender Benchmark will dedicate considerable attention to company supply chains, which preparatory research showed often stretch into developing countries in Asia. The Corporate Human Rights Benchmark will also take a comprehensive supply chain approach in assessing the rigour and robustness of corporate commitments to and policies around human rights in practice, including in developing countries. Finally, the Digital Inclusion Benchmark has a core focus on how keystone companies are contributing to bringing the world's offline population, estimated at 3.8 billion people, online.

Together with our growing Alliance, we believe that WBA can, in the years ahead, play an instrumental role in encouraging and creating this much needed transparency as part of our work to build a movement to measure and incentivise business impact towards a sustainable future that works for all.

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Annex: OECD list of official development assistance (ODA) countries

DAC LIST OF ODA RECIPIENTS EFFECTIVE FOR REPORTING ON 2020 FLOWS

Least Developed Countries		Other Low Income Countries (per capita GNI <= \$1 005 in 2016)	Lower Middle Income Countries and Territories (per capita GNI \$1 006-\$3 955 in 2016)		Upper Middle Income Countries and Territories (per capita GNI \$3 956-\$12 235 in 2016)	
Afghanistan	Rwanda	Democratic People's Republic of Korea	Armenia	Philippines	Albania	Libya
Angola ¹	Sao Tome and Principe ¹	Zimbabwe	Bolivia	Syrian Arab Republic	Algeria	Malaysia
Bangladesh	Benin		Cabo Verde	Tajikistan	Antigua and Barbuda ²	Maldives
Bhutan ¹	Senegal		Cameroon	Tokelau	Argentina	Marshall Islands
Burkina Faso	Sierra Leone		Congo	Tunisia	Azerbaijan	Mauritius
Burundi	Solomon Islands ¹		Côte d'Ivoire	Ukraine	Belarus	Mexico Montenegro
Cambodia	Somalia		Egypt	Uzbekistan	Belize	Montserrat
Central African Republic	South Sudan		El Salvador	Viet Nam	Bosnia and Herzegovina	Namibia
Chad	Sudan		Eswatini	West Bank and Gaza Strip	Botswana	Nauru
Comoros	Tanzania		Georgia		Brazil	Niue
Democratic Republic of the Congo	Timor-Leste		Ghana		China (People's Republic of)	North Macedonia
Djibouti	Togo		Guatemala		Colombia	Palau ²
Eritrea	Tuvalu		Honduras		Costa Rica	Panama ²
Ethiopia	Uganda		India		Cuba	Paraguay
Gambia	Vanuatu ¹		Indonesia		Dominica	Peru
Guinea	Yemen		Jordan		Dominican Republic	Saint Helena
Guinea-Bissau	Zambia		Kenya		Ecuador	Saint Lucia
Haiti			Kosovo		Equatorial Guinea	Saint Vincent and the Grenadines
Kiribati			Kyrgyzstan		Fiji	Samoa
Lao People's Democratic Republic			Micronesia		Gabon	Serbia
Lesotho			Moldova		Grenada	South Africa
Liberia			Mongolia		Guyana	Suriname
Madagascar			Morocco		Iran	Thailand
Nepal			Nicaragua		Iraq	Tonga
Niger			Nigeria		Jamaica	Turkey
			Pakistan		Kazakhstan	Turkmenistan
			Papua New Guinea		Lebanon	Venezuela
						Wallis and Futuna

¹ General Assembly resolution A/RES/70/253, adopted on 12 February 2016, decided that Angola will graduate on 12 February 2021. General Assembly resolution A/73/L.40/Rev.1, adopted on 13 December 2018, decided that Bhutan will graduate on 13 December 2023 and that Sao Tomé and Principe and Solomon Islands will graduate on 13 December 2024. General Assembly resolution A/RES/68/18, adopted on 4 December 2013, decided that Vanuatu will graduate on 4 December 2017. General Assembly resolution A/RES/70/78, adopted on 9 December 2015, decided to extend the preparatory period before graduation for Vanuatu by three years, until 4 December 2020, due to the unique disruption caused to the economic and social progress of Vanuatu by Cyclone Pam.

² According to World Bank data from 10 July 2019, Antigua and Barbuda, Palau and Panama exceeded the high-income threshold in 2017 and 2018. In accordance with the DAC rules for revision of this List, if they remain high income countries until 2019, they will be proposed for graduation from the List in the 2020 review.

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