

# **INVESTING IN THE SDGs: An Action Plan for promoting private sector contributions**

## **CHAPTER IV**



## A. INTRODUCTION

### 1. The United Nations' Sustainable Development Goals and implied investment needs

*The Sustainable Development Goals (SDGs) that are being formulated by the international community will have very significant implications for investment needs.*

Faced with common global economic, social and environmental challenges, the international community is in the process of defining a set of Sustainable Development Goals (SDGs). The SDGs, to be adopted in 2015, are meant to galvanize action by governments, the private sector, international organizations, non-governmental organizations (NGOs) and other stakeholders worldwide by providing direction and setting concrete targets in areas ranging from poverty reduction to food security, health, education, employment, equality, climate change, ecosystems and biodiversity, among others (table IV.1).

The experience with the Millennium Development Goals (MDGs), which were agreed in 2000 at the UN Millennium Summit and will expire in 2015, has shown how achievable measurable targets can help provide direction in a world with many different priorities. They have brought focus to the work of the development community and helped mobilize investment to reduce poverty and achieve notable advances in human well-being in the world's poorest countries. However, the MDGs were not designed to create a dynamic process of investment in sustainable development and resilience to economic, social or environmental shocks. They were focused on a relatively

narrow set of fundamental goals – for example, eradicating extreme poverty and hunger, reducing child mortality, improving maternal health – in order to trigger action and spending on targeted development programmes.

The SDGs are both a logical next step (from fundamental goals to broad-based sustainable development) and a more ambitious undertaking. They represent a concerted effort to shift the global economy – developed as well as developing – onto a more sustainable trajectory of long-term growth and development. The agenda is transformative, as for instance witnessed by the number of prospective SDGs that are not primarily oriented to specific economic, social or environmental issues but instead aim to put in place policies, institutions and systems necessary to generate sustained investment and growth.

Where the MDGs required significant financial resources for spending on focused development programmes, the SDGs will necessitate a major escalation in the financing effort for investment in broad-based economic transformation, in areas such as basic infrastructure, clean water and sanitation, renewable energy and agricultural production.

The formulation of the SDGs – and their associated investment needs – takes place against a seemingly unfavourable macroeconomic backdrop. Developed countries are only barely recovering from the financial crisis, and in many countries public sector finances are precarious. Emerging markets, where investment needs in economic infrastructure are greatest, but which also represent new potential

**Table IV.1. Overview of prospective SDG focus areas**

<ul style="list-style-type: none"> <li>• Poverty eradication, building shared prosperity and promoting equality</li> <li>• Sustainable agriculture, food security and nutrition</li> <li>• Health and population dynamics</li> <li>• Education and lifelong learning</li> <li>• Gender equality and women's empowerment</li> </ul>	<ul style="list-style-type: none"> <li>• Water and sanitation</li> <li>• Energy</li> <li>• Economic growth, employment infrastructure</li> <li>• Industrialization and promotion of equality among nations</li> <li>• Sustainable cities and human settlements</li> <li>• Sustainable consumption and production</li> </ul>	<ul style="list-style-type: none"> <li>• Climate change</li> <li>• Conservation and sustainable use of marine resources, oceans and seas</li> <li>• Ecosystems and biodiversity</li> <li>• Means of implementation; global partnership for sustainable development</li> <li>• Peaceful and inclusive societies, rule of law and capable institutions</li> </ul>
--	---	---

Source: UN Open Working Group on Sustainable Development Goals, working document, 5-9 May 2014 session.

sources of finance and investment, are showing signs of a slowdown in growth. And vulnerable economies, such as the least developed countries (LDCs), still rely to a significant extent on external sources of finance, including official development assistance (ODA) from donor countries with pressured budgets.

## 2. Private sector contributions to the SDGs

*The role of the public sector is fundamental and pivotal. At the same time the contribution of the private sector is indispensable.*

Given the broad scope of the prospective SDGs, private sector contributions can take many forms. Some will primarily place behavioural demands on firms and investors. Private sector good governance in relation to SDGs is key, this includes, e.g.:

- commitment of the business sector to sustainable development;
- commitment specifically to the SDGs;
- transparency and accountability in honoring sustainable development in economic, social and environmental practices;
- responsibility to avoid harm, e.g. environmental externalities, even if such harms are not strictly speaking prohibited;
- partnership with government on maximizing co-benefits of investment.

Beyond good governance aspects, a great deal of financial resources will be necessary.

The investment needs associated with the SDGs will require a step-change in the levels of both public and private investment in all countries, and especially in LDCs and other vulnerable economies. Public finances, though central and fundamental to investment in SDGs, cannot alone meet SDG-implied demands for financing. The combination of huge investment requirements and pressured public budgets – added to the economic transformation objective of the SDGs – means that the role of the private sector is even more important than before. The private sector cannot supplant the big public sector push needed to move investment in the SDGs in the right direction. But an associated

big push in private investment can build on the complementarity and potential synergies in the two sectors to accelerate the pace in realizing the SDGs and meeting crucial targets. In addition to domestic private investment, private investment flows from overseas will be needed in many developing countries, including foreign direct investment (FDI) and other external sources of finance.

At first glance, private investors (and other corporates, such as State-owned firms and sovereign wealth funds; see box IV.1), domestic and foreign, appear to have sufficient funds to potentially cover some of those investment needs. For instance, in terms of foreign sources, the cash holdings of transnational corporations (TNCs) are in the order of \$5 trillion; sovereign wealth fund (SWF) assets today exceed \$6 trillion; and the holdings of pension funds domiciled in developed countries alone have reached \$20 trillion.

At the same time, there are instances of goodwill on the part of the private sector to invest in sustainable development; in consequence, the value of investments explicitly linked to sustainability objectives is growing. Many “innovative financing” initiatives have sprung up, many of which are collaborative efforts between the public and private sectors, as well as international organizations, foundations and NGOs. Signatories of the Principles for Responsible Investment (PRI) have assets under management of almost \$35 trillion, an indication that sustainability principles do not necessarily impede the raising of private finance.

Thus there *appears* to be a paradox that has to be addressed. Enormous investment needs and opportunities are associated with sustainable development. Private investors worldwide appear to have sufficient funds available. Yet these funds are not finding their way to sustainable-development-oriented projects, especially in developing countries: e.g. only about 2 per cent of the assets of pension funds and insurers are invested in infrastructure, and FDI to LDCs stands at a meagre 2 per cent of global flows.

The macroeconomic backdrop of this situation is related to the processes which have led to large sums of financial capital being underutilized while parts of the real sector are starved of funds (TDR

2009; TDR 2011; UNCTAD 2011d; Wolf, M. 2010); this chapter deals with some of the microeconomic aspects of shifting such capital to productive investment in the SDGs.<sup>1</sup>

### 3. The need for a strategic framework for private investment in the SDGs

*A strategic framework for private sector investment in SDGs can help structure efforts to mobilize funds, to channel them to SDG sectors, and to maximize impacts and mitigate drawbacks.*

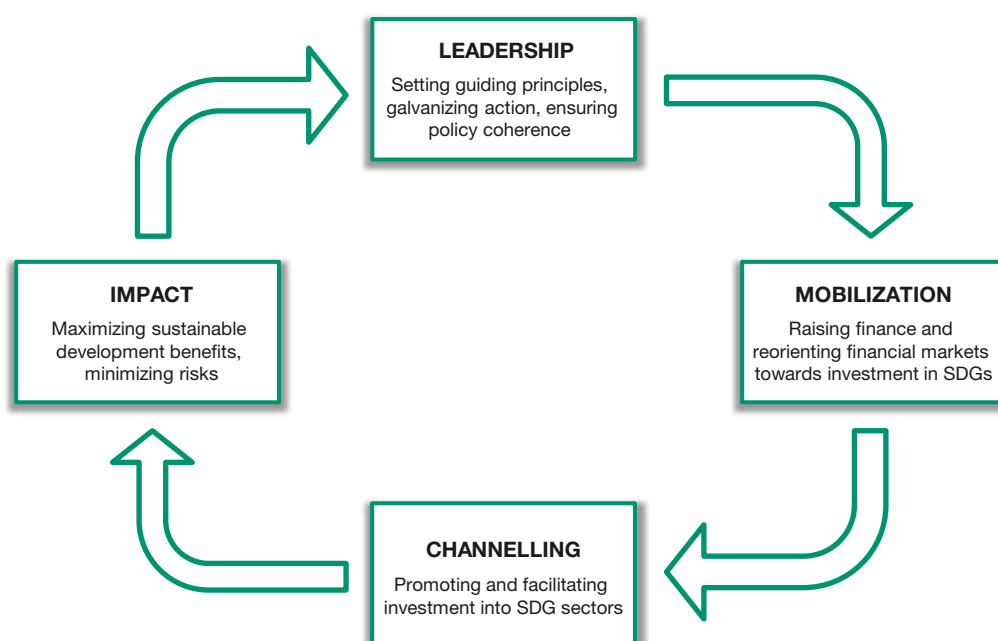
Since the formulation of the MDGs, many initiatives aimed at increasing private financial flows to sustainable development projects in developing countries have sprung up. They range from impact investing (investments with explicit social and environmental objectives) to numerous “innovative financing mechanisms” (which may entail partnerships between public and private actors). These private financing initiatives distinguish themselves either by the source of finance (e.g. institutional investors, private funds, corporations), their issue area (general funds, environmental investors, health-focused investors), the degree of recognition and public support, or many other

criteria, ranging from geographic focus to size to investment horizon. All face specific challenges, but broadly there are three common challenges:

- *Mobilizing funds for sustainable development* – raising resources in financial markets or through financial intermediaries that can be invested in sustainable development.
- *Channelling funds to sustainable development projects* – ensuring that available funds make their way to concrete sustainable-development-oriented investment projects on the ground in developing countries, and especially LDCs.
- *Maximizing impact and mitigating drawbacks* – creating an enabling environment and putting in place appropriate safeguards that need to accompany increased private sector engagement in what are often sensitive sectors.

The urgency of solving the problem, i.e. “resolving the paradox”, to increase the private sector’s contribution to SDG investment is the driving force behind this chapter. UNCTAD’s objective is to show how the contribution of the private sector to investment in the SDGs can be increased through

**Figure IV.1. Strategic framework for private investment in the SDGs**



Source: UNCTAD.

a *concerted push* by the international community, within a holistic strategic framework that addresses all key challenges in *mobilizing* funds, *channelling* them to sustainable development and maximizing beneficial *impact* (figure IV.1).

The chapter poses the following questions:

1. How large is the disparity between available financing and the investment required to achieve the SDGs? What is the potential for the private sector to fill this gap? What could be realistic targets for private investment in SDGs? (Section B.)
2. How can the basic policy dilemmas associated with increased private sector investment in SDG sectors be resolved through governments providing *leadership* in this respect? (Section C.)
3. What are the main constraints to *mobilizing* private sector financial resources for investment in sustainable development, and how can they be surmounted? (Section D.)
4. What are the main constraints for *channelling* investment into SDG sectors, and how can they be overcome? (Section E.)
5. What are the main challenges for investment in SDG sectors to have maximum *impact*, and what are the key risks involved with private investment in SDG sectors? How can these challenges be resolved and risks mitigated? (Section F.)

The concluding section (section G) of the chapter brings key findings together into an *Action Plan for Private Investment in the SDGs* that reflects the structure of the strategic framework.

### Box IV.1. Investing in Sustainable Development: Scope and Definitions

The research for this chapter has benefited from a significant amount of existing work on financing for development, by many international and other stakeholder organizations. The scope of these efforts varies significantly along the dimensions of public and private sources of finance; domestic and international sources; global and developing-country financing needs; overall financing needs and capital investment; direct and portfolio investment; and overall development financing and specific SDG objectives. Within this context, the chapter focuses on five dimensions:

- *Private investment* by firms, including corporate investment. The term “corporate” is meant to include (semi-) public entities such as State-owned enterprises and SWFs. Private individuals, who mostly invest in sustainable development through funds or dedicated corporate-like vehicles are as such included. Other private sources of finance by individuals, such as remittances, are not addressed here. *As much of the data on investment distinguishes between public and private (rather than corporate) origin, and for ease of exposition, the term “private sector investment” will be used throughout the chapter.*
- *Domestic and foreign investors.* Unless specified differently, domestic firms are included in the scope of the analysis and recommendations. The respective roles of domestic and foreign investors in SDG projects will vary by country, sector and industry. A crucial aspect of sustainable development financing and investment will be linkages that foreign investors establish with the local economy.
- *Developing countries.* The focus of the chapter is on developing countries, with specific attention to weak and vulnerable economies (LDCs, landlocked developing countries and small island developing States). However, some of the data used are solely available as global estimates (indicated, where pertinent).
- *Capital investment.* “Investment” normally refers to “capital expenditures” (or “capex”) in a project or facility. Financing needs also include operating expenditures (or “opex”) – for example, on health care, education and social services – in addition to capital expenditures (or “capex”). While not regarded as investment, these expenditures are referred to where they are important from an SDG perspective. In keeping with this definition, the chapter does not examine corporate philanthropic initiatives, e.g. funds for emergency relief.
- *Broad-based sustainable development financing needs.* The chapter examines investment in all three broadly defined pillars of the SDGs: economic growth, social inclusion and environmental stewardship. In most cases, these are hard to separate in any given SDG investment. Infrastructure investments will have elements of all three objectives. The use of the terms “SDG sectors” or “SDG investments” in this chapter generally refers to social pillar investments (e.g. schools, hospitals, social housing); environmental pillar investments (e.g. climate change mitigation, conservation); and economic pillar investments (e.g. infrastructure, energy, industrial zones, agriculture).

Source: UNCTAD.

## B. THE INVESTMENT GAP AND PRIVATE SECTOR POTENTIAL

This section explores the magnitude of total investment required to meet the SDGs in developing countries; examines how these investment needs compare to current investment in pertinent sectors (the investment gap); and establishes the degree to which the private sector can make a contribution, with specific attention to potential contributions in vulnerable economies.

Private sector contributions often depend on facilitating investments by the public sector. For instance, in some sectors – such as food security, health or energy sustainability – publicly supported R&D investments are needed as a prelude to large-scale SDG-related investments.

### 1. SDG investment gaps and the role of the private sector

*The SDGs will have very significant resource implications worldwide. Total investment needs in developing countries alone could be about \$3.9 trillion per year. Current investment levels leave a gap of some \$2.5 trillion.*

This section examines projected investment needs in key SDG sectors over the period 2015-2030, as well as the current levels of private sector participation in these sectors. It draws on a wide range of sources and studies conducted by specialized agencies, institutions and research entities (box IV.2).

At the global level, total investment needs are in the order of \$5 to \$7 trillion per year. Total investment needs in developing countries in key SDG sectors are estimated at \$3.3 to \$4.5 trillion per year over the proposed SDG delivery period, with a midpoint at \$3.9 trillion (table IV.2).<sup>2</sup> Current investment in these sectors is around \$1.4 trillion, implying an annual investment gap of between \$1.9 and \$3.1 trillion.

#### **Economic infrastructure**

Total investment in *economic infrastructure* in developing countries – power, transport (roads, rails and ports), telecommunications and water and

sanitation – is currently under \$1 trillion per year for all sectors, but will need to rise to between \$1.6 and \$2.5 trillion annually over the period 2015-2030.

Increases in investment of this scale are formidable, and much of the additional amount needs to come from the private sector. One basis for gauging the potential private sector contribution in meeting the investment gap in economic infrastructure is to compare the current level of this contribution in developing countries, with what could potentially be the case. For instance, the private sector share in infrastructure industries in developed countries (or more advanced developing countries) gives an indication of what is possible as countries climb the development ladder.

Apart from water and sanitation, the private share of investment in infrastructure in developing countries is already quite high (30-80 per cent depending on the industry); and if developed country participation levels are used as a benchmark, the private sector contribution could be much higher. Among developing countries, private sector participation ranges widely, implying that there is considerable leeway for governments to encourage more private sector involvement, depending on conditions and development strategies.

Recent trends in developing countries have, in fact, been towards greater private sector participation in power, telecommunications and transport (Indonesia, Ministry of National Development Planning 2011; Calderon and Serven 2010; OECD 2012; India, Planning Commission 2011). Even in water and sanitation, private sector participation can be as high as 20 per cent in some countries. At the same time, although the rate reaches 80 per cent in a number of developed countries, it can be as low as 20 per cent in others, indicating varying public policy preferences due to the social importance of water and sanitation in all countries. Given the sensitivity of water provision to the poor in developing countries, it is likely that the public sector there will retain its primacy in this industry, although a greater role for private sector in urban areas is likely.



### Box IV.2. Data, methods and sources used in this section

As the contours of the future SDGs are becoming clearer, many organizations and stakeholders in the process have drawn up estimates of the additional financing requirements associated with the economic, social and environmental pillars of sustainable development. Such estimates take different forms. They may be lump-sum financing needs until 2030 or annual requirements. They may aggregate operational costs and capital expenditures. And they are often global estimates, as some of the SDGs are aimed at global commons (e.g. climate change mitigation).

This section uses data on SDG investment requirements as estimated and published by specialized agencies, institutions and research entities in their respective areas of competence, using a meta-analytic approach. As much as possible, the section aims to express all data in common terms: (i) as annual or annualized investment requirements and gaps; (ii) focusing on *investment* (capital expenditures only); and (iii) primarily narrowing the scope to investment in developing countries only. Any estimates by UNCTAD are as much as possible consistent with the work of other agencies and institutions. Figures are quoted on a constant price basis to allow comparisons between current investment, future investment needs and gaps. However agencies' estimates use different base years for the GDP deflator, and the GDP rate assumed also varies (usually between 4–5 per cent constant GDP growth).

This section has extensively reviewed many studies and analyses to establish consensus estimates on future investment requirements.<sup>1</sup> The principal sources drawn upon are:

- Infrastructure: McKinsey provided valuable support, including access to the MGI ISS database. McKinsey (2013), Bhattacharya et al. in collaboration with G-24 (2012), MDB Committee on Development Effectiveness (2011), Fay et al (2011), Airolidi et al. (2013), OECD (2006, 2007, 2012), WEF/PwC (2012).
- Climate Change: CPI and UNCTAD jointly determined the investment needs ranges provided in table IV.2, including unpublished CPI analysis. Buchner et al. (2013), World Bank (2010), McKinsey (2009), IEA (2009, 2012), UNFCCC (2007), WEF (2013).
- Food security and agriculture: FAO analysis, updated jointly by FAO-UNCTAD; context and methodology in Schmidhuber and Bruinsma (2011).
- Ecosystems/Biodiversity: HLP (2012) and Kettunen et al. (2013).

Further information and subsidiary sources used are provided in table IV.2. These sources were used to “sense check” the numbers in table IV.2 and estimate the private share of investment in each sector.

There are no available studies on social sectors (health and education) conducted on a basis comparable to the above sectors. UNCTAD estimated investment needs over 2015-2030 for social sectors using a methodology common to studies in other sectors, i.e. the sum of: the annualized investment required to shift low-income developing countries to the next level of middle income developing countries, the investment required to shift this latter group to the next level, and so on. The raw data required for the estimations were primarily derived from the World Bank, World Development Indicators Database.

The data presented in this chapter, while drawing on and consistent with other organizations, and based on recognized methodological principles, should nonetheless be treated only as a guide to likely investment. In addition to the many data and methodological difficulties that confront all agencies, projections many years into the future can never fully anticipate the dynamic nature of climate change, population growth and interest rates – all of which will have unknown impacts on investment and development needs.<sup>2</sup> Bearing in mind the above limitations, the estimates reported in this section provide orders of magnitude of investment requirements, gaps and private sector participation.

Source: UNCTAD.

<sup>1</sup> In a number of cases, this section draws on estimates for future investment requirements and gaps not made specifically with SDGs in mind. Nevertheless, the aims underlying these estimates are normally for sustainable development purposes consistent with the SDGs (e.g. estimates pertaining to climate change mitigation or infrastructure). This approach has also been taken by the UN System Task Team (UNTT 2013) and other United Nations bodies aiming to estimate the financing and investment implications of the SDGs.

<sup>2</sup> For instance, a spate of megaprojects in power and road transport in developing countries during the last few years has caused the proportion of infrastructure to GDP to rise for developing countries as a whole. A number of studies on projected investment requirements in infrastructure – which assume a baseline ratio of infrastructure, normally 3-4 per cent – do not fully factor this development in.

**Table IV.2. Current investment, investment needs and gaps and private sector participation in key SDG sectors in developing countries<sup>a</sup>**

Sector	Description	Estimated current investment (latest available year) \$ billion <b>A</b>	2015-2030		Average private sector participation in current investment <sup>b</sup>	
			Total investment required Annualized \$ billion (constant price) <b>B</b>	Investment Gap <b>C = B - A</b>	Developing countries	Developed countries
					Per cent	
Power <sup>c</sup>	Investment in generation, transmission and distribution of electricity	~260	630–950	370–690	40–50	80–100
Transport <sup>c</sup>	Investment in roads, airports, ports and rail	~300	350–770	50–470	30–40	60–80
Telecommunications <sup>c</sup>	Investment in infrastructure (fixed lines, mobile and internet)	~160	230–400	70–240	40–80	60–100
Water and sanitation <sup>c</sup>	Provision of water and sanitation to industry and households	~150	~410	~260	0–20	20–80
Food security and agriculture	Investment in agriculture, research, rural development, safety nets, etc.	~220	~480	~260	~75	~90
Climate change mitigation	Investment in relevant infrastructure, renewable energy generation, research and deployment of climate-friendly technologies, etc.	170	550–850	380–680	~40	~90
Climate change adaptation	Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.	~20	80–120	60–100	0–20	0–20
Eco-systems/ biodiversity	Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.		70–210 <sup>d</sup>			
Health	Infrastructural investment, e.g. new hospitals	~70	~210	~140	~20	~40
Education	Infrastructural investment, e.g. new schools	~80	~330	~250	~15	0–20

Source: UNCTAD.

<sup>a</sup> Investment refers to capital expenditure. Operating expenditure, though sometimes referred to as 'investment' is not included. The main sources used, in addition to those in box IV.2, include, by sector:

*Infrastructure:* ABDI (2009); Australia, Bureau of Infrastructure, Transport and Regional Economics (2012); Banerjee (2006); Bhattacharyay (2012); Australia, Reserve Bank (2013); Doshi et al. (2007); Calderon and Serven (2010); Cato Institute (2013); US Congress (2008); Copeland and Tiemann (2010); Edwards (2013); EPSU (2012); Estache (2010); ETNO (2013); Foster and Briceno-Garmendia (2010); Goldman Sachs (2013); G-30 (2013); Gunatilake and Carangal-San Jose (2008); Hall and Lobina (2010); UK H.M. Treasury (2011, 2013); Inderst (2013); Indonesia, Ministry of National Development Planning (2011); Izaguirre and Kulkarni (2011); Lloyd-Owen (2009); McKinsey (2011b); Perrotti and Sánchez (2011); Pezon (2009); Pisu (2010); India, Planning Commission (2011, 2012); Rhodes (2013); Rodriguez et al. (2012); Wagenvoort et al. (2010); World Bank (2013a) and Yepes (2008);

*Climate Change:* AfDB et al. (2012); Buchner et al. (2011, 2012) and Helm et al. (2010).

*Social sectors:* Baker (2010); High Level Task Force on Innovative International Financing for Health Systems (2009); Institute for Health Metrics and Evaluation (2010, 2012); Leading Group on Innovative Financing to Fund Development (2010); McCoy et al. (2009); The Lancet (2011, 2013); WHO (2012) and UNESCO (2012, 2013).

<sup>b</sup> The private sector share for each sector shows large variability between countries.

<sup>c</sup> Excluding investment required for climate change, which is included in the totals for climate change mitigation and adaptation.

<sup>d</sup> Investment requirements in ecosystems/biodiversity are not included in the totals used in the analysis in this section, as they overlap with other sectors.



### **Food security**

Turning to investment in *food security and agriculture*, current relevant investment is around \$220 billion per year. Investment needs in this area refer to the FAO's "zero hunger target" and primarily covers investment in relevant agriculture areas such as: agriculture-specific infrastructure, natural resource development, research, and food safety nets, which are all a part of the relevant SDG goals.

On this basis, total investment needs are around \$480 billion per year, implying an annual gap of some \$260 billion over and above the current level. The corporate sector contribution in the agricultural sector as a whole is already high at 75 per cent in developing countries, and is likely to be higher in the future (as in developed countries).

### **Social infrastructure**

Investment in social infrastructure, such as education and health, is a prerequisite for effective sustainable development, and therefore an important component of the SDGs. Currently investment in *education* is about \$80 billion per year in developing countries. In order to move towards sustainable development in this sector would require \$330 billion to be invested per year, implying an annual gap of about \$250 billion over and above the current level.

Investment in *health* is currently about \$70 billion in developing countries. The SDGs would require investment of \$210 billion per year, implying an investment gap of some \$140 billion per year over and above the current level. The private sector investment contribution in healthcare in developing countries as a whole is already very high, and this is likely to continue, though perhaps less so in vulnerable economies. In contrast, the corporate contribution in both developed and developing countries in education is small to negligible and likely to remain that way. Generally, unlike in economic infrastructure, private sector contributions to investment in social infrastructure are not likely to see a marked increase.

For investment in social infrastructure it is also especially important to take into account additional operational expenditures as well as capital expenditures (i.e. investment per se). The relative

weight of capital expenditures and operating expenditures varies considerably between sectors, depending on technology, capital intensity, the importance of the service component and many other factors. In meeting SDG objectives, operating expenditures cannot be ignored, especially in new facilities. In the case of health, for example, operating expenditures are high as a share of annual spending in the sector. After all, investing in new hospitals in a developing country is insufficient to deliver health services – that is to say doctors, nurses, administrators, etc. are essential. Consideration of operating cost is important in all sectors; not allowing for this aspect could see the gains of investment in the SDGs reversed.

### **Environmental sustainability**

Investment requirements for *environmental sustainability* objectives are by nature hard to separate from investments in economic and social objectives. To avoid double counting, the figures for the investment gap for economic infrastructure in table IV.2 exclude estimates of additional investment required for climate change adaptation and mitigation. The figures for social infrastructure and agriculture are similarly adjusted (although some overlap remains). From a purely environmental point of view, including stewardship of global commons, the investment gap is largely captured through estimates for climate change, especially mitigation, and under ecosystems/biodiversity (including forests, oceans, etc.).

Current investments for climate change mitigation, i.e. to limit the rise in average global warming to 2° Celsius, are \$170 billion in developing countries, but require a large increase over 2015-2030 (table IV.2). Only a minority share is presently contributed by the private sector – estimates range up to 40 per cent in developing countries. A bigger contribution is possible, inasmuch as the equivalent contribution in developed countries is roughly 90 per cent, though much of this is the result of legislation as well as incentives and specific initiatives.

The estimated additional investment required for climate change mitigation are not just for infrastructure, but for all sectors – although the specific areas for action depend very much on the

types of policies and legislation that are enacted by governments (*WIR10*). In future these policies will be informed by the SDGs, including those related to areas such as growth, industrialization and sustainable cities/settlements. The size and pattern of future investment in climate change in developing countries (and developed ones) depends very much on which policies are adopted (e.g. feed-in tariffs for renewable energy, emissions from cars, the design of buildings, etc.), which is why the range of estimates is wide.

Investment in climate change adaptation in developing countries is currently very small, in the order of \$20 billion per year, but also need to increase substantially, even if mitigation is successful (table IV.2). If it is not, with average temperatures rising further than anticipated, then adaptation needs will accelerate exponentially, especially with respect to infrastructure in coastal regions, water resource management and the viability of ecosystems.

The current private sector share of investment in climate change adaptation in developing countries appears to be no different, at up to 20 per cent, than in developed ones. In both cases considerable inventiveness is required to boost corporate contribution into territory which has traditionally

been seen as the purview of the State, and in which – from a private sector perspective – the risks outweigh the returns.

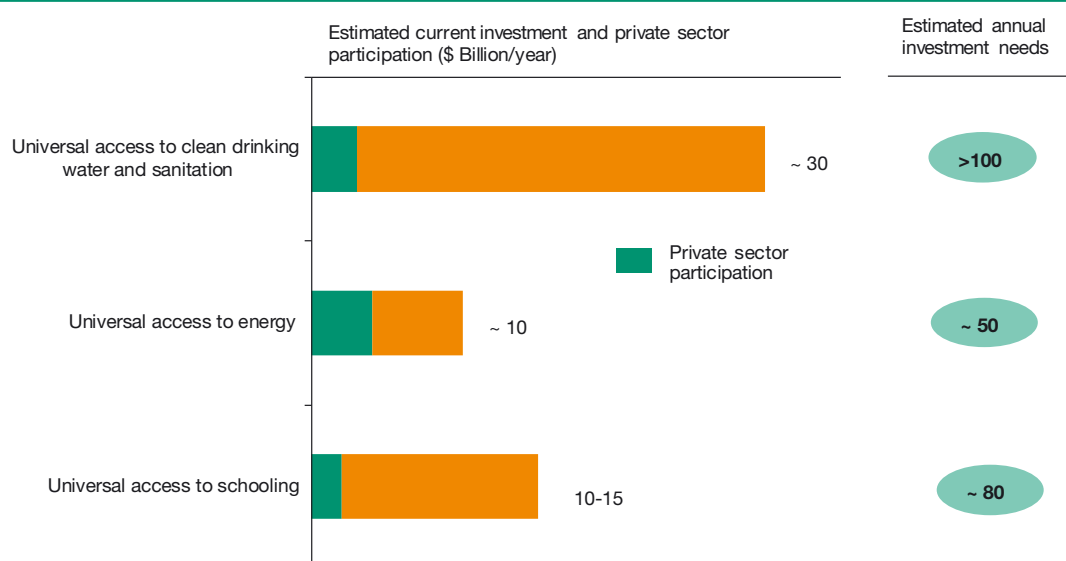
### Other investment needs: towards inclusiveness and universality

There are vulnerable communities in all economies. This is perhaps more so in structurally weak economies such as LDCs, but numerically greater pockets of poverty exist in better off developing countries (in terms of average incomes) such as in South Asia.

Thus, while the estimated investment needs discussed in this section are intended to meet the overall requirements for sustainable investment in all developing countries, they may not fully address the specific circumstance of many of the poorest communities or groups, especially those who are isolated (e.g. in rural areas or in forests) or excluded (e.g. people living in slums).

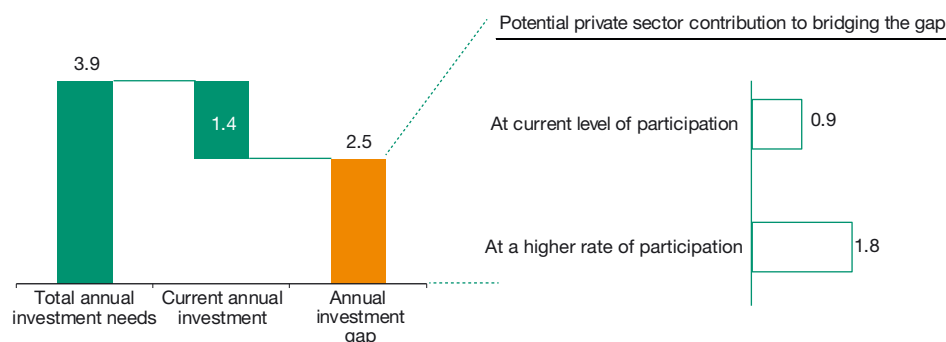
For this reason, a number of prospective SDGs (or specific elements of all SDGs) – such as those focusing on energy, water and sanitation, gender and equality – include elements addressing the prerequisites of the otherwise marginalized. Selected examples of potential types of targets

**Figure IV.2. Example investment needs in vulnerable and excluded groups**  
(Billions of dollars per year)



Source: : UNCTAD, WHO (2012), IEA (2009, 2011), World Bank and IEA (2013), Bazilian et al. (2010) and UNESCO (2013).  
Note: These needs are calculated on a different basis from table IV.2 and the numbers are not directly comparable.

**Figure IV.3. Estimated annual investment needs and potential private sector contribution, 2015–2030**  
(Trillions of dollars)



Source: UNCTAD based on table IV.2.

Note: Totals are the mid-points of range estimates.

are presented in figure IV.2, with estimates of the associated financing requirements.

In most such cases the private sector contribution in developing countries is low, although it should be possible to increase it (for instance, in electricity access). However, boosting this share will be easier in some places (e.g. in urban areas), but difficult in others (e.g. remote locations, among very low-income groups, and where the number of individuals or communities are relatively small or highly dispersed). The private sector contribution to goals aimed at vulnerable individuals and communities therefore needs to be considered carefully.

## 2. Exploring private sector potential

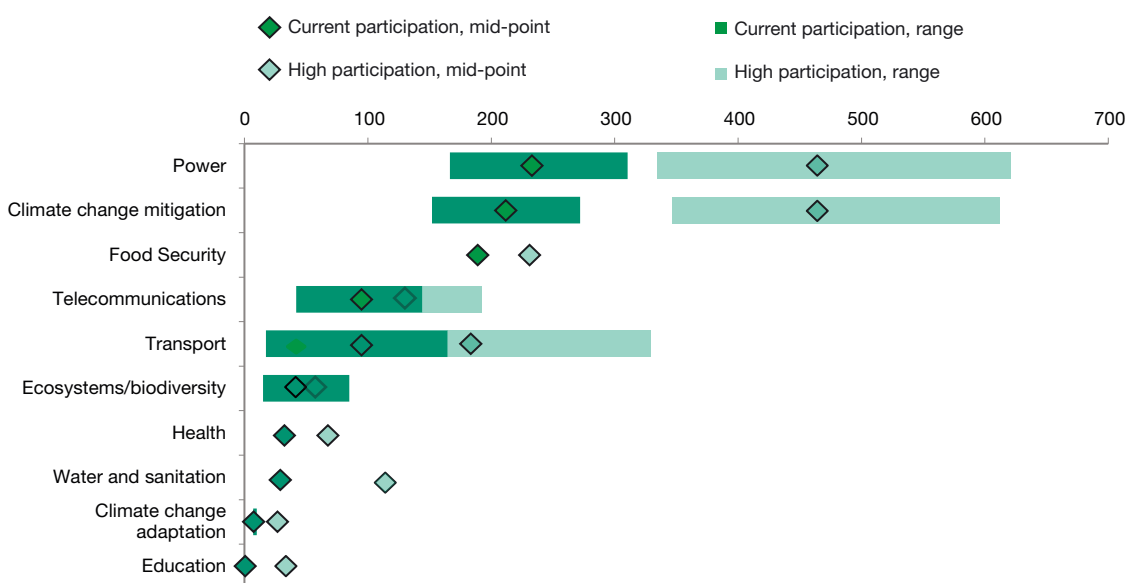
*At today's level of private sector participation in SDG investments in developing countries, a funding shortfall of some \$1.6 trillion would be left for the public sector (and ODA) to cover.*

The previous section has established the order of magnitude of the investment gap that has to be bridged in order to meet the SDGs. Total annual SDG-related investment needs in developing countries until 2030 are in the range of \$3.3 to \$4.5 trillion, based on estimates for the most important SDG sectors from an investment point of view (figure IV.3). This entails a mid-point estimate of \$3.9 trillion per year. Subtracting current annual investment of \$1.4 trillion leaves a mid-point estimated investment gap of \$2.5 trillion, over and above current levels. At the current private sector

share of investment in SDG areas, the private sector would cover only \$900 billion of this gap, leaving \$1.6 trillion to be covered by the public sector (including ODA). For developing countries as a group, including fast-growing emerging markets, this scenario corresponds approximately to a “business as usual” scenario; i.e. at current average growth rates of private investment, the current private sector share of total investment needs could be covered. However, increasing the participation of the private sector in SDG financing in developing countries could potentially cover a larger part of the gap, if the relative share of private sector investment increased to levels observed in developed countries. It is clear that in order to avoid what could be unrealistic demands on the public sector in many developing countries, the SDGs must be accompanied by strategic initiatives to increase private sector participation.

The potential for increasing private sector participation is greater in some sectors than in others (figure IV.4). Infrastructure sectors, such as power and renewable energy (under climate change mitigation), transport and water and sanitation, are natural candidates for greater private sector participation, under the right conditions and with appropriate safeguards. Other SDG sectors are less likely to generate significantly higher amounts of private sector interest, either because it is difficult to design risk-return models attractive to private investors (e.g. climate change adaptation), or

**Figure IV.4. Potential private-sector contribution to investment gaps at current and high participation levels**  
(Billions of dollars)



Source: UNCTAD.

Note: Private-sector contribution to investment gaps calculated using mid-points of range estimates in table IV.2. The higher participation level is the average private-sector investment shares observed in developed countries. Some sectors do not have a range of estimates, hence the mid-point is the single estimated gap.

because they are more in the realm of public sector responsibilities and consequently highly sensitive to private sector involvement (e.g. education and healthcare).

### 3. Realistic targets for private sector SDG investment in LDCs

*The SDGs will necessitate a significant increase in public sector investment and ODA in LDCs. In order to reduce pressure on public funding requirements, a doubling of the growth rate of private investment is desirable.*

Investment and private sector engagement across SDG sectors are highly variable across developing countries. The extent to which policy action to increase private sector investment is required therefore differs by country and country grouping. Emerging markets face entirely different conditions to vulnerable economies such as LDCs, LLDCs and small island developing States (SIDS), which are necessarily a focus of the post-2015 SDG agenda.

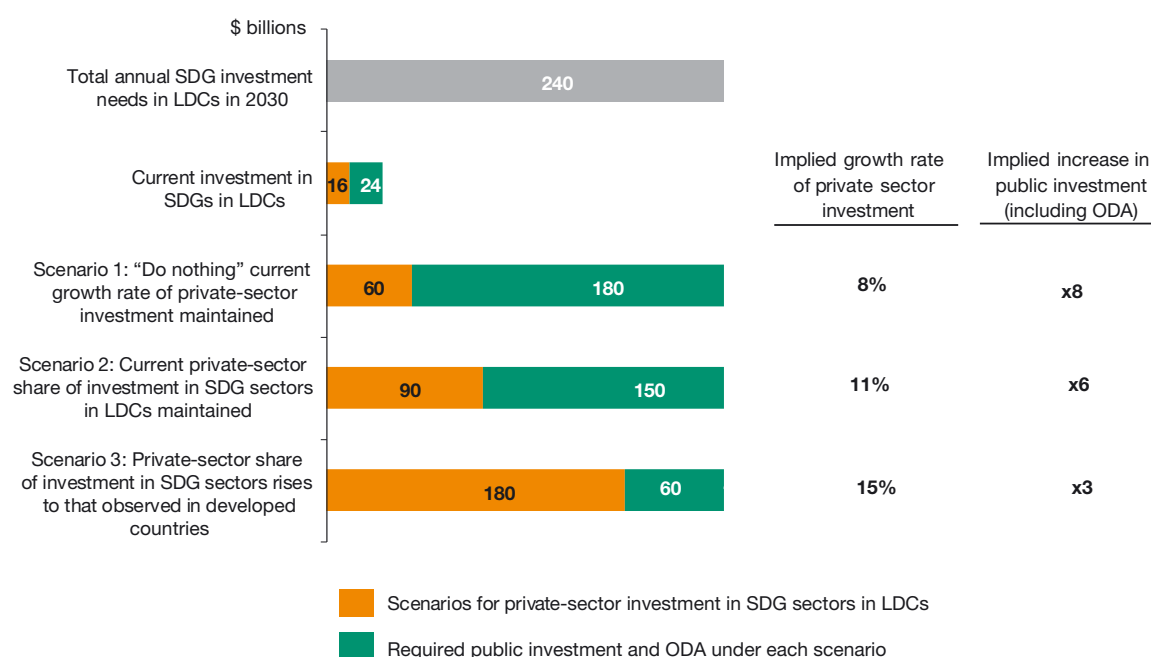
In LDCs, for instance, ODA remains the largest external capital flow, at \$43 billion in 2012 (OECD

2013a), compared to FDI inflows of \$28 billion and remittances of \$31 billion in 2013. Moreover, a significant proportion of ODA is spent on government budget support and goes directly to SDG sectors like education and health. Given its importance to welfare systems and public services, ODA will continue to have an important role to play in the future ecology of development finance in LDCs and other vulnerable economies; and often it will be indispensable.

Nevertheless, precisely because the SDGs entail a large-scale increase in financing requirements in LDCs and other vulnerable economies (relative to their economic size and financing capacity), policy intervention to boost private investment will also be a priority. It is therefore useful to examine the degree to which private sector investment should be targeted by such policy actions.

Extrapolating from the earlier analysis of the total SDG investment need for developing countries as a whole (at about \$3.9 trillion per year), the LDC share of investment in SDG sectors, based on the current size of their economies and on the specific needs related to vulnerable communities, amounts

Figure IV.5. Private sector SDG investment scenarios in LDCs



Source: UNCTAD estimates, based on table IV.2 and figure IV.3.

to nearly \$120 billion a year and a total for the 2015–2030 period of \$1.8 trillion. Current investments in LDCs in SDG sectors are around \$40 billion.<sup>3</sup> Figure IV.5 provides an example of a target-setting scenario for private investment in LDCs.

Total investment needs of \$1.8 trillion would imply a target in 2030, the final year of the period, of \$240 billion.<sup>4</sup> The current growth rate of private sector investment in LDCs, at around 8 per cent, would quadruple investment by 2030, but still fall short of the investment required (Scenario 1). This “doing nothing” scenario thus leaves a shortfall that would have to be filled by public sector funds, including ODA, requiring an eight-fold increase to 2030. This scenario, with the limited funding capabilities of LDC governments and the fact that much of ODA in LDCs is already used to support *current* (not investment) spending by LDC governments, is therefore not a viable option. Without higher levels of private sector investment, the financing requirements associated with the prospective SDGs in LDCs will be unrealistic for the public sector to bear.

One target for the promotion of private sector

investment in SDGs could be to cover that part of the total investment needs that corresponds to its current share of investment in LDCs’ SDG sectors (40 per cent), requiring a private sector investment growth rate of 11 per cent per year but still implying a six-fold increase in public sector investment and ODA by 2030 (Scenario 2). A “stretch” target for private investment (but one that would reduce public funding requirements to more realistic levels) could be to raise the share of the private sector in SDG investments to the 75 per cent observed in developed countries. This would obviously require the right policy setting both to attract such investment and to put in place appropriate public policy safeguards, and would imply the provision of relevant technical assistance. Such a stretch target would ease the pressure on public sector funds and ODA, but still imply almost trebling the current level.

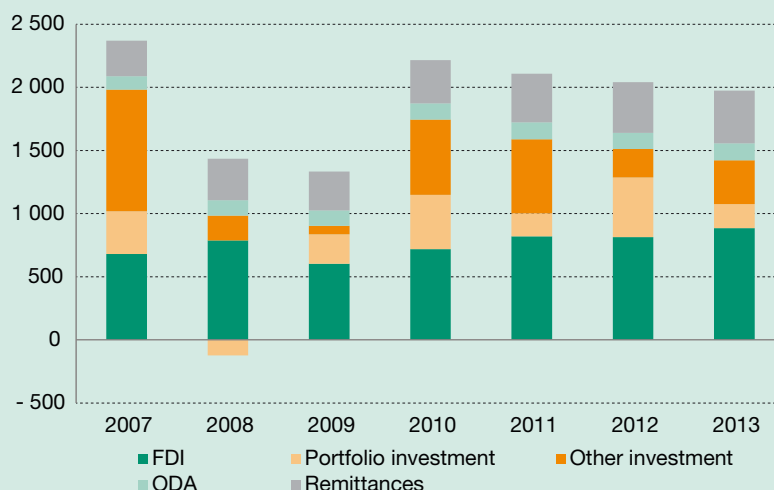
Public sector funds, and especially ODA, will therefore remain important for SDG investments in LDCs, including for leveraging further private sector participation. At the same time, the private sector contribution must also rise in order to achieve the SDGs.

### Box IV.3. External sources of finance and the role of FDI

External sources of finance to developing and transition economies include FDI, portfolio investment, other investment flows (mostly bank loans), ODA and remittances. Together these flows amount to around \$2 trillion annually (box figure IV.3.1). After a sharp drop during the global financial crisis they returned to high levels in 2010, although they have seen a slight decline since then, driven primarily by fluctuating flows in bank loans and portfolio investment.

**Box figure IV.3.1. External development finance to developing and transition economies, 2007–2013**

(Billions of dollars)

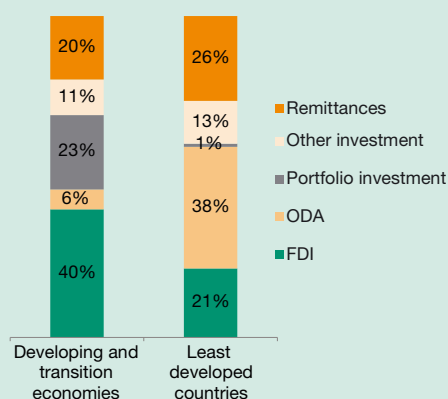


Source: UNCTAD, based on data from IMF (for portfolio and other investment), from the UNCTAD FDI-TNC-GVC Information System (for FDI inflows), from OECD (for ODA) and the World Bank (for remittances).

Note: Data are shown in the standard balance-of-payments presentation, thus on a net basis.

The composition of external sources of finance differs by countries' level of development (box figure IV.3.2). FDI is an important source for all groups of developing countries, including LDCs. ODA accounts for a relatively large share of external finance in LDCs, whereas these countries receive a low amount of portfolio investment, reflecting the lack of developed financial markets.

**Box figure IV.3.2. Composition of external sources of development finance, 2012**



Source: UNCTAD, based on data from IMF (for portfolio and other investment), from the UNCTAD FDI-TNC-GVC Information System (for FDI inflows), from OECD (for ODA) and the World Bank (for remittances).

The components of external finance show different degrees of volatility. FDI has been the largest and most stable component over the past decade, and the most resilient to financial and economic crises. It now accounts for just under half of all net capital flows to developing and transition economies. The relative stability and steady growth of FDI arises primarily because it is associated with the build-up of productive capacity in host countries. Direct investors tend to take a long-term interest in assets located in host countries, leading to longer gestation periods for investment decisions, and making existing investments more difficult to unwind. FDI thus tends to be less sensitive to short-term macroeconomic, exchange rate or interest rate fluctuations.

/...



**Box IV.3. External sources of finance and the role of FDI (concluded)**

The nature of FDI as a relatively stable and long-term investment in productive assets thus brings it close to the type of investment required in SDG sectors. A number of caveats are warranted, including:

- The relative importance of FDI is lower in the poorest countries; on its own, FDI (like all types of private sector investment) will first flow to lower risk/higher return opportunities, both in terms of location and in terms of sector. This is an important consideration in balancing public and private investment policy priorities.
- FDI flows do not always translate into equivalent capital expenditures, especially where they are driven by retained earnings or by transactions (such as mergers and acquisitions (M&As), although some M&A transactions, such as brownfield investment in agriculture do results in significant capital expenditure).
- FDI can contain short-term, relatively volatile components, such as “hot money” or investments in real estate.

Nevertheless, a comparison with other external sources of finance shows that FDI will have a key role to play in investing in the SDGs. For example, ODA is partly used for direct budgetary support in the poorest countries and on current spending in SDG sectors, rather than for capital expenditures. Remittances are predominantly spent on household consumption (although a small but growing share is used for investment entrepreneurial ventures). Portfolio investment is typically in more liquid financial assets rather than in fixed capital and tends to be more volatile. And with portfolio investment, bank loans have been the most volatile external source of finance for developing economies over the last decade.

*Source:* UNCTAD.

Reaching the “stretch” target over a period of 15 years requires a doubling in the current growth rate of private investment. Such an increase has implications for the components of private investment. For instance, foreign investment, especially FDI, is relatively important in private sector capital formation in LDCs (box IV.3). While FDI amounts to less than 10 per cent of the value of gross fixed capital formation in developing countries, in LDCs it reaches around 15 per cent,

with higher peaks in particular groups of structurally weak economies (for example, more than 23 per cent in landlocked developing countries). As private capital formation is around half of the total in LDCs on average, foreign investment could therefore constitute close to 30 per cent of private investment, potentially with higher growth potential. Pursuing a “stretch” target for private investment in LDCs may thus require a particular focus on the attraction of external sources of private finance.

## C. INVESTING IN THE SDGs: A CALL FOR LEADERSHIP

### 1. Leadership challenges in raising private sector investment in the SDGs

*Increasing the involvement of private investors in SDG sectors, many of which are sensitive or involve public services, leads to a number of policy dilemmas. Public and private sector investment are no substitutes, but they can be complementary.*

Measures to increase private sector involvement in investment in sustainable development lead to a number of policy dilemmas which require careful consideration.

- Increasing private investment is necessary. But the role of public investment remains fundamental.* Increases in private sector investment to help achieve the prospective SDGs are necessary, but public sector investment remains vital and central. The two sectors are not substitutes, they are complementary. Moreover, the role of the public sector goes beyond investment per se, and includes all the conditions necessary to meet the SDG challenge.
- Attracting private investment into SDG sectors entails a conducive investment climate. At the same time, there are risks involved.* Private sector engagement in a number of SDG sectors where a strong public sector responsibility exists has traditionally been a sensitive issue. Private sector service provision in healthcare and education, for instance, can have negative effects on standards unless strong governance and oversight is in place, which in turn requires capable institutions and technical competencies. Private sector involvement in essential infrastructure industries, such as power or telecommunications can be sensitive in countries where this implies the transfer of public sector assets to the private sector, requiring appropriate safeguards against anti-competitive behaviour and for consumer protection. Private sector operations in infrastructure such as water and sanitation are particularly sensitive because of the basic-needs nature of these sectors.
- Private sector investors require attractive risk-return rates. At the same time, basic-needs services must be accessible and affordable to all.* The fundamental hurdle for increased private sector contributions to investment in SDG sectors is the inadequate risk-return profile of many such investments. Perceived risks can be high at all levels, including country and political risks, risks related to the market and operating environment, down to project and financial risks. Projects in the poorest countries, in particular, can be easily dismissed by the private sector as “poor investments”. Many mechanisms exist to share risks or otherwise improve the risk-return profile for private sector investors. Increasing investment returns, however, cannot lead to the services provided by private investors ultimately becoming inaccessible or unaffordable for the poorest in society. Allowing energy or water suppliers to cover only economically attractive urban areas while ignoring rural needs, or to raise prices of essential services, are not a sustainable outcome.
- The scope of the SDGs is global. But LDCs need a special effort to attract more private investment.* From the perspective of policymakers at the international level, the problems that the SDGs aim to address are global issues, although specific targets may focus on particularly acute problems in poor countries. While overall financing for development needs may be defined globally, with respect to private sector financing contribution, special efforts are required for LDCs and other vulnerable economies. Without targeted policy intervention these countries will not be able to attract resources from investors which often regard operating conditions and risks in those economies as prohibitive.

### 2. Meeting the leadership challenge: key elements

*The process of increasing private investment in SDGs requires leadership at the global level, as well as from national policymakers, to provide guiding*

*principles, set targets, galvanize action, foster dialogue, and guarantee inclusiveness.*

Given the massive financing needs concomitant to the achievement of the SDGs, what is needed is a *concerted push*, which in turn requires strong global leadership, (i) providing clear direction and basic principles of action, (ii) setting objectives and targets, (iii) building strong and lasting consensus among many stakeholders worldwide and (iv) ensuring that the process is inclusive, keeping on board countries that require support along the way (figure IV.6).

### **Guiding principles for private sector investment in the SDGs**

The many stakeholders involved in stimulating private investment in SDGs will have varying perspectives on how to resolve the policy dilemmas inherent in seeking greater private sector participation in SDG sectors. A common set of principles for investment in SDGs can help establish a collective sense of direction and purpose.

The following broad principles could provide a framework.

- *Balancing liberalization and regulation.* Greater private sector involvement in SDG sectors is a must where public sector resources are insufficient (although selective, gradual or sequenced approaches are possible); at the same time, such increased involvement must be accompanied by appropriate regulations and government oversight.
- *Balancing the need for attractive risk-return rates with the need for accessible and affordable services for all.* This requires governments to proactively address market failures in both respects. It means placing clear obligations on investors and extracting firm commitments, while providing incentives to improve the risk-return profile of investment. And it implies making incentives or subsidies conditional on social inclusiveness.
- *Balancing a push for private investment funds with the push for public investment.* Synergies between public and private funds should be found both at the level of financial resources – e.g. raising private sector funds with public sector funds as base capital – and at the policy level, where governments can seek to engage

**Figure IV.6. Providing leadership to the process of raising private-sector investment in the SDGs: key challenges and policy options**



Source: UNCTAD.

private investors to support programmes of economic or public service reform. Private and public sector investment should thus be complementary and mutually supporting.

- *Balancing the global scope of the SDGs with the need to make a special effort in LDCs.* Special targets and special measures should be adopted for private investment in LDCs. ODA and public funds should be used where possible to leverage further private sector financing. And targeted technical assistance and capacity-building should be aimed at LDCs to help attract and manage investment.

Beyond such broad principles, in its Investment Policy Framework for Sustainable Development (IPFSD), an open-source tool for investment policymakers, UNCTAD has included a set of principles specifically focused on investment policies that could inform wider debate on guiding principles for investment in the SDGs. The IPFSD Principles are the design criteria for sound investment policies, at the national and international levels, that can support SDG investment promotion and facilitation objectives while safeguarding public interests. UNCTAD has already provided the infrastructure for further discussion of the Principles through its *Investment Policy Hub*, which allows stakeholders to discuss and provide feedback on an ongoing basis.

### **SDG investment targets**

The rationale behind the SDGs, and the experience with the MDGs, is that targets help provide direction and purpose. Ambitious investment targets are implied by the prospective SDGs. The international community would do well to make targets explicit and spell out the consequences for investment policies and investment promotion at national and international levels. Achievable but ambitious targets, including for increasing public and private sector investment in LDCs, are thus a must. Meeting targets to increase private sector investment in the SDGs will require action at many levels by policymakers in developed and developing countries; internationally in international policymaking bodies and by the development community; and by the private sector itself. Such broad engagement needs coordination and strong consensus on a common direction.

### **Policy coherence and synergies**

Policymaking for investment in SDG sectors, and setting investment targets, needs to take into account the broader context that affects the sustainable development outcome of such investment. Ensuring coherence and creating synergies with a range of other policy areas is a key element of the leadership challenge, at both national and global levels. Policy interaction and coherence are important principally at three levels:

- *National and international investment policies.* Success in attracting and benefiting from foreign investment for SDG purposes depends on the interaction between national investment policies and international investment rulemaking. National rules on investor rights and obligations need to be consistent with countries' commitments in international investment agreements, and these treaties must not unduly undermine regulatory space required for sustainable development policies. In addition, it is important to ensure coherence between different IIAs to which a country is a party.
- *Investment and other sustainable-development-related policies.* Accomplishing SDGs through private investment depends not only on investment policy per se (i.e., entry and establishment rules, treatment and protection, promotion and facilitation) but on a host of investment-related policy areas including tax, trade, competition, technology, and environmental, social and labour market policies. These policy areas interact, and an overall coherent approach is needed to make them conducive to investment in the SDGs and to achieve synergies (WIR12, p. 108; IPFSD).
- *Micro- and macroeconomic policies.* Sound macro-economic policies are a key determinant for investment, and financial systems conducive to converting financial capital into productive capital are important facilitators, if not prerequisites, for promoting investment in the SDGs. A key part of the leadership challenge is to push for and support coordinated efforts towards creating an overall macro-economic climate that provides a stable environment for investors, and towards

re-orienting the global financial architecture to focus on mobilizing and channelling funds into real, productive assets, especially in SDG sectors (TDR 2009; TDR 2011; UNCTAD 2011b, Wolf, M. 2010).<sup>5</sup>

### **Global multi-stakeholder platform on investing in the SDGs**

At present international discussions on private sector investment in sustainable development are dispersed among many organizations, institutions and forums, each addressing specific areas of interest. There is a need for a regular body that provides a platform for discussion on overall investment goals and targets, shared mechanisms for mobilization of finance and channelling of investment into sustainable development projects, and ways and means of measuring and maximizing positive impact while minimizing negative effects.

*A global multi-stakeholder platform on investing in the SDGs could fill that gap, galvanizing promising initiatives to mobilize finance and spreading good practices, supporting actions on the ground channelling investment to priority areas,*

and ensuring a common approach to impact measurement. Such a multi-stakeholder platform could have subgroups by sector, e.g. on energy, agriculture, urban infrastructure, because the cross-sector span of investments is so great.

### **Multi-agency technical assistance facility**

Finally, many of the solutions discussed in this chapter are complex, requiring significant technical capabilities and strong institutions. Since this is seldom the case in some of the poorest countries, which often have relatively weak governance systems, technical assistance will be required in order to avoid leaving behind vulnerable countries where progress on the SDGs is most essential. A *multi-agency consortia* (a “one-stop shop” for SDG investment solutions) could help to support LDCs, advising on, for example, investment guarantee and insurance schemes, the set-up of SDG project development agencies that can plan, package and promote pipelines of bankable projects, design of SDG-oriented incentive schemes, regulatory frameworks, etc. Coordinated efforts to enhance synergies are imperative.

## **D. MOBILIZING FUNDS FOR INVESTMENT IN THE SDGs**

*The mobilization of funds for SDG investment occurs within a global financial system with numerous and diverse participants. Efforts to direct more financial flows to SDG sectors need to take into account the different challenges and constraints faced by all actors.*

### **1. Prospective sources of finance**

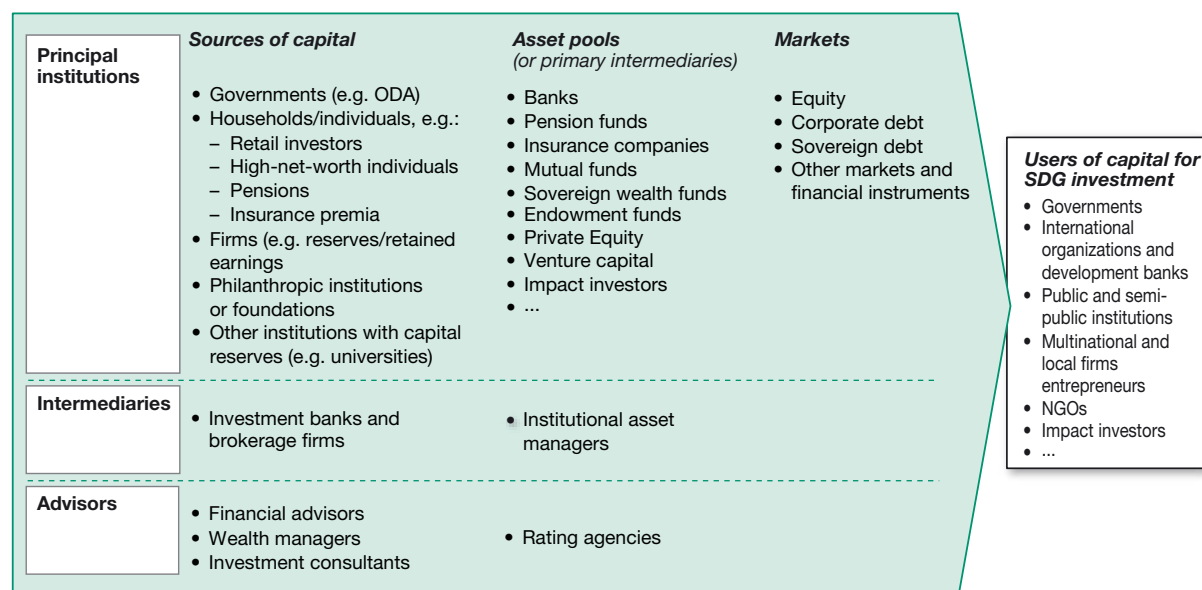
The global financial system, its institutions and actors, can mobilize capital for investment in the SDGs. The flow of funds from sources to users of capital is mediated along an investment chain with many actors (figure IV.7), including owners of capital, financial intermediaries, markets, and advisors. Constraints to mobilizing funds for SDG financing can be found both at the systemic level and at the level of individual actors in the system and their interactions. Policy responses will therefore need to address each of these levels.

Policy measures are also needed more widely to stimulate economic growth in order to create supportive conditions for investment and capital mobilization. This requires a coherent economic and development strategy, addressing macroeconomic and systemic issues at the global and national levels, feeding into a conducive investment climate. In return, if global and national leaders get their policies right, the resulting investment will boost growth and macroeconomic conditions, creating a virtuous cycle.

Prospective sources of investment finance range widely from large institutional investors, such as pension funds, to the private wealth industry. They include private sector sources as well as publicly owned and backed funds and companies; domestic and international sources; and direct and indirect investors (figure IV.8 illustrates some potential



Figure IV.7. SDG investment chain and key actors involved



Source: UNCTAD.

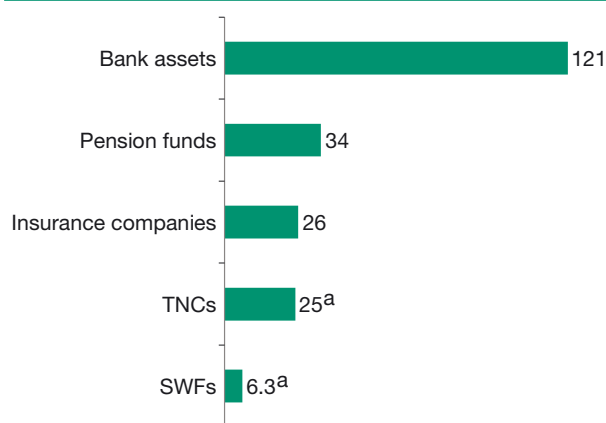
corporate sources of finance; others, including some non-traditional sources, are discussed in box IV.4).

The overall gap of about \$2.5 trillion is daunting, but not impossible to bridge; domestic and international

sources of capital are notionally far in excess of SDG requirements. However, existing savings and assets of private sector actors are not sitting idle; they are already deployed to generate financial returns. Nevertheless, the relative sizes of private sector sources of finance can help set priorities for action.

**Figure IV.8. Relative sizes of selected potential sources of investment, 2012**

(Value of assets, stocks and loans in trillions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, IMF (2014); SWF Institute, fund rankings; TheCityUK (2013).

Note: This figure is not exhaustive but seeks to list some key players and sources of finance. The amounts for assets, stocks and loans indicated are not equivalent, in some cases, overlap, and cannot be added.

<sup>a</sup> 2014 figure.

All the sources indicated in figure IV.8 are invested globally, of which a proportion is in developing countries (including by domestic companies). In the case of TNCs, for example, a third of global inward FDI stock in 2013 was invested in developing countries (and a bigger share of FDI flows). Pension funds, insurance companies, mutual funds and sovereign wealth funds, on the other hand, currently have much less involvement in developing markets. The majority of bank lending also goes to developed markets.

Each group of investor has a different propensity for investment in the SDGs.

- **Banks.** Flows of cross-border bank lending to developing countries were roughly \$325 billion in 2013, making international bank lending the third most important source of foreign capital after FDI and remittances. The stock of international cross-border bank claims on all countries stood at \$31.1 trillion at the end of



2014, of which \$8.8 trillion, or 28 per cent of the total, was in developing countries.<sup>6</sup>

As well as an important source of project debt finance, banks are in a powerful position to contribute to the SDGs through, for instance, the implementation of the Equator Principles (EPs), a risk management framework that helps determine, assess and manage environmental and social risk specifically in infrastructure and other industrial projects. Currently 78 financial institutions in 34 countries have officially adopted the EPs, a third of which are in developing countries. These institutions cover over 70 per cent of international project finance debt in emerging markets.<sup>7</sup>

State-owned banks (including development banks), regional development banks and local banking institutions (Marois, 2013) all have particular and significant relevance for investment in SDGs. State-owned banks and other financial institutions have always played an important role in development, targeting specific sectors, for example, infrastructure and public services, often at preferential rates. Today State-owned financial institutions (SOFI) account for 25 per cent of total assets in banking systems around the world; and the capital available in SOFIs in developing countries can be used both for investment in SDGs directly and to leverage funds and investment from the private sector (sections D.3 and E).

- *Pension funds.* UNCTAD estimates that pension funds have at least \$1.4 trillion of assets invested in developing markets; and the value of developed-country assets invested in the South is growing in addition to the value of pension funds based in developing countries (and which are predominantly invested in their own domestic markets). By 2020, it is estimated that global pension fund assets will have grown to more than \$56 trillion (PwC 2014a). Pension funds are investors with long-term liabilities able to take on less liquid investment products. In the past two decades, they have begun to recognize infrastructure investment as a distinct asset class and

there is the potential for future investment by them in more illiquid forms of infrastructure investment. Current engagement of pension funds in infrastructure investment is still small, at an estimated average of 2 per cent of assets (OECD 2013b). However, lessons can be drawn from some countries, including Australia and Canada, which have been successful in packaging infrastructure projects specifically to increase investment by pension funds (in both cases infrastructure investment makes up some 5 per cent of pension fund portfolios).

- *Insurance companies.* Insurance companies are comparable in size to pension and mutual funds. With similar long-term liabilities as pension funds (in the life insurance industry), insurance companies are also less concerned about liquidity and have been increasingly prepared to invest in infrastructure, albeit predominantly in developed markets. One study suggests that insurance companies currently allocate an average of 2 per cent of their portfolio to infrastructure, although this increases to more than 5 per cent in some countries (Preqin 2013). While insurance companies could provide a source of finance for investment in SDG sectors, their greater contribution may come from off-setting investments in areas such as climate change adaptation against savings from fewer insurance claims and lower insurance premiums.<sup>8</sup>

The growth of parts of the insurance industry is therefore intimately tied to investment in sustainable development sectors, e.g. investment in agricultural technologies to resist climate change, or flood defences to protect homes and businesses, can have a positive impact on the sustainability of the insurance fund industry. There is a virtuous cycle to be explored whereby insurance funds can finance the type of investment that will reduce future liabilities to events such as natural disasters. Already, the insurance industry is committed to mainstreaming ESG goals into its activities and raising awareness of the impact of new risks on the industry, for example through the UN-backed Principles for Sustainable Insurance.

- *Transnational corporations (TNCs)*. With \$7.7 trillion currently invested by TNCs in developing economies, and with some \$5 trillion in cash holdings, TNCs offer a significant potential source of finance for investment in SDG sectors in developing countries. FDI already represents the largest source of external finance for developing countries as a whole, and an important source (with ODA and remittances) even in the poorest countries. It is an important source of relatively stable development capital, partly because investors typically seek a long-term controlling interest in a project making their participation less volatile than other sources. In addition, FDI has the advantage of bringing with it a package of technology, managerial and technical know-how that may be required for the successful set-up and running of SDG investment projects.
- *Sovereign wealth funds (SWFs)*. With 80 per cent of SWF assets owned by developing countries, there is significant potential for SWFs to make a contribution to investment in SDG sectors in the global South. However, more than 70 per cent of direct investments by SWFs are currently made in developed markets (chapter I), and a high proportion of their total assets under management may also be invested in developed markets. SWFs share many similarities with institutional investors such as pension funds – several SWFs are constituted for this purpose, or also have that function, such as CalPERS and SPU (Truman 2008; Monk 2008). Other SWFs are established as strategic investment vehicles (Qatar holdings of the Qatar Investment Authority); as stabilization funds displaying the characteristics of a central bank (SAMA); or as development funds (Temasek).

#### Box IV.4. Selected examples of other sources of capital for investment in the SDGs

*Foundations, endowments and family offices.* Some estimates put total private wealth at \$46 trillion (TheCityUK 2013), albeit a third of this figure is estimated to be incorporated in other investment vehicles, such as mutual funds. The private wealth management of family offices stands at \$1.2 trillion and foundations/endowment funds at \$1.3 trillion in 2011 (WEF 2011). From this source of wealth it may be possible to mobilize greater philanthropic contributions to long-term investment, as well as investments for sustainable development through the fund management industry. In 2011 the United States alone were home to more than 80,000 foundations with \$662 billion in assets, representing over 20 per cent of estimated global foundations and endowments by assets, although much of this was allocated domestically.

*Venture capital.* The venture capital industry is estimated at \$42 billion (E&Y 2013) which is relatively small compared to some of the sums invested by institutional investors but which differs in several important respects. Investors seeking to allocate finance through venture capital often take an active and direct interest in their investment. In addition, they might provide finance from the start or early stages of a commercial venture and have a long-term investment horizon for the realization of a return on their initial capital. This makes venture capital more characteristic of a direct investor than a short-term portfolio investor.

*Impact investment.* Sources for impact investment include individuals, foundations, NGOs and capital markets. Impact investments funded through capital markets are valued at more than \$36 billion (Martin 2013). The impact investment industry has grown in size and scope over the past decade (from the Acumen fund in 2001 to an estimated 125 funds supporting impact investment in 2010 (Simon and Barmeier 2010)). Again, while relatively small in comparison to the potential of large institutional investors, impact investments are directly targeted at SDG sectors, such as farming and education. Moreover, their promotion of social and economic development outcomes in exchange for lower risk-adjusted returns makes impact investment funds a potentially useful source of development finance.

*Microfinance.* Some studies show that microfinance has had some impact on consumption smoothing during periods of economic stress and on consumption patterns. However, other studies also indicate that there has been limited impact on health care, education and female empowerment (Bauchet et al 2011; Bateman and Chang 2012). Nevertheless, as the microfinance industry has matured, initiatives such as credit unions have had more success; the encouragement of responsible financial behaviour through prior saving and affordable loans has made valuable contributions to consumption, health and education.

*Source:* UNCTAD, based on sources in text.

Despite several reported concerns about SWF governance (Bagnall and Truman 2013), SWFs can offer a number of advantages for investment in SDG sectors in poor countries, not least because their finance is unleveraged, and their investment outlook is often long term. For example, 60 per cent of SWFs already actively invest in infrastructure (Prejin 2013); moreover in sectors such as water and energy, SWFs may honour the inherent public nature of these services in a way that private investors may not. This is because some SWFs (and public pension funds) have non-profit driven obligations, such as social protection or intergenerational equity; they also represent a form of “public capital” that could be used for the provision of essential services in low-income communities (Lipschutz and Romano 2012).

All the institutions and markets described above face obstacles and incentives, internal and external, that shape investment decisions and determine whether their choices contribute to or hinder

attainment of the SDGs. Policy interventions can thus target specific links in the investment chain and/or specific types of institutions to ensure that financial markets and end users are better geared towards sustainable outcomes than is presently the case.

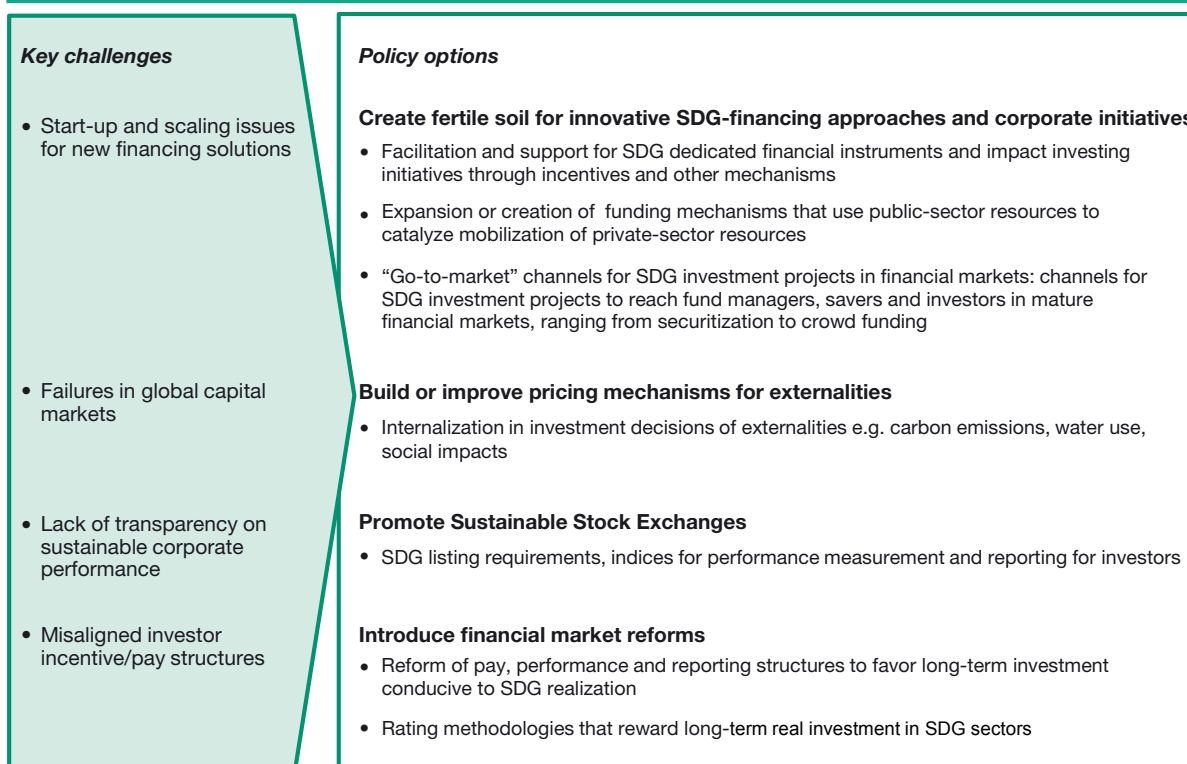
## 2. Challenges to mobilizing funds for SDG investments

*Constraints in financial markets hindering the flow of funds to SDG investments include start-up and scaling problems for innovative solutions market failures, lack of transparency on ESG performance and misaligned rewards for market participants.*

There are a number of impediments or constraints to mobilizing funds for investment in SDG-related projects (figure IV.9).

An important constraint lies in *start-up and scaling issues for innovative financing solutions*. Tapping the pool of available global financial resources for SDG investments requires greater provision

**Figure IV.9. Mobilizing funds for SDG investment: key challenges and policy options**



Source: UNCTAD.

of financial instruments and mechanisms that are attractive for institutions to own or manage. A range of innovative solutions has begun to emerge, including new financial instruments (e.g. green bonds) and financing approaches (e.g. future income securitization for development finance); new investor classes are also becoming important (e.g. funds pursuing impact investing). To date, however, these solutions remain relatively small in scale and limited in scope, or operate on the margins of capital markets (figure IV.9, section D.3).

Over time, changing the mindset of investors towards SDG investment is of fundamental importance, and a number of further constraints hinder this. First, *market failures* in global capital markets contribute to a misallocation of capital in favour of non-sustainable projects/firms and against those that could contribute positively to the SDGs. Failure by markets and holders of capital to price negative externalities into their capital allocation decisions means that the cost of capital for investors reflects solely the private cost. Thus, profit-maximizing investors do not take sufficient account of environmental and other social costs when evaluating potential investments because these costs do not materially affect their cost of capital, earnings or profitability. For instance, the absence of a material price for carbon implies social costs associated with emissions are virtually irrelevant for capital allocation decisions.

Second, *a lack of transparency on ESG performance* further precludes consideration of such factors in the investment decisions of investors, financial intermediaries and their advisors (and the ultimate sources of capital, such as households). The fragmentation of capital markets, while facilitating the allocation of capital, has disconnected the sources of capital from end users. For example, households do not have sufficient information about where and how their pensions are invested in order to evaluate whether it is being invested responsibly and, for example, whether it is in line with the SDGs. Similarly, asset managers and institutional investors do not have sufficient information to make better informed investment decisions that might align firms with the SDGs.

Third, the *rewards that individuals and firms receive in terms of pay, performance and reporting* also influence investment allocations decisions. This includes not only incentive structures at TNCs and other direct investors in SDG-relevant sectors, but also incentive structures at financial intermediaries (and their advisors) who fund these investors. The broad effects of these incentive structures are three-fold: (i) an excessive short-term focus within investment and portfolio allocation decisions; (ii) a tendency towards passive investment strategies and herding behaviour in financial markets; and (iii) an emphasis on financial returns rather than a consideration of broader social or environment risk-return trade-offs. These market incentives and their effects have knock-on consequences for real economic activity.

### 3. Creating fertile soil for innovative financing approaches

*Innovative financial instruments and funding mechanisms to raise resources for investment in SDGs deserve support to achieve scale and scope.*

A range of innovative financing solutions to support sustainable development have emerged in recent years, including new financial instruments, investment funds and financing approaches. These have the potential to contribute significantly to the realization of the SDGs, but need to be supported, adapted to purpose and scaled up as appropriate. It is important to note that many of these solutions are led by the private sector, reflecting an increasing alignment between UN and international community priorities and those of the business community (box IV.5).

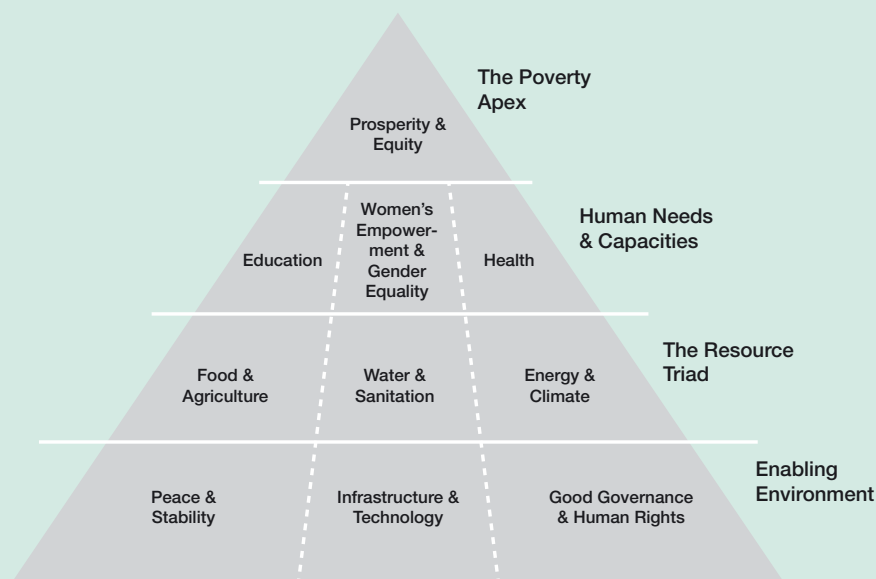
#### **Facilitate and support SDG-dedicated financial instruments and impact investment**

Financial instruments which raise funds for investment in social or environmental programs are proliferating, and include green bonds<sup>9</sup> and the proposed development impact bonds. They target investors that are keen to integrate social and environmental concerns into their investment decisions. They are appealing because they ensure a safer return to investors (many are backed by

### Box IV.5. Convergence between UN priorities and those of the international business community

In a globe-spanning series of consultations, UN Global Compact participants offered their views on global development priorities they consider central to any future development agenda. The results of these consultations reflect a growing understanding of the convergence between the priorities of the United Nations and those of the international business community on a wide range of global issues and challenges.

**Box Figure IV.5.1. Global Development Priorities Identified by Businesses**



*Private Sustainability Finance: from managing risks to embracing new opportunities that create value for business and society.* Over the past decade, a number of principles-based initiatives have been adopted throughout the finance-production value chain, from portfolio investors, banks and insurance companies, to foundations and TNCs in the real economy. For instance, led by private actors *Responsible Private Finance* has already reached a significant critical mass across the private sector. There is now a broad consensus that incorporating social, environmental and governance concerns in decision-making improves risk management, avoids harmful investments and makes business sense. Examples of this trend include initiatives such as the Principles for Responsible Investment, the Equator Principles, the Principles for Sustainable Insurance, the Sustainable Stock Exchanges initiative and innovative approaches to sustainable foreign direct investment by multinationals.

Private sustainability finance holds enormous potential to contribute to the broad implementation efforts in the post-2015 future. However, public action through good governance, conducive policies, regulations and incentives is required to drive the inclusion of sustainability considerations in private investment decisions. And it requires private action to significantly enhance the scale and intensity of private sustainability finance.

Source: UN Global Compact.

donors or multilateral banks), but also because they are clearly defined sustainable projects or products.<sup>10</sup> The proceeds are often credited to special accounts that support loan disbursements for SDG projects (e.g. development or climate change adaptation and mitigation projects).

These instruments were often initially the domain of multilateral development banks (MDBs) because this lent credibility with investors in terms of

classifying which investments were socially and environmentally friendly. More recently, however, a number of TNCs have issued green bonds. For instance, EDF Energy undertook a €1.4 billion issue to finance investment in solar and wind energy;<sup>11</sup> Toyota raised \$1.75 billion for the development of hybrid vehicles;<sup>12</sup> and Unilever raised £250 million for projects that would reduce greenhouse gas emissions, water usage or waste within its supply



chain.<sup>13</sup> While the development of this market by corporate issuers is positive, its continued advance may give rise to the need for labelling or certification of investments, so investors have assurance about which are genuinely “green” or have “social impact”.

Impact investing is a phenomenon that reflects investors’ desire to generate societal value (social, environmental, cultural) as well as achieve financial return. Impact investment can be a valuable source of capital, especially to finance the needs of low-income developing countries or for products and services aimed at vulnerable communities. The types of projects targeted can include basic infrastructure development, social and health services provision and education – all of which are being considered as SDGs. Impact investors include aid agencies, NGOs, philanthropic foundations and wealthy individuals, as well as banks, institutional investors and other types of firms and funds. Impact investing is defined not by the type of investor, but by their motives and objectives.<sup>14</sup>

A number of financial vehicles have emerged to facilitate impact investing by some such groups (others invest directly). Estimated impact investments through these funds presently range from \$30 to \$100 billion, depending on which sectors and types of activity are defined as constituting “impact investing”; and similarly the estimated future global potential of impact investing varies from the relatively modest to up to \$1 trillion in total (J.P. Morgan 2010). A joint study of impact investment by UNCTAD and the United States Department of State observed in 2012 that over 90 per cent of impact investment funds are still invested in the developed world, mostly in social impact and renewable energy projects. Among developing countries, the largest recipient of impact investing is Latin America and the Caribbean, followed by Africa and South Asia (Addis et al. 2013). A key objective should be to direct more impact investment to developing countries, and especially LDCs.

A number of constraints hold back the expansion of impact investing in developing countries. Key constraints related to the mobilization of impact investment funds include lack of capital across the risk-return spectrum; lack of a common understanding of what impact investment entails; inadequate ways to measure “impact”; lack of

research and data on products and performance; and a lack of investment professionals with the relevant skills. Key demand-related constraints in developing countries are: shortage of high-quality investment opportunities with a track record; and a lack of innovative deal structures to accommodate portfolio investors’ needs. A number of initiatives are underway to address these constraints and expand impact investment, including the Global Impact Investing Network (GIIN), the United States State Department Global Impact Economy Forum, Impact Reporting and Investment Standards, Global Impact Investment Ratings System, the United Kingdom Impact Program for sub-Saharan Africa and South Asia and the G8 Social Impact Investing Taskforce.

***Expand and create funding mechanisms that use public sector resources to catalyze mobilization of private sector resources***

A range of initiatives exist to use the capacity of the public sector to mobilize private finance. Often these operate at the project level (Section E), but initiatives also exist at a macro level to raise funds from the private sector, including through financial markets.

*Vertical funds* (or financial intermediary funds) are dedicated mechanisms which allow multiple stakeholders (government, civil society, individuals and the private sector) to provide funding for pre-specified purposes, often to underfunded sectors such as disease eradication or climate change. Funds such as the Global Fund to Fight AIDS, Tuberculosis and Malaria<sup>15</sup> or the Global Environment Fund<sup>16</sup> have now reached a significant size. Similar funds could be created in alignment with other specific SDG focus areas of the SDGs in general. The Africa Enterprise Challenge Fund<sup>17</sup> is another prominent example of a fund that has been used as a vehicle to provide preferential loans for the purpose of developing inclusive business.

*Matching funds* have been used to incentivize private sector contributions to development initiatives by making a commitment that the public sector will contribute an equal or proportionate amount. For example, under the GAVI Matching Fund, the United Kingdom Department for International Development



and the Bill and Melinda Gates Foundation have pledged about \$130 million combined to match contributions from corporations, foundations, their customers, members, employees and business partners.<sup>18</sup>

*Front-loading of aid.* In addition to catalyzing additional contributions, the public sector can induce private sector actors to use financing mechanisms that change the time profile of development financing, through front-loading of aid disbursements. The International Finance Facility for Immunization (IFFIm) issues AAA-rated bonds in capital markets which are backed by long-term donor government pledges. As such, aid flows to developing countries which would normally occur over a period of 20 years are converted to cash immediately upon issuance. For investors, the bonds are attractive due to the credit rating, a market-comparable interest rate and the perceived “socially responsible return” on investment. IFFIm has raised more than \$4.5 billion to date through bond issuances purchased by institutional and retail investors in a range of different mature financial markets.<sup>19</sup>

*Future-flow securitization.* Front-loading of aid is a subset of a broader range of initiatives under the umbrella of future-flow securitization which allows developing countries to issue marketable financial instruments whose repayments are secured against a relatively stable revenue stream. These can be used to attract a broader class of investors than would otherwise be the case. Other prominent examples are diaspora bonds whose issuance is secured against migrant remittance flows, and bonds backed by the revenue stream from, e.g. natural resources. These instruments allow developing countries to access funding immediately that would normally be received over a protracted period.

### **Build and support “go-to-market” channels for SDG investment projects in financial markets**

A range of options is available, and can be expanded, to help bring concrete SDG investment projects of sufficient scale directly to financial markets and investors in mature economies,

reducing dependence on donors and increasing the engagement of the private sector.

*Project aggregation and securitization.* SDG investment projects and SDG sectors are often not well aligned with the needs of institutional investors in mature financial markets because projects are too small and sectors fragmented. For example, renewable energy markets are more disaggregated than traditional energy markets. Institutional investors prefer to invest in assets which have more scale and marketability than investment in individual projects provide. As such, aggregating individual projects in a pooled portfolio can create investment products more in line with the appetite of large investors. This can be achieved through securitization of loans to many individual projects to create tradable, rated asset backed securities. For instance, a group of insurers and reinsurers with \$3 trillion of assets under management have recently called for more scale and standardization of products in low-carbon investments.<sup>20</sup>

*Crowd funding.* Crowd funding is an internet-based method for raising money, either through donations or investments, from a large number of individuals or organizations. Globally it is estimated that crowd funding platforms raised \$2.7 billion in 2012 and were forecast to increase 81 per cent in 2013, to \$5.1 billion (Massolution 2013). While currently more prevalent in developed countries, it has the potential to fund SDG-related projects in developing countries. Crowd funding has been an effective means for entrepreneurs or businesses in developed countries that do not have access to more formal financial markets. In a similar way, crowd funding could help dormant entrepreneurial talent and activity to circumvent traditional capital markets and obtain finance. For example, since 2005 the crowd funding platform Kiva Microfunds has facilitated over \$560 million in internet-based loans to entrepreneurs and students in 70 countries.<sup>21</sup>

## **4. Building an SDG-supportive financial system**

A financial system supportive of SDG investment ensures that actors in the SDG investment chain (i) receive the right stimuli through prices for

investment instruments that internalize social costs and benefits; (ii) have access to information on the sustainability performance of investments so that they can make informed decisions; and (iii) are rewarded through mechanisms that take into account responsible investment behavior. These elements are part of a wider context of systemic issues in the global financial architecture,<sup>22</sup> which is not functioning optimally for the purposes of channeling funds to productive, real assets (rather than financial assets).<sup>23</sup>

### **a. Build or improve pricing mechanisms to curb externalities**

*Effective pricing mechanisms to internalize social and environmental costs are necessary to align market signals with sustainable development goals.*

The most effective and yet most challenging way to ensure that global capital allocation decisions are aligned with the needs of sustainable development would be to “get the prices right”. That is, to ensure that negative (and positive) social and environmental externalities are factored into the price signals that financial market participants and direct investors receive.

A long-term influence is adherence to responsible investment principles which helps firms to recognize and price-in both the financial costs associated with compliance, but also the rewards: i.e. less risk, potential efficiency gains, and the positive externalities arising from a good reputation.

A number of environmental externalities have been traditionally addressed using tools such as fines or technical standards, but more recently pricing and tax methods have become more common. In the area of climate change, for carbon emissions, a number of countries have experimented with innovative approaches over the past two decades. Two principle methods have been explored for establishing a price for carbon emissions: a cap and trade “carbon market” characterized by the trading of emissions permits; and “carbon taxes” characterized by a special tax on fossil fuels and other carbon-intensive activities. The EU Emissions Trading Scheme (ETS) was the first major carbon market and remains the largest. Carbon markets exist in a handful of other developed countries,

and regional markets exist in a few US states and Canadian provinces. Carbon trading schemes are rarer in developing countries, although there are pilot schemes, such as one covering six Chinese cities and provinces.

Complexities associated with carbon markets, and the failure so far of such markets to establish prices in line with the social costs of emissions, have increased experimentation with taxation. For instance, Ireland, Sweden and the United Kingdom are examples of countries that have implemented some form of carbon tax or “climate levy”. Carbon taxes have also been implemented in the Canadian provinces of British Columbia and Quebec, and in 2013 a Climate Protection Act was introduced in the United States Senate proposing a federal carbon tax. The experience with carbon pricing is applicable to other sectors, appropriately adapted to context.

### **b. Promote Sustainable Stock Exchanges**

*Sustainable stock exchanges provide listed entities with the incentives and tools to improve transparency on ESG performance, and allow investors to make informed decisions on responsible allocation of capital.*

Sustainability reporting initiatives are important because they help to align capital market signals with sustainable development and thereby to mobilize responsible investment in the SDGs. Sustainability reporting should be a requirement not only for TNCs on their global activities, but also for asset owners and asset managers and other financial intermediaries outlined in figure IV.8 on their investment practices.

Many pension funds around the world do not report on if and how they incorporate sustainability issues into their investment decisions (UNCTAD 2011c). Given their direct and indirect influence over a large share of the global pool of available financial resources, all institutional investors should be required to formally articulate their stance on sustainable development issues to all stakeholders. Such disclosure would be in line with best practices and the current disclosure practices of funds in other areas.

Greater accountability and transparency of the entire investment chain is essential, including investment allocation decisions, proxy voting practices and advice of asset owners, asset managers, pension funds, insurance companies, investment consultants and investment banks. Without proper measurement, verification and reporting of financial, social and environmental sustainability information, ultimate sources of capital (especially households and governments) cannot determine how the funds that have been entrusted to these institutions have been deployed.

Stock exchanges and capital market regulators play an important role in this respect, because of their position at the intersection of investors, companies and government policy. The United Nations Sustainable Stock Exchanges (SSE) initiative is a peer-to-peer learning platform for exploring how exchanges can work together with investors, regulators, and companies to enhance corporate transparency, and ultimately performance, on ESG (environmental, social and corporate governance) issues and encourage responsible long-term approaches to investment. Launched by the UN Secretary-General in 2009, the SSE is co-organized by UNCTAD, the UN Global Compact, the UN-supported Principles for Responsible Investment, and the UNEP Finance Initiative.<sup>24</sup>

An increasing number of stock exchanges and regulators have introduced, or are in the process of developing, initiatives to help companies meet the evolving information needs of investors; navigate increasingly complex disclosure requirements and expectations; manage sustainability performance; and understand and address social and environmental risks and opportunities. UNCTAD has provided guidance to help policymakers and stock exchanges in this effort.

### **c. Introduce financial market reforms**

*Realigning rewards in financial markets to favour investment in SDGs will require action, including reform of pay and performance structures, and innovative rating methodologies.*

Reforms at both the regulatory and institutional levels may lead to more effective alignment of

the system of rewards to help ensure that global capital markets serve the needs of sustainable development. This would require policy action and corporate-led initiatives affecting a wide range of different institutions, markets as well as financial behaviour.

### **Reform pay, performance and reporting structures to favour long-term investment conducive to SDG realization**

The performance evaluation and reward structures of both institutions and individuals operating in financial markets are not conducive to investment in SDGs. Areas of action may include:

- *Pay and performance structures.* Pay and performance structures should be aligned with long-term sustainable performance objectives rather than short-term relative performance. For instance, compensation schemes for asset managers, corporate executives and a range of financial market participants could be paid out over the period during which results are realized, and compensation linked to sustainable, fundamental drivers of long-term value. Companies need to take action to minimize the impact of short-termism on the part of financial intermediaries on their businesses and, more positively, create the conditions that enable these capital sources to support and reward action and behaviour by direct investors that contribute to the realization of the SDGs.
- *Reporting requirements.* Reporting requirements could be revised to reduce pressure to make decisions based on short-term financial or investment performance. Reporting structures such as quarterly earnings guidance can over emphasise the significance of short-term measures at the expense of the longer-term sustainable value creation.

### **Promote rating methodologies that reward long-term investment in SDG sectors**

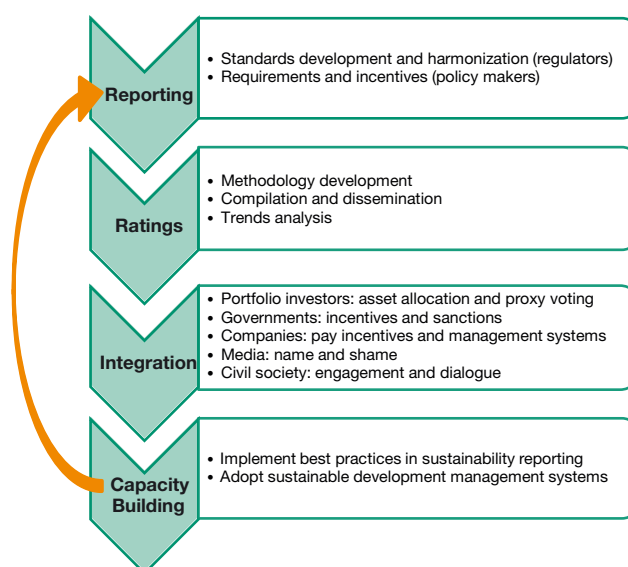
Ratings that incorporate ESG performance help investors make informed decisions for capital

allocation towards SDGs. Existing initiatives and potential areas for development include:

- *Non-financial ratings.* Rating agencies have a critical influence on asset allocation decisions by providing an independent assessment of the credit risk associated with marketable debt instruments. Rating agencies' traditional models are based on an estimation of the relative probability of default only, and hence do not incorporate social or environmental risks and benefits associated with particular investments. In order to invest in SDG-beneficial firms and projects, investors need access to ratings which assess the relative ESG performance of firms. Dow Jones, MSCI and Standard and Poor's have for several years been incorporating ESG criteria into specialized sustainability indices and ratings for securities. Standard and Poor's also announced in 2013 that risks from climate change will be an increasingly important factor in its ratings of sovereign debt. Greater effort could be taken to further integrate sustainability issues into both debt and equity ratings. An important dimension of sustainability ratings for equity is that ratings are typically paid for by investors, the users of the rating. This helps address the conflict of interest inherent within the "issuer pays" model that has plagued financial ratings agencies in the wake of the global financial crisis and remains common for debt ratings.
- *Connecting reporting, ratings, integration and capacity-building.* Maximizing the contribution of corporate sustainability reporting to sustainable development is a multi-stage process (figure IV.10). Corporate sustainability information should feed into systems of analysis that can produce actionable information in the form of corporate sustainability ratings. Such ratings

on corporate debt and equities should be integrated into the decision-making processes of key investment stakeholders including policymakers and regulators, portfolio investors, TNCs, media and civil society. These investment stakeholders can seek to implement a range of incentives and sanctions to provide market signals that help to better align the outcomes of market mechanisms with the sustainable development policies of countries. To be truly transformative, this integration process needs to align itself with the policy objectives of the SDGs and to create material implications for poor sustainability performance. Finally, sustainability ratings and standards can also be used as a basis for capacity-building programmes to assist developing-country TNCs and small and medium-sized enterprises to adopt best practices in the area of sustainability reporting and management systems. This will provide new information to guide investors and promote investment.

Figure IV.10. The reporting and ratings chain of action



Source: UNCTAD.

## E. CHANNELLING INVESTMENT INTO THE SDGs

### 1. Challenges to channelling funds into the SDGs

*Key constraints to channelling funds into SDGs include entry barriers, inadequate risk-return ratios for SDG investments, a lack of information, effective packaging and promotion of projects, and a lack of investor expertise.*

Investment in SDG sectors is not solely a question of availability and mobilization of capital, but also of the allocation of capital to sustainable development projects. Macroeconomic policies improving overall conditions for investment and growth, industrial policies establishing or refining a development strategy, and similar policies, can encourage investment, public or private, domestic or foreign, into SDG sectors or others. However, while they are necessary conditions for investment, they are not necessarily enough.

Investors face a number of constraints and challenges in channelling funds to SDG projects:

*Entry barriers to SDG investments.* Investment for sustainable development can be discouraged by an unwelcoming investment climate. Investors may face administrative or policy-related hurdles in some sectors related to SDGs which are often sensitive as many constitute a public service responsibility. These sectors may even be closed either to private investors in general, or to foreign investors in particular.

*Inadequate risk-return ratios for SDG investment.* Risks related to SDG investment projects can occur at the country and policy level (e.g. legal protection for investment); at the market or sector level (e.g. uncertain demand); and at the project (financial) level. For example, investments in agriculture or infrastructure are subject to uncertainty and concerns about local demand and spending power of the local population; ownership or access to sensitive resources (e.g. land); and the very long payback periods involved. As a result, investors, especially those not accustomed to investing in SDG sectors in developing countries, demand higher rates of return for investment in countries with greater (perceived or real) risks.

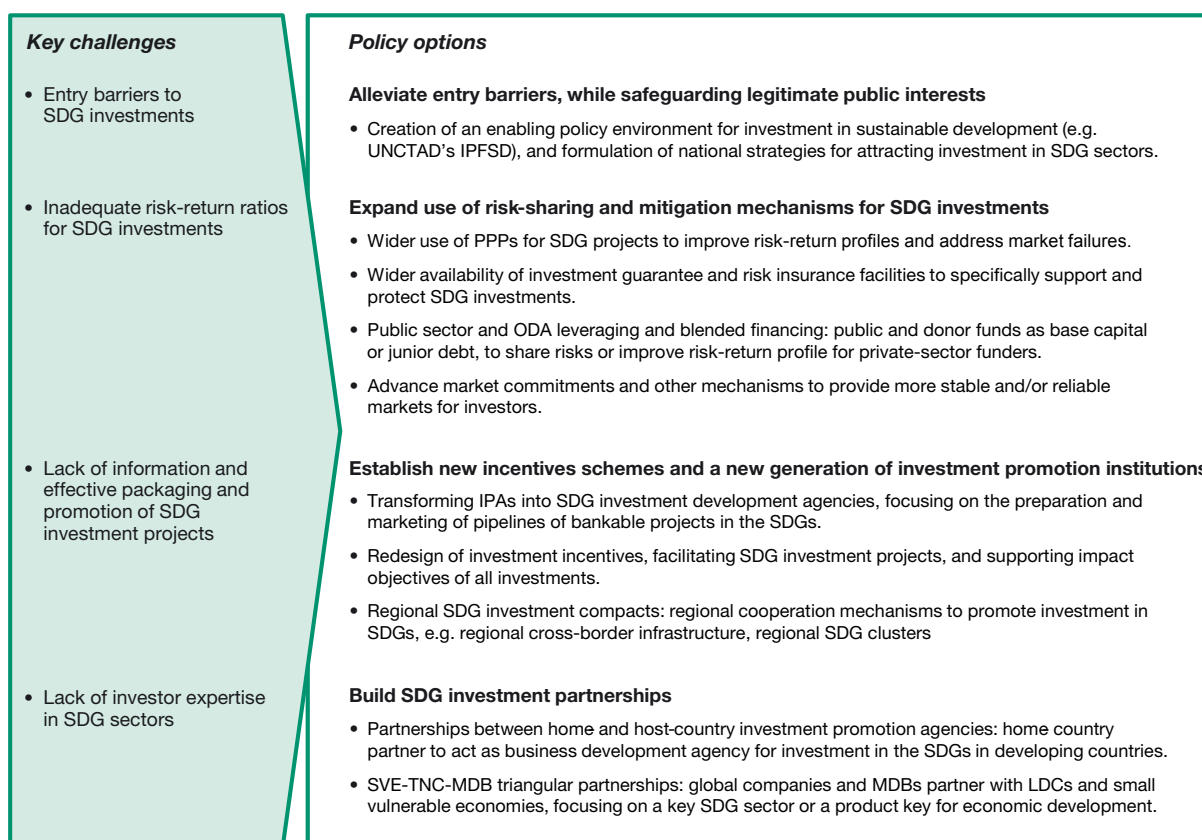
*Lack of information, effective packaging and promotion of bankable investment projects in SDG sectors.* Investment opportunities in commercial activities are usually clearly delineated; location options may be pre-defined in industrial zones; the investment process and associated rules are clearly framed; and investors are familiar with the process of appraising risks and assessing potential financial returns on investment in their own business. SDG sectors are usually more complex. Investment projects such as in infrastructure, energy or health, may require a process where political priorities need to be defined, regulatory preparation is needed (e.g. planning permissions and licenses, market rules) and feasibility studies carried out. In addition, smaller projects may not easily provide the scale that large investors, such as pension funds, require. Therefore, aggregation and packaging can be necessary. While commercial investments are often more of a “push” nature, where investors are looking for opportunities, SDG projects may be more of a “pull” nature, where local needs drive the shaping of investment opportunities. Effective promotion and information provision is therefore even more important because investors face greater difficulty in appraising potential investment risks and returns, due to a lack of historical data and investment benchmarks to make meaningful comparisons of performance.

*Lack of investor expertise in SDG sectors.* Some of the private sector investors that developing countries are aiming to attract to large-scale projects, such as infrastructure or agriculture, are relatively inexperienced, including private equity funds and SWFs. These investors have not traditionally been engaged in direct investment in these countries (particularly low-income economies) nor in SDG sectors, and they may not have the necessary expertise in-house to evaluate investments, to manage the investment process (and, where applicable, to manage operations).

These constraints can be addressed through public policy responses, as well as by actions and behavioural change by corporations themselves (see figure IV.11).



Figure IV.11. Channelling investment into SDG sectors: key challenges and policy options



Source: UNCTAD.

## 2. Alleviating entry barriers, while safeguarding public interests

*A basic prerequisite for successful promotion of SDG investment is a sound overall policy climate, conducive to attracting investment while safeguarding public interests, especially in sensitive sectors.*

A development strategy for attracting and guiding private investment into priority areas for sustainable development requires the creation of an enabling policy environment. Key determinants for a host country's attractiveness, such as political, economic and social stability; clear, coherent and transparent rules on the entry and operational conditions for investment; and effective business facilitation are all relevant for encouraging investment in SDG sectors. The rule of law needs to be respected, together with a credible commitment to transparency, participation and sound institutions that are capable,

efficient and immune to corruption (Sachs 2012). At the same time, alleviating policy constraints for private investment in SDG sectors must not come at the price of compromising legitimate public interests concerning the ownership structure and the regulatory framework for activities related to sustainable development. This calls for a gradual approach towards liberalization of SDG sectors and proper sequencing.

The enabling policy framework should clearly stipulate in what SDG areas private investment is permitted and under what conditions. While many SDG sectors are open to private investment in numerous countries, important country-specific limitations persist. One case in point is infrastructure, where public monopolies are common.<sup>25</sup> Reducing investment barriers can open up new investment opportunities, but may require a gradual approach, starting with those SDG sectors where private involvement faces fewer political concerns. Host



countries may first allow service and management contracts and move to PPPs once contractual partners have gained more experience.

Private investment may also be hindered by exclusive rights that governments grant to single service providers (e.g. in water or energy supply) to ensure sufficient revenue for the operator through economies of scale. Such policies should not entirely impede market access for small-scale providers, since the latter can be essential to fill the gap of service provision where the main operator fails to reach the poorest or isolated segments of the population (OECD 2009).

If concerns exist particularly in respect of *foreign* participation in SDG sectors, host countries can opt for foreign ownership limitations instead of complete prohibitions. They can also subject foreign investment to a national benefit test on a case-by-case basis, for instance as regards investment in critical infrastructure. Investment contracts (such as PPPs) between the host country and foreign investors, as well as business concessions offer the possibility to admit foreign investment under the condition that the investor actively contributes to SDGs. For instance, foreign investors have received the right to exploit natural resources in exchange for a commitment to build certain infrastructure or social institutions, such as hospitals or schools.

With respect to foreign participation in agriculture, unambiguous land tenure rights, including a land registry system, are critical not only for attracting investors, but also for protecting smallholders from dispossession and for increasing their bargaining power vis-à-vis foreign investors. Political opposition against foreign investment in agriculture can be alleviated by promoting outgrower schemes (WIR09, UNCTAD and World Bank 2014).

In infrastructure sectors, which are often monopolies, a crucial prerequisite for liberalization or opening up to private or foreign investors is the establishment of effective competition policies and authorities. In such cases, the establishment of an independent regulator can help ensure a level playing field. A similar case can be made in other sectors, where policy action can help avoid a crowding out of local micro- and small and medium-sized firms (such as

agricultural smallholders) who form the backbone of the economy in most developing countries.

Other regulatory and policy areas are relevant for the creation of a conducive investment climate and for safeguarding public policy interest. UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD) has been successful in moving discussion and policy in this direction since its publication in 2012.

### 3. Expanding the use of risk-sharing tools for SDG investments

*A number of tools, including PPPs, investment insurance, blended financing and advance market commitments, can help improve the risk-return profile of SDG investment projects.*

A key means to improve the risk-return profile for private sector actors is the ability of relevant stakeholders (the public sector, typically home-country governments, development banks or international organizations) to share, minimize or offer alternatives to the risks associated with investment in sustainable development.

Innovative risk management tools can help channel finance and private investment in SDGs depending on the specific requirements of sustainable development projects.

#### ***Widen the use of public-private partnerships***

The use of PPPs can be critical in channelling investment to SDG sectors because they involve the public and private sectors working together, combining skills and resources (financial, managerial and technical), and sharing risks. Many governments turn to PPPs when the scale and the level of resources required for projects mean they cannot be undertaken solely through conventional public expenditures or procurement. PPPs are typically used for infrastructure projects, especially for water and transportation projects (such as roads, rail and subway networks), but also in social infrastructure, health care and education.<sup>26</sup> PPPs may also involve international sustainable development programmes and donor funds; for instance, the International Finance Facility for Immunization is a PPP, which

uses the long-term borrowing capacity of donor governments, with support of the international capital markets to collect funds and finance the GAVI immunization programmes.

PPPs can offer various means for improving the risk-return profile of sustainable development projects. They offer the possibility for tailor-made risk sharing in respect of individual sustainable development investments. PPPs also allow for cost sharing concerning the preparation of feasibility studies; risk sharing of the investment operations through co-investment, guarantees and insurances; and an increase of investor returns through, for example, tax credits and industry support by providing capacity for research and innovation. Direct financial support agreed upon in PPPs can help to overcome start-up barriers for sustainable-development-related investments.

Caution is needed when developing PPPs as they can prove relatively expensive methods of financing and may increase the cost to the public sector if up-front investment costs and subsequent revenue streams (investment returns) are not adequately assessed. This is especially relevant for LDCs and small vulnerable economies (SVEs) with weaker technical, institutional and negotiation capacities (Griffiths et al. 2014). Examples of risks associated with PPPs for governments include high fiscal commitments and difficulty in the estimation of the cost of guarantees (e.g. when governments provide guarantees on demand, exchange rates or other costs). Governments should carefully design contractual arrangements, ensure fair risk sharing between the public and the private sector, develop the capacities to monitor and evaluate partnerships, and promote good governance in PPP projects.<sup>27</sup>

Given the technical complexity of PPP projects and the institutional and governance capabilities required on the part of developing countries, widening the use of PPPs will require:

- the creation of dedicated units and expertise in public institutions, e.g. in SDG investment development agencies or relevant investment authorities, or in the context of regional SDG investment development compacts where costs and know-how can be shared.
- technical assistance from the international development community, e.g. through dedicated units in international organizations (or in a multi-agency context) advising on PPP project set-up and management.

An option that can alleviate risks associated with PPPs, further leverage of public funds to increase private sector contributions, and bring in technical expertise, are three- or four-way PPP schemes with the involvement not only of local governments and private sector investors, but also with donor countries and MDBs as partners.

### **Link the availability of guarantee and risk insurance facilities to SDGs**

Numerous countries promote outward investment by providing investment guarantees that protect investors against certain political risks in host countries (such as the risk of discrimination, expropriation, transfer restrictions or breach of contract). Granting such guarantees can be conditional on the investment complying with sustainability criteria. A number of countries, such as Australia, Austria, Belgium, Japan, the Netherlands, the United Kingdom and the United States require environmental and social impact assessments be done for projects with potentially significant adverse impacts.<sup>28</sup>

In addition to mechanisms providing insurance against political risks at the country level, mechanisms providing guarantees and risk insurance offered by multilateral development institutions also take into account sustainable development objectives. For instance, in determining whether to issue a guarantee, the Multilateral Investment Guarantee Agency evaluates all projects in accordance with its Policy on Environmental and Social Sustainability, adopted in October 2013.<sup>29</sup>

### **Public sector and ODA-leveraging and blended financing**

National, regional and multilateral development banks, as well as ODA, can represent critical sources of finance that can be used as leveraging mechanisms. In a similar vein, development banks can play a crowding-in role, enabling private

investment, or providing support for the private sector in periods of crisis when firms cannot receive financing from private banks. In addition development banks have played, and continue to play, a role in socially oriented projects where private investment is lacking.

ODA can play similar roles, especially in vulnerable economies. For instance, the 2002 Monterrey Consensus already pointed out the need to intensify efforts to promote the use of ODA to leverage additional financing for development. ODA continues to be of critical importance, particularly for LDCs, because financial flows to these countries are small and the capacity to raise sufficient resources domestically is lacking. Aid can act as a catalyst for private investment, and there is growing consensus on the potential complementarity of public aid and private investment to foster development (UNECOSOC 2013). To date, the share of ODA supporting private investment is small, but interest in this mechanism is rising among donor countries and development finance institutions; for example, blended ODA from EU institutions rose from 0.2 per cent in 2007 to almost 4 per cent in 2012 (EURODAD 2014). The amount of ODA directed to private sector blending mechanisms is expected to increase.

Public sector and ODA-leveraged and blended financing involves using public and donor funds as base capital, to share risks or improve risk-return profiles for private sector funders. Blending can reduce costs as it involves the complementary use of grants and non-grant sources such as loans or risk capital to finance investment projects in developing countries. It can be an effective tool for investment with long gestation periods and with economic and social rates of return exceeding the pure financial rate of return (e.g. in the renewable energy sector).

Caution must be exercised in the use of blending, as it involves risks. Where the private funding component exclusively pursues financial returns, development impact objectives may be blurred. ODA can also crowd out non-grant finance (Griffiths et al. 2014). Evaluating blended projects is not easy and it can be difficult to demonstrate key success factors, such as additionality, transparency

and accountability and to provide evidence of development impact.

### **Advance market commitments and other market creation mechanisms**

In several SDG sectors, private investment is severely constrained by the absence of a sufficient market. For instance, private basic health and education services, but also infrastructure services, such as private water and electricity supply, may not be affordable to large parts of the population. Examples of policy options to help create markets in SDG sectors that can attract private sector investment include:

- Policies aimed at enhancing *social inclusiveness and accessibility* of basic services – such as subsidy schemes for the poor in the form of education vouchers or cash grants for energy and water distribution.
- *Public procurement policies*, through which governments at the central and local level can give preference to the purchase of goods that have been produced in an environmentally and socially-friendly manner. Cities, for example, increasingly have programs relating to the purchase of hybrid fleets or renewable power, the upgrading of mass transportation systems, green city buildings or recycling systems (*WIR10*).
- *Feed-in tariffs* for green electricity produced by households or other private sector entities that are not utilities but that can supply excess energy to the grid (*WIR10*).
- *Regional cooperation* can help create markets, especially for cross-border infrastructure projects, such as roads, electricity or water supply, by overcoming market fragmentation.

Other concrete mechanisms may include so-called advance market commitments. These are binding contracts typically offered by governments or financing entities which can be used (i) to guarantee a viable market, e.g. for goods that embody socially beneficial technologies for which private demand is inadequate, such as in pharmaceuticals and renewable energy technologies (UNDESA 2012); (ii) to provide assured funding for the innovation

of socially beneficial technologies, e.g. through rewards, payments, patent buyouts, even if the private demand for the resulting goods is insufficient; and/or (iii) to act as a consumption subsidy when the R&D costs are high and the returns uncertain, with a result of lowering the price for consumers, often allowing the private sector to remain in charge of the production, marketing and distribution strategies. Donors guarantee a viable market for a known period, which reduces the risks for producers associated with R&D spending (i.e. commitments act as incentives for producers to invest in research, staff training and production facilities). Advance market commitments (United Nations I-8 Group 2009) have been used to raise finance for development of vaccine production for developing countries, for instance by successfully accelerating the availability of the pneumococcal vaccine in low-income countries.

#### 4. Establishing new incentives schemes and a new generation of investment promotion institutions

Alleviating constraints in the policy framework of host countries may not be sufficient to trigger private investment in SDGs. Potential investors may still hesitate to invest because they consider the overall risk-return ratio as unfavourable. Investment promotion and facilitation efforts can help overcome investor reluctance.

##### a. Transform IPAs into SDG investment development agencies

*A new generation of investment promotion requires agencies to target SDG investors and to develop and market pipelines of bankable projects.*

Through their investment promotion and facilitation policies, and especially in the priorities given to investment promotion agencies (IPAs), host countries pursue a variety of mostly economic objectives, above all job creation, export promotion, technology dissemination and diffusion, linkages with local industry and domestic value added as well as skills development (see figure III.4 in chapter III). Most IPAs, therefore, do not focus specifically on SDG investment objectives or SDG sectors, although the existing strategic priorities do

contribute to sustainable development through the generation of income and poverty alleviation.

Pursuing investments in SDGs implies, (i) targeting investors in sectors or activities that are particularly conducive to SDGs and (ii) creating and bringing to market a pipeline of pre-packaged bankable projects.

In pursuing SDG-related investment projects, IPAs face a number of challenges beyond those experienced in the promotion of conventional FDI. In particular:

- A broadening of the IPA network of in-country *partnerships*. Currently, typical partners of IPAs include trade promotion organizations, economic development agencies, export processing zones and industrial estates, business development organizations, research institutions and universities. While these relationships can help promote investment in SDG projects, the network needs to expand to include public sector institutions dealing with policies and services related to infrastructure, health, education, energy and rural development, as well as local governments, rural extension services, non-profit organizations, donors and other development stakeholders.
- Broadening of contacts with wider groups of *targets* and potential investors, including not only TNCs but also new potential sources of finance, such as sovereign wealth funds, pension funds, asset managers, non-profit organizations, and others.
- Development of *in-house expertise* on sustainable development-related investment projects, new sectors and possible support measures. IPAs, which traditionally focus on attracting investments in manufacturing and commercial services, need to become familiar with the concept of SDG-related investment projects, including PPPs. Training in international best practice and investment promotion techniques could be acquired from international organizations and private sector groups. For example, in 2013, UNCTAD started a program that assists IPAs from developing countries in the promotion of green FDI.

To channel investment into SDG sectors that may be less visible or attractive to investors, governments – alone or in the context of regional cooperation – should develop a *pipeline of bankable SDG investment projects*.

Key characteristics of bankable projects are prioritization, preparation and packaging:

- *Political prioritization* involves the identification of priority projects and the determination of priority sectors, based on national development objectives and strategies. The projects should be politically feasible within the economic development strategy of the country, with a clear political consensus at all levels (national, state and provincial as applicable) and public support. Thus projects should be selected on the basis of a consensus among government entities on their priorities. At this inception stage, policymakers should identify scalable business models and develop strategies for large-scale roll-out over the long term.
- *Regulatory preparation* involves the pre-clearing of regulatory aspects and facilitation of administrative procedures that might otherwise deter investors. Examples include pre-approval of market-support mechanisms or targeted financial incentives (such as fiscal incentives aiming to reduce the cost of capital); advance processing of required licenses and permits (e.g. planning permissions); or carrying out environmental impact studies prior to inviting bids from investors.
- *Packaging* relates to the preparation of concrete project proposals that show viability from the standpoint of all relevant stakeholders, e.g. technical feasibility studies for investors, financial feasibility assessments for banks or environmental impact studies for wider stakeholders. Governments can call upon service providers (e.g. technical auditors, test and certification organizations) to assist in packaging projects. Packaging may also include break up or aggregation/bundling of projects into suitable investment sizes for relevant target groups. And it will include the production of the “prospectus” that can be marketed to investors.

Public funding needs for feasibility studies and other project preparation costs can be significant. They typically average 5–10 per cent of total project costs, which can add up to hundreds of millions of dollars for large infrastructure projects (World Bank 2013b). To accelerate and increase the supply of bankable projects at the national and regional levels, particularly in LDCs, international support programmes could be established with the financial support of ODA and technical assistance of MDBs.

### ***b. Redesign of investment incentives for SDGs***

*Reorienting investment incentives towards SDGs implies targeting investments in SDG sectors and making incentives conditional on social and environmental performance.*

Designing investment incentives schemes for SDGs implies putting emphasis on the quality of investments in terms of their mid- and long-term social and environmental effects (table IV.3). Essentially, incentives would move from purely “*location-focused*” (a tool to increase the competitiveness of a location) to more “*SDG-focused*” (a tool to promote investment in sustainable development).

SDG-oriented investment incentives can be of two types:

- Incentives targeted specifically at SDG sectors (e.g. those provided for investment in renewable energy, infrastructure or health).
- Incentives conditional upon social and environmental performance of investors (including, for instance, related to policies on social inclusion). Examples include performance requirements relating to employment, training, local sourcing of inputs, R&D, energy efficiency or location of facilities in disadvantaged regions.

Table IV.4 contains some examples of investment incentives related to environmental sustainability.

In UNCTAD’s most recent survey of IPAs, these agencies noted that among SDG sectors investment incentive schemes are mostly provided for energy, R&D and infrastructure development projects. In addition to these sectors, incentives are sometimes



**Table IV.3. Traditional and sustainable development oriented investment incentives**

<b>Traditional economic growth oriented investment incentives</b>	<b>Investment incentives that take into account sustainable development considerations</b>
Focus on sectors important for economic growth, job creation and export generation	Additional focus on SDG sectors
Focus on short- and medium-term economic gains	Long-term implications of investment for sustainable development considered
Cost-benefit analysis in favour of economic gains	Cost-benefit analysis with adequate weight to long-term social and environmental costs of investment
Lowering of regulatory standards considered as a policy option	Lowering of regulatory standards as part of the incentives package excluded
Monitoring primarily of economic impacts of the investment	Monitoring of the overall impact of the investment on sustainable development

Source: UNCTAD.

provided for projects across numerous SDG areas, or linked to SDG objectives through performance criteria.

In addition to financial, fiscal or regulatory incentives, governments can facilitate investors by building surrounding enabling infrastructure or by letting them use such infrastructure at low or zero cost. For instance, investments in agricultural production require good storage and transportation facilities. Investments in renewable energy (e.g. wind or solar parks) necessitate the building of a grid to transport the energy to consumers. The construction of schools and hospitals in rural areas calls for adequate roads, and public transportation to make education and health services easily reachable. There is an important role for domestic, regional and multilateral development banks in realizing such enabling projects.

A reorientation of investment incentives policies (especially regulatory incentives) towards sustainable development could also necessitate a phasing out of incentives that may have negative social or ecological side effects, in particular where such incentives result in a “race-to-the-bottom” with regard to social or environmental standards or in a financially unsustainable “race to the top”.

A stronger focus on sustainable development may call for a review of existing subsidy programs for entire industries. For example, the World Bank estimates that \$1 trillion to \$1.2 trillion per year are currently being spent on environmentally harmful subsidies for fossil fuels, agriculture, water and fisheries (World Bank 2012). More generally,

investment incentives are costly. Opportunity costs must be carefully considered. Public financial outlays in case of financial incentives, or missed revenues in case of fiscal incentives, could be used directly for SDG investment projects.

Investment incentives should also not become permanent; the supported project must have the potential to become self-sustainable over time – something that may be difficult to achieve in some SDG sectors. This underlines the importance of monitoring the actual effects of investment incentives on sustainable development, including the possibility of their withdrawal if the impact proves unsatisfactory.

### **c. Establish regional SDG investment compacts**

*Regional SDG investment compacts can help spur private investment in cross-border infrastructure projects and build regional clusters of firms in SDG sectors.*

Regional cooperation can foster SDG investment. A key area for such SDG-related cross-border cooperation is infrastructure development.

Existing regional economic cooperation initiatives could evolve towards *regional SDG investment compacts*. Such compacts could focus on liberalization and facilitation of investment and establish joint investment promotion mechanisms and institutions. Regional industrial development compacts could include in their scope all policy areas important for enabling regional development, such as the harmonization, mutual recognition or



**Table IV.4. Examples of investment incentives linked to environmental sustainability**

Country	Environmental incentives
Brazil	<ul style="list-style-type: none"> <li>Initiative and incentive programs for wind, power, biomass and small hydro-subsectors</li> </ul>
Canada	<ul style="list-style-type: none"> <li>Special tax credits for development of new technologies that address issues of climate change, clean air, and water and soil quality</li> <li>Nova Scotia provides up to 20 per cent of the development cost of ocean tech and non-traditional energy sources</li> </ul>
Germany	<ul style="list-style-type: none"> <li>Grant programs for projects related to energy efficiency, CO<sub>2</sub> reduction and renewable energy</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>5- to 10-year tax break in renewable energy</li> </ul>
Japan	<ul style="list-style-type: none"> <li>Investments in smart communities that unite information networks, energy systems and traffic systems as well as improve comfort and reduce CO<sub>2</sub> emissions</li> </ul>
South Africa	<ul style="list-style-type: none"> <li>Accelerated depreciation for investments in renewable energy and biofuel production</li> <li>Tax break for entities that become more energy-efficient</li> <li>Allowance for expenditure on green technology and improved resource efficiency</li> </ul>
Turkey	<ul style="list-style-type: none"> <li>Interest-free loans for renewable energy production and for projects to improve energy efficiency and reduce environmental impact</li> </ul>
United Kingdom	<ul style="list-style-type: none"> <li>Funding schemes for off-shore wind farms</li> </ul>
United States	<ul style="list-style-type: none"> <li>Guaranteed loans to eligible clean energy projects and direct loans to manufacturers of advanced technology vehicles and components</li> <li>Tax incentives to improve energy efficiency in the industrial sector</li> <li>Incentives at the state level</li> </ul>

Source: UNCTAD based on desk research.<sup>30</sup>

approximation of regulatory standards and the consolidation of private standards on environmental, social and governance issues.

Regional SDG investment compacts could aim to create cross-border clusters through the build-up of relevant infrastructure and absorptive capacity. Establishing such compacts implies working in partnership, between governments of the region to identify joint investment projects, between investment promotion agencies for joint promotion efforts, between governments and international organizations for technical assistance and capacity-building, and between the public and private sector for investment in infrastructure and absorptive capacity (figure IV.12) (see also *WIR13*).

## 5. Building SDG investment partnerships

Partnerships between home countries of investors, host countries, TNCs and MDBs can help overcome knowledge gaps as well as generate joint investments in SDG sectors.

Private investors' lack of awareness of suitable sustainable development projects, and a shortfall in expertise, can be overcome through *knowledge-*

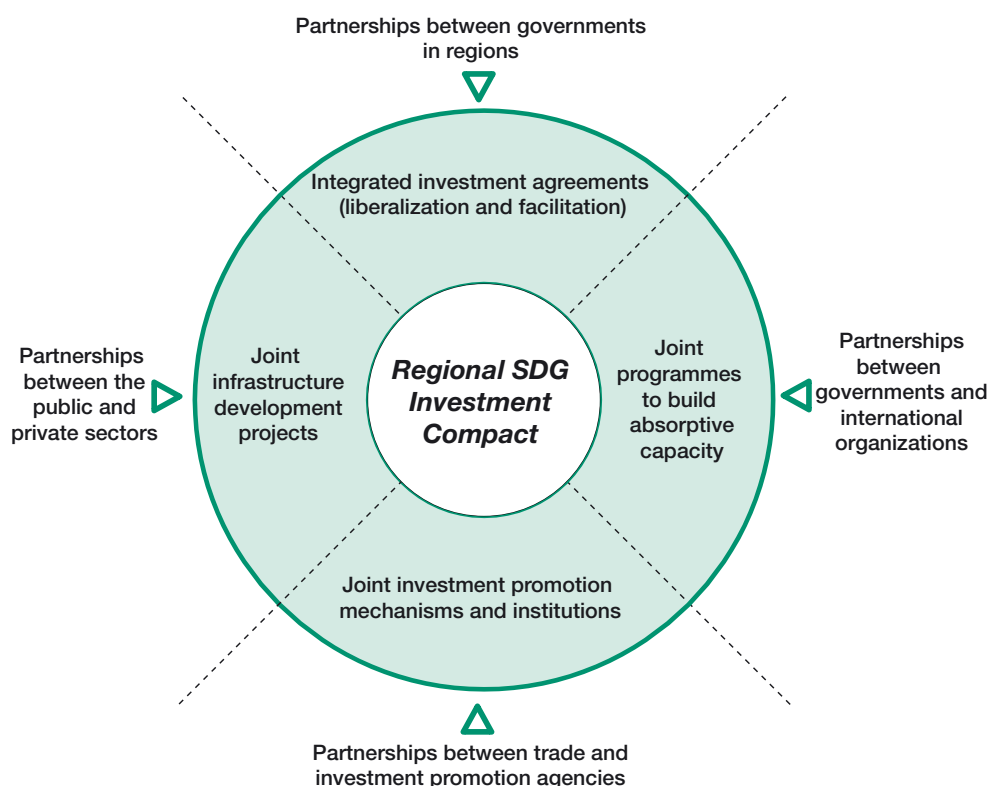
*sharing mechanisms, networks and multi-stakeholder partnerships.*

Multi-stakeholder partnerships can support investment in SDG sectors because they enhance cooperation, understanding and trust between key partners. Partnerships can facilitate and strengthen expertise, for instance by supporting the development of innovative and synergistic ways to pool resources and talents, and by involving relevant stakeholders that can make a contribution to sustainable development. Partnerships can have a number of goals, such as joint analysis and research, information sharing to identify problems and solutions, development of guidelines for best practices, capacity-building, progress monitoring and implementation, or promotion of understanding and trust between stakeholders. The following are two examples of potential partnerships that can raise investor expertise in SDGs.

### ***Partnerships between home- and host-country investment promotion agencies.***

Cooperation between outward investment agencies in home countries and IPAs in host

Figure IV.12. Regional SDG Investment Compacts



Source: UNCTAD.

countries could be ad hoc or systematic, and potentially institutionalized. IPAs that target projects related to sustainable development could partner with outward investment agencies for three broad purposes:

- Information dissemination and marketing of SDG investment opportunities in home countries. Outward investment agencies could provide matching services, helping IPAs identify potential investors to approach.
- Where outward investment agencies provide investment incentives and facilitation services to their investors for SDG projects, the partnership could increase chances of realizing the investment.
- Outward investment agencies incentives for SDG investments could be conditional on the ESG performance of investors, ensuring continued involvement of both parties in

the partnership for monitoring and impact assessment.

Through such partnerships outward investment agencies could evolve into genuine business development agencies for investments in SDGs in developing countries, raising awareness of investment opportunities, helping investors bridge knowledge gaps and gain expertise, and practically facilitating the investment process.

### **SVE-TNC-MDB triangular partnerships**

Partnerships between governments of SVEs, private investors (TNCs), and MDBs could be fostered with the aim of promoting investments in SDG sectors which are of strategic interest to SVEs. Depending on the economy, the strategic sector may be infrastructure, a manufacturing industry or even a value chain segment. Crucially, in such "triangular" partnerships, stakeholders

would work together to identify the bottlenecks for private investment, and jointly develop public-private solutions to develop the strategic sector, bearing in mind wider socioeconomic and long-term ramifications. In particular, the partnership would work towards raising long-term, sound and sustainable investment in SDGs, but also promote investment in surrounding economic and social infrastructure, giving support to governments towards a sound management of resources through collaborative stakeholder engagement. In all cases, the SVE government has to be in the “driver’s seat”.

Participating TNCs will typically be players in the sector, with consequent reputational risks if the partnership fails. In some case the SVE may make up (or become) an important part of the TNCs’ operations in a sector – e.g. as a supply base for a commodity – leading to the firm having a stake in a well-run economy and local development. TNCs may also enter the partnership to demonstrate good corporate citizenship. The participation

of MDBs – or equivalent entities – is required to monitor progress and impact, safeguard against unwarranted economic dominance, provide policy advice, and run contiguous development projects (e.g. linkages created with local firms).

Beyond formal partnerships, broad knowledge-sharing platforms can also help. Governments, private and public research institutions, market intermediaries and development agencies all play a role in producing and disseminating information on investment experience and future project opportunities. This can be done through platforms for knowledge sharing and dissemination. Examples include the Green Growth Knowledge Platform (GGKP), launched by the Global Green Growth Institute, the OECD, UNEP and the World Bank. Investors themselves also establish networks that foster relationships, propose tools, support advocacy, allow sharing of experiences, and can lead to new investment opportunities.

## F. ENSURING SUSTAINABLE DEVELOPMENT IMPACT OF INVESTMENT IN THE SDGs

### 1. Challenges in managing the impact of private investment in SDG sectors

*Key challenges in managing the impact of private investment in SDG sectors include weak absorptive capacity in some developing countries, social and environmental impact risks, the need for stakeholder engagement and effective impact monitoring.*

Once investment has been mobilized and channelled towards SDG sectors, there remain challenges to overcome in order to ensure that the resultant benefits for sustainable development are maximized, and the potential associated drawbacks mitigated (figure IV.13). Key challenges include the following.

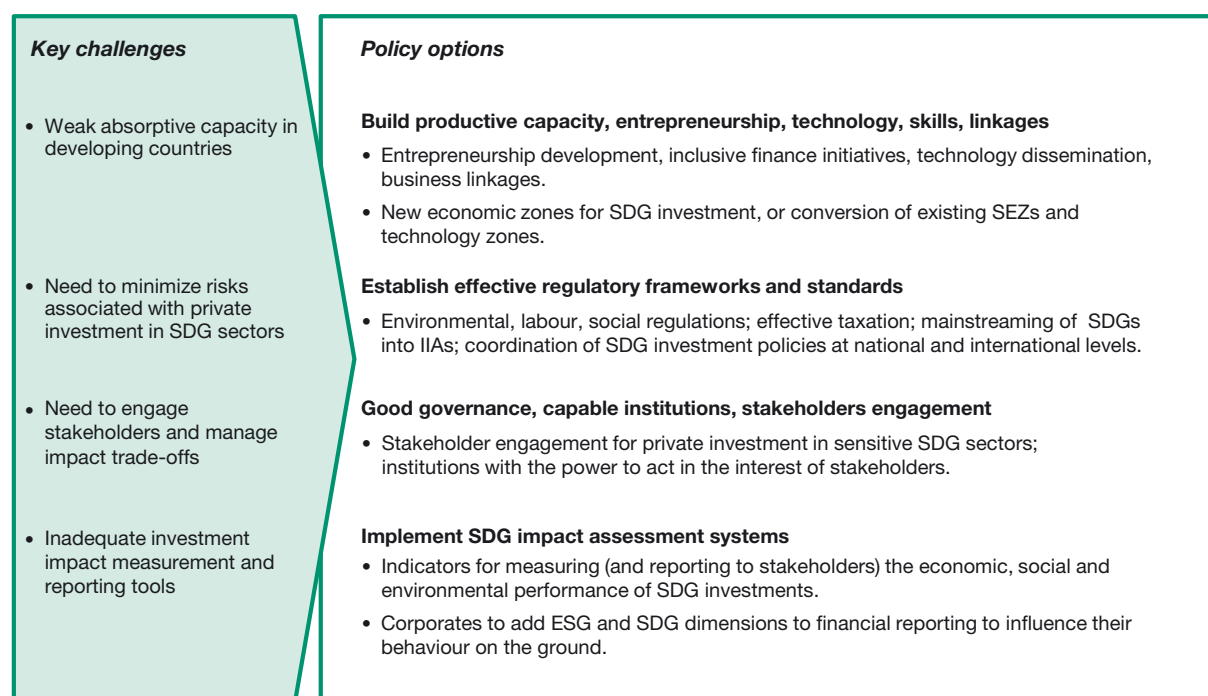
*Weak absorptive capacity in developing economies.* Developing countries, LDCs in particular, often suffer from a lack of capacity to absorb the benefits of investment. There is a risk that the gains from investment accrue primarily to the investor and are not shared through spillovers and improvement

in local productive capacity. A lack of managerial or technical capabilities among local firms and workers hinders the extent to which they can form business linkages with foreign investors, integrate new technologies, and develop local skills and capacity.

*Risks associated with private investment in SDG sectors.* There are challenges associated with greater private sector engagement in often sensitive SDG sectors in developing countries. At a general level, the social and environmental impacts of private sector operations need to be addressed across the board. But opening basic-needs sectors such as water and sanitation, health care or education to private investors requires careful preparation and the establishment of appropriate regulatory frameworks within which firms will operate.

In addition, where efforts are made specifically to attract private investment from international investors, there are risks that part of the positive impact of such investment for local economies does

Figure IV.13. Maximizing the sustainable development impact of investment and minimizing risks



Source: UNCTAD.

not materialize or leaks away as a result of relatively low taxes paid by investors (in cases where they are attracted with the help of fiscal incentives) or profits being shifted out of the country within the international networks of TNCs. The tax collection capabilities of developing countries, and especially LDCs, may not be sufficient to safeguard against such practices.

Finally, regulatory options for governments to mitigate risks and safeguard against negative effects when attracting private investment into SDG sectors can be affected by international commitments that reduce policy space.

*Need to engage stakeholders and manage trade-offs effectively.* Attracting needed investment in agriculture to increase food production may have consequences for smallholders or displace local populations. Investments in infrastructure can affect local communities in a variety of ways. Investments in water supply can involve making trade-offs between availability and affordability in urban areas versus wider accessibility. Health and education investments, especially by private sector

operators, are generally sensitive areas that require engagement with stakeholders and buy-in from local communities. Managing such engagement in the investment process, and managing the consequences or negative side effects of investments requires adequate consultation processes and strong institutions.

*Inadequate investment impact measurement and reporting tools.* Ensuring the on-the-ground impact of investment in SDG sectors is fundamental to justifying continued efforts to attract private investment in them and to enhance governance of such investment. Many initiatives to mobilize and channel funds to SDGs are hampered by a lack of accurate impact indicators. Even where measurement tools exist at the project level (e.g. for direct impacts of individual investments on their immediate environment), they may be available at the macro level (e.g. long-term aggregate impacts of investments across a sector). Adequate measurement of impact is a prerequisite for many upstream initiatives.

## 2. Increasing absorptive capacity

The development of local enterprise and local technological capabilities that will enhance the ability of domestic firms to engage in and benefit from technology and skills dissemination is referred to in this chapter as domestic absorptive capacity. Domestic absorptive capacity is crucial not only to increase chances of attracting private investment, but also in order to maximize the benefits of private investment in SDG sectors. Policy can help create an operating environment that allows local firms, entrepreneurs and workers to realize the benefits of investment in SDG sectors. The key elements that enhance absorptive capacity differ by SDG sector (table IV.5). The development of these absorptive capacity elements also builds productive capacity in host countries which in turn encourages further investment, creating a virtuous circle.

### a. Key policy areas: entrepreneurship, technology, skills, linkages

*A range of policy tools is available to increase absorptive capacity, including the promotion and facilitation of entrepreneurship, support to technology development, human resource and skills development, business development services and promotion of business linkages.*

A wide range of policy options exist for governments to improve the absorptive capacity of local economies, in order to maximize the benefits of private investment entering SDG sectors. Firstly, this revolves around increasing involvement of local entrepreneurs; micro, small and medium-sized firms; and smallholders, in the case of agricultural investment. Secondly, governments can increase the domestic skills base not only as an enabler for private investment, but also to increase the transfer of benefits to local economies. Thirdly, local enterprise development and upgrading can be further encouraged through the widening and deepening of SDG-oriented linkages programmes. Technology dissemination and knowledge sharing between firms is key to technological development, for instance of new technologies that would result in green growth. Fostering linkages between firms, within and across borders, can facilitate the process of technology dissemination and diffusion, which

in turn can be instrumental in helping developing countries catch up with developed countries and shift towards more sustainable growth paths.

### Promote entrepreneurship

- *Stimulating entrepreneurship, including social entrepreneurship, for sustainable development.* Domestic entrepreneurial development can strengthen participation of local entrepreneurs within or related to SDG sectors, and foster inclusiveness (see UNCTAD's Entrepreneurship Policy Framework<sup>31</sup>). In particular, through social entrepreneurship, governments can create special business incubators for social enterprises. The criteria for ventures to be hosted in such "social business incubators" are that they should have a social impact, be sustainable and show potential for growth. These kinds of initiatives are proliferating worldwide, as social entrepreneurs are identified as critical change agents who will use economic and technological innovation to achieve social development goals.<sup>32</sup>

**Table IV.5. Selected ways to raise absorptive capacity in SDG sectors**

SDG sector	Examples
Infrastructure (50%)	Construction and engineering capabilities of local firms and workforce Project management expertise of local workforce Presence of local suppliers and contractors
Climate change and environment (27%)	Entrepreneurship skills, clusters of renewable energy firms R&D, science and technology parks for low carbon technology Presence of laboratories, research institutes, universities
Food security (12%)	Clusters of agribusiness processing firms Local suppliers of inputs, crops, fertilizers, replacement machinery Local workforce skilled in crop production and processing
Social sectors (11%)	Local skills in provision of services e.g. teaching, nursing Managerial capabilities to run schools, hospitals Local (social) entrepreneurship skills

Source: UNCTAD.

Note: Percentages represent the average share of investment needs identified for each sector in section B.



- *Encourage financial inclusiveness.* Initiatives and programmes can be encouraged to facilitate access to finance for entrepreneurs in micro, small and medium-sized firms or women-owned firms (or firms owned by under-represented groups). In order to improve access to credit by local small and medium-sized enterprises and smallholders, loans can be provided by public bodies when no other reasonable option exists. They enable local actors to make investments of a size and kind that the domestic private banking sector may not support. Financial guarantees by governments put commercial banks in a position to grant credits to small customers without a financial history or collateral. Policies can also relax some regulatory requirements for providing credits, for instance the “know your customer” requirement in financial services (Tewes-Grادل et al. 2013).
- *Provide business development services.* A range of services can facilitate business activity and investment, and generate spillover effects. Such services might include business development services centres and capacity-building facilities to help local firms meet technical standards and improve their understanding of international trade rules and practices. Increased access could be granted for social enterprises, including through social business incubators, clusters and green technology parks.
- *Establish enterprise clustering and networking.* Enterprise agglomeration may determine “collective efficiency” that in turn enhances the productivity and overall performance of clustered firms. Both offer opportunities to foster competitiveness via learning and upgrading. Other initiatives include the creation of social entrepreneurship networks and networks of innovative institutions and enterprises to support inclusive innovation initiatives.

### **Boost technology and skills development**

- *Support science and technology development.* Technical support organizations in standards, metrology, quality, testing, R&D, productivity and extension for small and medium-sized enterprises are necessary to complete and improve the technology systems with which firms operate and grow. Appropriate levels of intellectual property (IP) protection and an effective IP rights framework can help give firms confidence in employing advanced technologies and provide incentives for local firms to develop or adapt their own technologies.
- *Develop human resources and skills.* Focus on training and education to raise availability of relevant local skills in SDG sectors is a crucial determinant to maximize long-term benefits from investment in SDG sectors. Countries can also adopt a degree of openness in granting work permits to skilled foreign workers, to allow for a lack of domestic skills and/or to avail themselves of foreign skills which complement and fertilize local knowledge and expertise.

### **Widen and deepen SDG-oriented linkages programmes**

- *Stimulate business linkages.* Domestic and international inter-firm and inter-institution linkages can provide local firms with the necessary externalities to cope with the dual challenge of knowledge creation and upgrading. Policies should be focused on promoting more inclusive business linkages models, including support for the development of local processing units; fostering inclusive rural markets including through pro-poor public-private sector partnerships; integrating inclusive business linkages promotion into national development strategies; and encouraging domestic and foreign investors to develop inclusive business linkages.
- *Create pro-poor business linkages opportunities.* Private investment in SDGs can create new pro-poor opportunities for local suppliers – small farmers, small service providers and local vendors. Potential policy actions to foster pro-poor linkages include disseminating information about bottom of the



pyramid consumers' needs; creating shared supplier databases; leveraging local logistics networks; introduce market diversification services for local suppliers; addressing constraints related to inadequate physical infrastructure through supply collection centres, shared premises and internet-based solutions; and promoting micro-franchising schemes, for instance in the health-care sector, in order to promote access (to health services), awareness, availability and affordability.

### **b. SDG incubators and special economic zones**

*Development of linkages and clusters in incubators or economic zones specifically aimed at stimulating businesses in SDG sectors may be particularly effective.*

The aforementioned range of initiatives to maximize absorptive capacity of SDG investment could be made more (cost-) effective if they are conducted in one place through the creation of special economic zones (SEZs) or technology zones, or the conversion of existing ones into SDG-focused clusters. These can be used to promote, attract, and retain investment in specific and interrelated SDG sectors with a positive impact arising from:

- *Clusters and networks* of closely associated firms and activities supporting the development of inclusive spillovers and linkages within zones, and beyond. As local firms' capabilities rise, demonstration effects become increasingly important.
- *Incubator facilities and processes* designed into zones' sustainable development support services and infrastructure to nurture local business and social firms/entrepreneurs (and assist them in benefitting from the local cluster).
- Zones acting as mechanisms to *diffuse responsible practices*, including in terms of labour practices, environmental sustainability,<sup>33</sup> health and safety, and good governance.

An SDG-focused zone could be *rural-based*, linked to specific agricultural products, and designed to support and nurture smallholder farmers, social

entrepreneurs from the informal sector and ensure social inclusion of disadvantaged groups.

In the context of SDG-focused SEZs, policymakers should consider broadening the availability of sustainable-development-related policies, services and infrastructure to assist companies in meeting stakeholder demands – for instance, improved corporate social responsibility policies and practices. This would strengthen the State's ability to promote environmental best practices and meet its obligation to protect the human rights of workers. Finally, SEZs should improve their reporting to better communicate the sustainable development services.

### **3. Establishing effective regulatory frameworks and standards**

*Increased private sector engagement in often sensitive SDG sectors needs to be accompanied by effective regulation. Particular areas of attention include human health and safety, environmental and social protection, quality and inclusiveness of public services, taxation, and national and international policy coherence.*

Reaping the development benefits from investment in SDG sectors requires not only an enabling policy framework, but also adequate regulation to minimize any risks associated with investment (see table IV.6 for examples of regulatory tools). Moreover, investment policy and regulations must be adequately enforced by impartial, capable and efficient public institutions, which is as important for policy effectiveness as policy design itself.

In regulating investment in SDG sectors, and in investment regulations geared towards sustainable development in general, protection of human rights, health and safety standards, social and environmental protection and respect of core labour rights are essential. A number of further considerations are especially important:

- *Safeguarding quality and inclusiveness of public services.* Easing constraints for private investors in SDGs must not come at the price of poor quality of services (e.g. in electricity or water supply, education and health services). This calls for appropriate standard setting by

**Table IV.6. Examples of policy tools to ensure the sustainability of investment**

SDG	Regulations
Environmental sustainability	Pollution emission rules (e.g. carbon taxes) Environmental protection zones Risk-sensitive land zoning Environmental impact assessments of investments Reporting requirements on environmental performance of investment Good corporate citizenship
Social sustainability	Labour policies and contract law Human rights Land tenure rights Migration policies Safety regulations Provisions on safe land and housing for low-income communities Prohibition of discrimination Reporting requirements on social performance of investment Social impact assessments of investments

Source: UNCTAD.

host countries concerning the content, quality, inclusiveness and reliability of the services (e.g. programs for school education, hygienic standards in hospitals, provision of clean water, uninterrupted electricity supply, compulsory contracting for essential infrastructure services), and for monitoring compliance. Laws on consumer protection further reinforce the position of service recipients.

- Contractual arrangements between host countries and private investors can play a significant role. Through the terms of concession agreements, joint ventures or PPPs, host countries can ensure that private service providers respect certain quality standards in respect of human health, environmental protection, inclusiveness and reliability of supply. This includes a sanction mechanism if the contractual partners fail to live up to their commitments.
- *Balancing the need for fair tax revenues with investment attractiveness.* Effective tax policies are crucial to ensure that tax revenues are sufficient and that they can be used for SDGs, such as the financing of public services, infrastructure development or health and education services. Taxation is also an important policy tool to correct market failures in respect of the SDG impact of investment, e.g. through imposing carbon taxes or providing tax relief for renewable energies. Introducing an efficient and fair tax system is, however, far from straightforward, especially in developing countries. A recent report on tax compliance puts many developing countries at the bottom in the ranking on tax efficiency (PwC 2014b). Countries should consider how to broaden the tax base, (i) by reviewing incentive schemes for effectiveness, and (ii) by improving tax collection capabilities and combating tax avoidance. An example of a successful recent tax reform is Ecuador, which significantly increased its tax collection rate. These additional revenues were spent for infrastructure development and other social purposes. The country now has the highest proportion of public investment as a share of GDP in the region.<sup>34</sup> To combat tax avoidance and tax evasion, it is necessary to close existing loopholes in taxation laws. In addition to efforts at the domestic level, this requires more international cooperation, as demonstrated by recent undertakings in the G-20, the OECD and the EU, among others. Developing countries, especially LDCs, will require technical assistance to improve tax collection capabilities and to deal with new and complex rules that will emerge from ongoing international initiatives.
- *Ensuring coherence in national and international policymaking.* Regulations need to cover a broad range of policy areas beyond investment policies per se, such as taxation, competition, labour market regulation, environmental policies and access to land. The coverage of such a multitude of different policy areas confirms the need for consistency and coherence in policymaking across government institutions. At the domestic level, this means, e.g. coordination at the interministerial level and between central, regional and local governments.

Coherence is also an issue for the relationship between domestic legislation and international agreements in the areas of investment, environmental protection and social rights, among others. Numerous international conventions and non-binding principles provide important policy guidance on how to design and improve domestic regulatory frameworks, including UNCTAD's IPFSD.

- *Making international investment agreements (IIAs) proactive in mobilizing and channelling investment into SDGs.* Most IIAs still remain silent on environmental and social issues. Only recent agreements start dealing with sustainability issues, but primarily from the perspective of maintaining regulatory space for environmental and social purposes. IIAs could do more and also promote investment in SDGs in a proactive manner. This includes, for example, emphasising the importance of SDGs as an overarching objective of the agreement or a commitment of contracting parties to particularly encourage and facilitate investment in SDGs. These are issues both for the negotiation of new IIAs and the renegotiation of existing agreements. Systematic reform, as outlined in chapter III of this report, can help.

Finally, while laws and regulations are the basis of investor responsibility, voluntary CSR initiatives and standards have proliferated in recent years, and they are increasingly influencing corporate practices, behaviour and investment decisions. Governments can build on them to complement the regulatory framework and maximize the development benefits of investment. A number of areas can benefit from the encouragement of CSR initiatives and the voluntary dissemination of standards; for example, they can be used to promote responsible investment and business behaviour (including the avoidance of corrupt business practices), and they can play an important role in promoting low-carbon and environmentally sound investment.

#### **4. Good governance, capable institutions, stakeholder engagement**

*Good governance and capable institutions are key enablers for the attraction of private investment in general, and in SDG sectors in particular. They are*

*also needed for effective stakeholder engagement and management of impact trade-offs.*

Good governance and capable institutions are essential to promoting investment in SDGs and maximizing positive impact in a number of ways: (i) to attract investment, (ii) to guarantee inclusive policymaking and impacts, (iii) to manage synergies and trade-offs.

*Attracting investment.* Good governance is a prerequisite for attracting investment in general, and in SDG sectors in particular. Investments in infrastructure, with their long gestation period, are particularly contingent on a stable policy environment and capable local institutions. Institutional capabilities are also important in dealing or negotiating with investors, and for the effective implementation of investment regulation.

*Stakeholder engagement.* Additionally, investment in SDG areas affects many stakeholders in different ways. Managing differential impacts and “side effects” of SDG investments requires giving a say to affected populations through effective consultative processes. It also requires strong capabilities on the part of governments to deal with consequences, for example to mitigate negative impacts on local communities where necessary, while still progressing on investment in targeted SDG objectives.

Adequate participation of multiple stakeholders at various levels is needed, as governance of investment in SDGs is important not just at the national level but also at the regional and local levels. In fact, SDG investments are subject to governance at different levels, e.g. from local metropolitan areas to national investments to regional infrastructure (such as highways, intercity rail, port-related services for many countries, transnational power systems).

*Synergies and trade-offs.* A holistic, cross-sectoral approach that creates synergies between the different SDG pillars and deals with trade-offs is important to promote sustainable development. Objectives such as economic growth, poverty reduction, social development, equity, and sustainability should be considered together with a long-term outlook to ensure coherence. To do

this, governments can make strategic choices about which sectors to build on, and all relevant ministries can be involved in developing a focused development agenda grounded on assessments of emerging challenges. Integration of budgets and allocating resources to strategic goals rather than individual ministries can encourage coherence across governments. Integrated decision-making for SDGs is also important at sub-national levels (Clark 2012).

Promoting SDGs through investment-related policies may also result in trade-offs between potentially conflicting policy objectives. For example, excessive regulation of investor activity can deter investment; fiscal or financial investment incentives for the development of one SDG pillar can reduce the budget available for the promotion of other pillars. Also, within regions or among social groups, choices may have to be made when it comes to prioritizing individual investment projects.

At the international policymaking level, synergies are equally important. International macroeconomic policy setting, and reforms of the international financial architecture, have a direct bearing on national and international investment policies, and on the chances of success in attracting investment in SDGs.

## 5. Implementing SDG impact assessment systems

### a. Develop a common set of SDG impact indicators

*Monitoring of the impact of investment, especially along social and environmental dimensions, is key to effective policy implementation. A set of core quantifiable impact indicators can help.*

*Monitoring.* SDG-related governance requires monitoring the impact of investments, including measuring progress against goals. UNCTAD has suggested a number of guiding principles that are relevant in this context (IPFSD, WIR12). Investment policies should be based on a set of explicitly formulated objectives related to SDGs and ideally include a number of quantifiable goals for both the attraction of investment and the impact of investment on SDGs. The objectives should set

clear priorities, a time frame for achieving them, and the principal measures intended to support the objectives.

To measure policy effectiveness for the attraction of investment, policymakers should use a focused set of key indicators that are the most direct expression of the core sustainable development contributions of private investments, including direct contributions to GDP growth through additional value added, capital formation and export generation; entrepreneurial development and development of the formal sector and tax base; and job creation. Central to this should be indicators addressing labour, social, environmental and sustainability development aspects.

The impact indicator methodology developed for the G-20 Development Working Group by UNCTAD, in collaboration with other agencies, may provide guidance to policymakers on the choice of indicators of investment impact and, by extension, of investment policy effectiveness (see table IV.7). The indicator framework, which has been tested in a number of developing countries, is meant to serve as a tool that countries can adapt and adopt in accordance with their national sustainable development priorities and strategies (see also IPFSD, WIR12).

Sustainable development impacts of investment in SDGs can be cross-cutting. For instance, clusters promoting green technology entrepreneurship can serve as economic growth poles, with employment generation and creation of value added as positive side effects. Investments in environmental protection schemes can have positive effects on human health and indirectly on economic growth. Such cross-cutting effects should be reflected in impact measurement methodologies.

At the micro level (i.e. the sustainable development impact of individual investments), the choice of indicators can be further detailed and sophisticated, as data availability is greater. Additional indicators might include qualitative measures such as new management practices or techniques transferred, social benefits generated for workers (health care, pensions, insurance), or ancillary benefits not directly related to the investment project objectives

**Table IV.7. Possible indicators for the definition of investment impact objectives and the measurement of policy effectiveness**

Area	Indicators	Details and examples
Economic value added	1. Total value added	• Gross output (GDP contribution) of the new/additional economic activity resulting from the investment (direct and induced)
	2. Value of capital formation	• Contribution to gross fixed capital formation
	3. Total and net export generation	• Total export generation; net export generation (net of imports) is also captured by the value added indicator
	4. Number of formal business entities	• Number of businesses in the value chain supported by the investment; this is a proxy for entrepreneurial development and expansion of the formal (tax-paying) economy
	5. Total fiscal revenues	• Total fiscal take from the economic activity resulting from the investment, through all forms of taxation
Job creation	6. Employment (number)	• Total number of jobs generated by the investment, both direct and induced (value chain view), dependent and self-employed
	7. Wages	• Total household income generated, direct and induced
	8. Typologies of employee skill levels	• Number of jobs generated, by ILO job type, as a proxy for job quality and technology levels (including technology dissemination)
Sustainable development	9. Labour impact indicators	• Employment of women (and comparable pay) and of disadvantaged groups • Skills upgrading, training provided • Health and safety effects, occupational injuries
	10. Social impact indicators	• Number of families lifted out of poverty, wages above subsistence level • Expansion of goods and services offered, access to and affordability of basic goods and services
	11. Environmental impact indicators	• GHG emissions, carbon offset/credits, carbon credit revenues • Energy and water consumption/efficiency hazardous materials • Enterprise development in eco-sectors
	12. Development impact indicators	• Development of local resources • Technology dissemination

Source: IAWG (2011).

Note: The report was produced by an inter-agency working group coordinated by UNCTAD.

(recreational facilities, schools and clinics for workers, families or local communities).

### **b. Require integrated corporate reporting for SDGs**

*Impact measurement and reporting by private investors on their social and environmental performance promotes corporate responsibility on the ground and supports mobilization and channelling of investment.*

Corporate sustainability reporting is an important enabler of policies to promote the SDGs. High-quality sustainability reporting involves the generation of internal company data on sustainability related activities and control systems, facilitating proactive management, target setting and benchmarking. Publicly reported data can play an important role in enabling governments to monitor the effectiveness

of policies and incentive structures, and often serve as a prerequisite for resource mobilization for SDG investment.

The importance of sustainability reporting has been recognized throughout the process leading up to the formation of the SDGs. In 2013, the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda proposed that “in future – at latest by 2030 – all large businesses should be reporting on their environmental and social impact – or explain why if they are not doing so”. (United Nations 2013). In 2014, the European Parliament adopted a directive which will require the disclosure of environmental and social information by large public-interest companies (500+ employees). Individual UN Member States around the world have also taken steps to promote sustainability reporting.<sup>35</sup> Apart from regulatory initiatives, some



stock exchanges have implemented mandatory listing requirements in the area of sustainability reporting.<sup>36</sup>

The content and approach to the preparation of sustainability reports is influenced by a number of international initiatives actively promoting reporting practices, standards and frameworks.

Recent examples of such initiatives and entities include the Global Reporting Initiative (GRI),<sup>37</sup> the Carbon Disclosure Project (CDP),<sup>38</sup> the International Integrated Reporting Council (IIRC),<sup>39</sup> the Accounting for Sustainability (A4S)<sup>40</sup> and the Sustainability Accounting Standards Board (SASB).<sup>41</sup> UNCTAD has also been active in this area (box IV.6)

#### Box IV.6. UNCTAD's initiative on sustainability reporting

UNCTAD has provided guidance on sustainability rule making via its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) (UNCTAD 2014). Member States at ISAR endorsed the following recommendations:

- Introducing voluntary sustainability reporting initiatives can be a practical option to allow companies time to develop the capacity to prepare high-quality sustainability reports.
- Sustainability reporting initiatives can also be introduced on a comply or explain basis, to establish a clear set of disclosure expectations while allowing for flexibility and avoiding an undue burden on enterprises.
- Stock exchanges and/or regulators may consider advising the market on the future direction of sustainability reporting rules. Companies should be allotted sufficient time to adapt, especially if stock exchanges or regulators are considering moving from a voluntary approach to a mandatory approach.
- Sustainability reporting initiatives should avoid creating reporting obligations for companies that may not have the capacity to meet them. Particularly in the case of mandatory disclosure initiatives, one option is to require only a subset of companies (e.g. large companies or State-owned companies) to disclose on sustainability issues.
- Stock exchanges and regulators may wish to consider highlighting sustainability issues in their existing definitions of what constitutes material information for the purposes of corporate reporting.
- With a view to promoting an internationally harmonized approach, stock exchanges and regulators may wish to consider basing sustainability reporting initiatives on an international reporting framework.

Considerations for the design and implementation of sustainability reporting initiatives include using a multi-stakeholder consultation approach in the development process for creating widespread adoption and buy-in and creating incentives for compliance, including public recognition and investor engagement.

Source: UNCTAD.



## G. AN ACTION PLAN FOR PRIVATE SECTOR INVESTMENT IN THE SDGs

The range of challenges discussed in previous sections, as well as the wide array of existing and potential policy solutions available to overcome those challenges, demonstrate above all that there is no single all-encompassing solution or “magic bullet” for increasing the engagement of the private sector in raising finance for, and investing in, sustainable development. The potential sources and destinations of financial resources are varied, and so are the constraints they face. This chapter has attempted to highlight some of the paths that financial flows can follow towards useful investment in sustainable development projects, indicating a number of policy solutions to encourage such flows, to remove hurdles, to maximize the positive impacts and to minimize the potential risks involved.

Many of the more concrete solutions have been tried and tested over a significant period of time already

– such as risk-sharing mechanisms including PPPs and investment guarantees. Others have emerged more recently, such as various ways to raise finance for and stimulate impact investment. And yet others require broader change in markets themselves, in the mindset of participants in the market, in the way sustainable development projects are packaged and marketed, or in the broader policy setting for investment.

Given the massive financing needs that will be associated with the achievement of the SDGs, all of these solutions are worth exploring. What they need is a *concerted push* to address the main challenges they face in raising finance and in channelling it to sustainable development objectives. Figure IV.14 summarizes the key challenges and solutions discussed in this chapter in the context of the proposed Strategic Framework for Private Investment in the SDGs.

**Figure IV.14. Key challenges and possible policy responses**

	Key challenges	Policy responses
<p><b>LEADERSHIP</b> <i>Setting guiding principles, galvanizing action, ensuring policy coherence</i></p>	<ul style="list-style-type: none"> <li>• Need for a clear sense of direction and common policy design criteria</li> <li>• Need for clear objectives to galvanize global action</li> <li>• Need to manage investment policy interactions</li> <li>• Need for global consensus and an inclusive process</li> </ul>	<ul style="list-style-type: none"> <li>• Agree a set of guiding principles for SDG investment policymaking</li> <li>• Set SDG investment targets</li> <li>• Ensure policy coherence and synergies</li> <li>• Multi-stakeholder platform and multi-agency technical assistance facility</li> </ul>
<p><b>MOBILIZATION</b> <i>Raising finance and re-orienting financial markets towards investment in SDGs</i></p>	<ul style="list-style-type: none"> <li>• Start-up and scaling issues for new financing solutions</li> <li>• Failures in global capital markets</li> <li>• Lack of transparency on sustainable corporate performance</li> <li>• Misaligned investor rewards/pay structures</li> </ul>	<ul style="list-style-type: none"> <li>• Create fertile soil for innovative SDG-financing approaches and corporate initiatives</li> <li>• Build or improve pricing mechanisms for externalities</li> <li>• Promote Sustainable Stock Exchanges</li> <li>• Introduce financial market reforms</li> </ul>
<p><b>CHANNELLING</b> <i>Promoting and facilitating investment into SDG sectors</i></p>	<ul style="list-style-type: none"> <li>• Entry barriers</li> <li>• Lack of information and effective packaging and promotion of SDG investment projects</li> <li>• Inadequate risk-return ratios for SDG investments</li> <li>• Lack of investor expertise in SDG sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Build an investment policy climate conducive to investing in SDGs, while safeguarding public interests</li> <li>• Expand use of risk sharing mechanisms for SDG investments</li> <li>• Establish new incentives schemes and a new generation of investment promotion institutions</li> <li>• Build SDG investment partnerships</li> </ul>
<p><b>IMPACT</b> <i>Maximizing sustainable development benefits, minimizing risks</i></p>	<ul style="list-style-type: none"> <li>• Weak absorptive capacity in developing countries</li> <li>• Need to minimize risks associated with private investment in SDG sectors</li> <li>• Need to engage stakeholders and manage impact trade-offs</li> <li>• Inadequate investment impact measurement and reporting tools</li> </ul>	<ul style="list-style-type: none"> <li>• Build productive capacity, entrepreneurship, technology, skills, linkages</li> <li>• Establish effective regulatory frameworks and standards</li> <li>• Good governance, capable institutions, stakeholder engagements</li> <li>• Implement a common set of SDG investment impact indicators and push Integrated Corporate Reporting</li> </ul>

Source: UNCTAD.

## 1. A Big Push for private investment in the SDGs

*While there is a range of policy ideas and options available to policymakers, a focused set of priority packages can help shape a big push for SDG investment.*

There are many solutions, mechanisms and policy initiatives that can work in raising private sector investment in sustainable development. However, a concerted push by the international community, and by policymakers at national levels, needs to focus on few priority actions – or packages. Six priority packages that address specific segments of the “SDG investment chain” and relatively homogenous groups of stakeholders, could constitute a significant “Big Push” for investment in the SDGs (figure IV.15). Such actions must be in line with the guiding principles for private sector investment in SDGs (section C.2), namely balancing liberalization and regulation, attractive risk return with accessible and affordable services, the push for private funds with the fundamental role of the State, and the global scope of the SDGs with special efforts for LDCs and other vulnerable economies.

1. *A new generation of investment promotion strategies and institutions.* Sustainable development projects, whether in infrastructure, social housing or renewable energy, require intensified efforts for investment promotion and facilitation. Such projects should become a priority of the work of investment promotion agencies and business development organizations, taking into account their peculiarities compared to other sectors. For example, some categories of investors in such projects may be less experienced in business operations in challenging host economies and require more intensive business development support.

The most frequent constraint faced by potential investors in sustainable development projects is the lack of concrete proposals of sizeable, impactful, and bankable projects. Promotion and facilitation of investment in sustainable development should include the marketing of pre-packaged and structured projects with priority consideration and sponsorship

at the highest political level. This requires specialist expertise and dedicated units, e.g. government-sponsored “brokers” of sustainable development investment projects.

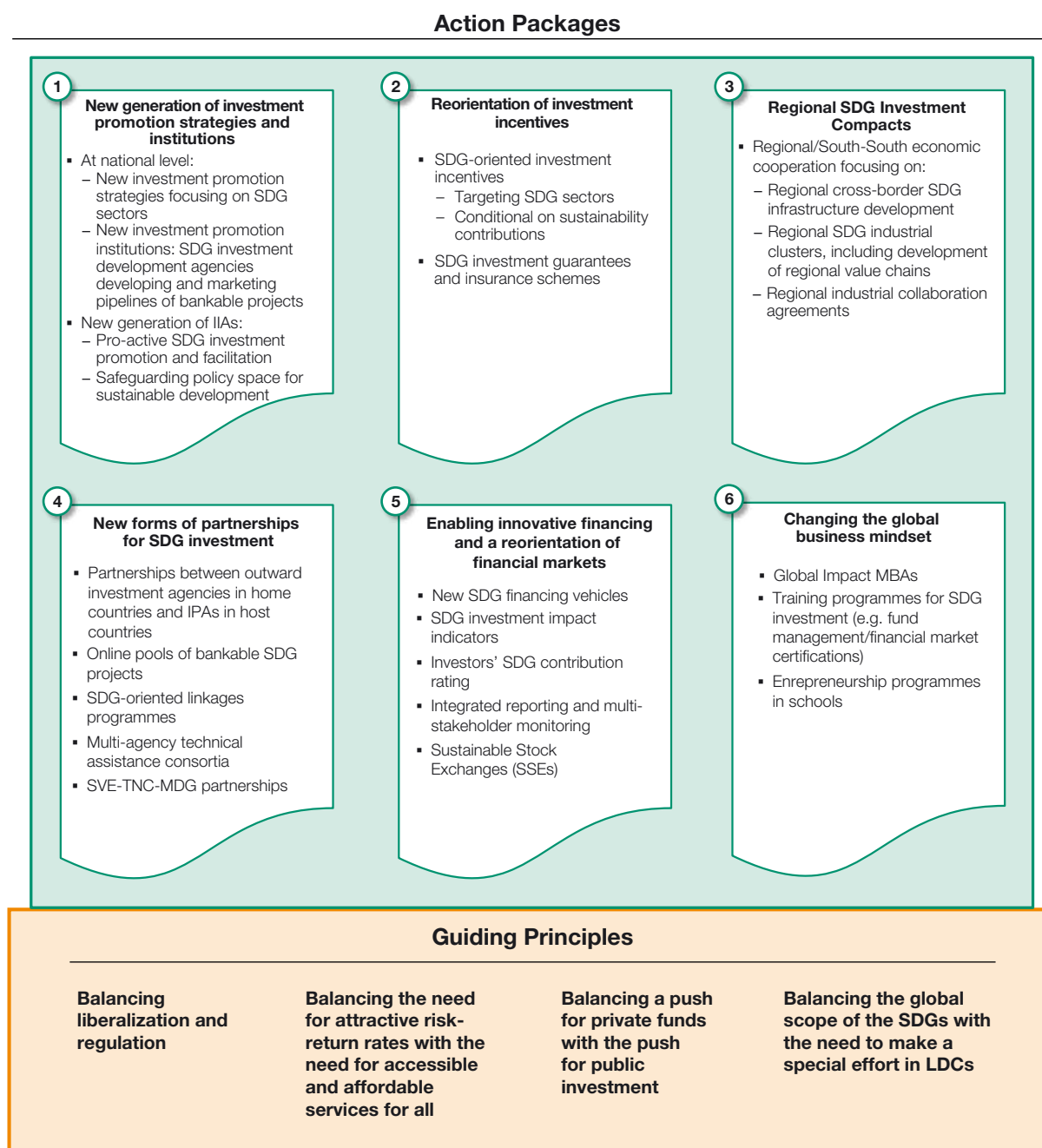
Putting in place such specialist expertise (ranging from project and structured finance expertise to engineering and project design skills) can be supported by technical assistance from international organizations and MDBs. Units could also be set up at the regional level (see also the regional compacts) to share costs and achieve economies of scale.

At the *international investment policy level*, promotion and facilitation objectives should be supported by ensuring that IIAs pursue the same objectives. Current agreements focus on the protection of investment. Mainstreaming sustainable development in IIAs requires, among others, proactive promotion of SDG investment, with commitments in areas such as technical assistance. Other measures include linking investment promotion institutions, facilitating SDG investments through investment insurance and guarantees, and regular impact monitoring.

2. *SDG-oriented investment incentives.* Investment incentive schemes can be restructured specifically to facilitate sustainable development projects, e.g. as part of risk-sharing solutions. In addition, investment incentives in general – independent of the economic sector for which they are granted – can incorporate sustainable development considerations by encouraging corporate behaviour in line with SDGs. A transformation is needed to move incentives from purely “*location-focused*” (aiming to increase the attractiveness of a location) towards increasingly “*SDG-focused*”, aiming to promote investment for sustainable development.

Regional economic cooperation organizations, with national investment authorities in their region could adopt common incentive design criteria with the objective of reorienting investment incentive schemes towards sustainable development.

Figure IV.15. A Big Push for private investment in the SDGs: action packages



Source: UNCTAD.

3. *Regional SDG Investment Compacts.* Regional South-South cooperation can foster SDG investment. A key area for such SDG-related cross-border cooperation is infrastructure development. Existing regional economic cooperation initiatives could evolve towards regional SDG investment compacts. Such compacts could focus on reducing barriers and facilitating investment and establish joint investment promotion mechanisms and institutions. Regional industrial development compacts could include all policy areas important for enabling regional development, such as the harmonization, mutual recognition or approximation of regulatory standards and the consolidation of private standards on environmental, social and governance issues.
4. *New forms of partnership for SDG investments.* Partnerships in many forms, and at different levels, including South-South, are crucial to the performance and success of SDG investments. First, cooperation between outward investment agencies in home countries and IPAs in host countries could be institutionalized for the purpose of marketing SDG investment opportunities in home countries, provision of investment incentives and facilitation services for SDG projects; and joint monitoring and impact assessment. Outward investment agencies could evolve into genuine business development agencies for investments in SDG sectors in developing countries, raising awareness of investment opportunities, helping investors bridge knowledge gaps and gain expertise, and practically facilitating the investment process. Concrete tools that might support SDG investment business development services might include on-line tools with pipelines of bankable projects, and opportunities for linkages programmes in developing countries. **Multi-agency consortia** (a “one-stop shop” for SDG investment solutions) could help to support LDCs in establishing appropriate institutions and schemes to encourage, channel and maximize the impact from private sector investment. Other forms of partnership might lead to SDG incubators and special economic zones based on close collaboration between the public and private sectors (domestic and foreign), such as SDG-focused rural-based agriculture zones or SDG industrial model towns, which could support more effective generation, dissemination and absorption of technologies and skills. They would represent hubs from which activity, knowledge and expertise could spill into and diffuse across the wider economy. In a similar vein, triangular partnerships, such as between SVEs, TNCs and MDBs could be fostered to engage the private sector in the nurturing and expansion of sectors, industries or value chain segments.
5. *Enabling innovative financing mechanisms and reorienting financial markets.* New and existing innovative financing mechanisms, such as green bonds and impact investing, would benefit from a more effective enabling environment, allowing them to be scaled up and targeted at relevant sources of capital and ultimate beneficiaries. Systematic support and effective inclusion would especially encourage the emergence, take-up and/or expansion of under-utilized catalytic instruments (e.g. vertical funds) or go-to-market channels such as crowd funding. Beyond this, integrated reporting on the economic, social and environmental impact of private investors is a first step towards encouraging responsible behaviour by investors on the ground. It is a condition for other initiatives aimed at channelling investment into SDG projects and maximizing impact; for example, where investment incentives are conditional upon criteria of social inclusiveness or environmental performance, such criteria need clear and objective measurement. In addition, it is an enabler for responsible investment behaviour in financial markets and a prerequisite for initiatives aimed at mobilizing funds for investment in SDGs.
6. *Changing the business mindset and developing SDG investment expertise.* The majority of managers in the world’s financial institutions and large multinational enterprises – the main sources of global investment – as well as most successful entrepreneurs

tend to be strongly influenced by models of business, management and investment that are commonly taught in business schools. Such models tend to focus on business and investment opportunities in mature or emerging markets, with the risk-return profiles associated with those markets, while they tend to ignore opportunities outside the parameters of these models. Conventional models also tend to be driven exclusively by calculations of economic risks and returns, often ignoring broader social and environmental impacts, both positive and negative. Moreover, a lack of consideration in standard business school teachings of the challenges associated with operating in poor countries, and the resulting need for innovative problem solving, tend to leave managers ill-prepared for pro-poor investments.

The majority of students interested in social entrepreneurship end up starting projects in middle- to high-income countries, and most impact investments – investments with objectives that explicitly include social or environmental returns – are located in mature markets. A curriculum for business schools that generates awareness of investment opportunities in poor countries and that instils in students the problem solving skills needed in developing-country operating environments will have an important long-term impact.

UNCTAD, in partnership with business school networks, teachers, students as well as corporates, is currently running an initiative to develop an “impact curriculum” for MBA programmes and management schools, and a platform for knowledge sharing, exchange of teaching materials and pooling of “pro-poor” internship opportunities in LDCs. UNCTAD invites all stakeholders who can contribute to join the partnership.

## 2. Stakeholder engagement and a platform for new ideas

*The Strategic Framework for Private Investment in the SDGs provides a basis for stakeholder engagement and development of further ideas. UNCTAD's World Investment Forum and its*

*Investment Policy Hub provide the infrastructure.*

The Plan of Action for Private Investment in the SDGs (figure IV.16) proposed in this chapter is not an all-encompassing or exhaustive list of solutions and initiatives. Primarily it provides a structured framework for thinking about future ideas. Within each broad solution area, a range of further options may be available or may be developed, by stakeholders in governments, international organizations, NGOs, or corporate networks.

UNCTAD is keen to learn about such ideas and to engage in discussion on how to operationalize them, principally through two channels: first, through UNCTAD's intergovernmental and expert group meetings on investment, and in particular the biennial World Investment Forum (WIF); and, second, through an open process for collecting inputs and feedback on the Plan of Action, and through an on-line discussion forum on UNCTAD's Investment Policy Hub.

### **(i) The World Investment Forum: Investing in Sustainable Development**

The World Investment Forum 2014 will be held in October 2014 in Geneva, and will have as its theme “Investing in Sustainable Development”. High-level participants including Heads of State, parliamentarians, ministers, heads of international organizations, CEOs, stock exchange executives, SWF managers, impact investors, business leaders, academics, and many other stakeholders will consider how to raise financing by the private sector, how to channel investment to sustainable development projects, and how to maximize the impact of such investment while minimizing potential risks involved. They will explore existing and new solutions and discuss questions such as:

- which financing mechanisms provide the best return, i.e. which mechanisms can mobilize more resources, more rapidly and at the lowest opportunity cost for sustainable development;
- which types of investments will yield the most progress on the SDGs and are natural candidates for involvement of the private sector;



- which types of investment in which a significant role is envisaged for the private sector require the most policy attention.

As suggested in the Plan of Action, the biennial WIF could become a permanent “Global Stakeholder Review Mechanism” for investment in the SDGs, reporting to ECOSOC and the UN General Assembly.

### ***(ii) UNCTAD's Investment Policy Hub***

In its current form, the Plan of Action for Investment in the SDGs has gone through numerous consultations with experts and practitioners. It is UNCTAD's intention to provide a platform for further consultation and discussion with all investment and sustainable development stakeholders, including policymakers, the international development community, investors, business associations,

and relevant NGOs and interest groups. To allow for further improvements resulting from such consultations, the Plan of Action has been designed as a “living document”. The fact that the SDGs are still under discussion, as well as the dynamic nature of the investment policy environment add to the rationale for such an approach.

The Plan of Action provides a point of reference and a common structure for debate and cooperation on national and international policies to mobilize private sector funds, channel them to SDGs, and maximize impact. UNCTAD will add the infrastructure for such cooperation, not only through its policy forums on investment, but also by providing a platform for “open sourcing” of best practice investment policies through its website, as a basis for the inclusive development of further options with the participation of all.

**Figure IV.16. Detailed plan of action for private investment in the SDGs**

	<b>Recommended Actions</b>	<b>Description</b>	
<b>Leadership</b> Setting guiding principles, galvanizing action, ensuring policy coherence	<ul style="list-style-type: none"> <li>▪ Agree a set of guiding principles for SDG investment policymaking</li> <li>▪ Set SDG investment targets</li> <li>▪ Establish a global multi-stakeholder platform on investing in the SDGs</li> <li>▪ Create a multi-agency technical assistance facility</li> </ul>	<ul style="list-style-type: none"> <li>▪ Internationally agreed principles, including definition of SDGs, policy-setting parameters, and operating, monitoring and impact assessment mechanisms.</li> <li>▪ Quantitative and time-bound targets for investment in SDG sectors and LDCs, committed to by the international community.</li> <li>▪ A regular forum bringing together all stakeholders, such as a regular segment in UNCTAD's World Investment Forum or an expert committee on SDG investment reporting to ECOSOC and the General Assembly.</li> <li>▪ A multi-agency institutional arrangement to support LDCs, advising on e.g. guarantees, bankable project set-up, incentive scheme design and regulatory frameworks.</li> </ul>	
	<b>Further policy options</b> <ul style="list-style-type: none"> <li>▪ Change business/investor mindsets                             <ul style="list-style-type: none"> <li>– “Global Impact MBA”</li> <li>– Other educational initiatives</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Dedicated MBA programme or modules to teach mindset and skills required for investing and operating in SDG sectors in low-income countries (e.g. pro-poor business models).</li> <li>▪ Changes in other educational programmes, e.g. specialized financial markets/advisors training, accounting training, SDG entrepreneurship training.</li> </ul>	
	<b>Mobilization</b> Raising finance and reorienting financial markets towards investment in SDGs	<ul style="list-style-type: none"> <li>▪ Create fertile soil for innovative SDG-financing approaches and corporate initiatives                             <ul style="list-style-type: none"> <li>– Facilitate and support SDG-dedicated financial instruments and impact Investing initiatives</li> <li>– Expand initiatives that use the capacity of a public sector to mobilize private finance</li> <li>– Build and support go-to-market channels for SDG investment projects in financial markets</li> </ul> </li> <li>▪ Build or improve pricing mechanisms for externalities</li> <li>▪ Promote Sustainable Stock Exchanges</li> <li>▪ Introduce financial market reforms                             <ul style="list-style-type: none"> <li>– Realign incentives in capital markets</li> <li>– Develop new rating methodologies for SDG investments</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Incentives for and facilitation of financial instruments that link investor returns to impact, e.g. green bonds.</li> <li>▪ Use of government-development funds as seed capital or guarantee to raise further private sector resources in financial markets</li> <li>▪ Channels for SDG investment projects to reach fund managers, savers and investors in mature financial markets, ranging from securitization to crowd funding.</li> <li>▪ Modalities to internalize in investment decisions the costs of externalities, e.g. carbon emissions, water use.</li> <li>▪ SDG listing requirements, indices for performance measurement and reporting for investors and broader stakeholders.</li> <li>▪ Reform of pay, performance and reporting structures to favor long-term investment conducive to SDG achievement</li> <li>▪ Rating methodologies that reward long-term real investment in SDG sectors.</li> </ul>
	<b>Further policy options</b> <ul style="list-style-type: none"> <li>▪ Debt swaps and write-offs</li> <li>▪ Voluntary contributions/product labelling/certification</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mechanisms to redirect debt repayment to SDG sectors.</li> <li>▪ Contributions collected by firms (e.g. through product sales) and passed on to development funds.</li> </ul>	

/...

Figure IV.16. Detailed plan of action for private investment in the SDGs (concluded)

	Recommended Actions	Description
<b>Channelling</b> Promoting and facilitating investment in SDG sectors	<ul style="list-style-type: none"> <li>▪ Build an investment policy climate conducive to investing in SDGs, while safeguarding public interests</li> <li>▪ Establish new incentives schemes and a new generation of investment promotion institution               <ul style="list-style-type: none"> <li>– Transform IPAs into SDG investment development agencies</li> <li>– Make investment incentives fit-for-purpose for the promotion of SDG investment</li> <li>– Establish regional SDG investment compacts</li> </ul> </li> <li>▪ Expand use of risk-sharing tools for SDG investments               <ul style="list-style-type: none"> <li>– Improve and expand use of PPPs</li> <li>– Provide SDG investment guarantees and risk insurance facilities</li> <li>– Expand use of ODA-leveraged and blended financing</li> <li>– Create markets for SDG investment outputs</li> </ul> </li> <li>▪ Build SDG investment partnerships               <ul style="list-style-type: none"> <li>– Partner home- and host-country investment promotion agencies for investment in the SDGs</li> <li>– Develop SVE-TNC-MDB triangular partnerships</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ National and international investment policy elements geared towards promoting sustainable development (e.g. UNCTAD's IPFSD); formulating national strategies for attracting investment in SDG sectors.</li> <li>▪ Transformation of IPAs towards a new generation of investment promotion, focusing on the preparation and marketing of pipelines of bankable projects and impact assessment</li> <li>▪ Re-design of investment incentives, facilitating SDG investment projects, and supporting impact objectives of all investment.</li> <li>▪ Regional cooperation mechanisms to promote investment in SDGs, e.g. regional cross-border infrastructure, regional SDG clusters.</li> <li>▪ Wider use of PPPs for SDG projects to improve risk-return profiles and address market failures.</li> <li>▪ Wider availability of investment guarantee and risk insurance facilities to specifically support and protect SDG investments.</li> <li>▪ Use of ODA funds as base capital or junior debt, to share risks or improve risk-return profile for private sector funders.</li> <li>▪ Advance market commitments and other mechanisms to provide more stable and more reliable markets for SDG investors.</li> </ul>
	<p style="text-align: center;"><b>Further policy options</b></p>	<ul style="list-style-type: none"> <li>▪ Create a global SDG Wiki platform and investor networks</li> <li>▪ Knowledge-sharing platforms and networks to share expertise on SDG investments and signal opportunities</li> </ul>
<b>Impact</b> Maximizing sustainable development benefits, minimizing risks	<ul style="list-style-type: none"> <li>▪ Increase absorptive capacity               <ul style="list-style-type: none"> <li>– Build productive capacities, linkages and spillovers</li> <li>– Create SDG incubators and clusters</li> </ul> </li> <li>▪ Establish effective regulatory frameworks and standards</li> <li>▪ Good governance, capable institutions, stakeholder engagement</li> <li>▪ Implement SDG impact assessment systems               <ul style="list-style-type: none"> <li>– Develop a common set of SDG investment impact indicators</li> <li>– Require integrated corporate reporting for SDGs</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Entrepreneurship development, technology dissemination, business linkages, inclusive finance initiatives, etc.</li> <li>▪ New economic zones for SDG investment, or conversion of existing SEZs and technology zones.</li> <li>▪ Environmental, labour and social regulations; effective taxation; mainstreaming of SDGs into IIAs; coordination of SDG investment policies at national and international levels, etc.</li> <li>▪ Stakeholder engagement for private investment in sensitive SDG sectors; institutions with the power to act in the interest of stakeholders, etc.</li> <li>▪ Indicators for measuring (and reporting to stakeholders) the economic, social and environmental performance of SDG investments.</li> <li>▪ Addition of ESG and SDG dimensions to financial reporting to influence corporate behavior on the ground.</li> </ul>
	<p style="text-align: center;"><b>Further policy options</b></p>	

Source: UNCTAD.

## Notes

- <sup>1</sup> For the macroeconomic aspects of investment, see TDR 2008, TDR 2013, UNDESA 2009.
- <sup>2</sup> Estimates for ecosystems/biodiversity are excluded from totals because these overlap with estimates for other sectors, such as climate change and agriculture.
- <sup>3</sup> Both figures are annualized averages over the period 2015-2030.
- <sup>4</sup> The final year target results from a standard exponential growth projection, to avoid an unrealistic increase in investment in the first year.
- <sup>5</sup> See also Summers, L. (2010). "The over-financialization of the US economy", [www.cambridgeforecast.wordpress.com](http://www.cambridgeforecast.wordpress.com).
- <sup>6</sup> BIS International Banking Statistics (2014), [www.bis.org](http://www.bis.org).
- <sup>7</sup> Equator Principles, [www.equator-principles.com](http://www.equator-principles.com).
- <sup>8</sup> Joint statement by Climatewise, MunichRe Climate Insurance Initiative and the UNPRI, November 2013 [www.climatewise.org.uk](http://www.climatewise.org.uk).
- <sup>9</sup> Green bonds were designed in partnership with the financial group Skandinaviska Enskilda Banken so that they could ensure a triple A rated fixed-income product to support projects related to climate change. They can be linked to carbon credits, so that investors can simultaneously fight global warming, support SDG projects and hedge their exposure to carbon credits. According to the WEF (2013 - Box 2.2) "The size of the green bond market has been estimated at \$174 billion by HSBC and the Climate Bonds Initiative, under a definition that looks beyond explicitly labeled 'green/climate bonds'. Other estimates, including those from the OECD, place the market nearer to \$86 billion."
- <sup>10</sup> In the case of green bonds, these were mainly the preserve of international financial institutions until recently. In 2013 and 2014, EDF and Toyota became issuers of green bonds and in 2014 Unilever went beyond projects such as renewable energy and electric vehicles, aiming to reduce the environmental footprint of its ordinary activities ("Green Bonds: Spring in the air", *The Economist*, 22 March 2014).
- <sup>11</sup> "EDF: Successful launch of EDF's first Green Bond", Reuters, 20 November 2013.
- <sup>12</sup> "Toyota Said to Issue \$1.75 Billion of Green Asset-Backed Bonds", Bloomberg News, 11 March 2014.
- <sup>13</sup> "Unilever issues first ever green sustainability bond", [www.unilever.com](http://www.unilever.com).
- <sup>14</sup> Some typologies differentiate between social and impact investment, with the former stressing the generation of societal value and the latter profit, but the distinction is not clear (a mix of impact and profit prevails in both types); many organisations and institutions use the terms interchangeably.
- <sup>15</sup> The Global Fund to fight AIDS, Tuberculosis and Malaria has secured pledges of about \$30 billion since its creation in 2002, and over 60 per cent of pledges have been paid to date (World Bank 2013b).
- <sup>16</sup> The Global Environment Fund GEF – a partnership between 182 countries, international agencies, civil society and private sector – has provided \$11.5 billion in grants since its creation in 1991 and leveraged \$57 billion in co-financing for over 3,215 projects in over 165 countries (World Bank 2013b).
- <sup>17</sup> Africa Enterprise Challenge Fund, [www.aecfafrica.org](http://www.aecfafrica.org).
- <sup>18</sup> GAVI Matching Fund, [www.gavialliance.org](http://www.gavialliance.org).
- <sup>19</sup> The International Finance Facility for Immunisation Bonds, [www.iffim.org](http://www.iffim.org).
- <sup>20</sup> "Call to increase opportunities to make low carbon fixed income investments", [www.climatewise.org.uk](http://www.climatewise.org.uk).
- <sup>21</sup> Kiva, [www.kiva.org](http://www.kiva.org).
- <sup>22</sup> A wide range of institutions has made proposals in this area, for example, UNCTAD (2009a), Council of the EU (2009), FSB (2008), G-20 (2009), IMF (2009), UK Financial Services Authority (2009), UK H.M. Treasury (2009), US Treasury (2009), among others.
- <sup>23</sup> For an update on global financial architecture see FSB (2014).
- <sup>24</sup> The SSE has a number of Partner Exchanges from around the world, including the Bombay Stock Exchange, Borsa Istanbul, BM&FBOVESPA (Brazil), the Egyptian Exchange, the Johannesburg Stock Exchange, the London Stock Exchange, the Nigerian Stock Exchange, the New York Stock Exchange, NASDAQ OMX, and the Warsaw Stock Exchange. Collectively these exchanges list over 10,000 companies with a market capitalization of over \$32 trillion.
- <sup>25</sup> However, certain SDG sectors, such as water supply or energy distribution, may form a natural monopoly, thereby de-facto impeding the entry of new market participants even in the absence of formal entry barriers.
- <sup>26</sup> Examples and case studies can be found in UNDP (2008), World Bank (2009a), IFC (2011), UNECE (2012).
- <sup>27</sup> There exist a number of useful guides, for instance, World Bank (2009b) and UNECE (2008).
- <sup>28</sup> Australia, Export Finance and Insurance Commission, <http://stpf.efic.gov.au>; Austrian Environmental and Social Assessment Procedure, [www.oekb.at](http://www.oekb.at); Delcredere | DuCroire (2014); Nippon Export and Investment Insurance "Guidelines on Environmental and Social Considerations in Trade Insurance", <http://nexi.go.jp>; Atradius Dutch State Business, "Environmental and Social Aspects", [www.atradiusdutchstatebusiness.nl](http://www.atradiusdutchstatebusiness.nl); UK Export Finance, "Guidance to Applicants: Processes and Factors in UK Export Finance Consideration of Applications", [www.gov.uk](http://www.gov.uk); Overseas Private Investment Corporation (2010).
- <sup>29</sup> Multilateral Investment Guarantee Agency, "Policy on Environmental and Social Sustainability", [www.miga.org](http://www.miga.org).
- <sup>30</sup> ApexBrasil - Renewable Energy, [www2.apexbrasil.com.br](http://www2.apexbrasil.com.br); Deloitte (2013b); "Environmental financial incentives in South Africa", Green Business Guide, 14 January 2013, [www.greenbusinessguide.co.za](http://www.greenbusinessguide.co.za); Japan External Trade Organization - Attractive Sectors: Future Energy Systems, <http://jetro.org>; Nova Scotia – Capital Investment Incentive, [www.novascotia.ca](http://www.novascotia.ca); Regulation of the Minister of Finance of Indonesia Number 130/PMK.011/2011, "Provision of Corporate Income Tax Relief or Reduction Facility"; South Africa Department of Trade and Industry, "A Guide to Incentive Schemes 2012/13", [www.thedti.gov.za](http://www.thedti.gov.za); Turkey Investment Support and Promotion Agency – Turkey's Investment Incentives System, [www.invest.gov.tr](http://www.invest.gov.tr); United Kingdom of Great Britain and Northern Ireland. Department for Business, Innovation & Skills – Grant for Business Investment: Guidelines, [www.gov.uk](http://www.gov.uk); U.S. Department of Energy – About the Loan Programs Office (LPO): Our Mission, [www.energy.gov/lpo/mission](http://www.energy.gov/lpo/mission); U.S. Department of Energy – State Energy Efficiency Tax Incentives for Industry, [www.energy.gov](http://www.energy.gov).
- <sup>31</sup> UNCTAD Entrepreneurship Policy Framework, [www.unctad-arg/diae/epf](http://www.unctad-arg/diae/epf).
- <sup>32</sup> For example, RLabs Innovation Incubator in South Africa provides entrepreneurs with a space to develop social businesses ideas aimed at impacting, reconstructing and empowering local communities through innovation. The

Asian Social Enterprise Incubator (ASEI) in the Philippines provides comprehensive services and state of the art technology for social enterprises engaged at the base of the pyramid. The GSBI Accelerator program, from Santa Clara University, California, pairs selected social entrepreneurs with two Silicon Valley executive mentors, to enable them to achieve scale, sustainability and impact. At the global level, the Yunus Social Business Incubator Fund operates in several developing countries to create and empower local social businesses and entrepreneurs to help their own communities by providing pro-poor healthcare, housing, financial services, nutrition, safe drinking water and renewable energy.

<sup>33</sup> For instance, the zones may have well developed environmental reporting requirements under which companies are required to report their anticipated amounts of wastes, pollutants, and even the decibel level of noise that is expected to be produced (see also WIR 2013). Several zones around the world have been certified to the ISO 14001 environmental management system standard.

<sup>34</sup> World Bank – Ecuador Overview, [www.worldbank.org](http://www.worldbank.org).

<sup>35</sup> India, for example, requires the largest 100 listed companies on its major stock exchanges to report on environmental and social impacts.

<sup>36</sup> For example, the Johannesburg Stock Exchange in South Africa. Many other exchanges, such as BM&FBovespa in

Brazil, have actively promoted voluntary mechanisms such as reporting standards and indices to incentivize corporate sustainability reporting.

<sup>37</sup> Producer of the most widely used sustainability reporting guidelines. According to a 2013 KPMG study, 93 per cent of the world's largest 250 companies issue a CR report, of which 82 per cent refer to the GRI Guidelines. Three-quarters of the largest 100 companies in 41 countries produce CR reports, with 78 per cent of these referring to the GRI Guidelines (KPMG 2013).

<sup>38</sup> A global system for companies and cities to measure, disclose, manage and share environmental information and host to the Climate Disclosure Standards Board. Over 4,000 companies worldwide use the CDP reporting system.

<sup>39</sup> Producer of the International Integrated Reporting Framework, recognizes sustainability as a contributor to value creation.

<sup>40</sup> Works to catalyze action by the finance, accounting and investor community to support a fundamental shift towards resilient business models and a sustainable economy.

<sup>41</sup> Provides standards for use by publicly listed corporations in the United States in disclosing material sustainability issues for the benefit of investors and the public.