Chapter 5. Better policies to finance sustainable development

In addition to the need for better measures of finance for sustainable development, policies need to be designed in a way that can deliver the ambition of an integrated Addis Ababa Action Agenda. The trillions required to finance the Sustainable Development Goals are present in the global economy. However, a focus on smarter policy design to shift the trillions is needed to make the best use of existing resources and strengthen the development footprint of different actors. This means minimising leakages and maximising catalytic effects in support of sustainable development. Competition in the form of more suppliers and instruments is increasing within the financing sustainable development market, which calls for better policy guidance and coherence mechanisms to manage the risks and seize opportunities. Although sustainable and inclusive growth is primarily a domestic agenda, tackling global inequalities and poverty reduction, addressing potential shocks, and delivering on international commitments in support of the global goals cannot be achieved without stronger international solidarity and co-operation among countries and actors.

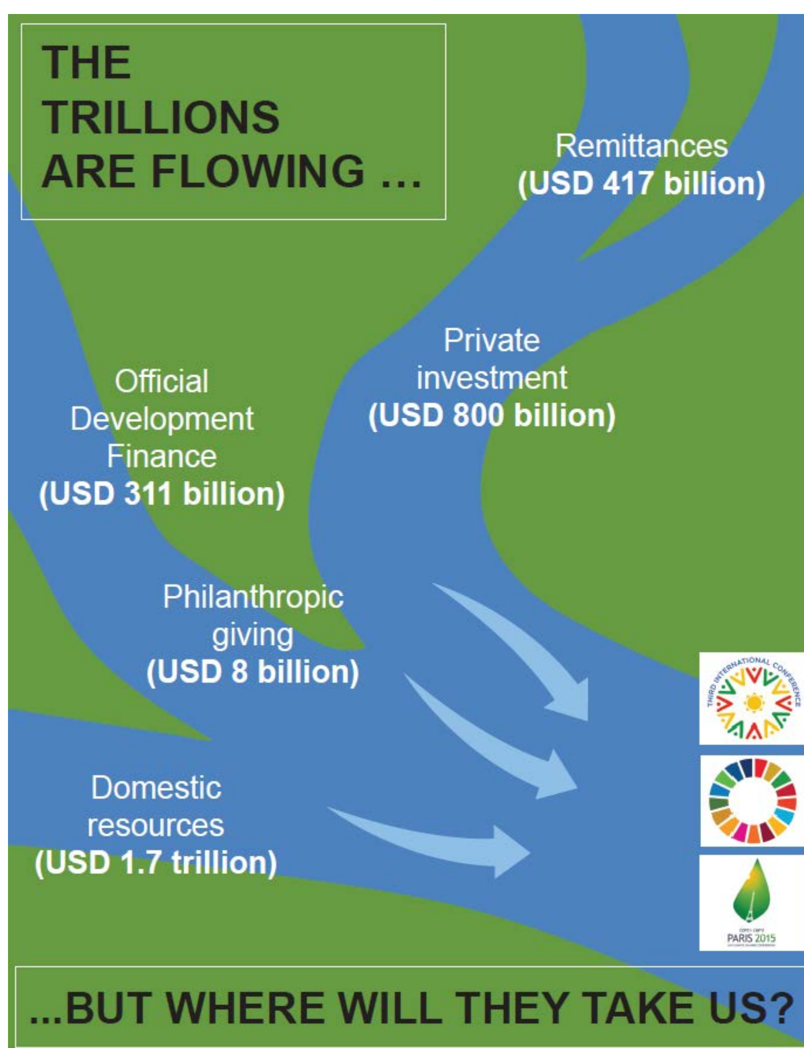
In brief

Spurred by the Addis Ababa Action Agenda (AAAA), the global community is beginning to turn towards an approach that makes better use of all existing resources to finance sustainable development. With unprecedented financing challenges, the call to deliver a "holistic and forward-looking framework" and "concrete actions to deliver on the promise of the agenda" has never been more timely (UN, 2015[1]). All action areas or policy levers identified by the AAAA must be fully activated to address the estimated USD 2.5 trillion gap in financing needed to achieve the Sustainable Development Goals (SDGs). These areas cannot be considered in isolation from each other and the trade-offs and synergies must be carefully weighed.

However, certain areas of the AAAA are losing steam, creating a context that especially complicates efforts to mobilise financing. As Chapter 2 demonstrates, traditional forms of business investment in developing countries are drying up one after another. There are progressive declines in cross-border and domestic mergers and acquisitions, foreign direct investment (FDI), and project finance. Another important source of investment in developing countries, portfolio investment, is also coming under growing pressure as interest rates begin to rise. At the same time, a trend of record-high levels of corporate debt has raised the spectre of financial turbulence. By some estimates, the present drop in private sector resources in developing countries is equivalent to approximately USD 400-450 billion forgone over the past six years.

The trillions required to finance the SDGs are in theory present in the global economy. As discussed in Chapter 4, however, the SDG impact of these resources is not currently measured (Figure 5.1.). According to recent estimates, investing in the SDGs could unlock economic opportunities worth at least USD 12 trillion a year by 2030 (more than 10% of global GDP) and generate up to 380 million jobs, mostly in developing countries. (Business and Sustainable Development Commission, 2017[2]). Yet, fully leveraging and maximising these resources in support of the SDGs remains challenging. The interactions among the new actors of the financing sustainable development system, discussed in Chapter 3, have not been exploited to their full potential.

Figure 5.1. Better aligning the trillions to support sustainable development gains



Source: Author adapted from World Bank (2015[3]) *Annual Report 2015,* http://www.worldbank.org/en/about/annual-report-2015; OECD (2018[4]), "Global Revenue Statistics" https://stats.oecd.org/index.aspx?DataSetCode=REV and IMF (2017[5]), "World Revenue Longitudinal Data" https://data.world/imf/world-revenue-longitudinal-dat for domestic resources; OECD (2018[6]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1, for official bilateral and multilateral flows; World Bank (2017[7]), "Migration and remittance data" (database), http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data for remittances; IMF (2018[8]) "Balance of Payments statistics" (database), http://www.imf.org/external/datamapper/datasets/BOP, for FDI, portfolio investments, and long-term and short-term debt making up private investment.

This chapter demonstrates that smarter policy design is needed to maximise the contribution of different actors and resources while eliminating the risk of costly spillovers. Shifting resources in this way requires policies that recognise the full cost of environmental, social and economic factors in financing sustainable development. Box 5.1. reviews global commitments to end fossil fuel subsidies as a pertinent example of the challenge of ensuring better policies to shift the trillions.

Box 5.1. Phasing out fossil fuel subsidies to maximise financing for sustainable development

Accounting for potential environmental, social and economic impacts leads to smarter policy design that minimises additional costs to finance sustainable development. One example is the commitment by world leaders to phase out fossil fuel subsidies. Every year since 2009, the Group of Seven (G7) and the Group of Twenty (G20) have committed to phase out fossil fuel subsidies and to act on related pledges under the Sustainable Development Goals (SDGs) and the Paris Agreement. Coady et al. (2015[9]), in a paper for the International Monetary Fund (IMF), argue that damages from the use of oil, gas and coal are estimated to cost nearly USD 5.3 trillion and that this cost is in addition to the direct cost of the USD 500 billion in fossil fuel subsidies. By phasing out fossil fuel subsidies, OECD members can take a first step to strengthen the coherence of policies aimed at maximising available finance in support of sustainable development.

The chapter further raises the growing risk of imbalances among the actors within the financing for sustainable development market. Competition in the form of more providers and instruments has increased within the financing sustainable development market. But market forces do not always lead to positive sustainable development impacts. For example, the share of debt in low-income countries held by commercial investors and by bilateral, non-Paris Club lenders doubled over the 2007-16 period, to an amount that is eight times the volume of debt held by Paris Club members. Due in part to opaque terms and conditions of new providers of financing, the number of developing countries that are in debt crisis or are at high risk of debt crisis has doubled.

Finally, while financing the SDGs will ultimately rely on domestic agendas, these must also advance the global goal of leaving no one behind. With one in five people in the world still living in extreme poverty, maximising the effectiveness of financing for sustainable development can no longer be viewed as a top-down challenge. It is a circular agenda. In seeking to reach these collective goals, international solidarity and co-operation among countries and actors are needed. Tackling global inequalities, addressing potential shocks and delivering on international commitments will rely on a strong multilateral system. The support of OECD members will be crucial to build a conducive environment for collective success. In his "In My View" piece in Box 5.2, Jeffrey D. Sachs argues the importance of efforts to share wealth and ensure inclusive global growth.

Box 5.2. In My View: Global solidarity to finance the Sustainable Development Goals, by Jeffrey D. Sachs, Director, UN Sustainable Development Solutions Network

Achieving sustainable development depends on incremental investments in six priority transformations: building human capacities (health, education, new job skills); decarbonising energy; promoting sustainable agriculture and biodiversity; building smarter cities; implementing the circular economy; and harnessing the digital revolution. As such, sustainable development and the 17 Sustainable Development Goals (SDGs) in particular pose a financing challenge. There are three distinct financing conundrums to solve: financing complex infrastructure, financing public services and amenities, and shifting investments from unsustainable to sustainable technologies. I discuss these in turn.

Sustainable development requires new forms of sustainable infrastructure. Sustainable infrastructure projects include a wide range of activities, among them zero carbon energy sources, smart power grids, resilient coastal management, urban high-speed broadband, smart transport infrastructure, and others. All of these projects involve complex issues such as land rights, public-private interface, public acceptance, liability rules, and multi-jurisdiction politics that often include multiple cities within a single country or multiple countries within a transnational region. Renewable energy sources are often far from population centres, in deserts, mountains or offshore (wind), and therefore require long-distance transmission lines passing through several jurisdictions, each needing to give right of way.

The financing issues are therefore complex as well. The issue is not only how to raise the funds (public borrowing, private borrowing, blended, etc.) but more importantly how to plan, design, win public acceptance, organise the operating and legal responsibilities, and then implement the investments. Many development finance institutions, such as the World Bank, structure their lending to single member states and have great difficulty in structuring multi-country projects. The challenge in short is a lot more about project planning, design and organisation than about financing per se.

Our national governments are not very good at solving these problems, either. Many of them lack the planning institutions for long-term, complex projects. During the 1980s and 1990s, public investment planning agencies were often supplanted by the privatisation of infrastructure, only to discover that the private sector was far less able than the public sector to structure complex projects because of lack of public legitimacy, regulatory tools and practical experience.

A second SDG financing challenge revolves around core public services and amenities including health, education and public housing. Health and education are of course an investment in human capital. In the low-income countries, the basic hard truth is that national budgets lack the funding necessary to provide decent healthcare services and quality education through to secondary schooling. Either the rich countries help poor countries to fund education and healthcare, or poor children will continue to die from preventable causes and to lack adequate schooling.

Without larger flows of development assistance, low-income countries won't come close to achieving universal health coverage (SDG 3) and 100% completion of secondary education (SDG 4). The rich world has long promised 0.7% of GNI in aid but typically delivers around 0.3% instead, for a shortfall of 0.4% of GNI. In today's terms, that

amounts to a gap of around USD 180 billion per year, easily enough to close the financing needs for health, education, and crucial local infrastructure (water, sanitation and electrification of all households). OECD countries must find alternative policy levers. Although not a substitute for ODA resources, one way to raise financing is to tap larger philanthropic flows from the world's billionaires. There are now 2 208 billionaires, according to Forbes magazine, with a combined net worth of USD 9.1 trillion. Even just 1% per year of this net worth would reap USD 91 billion per year.

The third financing challenge is to shift investment flows from unsustainable to sustainable technologies. The world currently invests around USD 700 billion per year in fossil fuel exploration and development. There are similar investments in unsustainable land use, such as timber and ranching in protected areas. Such investments are contrary to the SDGs and the objectives of the Paris Agreement. The challenge here is not so much financing as it is curbing the power of incumbent sectors. When higher levels of taxation are needed to fund public services and provide greater transfers to those in need, tax cuts are often preferred over crucial tax increases. While this may look like a financing challenge, it is actually more a political economy challenge: that is, moving beyond politics as usual to steer the economy through regulation, corrective taxes, public procurement and budget policies towards the SDGs.

The SDGs are therefore certainly not free from political contention. In addition to requiring more planning and forward thinking and more co-operation across regions and nations, the SDGs are a call for social justice. Achieving them requires a more equal sharing of income, wealth and power. Success will usher in a more prosperous, equitable, peaceful and sustainable world for current and future generations.

As demonstrated in this report, not all resources are contributing to sustainable development. The following chapter explores the ways in which better policies can help to ensure that greater amounts of financing are achieving greater sustainable development impact. Companies and investors, multilateral organisations, diaspora communities, local and regional actors, philanthropists, and traditional providers each have distinct roles that must be co-ordinated. To ensure an integrated and holistic approach to financing sustainable development, this chapter provides a way forward to manage the risks and seize opportunities.

Better policies are needed to move from mobilising to maximising financing for sustainable development

Commitments to development have long been measured in terms of resources mobilised. For decades, public sector resources (ODA) and more recently private sector resources (blended finance, etc.) have served as the basis for measuring financing in support of international development. The language and practice of major institutional actors have progressively shifted, reflecting the drive to maximise financing. The Development Committee of the World Bank Group (2017[10]), for instance, has moved to the concept of maximising finance for development or prioritising different kinds of financing tailored to the most appropriate development contexts.[1]

Local capacity to shift behaviours, leverage domestic resources and align financing with sustainable development needs is central to maximising resources. The AAAA framework recognises the importance of national ownership in efforts to strengthen mobilisation and effectively use domestic resources to achieve the SDGs (paragraph 20).

An example is the importance of redistributive levers such as tax to support national financing strategies.

There is a risk of generating negative spillover effects if larger amounts of private sector (or other) finance are mobilised without symmetric efforts to guide these amounts towards the SDGs. As noted in Chapter 2 and Chapter 4, the multiplication of actors has contributed to a dilution of responsibilities and SDG gaps are emerging. A three-pronged approach is therefore needed to achieve the objective of shifting the trillions to the SDGs (Figure 5.2):

- Effectiveness. From the Monterrey Consensus to the 2030 Agenda, the global agendas that guide the effectiveness of development co-operation have been extended to actors beyond traditional providers. The next frontier to strengthen effectiveness will rely on better sequencing of actions and roles among actors to maximise catalytic effects and achieve systemic impact.
- Partnerships. Next generation partnerships can serve to enhance the development footprint[2] of all actors based on shared value. Seizing one such opportunity, private sector actors increasingly are recognising the business case for the SDGs. Operationalising these partnerships will require platforms capable of leveraging respective strengths to achieve common goals.
- Capacity building. Investing in financing sustainable development enablers can help to unleash domestic resources and progressively reduce dependence on foreign financing sources. Creating a virtuous circle of financing can be achieved through ripple, or transformative, effects across key SDG sectors. These effects maximise the potential for developing countries to achieve self-sustaining finance over the long term.

Figure 5.2. Three opportunities to maximise the impact of financing on sustainable development

Source: Author

Better articulate the different sources of financing for sustainable development: A review of the role of external public funding

The potential for new synergies and catalytic effects (Chapter 3) has yet to be fully explored or tapped into. Nor are the catalytic effects of all public and private resources

and silos across the AAAA areas well understood yet (Bruno, Estrin and Campos, 2018[11]) (Bourguignon and Gunning, 2016[12]). However, there is general agreement that aid can be used catalytically to increase the volume of resources (e.g. crowding in) and/or to kick-start economy-wide impacts (e.g. dynamic effects).

But the question remains as to who, among all the FSD actors, should do what. A roadmap is missing to effectively leverage, sequence and deliver a broader array of public and private actors to achieve these effects (Rogerson, 2011[13]).

The development impact of a broader set of actors must be evaluated to maximise finance

Since the 2002 Monterrey Consensus, efforts to maximise development resources and improve outcomes have focused on raising the standard of self-assessments. Traditional providers have developed longstanding methods to improve self-assessments (Bigsten and Tenstam, 2015[14]). The Paris Declaration on Aid Effectiveness in 2005 and the Busan High Level Forum on Aid Effectiveness in 2011 represent important milestones to establish principles for self-assessment of the effectiveness of development co-operation. Additionally, over the past 20 years, the DAC Network on Evaluation has contributed to the creation of shared norms and standards for evaluation and capacity building for evaluation in developing countries.

The newest iteration of the aid effectiveness and development effectiveness agendas (Janus, Klingebiel and Paulo, 2014[15]) recognises that policies beyond those directly related to traditional development finance will have an impact on the development footprint of resources (e.g. South-South co-operation, trade and tax policy, private sector engagement). In 2011, for example, the United Kingdom Department for International Development (DFID) stated that it wanted "private sector thinking to become as much part of [our] DNA as our work with charities and governments" (DFID, 2011[16]).

Evaluation frameworks have been fine-tuned for compatibility across a broader range of actors. The Global Partnership for Effective Development Co-operation (GPEDC), which emerged from the Busan High Level Forum, became the core international mechanism to promote mutual accountability[3] through a monitoring framework of targets and indicators for the tracking of progress on development co-operation. Traditional providers, emerging providers and philanthropic organisations are increasing efforts to improve the mutual accountability of aid:

- The Nairobi outcome document of the High-level United Nations Conference on South-South Cooperation presented the first set of principles for South-South co-operation (UN, 2009[17]). The AAAA further emphasises the role of South-South and triangular co-operation in contributing to poverty eradication and sustainable development and stresses the need for further efforts to ensure effectiveness (paragraph 57).
- A growing number of philanthropic organisations recognise the need to scale up financial contributions by capitalising on other resources and capacities. In the United States alone, the evaluation capacity of philanthropic organisations has risen by 8% in the past six years and several actors are integrating the use of big data and pay for performance to strengthen evaluation techniques (Innovation Network, 2016[18]).

The next step to improve the effectiveness of aid will require consideration of how it targets cross-cutting policy objectives (reflected in the 2030 Agenda). Cross-cutting areas

will require additional efforts to integrate policy coherence within development programming, as discussed further in Section 5.3: Forward look. An example of one such effort underway, the French Development Agency (AFD) this year committed to ensure all development co-operation interventions are "100% Paris Agreement compatible" and consistent with low-carbon and climate-resilient development (AFD, 2018[19]).

Blended finance is a key lever to maximise financing for sustainable development

Development co-operation carried out jointly with the private sector provides new opportunities to extend the effectiveness agenda beyond aid. Today, more than half of all DAC members engage in blended finance. Ten of these members report having well-established programmes that have been in operation for a number of years and/or cover a range of instruments. The OECD (2018[20]) report on blended finance highlights important characteristics of several projects that help to connect private sector financing with sustainable development outcomes, including:

- **Enhancing local bond markets for WASH infrastructure.** The Water and Sanitation Pooled Fund[4] finances municipal water, sanitation and hygiene (WASH) infrastructure in the state of Tamil Nadu, India. The project enhanced the local bond market, advanced WASH infrastructure development, and thus contributed to SDG 9 (industry, innovation and infrastructure) and SDG 11 (sustainable cities and communities).
- **Reducing debt burdens to finance polio vaccines.** The Japan International Cooperation Agency and the Bill & Melinda Gates Foundation recently implemented a loan conversion programme to help developing countries pay for polio eradication. The programme supports SDG 3 (good health and well-being), with approximately 460 million polio vaccination doses procured to vaccinate children under the age of five in Nigeria alone from 2015 to 2017.
- **Strengthening microfinance institutions that contribute to job creation.** The Microfinance Initiative for Asia is a USD 175 million, private-public structured fund focused on refinancing Asian microfinance institutions that operate sustainably.[5] The initiative contributes notably to SDG 8 (decent work and economic growth) and SDG 17 (global partnership).

Better policy safeguards are needed to create an enabling environment that promotes quality blended finance aligned to sustainable development objectives and minimises the risks associated with private sector engagement. The Global Partnership for Effective Development Co-operation, in a 2016 progress report,[6] underscored the potential for development co-operation actors to partner with the private sector in developing countries, in particular to improve the legal, regulatory and administrative environment for private investment and to ensure a sound policy and regulatory environment for public-private partnerships (OECD-UNDP, 2016[21]). The implementation of public-private dialogues at country level is explored further in Chapter 6.

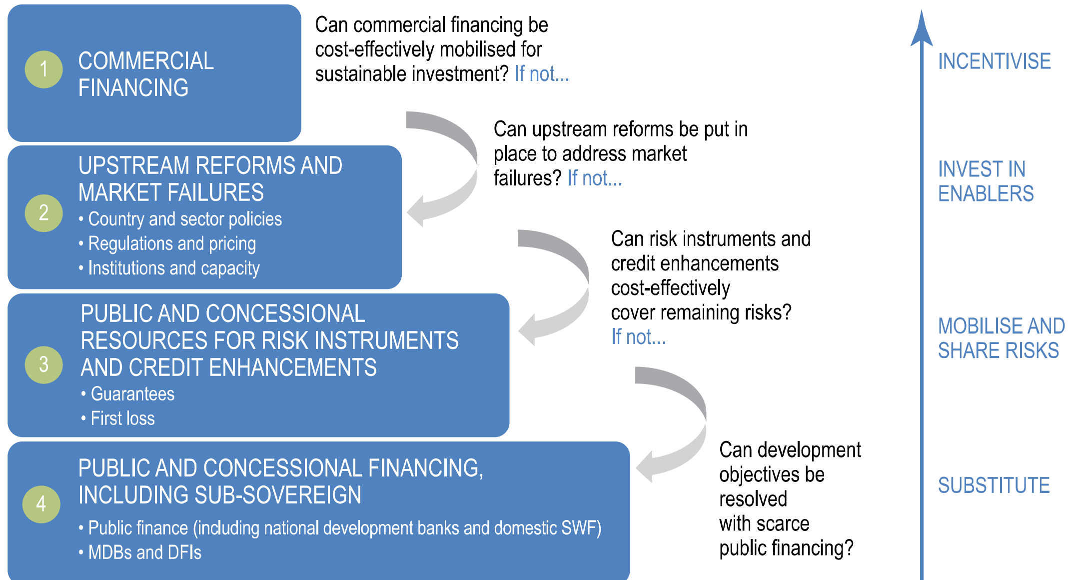
Beyond mobilisation, the catalytic and dynamic effects of public-private co-operation remain underexplored

Current attempts to maximise effectiveness largely omit the catalytic and dynamic effects of financing (Chapters 3 and 4). Maximising systemic effects requires the creation of market opportunities. The cascade approach prioritises commercial private resources as a first course of action in cases where these resources can be mobilised effectively in

support of sustainable development. Scarce public finance is provided as a last resort. The aim of sequencing public and private financing is to ensure the most efficient use of resources by tailoring them to the local investment and regulatory environment, governance and institutional capacity, and development needs. The “In My View” piece by Stephanie von Friedeburg in Box 5.3 provides insights from the International Finance Corporation (IFC) into the potential systemic impact of successful implementation of the cascade approach.

OECD members’ role in the cascade is to adapt support to minimise the risks and help to correct market failures – from upstream support to incentivise private sector engagement and support regulatory governance frameworks to downstream support to supplement domestic resources with concessional finance when necessary. Figure 5.3 shows how this role can play out. In the two extreme situations in this figure, shown as scenarios 1 and 4, either the private sector or the public sector entirely fill the demand for FSD. In between, public resources are used to create markets and move to another equilibrium through capacity building (scenario 2) or risk sharing (scenario 3).

Figure 5.3. OECD members’ role in the cascade approach



Source: Based on World Bank Group (2018[22]), Approach Paper “Creating Markets for Sustainable Growth and Development” 2018, https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ap-creating-markets.pdf.

Box 5.3. In My View: Implementing the cascade approach and creating markets strategies, by Stephanie von Friedeburg, IFC Chief Operating Officer

The world has made impressive development progress in recent decades, but the gains have been uneven. While the extreme poverty rate has continued to fall globally, just under 800 million people lived on less than USD 1.90 a day in 2013, the latest year for which global data are available. While South Asia and sub-Saharan Africa make up the bulk of global poverty, African poverty is of particular concern given its sheer depth, with many living well below the international poverty line. Meanwhile, access gaps in education, health and infrastructure continue to persist, while income inequality in many developing countries has been on the rise.

These challenges, and others such as climate change and conflict, must be addressed for the world to deliver on the promise of the 2030 Agenda for Sustainable Development. The Sustainable Development Goals (SDGs) represent an ambitious and holistic vision to foster inclusive and sustainable development with scaled-up impact. However, financing the goals will require a shift from billions in official development assistance to trillions in investments of all kinds by unlocking, leveraging and catalysing public and private resources. Estimates vary, but clearly trillions will be needed annually to finance the needs of developing countries, a big share of which will be for infrastructure.

Since the Addis Ababa conference on financing for development (FfD) in 2015, IFC has worked closely with the United Nations, confirming the central role of the private sector in achieving sustainable development and delivering on the 2030 Agenda. Most importantly, though, our contribution is being made through a novel approach to FfD.

Our work on the “Billions to Trillions” agenda has made clear that we need to rethink development finance. IFC and our colleagues across the World Bank Group are meeting the challenge with our “Maximizing Finance for Development” approach. This involves a decision making “cascade” that prioritises private sector solutions to promote the judicious use of scarce public resources. Where markets are not conducive to private investment, we focus on reforms that address market failures and other constraints to private sector solutions at the country and sector level. Where investment risks remain high, we apply de-risking instruments such as guarantees and risk-sharing facilities. Only where market solutions are not possible will official and public resources be used.

At the core of IFC’s strategy is our “Creating Markets” approach. To promote private sector development, we aim to create new markets or expand the pro development attributes of existing markets in a significant and systematic way. We are guiding structural reforms to facilitate private investment, address market and institutional failures, and strengthen regulatory conditions and the rules governing competition. We are working across the World Bank Group to deliver advice, investment and mobilisation. Country private sector diagnostics are used to improve policy and legal frameworks, and project preparation support is deploying private sector

solutions and helping mobilise new forms of private capital.

Our cascade and Creating Markets strategies are yielding results. Take the World Bank Group's efforts to bring affordable housing to West Africa, where the population is projected to double over the next two decades. Working through the regional mortgage refinance company, Caisse Régionale de Refinancement Hypothécaire (CRRH), IFC and the International Development Association (IDA) are expanding the mortgage market in the West Africa Economic and Monetary Union. IFC invested in the company's equity, supported its long-term bonds and provided advice to improve its lending processes. Our investment will enable the company to expand its portfolio of housing loans by USD 500 million while deepening the local bond market. At the same time, IDA helped the company refinance mortgages to lower-income groups. With World Bank Group support, CRRH is also working with government and regulatory bodies to implement mortgage market reforms that harmonise standards across West Africa. The result of the combined intervention: more mortgages and more people in more homes.

We are confident the world can make significant progress over the SDG period. But it will take deep and lasting partnerships, and it will require the development community to make the most of its resources, leveraging its own funds and official development assistance to attract much more financing from the private sector. IFC's strategy takes this approach and systematises it throughout its operations.

Increase the development footprint of the private sector through next generation partnerships

Opportunities exist to operationalise partnerships with a wider array of actors who are pursuing their own interests while also maximising their value added in support of collective goals. Global companies, impact investors, emerging economies, multilateral organisations and local actors all hold the potential to contribute to sustainable development outcomes. OECD members have a role to play to facilitate next generation partnerships among actors by creating a platform for market-making and the creation of shared value in the financing sustainable development system aligned to the SDGs.

For example, trade facilitation, technology transfers, innovation, etc. depend on both legal/regulatory environment (public) and business behaviour (private). The same holds true for gender, social standards and many other policies. As the private sector recognises the business case for the SDGs, new forms of win-win partnerships are emerging that allow for increasing their development footprint.

Next generation partnerships must leverage shared value across actors in support of sustainable development

Next generation partnerships aim to maximise the value added of all actors based on shared value creation. An example is the Shared Value Initiative,[7] which recognises business opportunities in social challenges. Kramer and Porter (2011[23]), creators of the initiative, argue that "shared value is not social responsibility, philanthropy, or sustainability, but a new way for companies to achieve economic success". Another

example is the Danone Ecosystem Fund, which works in close partnership with local non-governmental organisations (NGOs) to connect business with social returns and aims to strengthen value chains by improving the economic, social and environmental ecosystem, from sourcing to distribution.[8]

To operationalise next generation partnerships, actors must take a whole-of-value chain approach to sustainable development. Questions about procurement and tied aid, among others, have long overshadowed the role of business in the FSD system. Changes have occurred. Governments have an important role to play in promoting responsible business conduct and in promoting and facilitating investments with qualities that align with the SDGs. The objective should be to increase the development footprint of business or investment, and initiatives along global value chains that could simultaneously involve donors, local governments, private business, investors, philanthropists and civil society organisations.[9]

Opportunities exist to scale up best practices in support of the SDGs through platforms that bring together diverse actors. For example, global lithium-ion battery production is predicted to increase significantly and global demand is set to double by 2025. At the same time, the promotion of sustainable development depends on capacities to ensure that the production and recycling of the global battery stock do not harm the environment. In this way, partnerships must create a mutually-reinforcing dynamic in support of both SDG 7 (affordable and clean energy) and SDG 12 (responsible consumption and production). Box 5.4 presents other examples of platforms that operationalise next generation partnerships.

Box 5.4. Next generation partnerships create shared value for the Sustainable Development Goals

Global Battery Alliance

SDG 7 (responsible energy) and SDG 12 (responsible consumption)

The Global Battery Alliance, initiated at the World Economic Forum Sustainable Development Impact Summit in 2017, seeks to accelerate action towards a battery value chain that benefits sustainable development. It brings together leading businesses from the entire battery value chain, governments, international organisations and NGOs. Analysts project that a 12-fold increase in battery capacity is needed to meet beneficiary demand and the promise of a low-carbon economy. The market is likely to reach USD 100 billion by 2025 and batteries installed in homes and businesses will account for 57% of the world's energy storage capacity by 2040. In 2014, all electronic waste discarded was worth USD 52 billion. This waste contained 300 tonnes of gold and significant amounts of silver and palladium.

Moving towards a circular economy for battery production requires shifting actions along the value chain. The chain can be optimised for greater development impact. Sustainable solutions can be put into action starting with the initial stage of raw material extraction in developing countries (e.g. child labour laws, health and safety standards) and extending to recycling such as through fostering a circular economy for the 11 million tonnes of lithium-ion forecast to be discarded by 2030.

Source: World Economic Forum (2018[24]) Global Battery Alliance, https://www.weforum.org/projects/global-battery-alliance. World Economic Forum (n.d.[25]), Cleaning up battery supply chains, https://www.weforum.org/our-impact/cleaning-up-battery-supply-chains.

Australia's Business Partnerships Platform

SDG 8 (better jobs) and SDG 12 (responsible consumption)

The Business Partnerships Platform (BPP) is founded on the concept of shared value – that business can deliver sustainable social impact while achieving commercial returns. Firms can create shared value opportunities by:

- reconceiving products and/or markets
- redefining productivity in the value chain
- enabling local cluster development.

Consistent with the gender equality and women's empowerment strategy of the Department of Foreign Affairs and Trade, BPP initiatives must positively impact gender equality by promoting women's economic empowerment; enhancing women's voice in decision making, leadership and peacebuilding; and/or ending violence against women and girls. To show this, applicants include analysis of the gender dynamics, i.e. the specific experiences of women and men, and how these will be impacted by the initiative.

Source: OECD (2018[26]) "Global Outlook Survey on Financing for Sustainable Development", http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/global-outlook-on-financing-for-development.htm.

Grow Africa Partnership Platform

SDG 15 (life on land) and SDG 12 (responsible consumption)

The Grow Africa Partnership Platform aims to realise the potential of the agriculture sector for economic growth and job creation, particularly among farmers, women and youth. It was founded jointly in 2011 by the African Union, the New Partnership for Africa's Development (NEPAD) and the World Economic Forum, and is funded by USAID. More than 200 companies and governments in 12 countries are part of Grow Africa, which promotes responsible investments by fostering an environment in which companies can achieve competitive advantage from delivering positive impacts while mitigating negative ones.

Grow Africa's core work is to convene public and private sector partners around the collective goal of addressing weaknesses in value chains and market systems, thereby reducing the risks and costs of investing in African agriculture. This work helps companies to take a longer-term view on their investments and embrace commercial strategies that build shared value with the communities and stakeholders around them, including through job creation, increased incomes, and better access to affordable and nutritious food.

For example, in 2015, companies reported that their investment commitments resulted in over 10.4 million smallholders being reached through sourcing, services or training. These investments created over 30 000 jobs in 2015.

Source: Grow Africa (n.a.[27]), Grow Africa Partnership, https://www.growafrica.com/about/who-we-are.

Korea's Inclusive Business Solution Program

SDG 9 (sustainable infrastructure) and SDG 12 (responsible consumption)

Since 2016, KOICA is providing the Inclusive Business Solution (IBS) program. The IBS programme aims to help achieve SDGs by leveraging private sector expertise and strategies, and corporate social responsibility (CSR) funding to complement traditional ODA resources and create value chains in industries of developing countries. The partnership also seeks to promote small and medium-sized inclusive business model that engages local key economic players as sellers, manufacturers, employers and labourers.

Companies participating in IBS program share the expense with KOICA. By size of companies, large-size companies and middle-size companies bear 70% and 50% of the cost respectively. Meanwhile, mid-and-small size companies and social enterprises share 30% and 20% of cost respectively. In 2016, KOICA mobilised private financing that reached KRW 5.7 billion.

Source: OECD (2018[26]) "Global Outlook Survey on Financing for Sustainable Development", http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/global-outlook-on-financing-for-development.htm .

Build capacity to reduce dependence on foreign aid: The role of domestic resources

Operationalising the partnerships discussed above requires strengthening local capacity, including national policy frameworks for investment (PFIs) to better harness potential sources of external financing for sustainable development. At the 2018 G7 Summit, development and finance ministers said in a statement that they “stressed the importance of strengthening the capacities for public financial management, and underscored the importance of domestic resource mobilisation, including effective tax administration, to advance sustainable development in developing economies”.[10] Some domestic enablers that can unleash the potential of beneficiary countries include capacity building for domestic resource mobilisation, aid for trade programmes and information and technology (IT). Further discussion of enablers is presented in Chapter 3.

Yet there is no clear classification or ranking of enablers that providers of financing for sustainable development should aim to deliver as countries undergo development transition. The enablers to improve investment climate and business environment include investment in quality infrastructure and technologies, aid for trade, domestic resource mobilisation, private sector development, competition and regulatory reforms. The economic literature[11] and donors have assigned different roles and priorities to the various enablers.

The current mandate of OECD DAC reflects a shift to better respond to these challenges. It aims to secure a future in which no country will depend on aid and recognises this will require support to strengthen long-term financing capacities, as endorsed by the 2017 High Level Meeting (OECD DAC, 2017[28]). USAID recently committed to “ending its need to exist” by developing a new strategic approach to more systematically build countries’ capacity to “plan, finance and manage their own development”.[12] A key component of what USAID has called its “journey to self-reliance” framework is a set of metrics that will help through strategic planning to assess each country’s progress along its journey and help to inform thinking about strategic transitions.

Investing in domestic resource mobilisation requires a more holistic approach

Direct budget support, technical assistance and capacity building are traditional ways of supporting domestic resource mobilisation. However, there is a need for support to target the broader enabling environment[13] for domestic resource mobilisation. As the “In My View” piece: Is ‘maximising finance for development’ selling out to the private sector?” in Box 5.5 argues, strong and transparent government is a prerequisite to mobilise resources, including from the private sector.

Box 5.5. In My View: Is "maximising finance for development" selling out to the private sector? by Caroline Heider, Director General, Evaluation, IEG, World Bank Group

Since 2015, a common mantra in development circles has been the mobilisation of the private sector. How can "they" (the many actors in the private sector that is) contribute more to the development endeavours of so many countries around the world?

At the forefront of this discussion has been the money. The 2030 Agenda requires more funding than official development assistance and public sector investments could ever invest. But other good reasons exist. The private sector brings the power of innovation, which is badly needed to address Sustainable Development Goals with inherent resource conflicts and to deliver better and cheaper service delivery to people.

So, is the wholehearted embrace of the private sector into development "selling out" to profiteering companies that pay their bosses extraordinary bonuses and contribute to the increasing inequality? Ever sharper inequality where a few families own as much wealth as half of the world's population, lobbyists who ensure policies favouring industry interests, and an increasing sense of disempowerment - all have understandably triggered fears and strong reactions among people in many countries.

For me, some of the most important lessons from the work we have done at the Independent Evaluation Group point to the need for a holistic approach that ensures all parts of society play an important role. Mobilising the private sector is not possible without a strong, transparent public sector.

Over the years, the World Bank has loaned billions of dollars to client countries to invest in private sector development.

Evaluations that we have undertaken, including on competitiveness and jobs (2016), capital markets (2016), reform of business regulations to improve investment climate (2014), small and medium-sized enterprises (2013), and support for public-private partnerships (2013) have shown that private sector development always requires strong government. This does not mean strong in the sense of all-pervasive governments and state-owned enterprises.

Instead, strong governments are those that act responsibly with the capacity to:

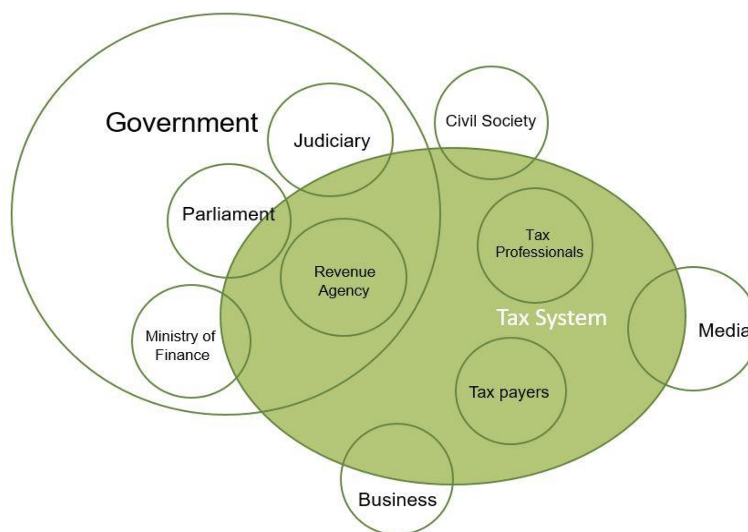
- develop and pursue clear policies
- create a level playing field for all actors
- manage and oversee contracts with the private sector to deliver services
- determine and implement fair tax policies
- efficiently manage public resources
- monitor development progress
- evaluate the effectiveness of policies and programmes

Why is this important for "maximising finance for development"?

It is strong institutions that create a transparent and level playing field. Private investors, from large international to small domestic investor and anything in between, thrive in steady and predictable environments. They need strong governments that play their part. For instance, most public-private partnership deals fall through because government capacity and commitment are lacking. Private investments will not be mobilised in the absence of clear policy frameworks.

Strengthening domestic revenue mobilisation will depend on support to a range of public institutions, including many not directly involved in domestic revenue generation. Figure 5.4 illustrates that in a holistic approach, such institutions indeed extend far beyond a country's revenue authority – across all branches of the government and to businesses and civil society. In addition to direct support to tax authorities, for example through the Addis Tax Initiative, deep-rooted commitment to reform across society is needed to sustain increases in revenues raised.

Figure 5.4. A holistic approach to strengthen revenue systems



Source: IMF-OECD-UN-World Bank Group (2016[29]), *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries,* http://www.oecd.org/tax/enhancing-the-effectiveness-of-external-support-in-building-tax-capacity-in-developing-countries.pdf.

Additionally, to be effective, the Addis Tax Initiative commitment to double spending on tax capacity building needs to do more than just double spending along existing lines; it must also support building capacity across all the actors in the tax system. As tax systems depend significantly on voluntary compliance, building tax morale among taxpayers is a vital part of domestic revenue mobilisation. Even within more traditional concepts of tax capacity building, significant potential still exists for new approaches to improve results. An example is Tax Inspectors Without Borders (Box 5.6).

Box 5.6. Tax Inspectors Without Borders

Tax Inspectors Without Borders (TIWB), a joint initiative of the OECD and the United Nations Development Programme (UNDP), is a recent innovation in the niche of international tax audit assistance. TIWB is primarily focused on addressing base erosion and profit shifting issues and abusive tax avoidance by some multinational enterprises.

TIWB experts provide audit support for transfer pricing and international tax audits as well as advance pricing agreements across a broad number of commercial sectors. The objective is to assist developing countries to become self-reliant in auditing multinational enterprises. TIWB experts provide practical hands-on assistance by working alongside local tax officials on current tax audits and international tax issues.

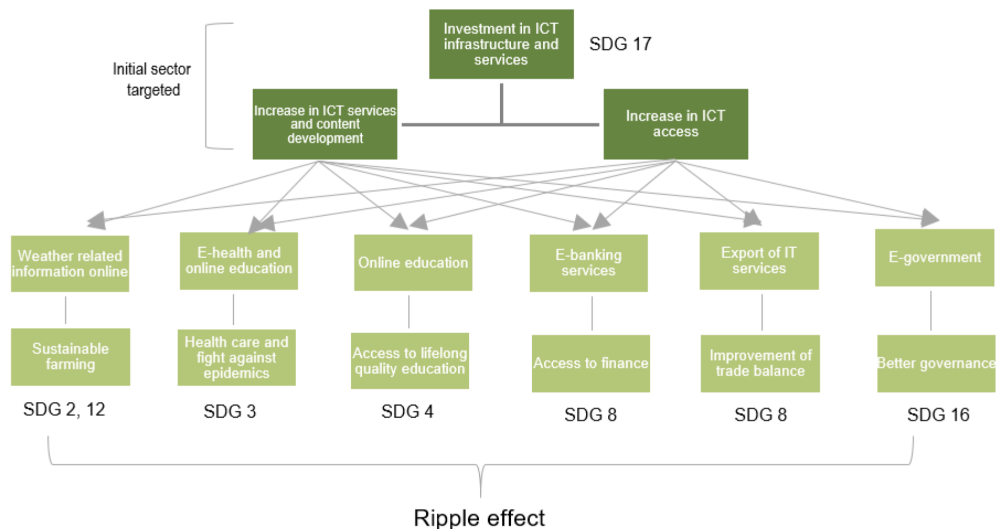
Demand for TIWB continues to grow. There are 44 ongoing or completed programmes worldwide and over 20 programmes in the pipeline. The objective remains 100 programmes by 2020. To date, USD 414 million in increased tax revenues are attributable to TIWB support offered in partnership with the African Tax Administrations Forum and the World Bank Group.

TIWB represents value for money: on average, more than USD 100 in additional tax revenues have been recovered for every USD 1 spent on operating costs. While revenue impact is important, TIWB also has gathered evidence of other long-term outcomes, including skills transfer, organisational change and taxpayer compliance. TIWB programmes complement the broader efforts of the international community to strengthen co-operation (including South-South) on tax matters and contribute to domestic resource mobilisation efforts.

Aid for trade is another means to further increase domestic resources. It can encourage more inclusive private sector engagement to promote job creation and can extend the positive effects of trade – whether in terms of technology transfers, tax revenue, competition or other effects - across the economy. To leverage the role of the private sector, aid for trade can help developing countries in economic upgrading and removal of barriers to more comprehensive private sector investment (World Bank, 2011[30]). In this regard, the Enhanced Integrated Framework (EIF), which was launched in 2007, aims to ensure a more inclusive global trading system for least developed countries. The EIF targets supply side constraints to trade including productive capacity, infrastructure and trade diversification (EIF, 2017[31]).

Targeting support to ICT is also necessary to raise domestic resources, most directly through the enabling of improvements in tax administration and more notably by generating ripple effects in the SDG-related sectors**.** SDG 17 calls for support to ICT, particularly in least developed countries. ICT investments have far-reaching effects across the economy. By encouraging private investment in ICT infrastructure, for example, the government of Ghana was able to trigger digital transformation in other key strategic sectors such as agriculture, health, financial services, education and government (SDGs 3, 4, 8, 12 and 16) and give rise to new services such as e-health, e-learning and mobile banking. Figure 5.5 shows some of the broad catalytic effects of support to the IT sector.

Figure 5.5. Ripple effects of support to the ICT sector across SDGs



Source: World Bank Group (2017[32]), *Creating Markets in Ghana: Country Private Sector Diagnostic,* https://www.compactwithafrica.org/content/dam/Compact%20with%20Africa/Countries/Ghana/CPSD-Creating-Markets-in-Ghana-Nov-2017_v1.pdf.

Financing for sustainable development enablers must also support efforts to better direct domestic resources toward the SDGs

While it is important to generate domestic resources, it is equally important that these resources are retained and effectively guided in support of SDG implementation. Significant amounts of resources generated in developing countries are not deployed for development outcomes in those countries. By some estimates, the informal sector can account for over half of GDP and employment in low-income countries (Pratap and Quintin, 2006[33]). Development partners can help developing countries make the link between tax revenue and development outcomes, as discussed in (Box 5.7).

Box 5.7. Better collecting and spending of domestic resources

The European Union delivers the Collect More, Spend Better approach that promotes sound domestic public finance systems to foster effective domestic revenue collection and use. “Collect more” in this context means increasing the efficiency, effectiveness, fairness and transparency of tax systems while also tackling tax avoidance, tax evasion and illicit financial flows. “Spend better” means improving the efficiency and effectiveness of public spending by addressing public investment expenditures, public procurement and debt management for sustainable development. The approach is a key contribution to the Addis Tax Initiative.

A lack of governance mechanisms to guide resources through productive or redistributive channels is often the reason the informal sector in many developing economies is so pervasive (World Bank, 2016[34]) (de Soto, 1989[35]). A study on employment in the informal economy shows that the perception of government corruption can negatively

impact tax revenue and increase the size of the informal sector, thus diverting potential resources from financing sustainable development (Williams, 2014[36]).

The promotion of greater transparency can help to increase accountability for public spending directed to the SDGs. The Extractive Industries Transparency Initiative (EITI), for instance, sets the global standard for transparency across value chains in the oil, gas and mining sectors by requiring governments to strengthen reporting on their legal framework, revenue allocation, social and economic spending, and other pertinent areas.[14] The EITI includes 51 reporting countries and represents USD 2.44 trillion in government revenues disclosed in open data formats (Paris, 2011[37]).

Better policies to increase the efficiency of the sustainable development market

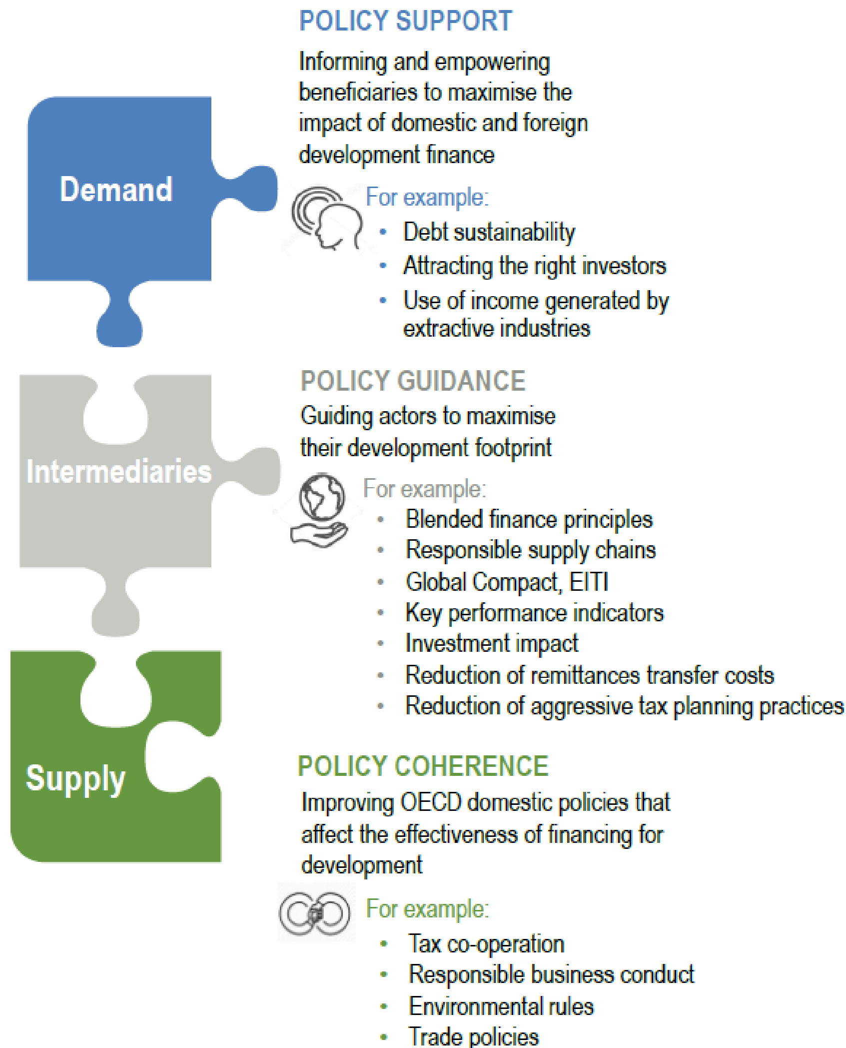
There are two ways, at least, to see the complexity of the FSD system. In a positive light, competition within the FSD system can help to drive innovation, tailor financing to the needs of beneficiary countries, and promote higher development returns on financing. From a negative perspective, the system can be seen as a market that is not mature, lacks transparency, and also lacks policy guidance and coherence mechanisms to tackle asymmetries of information (e.g. availability of instruments or the best financing mix) and emerging policy gaps (e.g. debt sustainability, development impact metrics for investors). To minimise the risk of setbacks in this market, then – for instance, a setback such as high-risk debt levels policy levers must be used at the level of beneficiaries (customers), intermediaries and suppliers. In this way, the proper functioning of the market can be ensured, meaning that each dollar spent is maximised in support of sustainable development.

Indeed and as noted in Chapters 2 and 3, some of the risks associated with recent changes in the FSD system suggest that this financing for sustainable development market is not yet mature. Addressing these risks requires better policies at these three beneficiary levels and raise related questions:

- **Policy support to beneficiaries.** Developing countries create the demand for a more diverse choice of financing sustainable development resources. How can OECD members help to promote the transparency of terms and conditions of new sources of financing? Which incentive frameworks are needed to ensure that beneficiaries can maximise the contribution of new actors to finance their sustainable development strategies?
- **Policy guidance to the intermediaries.** Intermediary actors and tools connect demand with supply, and can be on either the provider or the beneficiary side. Intermediaries are not always aligned in support of the SDGs. How can OECD members strengthen voluntary and regulatory frameworks so they are more comprehensive and inclusive and integrate a wider array of actors to fill the demand for sustainable development? How can existing policy guidance mechanisms help to ensure more effective safeguards?
- **Policy coherence of providers.** Providers of financing for sustainable development, including OECD members, are beginning to recognise that domestic policies have an impact on sustainable development. How are OECD members integrating the universal 2030 Agenda into domestic policy and how can they better deliver the policy coherence needed to ensure collective success?

Figure 5.6 illustrates the broad range of potential benefits of policy support, guidance and coherence for the FSD market.

Figure 5.6. The role of policy in the financing for sustainable development market



Source: Author

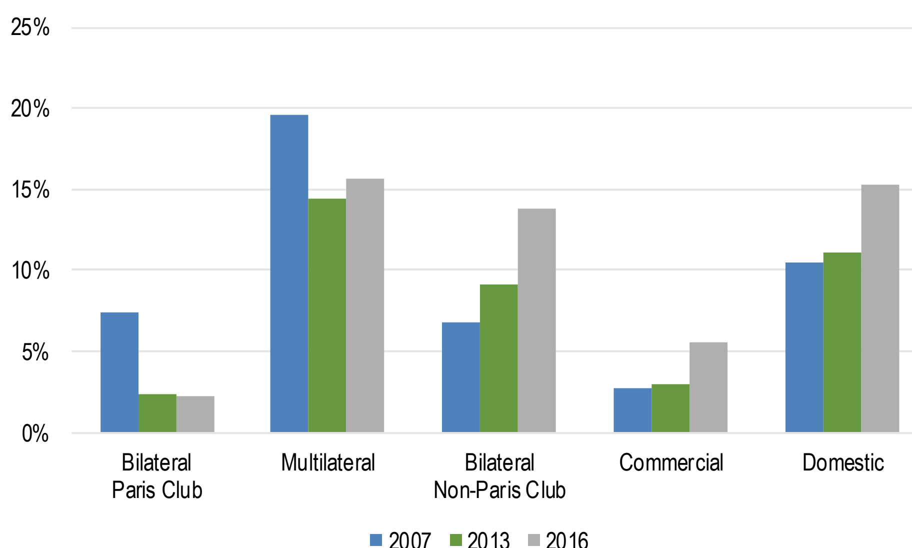
Better policy support is needed to inform decision making by beneficiaries of sustainable development finance

Continuing the market analogy, this "customer" protection part of regulation focuses on ensuring beneficiaries are best placed to make the most of available choices. As countries transition along their development continuum and access new financial resources and instruments (Chapter 3), financing must not come at the cost of sustainable and inclusive development.

Debt sustainability safeguards and transparency are needed to manage new sources of financing

Growing access to debt finance from a large array of actors is raising debt sustainability as an immediate challenge in transition economies. Since the financial crisis and the more recent collapse in commodity prices, there has been a sharp build-up of debt by low-income countries. A (2018[38]) IMF report finds 40% of low-income countries, or 24 out of 60, are now either in a debt crisis or highly vulnerable, twice as many as only five years ago. Moreover, as illustrated in Figure 5.7, commercial investors and bilateral non-Paris club lenders' share of debt in low-income countries has doubled over the 2007-16 period, reaching eight times the amount of debt held by Paris Club members (Ahmed, 2018[39]) (IMF, 2018[40]). The increased appetite of sovereign borrowers, particularly for infrastructure financing, has been facilitated mainly by commercial lenders and other bilateral lenders, particularly lenders beyond the Paris Club with lower levels of transparency. Box 5.8 presents the importance of debt sustainability to finance infrastructure.

Figure 5.7. Total public and publicly guaranteed debt by creditor in low-income developing countries, % GDP



Note: Data only available for 2007, 2013 and 2016.
Source: Author based on IMF (2018[41]), "Macroeconomic developments and prospects in low-income developing countries", https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/03/22/pp021518macroeconomic-developments-and-prospects-in-lidcs.

StatLink https://doi.org/10.1787/888933853262

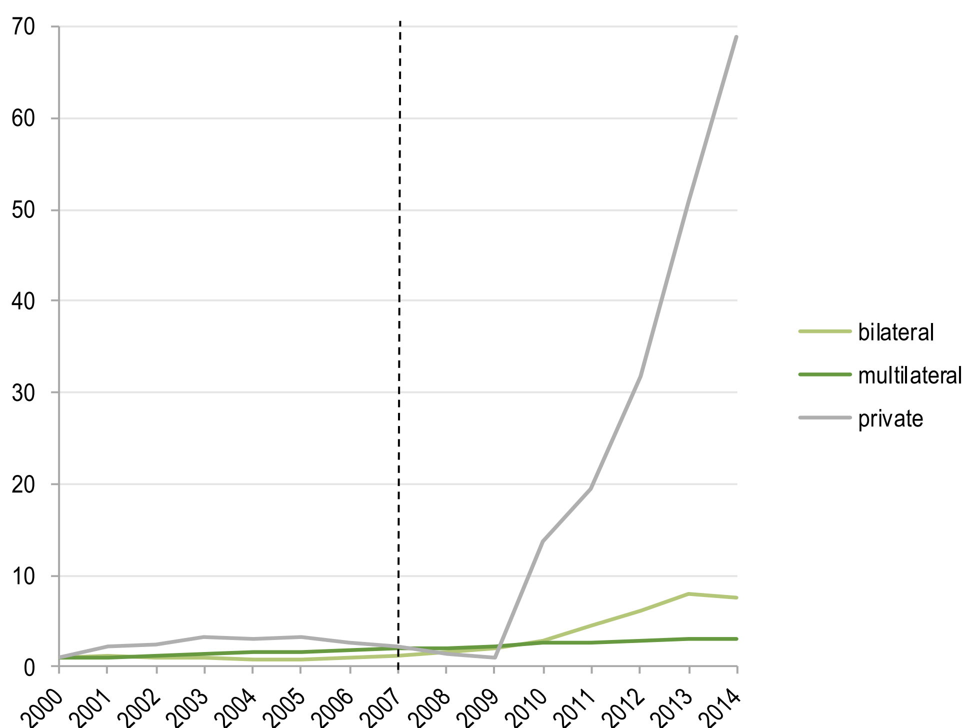
Box 5.8. One Belt, One Road initiative provides new sources of debt financing for infrastructure needs

The Chinese One Belt, One Road initiative – also called the Belt and Road Initiative (BRI) – includes USD 8 trillion in infrastructure investment targeting Asia, Africa and Europe that can help to fill the USD 26-trillion infrastructure gap in Asia alone. These levels are modest compared to total infrastructure financing needs and represent less than 1.5% of GDP per year in the 23 BRI countries. A 2018 study (Hurley, Morris and Portelance[42]) finds that the BRI is unlikely to set off a wide scale debt crisis but could significantly raise the risk of debt distress for at least eight developing countries, particularly those with rapidly increasing debt-to-GDP ratios beyond 50%-60%. These countries are Djibouti, Kyrgyzstan, Lao PDR People's Democratic Republic, Maldives, Mongolia, Montenegro, Pakistan and Tajikistan. Lack of data and information regarding many of the BRI transactions present a major challenge to securing the debt sustainability of these countries. As the initiative moves ahead, international mechanisms must work to further incentivise transparency and adherence to international frameworks for collaboration.

Source: (Hurley, Morris and Portelance, 2018[42]).

As countries gain access to new kinds of financing, it is crucial that debt levels are effectively managed to ensure sustainable economic growth. For example, Cabo Verde's graduation out of the least developed country category in 2007 fostered the perception internationally of a lower risk environment, resulting in increased multilateral debt stocks (up by 50%, or USD 682 million) and increased bilateral debt stocks (5 times , or USD 600 million, higher). This also resulted in soaring private debt (32 times, or USD 379 million, higher), Figure 5.8 shows. In the wake of this acceleration in debt financing, which exceeded by 13% the threshold set by the IMF, Cabo Verde's external debt was classified as high risk for the first time in 2016 (IMF, 2016[43])

Figure 5.8. External debt stock growth by origin of flows, Cabo Verde, Index, 2000=1



Note: In 2007, Cabo Verde graduated from the LDC category.
Source: World Bank (2017[44]), "World Bank international debt statistics". https://data.worldbank.org/products/ids.

StatLink https://doi.org/10.1787/888933853281

To address these concerns, recent international discussions emphasise the importance of ensuring renewed global co-operation and standards to safeguard debt sustainability, with some suggesting that a version 2.0 of the Heavily Indebted Poor Country (HIPC) Initiative is needed.[15] OECD members can play a role in renewing international co-operation to secure debt sustainability standards, for example by better informing beneficiaries of financing options and potential trade-offs. Rules on transparency and debt sustainability of development finance (e.g. Blended Finance Principles) and agreement of lending principles (e.g. OECD Working Party on Export) are evidence of this important role (Box 5.9). Members have since 2008 adhered to a set of principles and guidelines to promote sustainable lending practices in the provision of official export credits to lower income countries. Design of innovative financing solutions (e.g. non-debt based instruments) are an important first step.

Box 5.9. Strengthening principles to promote debt sustainability

At the 2017 High Level Meeting, OECD DAC members adopted the voluntary Principles for Unlocking Commercial Finance for the Sustainable Development Goals, thereby acknowledging the importance of transparency and adapting finance to the local context. However, principles to secure debt financing over the long term must adhere to internationally recognised frameworks to also secure debt sustainability, such as the IMF Debt Sustainability Framework for Low-Income Countries (LIC DSF). Further work must be carried out to ensure that the issue of debt sustainability is sufficiently integrated into Blended Finance Principles.[16]

Greater transparency is essential to reduce leakages and raise domestic resources

There is a growing risk that efforts by developing countries to attract investors to local markets could come at the cost of sustainable development progress. Developing countries compete to attract FDI, which often benefits the local economy through economic diversification gains, knowledge and technology spillovers, new management practices, job creation, and improved conditions in less-developed areas (Blomström and Kokko, 1998[45]).

Greater transparency of investment can prevent finance for sustainable development leakages and raise domestic value added. The recent policy toolkit released by the Platform for Collaboration on Tax recommends improving the governance and transparency of tax incentives to increase tax visibility and stability in developing countries and to avoid rent seeking and opportunistic behaviours (IMF-OECD-UN-World Bank, 2015[46]).

OECD countries can help to increase domestic value added in developing countries and improve local standards by promoting greater transparency of sustainability impact. For example, the Competitive Business Program, launched in 2016 by the Global Reporting Initiative (GRI) and the Swiss State Secretariat for Economic Affairs, aims to help small and medium-sized enterprises in developing countries to increase competitiveness through better transparency in sustainability reporting, which helps to avoid FSD leakages.[17]

Tailored policy guidance and tools for sustainable development finance providers

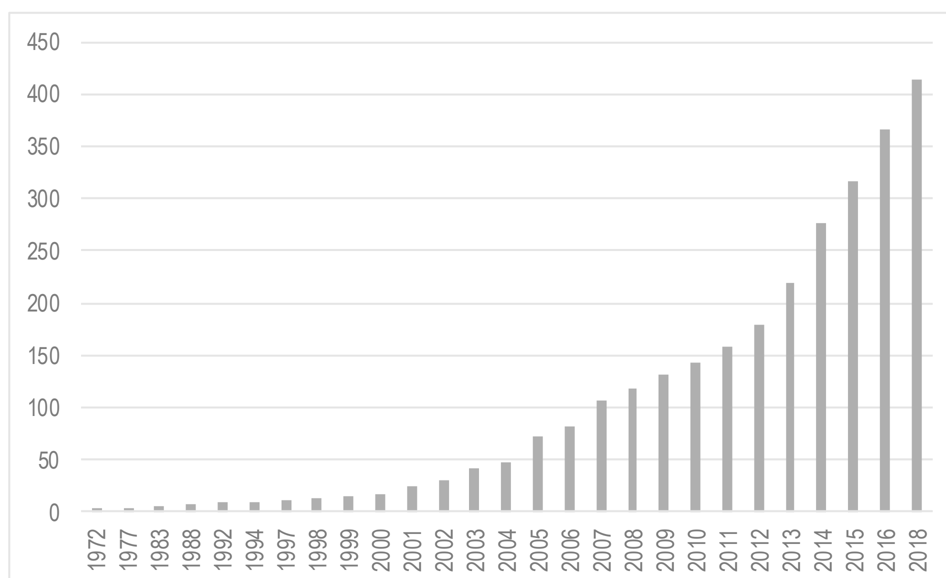
The evolution of the financing for sustainable development system is bringing a greater array of policy guidance and tools. The internationally agreed and legally binding frameworks of the AAAA, the 2030 Agenda and the Paris Agreement all aim to shift actors' behaviour. These frameworks provide rules to guide actors and so help to dissuade misconduct and raise compliance.

Setting rules is not as simple as choosing between carrot and stick. Often, policy guidance must involve a mix of regulatory and voluntary tools to succeed. Tools such as voluntary frameworks, guidelines, principles, standards, legal frameworks and regulations must be co-ordinated to effectively influence intermediary actors.

The proliferation of intermediary tools creates a more complex regulatory environment

The creation of intermediary tools such as policies, guidelines and regulations that help to guide actors toward sustainable investments is accelerating. Nearly 300 policy and regulatory measures targeting sustainability were in place in over 60 countries as of October 2017 (UNEP-World Bank, 2017[47]). Growth in such measures has averaged roughly 20% year on year since 2010, with an increase of roughly 30% just since July 2016 (Figure 5.9). Badré (2018[48]), for one, makes the case for the SDGs as the new economic development roadmap and also calls for intelligent regulation to help channel the power of finance in a positive direction.

Figure 5.9. Cumulative number of policy interventions targeting sustainability per year



Source: PRI (n.d.[49]), "Responsible investment regulation" (database), https://www.unpri.org/sustainable-markets/policy-and-regulation/regulation-map.

Policies should promote long-term sustainable development objectives for business

The evidence base for investing in long-term sustainable development has grown. Chief executive officers of major institutional investors such as sovereign wealth and government pension funds recognise the need to shift business models, as do now some of the largest asset managers.[18] The integration of environmental and social factors in private sector enterprises is no longer seen as an inevitable drain on profits but as behaviour that can increase profit and gain the trust of investors and the public alike. According to recent estimates, investing in the SDGs could unlock economic opportunities worth at least USD 12 trillion a year by 2030 (more than 10% of global GDP) and generate up to 380 million jobs, mostly in developing countries. (Business and Sustainable Development Commission, 2017[2]) A 2018 study for McKinsey further demonstrates that social impact funds have similar profit returns as corporate entities[19] (Pandit and Tamhane, 2017[50]).

However, short-term considerations persist and can be detrimental to sustainable development. The AAAA describes private finance as often "short-term oriented", "concentrated in a few sectors" and "bypassing countries most in need" (paragraph 35). Long-term investment, such as FDI, is defined as investment funding that matures in a year or more. It provides greater stability of financing and better conditions for certain large-scale and cost-intensive projects capable of raising productivity, financing low-carbon infrastructure and improving living standards. Short-term financing, such as bonds and other securities, contribute to a higher degree of financial volatility.[20]

OECD members can help to redirect long-term investment into key SDG sectors. For instance, the 2013 High-level Principles of Long-term Investment Financing by Institutional Investors of the Group of Twenty (G20) and OECD "aim to help governments design a policy and regulatory framework [to overcome] impediments to long-term investment by institutional investors". These principles also "aim to avoid interventions that may distort the proper functioning of markets". As a response to the growing trend of short-termism, the OECD and the G20 also have taken steps to guide long-term investment decisions and better understand the barriers to investing in developing countries. In 2015, work was carried out to assess the risk and return characteristics of infrastructure financing in low-income countries and provide recommendations to help these countries unlock greater long-term finance (OECD-World Bank, 2015[51]).

Voluntary mechanisms are essential to involve private sector actors, yet these require better evaluation techniques

Voluntary mechanisms have played a crucial role in guiding private sector actions in support of sustainable development. They help to avoid the risks of negative externalities and increase the transparency of efforts to mobilise private finance. A wide range of private sector actors participate in a variety of voluntary frameworks in support of sustainable development, among them:

- **Multinational enterprises**. The UN Global Compact created in 2000 acts as a forum for policy dialogue in support of responsible business practices.[21] Adherence to the ten principles established by the Compact is voluntary, which may account for the large number – more than 12 000 – private sector signatories. To further guide actors, an SDG Compass (Chapter 4) developed by the Global Compact, GRI and the World Business Council for Sustainable Development provides a tool to promote reporting on development indicators and transparency of investments in an effort to guide companies to achieve the SDGs.
- **Philanthropic organisations.** The OECD Global Network of Foundations Working for Development (netFWD) led the development of the Philanthropy Guidelines, the first set of voluntary principles to promote mutual recognition and help governments and foundations connect at the country level (OECD netFWD, 2014[52]) The guidelines are voluntary, non-binding, and comprise the three pillars of dialogue, data and information sharing, and partnerships. Through these pillars, the guidelines can enable collaboration for development, poverty reduction and the creation of effective public policies.
- **Taxation.** The recent creation of the B Team Responsible Tax Principles demonstrates the importance for multinationals of raising public trust and addressing reputational risk related to taxation. These principles seek to address

relationships with tax authorities, use of tax incentives, public transparency and other matters related to tax.

Voluntary frameworks are an important first step to strengthening policy guidance. But on their own, they often lack adequate mechanisms for evaluation and accountability.[22] For example, in 2000, the UN General Assembly passed a resolution that led to the Kimberley Process Certification Scheme, which create a system of warranties to require all buyers and sellers of diamonds to certify compliance with human rights standards. Failure to comply results in expulsion from the industry market, a provision that has led some to question the efficiency of such a voluntary system that does not address an increasing number of transactions beyond the certification scheme.

Regulatory frameworks must provide policy guidance at the global, regional and national levels

Given the rapid evolution of regulatory frameworks in nearly all OECD countries, the OECD is well placed to lead the agenda on regulatory policy in support of the SDGs. Indeed, the OECD has developed 450 substantive legal instruments since its creation in 1961. Notably, the Due Diligence Guidance for Responsible Business Conduct (RBC), adopted at the 2018 OECD MCM, is the first government-backed guidance to companies for the implementation of the OECD Guidelines for Multinational Enterprises.[23]

In OECD countries, regulatory policy has contributed to sustainable economic growth and rule of law for stronger market functioning (OECD, 2010[53]). However, to be effective, existing laws must also be enforced. The following are examples of legally binding frameworks that enhance functioning of the financing sustainable development market:

- At the global level. Established in 1976, the OECD Guidelines for Multinational Enterprises entered into legal force in 2000 (OECD, 2011[54]). Their aim is to provide an open and transparent international investment environment and to encourage the positive contribution of multinational enterprises (MNEs) to economic and social progress. The OECD Guidelines are the most comprehensive set of government-backed recommendations on what constitutes responsible business conduct. They cover all major areas of responsible business conduct: disclosure, human rights, employment and industrial relations, environment, bribery and corruption, beneficiary interests, science and technology, competition, and taxation.
- At the regional level. The European Union (EU) has taken a proactive role in the design of European policy aimed at strengthening the legal framework for responsible business conduct. Recently, the European Commission announced its intention to mainstream the Sustainable Development Goals in its policy process, while recognising that only a subset of goals is actionable at the national level (Furness, 2012[55]). Efforts will be made under the EU Better Regulation Agenda to ensure that regulation is better linked with the SDGs. The Better Regulation Agenda also serves as an instrument for policy coherence for sustainable development in EU public policy by mainstreaming sustainable development into European domestic and external policies (European Commission, 2016[56]).
- At the national level. The German government adopted a National Action Plan for Business and Human Rights in 2016 that calls on German businesses to commit to human rights due diligence across supply chains (German Federal Foreign Office, 2016[57]). The Action Plan is based on the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. Germany aims

to have 50% of businesses with more than 500 employees implement this plan by 2020. An OECD peer review team provides recommendations on implementation of the action plan. Another example, France is the first country to introduce a legal requirement for institutional investors to disclose how they are contributing to national carbon targets, known as the Energy Transition Law. To date, 70% of the largest French institutional investors have published reports on sustainable financing.

Beyond the OECD, other countries have also stepped up efforts to implement sustainability laws. The People's Republic of China introduced explicit responsible business conduct regulations in 2006 as part of its social harmony policy. The number of mining firms disclosing information in annual reports has increased dramatically, with 78.3% of these firms disclosing annual reports in 2007. Almost all mining firms, or 98.3%, disclosed responsible business information in annual reports in 2012 (Shidi Dong, 2016[58]).

Multilateral governance/international institutions can help to strengthen standards in support of the SDGs by integrating a wider array of actors. The development and promotion of international standards and regulatory convergence help to level the playing field if all actors are involved, particularly those driving international trade and investment. Differences in standards and governance can present a barrier to a common vision for sustainable development. Just as standardised accounting rules underpin investor confidence in stock markets, government must play a role to establish legal guidelines for standards to secure the financing sustainable development market. The "In My View" piece by Daniel C. Esty in Box 5.10 argues that the next major challenge will be to develop more inclusive standards and mandatory frameworks.

Box 5.10. In My View: Toward a next generation framework of corporate sustainability metrics* by Daniel C. Esty, Yale University

A broader interest in corporate sustainability has recently emerged among mainstream investors, fuelled in part by high-profile global policy commitments to climate change action (notably the 2015 Paris Agreement) and the Sustainable Development Goals (SDGs). Evidence of sustainability's move from the margins of the investment world to the mainstream can be seen in the groundswell of interest in the United Nations Principles for Responsible Investing (PRI), which now have nearly 1 800 signatories in more than 50 nations representing over USD 70 trillion in assets under management.

But the translation of this interest into sustainable investing has not reached its full potential. A number of factors related to the fragmentation, misalignment and methodological weakness of the existing environmental, social and governance (ESG) metrics present barriers to ramped-up sustainable investing. Investor confusion over the definition of sustainability and over exactly what the various ESG metrics actually measure is part of the problem. A recent survey of ESG metrics demonstrates that no two sustainability-minded investors have the same focus or priorities. Some want to emphasise climate change and thus seek to avoid investments in big greenhouse gas emitters. Others care about a broader set of environmental issues including water and air pollution, chemical exposures, and waste management.

Lack of confidence in the quality and integrity of ESG metrics has proved to be an even bigger problem. There are a number of ESG data providers competing aggressively in the marketplace (Table 5.1). Yet many investors worry that the available metrics are not reported in a manner that assures methodological consistency and substantive accuracy. Indeed, most of the data are self-reported and unverified.

Table 5.1. Sample of ESG and sustainability metrics offered by major data providers

Provider	Product	
MSCI	Sustainable impact metrics	Six social themes (nutrition, disease treatment, sanitation, affordable real estate, SME finance, education) and five environmental themes (alternate energy, energy efficiency, green building, sustainable water, pollution prevention).
MSCI	ESG fund	Including metrics across three dimensions: sustainable impact (to measure fund exposure to companies that address core environmental and social challenges); values alignment (to screen funds for investment that align with ethical, religious or political values); and risk (to understand fund exposure to ESG-related risks).
MSCI	ESG rating	Includes "80 Exposure Metrics (business segment and geographic risk exposure)" and "129 Management Metrics (based on policies, programme and performance data)."
MSCI	Carbon Solutions	Includes "a comprehensive range of data on fossil fuel reserves, carbon emissions and sector application".
Bloomberg	ESG Disclosure Scores	Over 120 environmental, social and governance indicators keyed to the Global Reporting Initiative list of performance indicators.
Thomas Reuters	ESG Data	Includes "over 70 Key Performance Indicators" in three categories: environmental (resources use, emissions, innovation); social (community, workforce, human rights, product responsibility); and governance (management, shareholders, CSR strategy).

Note: Not exhaustive

Achieving a next generation corporate sustainability metrics framework will rely on a revitalised partnership for data and standards among both public and private actors. While a number of established data providers are working to fill the gaps and address the problems outlined above, requisite investor trust would be most easily established if governments (perhaps working collaboratively across national boundaries) spelled out a mandatory set of core corporate sustainability metrics and clear methodological standards for reporting.

A consistent and reliable ESG metrics framework should be seen as a public good that governments provide as a foundation for decision making across the investment realm. A high-integrity next generation corporate sustainability metrics framework would promote the flow of capital to those companies that are helping to deliver a sustainable future and away from those whose business models contribute disproportionately to climate change, undermine social values or otherwise degrade efforts to deliver on the promise of sustainable development.

Sustainable development for all relies also on OECD policies at home

Both the AAAA and the 2030 Agenda call for enhanced support to address the policy coherence of domestic and external policies. The AAAA states, "We recognize the importance of policy coherence for sustainable development and we call upon countries to assess the impact of their policies on sustainable development" (paragraph 103). SDG target 17.14 calls for more broadly enhancing "policy coherence for sustainable development". The importance of policy coherence extends to areas both directly and indirectly related to sustainable development.

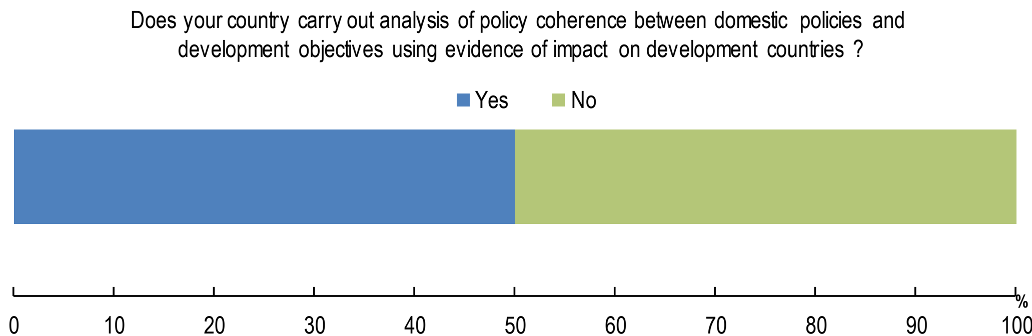
As Chapter 4 demonstrates, there are a number of recent initiatives aimed at assessing the policies and financing that contribute to accelerating or limiting progress towards the global goals. These nascent efforts represent an important first step to policy coherence that maximises sustainable development financing, including beyond the traditional remit of aid policies. New and emerging issues can shed light on the often complex dynamics.

These issues include adherence to the base erosion and profit shifting (BEPS) framework for multinational enterprises and laws promoting responsible business conduct and the need for a better understanding of the impact of the tax exemption status of ODA-funded goods and services on domestic resource mobilisation.

Institutional challenges impede efforts to strengthen policy coherence

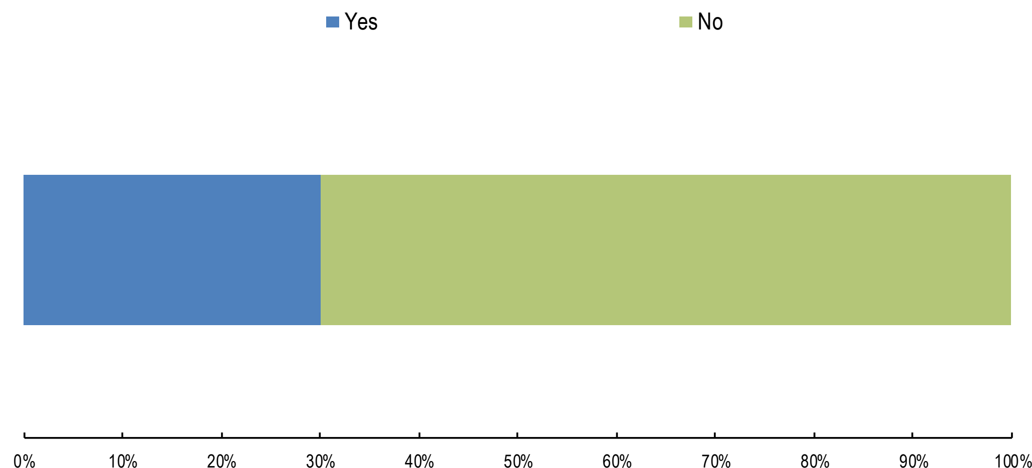
A lack of national institutional mechanisms can impede policy coherence across governments and institutions (Box 5.11). Responses to the "2018 Global Outlook on Financing Sustainable Development Survey" indicate that only 50% of countries surveyed carry out analysis of policy coherence between domestic policies and development objectives using evidence of impact on developing countries (Figure 5.10). Moreover, only 30% of countries responding to the survey have a timebound plan for implementing policy Figure 5.11. Most of these countries cite major institutional challenges such as a lack tools or forward-looking strategies (Figure 5.12).

Figure 5.10. Analysis of policy coherence by DAC member governments



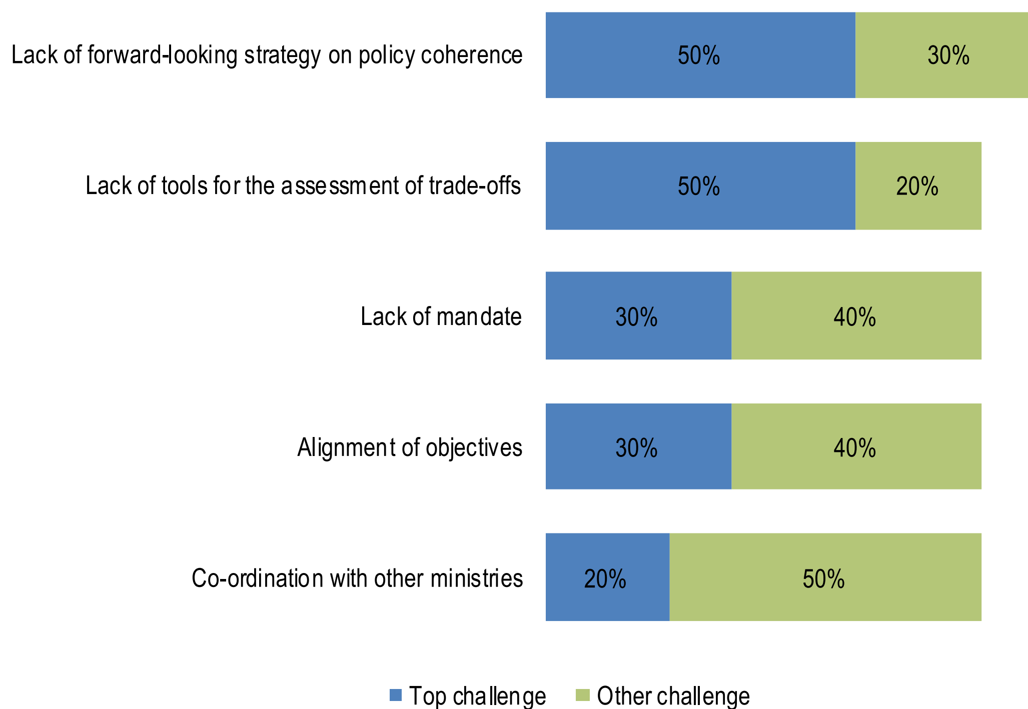
Source: OECD (2018[26]) "Global Outlook Survey on Financing for Sustainable Development", http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/global-outlook-on-financing-for-development.htm.

Figure 5.11. Time-bound plan for policy coherence



Source: OECD (2018[26]) "Global Outlook Survey on Financing for Sustainable Development", http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/global-outlook-on-financing-for-development.htm.

Figure 5.12 Top institutional challenges of policy coherence



Source: OECD (2018[26]), "Global Outlook Survey on Financing for Sustainable Development", http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/global-outlook-on-financing-for-development.htm.

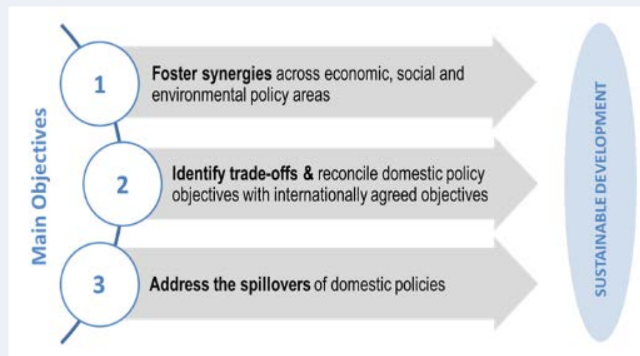
Box 5.11. Institutional mechanisms to strengthen policy coherence

Policy coherence for sustainable development (PCSD) – embodied in SDG target 17.14 – is an integral part of the means of implementation for all SDGs. The OECD defines PCSD as both an approach and a policy tool to systematically integrate the economic, social and environmental dimensions of sustainable development at all stages of domestic and international policy making.

Policy coherence does not happen automatically. It is a political choice by governments to establish supporting institutional structures and take specific initiatives. Enhancing PCSD as called for in target 17.14 will depend on reconciling short-term priorities with the long-term policy direction integral to attaining sustainable development objectives. It will also need mechanisms to anticipate, balance and reconcile divergent policy pressures such as conflicting domestic and international priorities; opposing economic, social and environmental concerns; and competing sectoral interests.

The experiences of OECD countries in promoting policy coherence for development over the past two decades and in implementing national sustainable development strategies have led to the Policy Coherence for Sustainable Development (PCSD) Partnership[24] and a number of guidance and tools for grappling with policy interactions and spillovers in the global economy (Figure 5.13).

Figure 5.13. Main objectives of the PCSD Partnership



Source: OECD (2018[59]), *Policy Coherence for Sustainable Development 2018: Towards Sustainable and Resilient Societies,* http://dx.doi.org/10.1787/9789264301061-5-en.

A policy coherence lens must be applied to areas both directly and indirectly related to aid policy

Policy directly related to traditional development finance such as ODA is not provided in a vacuum and can have spillover effects (Chapter 4). Domestic policies in OECD countries affect development in the rest of the world. Development finance programming has an impact on domestic revenue mobilisation, remittance facilitation, philanthropic giving, trade and investment, and illicit financial flows. Chapter 3 discusses this in relation to dynamic effects.

As providers increase support for domestic resource mobilisation to meet Addis Tax Initiative commitments, the practice of requiring tax exemptions for ODA-financed goods

and services is coming under heightened scrutiny. Such tax exemptions increasingly are seen as undermining efforts to improve mobilisation (Steel et al., 2018[60]). In recent years, some countries, as discussed in Box 5.12, have changed their policy and no longer seek such tax exemptions on ODA-funded goods and services. But this is not yet common practice. The Platform for Collaboration on Tax is planning to review the 2007 guidelines to assist countries in reviewing their policies in this area.

Box 5.12. Transparency of policy for official development assistance-funded goods and services

Efforts are underway to improve the transparency of taxation of ODA-funded goods and services. The 2018 Global Outlook on Financing for Sustainable Development Survey shows that more OECD countries are taking a stance against tax exemptions. The most recent to do so are Greece, Hungary and Portugal. Belgium, Denmark, Netherlands, Poland and Sweden already were calling for an end to tax exemptions. Other OECD members who require exemptions, notably Italy on VAT, recently undertook efforts to enhance the transparency of practices by providing additional details guiding exemption policy.

It is important to also recognise that policies not directly related to aid can play a central role to maximise finance for sustainable development. This is the case for selected tax issues as well as for laws promoting responsible business conduct and, as discussed elsewhere in this chapter, financial sector investment. Significant progress has already been made in tax through inclusion of developing countries in OECD decision-making structures on international tax standards.

A commitment to effective international tax co-operation is central to ensuring the policy coherence of financing, because the information that enables authorities to effectively tax cross-border activities is often held in another country. The Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC) enables access to such information and allows the exchange of information among all 123 signatories. The MAC also provides a base to enable automatic exchange of information (AEOI). The potential impact of automatic exchange of information is significant, with over USD 93 billion in increased revenues raised from voluntary disclosure in advance of the first exchanges.

In addition the BEPS process, which starting in 2013 began to address the challenges of taxing multinational enterprises in the era of globalisation, has shown how developing countries can be integrated into standard setting structures. The Inclusive Framework on BEPS brings together over 120 countries and jurisdictions to collaborate on the implementation of the OECD/ G20 Base Erosion and Profit Shifting (BEPS) Package, integrating developing countries into the decision making structures on international tax standards, on an equal footing. The 15 BEPS Actions25 provide a range of tools to address some of the principal methods used by MNEs either to avoid activities becoming part of the tax base or to shift profit offshore. One of these tools is country by country reporting, which provides an overview of the key activities of MNEs in every country they operate in and thereby enables high-level risk analysis. In committing to tools like these, countries help to ensure the access to information on their MNEs and reduction of treaty abuse on a multilateral basis.

Forward look: Policies must target both inclusive and sustainable development

Achieving the SDGs will rely on integrating the sustainable development and inclusive growth agendas. All countries, in agreeing the 2030 Agenda, recognise the need to eradicate poverty and to maximise the effectiveness of development policies to leave no one behind.

The role of OECD countries is to support all three policy levers – policy support, policy guidance and policy coherence – to achieve inclusive growth and sustainable development. Both domestic and external policies create opportunities to distribute the dividends of growth across populations. For example, the 2015 Paris Agreement acknowledges that the negative impacts of climate change most severely affect the poor and that the success of international climate change action depends on action at the global level. OECD members thus have an important role, for example, to promote global action that closes the gap of widening inequalities.

Box 5.13. A new framework for inclusive growth

The OECD Framework for Policy Action on Inclusive Growth provides a blueprint to strengthen the foundations for sustainable growth and to better tackle inequalities that can impede progress. Moving beyond GDP metrics and statistical averages, the framework focuses on well-being outcomes and emphasises the distribution of outcomes across a population. Using 24 indicators, it provides guidance to complement national development strategies on a number of Sustainable Development Goals that are relevant from an inclusive growth perspective (OECD, 2018[61]).

Sustainable development finance actors must recognise that the development agenda is circular

Better policy coherence is needed to operationalise a circular approach to development and ensure that no dollar of financing is lost. This is especially true regarding remittances, as financing is channelled at the levels of origin, transit and destination from the perspective of migrants. This section examines the case of remittances transferred cross-border by migrants. In recent years, a number of international fora and organisations including the AAAA (paragraph 111) and the 2030 Agenda (paragraph 29) recognise the importance of policy coherence related to international migration and the need to account for what is widely termed the multidimensional reality of remittance transfers and migration.

Host countries must deliver better policies to maximise remittances for sustainable and inclusive development

As more developing country migrants work in OECD countries, there are emerging opportunities to create a virtuous circle of inclusive growth and sustainable development to maximise available finance. In this context, crucial remittance flows to developing countries will depend largely on the domestic policy of OECD countries.

OECD members can promote policies to better integrate migrants into the labour market and to promote financial inclusion. Domestic policies that promote education, skills, financial inclusion and social safety nets for migrants in turn increase the contribution of

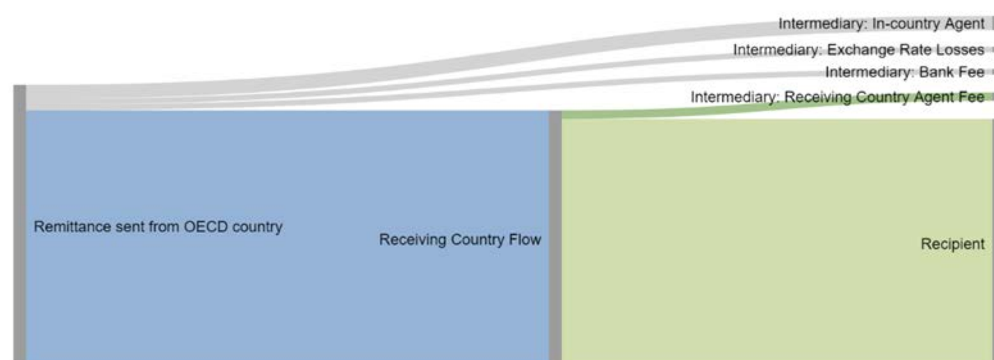
migrants to OECD economies (i.e. inclusive growth) by boosting the labour force and in some cases contributing more in taxes and social insurance payments (OECD, 2013[62]). Responses to the 2018 Global Outlook on Financing Sustainable Development Survey reveal that several OECD countries, among them Australia and Korea, are adopting domestic policies to facilitate remittance transfer to developing countries, notably by increasing earning opportunities for remittance senders.

Policies that increase competition among financial intermediaries can drive down transfer fees

To ensure that developing countries get the most out of remittances sent by migrants, it is essential to address the leakages that can occur when funds are transferred. A 5% decline in remittance costs could potentially generate USD 15 billion in savings (Rillo and Levine, 2018[63]). Although transfer costs are declining broadly, the cost of sending remittances still stands at 14-20% for all developing regions – far above the target established under the SDGs to reduce transfer costs to 3% by 2030.

As remittances transit from the OECD host country through financial intermediaries to beneficiary households, there are opportunities to maximise the volume of available financing. Promoting greater competition among service providers can help to drive down fees charged by financial intermediaries. The World Bank Payment Systems Group examined the cost of remittances sent across 119 country corridors used for 60% of total remittances to developing countries. The study shows that increased competition helps to decrease remittance costs, except in the case of Western Union (Beck and Peria, 2009[64]). Figure 5.14 shows key points where intermediaries have an impact on the transfer cost of remittances.

Figure 5.14. Leakages in remittance transfer due to intermediary actors



Source: Author based on (ODI, 2014[66]) "Lost in intermediation: How excessive charges undermine remittances in Africa", https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8901.pdf

One important, emerging factor is the need to change the perception among banks that the remittance sector is high risk (World Bank Group, 2017[65]). Delivery of innovative financial technologies can help banks to strengthen anti-money laundering measures without sacrificing financial inclusion of remittance senders, as is reflected in the 2017 Financial Stability Board recommendation to governments. As banks seek to reduce illicit financial flows and terrorist financing, money transfer operators often respond by shutting down bank accounts. The shutdown of bank accounts acts as a risk management

strategy but it also creates barriers for migrants seeking to transfer remittances (Ratha et al., 2016[66]). Some countries are addressing this. An example that emerges from the Global Outlook on Financing Sustainable Development Survey is Korea, where the Korea Financial Supervisory Service and the Korea Federation of Banks are leading efforts to lower remittance fees to developing countries through improved co-ordination with banks.

Policies of countries of origin can strengthen the sustainable development impact of remittance flows

In addition to cutting costs and making it easier to send and receive remittances, policy makers can create an enabling environment for remittance use. Remittances are most often received as cash transfers. This presents a number of challenges for developing countries, particularly when robust, financial intermediary services are lacking. One of the most successful matching grants schemes, Mexico's *Tres por Uno* (Three for One) programme, designed an innovative solution whereby the federal, state and municipal governments contribute by tripling the amount of money sent by the migrants to support local development projects.

Other measures that have been taken to overcome these challenges include:

- **Tax exemptions for remittance income.** Most developing countries offer some form of tax incentives to attract remittances, although sometimes these bring unwanted side effects such as tax evasion (Ratha, 2007[67]).
- **Incentives to attract diaspora investments.** Countries such as Ethiopia, Ghana, Kenya, Nepal, the Philippines and Sri Lanka, among others, have issued diaspora bonds to attract savings from migrants abroad (Ratha et al., 2015[68]).
- **Matching grants schemes.** These government schemes channel collective remittances received through hometown associations set up by diaspora groups to support local development in the countries of origin.

Conclusion and recommendations

Sustainable development finance policy design requires a more holistic approach that utilises all policy levers of the AAAA. Efforts to mobilise additional resources for development and go from billions to trillions should be sustained. But they should be supplemented by efforts to shift the trillions, i.e. re-direct existing and future flows towards the SDGs. Beyond the efforts to better understand and use interactions described in Chapter 3, actions to achieve this objective include:

- set new targets for innovative instruments, such as blended finance; develop new tools to facilitate the attainment of these targets (e.g. blended finance toolkit developed on the basis of the Principles) and the evaluation of their use (e.g. monitoring and evaluation of blended finance projects and impact/diaspora/green bonds, etc.).
- encourage international co-operation and/or adoption of a legal/regulatory framework for shifting the trillions; put long-term saving and financing to work for the SDGs (e.g. guides for pension funds, a new rating system for investment or company performance, rules on responsible business conduct activity reporting, fight against fiscal evasion and tax co-operation, etc.).

Given the importance of domestic resources in the promotion of the 2030 Agenda, it is important to put in place the right framework and/or environment for self-sustained sustainable and inclusive growth in developing countries. Development assistance should further invest in enablers through the following actions, for instance:

- Continue and increase support to technical assistance and capacity building programmes pertaining to domestic resources mobilisation in line with the Addis Tax Initiative target of USD 447 million in the next four years; complement this these with an increased focus on improving the effectiveness of the assistance and broadening the scope to all actors in the tax system
- Continue and increase support to other enablers, such as aid for trade or private sector development.

In the spirit of the AAAA and its holistic approach, the different financing sustainable development actors, and in particular the private sector, should jointly undertake these efforts. Beyond commingling resources, synergies and new forms of partnerships and, platforms for matching actors and remedying market failures should be put in place:

- Create a private sector engagement platform for collecting evidence, sharing experience, identifying best/worst practices, matchmaking actors (e.g. public and private and investors), and replicating/scaling-up innovative sustainable development finance solutions as part of an effort to increase transparency.
- Identify champions and launch next generation partnerships at country or regional level and/or along specific value chains, as was done for agriculture or mobile phone (batteries) value chains.
- Promote effective co-operation with other private sector actors (e.g. OECD netFWD Guidelines for Effective Philanthropic Engagement).

Chapter 6 explores how the holistic approach can be operationalised so that financing is more effectively targeted to meet demand. From the global to the local level, better co-ordination among the different actors is needed to bridge divides and deliver a new vision for development.

Notes

[1] One year earlier, a World Bank (2016[75]) report introduced the cascade approach as a means of conceptualising strategies to maximise financing for development by leveraging the private sector and optimising the use of scarce public resources.

[2] The World Bank defines the development footprint of the private sector as the investments and operations in developing countries that transfer capital, technology, knowledge and know-how. The operations of global firms, the standards they expect their suppliers and partners to meet, the societal values and norms they promote through their operations – all can profoundly affect the future of developing economies. These transfers of all kinds, whether tangible or not, and their direct and indirect effects represent the development footprint of global business and value chains.

[3] The OECD DAC defines mutual accountability as “a process by which two (or multiple) partners agree to be held responsible for the commitments that they have voluntarily made to each other. It relies on trust and partnership around shared agendas, rather than on ‘hard’ sanctions for non-compliance, to encourage the behaviour change needed to meet commitments”. See https://www.oecd.org/dac/effectiveness/49656340.pdf.

[4]An evaluation of the programme can be found at https://www.kfw-entwicklungsbank.de/PDF/Evaluierung/Ergebnisse-und-Publikationen/PDF-Dokumente-E-K_EN/Indien_TNUDF_2017_E.pdf.

[5] Further information about the Microfinance Initiative for Asia debt fund is at http://www.blueorchard.com/wp-content/uploads/MIFA_InvestorUpdate.pdf.

[6] A global monitoring exercise was carried out. It looked at progress in implementing the four principles for effective development co-operation: focus on results, country ownership, inclusive partnerships, and transparency and accountability. See http://www.oecd.org/dac/effectiveness/Making-Development-Co-operation-More-Effective-2016-monitoring-findings-at-a-glance.pdf.

[7] The Shared Value Initiative was launched in 2012 as a Clinton Global Initiative Commitment to Action. See https://summit.sharedvalue.org/.

[8] At the 2017 OECD DAC Senior Level Meeting, Jean-Christophe Laugée, Vice President for Sustainability and General Manager of the Danone Ecosystem Fund, stressed the need to shift the development finance system framework to co-develop models and co-create ecosystem change.

[9] The United States and G7 have been active in initiatives in the agricultural sector. Among other such initiatives are the New Vision for Agriculture and the Grow Africa and Grow Asia initiatives that have jointly fostered public and private investment with local government and civil society support.

[10] The co-chairs' statement of the G7 Development and Finance Ministers Summit is available at https://g7.gc.ca/en/g7-presidency/themes/investing-growth-works-everyone/g7-ministerial-meeting/co-chairs-summary-g7-joint-development-finance-ministers-meeting/.

[11] An example is the recent debate around a 2016 paper (Collier and Venables, 2016[68]), available at https://urbanisation.econ.ox.ac.uk/materials/papers/110/oxf-rev-econ-policy-2016-collier-391-409.pdf.

[12] For more on USAID recent statements, see https://www.usaid.gov/news-information/press-releases/jan-31-2018-usaid-administrator-mark-greens-opening-remarks-usaid-town-hall.

[13] The enabling environment for domestic resource mobilisation is defined as "a set of interrelated conditions – such as legal, bureaucratic, fiscal, informational, political, and cultural – that impact on the capacity of […] development actors to engage in development processes in a sustained and effective manner". See http://web.worldbank.org/archive/website01029/WEB/IMAGES/_ENGL-60.PDF.

[14] The EITI value chain is described at https://eiti.org/eiti-value-chain.

[15] An example of such discussions is the Paris Club meeting of 20 April 2017, available at http://www.clubdeparis.org/en/communications/article/paris-forum-workshop-spring-meetings-20-04-2017.

[16] The principles are at www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf.

[17] Better reporting, in turn, helps to reduce indirect costs resulting from rent seeking and corruption, ultimately resulting in more jobs and income opportunities. See https://www.globalreporting.org/information/about-gri/strategic-partnerships/Pages/CSRCB-Program.aspx.

[18] For example, in 2018, the Chief Executive Officer (CEO) of BlackRock, the world's largest institutional investor, urged other CEOs to adopt a social purpose and to pursue a strategy for

achieving long-term growth. See https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.

[19] For example, 50 investors representing more than USD 5.2 billion achieved a median internal rate of return of 10%. Holding period returns were similar to normal venture capital or private equity projects, with average exit around five years.

[20] FDI to developing countries amounted to USD 193.3 billion in 2016, while bonds and other securities amounted to USD 57.6 billion.

[21] Information about the Global Compact is at www.unglobalcompact.org/about.

[22] The broad question of whether regulations and principles for responsible business conduct should be voluntary or binding is discussed at https://www.hrw.org/news/2017/09/18/should-corporate-social-responsibility-be-voluntary-or-binding.

[23] The sector-specific Due Diligence Guidance and good practice papers focus on strengthening business operations and supply chains, including in areas related to human rights, labour, the environment and corruption. Although the Due Diligence Guidance is not mandatory, it holds particular weight as a tool designed to support other legal instruments. See http://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm.

[24]For more information on the PCSD partnership, see http://www.oecd.org/pcd/thepcsdpartnership.htm.

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