

# Development Co-operation Report 2016: The Sustainable Development Goals as Business Opportunities

## HIGHLIGHTS





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## FOREWORD

**I**n September 2015, the United Nations General Assembly adopted the universal 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). These goals spell out the challenges we need to meet to ensure the sustainability of our planet, and to ensure prosperity and equity for all. To achieve these goals, the participation of the private sector is essential.

In 2015, official development assistance (ODA), at USD 132 billion, reached record levels, despite budgetary constraints in many OECD countries. Yet in recent years, only 30% of total ODA has been for the least developed countries, the lowest share since 2006. We need financial resources far beyond today's ODA to move from billions to the trillions required to finance the global goals.

It is fundamental to ensure that public funds are spent in a smart and strategic manner to cover the increasingly complex demands of sustainable global development, and this includes using them to mobilise private finance.

More must be done on all these fronts. Success in reaching the global goals will depend not only on the quantity of funding that is made available. More than ever, better investments are needed. The private sector can be a powerful actor in promoting sustainable development in ways that go far beyond funding. Companies provide jobs, infrastructure, innovation and social services, among others. Development co-operation can help unlock the potential of such investment. Sound public policies and good governance across the board play a crucial role in shaping the quality of investment. This includes efforts to promote responsible business conduct, high-quality jobs and environmental sustainability, for example.

The *Development Co-operation Report 2016: The Sustainable Development Goals as Business Opportunities* draws on OECD expertise, experience and policy work to explore numerous ways of helping to make the SDGs reality. It examines the potential and challenges of social impact investment, blended finance and foreign direct investment. It also provides guidance on responsible business conduct and the mobilisation and measurement of private finance to achieve the SDGs. Finally, the report shares practical examples of how business is promoting sustainable development and inclusive growth in developing countries.

To go from billions to trillions in sustainable development finance, and to do so in a way that is respectful of the environment and of human needs and rights, will require inputs from across the board – from public and private sources, and from all countries and communities. The OECD will continue to play its role in this endeavour. This *Development Co-operation Report 2016* illustrates our commitment to doing so.



Angel Gurría  
*OECD Secretary-General*

## PREFACE

I am happy to encourage a wide readership for this volume, but I must note at the outset that its very title conveys ambiguity. Describing the new Sustainable Development Goals as “business opportunities” for those pursuing profit could be interpreted by some readers as encouraging the exploitation of the world’s most severe problems for personal gain. No one involved in this project intends to encourage exploitation; but this ambiguity is inherent, not only in the title of this volume, but more widely in the growing enthusiasm for private sector solutions to grave public problems. This ambiguity is worth addressing head on.

Personally, I have made it a principle to pursue my self-interest in business and to be guided by the public interest as a philanthropist and public citizen. It is my belief that if my self-interest is in conflict with the public interest, the latter ought to prevail. And so I do not hesitate to advocate policies that are in conflict with my business interests.

The Sustainable Development Goals (SDGs) represent an unprecedented articulation of the “public interest” at a global scale for all the peoples of the world. As such they force us to ask ourselves difficult questions about how we do business. Yes, there are countless business opportunities that could advance the self-interest of thousands of entrepreneurs and investors while also advancing the SDGs. By the same token, however, the SDGs also help us identify where we have an opportunity to better regulate and restrain the pursuit of personal profit through public policy, international agreements and stricter business norms. The articulation of the public interest in the SDGs can, in short, reveal both where self-interest aligns with the greater good, and where they conflict. The need here is to encourage private business activity where they align, and better regulate it where they conflict.

These are the true “business opportunities” that the SDGs offer. They invite us to address the question: how can those of us in business contribute to the achievement of these goals as investors, entrepreneurs and executives? All of us share the need for healthy and stable economies, fair and well-governed societies, well-regulated value chains in trade, mitigation of climate change, world peace, and respect for human rights. This volume explores how the private sector can be a powerful actor in promoting the achievement of such common aims, and where it must exercise restraint. In this respect, the public good should be both the limiting factor in encouraging those who act in their own self-interest, and the goal for those who seek to act in the collective interest of society. We must avoid not only the obvious scourge of corruption in this effort, but the danger of exploitation. We must seek to not only do more good, but also ask ourselves where we can do less harm.

Given the scale of the problems the world is facing, and the unprecedented levels of global inequality, these questions are not only important, but urgent. Business must play its part. Governments and multilateral institutions who steward resources on behalf of us all, must play their part. Regulators at local, national and international levels must play their part. Collectively we can mobilise financial resources at historic scales to implement a wide range of development efforts. But sustainable global progress cannot be achieved through monetary means and investment alone. It is vital that capacity is strengthened in individuals and in the institutions of civil society to play a vigorous part in carrying out such a transformation, including the thoughtful regulation of business activity.

I encourage anyone interested in development or business to read this report and to take to heart the challenges, and the opportunities, that it explores.



George Soros

## EDITORIAL

by Erik Solheim, Chair of the OECD Development Assistance Committee

**I**n 2015, when world leaders adopted the Sustainable Development Goals, we committed to the most inclusive, diverse and comprehensive and ambitious development agenda ever. By doing so, we acknowledged that development challenges are global challenges. The new global goals represent a universal agenda, applying equally to all countries in the world.

The year 2015 was the best in history for many people. We are taller, and better nourished and educated than ever. We live longer. There is less violence than at any other point in history. Over the past decades many countries, spearheaded by the Asian “miracles” – such as in Korea, the People’s Republic of China and Singapore – have had enormous development success. By believing in the market and the private sector, these nations have experienced strong economic growth and several hundred million people have been brought out of poverty. The debate within the development community on the importance of markets and the private sector is a thing of the past. The debate is won.

But based on astonishing success, we need to bring everyone on board. The 2030 aim is to eradicate extreme poverty, but to do it in an environmentally sustainable way. Luckily – for the first time in history – humanity has the capacity, knowledge and resources needed to achieve this. Never before was this the case. The leaders of the past have never set such goals, nor did they have at their disposal the policies and the resources to reach them. The Sustainable Development Goals cover the economic, social and environmental dimensions of life. And they emphasise that increased co-operation between the public and the private sector is vital to reach them.

Implementing the new Sustainable Development Goals will require all hands on deck, working in concert to build on each other’s strengths. In this report we look at the opportunities for businesses both to make money and do good for people and the environment. We must go beyond traditional thinking that business revenues depend on destroying the environment. Smart investment in sustainable development is not charity – it is good business and it opens up opportunities.

In developing countries, small and medium enterprises are considered the engine of growth. In Asia, they make up to 98% of all enterprises and employ 66% of the workforce. Especially for green growth, small and medium businesses can play an important role by acting as suppliers of and investors in affordable and local green technologies. For instance, in Africa several businesses offer “pay-as-you-go” solar energy to low-income households that do not have access to central resources.

Over the next 15 years, billions of dollars will be invested annually by the public and private sectors. We need to make sure that this money creates jobs, boosts productive capacity and enables local firms to access new international markets in a sustainable way. What’s more, these flows are often coupled with transfer of technology that has positive and long-term effects.

This report cites the results of interviews with executives from 40 companies that had performed above the industry average in terms of both financial and sustainability-performance metrics in various sectors – including oil and mining, gym shoes, soup, cosmetics and telecommunications. The research demonstrates that sustainable action can contribute to increased efficiency and profits, gains above and beyond their social and environmental benefits. The returns on capital include reduced risk, market and portfolio diversification, increased revenue, reduced costs, and improved products.

We need to take these experiences further. The 17 Sustainable Development Goals represent a pipeline of sustainable investment opportunities for responsible business. But fulfilling that potential will mean ensuring that business does good – for people and the planet – while doing well economically.

Although some countries are making progress, no country has achieved environmental sustainability. The worse things get, the more difficult it will be to find solutions. We need to take action now. There is more bang for every buck when profits are combined with bringing people out of poverty, improving environmental sustainability and ensuring gender equality. For example:

- Ethiopia's growth has benefited the poor and the country aims to become a middle-income country without increasing its carbon emissions.
- Brazil has reduced poverty and equality while cutting deforestation by 80%.
- Costa Rica has revolutionised conservation by providing cash payments for people who maintain natural resources. Forests now cover more than 50% of the country's land, compared to 21% in the 1980s.
- The Indonesian rainforests, the largest in Asia, are doing much better than recently. Deforestation decreased for the first time in 2013 and the positive trend is continuing. The main palm oil companies have made a no new deforestation pledge.

Poverty reduction can be green and fair. But we need to remember that neither developing nor developed countries will sacrifice development for the environment. But development comes to a stop if natural resources are exhausted, water continues to be polluted and soils are degraded beyond manageable levels.

For those who do not benefit from all the success stories, it is necessary to identify and replicate good policies that actually improve lives. Official development assistance is important for the least developed nations and countries in conflict. Aid remains at a record high at USD 132 billion in 2015, but private investments are more than 100 times greater than aid and more important for poverty reduction and economic growth.

In order to make the most of private investments for sustainable development, it is fundamental to know more about how much is being mobilised from the private sector as a result of public sector interventions. In this report the OECD describes how it monitors and measures the amounts being invested. The European Union found in 2014 that by blending public and private investments, EU countries used EUR 2 billion in public finance grants to mobilise around EUR 40 billion for things like constructing electricity networks, financing major road projects, and building water and sanitation infrastructure in recipient countries. We should be inspired by this example to do more. Business prospers when society prospers.

Each and every decision we take today related to private investment will have historic implications. We must learn that more and better investment is possible. Balancing economic growth with environmental sustainability is not only feasible – it is fundamental.

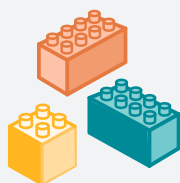
In this report we look at the opportunities the new Sustainable Development Goals offer for doing good business, for profits, people and the planet. It offers guidelines and practical examples of how all sectors of society can work together to deliver the 2030 Agenda. Investing in sustainable development is not charity, it is smart. We just need to go ahead and do it.

## INVESTING IN PEOPLE, THE PLANET AND PROSPERITY: FIVE PATHWAYS

*Investment in sustainable development is smart investment. Companies that introduce sustainability into their business models are profitable and successful, with positive returns on capital in terms of reduced risks, diversification of markets and portfolios, increased revenue, reduced costs, and higher value products. These five pathways can help to ensure the quantity and quality of investment for implementing the Sustainable Development Goals.*



**Foreign direct investment** creates new jobs, boosts productivity and technology transfers, while enabling local firms to access new markets in developing and emerging economies.



**Blended finance** offers huge, largely untapped potential for public, philanthropic and private actors to improve the scale of investment in developing countries.



**Monitoring and measuring private funds mobilised** enhances transparency, improves financing strategies and good practices.



**Social impact investment** empowers the poorest to lead more productive lives, while bringing effectiveness, innovation and scale to sustainable business.



**Responsible business conduct** enhances business and development results, matching investment quantity with business quality to produce social, economic and environmental benefits.



People



Planet



Prosperity



## EXECUTIVE SUMMARY

The year 2015 was a decisive year for sustainable development. With the adoption of the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs), the world now has the most ambitious, diverse and universal development roadmap in history. The Addis Ababa Action Agenda stressed the importance of using public investment instruments and vehicles to leverage the unprecedented levels of private finance required to fund this agenda. And the United Nations Climate Change Conference (COP21) in Paris confirmed the challenges of managing climate change – and an unprecedented global commitment to do so.

These milestones have changed the face of development forever. To meet the challenges they represent, the global community needs to move well beyond the approximately USD 132 billion provided as official development assistance (ODA) in 2015. Investment needs for the SDGs in developing countries are estimated to be in the order of USD 3.3 to 4.5 trillion per year. Limiting the global temperature increase to 1.5°C above pre-industrial levels will require concerted action by all. Developed countries have committed to mobilising USD 100 billion per year by 2020 to support developing country efforts.

At the same time, the new goals make it clear that the challenges of sustainable development are no longer merely a question of what is happening in poor countries – they are challenges for us all. To tackle these global and interlinked concerns, a diverse array of stakeholders will need to join forces – with the private sector taking a pivotal position. In fact, achieving each and every one of the 17 SDGs hinges on private sector involvement.

## INVESTMENT IN SUSTAINABLE DEVELOPMENT IS SMART INVESTMENT

The business case for the SDGs is strong. This *Development Co-operation Report 2016* makes it clear that investing in sustainable development is smart investment. Companies that introduce sustainability into their business models are profitable and successful, with positive returns on capital in terms of reduced risk, diversification of markets and portfolios, increased revenue, reduced costs and improved value of products. Increasingly, investments in developing countries – and even in the least developed countries – are seen as business opportunities, despite the risks involved. On the other hand, companies provide jobs, infrastructure, innovation and social services, among others.

This report explores five pathways for realising the enormous potential of the private sector as a partner for delivering on the SDGs, providing the quantity and quality of investment needed to support sustainable development.

### Five pathways to the Sustainable Development Goals:

1. **Foreign direct investment** is by far the greatest source of international capital flows to developing countries and is considered one of the most development-friendly sources of private investment. It can create jobs, boost productive capacity, enable local firms to access new international markets and bring with it transfers of technology that can have positive long-term effects. Many are expecting these flows to play a major role in filling the SDG financing gap. According to the United Nations Conference on Trade and Development (UNCTAD), a concerted effort by the international community could help to quadruple foreign direct investment by 2030, especially in structurally weak countries. There is, however, some cause for concern: global capital flows have started to decelerate, while economic vulnerabilities are growing. Chapter 2 warns that a slowdown, or even reversal, in foreign direct investment could have serious negative ramifications for both developing and international investment markets. Framing development strategies around the complementary and mutually reinforcing qualities of private investment and development co-operation can help to offset the cyclic, changing nature of foreign direct investment trends. Tools such as the OECD Policy Framework for Investment can help countries to improve business climates, creating conditions that increase investment while maximising its economic and social returns.



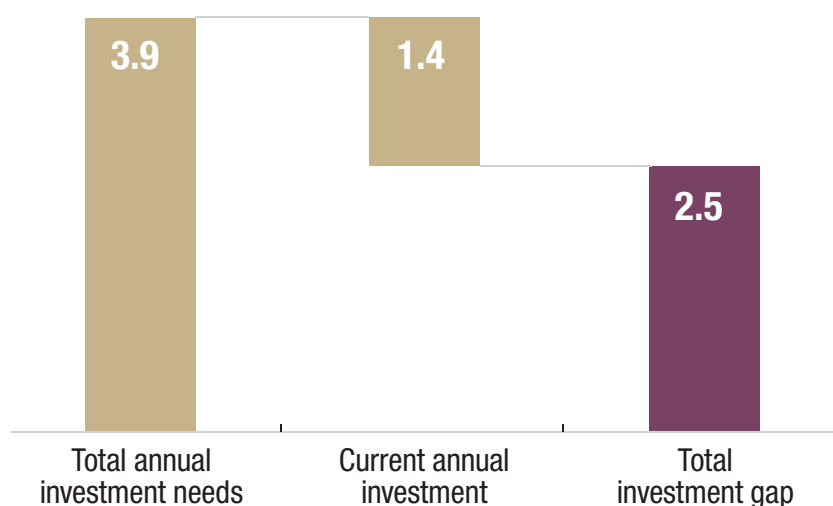
2. New investment models can help mobilise financial resources to meet the challenges of implementing the SDGs. **Blended finance** – using public funds strategically to provide, for instance, de-risking instruments for private investors – can dramatically improve the scale of investment in development. Blended finance offers huge, largely untapped potential for public, philanthropic and private actors to work together to dramatically improve the scale of investment in developing countries. Its potential lies in its ability to remove bottlenecks that prevent private investors from targeting sectors and countries that urgently need additional investment. To accelerate social and economic progress towards the SDGs, blended finance needs to be scaled up, but in a systematic way that avoids certain risks. Chapter 3 takes a close look at the use of development and philanthropic finance to unlock resources through blending mechanisms that have the potential to transform economies, societies and lives. It notes that while the concept of blending public and private finance in the context of development co-operation is nothing new, it has played a marginal role so far.
3. Today's development financing packages can be complex, with multiple actors involved. Chapter 4 of this report describes work underway to **monitor and measure the mobilisation effect of public sector interventions on private investment**. This is expected to be an important element of the new “total official support for sustainable development” (TOSSD) framework, which will provide important information about financing strategies and best practices, helping to attract development finance to support the SDGs. A recent OECD survey has confirmed the feasibility of collecting and measuring data on the direct mobilisation effect of guarantees, syndicated loans and shares in collective investment vehicles; work is underway to develop similar methodologies for other financial instruments. Much work still remains to be done, however, in particular to find ways of measuring the indirect – or “catalytic” – effect of public interventions on the achievement of the global goals and in tackling climate change. The OECD is co-ordinating its efforts with work underway in other fora to ensure coherence.
4. If development is to be truly sustainable and inclusive it must benefit all citizens – in particular the poorest, most marginalised and vulnerable. This means looking at business through a new lens, focusing on leaving no one behind and on empowering people to lead fuller, more productive lives. **Social impact investment** has evolved over the past decade as an innovative approach to increasing the benefits of business for the world's poorest and most marginalised populations, as described in Chapter 5. Enterprises that generate measurable social as well as financial returns can bring effectiveness, innovation, accountability and scale to development efforts. Public funds can be used to strengthen and promote this type of investment by sharing risks, and also by supporting a sound business environment, particularly in the least developed countries and in countries emerging from conflict. These new business models can complement existing ones, especially in areas not traditionally popular with business – but essential to the poor – such as education, health and social services.
5. For business to do good while doing no harm, the private sector must be held to the same international transparency and accountability standards as all other actors. Chapter 6 looks at the principles and standards of **responsible business conduct** and how following them can give responsible businesses an advantage that benefits their bottom lines, while at the same time producing positive results for people and the planet. Business and government have complementary roles to play in implementing, promoting and enabling responsible business conduct. The OECD Guidelines for Multinational Enterprises help to optimise their contributions, supporting the development of responsible and accountable business practice to ensure that investment quantity is matched by business quality to produce social, economic and environmental benefits. These guidelines, can enable business to make an important contribution to the SDGs in countries worldwide, helping to raise the standard of living through the creation of fair and equal jobs, the development of skills and technology, and more equitable distribution of wealth.

By following these pathways and working together, investors, governments, philanthropy, institutions and civil society can make the most of converging interests and potential to unlock the resources needed. This approach can provide accountability and transparency, at the same time meeting business needs and expectations. And it can do so while ensuring that no one is left behind and that the planet's resources are conserved and even renewed. This report provides examples of how the OECD is stimulating dialogue and creating opportunities for co-operation among the many stakeholders involved in sustainable development. It also presents practical cases that illustrate how businesses are already working to promote sustainable development and inclusive growth in developing countries.

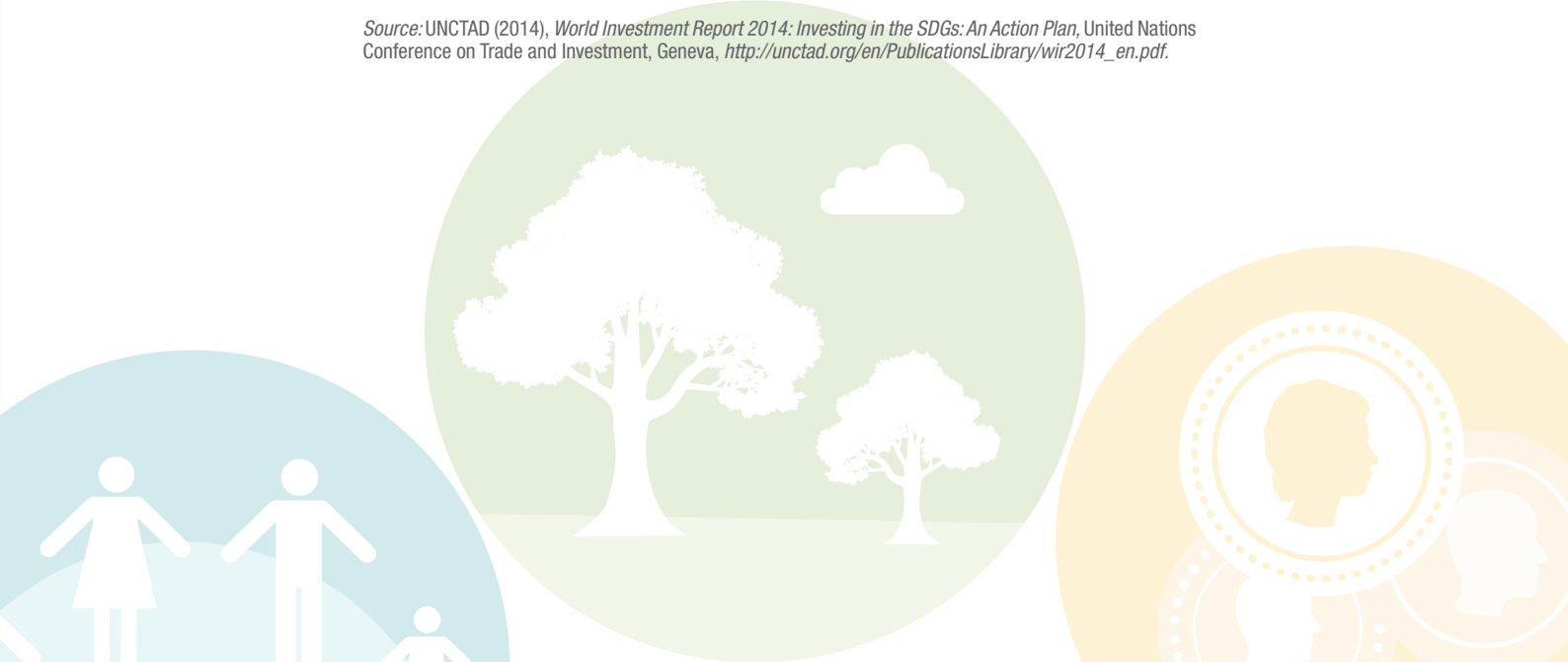
Many development agencies and bilateral and multilateral development finance institutions are already engaging in new ways of sharing risks and reducing costs so as to leverage private finance for sustainable development. Providers of development co-operation generally agree that mobilising private resources for sustainable development needs to be “at the core of a modernised, reinvented role for ODA”. In much the same way, in this era hallmarked by globalisation, rapid technological advancement and competition for precious resources, it is important to remember that business thrives when the world thrives. Doing good by doing well needs to be the new mantra of business for sustainable development.

### Estimated investment gap in key SDG sectors, 2015-30

Trillions of USD, annual average



Source: UNCTAD (2014), *World Investment Report 2014: Investing in the SDGs: An Action Plan*, United Nations Conference on Trade and Investment, Geneva, [http://unctad.org/en/PublicationsLibrary/wir2014\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf).



# CHAPTER 1. OVERVIEW: PUTTING SUSTAINABLE DEVELOPMENT AT THE CORE OF BUSINESS MODELS

by **Christine Graves** and **Hildegard Lingnau**, Development Co-operation Directorate, OECD

Achieving the Sustainable Development Goals will require funding and co-operation on an unprecedented scale, with the private sector holding a pivotal position. This chapter asks how international co-operation can help to put sustainable development at the core of business models. It looks at why these efforts must focus on the quality as well as the quantity of private sector contributions, responding to the challenges laid out at the beginning of the chapter: making sustainability “business as usual”; creating conditions for good investment; building global change from the bottom up; ensuring credibility, accountability and transparency; and creating new multi-stakeholder partnerships.

## TEN KEY RECOMMENDATIONS FOR PUTTING SUSTAINABLE DEVELOPMENT AT THE CORE OF BUSINESS MODELS

1. Clarify the roles of each of the key actors.
2. Agree on common principles, standards, definitions, scope and methodology.
3. Align financial and development goals.
4. Share risks and innovate to ensure public goods for the poorest and most vulnerable.
5. Create global and local enabling environments, ensuring coherence of policies across sectors and countries.
6. Cultivate new business models and promote research on what does and doesn't work.
7. Encourage responsible citizenship to provide checks and balances.
8. Increase transparency and accountability by monitoring and reporting against international standards and indicators.
9. Establish platforms to enhance sharing of knowledge and technical know-how.
10. Build evidence on impacts, outcomes, successes and failures.

This chapter also includes the following opinion pieces:

*How can international co-operation help to put sustainable development at the core of business models?*

by **Amina Mohammed**, Minister of Environment, Federal Republic of Nigeria and former Special Advisor to the UN Secretary-General on Post-2015 Development Planning

*Business can fuel the clean technologies that are needed to achieve global goals*

by **Jim Balsillie**, Founder and Chair of the Board of Directors, Centre for International Governance Innovation

*The right to food is about much more than boosting supply*

by **Olivier De Schutter**, Co-Chair, International Panel of Experts on Sustainable Food Systems (IPES-Food)

*Sustainable development challenges are business challenges*

by **Louise Kantrow**, International Chamber of Commerce Permanent Representative to the United Nations

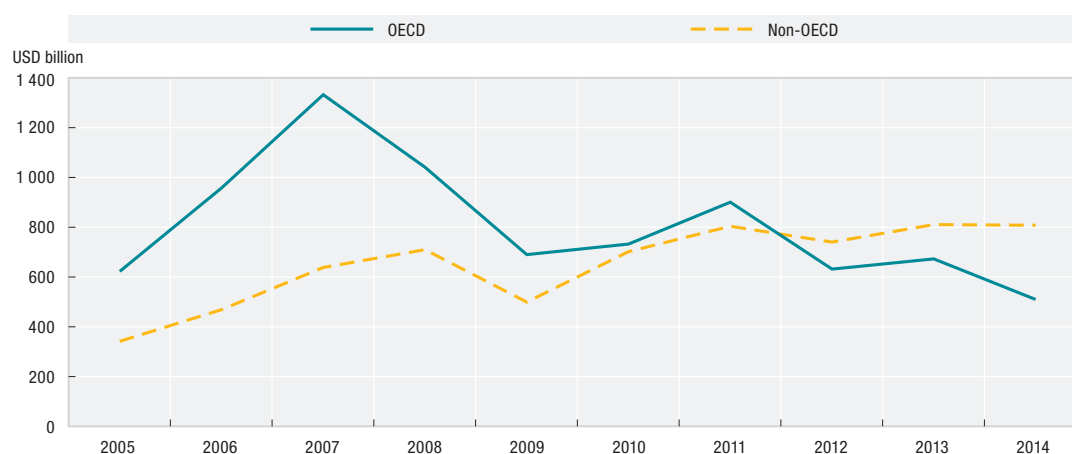
# Part I: The SDGs as sustainable business opportunities and five approaches to make it happen

## CHAPTER 2. TRENDS IN FOREIGN DIRECT INVESTMENT AND THEIR IMPLICATIONS FOR DEVELOPMENT

by **Michael Gestrin**, Directorate for Financial and Enterprise Affairs, OECD

Foreign direct investment can play an important role in financing development, with multinational enterprises also providing employment, technology transfer and access to international markets. Between 2005 and 2014, foreign direct investment flows to non-OECD countries more than doubled in absolute terms since 2012, these countries receive more than 50% of the global total, compared to 35% in 2005. Recently, however, some types of international investment in emerging and developing economies have started to decline. There are important warning signs that these investment flows could experience a sharp slowdown over the coming years (or could even reverse in some cases). This chapter examines these trends, the main factors shaping them and their implications.

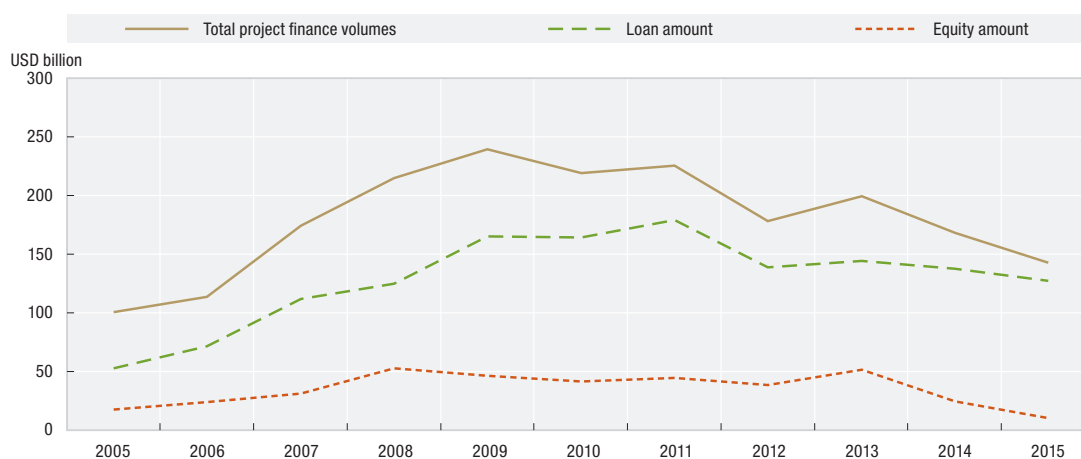
### Foreign direct investment inflows by broad country groupings



Source: OECD (2016), OECD International Direct Investment Statistics (database), <http://dx.doi.org/10.1787/bmd4-data-en>.

StatLink  <http://dx.doi.org/10.1787/888933357568>

### Total project finance volumes in developing and emerging markets



Source: Dealogic (2015), Dealogic ProjectWare (database), [www.dealogic.com](http://www.dealogic.com).

StatLink  <http://dx.doi.org/10.1787/888933357611>

## KEY MESSAGES ON FOREIGN DIRECT INVESTMENT

- While foreign direct investment in developing and emerging markets is expected to follow an overall increasing trend over the long term, in the immediate future it could experience a sharp slowdown, with important ramifications for both the emerging markets and for international investment markets in general.
- Developing and emerging markets may begin to take a more cautious, protectionist approach towards foreign capital.
- The decline in public-private partnerships in developing countries, as well as in project financing in the least developed countries, are important warning signals given the particular needs of these countries for development assistance, especially for infrastructure.
- A slowdown could undermine political support for the still uncompleted structural reform agenda that has underpinned increasing flows of investment to emerging markets.
- Given the complex dynamics underpinning the relationships between international investment and global value chains, the effects of a slowdown on these value chains – and on development in general – are difficult to determine.
- A shift in overall trends in foreign direct investment – from relative stability to increasing fluctuation – would have important policy implications for the developing and emerging markets, which are increasingly reliant on foreign direct investment to support their development objectives.
- Developing countries and providers of development assistance can address the cyclic, changing nature of foreign direct investment trends by framing development strategies around the complementary and mutually reinforcing roles of private investment and official development assistance.

This chapter also includes the following opinion pieces:

*How can foreign direct investment fulfil its development potential?*

by **Karl P. Sauvant**, Resident Senior Fellow, Columbia Center on Sustainable Investment, Columbia University

*African countries need institutions that will direct investment to where it is needed most*

by **Andrew Chipwende**, CEO of the Industrial Development Corporation, Zambia

*Pro-investment policies really matter!*

by **Shaun Donnelly**, Vice President, Investment and Financial Services, United States Council for International Business

*A new generation of policies can create a “big push” for private investment in sustainable development*

by **James Zhan**, Director of Investment and Enterprise at the United Nations Conference on Trade and Development, and Editor-in-Chief of the United Nations, World Investment Report

## CHAPTER 3. BLENDING PUBLIC AND PRIVATE FUNDS FOR SUSTAINABLE DEVELOPMENT

by **Richard Samans**, Head of the Centre for the Global Agenda and Member of the Managing Board, World Economic Forum

Blended finance offers huge, largely untapped potential for public, philanthropic and private actors to work together to dramatically improve the scale of investment in developing countries. Its potential lies in its ability to remove many bottlenecks that prevent private investors from targeting the sectors and countries that urgently need additional investment. To accelerate social and economic progress towards the Sustainable Development Goals, blended finance needs to be scaled up, but in a systematic way that avoids certain risks. This chapter outlines how to underpin international development efforts using blended finance solutions that have the potential to transform economies, societies and lives, concluding with a set of key recommendations.

### Blended finance instruments

INSTRUMENT	DESCRIPTION
Grants	A financial award with no expected repayment or compensation over a fixed period of time.
Guarantees	Protection from various forms of risk intended against capital losses for investors.
Debt	Money lent for repayment at a later date, usually with interest: <ul style="list-style-type: none"><li>• <i>Market rate debt</i>, when rates and terms are determined based on capital market prices and tenors, but can be subordinate to senior debt (i.e. mezzanine).</li><li>• <i>Flexible (concessional) debt</i>, with favourable terms or rates for the borrower relative to market pricing.</li></ul>
Equity	Ownership in a company – value determined at time of investment: <ul style="list-style-type: none"><li>• <i>Junior equity</i>, accepts higher risk for lower financial returns in exchange for social, environmental and economic impact, typically in a position to take the first losses.</li></ul>

Source: OECD/WEF (2015), “Blended finance Vol. 1: A primer for development finance and philanthropic funders”, September, OECD, Paris and World Economic Forum, Geneva, [www3.weforum.org/docs/WEF\\_Blended\\_Finance\\_A\\_Primer\\_Development\\_Finance\\_Philanthropic\\_Funders.pdf](http://www3.weforum.org/docs/WEF_Blended_Finance_A_Primer_Development_Finance_Philanthropic_Funders.pdf).



## KEY RECOMMENDATIONS FOR SCALING UP BLENDED FINANCE

- Recognise private sector incentives and needs and balance financial incentives with development objectives.
- Use a common blended finance lexicon to facilitate relationship building with the private sector.
- Develop relationships among funders and investors with complementary development and investment goals.
- Develop unified platforms to bring together development funders and private investors.
- Ensure clarity on the roles of development funders and private actors.
- Identify standardised, scalable investment structures and products.
- Make sure appropriate resources are in place.
- Take care not to crowd out private financing and promote market distortion.
- Set reasonable impact targets; standardise metrics and measures of impact across sectors.
- Analyse the effectiveness of different blended finance models and aggregate best practices; communicate these insights to a wide audience.
- Take a structured approach to public investment using innovative approaches to systematise and scale up successful initiatives.
- Manage demonstration effects so as not to discourage private investors from further involvement in a given sector or country.

This chapter also includes the following opinion pieces:

*Can blended finance increase the scale and sustainability of finance for development?*

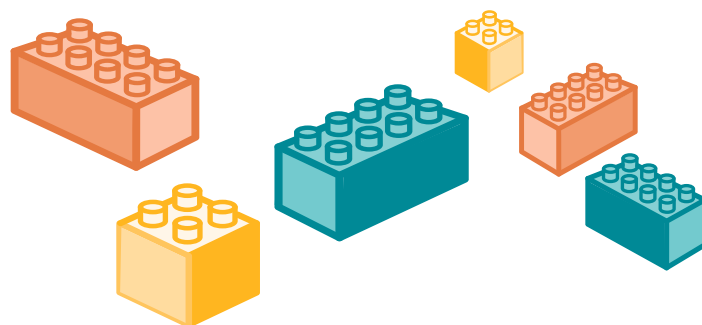
by **Gavin E.R. Wilson**, CEO of the IFC Asset Management Company

*“Doing good while doing well” is the mantra for SDG success*

by **Jay Collins**, Vice Chairman, Corporate and Investment Banking, Citigroup

*Well-structured public finance can align profit and sustainability aspirations*

by **Li Yong**, Director General, United Nations Industrial Development Organization





## CHAPTER 4. MEASURING PRIVATE FINANCE MOBILISED FOR SUSTAINABLE DEVELOPMENT

by **Julia Benn**, **Cécile Sangaré** and **Suzanne Steensen**, Development Co-operation Directorate, OECD

The OECD is working on ways to monitor and measure private resources mobilised through public sector interventions. This is of great importance in the context of the Sustainable Development Goals: improving the tracking of these resources will increase transparency while also encouraging their use to mobilise further resources. This chapter provides an overview of the work underway and outlines some of the methodological challenges involved. It also presents the findings of a recent survey that focused on private sector finance mobilised through guarantees, syndicated loans and shares in collective investment vehicles between 2012 and 2014. It concludes with a set of key recommendations.

### KEY RECOMMENDATIONS FOR MEASURING MOBILISED PRIVATE FINANCE

- Clarify and clearly define the scope of what is being measured when developing standards for measuring mobilisation.
- Harmonise, as much as possible, diverse approaches for measuring mobilisation (including those being developed by the climate community), keeping in mind the need to avoid double counting at the international level.
- Continue methodological work to cover a broader range of instruments.
- Engage widely with other actors and stakeholders to ensure that the methodologies proposed are realistic and fair.
- Whenever possible, take steps to make the data readily available in internal systems for regular reporting.
- Agree on the definitions, scope and methodology for measuring direct mobilisation and work towards approaches to capture the “indirect” – or “catalytic” – effect of public interventions.

This chapter also includes the following opinion pieces:

*How do we measure the mobilisation of private finance?*

by **Jeff Chelsky**, Program Manager, Strategy, Risk and Results, Operations Policy and Country Services, World Bank

*Engaging the private sector in sustainable development finance involves commitment, careful analysis and alignment of objectives*

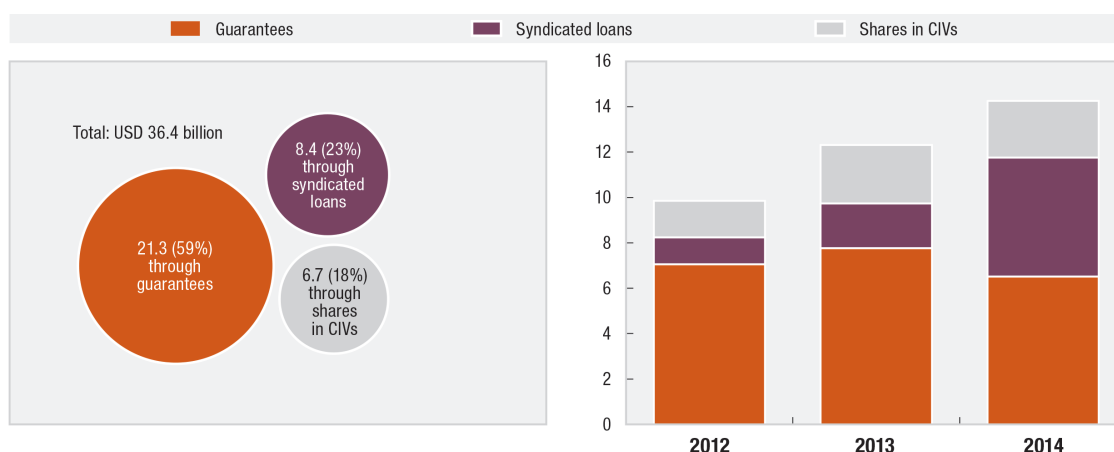
by **Pierre Jacquet**, President, Global Development Network

*Innovative mechanisms can help to mobilise domestic finance*

by **Philippe Orliange**, Director for Strategy, Partnerships and Communication, Agence Française de Développement

## Private finance mobilised per instrument and year, 2012-14

Through guarantees, syndicated loans and shares in collective investment vehicles,  
billions USD, current prices



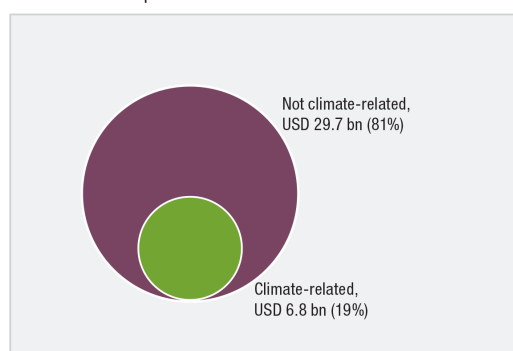
Note: CIVs = collective investment vehicles.

Source: Benn, J. et al. (2016), "Amounts mobilised from the private sector by official development finance interventions: Guarantees, syndicated loans and shares in collective investment vehicles", *OECD Development Co-operation Working Papers*, No. 26, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jm3xh459n37-en>.

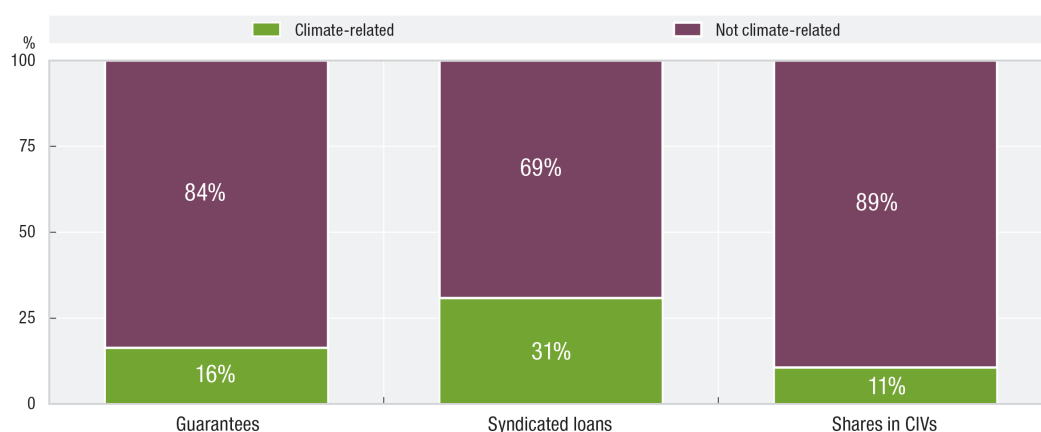
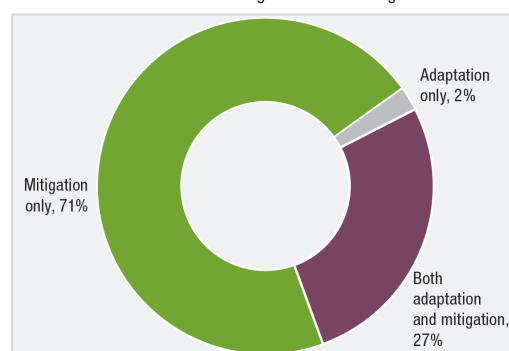
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## Climate-related private finance mobilised, 2012-14

19% of total private finance mobilised had a climate focus...



... most of which targeted climate mitigation



Notes: "Not climate-related" includes amounts reported as not climate-related and amounts for which climate relevance was not reported. CIVs = collective investment vehicles.

Source: Benn, J. et al. (2016), "Amounts mobilised from the private sector by official development finance interventions: Guarantees, syndicated loans and shares in collective investment vehicles", *OECD Development Co-operation Working Papers*, No. 26, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jm3xh459n37-en>.

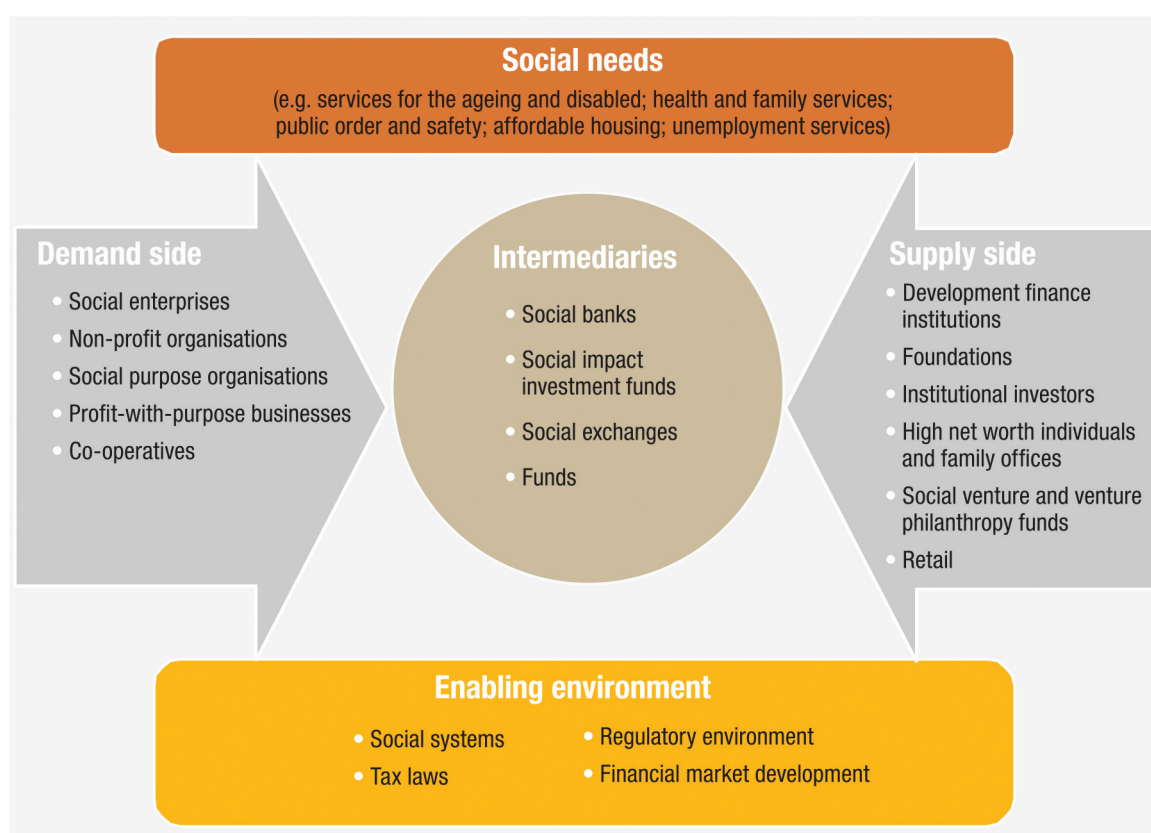
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## CHAPTER 5. INVESTING FOR SOCIAL IMPACT IN DEVELOPING COUNTRIES

by **Karen E. Wilson**, Development Co-operation Directorate, OECD

Social impact investors seek social and environmental impact from their investments, in addition to financial returns. This chapter discusses the potential of social impact investment for developing countries, highlighting several examples to demonstrate how it works in practice. It examines the challenges, including assessing whether interventions have achieved their intended impact and expanding the evidence base. The public sector can promote social impact investment, for example by providing risk capital to enable the private sector to offer affordable, accessible, quality products and services to the poorest populations. The chapter makes recommendations for increasing the reach and the scale of social impact investment.

### A social impact investment market framework



Source: OECD (2015), *Social Impact Investment: Building the Evidence Base*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264233430-en>.

## KEY RECOMMENDATIONS FOR GETTING SOCIAL IMPACT INVESTMENT RIGHT

- Advance knowledge of social impact investment instruments and their applicability in the context of the 2030 Agenda, in a variety of sectors and across different country settings.
- Promote international research, data collection, case studies and the development of indicators on social impact investment.
- Increase transparency and provide the additional resources needed to build the broader enabling environment or ecosystem for impact investment; ensure that social reporting requirements are not overly burdensome for social enterprises.
- Cultivate and develop new and innovative companies and business models, including ones adapted to the needs of the bottom-of-the-pyramid populations.
- Develop local entrepreneurial talent and a pipeline of investment-ready project proposals and facilitate the roll-out of pilots worldwide.
- Build an evidence base on the impacts, outcomes, successes and failures of social impact investment in ways that are comparable across countries.
- Align incentives for social and financial goals, and help service providers develop their capacity to measure social outcomes.
- Use new approaches to measurement, such as the TOSSD framework, to capture and evaluate the full spectrum of financial instruments and sources.
- Use public funds to:
  - » strengthen the overall governance framework to ensure a sound business environment in developing countries, in particular in the least developed countries and in countries emerging from conflict
  - » leverage private funds by providing incentives and/or helping to reduce risks via guarantees or early-stage grants or investment
  - » help to develop the social impact investment ecosystem to ensure a well-functioning market
  - » establish platforms to exchange knowledge and share experiences among development actors and the social impact investment sector.

### **This chapter also includes the following opinion pieces:**

*Can social impact investment serve the “bottom of the pyramid”?*

by **Julie Sunderland**, Director of Program-Related Investments, Bill and Melinda Gates Foundation

*The public sector can do much to promote social impact investment in developing countries*

by **Manuel Sager**, Director-General of the Swiss Agency for Development and Cooperation

*The capacity of social impact investors to transform lives will depend on their ability to innovate*

by **Sonal Shah**, Professor of Practice and founding Executive Director of the Beeck Center for Social Impact & Innovation, Georgetown University

## CHAPTER 6. PROMOTING SUSTAINABLE DEVELOPMENT THROUGH RESPONSIBLE BUSINESS CONDUCT

by **Tihana Bule** and **Cristina Tebar Less**, Directorate for Financial and Enterprise Affairs, OECD

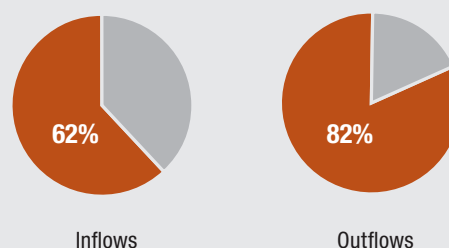
Investment can help raise standards of living through job creation, skills and technology development, and distribution of wealth. Achieving these impacts, however, depends on the quality of the investment as much as the quantity. Irresponsible business practices not only erode the investment and business environment; they can result in economic loss, environmental degradation, poor labour conditions, and in the most serious of cases, injury and loss of human life. Responsible business conduct principles and standards emphasise the integration of environmental and social concerns within core business operations. This chapter discusses how responsible business conduct can directly contribute to achieving the Sustainable Development Goals, while also being good for business. It examines the main global guidelines, principles and standards, as well as the role of governments.

### Who adheres to the *OECD Guidelines for Multinational Enterprises*

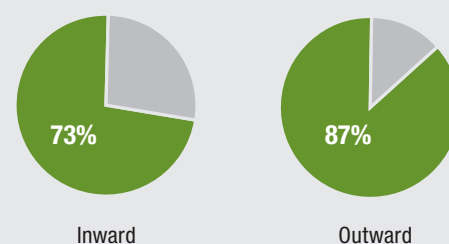
#### Adhering countries

Argentina	Korea
Australia	Latvia
Austria	Lithuania
Belgium	Luxembourg
Brazil	Mexico
Canada	Morocco
Chile	Netherlands
Colombia	New Zealand
Costa Rica	Norway
Czech Republic	Peru
Denmark	Poland
Egypt	Portugal
Estonia	Romania
Finland	Slovak Republic
France	Slovenia
Germany	Spain
Greece	Sweden
Hungary	Switzerland
Iceland	Tunisia
Ireland	Turkey
Israel	United Kingdom
Italy	United States
Japan	European Union (Observer)
Jordan	

#### Adhering countries' share of global foreign direct investment flows 2007-13



#### Adhering countries' share of global foreign direct investment stock 2007-12



Sources: OECD (2014), "OECD Guidelines for Multinational Enterprises: Responsible business conduct matters", OECD, Paris, [http://mneguidelines.oecd.org/MNEguidelines\\_RBCmatters.pdf](http://mneguidelines.oecd.org/MNEguidelines_RBCmatters.pdf); IMF (2015), IMF Balance of Payments and International Investment Position Statistics (database), [www.imf.org/external/np/sta/bop/bop.htm](http://www.imf.org/external/np/sta/bop/bop.htm).

## KEY MESSAGES FOR RESPONSIBLE BUSINESS CONDUCT

- Engage in dialogue on responsible business conduct.

### *Governments:*

- Identify and remove barriers to the uptake of responsible business conduct, and set clear expectations for businesses to act responsibly at home as well as abroad.
- Establish and enforce an adequate legal framework that protects the public interest and underpins responsible business conduct, and monitor business performance and compliance.
- Clearly communicate expectations regarding responsible business conduct, provide guidance on specific practices, and enable enterprises to meet these expectations, paying particular attention to the needs of businesses that may have special challenges in this respect, such as small and medium enterprises.
- Work with stakeholders in the business community, labour organisations, civil society, the general public, within the government and with other governments to create synergies and establish coherence on responsible business conduct.
- Act responsibly in the context of the government's role as an economic actor, for example, as employers, procurers and through state-owned enterprises.
- Provide recognition and demonstrate support for best practice in responsible business conduct.
- Strengthen access to remedy, including by strengthening the National Contact Point mechanism.
- Support strengthening of policy frameworks for responsible business conduct in developing economies.
- Use official development assistance in innovative ways to encourage the uptake and implementation of responsible business conduct by domestic and foreign businesses.

### *Businesses:*

- Observe the OECD Guidelines for Multinational Enterprises and the UN “Guiding Principles for Business and Human Rights”.
- Integrate responsible business conduct principles and standards throughout the supply chain.
- Carry out risk-based due diligence to identify, prevent and mitigate actual and potential adverse impacts and account for how these impacts are addressed.
- Champion responsible business conduct and help others see it as an opportunity.

This chapter also includes the following opinion pieces:

*Can smart investment make sustainable development a reality?*

by **Marco Lambertini**, Director General, WWF International

*A new corporate performance measurement framework can encourage sustainable success, for business and for society*

by **Peter Bakker**, President, World Business Council for Sustainable Development (WBCSD)

*The private sector must be held to the same transparency and accountability standards expected of others*

by **Sharan Burrow**, General Secretary, International Trade Union Confederation

## Part II: Profiles of development co-operation providers

### *Engaging the private sector in development co-operation: Learning from peers*

prepared by **Shannon Kindornay**, Adjunct Research Professor, Carleton University and **Rahul Malhotra**, Development Co-operation Directorate, OECD.

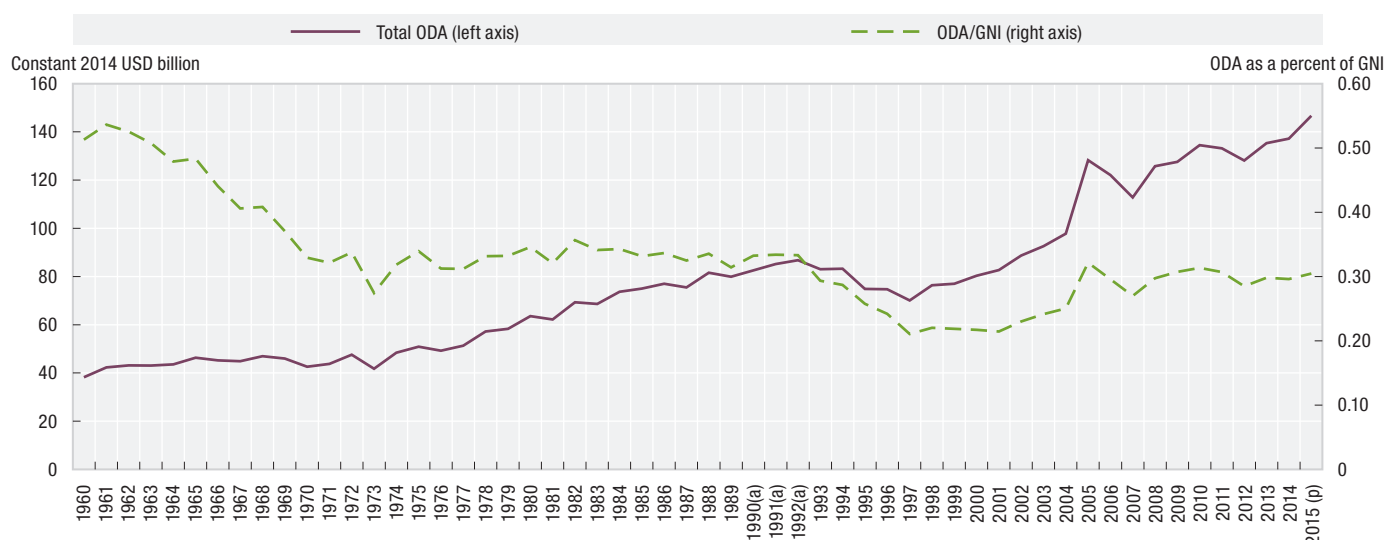
Official development assistance is increasingly being delivered with and through the private sector. Valuable lessons are emerging from these experiences. The OECD's Development Assistance Committee (DAC) has recently launched a survey and peer learning exercise with its member countries to tap into these experiences and identify good practice. Many insights are emerging already from the survey and the first three reviews – of Germany, the Netherlands and Sweden. These include the value of private sector partnerships beyond their financial contribution, and the critical importance of investing in in-house capacities and expertise to successfully develop and manage partnerships with the private sector. The final synthesis report will identify best practices and lessons to help all DAC members refine their engagements with the private sector, including appropriate tools and partnerships to leverage private sector resources and enhance development impact; and measuring and evaluating results, impact, additionality and the catalytic effect of private sector engagements.

### *Development Assistance Committee members' ODA performance in 2014 and 2015*

prepared by **Yasmin Ahmad**, Development Co-operation Directorate, OECD

According to preliminary data, in 2015 net official development assistance (ODA) flows from member countries of the Development Assistance Committee (DAC) rose by 6.9% in real terms from 2014 to reach USD 131.6 billion, representing 0.30% of gross national income (GNI). In real terms, this represents the highest level of net ODA ever achieved. Most of the increase was due to the reporting of in-donor refugee costs, but if these costs are excluded, net ODA still rose by 1.7% in real terms. It is encouraging that ODA continues to remain high and stable.

### Net official development assistance, 1960-2015



p: Preliminary data.

1. Total ODA excludes debt forgiveness of non-ODA claims in 1990, 1991 and 1992.

Source: OECD (2016), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics* (database), <http://dx.doi.org/10.1787/data-00072-en> (accessed 22 April 2016).

StatLink  <http://dx.doi.org/10.1787/888933357817>



## ***Profiles of Development Assistance Committee members***

prepared by **Ida Mc Donnell** and **Valentina Sanna**, Development Co-operation Directorate, OECD

The profiles of DAC members give key data on resources they mobilise for sustainable development, including official development assistance as well as other official flows, private flows at terms and private grants mobilised by NGOs and foundations. The profiles reflect efforts by DAC members to promote the effective use of resources for sustainable development, notably in relation to developing country ownership, focus on results, aid predictability and aid untying. Using the latest data from OECD statistics, the profiles also show the channels DAC members use to allocate their ODA, as well as how ODA is allocated by geography and sectors.

## ***Providers of development co-operation beyond the DAC: Trends and profiles***

prepared by **Willem Luijkx**, Development Co-operation Directorate, OECD

This section presents information on the volume and key features of the development co-operation provided by countries that are not members of the Development Assistance Committee (DAC). It includes 19 providers who report to the OECD on their development co-operation programmes, as well as 10 other providers that are priority partners for the DAC. For these providers, the OECD has estimated their programme volume based on official government reports, complemented by web-based research (mainly on contributions to multilateral organisations). The Bill & Melinda Gates Foundation, the only private funding entity reporting to the OECD, is also included in this section.



The *Development Co-operation Report 2016* will be released on 18 July 2016 and will be available at the following link:  
<http://oe.cd/dcr2016>

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