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

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. The chapter concludes with a set of key recommendations.

Challenge piece by Amina Mohammed, former Special Advisor to the UN Secretary-General on Post-2015 Development Planning. Opinion pieces by Jim Balsillie, Centre for International Governance Innovation; Olivier De Schutter, International Panel of Experts on Sustainable Food Systems; Louise Kantrow, International Chamber of Commerce.

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

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

The private sector has always been an essential actor in development, credited with fostering wealth, innovation and jobs – and many a time blamed for negative externalities. So in this new era, what is different about the role and the responsibilities of the private sector in achieving the Sustainable Development Goals (SDGs)?

It is different because sustainable development cannot be achieved without the active involvement of responsible businesses. The private sector will be essential in creating sustainable, productive and decent employment, economic prosperity, resilient infrastructure that underpins sustainable development, and innovations that create green growth and opportunities for all, especially the poor.

Also, it is different because the business community has been involved from the beginning in defining the new agenda for sustainable development. Their voice was heard loud and clear. A recent study reveals that 71% of businesses say they are already planning how they will engage with the SDGs and 41% say they will embed the SDGs in their strategies within five years (PwC, 2015). So they are part owners of the new framework for development.

Finally, it is different because the drivers of change within the business community are evolving. Of course, there is the moral case, which Pope Francis (2015) so persuasively put forward in his *Laudato Si'* encyclical in May 2015: respect for universal principles of human rights, dignified work, the environment and good governance. But there is also a strong business case for the SDGs. Investing in sustainable development is not charity; it is smart investment. Business thrives when the people thrive and our earth is protected for future investments.

The 17 SDGs represent a pipeline of opportunities for responsible business that will mobilise trillions in investment opportunities for "people and planet". With the right incentives, policies, regulations and monitoring, great opportunities abound for responsible businesses to make profits while at the same time protecting the environment, promoting equality and lifting people out of poverty.

It is worth noting that the business community is already transitioning from the old "do-no-harm" agenda to a drive to "do good" for people, the planet, prosperity and peace, aligning with the 2030 Agenda (SDG 16). This is where business can make the most relevant contribution to the SDGs: by transforming their strategies, procedures, standards and metrics to integrate sustainable development within the core of their missions and business models.

For this transformation to take place, however, we need to overcome a number of core challenges.

First, the challenge of scaling up. Progressive businesses are already demonstrating that companies that introduce sustainability into their business models are profitable and successful. Shareholders and consumers want and value sustainable development. But, we need to get to a tipping point where sustainability becomes "business as usual" in all markets around the globe.

Second, we need enabling regulatory frameworks to incentivise and unlock private investments for sustainable development. This is a responsibility of governments and the 2030 Agenda serves as a useful reference for their actions.

Third, global change must be built from the bottom up. Companies engage with people – workers, unions, consumers, suppliers – at the local and country levels; this is where they interact with institutions and with natural resources. It is at the local and national levels where stakeholders have the space for aligning private action with public policies, and for ensuring people are at the centre. These transformations must begin at this level if we are to sustain the gains. We need to ensure that businesses treat all workers fairly and equitably while striving to improve and incorporate technology; collaborate with and empower micro, small and medium enterprises, small agricultural producers and the informal sector – especially women.

Fourth, we need to put in place mechanisms that will ensure credibility, accountability and transparency. We need international standards for reporting that set up clear, balanced and coherent rules and incentives. Businesses will need to align their key performance indicators with sustainable development outcomes. Their social and environmental impact will need to be included in their staff's performance evaluations.

Finally, we need a new generation of young and experienced multi-stakeholder partnerships at all levels, going far beyond the traditional public-private partnerships. We need partnerships that are principled, accountable, people and planet-centred. Integrating social values, economic empowerment and environmental stewardship that is truly universal will be key to achieving the global goals for sustainable development.

These are the challenges I believe we can overcome. We have an amazing road map to address them. Let's take action and get to work!

In September 2015, the international community agreed on the most ambitious, diverse and universal development agenda that has ever been adopted: "Transforming our world: The 2030 Agenda for Sustainable Development" (UN, 2015a). The agenda sets out 17 Sustainable Development Goals (SDGs) addressing the world's most pressing economic, social and environmental challenges (Box 1.1). Their achievement will require the engagement and contribution not only of the United Nations (UN) member states, but also of a wide variety of non-state actors.

Box 1.1. **The Sustainable Development Goals**

Goal 1. End poverty in all its forms everywhere.

Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Goal 3. Ensure healthy lives and promote well-being for all at all ages.

Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Goal 5. Achieve gender equality and empower all women and girls.

Goal 6. Ensure availability and sustainable management of water and sanitation for all.

Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all.

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

Goal 10. Reduce inequality within and among countries.

Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 12. Ensure sustainable consumption and production patterns.

Goal 13. Take urgent action to combat climate change and its impacts.

Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Goal 17. Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Source: UN (2015a), "Transforming our world: The 2030 Agenda for Sustainable Development", United Nations, New York, *https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf*.

With the goals in place, discussions have turned to the means of implementing the SDGs. Private sector investment holds a pivotal place in current projections and analyses. Sachs and Schmidt-Traub highlight, in particular, the importance of private investment for agriculture and nutrition (SDG 2), health (SDG 3), education (SDG 4), water supply and sanitation (SDG 6), climate and energy (SDG 7), infrastructure (SDG 9), biodiversity and ecosystem services (SDGs 14 and 15), and technology, including a data revolution (Sachs and Schmidt-Traub, 2014). For each and every one of the goals, in fact, success hinges on private sector involvement: how can poverty be ended without inclusive economic growth? How can gender equality be achieved without fair and equal conditions in the workplace? How can cities and societies be made safe and secure without decent jobs that provide gainful employment? How can we respond to climate change without green infrastructure and technologies? How can excessive consumption and over-fishing be resolved if the private sector does not come on board? And how can there be a true global partnership without the participation of all actors?

Nonetheless, more investment will only help if it meets standards that ensure that it is responsible, that it combats corruption and that it empowers vulnerable populations. At the same time, innovations need to be brought to scale – in other words, applied and adopted widely enough to have a broad and sustained impact. In short, the ultimate goal is to generate not only *more*, but *better* investment for sustainable development.

The new, global agenda moves the development discourse from a "North-South" perspective to one of shared, global responsibility and concern. It calls for urgent, effective and inclusive measures to address climate change, inequality, insecurity and other global realities that threaten the very existence of people and the planet. It also makes it clear that without increased co-operation between the public sector – the traditional provider of social services and of development co-operation – and the private sector, sustainable development cannot be achieved. Yet, while there are numerous precedents for determining the roles of governments in development efforts, the parameters for private sector involvement are much less clear.

This report explores the enormous potential of the private sector as a partner for delivering on the SDGs. It demonstrates why, to fully exploit the potential, the focus must be on the quantity as well as the quality of private sector contributions. It illustrates how the OECD works to stimulate dialogue between the public and private sectors; to create opportunities for co-operation; and to develop standards and guidelines that can help to make the most of the potential. It provides practical examples of ways in which businesses are already working to promote sustainable development and inclusive growth in developing countries. Finally, it makes recommendations to guide private sector contributions to achieving the SDGs in five key areas: foreign direct investment, blended finance, measurement of private finance mobilisation, social impact investment and responsible business conduct.

The global goals call for mobilising all resources for sustainable development

Three key milestones in 2015 marked the new era of international co-operation.

In July 2015, the development community convened in Ethiopia for the Third International Conference on Financing for Development, anticipating the challenges of the soon-to-be-endorsed global goals and taking a hard, close look at the potential means of implementation (UN, 2015b). Participants ratified the Addis Ababa Action Agenda, which stresses the importance of using public investment structures and vehicles to leverage private finance for sustainable development far beyond existing levels (UN, 2015b).

In September 2015, the 193 member nations of the UN General Assembly adopted the 2030 Agenda for Sustainable Development, committing to "take the bold and transformative steps which are urgently needed to shift the world onto a sustainable and resilient path" (UN, 2015a).

The United Nations Climate Change Conference (COP21), in Paris in December 2015, evidenced historically unprecedented levels of commitment to managing climate change, matched by strong affirmation of the importance of working in partnership, leaving no one behind, and respecting the interlinked nature of challenges such as economic growth and climate change (Box 1.2) (UNFCCC, 2015).[1]

Box 1.2. **We Mean Business**

Businesses and investors recognise that transitioning to a low-carbon economy is the only way to secure sustainable economic growth and prosperity for all. We Mean Business – a platform to help companies find new ways of doing business to support this transition – works to amplify the business voice, catalyse bold climate action and promote smart policy frameworks.

We Mean Business harnesses the power of over 550 companies and investors representing over USD 7.8 trillion in total revenue and over USD 20.7 trillion in assets under management; it includes Business for Social Responsibility (BSR), CDP, Ceres, The B Team, The Climate Group, The Prince of Wales Corporate Leaders Group, and the World Business Council for Sustainable Development. The coalition sends a unified message to policy makers: climate-friendly business practices are favourable to prosperity for all. It prompts them to adapt policy frameworks that will enable ambitious climate action, signalling that business is already acting decisively. For example, in June 2015 We Mean Business wrote a letter to world leaders urging them to ensure that economic growth is consistent with decarbonisation (We Mean Business, 2015); the concluding notes of the G7 presidents following the 41st G7 summit that same month made this an explicit commitment.

For We Mean Business, taking leadership on climate change means taking leadership on sustainable, equitable growth. For instance, the commitment to reduce short-lived climate pollutants in operations and supply chains provides multiple benefits beyond climate health. Reducing black carbon emissions has a positive impact on local air quality, while reducing methane leakage from oil and gas production is crucial in the context of the increasing energy demand resulting from decarbonisation. The Take Action campaign enables companies to commit to one or several of ten climate actions, such as procuring 100% of electricity from renewable sources or putting a price on carbon.

As governments co-operate more and more to find collective pathways to tackle climate change and its impact on our economy, our societies and our planet, We Mean Business will continue to put forward the progressive voice of business.

For more information, see: *www.wemeanbusinesscoalition.org*.

Contributed by Emilie Prattico, Manager, Business for Social Responsibility (BSR).

Living up to these historic agreements will not only require sustained political commitment. It also calls for a level of financial resources – and of co-ordination of these resources – far beyond what is currently in place. Investment needs for the SDGs in developing countries are estimated to be in the order of USD 3.3 to 4.5 trillion every year (UNCTAD, 2014), well beyond the amounts counted as official development assistance (ODA), even at its all-time high of USD 132 billion in 2015 (OECD, 2015i). 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 (UNFCCC, 2015). The challenge will be using the billions to unlock trillions for necessary investments.

> *To meet the investment needs of the Sustainable Development Goals, the global community needs to move the discussion from "billions" in ODA to "trillions" in investments of all kinds: public and private, national and global, in both capital and capacity. (World Bank, 2015)*

In my view:
Sustainable development challenges are business challenges

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

2015 was a turning point for the whole world. The decisions governments made will affect many generations to come.

The ambitious, transformative United Nations (UN) 2030 Agenda for Sustainable Development, launched in September 2015, offers a roadmap for all stakeholders – governments, the private sector and civil society – to address the social, environmental and economic challenges facing our world. With the Sustainable Development Goals (SDGs), the global community now has the framework for expanding upon the achievements of the Millennium Development Goals (MDGs), and also for addressing the areas where they fell short.

It was time for a new approach. The global landscape has changed. Poverty now resides mostly in middle-income countries. Official development assistance (ODA), while still relevant, is clearly not enough to address the complex global challenges we face. Advances in technology have made the world smaller, but this convergence has also revealed glaring gaps among and within countries that can no longer be ignored. We have entered a new era whose hallmark is competition for land, water, food and energy. The impacts of climate change are enormous. This is why the challenges in the design of the 2030 Agenda were significantly different from the experience of the MDGs – and why their implementation makes it critical for stakeholders to work together, complementing each other's roles.

Business has much to contribute. More than ever, it is recognised that economic growth, trade, investment, entrepreneurship, innovation and sustainable job creation are fundamental for sustainable development. On average, business now provides 60% of GDP, 80% of capital flows and 90% of jobs in developing countries (OECD, 2015j).

In an historic development, the 2030 Agenda and the 17 SDGs place heavy emphasis on the important role of business. They recognise that for the 2030 Agenda to succeed in all countries at all stages of development, it will be essential for businesses of all sizes to grow and flourish in a responsible and sustainable manner. These businesses will be essential to create decent jobs and livelihoods, and to provide technical resources for the design and deployment of new solutions to the sustainable development challenges facing the international community.

But one may ask: why do the SDGs resonate with business? In my view, there are many reasons why business must take them seriously:

- The SDGs are **action oriented**, and they are **SMART**: specific, measurable, achievable, relevant and time-bound.
- **Universality** underpins the SDGs. They provide an overarching vision to eradicate poverty and an integrated approach reflecting all three dimensions of sustainable development: social inclusion; economic empowerment and environmental stewardship.
- The SDGs recognise that **the earth is finite**. Resources must be respected and managed efficiently to ensure a net positive contribution over the long term while striving to significantly reduce the negative environmental impacts, including climate change.
- The SDGs emphasise **good governance** focused on smart regulation, rule of law and well-functioning national institutions – most notably to reduce corruption and informality.
- The SDGs support institutions that **protect and promote human rights, gender equality and the empowerment of women**.
- The SDGs provide a **roadmap** through their "Means of implementation". Yet delivery of the SDGs will be adapted at the global, regional, national and local levels. Multi-stakeholder partnerships – and the recognition that business is part of the solution – will be crucial to their achievement at every level.
- The key ingredient for all this to work is **building trust** among all actors in society. This includes honest and transparent dialogue about accountability, and to find solutions where perspectives or interests differ among all stakeholders.

The International Chamber of Commerce co-ordinated business inputs during the two years of negotiations around the SDGs. It applauds the leadership of the UN on the 2030 Agenda for Sustainable Development and the launch of the SDGs. The UN has delivered to the global community a development agenda that will truly be universal and transformative, and will pave the way for new partnerships among governments, the private sector, civil society and all other actors in development. Business welcomes these new partnerships and stands ready to provide the full depth of resources, expertise and technological innovation needed for them to succeed.

Yet despite these orders of magnitude, Schmidt-Traub notes that in relative terms, global incremental investment needed to finance the achievement of the SDGs in all countries may be only 1.5-2.5% of the world's gross domestic product (GDP) (Schmidt-Traub, 2015a). While pointing to the continuing importance of public flows in low-income and lower middle-income countries, he indicates that about half of the needs in these countries can be financed through private investment (Schmidt-Traub 2015b). This said, he cautions that there is still much uncertainty around the investment needs for social protection, which represents an important gap in previous analyses.

Chapter 2 of this report reviews the potential and challenges of foreign direct investment[2] in emerging and developing economies, where it accounts for more than 40% of external development finance (UNCTAD, 2015). Foreign direct investment, by far the greatest source of international capital flows to developing countries, is considered one of the most development-friendly sources of private investment. It can create jobs, boost productive capacity and enable local firms to access new international markets. What's more, these inflows are often coupled with transfer of technology that can have positive long-term effects (OECD, 2014b). It is therefore no surprise that current research points to a strong link between foreign direct investment inflows, on the one hand, and increases in Human Development Index ratings on the other (Gohou and Soumaré, 2012). 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 (UNCTAD, 2015). Yet it is important to note that global foreign investment flows vary largely by region: only 2% goes to the least developed countries, and African countries as a whole receive a mere 5% (UNCTAD, 2015). Chapter 2 also points out that global capital flows have started to decelerate, while economic vulnerabilities are growing. 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.

Successfully implementing the SDGs also depends on how well financial contributions comply with international quality standards that safeguard and promote equality, inclusiveness and resilience. At the same time, advances made today need to be sustained and shared widely in the future. As Amina Mohamed notes in the challenge piece that introduces this chapter, debate about private sector involvement in development to date has mainly focused on avoiding doing harm. This needs to shift to a focus on "doing good" if business is to become a true driver of sustainable development. One of the key elements of this shift will need to be a change in the perception of profits and sustainability as opposing forces. Only when profitability comes into alignment with sustainable practices and policies will doing good become an integral part of doing business (see the "In my view" box by Louise Kantrow).

This chapter takes up the five challenges highlighted by Amina Mohammed, exploring for each what is needed to turn today's development challenges into sustainable business opportunities, guided by the new "road map" for sustainable global development: the Sustainable Development Goals.

Sustainable business needs to become "business as usual"

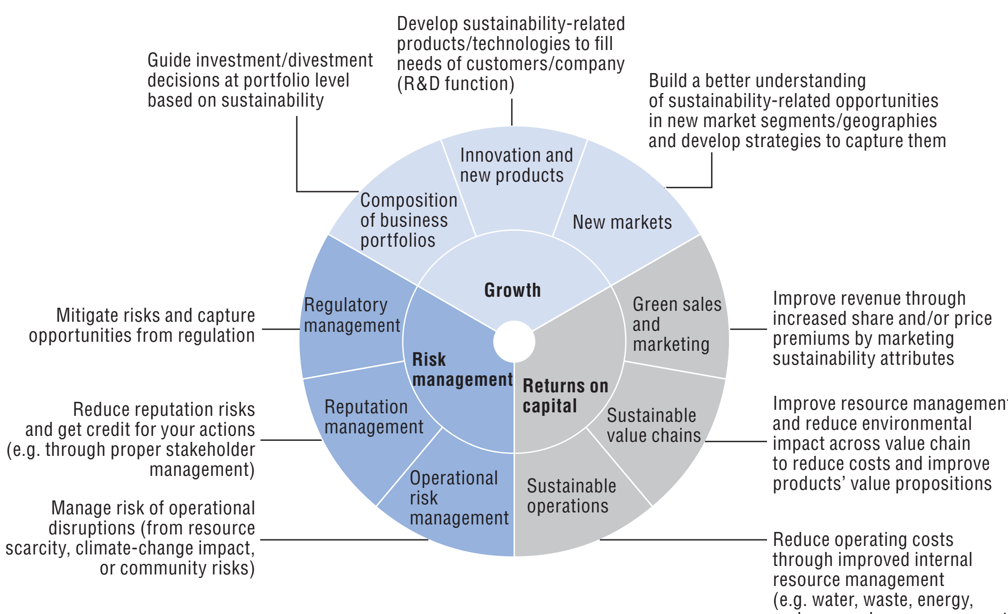
While development is the "business" of the public sector, as a rule private companies and investors are driven by financial returns. Even when investors may be willing to reduce expectations on returns in favour of social benefits, or to lower what they consider acceptable levels of risk, at the very least they need to repay the capital invested. Yet the private sector has much to gain from investing in sustainable development. Developing countries offer prospects for diversifying investment and gaining access to new or growing markets. And although achieving the SDGs will involve huge amounts of investment, the cost of *not* achieving them – in terms of human development, security, economic stability and environmental welfare, among others – are far greater.

> *There is no business case for enduring poverty. […] Every business will benefit from operating in a more equitable, resilient world if we achieve the Sustainable Development Goals. (Unilever CEO Paul Polman)*

To help in quantifying the gains in efficiency businesses can make by engaging in the Sustainable Development Goals, Paul Polman, CEO of Unilever, and Mark Malloch-Brown, former UN Deputy Secretary-General, have come together to found the Global Commission on Business and Sustainable Development. Looking at the potential alignment of profitability and social purpose, the commission will explore diverse business models to understand what they mean for sustainable development. Based on this understanding, it will map out new financing mechanisms for achieving the SDGs (Global Commission on Business and Sustainable Development, 2016).

To learn more about sustainability as a business incentive, the consulting firm McKinsey & Company interviewed executives from 40 companies that had performed above the industry average in both financial and sustainability terms. The survey covered various sectors, including oil and mining, gym shoes, soup, cosmetics, and telecommunications. They also interviewed experts from universities, non-governmental organisations and the financial sector (Bonini and Swartz, 2014). The research demonstrated that sustainable action can create value chains which, above and beyond their social and environmental value, also contribute to increased efficiency and profits. It demonstrated positive returns on capital in terms of reduced risk, diversification of markets and portfolios, increased revenue, reduced costs and improved value of products, among others (Figure 1.1).

Figure 1.1. **Companies are pursuing sustainability in a way that creates value**



Source: Exhibit from: Bonini, S. and S. Swartz (2014), "Profits with purpose: How organizing for sustainability can benefit the bottom line", *McKinsey on Sustainability & Resource Productivity*, July, McKinsey & Company, New York, *www.mckinsey.com/business-functions/sustainability-and-resource-productivity/our-insights/profits-with-purpose-how-organizing-for-sustainability-can-benefit-the-bottom-line*.

Many guidelines have emerged to help ensure that business contributes to sustainable development. With its Action 2020, the World Business Council for Sustainable Development offers a roadmap for engaging business in influencing environmental and social trends while "strengthening their own resilience to issues like climate change, demographic dynamics and skills shortages" (WBCSD, 2015). It proposes that business solutions must be:

- **measurable,** so we know they are making a difference
- **scalable,** so they can have a meaningful impact on the world
- **replicable,** so they can be applied by many companies, in multiple sectors, regions and countries
- **beyond business as usual,** so businesses and governments begin to work – and collaborate – differently
- **good for business,** so they have a commercial logic that contributes to the broader good and to the bottom line.

The World Business Council for Sustainable Development has also joined forces with the Global Reporting Initiative (GRI) and the United Nations Global Compact to "mobilise the private sector as a key player in achieving the Sustainable Development Goals" (UN, 2015d). Together, they have produced the "SDG compass", a guide that offers businesses "the tools and knowledge to put sustainability at the heart of your strategy" (GRI, UN Global Compact and WBCSD, 2015).

To help businesses in all sectors and regions – but in particular small and medium businesses in emerging economies – shape their own business sustainability strategies, the International Chamber of Commerce proposes a Business Charter for Sustainable Development (ICCWBO, 2015). This practical framework is founded on eight basic principles that offer benefits for practising businesses, from reduction of risks and liabilities, to enhancement of efficiency and effectiveness, generation of new business opportunities, and increased employee loyalty (UN, 2015d).

Despite these initiatives, however, many challenges remain. One of the key roles of development co-operation in the post-2015 world is to offer solutions and instruments that enable the private sector to support sustainable development while meeting its own business needs and expectations (Box 1.3). Working together, policy makers and private investors can make the most of converging interests and potential to unlock the resources needed to implement the SDGs.

Box 1.3. **Public-private dialogue as a measure of private sector engagement in development**

At the Fourth High Level Forum on Aid Effectiveness (Busan, Korea, 2011), participating nations and organisations committed to "enable the participation of the private sector in the design and implementation of development policies and strategies to foster sustainable growth and poverty reduction" (OECD, 2011a).

To measure progress made by countries towards the objectives agreed in Busan, the Global Partnership for Effective Development Co-operation has developed a monitoring framework, which incorporates an indicator on the quality of public-private dialogue as a proxy for private sector engagement in development.

The indicator, developed in close collaboration with the World Bank, assesses global and national data, focusing on three dimensions:

1. **The legal and regulatory context for public-private dialogue:** for example, does the private sector have the right to organise in associations, express its voice, access public policy information? Is there legal deterrence of collusion between private and public interests?

Box 1.3. **Public-private dialogue as a measure of private sector engagement in development** *(cont.)*

2. **The country's readiness to host, create or sustain a dialogue process:** for example, are the government and the private sector ready and willing to engage and interact? Is there a potential champion who can facilitate the dialogue process, activate political will and reduce the trust gap? Are logistical, financing and capacity-building instruments available to support public-private dialogue?
3. **The organisational effectiveness of a given public-private dialogue platform:** for example, each platform's quality, mandate, structure, participation, management, outputs, outreach, monitoring and degree of autonomy.

The findings from the monitoring process are expected to improve understanding by all development stakeholders of the role the private sector can play, and to strengthen its contribution to development, especially the implementation of the SDGs.*

* The Global Partnership for Effective Development Co-operation's 2016 progress report will provide an updated global snapshot of the state of play in implementing selected Busan commitments.

Chapter 6 looks at how following the principles and standards of responsible business conduct can improve the quality of business. This means contributing to positive outcomes not only for the environment, society and the economy, but also for business. The chapter examines the complementary roles of business and government in implementing, promoting and enabling responsible business conduct. The *OECD Guidelines for Multinational Enterprises* help to optimise this contribution, supporting the development of responsible and accountable business practice to ensure that investment quantity is matched by business quality (OECD, 2011b). By following these guidelines, business can 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 (Nieuwenkamp, 2015).

Governments can help to create conditions that favour good investment

Efforts to encourage private investors to get more involved in addressing sustainable development challenges can be frustrated if businesses run up against regulatory constraints when trying to engage with new markets and opportunities. A strong enabling environment, with laws and regulations that are clear and readily accessible for all, and that do not impose unnecessary bureaucratic burdens, can be a critical factor in making the decision to invest (see the "In my view" box by Jim Balsillie).

Many developing countries struggle to implement investment, trade and competition policies that contribute to good business and investment climates while at the same time supporting local entrepreneurship. Countries interested in attracting investment need to carefully weigh the costs of regulation against its intended benefits. For example, when striving to create favourable conditions for foreign investment, governments need to be careful not to:

- discourage public sector investment in public goods, such as the provision of education, energy and water
- crowd out domestic private investment
- permit excessive deregulation.

The OECD *Policy Framework for Investment* helps countries to improve their business climates, creating conditions that will increase investment while maximising its economic and social returns (OECD, 2015a). The framework recognises that a good investment climate is good for domestic as well as foreign ventures (see Chapters 2 and 6).

In my view: Business can fuel the clean technologies that are needed to achieve global goals

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

The 17 Sustainable Development Goals (SDGs) can be boiled down to 4 overarching objectives: economic growth, the inclusive and equitable distribution of that growth, transparent and effective government, and the responsible curatorship of our bio-physical environment. We need to achieve all four, and progress on each must interact with the others appropriately.

Business has a central role to play in contributing to success in achieving these objectives. The right type of interaction among these four objectives will depend largely on stimulating innovation, anywhere and everywhere in the world. Innovation not only breeds economic growth – it channels the fruits of this growth, determining where and how they play out, how well governments are resourced, and influencing how well we manage our environment.

Stimulating risk-takers to do so is central to the process of innovation. While the innate desire of smart and curious scientists to experiment can never be underestimated, experience shows that the countries that have been most successful in reaping benefits from innovation[1] have done so by using shrewd combinations of engaged university systems, public finance for research (particularly basic research with strong applied components) and private risk-bearing finance – such as venture capital and angel investment.[2]

Just as important as stimulating innovation, however, is ensuring a balance between the rights of developers to profit from their inventions, on the one hand, and the need to get many countries to adopt technologies early, and together, on the other. This is especially important in the case of clean technologies because they contain a high "public good" element – in other words, shared adoption and shared benefits go hand in hand. It is important, in this respect, that national intellectual property legislation conforms with international legal agreements; but there are other ways of achieving this balance that have also proven successful. For example, clean technologies can be promoted through advance market commitments, wherein a market for an as-yet undeveloped but desirable technology is guaranteed via the creation of a public fund. Or they can be supported through "grand challenge" approaches, wherein key bottlenecks blocking the solution to a problem are identified and made public so that scientists have a clear problem to work on, often with the added incentive of research funding or a price for successful results. Finally, business can play a role by making "patent pledges", contributing a patent they hold to the public realm.

Nonetheless, the world of intellectual property is a contentious one. Each country's share of the profits from the innovations it nurtures will depend not only on how it does the nurturing, but also on how well it backs these ideas up internationally – both commercially and legally. While this might seem to tilt the balance in favour of the large, established players like the United States and Germany, evidence from smaller, successful economies like Israel, Korea and Chinese Taipei suggests that agility and capability can make up for a relative lack of size (Breznitz, 2011).

In my view, the creation and diffusion of clean technologies will play an integral role in achieving the SDGs. The ingredients for success are clear: a strong private sector, working within a supportive eco-system of public policies and processes.

1. See, for example, Mazzucato (2014) and Janeway (2012).
2. An angel investor is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.

Creating a financial environment that will promote investment in sustainable development is not, however, solely a national concern (Box 1.3). The SDGfunders – a group that comprises the UN Global Compact, the UN Environment Programme and the UN Conference on Trade and Development – has developed a set of Principles for Responsible Investment that foresees "a virtuous cycle of innovation to achieve the SDGs" (SDGfunders, 2015).

An important role for governments is to provide de-risking instruments and incentive mechanisms that can help mobilise the financial resources needed to meet the challenges of implementing the SDGs. Chapter 3 of this report takes a close look at the use of development and philanthropic finance to unlock resources through "blending" mechanisms. 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. The chapter looks at the challenges and risks of this type of financing package, providing recommendations and offering examples of successful approaches.

> *Expanding public-private co-operation in the form of blended finance is one of the most important ways the international community can support developing countries as they seek to generate significant amounts of domestic and foreign investment required to meet their Sustainable Development Goals by 2030. (WEF, 2015)*

Global change needs to be built from the bottom up

If development is to be truly sustainable and inclusive, as the SDGs advocate, it must be led by countries themselves and must benefit all citizens – in particular those most in need. This means looking at business through a new lens, one that focuses, in particular, on the poorest and most vulnerable, and on empowering them to lead fuller, more productive lives.

> *In short, the poorest populations raise a prodigious new managerial challenge for the world's wealthiest companies: selling to the poor and helping them improve their lives by producing and distributing products and services in culturally sensitive, environmentally sustainable, and economically profitable ways. (Prahalad and Hart, 2002)*

Numerous guidelines and principles have been developed to help ensure that investments meet internationally agreed human rights standards. For example, the Ten Principles of the UN Global Compact call for operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption (UN Global Compact, 2015). The Ten Principles are derived from the Universal Declaration of Human Rights (UN, 1948), the International Labour Organization's Declaration on Fundamental Principles and Rights at Work (ILO, n.d.*b*), the Rio Declaration on Environment and Development (UNGA, 1992), and the United Nations Convention Against Corruption (UNODC, 2004). Similarly, the Six Principles for Responsible Investment, developed by the International Network of Investors in a process convened by the UN Secretary-General, recognise the duty of investors "to act in the best long-term interests of our beneficiaries" (PRI, n.d.).

Yet even when companies take action aimed at investing responsibly in developing countries, the details of contracts may do more harm than good to bottom-of-the pyramid actors, such as small-scale farmers (see the "In my view" box by Olivier De Schutter).

The empowerment of women is also an essential pre-condition for building change from the bottom up. Among the standards that have been put in place to promote common values and benchmarks for women's empowerment, the EDGE global business certification standard for gender equality assesses companies' policies and practices in areas such as equal pay for equal

In my view: The right to food is about much more than boosting supply

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

It is increasingly common for big agribusiness firms to contract out the production of raw commodities to hundreds and thousands of smallholders, sometimes known as "outgrowers". Through the contracts they negotiate with small-scale farmers, private investors are shaping agriculture in the developing world. For example, the investment pledges gathered in the G8's New Alliance for Food Security and Nutrition (New Alliance, n.d.) are primarily made up of plans by multinational and domestic agribusiness firms to source more widely from smallholders in a range of African countries. Yet what matters is precisely *what* is agreed between investors and small-scale farmers, and small-scale food producers have been largely neglected by agricultural policies to date. Understanding this situation is crucial to assessing the role of private investment in achieving the Sustainable Development Goals (SDGs).

In contract farming, farmers commit their output to processing or marketing firms at (generally) predetermined prices. Doing so can give them improved access to inputs and credit at one end, and easier access to markets at the other. Plugging small-scale farmers into new and lucrative market openings can help them to share the gains of globalisation. Under certain conditions, contract farming can also help in the development of localised food chains, for instance by linking farmers' co-operatives to the local food-processing industry or to fresh produce retailers serving urban consumers. At the same time, however, farmers can easily become disempowered by contract farming: it may result in passing risk down to them and exposing them to markets that are volatile, while allowing agribusiness firms to consolidate their commodity supply chains.

An extensive review of the experiences of contract farming to date reveals that safeguards must be built into the scheme to ensure that the benefits of contract farming outweigh the potential costs (De Schutter, 2011). Local governments need to play a role, scrutinising contractual arrangements to check that they are transparent, viable and beneficial to both parties; that they are fair and that dispute procedures are in place; that they respect women's rights; that quality standards are clear; and that they will not harm the environment.

It is equally important, however, to consider other development models that can provide farmers with the benefits of contract farming – such as access to credit and markets, price stability and risk spreading – without the potential drawbacks. Farmers should be encouraged to consider forming co-operatives and joint ventures – allowing them to join together to access markets without losing power over their land and livelihoods – or direct-to-consumer food marketing, which links small-scale farmers to markets while allowing them to increase their incomes and retain control of their production.

Improving small-scale farmers' access to markets is vital for achieving food security and improved nutrition, but we must also improve farmers' bargaining position in food chains. Today, the relationships between producers and buyers are deeply unequal and they will remain so unless farmers have a variety of channels through which to sell their produce, and the capacity to negotiate better deals.

In my view, this is what the right to food is all about: not simply a matter of boosting supply to meet growing needs, but of who produces, for whom, under what conditions. It is not just a question of reducing the gap between farm-gate prices and retail prices to ensure affordable food, but also of empowering the most marginal food producers, allowing them to capture a greater portion of the value of their produce. In short, it is about allowing the vast number of small-scale farmers in developing countries to reach, finally, their full potential.

work, recruitment and promotion, flexible working, and company culture (EDGE, n.d.). Other important international standards include the International Labour Organization standards and the United Nations Women's Empowerment Principles (ILO, n.d.*a*; UN Women, 2016). Yet while the role of corporate actors in financing, managing and implementing programmes relating to women and girls has increased over recent years, these private sector initiatives have mainly focused on health and empowering women economically through employment, training and entrepreneurship opportunities. Looking at the broader conditions needed for women's empowerment will be important for tackling the root causes of gender inequality, with benefits for society as a whole (Box 1.4).

Box 1.4. **Priorities for delivering on gender equality**

Members of the OECD-DAC Network on Gender Equality (GENDERNET) have identified some priorities for advancing gender equality (SDG 5):

- **Establish safeguards and accountability mechanisms** to ensure that corporate actors are socially responsible and respect human rights.
- **Broaden the focus of philanthropic activities targeting gender equality and women's empowerment.** Research by the Oak Foundation has found that corporate activities to promote women's empowerment tend to be narrowly focused on single issues, such as livelihoods, and on reaching individual beneficiaries rather than transforming the underlying structures. Broader, more integrated approaches can help to create the conditions necessary for women's empowerment.
- **Build bridges between corporate actors and women's organisations.** A mapping by the Association for Women's Rights in Development of 170 private sector initiatives focusing on women and girls revealed that only 27% of these initiatives involved women's organisations as partners, and only 9% directly funded these organisations. Providers of development co-operation can play a key role as bridge-builders.

Sources: Oak Foundation et al. (2014), "The business case for women's economic empowerment: An integrated approach", *http://oakfnd.org/sites/default/files/documents/The%20Business%20Case%20for%20Womens%20Economic%20Empowerment-IAW-Consultant%20Publication.pdf*; Miller, J., A. Arutyunova and C. Clark (2013), "New actors, new money, new conversations: A mapping of recent initiatives for women and girls", Association for Women's Rights in Development, Toronto, Ontario, Canada, *www.awid.org/sites/default/files/atoms/files/New%20Actors%20FInal%20Designed.pdf*.

Social impact investment, the subject of Chapter 5 of this report, offers an innovative and promising approach to increasing the benefits of business for the world's poorest and most marginalised populations. Enterprises that generate measurable social as well as financial returns can bring effectiveness, innovation, accountability and scale to development efforts. The chapter looks at ways in which public funds can be used to strengthen and promote this type of investment, including by sharing risks, and by contributing to creating a sound business environment, particularly in the least developed countries and in countries emerging from conflict. The chapter provides a number of examples of social impact investment to demonstrate how it works in different sectors and countries, as well as recommendations on how to scale up this relatively new investment model.

Building domestic resources and human capital is another essential component of bottom-up development, contributing to countries' capacity to finance their own development. The Third International Conference on Development Finance highlighted domestic resource mobilisation, and in particular taxation, as a key source of development finance. Since 2002, domestic resource mobilisation in developing countries has more than doubled, reaching USD 1.9 trillion (UN, 2015e). Yet there is still much room for growth: tax revenues in low-income countries stand at only 10-14% of GDP, compared to 20-30% in high-income countries. Tax Inspectors without Borders, a joint initiative of the OECD and the United Nations Development Programme (UNDP), supports developing countries in building their tax audit capacity (OECD, 2014a). Through this programme, experts work alongside local officials of developing country tax administrations, transferring their technical know-how and skills (OECD, 2014b).

For many developing countries, a range of supply-side and trade-related infrastructure obstacles also constrains their ability to engage in international trade. To ensure that trade plays its part in boosting growth, tackling poverty and promoting inclusive development, the SDGs identify the following priority actions:

- significantly increasing the exports of developing countries; in particular, doubling – by 2020 – the share of global exports from the least developed countries
- implementing special and differential treatment for developing countries, in particular the least developed countries, in accordance with World Trade Organization agreements
- implementing duty-free and quota-free market access on a lasting basis for all of the least developed countries, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and help to increase their market access
- ending trade restrictions and distortions in world agricultural markets
- increasing aid-for-trade support for developing countries, in particular the least developed countries.

The joint OECD-WTO Aid-for-Trade initiative supports access to markets by developing countries – in particular the least developed countries. It helps them to articulate, communicate and mainstream their trade-related objectives and encourages providers of development co-operation to align with these (WTO, 2015).

Providers of development co-operation can also promote inclusive and sustainable development of the private sector in the countries they support by viewing co-operation with the private sector as an end in itself (Box 1.5). Targeting the local private sector can have numerous benefits, including job creation, poverty reduction, provision of goods and services for the poor, generation of tax revenues, and decreasing reliance on external flows.

Box 1.5. **Development co-operation for private sector development**

The OECD's analysis of official development finance for private sector development shows that in 2013, total disbursements for these activities in developing countries amounted to USD 96 billion.* This includes official development assistance (ODA) as well as non-concessional finance provided by multilateral and bilateral development partners. The total represents half of total concessional and non-concessional development finance by multilateral and bilateral development partners allocated to specific sectors.

The framework for analysing these contributions comprises three levels: upstream, midstream and downstream.

Upstream activities involve the creation and implementation of conditions that promote a sound and competitive economy conducive to private sector-led growth. These activities accounted for 19% of support to public sector development in 2013. The recipients were exclusively within the public sector and projects were mainly in the form of technical assistance; capacity building for policy making; and institutional reforms in areas such as macroeconomic stability, the business environment, trade policy and labour markets.

Development co-operation at the **midstream** level aims to strengthen markets, targeting both public and private service providers; in particular, it addresses market failures that impede the development of the local private sector. Activities may include, for example, expanding access to financial services; developing appropriate economic infrastructure; and reinforcing commercial linkages to local clusters, as well as to regional and global value chains. This level received the largest share of support, at 66%, mostly because it comprises infrastructure, which alone receives half of all amounts for private sector development.

Finally, assistance at the **downstream** level, which accounted for 15% of the total amount, directly targets individual companies – predominantly micro, small and medium enterprises – providing technical and financial support to help them increase their productivity and competitiveness, or to promote viable and innovative business models.

* The figures cited in this box are the result of preliminary research conducted by the OECD Development Co-operation Directorate.

Ensuring credibility, accountability and transparency is fundamental

As noted by Sharan Burrow in Chapter 6, the private sector must be held to the same international transparency and accountability standards as all other actors. This calls for making major improvements in the area of corporate transparency, reporting on business activities on a country-by-country basis. It also includes meeting fiscal obligations and reporting on them.

> *Transparency and openness can increase profit as well. One study suggests that open data could reduce the costs of corruption by about 10%. Just in the EU, the costs of corruption shave 1% off the region's GDP, equivalent to an annual loss of EUR 120 billion. (Transparency International, n.d.)*

The Global Reporting Initiative asks that companies provide detailed information on their tax payments (GRI, 2015). Yet many private businesses still fail to comply with this basic and fundamental obligation to society. Likewise, base erosion and profit shifting[3] result in annual losses of approximately 4-10% of global corporate income tax revenues (USD 100-240 billion annually). These losses are particularly important to developing countries because of their heavy reliance on corporate income tax (OECD, 2015f).

Transparent information on taxation is critical to ensure more sustainable, inclusive development. The OECD works on several fronts to build tax transparency and compliance among its members and partners:

- The Global Revenue Statistics Programme contributes to the knowledge base, providing high-quality, comparable revenue statistics across OECD and non-OECD countries (OECD, 2015c).
- The common global Standard on Automatic Exchange of Information supports governments in the fight against tax evasion (OECD, 2015d).
- The 133-member Global Forum on Transparency and Exchange of Information for Tax Purposes champions tax transparency and helps countries fight tax evasion and illicit flows through in-depth peer review and monitoring, peer review and technical assistance (OECD, 2015e).
- The Base Erosion and Profit Shifting (BEPS) Project works with G20 and developing countries to reform the international tax rules. It also helps to identify and address the most pressing BEPS-related issues for low-income countries, such as tax incentives.
- The OECD's International Academy for Tax Crime Investigation offers intensive programmes to train investigators, prosecutors, judges and other officials from across the world in the latest investigative techniques and to share best practices.

The OECD also works to counter the outflow of illicit financial flows from developing countries through instruments such as the Financial Action Task Force, which focuses on anti-money laundering; the Working Group on Bribery; and joint work with the Stolen Asset Recovery Initiative (OECD, 2015g). The OECD Anti-Bribery Convention is the first and only international anti-corruption instrument focused on the "supply side" of the bribery transaction. It establishes legally binding standards to criminalise bribery of foreign public officials in international business transactions and provides for a host of related measures to make this effective.

Finally, in order to make the most of private investment for sustainable development, it is essential to have data on financing flows, packages and opportunities. This includes knowing where funds are going, as well as the impact they are having. With today's increasingly complex financing mechanisms and the growing number of actors in development, this knowledge is growing in importance.

Chapter 4 of this report describes current work by the international community, in particular the OECD, to monitor and measure the mobilisation effect of public sector interventions on private investment. This measure is expected to be an important element of the new "total official support for sustainable development" (TOSSD) framework currently under development by the OECD (see Box 4.2 in Chapter 4). Ultimately, the TOSSD framework aims to attract development finance from a wide variety of sources and actors to support the ambitious SDGs by providing important information about financing strategies and best practices. The measure of amounts mobilised from the private sector also constitutes an important step in efforts to modernise and broaden the OECD-DAC statistical framework. 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, including mezzanine finance, credit lines, direct investment in companies and project finance. Much work still remains to be done, in particular to find ways of measuring the indirect – or "catalytic" – effect of public interventions on the achievement of the global goals.

A new generation of multi-stakeholder partnerships needs to be put in place

Innovative partnerships between the public and private sector – but also bringing in civil society, target communities and other stakeholders on an equal, responsible and accountable footing – will be essential to achieving the SDGs.

> *Achieving these new goals will require combining the skills and resources of many different partners in ways that drastically reconfigure the business-as-usual approach to development co-operation. […] These coalitions can be instrumental in pushing for successful outcomes on questions of education, health and food security – and can help achieve results even in countries where these issues, for political reasons, have been relatively neglected so far. (Homi Kharas, OECD, 2015h)*

Public-private partnerships are not new; both good and bad examples exist. In the best of cases, public support has managed to leverage private sector contributions to deliver public goods. Yet in some cases, public investment has given private interests an unnecessary "bonus", for example contributing funds for undertaking activities they would have engaged in anyway. Civil society can play an important role in contributing checks and balances to ensure that public-private partnerships work to the best interests of all (Box 1.6).

Public sector financing is particularly crucial in areas such as education, health and social services – providing the social services that target, in particular, the poor. For example, Chapter 3 describes a partnership that is providing quality primary and secondary education in Nouakchott, Mauritania, including scholarships for orphans, while also creating jobs for locally hired teachers. And while much-needed advances in areas such as infrastructure and agriculture are national concerns, international finance, knowledge and co-operation can help to take these advances to the scale required.

At the same time, partnerships for the 2030 Agenda must go far beyond traditional public-private financing models, as Homi Kharas says, reconfiguring "the business-as-usual approach to development co-operation" (OECD, 2015h). Many development agencies and bilateral and multilateral development finance institutions are already engaging in new ways of sharing risk and reducing costs so as to leverage private finance for sustainable development (Chapter 4). Providers of development

Box 1.6. A trade union checklist for holding public administrations to account in the design of public-private partnerships

Governments and the public at large should scrutinise public moneys put in private hands, especially when for-profit operators are contracted to deliver public services. Trade unions have developed a checklist of what public authorities should do to determine whether or not public-private partnerships are appropriate. Based on the OECD *Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships* (OECD, 2012), they call for taking six important steps:

1. Eliminate risk of conflicts of interest in the decision-making process and give leadership to independent public auditors in evaluating the performance and impact of the project against agreed objectives and parameters.
2. Consult with stakeholders, including trade unions, consumer groups and affected communities, prior to the conclusion of a contract.
3. Demonstrate transparency in contractual arrangements, including distribution of risks between public and private parties, exact costing of public guarantees and the payment stream from government over the lifecycle of the project. Any renegotiation of a contract should be fully transparent and disclosed.
4. Conduct procurement option pre-tests to prevent conflict of interest and biased decisions. A public-private partnership project should always be benchmarked with a "public sector comparator" (i.e. comparing it with traditional public procurement options).
5. Measure and control the costs and risks of public-private partnerships, including at the local government level. Statutory responsibilities to maintain public services can never be transferred to a private operator.
6. Monitor contract negotiation and renegotiation once a public-private partnership contract is signed. This will ensure: that the government administration maintains appropriate human resource and institutional capacity after the conclusion of the contract; and that the private operator observes international norms of responsible business conduct, as defined by the *OECD Guidelines for Multinational Enterprises* and the International Labour Organization Standards on Freedom of Association and Collective Bargaining.

Contributed by Pierre Habbard, Trade Union Advisory Committee (TUAC) to the OECD.
Source: TUAC (2014), "Trade Union checklist on public-private partnerships (PPPs)", Trade Union Advisory Committee to the OECD, Paris, *www.tuac.org/en/public/e-docs/00/00/0E/D7/document_doc.phtml*.

co-operation generally agree that mobilising private resources for sustainable development needs to be "at the core of a modernised, reinvented role for ODA" (OECD, 2014c). And while ODA, on a scale of magnitude, may appear dwarfed in comparison to the level of private investment required, its role is by no means diminished. In the words of the World Bank, "The world needs intelligent development finance that goes well beyond filling financing gaps and that can be used strategically to unlock, leverage, and catalyse private flows and domestic resources" (World Bank, 2015).

Climate change mitigation and adaptation, in particular, will require not only financial flows from the private sector, but also their commitment, innovation and technical know-how. Private sector actors engaged in development extend far beyond formal businesses; they include households and individuals who consume or produce goods and services, as well as informal enterprises and family-run farms (OECD, 2007). These people can make or break environmental change. Providers of development co-operation can do much to ensure that their contribution is positive (Box 1.7).

Box 1.7. **Greening small and medium enterprises**

Small businesses are considered the engine of growth, particularly in developing countries, where much economic activity takes place in the informal sector. In Asia, for example, micro, small and medium enterprises make up 98% of all enterprises and employ 66% of the workforce (ADB, 2014).

In the transition to a greener development trajectory, these enterprises both supply and invest in affordable and locally appropriate green technologies and services. Yet the risks they face from climate change threaten the stability of the very supply chains they support. Understanding the potential contribution of these enterprises to green growth in developing countries – as well as what holds them back – is fundamental.

Much can be learned from development co-operation approaches that have been successful in reaching small and medium enterprises and influencing their behaviour. The Green Growth Working Group of the Donor Committee for Enterprise Development has brought together lessons learned in “Green growth and private sector development: Stocktaking of DCED experiences” (DCED, 2014). For example:

- Small businesses will often engage in green growth to benefit from the financial benefits and cost savings, rather than for environmental reasons. For example, small businesses that engaged in an Asia-wide programme on sustainable production and consumption did so to improve their competitiveness and reduce costs (SWITCH-Asia Network Facility, 2013).
- Many micro, small and medium enterprises have limited capacity to invest in green interventions, despite the potential to cut costs, and are also reluctant to invest without a clear demonstration of potential benefits, such as an externally validated study.
- While access to finance is often a barrier to uptake of green interventions, other factors are also important: interventions need to involve awareness raising and capacity development within local financial institutions, as well as entrepreneurial capacity building among the enterprises themselves.

The OECD-DAC Network on Environment and Development (ENVIRONET) is building on this work to identify success factors, gaps and lessons learned from development co-operation efforts to engage the private sector.

For more information on the DAC ENVIRONET see: *www.oecd.org/dac/environment-development/aboutdacenvironet.htm*.

Sources: ADB (2014), *Asia SME Finance Monitor 2013*, Asian Development Bank, Manila, Philippines, *www.adb.org/sites/default/files/publication/173205/asia-sme-finance-monitor2014.pdf*; SWITCH-Asia Network Facility (2013), “Greening SMEs by enabling access to finance: Strategies and experiences from the Switch-Asia programme”, SWITCH-Asia Network Facility, Wuppertal, Germany, *www.switch-asia.eu/fileadmin/user_upload/A2F_Study_2013_Screen-compressed.pdf*; DCED (2014), “Green growth and private sector development: Stocktaking of DCED experiences”, Final Report, Donor Committee on Enterprise Development, *www.enterprise-development.org/download.ashx?id=2516*.

Private foundations are also important players in multi-stakeholder partnerships. Philanthropists increasingly recognise the power of involving governments and other development stakeholders, such as the private sector, in partnerships to enable systemic change, ensure increased sustainability and scale up their efforts.

Box 1.8. **The power of partnering with philanthropy**

Philanthropy and governments can deliver far greater development outcomes by partnering more efficiently. Examples of successful collaboration between foundations and governments show the potential to achieve greater impact when the assets of all actors are combined. For instance, since 2012 the Novartis Foundation, in co-operation with Ghana's national ministries, insurance agency and medical associations, has provided teleconsultation medical services to 21 communities. The 24-hour teleconsultation pilot helped reduce unnecessary referrals by 31% while allowing for immediate support in the event of medical emergencies (Novartis Foundation, 2016). A roadmap for scaling up the initiative across the entire country is expected to be complete by December 2017.

Despite positive examples, however, devising effective and sustainable partnerships still remains a challenge for many, including foundations. To begin with, they often operate outside of national or local development co-operation frameworks and therefore lack entry points. Foundations also find it challenging to deal with the intervention scales, working methods, timelines and incentive systems of other development actors. In addition, foundations sometimes fear that co-operation may compromise their freedom, flexibility, and capacity for innovation and risk taking, which they consider part of their comparative advantage.

The OECD Development Centre's Network of Foundations Working for Development (netFWD) works to address these issues and unleash the potential of philanthropy for development. Its Accelerating Impact 2030 initiative aims to support foundations and other actors, including governments and the private sector, in their efforts to engage in multi-stakeholder partnerships and accelerate the achievement of the Sustainable Development Goals (SDGs). Accelerating Impact 2030 creates opportunities for co-operation, provides tangible support to a number of coalitions tackling issues of common interest and develops tools to make partnerships more than a sum of their parts.

The OECD Emerging Markets Network is building on this work to promote policy dialogue among business and government leaders, elucidating how multinational corporations can promote economic and social development in emerging economies.

The way forward for business and sustainable development

The *Development Co-operation Report 2016* shows how business – working with the public sector, philanthropy, institutions and civil society – can make the most of converging interests and potential to deliver on the SDGs. This report sets out five pathways for generating the quantity and quality of investment needed to achieve sustainable development. The approach supports accountability and transparency, helps to ensure that no one is left behind, and works to protect the planet's resources, while at the same time enabling business to meet its own needs and expectations.

Five pathways to quantity and quality investment in support of the SDGs

1. **Foreign direct investment,** operating within international and domestic enabling frameworks, can be geared towards sustainable development by focusing on the complementary and mutually reinforcing qualities of private investment and development co-operation, thereby helping to offset the cyclic, changing nature of foreign direct investment trends.
2. **New investment models,** such as 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.
3. **New approaches to monitoring and measuring amounts mobilised from the private sector** for sustainable development as a result of public sector interventions can enhance transparency, help to improve financing strategies and promote good practices.

4. **Social impact investment** can target sectors not traditionally popular with business, such as education, health and social services, offering options that can empower the poorest and most vulnerable to lead fuller, more productive lives while bringing effectiveness, innovation, accountability and scale to development efforts.
5. **Responsible business conduct** can give businesses an advantage that benefits their bottom lines, while at the same time advancing development results – for example, raising standards of living through the creation of fair and equal jobs, developing skills and technology, and supporting more equitable distribution of wealth.

The recommendations included in the various chapters of this report outline what is needed to make the most of business opportunities for sustainable development, setting out the roles of the various actors individually, as well as the areas for common and shared action and responsibility.

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.

The OECD will continue to contribute to the implementation of the Sustainable Development Goals, acting as a forum for dialogue; setting standards and encouraging adherence to international principles among its members and partners; advising on best policies based on experience and evidence; and monitoring compliance, implementation and finance.

Notes

1. The COP21 commitments have a strong focus on SDG 12 – Ensure sustainable consumption and production patterns; SDG 13 – Take urgent action to combat climate change and its impacts; SDG 14 – Conserve and sustainably use the oceans, seas and marine resources for sustainable development; and SDG 15 – Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. At the same time, the SDGs acknowledge that the United Nations Framework Convention on Climate Change is the primary international, intergovernmental forum for negotiating the global response to climate change.
2. Foreign direct investment is investment by individuals or firms from one country into another, either by buying an existing firm (through mergers and acquisitions), setting up a new operation (greenfield investment) or by expanding the operations of an existing business. The three main components of foreign direct investment are equity investment, inter-company loans and reinvested earnings (OECD, 2014b).
3. Using practices known as "(tax) base erosion and profit shifting", or BEPS, multinational companies shift profits across borders to take advantage of tax rates that are lower than in the country where the profit is made (OECD, 2014b).

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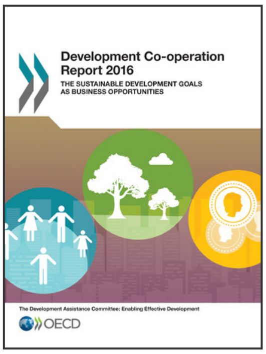

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