State of Play

Business and the Sustainable Development Goals:

Mind the Gap – Challenges for Implementation

IHRB State of Play Series: Volume Four

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Shaping Policy ▪ Advancing Practice ▪ Strengthening Accountability

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Institute for Human Rights and Business
34b York Way
London, N1 9AB
UK

(+44) 203-411-4333
info@ihrb.org
www.ihrb.org

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This Report was prepared by Nick Killick, IHRB Senior Research Fellow, and finalised by Margaret Wachenfeld, IHRB Director of Research and Legal Affairs.

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

"As we embark on this collective journey, we pledge that no one will be left behind."
Transforming Our World: The 2030 Agenda for Sustainable Development[1]

This State of Play report

The United Nations Sustainable Development Goals (SDGs)[2] offer an inspiring and inclusive vision of the future: a world free from poverty, injustice and discrimination and a healthy planet for present and future generations. It is a vision that requires a global partnership of nations and peoples – from the poorest communities to the richest countries – and it is a vision that demands unprecedented changes in both thinking and behaviour. It is a universal vision that applies to all countries and to all sectors of society. It also assumes a substantial contribution from business – and perhaps to a greater extent than has been officially acknowledged. As the SDGs move from pledges to practice, a much wider and better-informed debate is needed around how and in what circumstances business can add the most value. This State of Play report, the fourth in a series[3] by the Institute for Human Rights and Business (IHRB), is a contribution towards this debate.

Throughout the consultation and negotiation process leading to the adoption of the SDGs, the private sector has been highlighted as a partner with the potential to contribute in multiple ways to development objectives: by stimulating economic growth and job creation, providing investment and finance and sharing the resources and knowledge needed to shape innovative solutions to global challenges. The relationship between business and development – between private gain and public good – is not as straightforward as it would appear from some of the current discourse. The contribution of business is about much more than creating jobs, paying taxes and developing technology. It is also about determining the nature and purpose of business in a world where economic growth has delivered wealth alongside inequality, and prosperity alongside environmental damage.

There is a clash between urgency and ambition. The needs are great and the scale of the challenge enormous but business is not an immediate fix and there is a danger in imagining that it might be. While the SDGs stress the importance of a global partnership that includes the private sector, they do not elaborate on what this might mean in practice, nor do they touch on the difficulties of making partnerships work. This may be understandable given the political and the aspirational nature of the Goals. The SDGs seem to have quietly re-imagined a new model of business, reshaped as an agent of development, harnessed and channelled by governments and set to work on alleviating poverty and fostering sustainable economic growth for all. Under this model, business pays decent wages, respects the environment, manages resources sustainably and contributes substantially to meeting development priorities.

But business is not an adjunct of aid. Economic activity cannot easily be directed to where the need is greatest. It prospers when provided with the right conditions and the right opportunities. Where these are lacking or absent, business will not drive growth for the whole society. Nor are companies beholden to a set of development objectives. The majority of businesses will need to be strongly encouraged, and often obliged, to adopt practices consistent with the principles of sustainable development. Poor governance, undiversified economies and weak standards are very real obstacles to realising a transformative role for business in relation to the SDGs. While no one doubts the dynamic role business plays in the economy, this role is heavily dependent upon the kinds of political, economic and social structures that do not yet exist in all countries.

Donors in particular need to tread carefully in determining the extent and nature of their relationship to the private sector. It is too simplistic to assert that because business drives growth and employment, aid should be used to drive business. Development efforts should be focused on accountable institutions and appropriate policy frameworks combined with targeted support to business centred on explicitly pro-poor projects. If donors dilute sustainable development objectives in order to attract more private capital, they will undermine trust and confidence in development assistance and they will not succeed in delivering on the most fundamental principle of the SDGs that no one should be left behind.

This Report examines the underlying and at times unrealistic assumptions about the role of business that seem to underpin current discussions and challenges of involving business in development. The analysis in this Report offers a challenge to the notion that business can be a transformative force in development but also rejects the argument that it cannot be a constructive one. There is space in between. Perhaps the issue is not so much what business can do for the SDGs but how the SDGs can add impetus to broader debates on business responsibilities and the wider rules that shape the market. The Report offers constructive ideas for action grounded in a conviction that the private sector can play a positive role but that to do so, government actors to whom the SDGs are addressed need to set out appropriate incentives and disincentives for that transformational change and business actors need to embrace core concepts of responsibility and accountability.

The inclusion of business as a partner in a global development framework is therefore not straightforward. It assumes companies of all different sizes and all different sectors will increasingly operate according to environmental, social and human rights standards. It assumes business models will be reconfigured as necessary to ensure sustainability of products and services, sometimes perhaps at the expense of higher profits. Finally, it assumes that the business community, in partnership with states and civil society, will channel a greater share of its resources towards meeting SDG targets, through investment as well as philanthropy.

This is certainly a transformative vision of business – one that implies not only significant changes in how many businesses operate, but more fundamentally in the way the global economy functions. Change on this scale cannot simply be assumed. **Three main challenges** present themselves:

1. The Right Kind of Partner

The business role in helping achieve the SDGs is predicated on it being responsible, sustainable and development-orientated. This is problematic on many fronts not least because it does not confront the tensions that often exist between profit (and current models of responsibility towards its owners) and development. These tensions need to be surfaced and addressed. Is business a means to sustainable development or is development partly about making business more sustainable? The answer may be both but the SDGs do not establish a process or a framework for either. A development partnership with business needs to be based on a mutual understanding of responsibilities as well as on agreement around practical contributions. The terms of the partnership need to be set in order to provide both clarity and accountability.

2. The Right Kind of Growth

The SDGs place a strong emphasis on the mobilisation of domestic resources through economic growth. Amongst other things, this will require an expansion in business to create jobs and increase tax revenues. And while private sector-led growth is a well-trodden path to industrialisation, the SDGs are calling for a different model: fast and sustained but also green and inclusive. This is a model without historical precedent and one that makes a number of assumptions. The model assumes the right conditions will exist to enable business to flourish. It also assumes the right opportunities can be identified to generate large numbers of good jobs and the right standards put in place to ensure responsibility and sustainability in business operations. These are all significant challenges.

3. The Right Kind of Financing

Financing the SDGs provides the international community with its biggest test. The sums involved are enormous and the timeframe is short. The needs are particularly acute in infrastructure - not just transport, energy and telecommunications but schools, hospitals and clinics. With public resources insufficient, there is increasing enthusiasm for the potential of foreign investment and private capital to fill the funding shortfall partially. Attracting foreign investment into developing countries on the scale and at the pace required will prove difficult (especially considering the demands for inclusivity and sustainability) and in some cases may not even be appropriate. The trend towards innovative financing mechanisms designed to harness the complementary strengths of public and private sectors and overcome barriers to foreign investment is one option favoured by many in the donor community. But is using aid to leverage more private capital the most effective use of limited development assistance funds? And how much emphasis do these financing mechanisms place on achieving sustainable development outcomes?

Recommendations for SDG Implementation

While the objectives expressed in the SDGs might be shared by many within the private sector, the gap between business priorities and development objectives remains significant. The gap will not be closed by blind faith or vague promises and assumptions. It will be closed because a common understanding begins to emerge – one that is grounded in responsibility and informed by clear commitments as outlined in the Recommendations elaborated in the Report (Chapters 1 & 3) and summarised below. The follow-up process to the SDGs is an opportunity to close that gap.

- **Recommendations from Chapter 1: Indicators for Business under SDG 17**

  The SDGs are addressed to governments and it will be governments that translate the Goals into action. There are a number of SDG targets that can quite readily be translated into goals for business – on decent work, industrialisation, taxation and energy – but among the 169 targets of the SDGs, there is only one target that specifically mentions business[4] – a surprising gap for all the attention focused on the private sector in the SDGs. The priority now should be on ensuring that business performance is given proper consideration in the practical discussions around implementation of the Goals – specifically through the process of developing and finalising indicators that will drive the implementation of the SDGs.[5] Including specific targets for the private sector in the SDGs themselves would have sent a clear signal to all – business, but also governments and civil society – setting out core expectations for business conduct that begins the transformation towards better alignment with the vision set out in the SDGs. There is a clear opportunity for political leadership that demonstrates that political capital can drive financial capital. The Report suggests the following two sets of indicators to be included as part of the forthcoming set of SDG indicators that will drive SDG implementation:

SDG 17: Proposed Implementation Indicators for Business

Indicator 1. Businesses operate according to internationally recognised standards of responsible business conduct.

This is the baseline expectation of business and is the foundation of any business role under the SDGs. It means meeting minimum requirements set by national legislation and international standards of responsible business conduct, further informed by the principle of "do no harm" with respect to impacts on any of the specific Goals. More specifically, to implement this vision, there is a need for an SDG Framework for Responsible Business (see Figure 2 in Chapter 1 Conclusions) – a framework that ensures businesses operate according to internationally recognised standards of corporate responsibility and do so across four core elements of the way business functions:

(i) Operations

(ii) Products and Services

(iii) Taxation

Indicator 2. Businesses contribute directly to the Goals according to capacity and expertise.
If the international community should set the targets on standards, businesses themselves should set the targets on their voluntary contributions to meeting the SDGs and in particular around:

(i) Alignment of social investment strategies with SDG targets

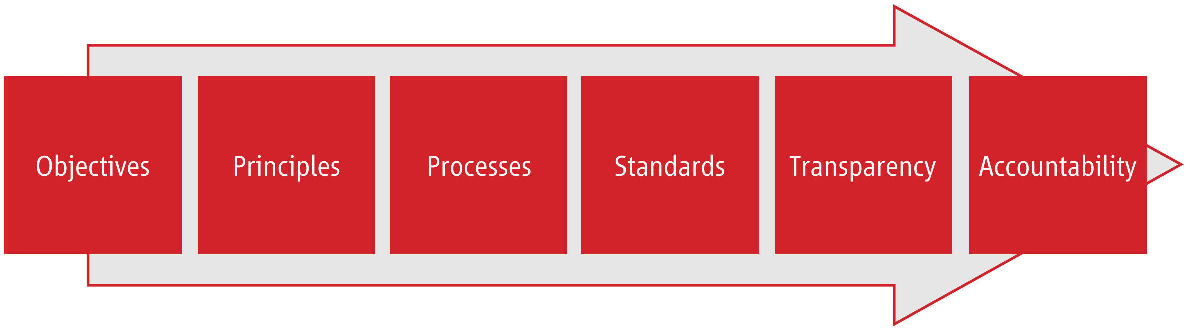
(ii) SDG development partnerships

- **Recommendations from Chapter 3: SDG Partnership Principles**

The lesson of the last 15 years is that although economic growth has delivered prosperity to many, growth remains uneven; it is a blunt instrument. Too many people are blocked from sharing in its benefits. Individual achievements have not matched the wider ambition of delivering development for all. The SDGs reflect important changes in our understanding of development – that human capital development is crucial for economic development – growth without sustainability is a false promise of advancement. Projects that deliver economic growth are essential (assuming they are carried out responsibly) but it is not the role of development assistance to subsidise them unless other public or social objectives are being met. Aid needs to be more carefully targeted at public private partnerships (PPP) or projects that specifically support the poorest and most disadvantaged.

To get there, a clear framework is required for the use of public funds for blended mechanisms under SDG 17. Such a framework would help ensure that public funding is used for programmes and projects that not only support the SDGs in theory but in practice. A higher bar should be set for projects that draw on public money. As is recognised repeatedly in this Report, there is certainly value in engaging the private sector in the huge task ahead to deliver on the SDGs. There is also real value in using development assistance to leverage private finance – but only where that partnership is focused on delivering on the SDGs. A shared set of **SDG Partnership Principles** is needed as part of the SDG implementation process to clarify what constitutes compliance with the SDGs and therefore when it is appropriate to use public funds. The Principles could be used by all partners – governments (as host, home or donors), business and civil society – as a framework for implementation of partnerships involving the private sector and public funds under SDG 17.

Figure 1: Proposed Approach to Establish SDG Partnerhip Principles



SDG Partnership Principles All SDG partnership programmes or projects should:	
Objectives	Be explicitly pro-poor, inclusive and targeted at: • Defined objectives that specifically focus on one or more SDG • Facilitating access to services • Enhancing capacity to participate in the economy
Principles for Service Design	Apply a human rights based approach and in particular: • Be designed to respond to the Availability, Accessibility, Acceptability, Quality Standard[6] to help ensure that such services benefit the poorest communities
Processes	Be informed by: • social, environmental and human rights due diligence • broad based and inclusive engagement with potentially affected stakeholders and other relevant stakeholders
Standards	Apply relevant standards of responsible business conduct to the private sector participants, including at a minimum: • UN Guiding Principles on Business and Human Rights • ILO Conventions – the ILO core labour standards & ILO conventions relevant to the partnership area • UN Convention against Corruption • International environmental standards set out in multilateral environmental agreements • Relevant international standards for the areas covered by the partnership (e.g. CFS Principles for Agriculture)[7]
Transparency	Be transparent by default (with permitted exceptions limited to well-defined and justified areas of confidentiality), covering: • Governance arrangements for the PPP explaining clearly how the partnership is structured and funded, listing participants and directors and others in key roles. Entities at each level of governance should be both responsible and accountable for appropriate aspects of applying the relevant standards; • Financing arrangements, (including private sector and government obligations, liabilities, including contingent liabilities and debt implications); • Operating agreements, concession contracts or other contracts; • Impact assessments, action plans, monitoring results, evaluations; • Revenue payments, taxes, royalties or other payments made to a government and received by a government; • Periodic reporting to the public on the outcomes of the partnership.
Accountability	Include a range of accountability mechanisms: • Ensuring that the PPP tracks and takes accountability for its development impact, and in particular is measuring impacts on the poorest communities and those who are the hardest to reach; • Carrying out independent evaluations throughout the life of the PPP, including with input from relevant stakeholders; • Put in place specific mechanisms (such as grievance mechanisms, ombudsman, or other arrangements) that can accept and effectively address and remedy grievances from stakeholders who have been negatively impacted by the PPP.

A Note on Terminology

This Report includes a number of commonly used terms to describe the private sector: the private sector, business, companies, enterprises and corporations. There is a huge variety of organisation types, sizes, models, and levels of formality that fall under some of these more general terms – especially "business" and "enterprises." Throughout the Report efforts are made to draw out differences where appropriate. Apart from the discussion on micro, small and medium sized enterprises in Chapter 2, the Report focuses on businesses that operate at a certain level of formality and those with the capacity to make some level of choice about operations.

Executive Summary Endnotes

1 Preamble, Outcome Document for the UN Summit to adopt the Post-2015 Development Agenda, "Transforming Our World: The 2030 Agenda for Sustainable Development", (2015). Available at: https://sustainabledevelopment.un.org/content/documents/7888TRANSFORMING%20OUR%20WORLD_final.pdf

2 Outcome Document for the UN Summit to adopt the Post-2015 Development Agenda, "Transforming Our World: The 2030 Agenda for Sustainable Development", (2015). Available at: https://sustainabledevelopment.un.org/content/documents/7888TRANSFORMING%20OUR%20WORLD_final.pdf

3 See, IHRB State of Play series: http://www.ihrb.org/publications/reports/state-of-play-series.html

4 SDG 12.6, is within SDG 12 on sustainable consumption and production and only "encourages" companies to adopt sustainability practices.

5 See the SDG Indicators home page: http://unstats.un.org/sdgs/

6 These elements are drawn from the international human right framework, more particularly from the Committee on Economic, Social and Cultural Rights that uses these to explain the core elements of various economic, social and cultural rights. See for example: http://www.humanrights.dk/publications/aaaq-manual-right-water-contextualising-indicators

7 http://www.fao.org/cfs/cfs-home/resaginv/en/

INTRODUCTION
The Sustainable Development Goals

INTRODUCTION:
The Sustainable Development Goals

"The stars are aligned for the world to take historic action to transform lives and protect the planet."

Synthesis Report of the United Nations Secretary-General on the Post-2015 Sustainable Development Agenda[8]

The United Nations Sustainable Development Goals (SDGs)[9] (now referred to as the 2030 Agenda for Sustainable Development) are intended to unite the world behind a series of shared priorities – indivisible and integrated for all countries. Over two years in preparation, the process to shape the Goals has been broad-based, sustained and inclusive. The Rio+20 Conference on Sustainable Development in 2012[10], the High-Level Panel Report on the Post-2015 Development Agenda[11] and the report of the Open Working Group on the Sustainable Development Goals[12] provided the foundations for the SDGs. They have also been informed by the Financing for Development process and in particular the Outcome Document agreed in Addis Ababa, Ethiopia in July 2015 in advance of the finalisation of the SDGs.[13] More importantly perhaps, the proposed SDGs have not simply been dictated from above but also informed from below. Millions have had their say through dedicated consultations and written and verbal submissions or responses to the MY World survey.[14] The final draft SDGs document was approved by UN member states on 2 August 2015 and will be adopted by the UN General Assembly in New York in September 2015.[15]

The SDGs are needed because the Millennium Development Goals (MDGs) remain unfinished business.[16] First outlined in 2000 and subsequently formalised in 2001, the MDGs laid out a series of common objectives, values-based and inspirational but at the same time practical, measurable and achievable. Globally, many of the key MDG targets have either been substantially met (income poverty, gender parity in primary education and water) or will fall just short (nutrition, primary school enrolment, child mortality and maternal health).[17] The celebrations have been muted and with reason: bare figures do not tell the whole story. China and, to a lesser extent, India account for much of the good news, particularly on poverty reduction. Regional differences remain striking and national performance often masks significant disparities within the same country.[18] The individual achievements have not matched the wider ambition of delivering development for all.

This ambition is clear to see in the SDGs and reflects changes in development thinking over the last decade. While the MDGs were deliberately designed to achieve a few, specific outcomes, they did not explicitly recognise that achieving those outcomes was partly dependent on a whole host of other factors, including infrastructure development, job creation and equitable economic growth, not to mention human rights, good governance and peace. In short, an emphasis on selected manifestations of poverty at the expense of its causes.[19]

In contrast, the 17 SDGs (see box below) and 169 targets recommended by the Open Working Group (OWG) offer a genuinely comprehensive vision of the future. From the wellbeing of every individual to the health of the planet, from infrastructure to institutions, good governance to green energy, peaceful societies to productive employment, little is left unaddressed. Also in contrast to the MDGs' "tyranny of averages" that already in the goals themselves explicitly missed half the population, the SDGs are an inclusive agenda, focused on leaving no one behind – anywhere. They apply to all countries – rich and poor alike – and to everyone in the population. This inclusive agenda has significant implications for governments and businesses alike, in prompting a move from an aggregate mindset to a focused attention on the most vulnerable.

Ambition on this scale inevitably comes at a price. With an estimated bill in the order of US $4 trillion annually and with current expenditure on SDG-related sectors amounting to approximately $1.5 trillion, there is a $2.5 trillion financing gap.[20] This will not be filled through aid alone. Official development assistance (ODA) totalled $150 billion in 2013.[21]

The Sustainable Development Goals[22]

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 **industrialization** 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 revitalize the global **partnership** for sustainable development

* Acknowledging that the United Nations Framework Convention on Climate Change is the primary international, intergovernmental forum for negotiating the global response to climate change.

Introduction Endnotes

8 Paragraph 25 (2014). Available at: https://sustainabledevelopment.un.org/owg.html

9 UN, "Transforming Our World: The 2030 Agenda For Sustainable Development, Outcome Document For The Un Summit To Adopt The Post-2015 Development Agenda", Finalised Text For Adoption, 31 July 2015. Available at: https://sustainabledevelopment.un.org/content/documents/7888TRANSFORMING%20OUR%20WORLD_final.pdf

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14 MY World Survey. Available at: http://www.us.undp.org/content/washington/en/home/presscenter/articles/2014/12/16/my-world-survey-celebrating-7-million-voices-we-the-peoples/

15 See letter of UN GA President dated 12 August 2015. Available at: https://sustainabledevelopment.un.org/content/documents/8026Letter%20from%20cochairs%20on%20post2015.pdf

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17 Melamed, Claire, "After 2015: Context, policies and processes for a post-2015 global agreement on development". Overseas Development Institute (ODI). 2012. Available at: www.odi.org/resources/docs/7537.pdf

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21 OECD. Available at: http://stats.oecd.org

22 UN "Transforming Our World: The 2030 Agenda For Sustainable Development, Outcome Document For The UN Summit To Adopt The Post-2015 Development Agenda", Finalised Text For Adoption, 31 July 2015. Available at: https://sustainabledevelopment.un.org/content/documents/7888TRANSFORMING%20OUR%20WORLD_final.pdf

CHAPTER 1
The Right Kind of Partner

CHAPTER 1
The Right Kind of Partner

> ***"The implementation of the sustainable development goals will depend on a global partnership for sustainable development with the active engagement of Governments, as well as civil society, the private sector and the United Nations system."***
>
> Open Working Group of the UN General Assembly on Sustainable Development Goals[23]

1. Framing the Discussion

Business is driven primarily by profit. It can be argued whether this is a good thing or a bad thing but a profit agenda is certainly different from a sustainable development one. Closer alignment between the two is desirable but far from straightforward. It cannot be achieved without an honest recognition of what separates business from sustainable development and proper attention to what realistically can be done to bridge the divide.

The last few decades of globalisation have generated unprecedented growth but also unprecedented levels of inequality. According to Oxfam's estimates, one percent (1%) of the world's population will soon own more wealth than the other 99% and the richest 85 people on the planet as much as the poorest half of humanity.[24] The result of this rising inequality is not merely popular outrage but more deeply entrenched poverty for some and slower growth for everyone.[25] The global economic system is seen to be failing many and endangering future generations.

In environmental terms, it is unsustainable as well. Climate change is a present threat as well as a long-term one. Pollution has risen in step with growth and it too has a disproportionate impact on the poorest.[26] Experts agree that the world needs to limit the increase in global warming to 2 degrees Celsius[27] and doing so requires profound changes, including leaving significant amounts of fossil fuel deposits in the ground.[28]

The stark reality is that an economic system that contributes significantly to inequality and environmental damage cannot also deliver sustainable development. This is a principal rationale underpinning the SDGs. At the heart of the problem lies the question of how to reconcile economic growth with broad based and sustainable development: how to combine private sector dynamism with a greater emphasis on equality and environmental sensitivity. The challenge of doing this has been taken up by the SDGs, if perhaps more by accident than by design. What began as an effort to 'finish the job that the MDGs started'[29] has expanded into something substantially more ambitious.

This has inevitably meant a greater focus on the role of business. If states have shaped the current system, business has powered it. This recognition represents a remarkable change from 2001 when business was mentioned more in passing than in earnest. The private sector's new prominence in achieving the 2030 development agenda compared with the MDGs reflects not only a recognition of the importance of private financial resources but also the deeper shift away from a poverty reduction focus to a more rounded emphasis on sustainable development.

Yet, even if the logic of business involvement is inescapable, it has passed by with relatively little critical reflection. A quick glance at the proposed Goals illustrates private sector significance, most notably in respect of energy, economic growth, employment, sustainable production and infrastructure. On deeper inspection, it becomes clear just how important business really is to the implementation of the SDGs. As financier, job creator, tax payer, wealth generator and innovator, the private sector is viewed as being fundamental to sustainable development.

Those who have worked to craft the SDGs assume both a direct and indirect contribution from business:

- **Direct** – through financing and partnering on SDG-related projects (e.g. infrastructure) where business will be called upon to invest more in developing countries, particularly the least developed countries (LDCs) and a higher proportion of that increased investment will need to be channelled towards meeting the Goals.
- **Indirect** – through an increase in business activity. The emphasis on equitable economic growth as a motor of development implies a significant global expansion in the private sector itself. Developing countries need more businesses to create jobs, move people out of poverty and expand the domestic tax base.

Despite the numerous inputs to the post-2015 process that explore the potential contribution of business,[30] including many from business and business organisations,[31] the difficulty of addressing business performance has been downplayed. The SDGs are based largely on the hope that business really has hitched its wagon to the sustainability locomotive, and fear that a closer look might reveal that it has not; hope that framing business as a responsible development partner will placate those sceptical of greater business involvement; and fear that too much of a focus on business will provoke more vocal opposition. Too little attention has been paid to what it would really take for business to fulfil its role as a fully-fledged partner. The resulting consensus – don't ask, don't tell – cannot be described as a conspiracy of silence but it is an unlikely, presumably unconscious, and almost certainly temporary alliance of business enthusiasts and sceptics.

In promoting business as a partner, the SDGs have rightly acknowledged the importance of the private sector to sustainable development. But in neglecting to outline the terms of the partnership, they have not properly considered the tensions that threaten it. The final draft of the SDGs notes that companies should be encouraged (no more than that) 'to adopt sustainable practices'.[32] For an issue of such importance, this is a strikingly cautious formulation that offers neither guidance nor the prospect of ensuring real accountability. And if the negotiations around financing have yielded more detail in this respect, there remains a gap between ambition and substance.[33]

> *A first and inevitable step in the transition must be the willingness of the private sector to become part of a global compact to promote employment, ensure minimum labor and environmental standards, and respect human rights. But far more is required of the private sector. Private agents, especially the corporate sector, must serve to be recognized as full fledged development partners.*
>
> Asian Development Bank Working Paper Series[34]

Is there a common understanding of the private sector's relationship to sustainable development? If business involvement in the SDG agenda is predicated on it being responsible, sustainable and development-orientated, then it is important to establish whether there is even consensus on what "responsible business" actually means in the context of sustainable development and whether and how it can be assessed and monitored. Clarifying these points is necessary because the credibility and effectiveness of the SDGs is at stake. If the private sector is neither equipped, nor maybe even suitable, for the kind of role the SDGs have assigned to it, then its practical contribution will prove far more limited than hoped. This in turn will weaken the prospects of actually meeting the Goals by 2030.

2. Mind the Gap (Part One): A Business Perspective on Sustainable Development

Traditionally, business leaders have been quite clear about their primary contribution to development: jobs, taxes and innovation. This understanding is well supported by the evidence – look no further than the example of China. In statistical terms at least, China is the hero of the MDGs. It is not so much its success in meeting and exceeding many of the targets, which is striking but the sheer numbers involved. Between 1990-2005, China managed to cut absolute poverty (based on the US$ 1.25 a day measurement) by some 471 million people, over 76% of the world's total during the same period.[36] This phenomenal achievement came about through high and sustained rates of economic growth, in large part driven by a burgeoning private sector financed through foreign investment, and state-owned companies operating under a market-based paradigm.

> *Business has a critical role to play in accelerating progress towards sustainable development as an engine of economic growth and employment, as a key contributor of government revenues, and as a driver of innovation, capacity building and technology development.*
>
> Major Group Position Paper: the Business and Industry's vision and priorities for the Sustainable Development Goals[35]

Impressive though it is, China's success still falls short of the SDG vision and not only in political and social terms. The Chinese economic model may not be identical to the Western one – for example in relation to the role of the state – but it has yielded many of the same results: rising living standards alongside increases in inequality[38] and pollution,[39] displacement of people[40], and corruption.[41]

At one level, there is a simple conflict between the consequences of current economic orthodoxy which lead to widening inequality, and the vision of sustainable development which aims to ensure that nobody is left behind. The private sector has grown exponentially in recent decades, and mainly through the opportunities afforded by globalisation widened its reach. Globalisation may have triggered a business boom but in many cases it has also sharpened the focus on short-term profitability (rather than broader and longer-term development considerations), driven greater competition (which may prompt innovation and widen choice, but also encourages the search for lower labour costs, which benefits consumers but not workers, and weakened regulation),[42] and increased problems of pollution and environmental degradation. These business drivers are not conducive to the kind of future envisaged in the SDGs.

Although many individual companies and business associations do strive to integrate a more holistic view of sustainability into their operations, this is still far from the norm. The standard business response to development falls short of what is needed – the SDGs expect much more from the private sector than jobs, taxes and technology.

3. Mind the Gap (Part Two): An SDGs Perspective on Business

The private sector has not been welcomed as a development partner on a 'business as usual' basis. A profit agenda does not always sit easily with one focused on development. At best, both are mutually reinforcing but there is no disguising the private sector's potential for undermining development efforts. Growing prosperity, a healthy population and an educated workforce offer many long-term benefits to business, but cheap labour, weak regulation and corrupt officials can provide more immediate advantages – to some companies at least. In addition, the perception that business actors exercise undue control over political and economic agendas is prevalent and certainly not restricted to the Global South.[43] Suspicion of private sector involvement in the public sphere generally, and in the development agenda specifically, is very real amongst some governments and civil society groups.[44]

Maximising these contributions is only part of the challenge. Reconciling growth with development is also a matter of reconciling current business practices with the goal of sustainability. Sustainable development does not simply require greater business involvement *per se* – but the right sort of business involvement: quantity with quality, returns with responsibility, investment with ethics and with development purpose. Growth is important but must be inclusive, jobs matter but must be properly rewarded and workers treated fairly and with dignity, energy must be provided but more sustainably. In short, the SDGs need business but not business as it is (or often is).

Belief in the argument that business (as a whole or in large part) is on the cusp of profound change is a core assumption in the SDGs agenda. If the prevailing business perspective on development is too narrow, the perspective on business implicit in the SDG vision may be too optimistic.

A new paradigm in development thinking is recognizing the centrality of private enterprise in pursuit of the development agenda – and vice versa. For their part, corporate leaders are beginning to understand the business imperative of integrating environmental and social risks and opportunities within their core operations as part of a larger global agenda.

UN Global Compact[45]

The explosive pace of technological change and business innovation, whether in the information and communication technology (ICT) sector or in global supply chains and financial transactions, has not been matched by similarly rapid advancements in the sustainability agenda of business, certainly when viewed globally. Traditionally, business has operated with only two real constraints: the law and the market. A successful company was viewed as one that maximised income while adhering to regulations. Although the understanding of what an ideal "successful" company looks like has evolved over the last 20 years, the vision of sustainability the SDGs presents is still limited to a relatively small number of companies.

The evolution of business performance has been driven by two complementary 'push and pull' arguments. On the push side, civil society groups have long argued that the balance between benefits and impacts has tipped too far in favour of business. Businesses too rarely account for the significant impacts they can have – environmental, social, human rights, even political – that can be both harmful to individuals and communities and undermine the benefits of their activities for the wider society. In other words, profits are privatised but too many costs of doing business remain externalised and imposed on society. Sustainability is partly about rewriting the terms of this 'social contract'[46] to ensure a better balance in which negative impacts are minimised and benefits enhanced – to society as well as business. This requires drivers that prompt companies to internalise those costs.

This argument is mostly focused on preventing harm and has largely been employed by civil society groups to push or pressure companies into adopting higher standards across a wide range of issues, including the environment, labour rights and human rights and corruption. Through this process, companies' legality principle – in which adherence to the law is the sole determinant of a company's responsibilities - is widening gradually to encompass broader notions of 'legitimacy'[47] – a concept which, at the very least, assumes an effort to abide by more demanding international norms, standards and principles as well as meet societal expectations whether or not these are enshrined in law.

On the pull side, there is an emerging acceptance that sustainability is in companies' best interests. Development is both a moral imperative and a commercial one. Environmental degradation, natural resource depletion and widespread poverty damage and shame us all while also increasing transaction costs for business and closing off potential markets.[48] This argument is about incentivising companies into contributing more to society as a whole. As an approach, it suffered in the past from association with traditional models of corporate social responsibility (CSR).[49] More recently, it has been re-energised through the advocacy of business leaders themselves[50] with a clearer and more credible agenda around harnessing the market for sustainability to make money sustainably – a triple bottom line "people, planet, profit" business model. In this way, companies' profit principle is being stretched to include a notion of 'shared value'[51] in which business is encouraged to consider its overall contribution to society rather than simply its financial returns.

Taken together, these two concepts provide the basis for understanding the business role as a development partner: responsibilities shaped by international standards and societal expectations (legitimacy) and profit pursued alongside a contribution to the public good (value) – doing right and doing good. The concepts are evident, to some degree at least, in the UN Global Compact's[52] (UNGC) definition of "corporate sustainability" which combines a requirement to do no harm with an encouragement to make additional positive contributions to society. In relation to the SDGs specifically, this can presumably be taken to imply no harm to any of the Goals and pro-active support for at least some of them. As the largest voluntary corporate responsibility initiative in the world, the UNGC has undoubtedly been an influential advocate for a more prominent business role in the post-2015 agenda. Its own understanding of "corporate sustainability" is one that has helped guide the approach to the private sector in the SDGs and supporting processes. Several key challenges must still be addressed:

- **Lack of a common understanding of core terms** – there is no clear consensus around what "corporate sustainability" actually means in practice nor what a business contribution to sustainable development might really entail. The UNGC has its own understanding but companies will also interpret the concept as they see fit with a real risk of confusion over even the most basic underlying assumptions. For most in the private sector, "sustainability" is, first and foremost, a matter of the enduring success of the company; adding "corporate" to it only increases the perception that the company's long-term viability is the priority rather than its relationship with society. All other considerations will necessarily be secondary (even if still important). For a small but growing number of companies, the social and environmental dimensions of sustainability lie at the heart of their business model. For others, they are an opportunity to strengthen their brand, drive efficiency savings or improve community relations. For others still, they are a burden necessitated by reputational considerations. For the rest, sustainability concerns remain largely irrelevant. Unless strategies to implement the SDGs establish a framework that sets out clear expectations for all companies, the concept of sustainability will unfortunately remain a confusing and confused one.

The delivery of long-term value in financial, environmental, social and ethical terms. This embodies the dual approach of respecting and supporting universal principles. It means that businesses must avoid causing or contributing to harm, for example, in the form of adverse human rights impacts or environmental degradation. In addition to this minimum responsibility to respect, businesses are encouraged to take additional supportive actions through their core business, philanthropy, collective action and public policy advocacy – which is done as a voluntary complement and not a substitute or trade-off for the requirement to respect universal principles.

UN Global Compact[53]

- **Implementation deficits** – beyond the problem of interpretation lies the issue of implementation. The SDGs assume that business is increasingly becoming sustainable. Yet, this is far from the case. Even the UNGC has described progress as *'nascent'.*[54] For example, its own 2013 Global Sustainability Report recognises the challenges its participating companies face in conducting human rights and labour impact assessments[55] even as these standards have been core UNGC principles since its inception in 2000. In 2013, out of the then 7,000 signatory companies to the UNGC, only 339 had incorporated a specific policy or statement on human rights.[56] In other words, even if the commitment is there, practice is lagging some way behind. And UNGC participating companies constitute a tiny fraction of the private sector worldwide. This is not a criticism but a simple statement of reality. Even if there were consensus on what sustainable business means, the challenge of actually doing it remains enormous.

- **Voluntarism vs. regulation** – like implementation, regulation has not kept pace with advances in thinking around business responsibilities. In part, this is a side effect of globalisation. Regulation is often constrained by national boundaries in a way that businesses are not. Governments are still inclined to view new regulation on private sector activity as a barrier to attracting investment, just as the instinctive reflex from business associations is to lobby against further regulation.[57] The general wish for stronger rule of law by some larger multinationals does not translate into globally articulated positions of business associations, even where doing so would help level the playing field. As a result, global, non-binding standards have proliferated but it has proved difficult to enshrine these in international law and domestic legislation. There is no doubt that the proliferation of voluntary initiatives addressing specific issues or sectors have significantly advanced the corporate responsibility agenda. And they are obviously important in compensating for the reluctance or inability of governments to institute and enforce standards of corporate conduct in line with international norms. Nevertheless, for so long as corporate responsibility remains largely dependent on voluntary commitments, it will continue to be a peripheral concern for many companies worldwide.

Chapter 1 Conclusions and Recommendations
Closing the Gap – The Business Role in a Partnership for Development

The SDGs stress partnership but do not elaborate.[58] Goal 17 speaks of partnership but not of partners. It speaks of the tools of business: finance, trade, capacity-building and technology but not of the private sector itself. If business is to play a substantial part in implementing the SDGs then the basis of the partnership must be better articulated. Is business a means to sustainable development or is development partly about making business more sustainable? The answer may be both but the second underpins the first and must be the foundation of any cooperation.

The SDGs are addressed to governments and it will be governments that translate the Goals into action (whereas the Financing for Development Outcome Document[59] is addressed to a wider range of audiences including business and provides more detailed reinforcing messages set out below). There are a number of SDG targets that can quite readily be translated into goals for business – on decent work, industrialisation, taxation and energy – but among the 169 targets of the SDGs, there is only one target that specifically mentions business[60] – a surprising gap for all the attention given the private sector in the SDGs. The focus now should be on ensuring that business performance is given proper consideration in the practical discussions around implementation of the Goals – specifically through the process of developing and finalising indicators that will drive the implementation of the SDGs.[61] Including specific targets for the private sector in the SDGs themselves would have sent a clear signal to all – business, but also governments and civil society – setting out core expectations for business conduct that begins the transformation towards better alignment with the vision set out in the SDGs. There is a clear opportunity for political leadership that demonstrates that political capital can drive financial capital.

The Report suggests the following two sets of indicators to be included as part of the forthcoming set of SDG indicators that will drive SDG implementation:

SDG 17: Proposed Implementation Indicators for Business

Indicator 1. Businesses operate according to internationally recognised standards of responsible business conduct.

This is the baseline expectation of business and is the foundation of any business role under the SDGs. It means meeting minimum requirements set by national legislation and international standards of responsible business conduct, further informed by the principle of "do no harm" with respect to impacts on any of the specific Goals. More specifically, to implement this vision, there is a need for an **SDG Framework for Responsible Business** (see Figure 2 below) – a framework that ensures businesses operate according to internationally recognised standards of corporate responsibility and do so across four core elements of the way business functions:

(i) Operations
(ii) Products and Services
(iii) Taxation
(iv) Accountability

Indicator 2. Businesses contribute directly to the Goals according to capacity and expertise.

If the international community should set the targets on standards, businesses themselves should set the targets on their voluntary contributions to meeting the SDGs and in particular around:

(i) Alignment of social investment strategies with SDG targets
(ii) SDG Development partnerships

Indicator 1: Businesses operate according to internationally recognised standards of responsible business conduct

If meeting the SDGs requires the involvement of responsible business, then making business responsible surely must be a core part of SDG implementation strategies. And since collective government action in support of sustainable development is the core premise of the SDGs, the time has come for more collective government action to drive better standards amongst businesses everywhere. The SDGs offer a real opportunity to help normalise and globalise corporate responsibility as a minimum requirement for business operations, promoting better, faster and more accountable implementation of international standards amongst leading multinationals and encouraging greater uptake of progressively higher standards amongst other companies across the world.

"Responsible business conduct" standards include standards on human rights, labour rights, environment, corruption, communities and consumers – covering the three components of sustainable development – economic, environmental and social. Such international standards already exist and are embodied in multiple instruments – from the UN, international Labour Organization (ILO), Organization for Economic Cooperation and Development (OECD), International Finance Corporation (IFC) and voluntary initiatives such as the UNGC. In addition, there are numerous industry or sector specific standards (for example, in agriculture or the extractive industry) that also provide basic guidelines on expected conduct. There is no definitive list, as new standards will inevitably continue to develop to respond to new issues.[62]

States should set a clear vision for connecting the increasing role of the private sector in development with accountability and agreed standards for business practices aligned with human rights.

States should set a clear vision for connecting the increasing role of the private sector in development with accountability and agreed standards for business practices aligned with human rights.

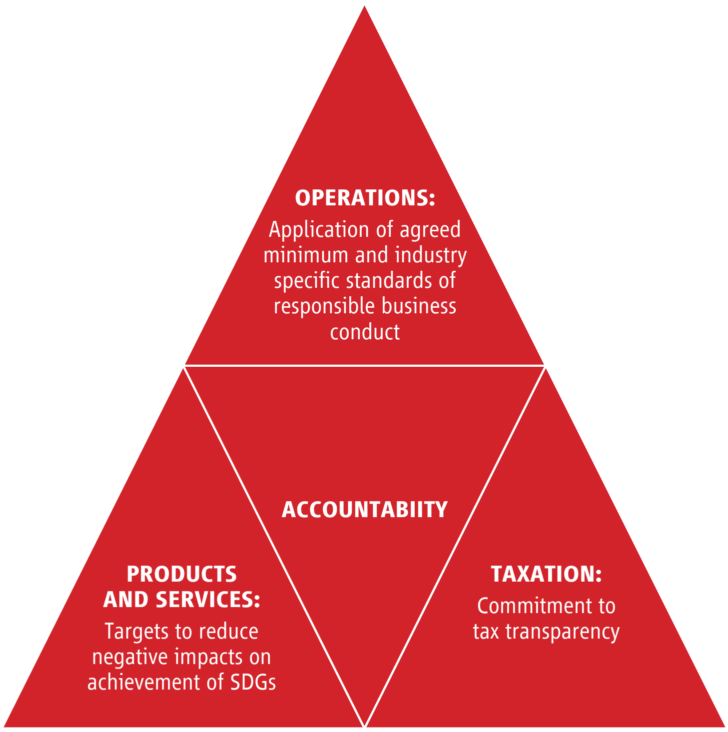
UN Working Group on the issue of human rights and transnational corporations and other business enterprises (2015)[1]

In the context of the SDGs, international standards on responsible business conduct are a critical safeguard against threats to sustainable development posed by irresponsible business actions. They are also a critical component of strengthening the means of implementation. They can unlock the door to a truly tri-partite cooperation between states, civil society and the private sector. The SDGs cannot impose corporate responsibility but by establishing expected standards, they can give more substance to the ambition of making all companies responsible, offer greater support to civil society's efforts to hold companies to account and provide better incentives for companies to change their practices.

To implement this vision, there is a need for an **SDG Framework for Responsible Business** to support this new proposed SDG indicator. The proposed Framework is based on four core elements of the way business functions: (i) operations; (ii) products and services; (iii) taxation and; (iv) accountability, as set out in Figure 2 and described further below.

At a national level, internationally recognised standards of corporate responsibility will need to be phased in by absorbing the approaches in the proposed SDG Framework for Responsible Business into national development strategies or industrialisation strategies and adapting it to the individual circumstances of the country – just as other areas of the SDGs will be implemented. This will happen both by governments implementing those standards through their domestic legal frameworks – the classic approach to domesticating international standards – but also through a more creative, "smart mix" of measures. In the near-term, more is expected both of rich countries and large companies (regardless of provenance) with the long-term objective of ensuring that all companies operate to international standards.

Figure 2: SDG Framework for Responsible Business



i. Operations

At a minimum, sustainable development assumes a "do no harm" approach – to people and planet. Taking responsibility for negative impacts (harm) – on the environment, on society, on human rights, on consumers – is at the core of the responsible business agenda.[64] "Corporate responsibility" or "responsible business conduct" involves preventing or mitigating these impacts – whether or not they are regulated by national law.

> *We will develop policies and, where appropriate, strengthen regulatory frameworks to better align private sector incentives with public goals, including incentivizing the private sector to adopt sustainable practices, and foster long-term quality investment. Public policy is needed to create the enabling environment at all levels and a regulatory framework necessary to encourage entrepreneurship and a vibrant domestic business sector.*
>
> Financing for Development Outcome Document[63]

The final SDGs text on the responsibility of the business sector draws on the Outcome Document of the 2015 Financing for Development Conference. While the reference to regulatory frameworks around labour rights and environmental and health standards was dropped from the Financing for Development and SDGs documents[65] as was the requirement for mandatory reporting on environmental, social and governance practice,[66] the Financing for Development Outcome Document specifically recognises the need for policies and regulatory frameworks "to better align private sector incentives with public goals." In addition, both documents refer to additional standards, including, significantly, the UN Guiding Principles on Business and Human Rights. These references are in the "Follow Up" section of the SDGs but do not set out specific targets for business – or for governments – indicating a clear opportunity to strengthen the forthcoming indicator framework and demonstrate leadership from government, the private sector and civil society in making this an important element of SDG implementation.

The importance of such signals to the capital markets – that were captured in the Financing for Development Outcome Document – cannot be overemphasised. The indication that standards and regulations will be forthcoming, aligned to the public goals in the SDGs, sends signals to capital markets about what conduct is expected and which businesses (or types of business) should be rewarded through increased investment – and which should not (see box). Clear signals in these documents that governments will take action to require the internalisation of the costs of the many externalities that the current mode of economic growth creates – pollution, a lack of decent work, and uncompensated use of natural resources – reinforces the incentives for business to get ahead of the curve and to capital markets about where investment should be made.

ii. Products and Services

Sustainable development assumes 'sustainable consumption and production patterns'[68] but what does this mean for companies? There has been an understandable focus on the enormous potential of business to contribute to development through its products and services, for example: new and greener technology, more impact investing and better harnessing of the market at the bottom of the pyramid. In this way, the SDGs can be transformed from development targets into business opportunities.

While the potential may indeed be significant (assuming the right conditions are in place to facilitate this kind of investment), it should not deflect attention away from the more urgent challenge of reducing and minimising the negative impacts caused by unsustainable consumption or production patterns. Neither the SDGs nor the Financing for Development Outcome Document provide much guidance on these bigger conundrums.

This is an important gap because business operates along a spectrum in terms of its relationship to specific Goals. Some industries (e.g. arms, tobacco) are clearly associated with harmful impacts even if they employ millions and deliver substantial tax revenues. Others (e.g. renewable energy) operate at the opposite end of the spectrum in which their products and services actively contribute towards particular Goals. But most industries occupy some space in between.

We see the primary failure of the capital markets in relation to sustainable development as one of misallocation of capital. This, in turn, is a result of global governments' failure to properly internalise environmental and social costs into companies' profit and loss statements. As a consequence, the capital markets do not incorporate companies' full social and environmental costs. Indeed, until these market failures are corrected through government intervention of some kind, it would be irrational for investors to incorporate such costs since they do not affect financial figures and appear on the balance sheet or – therefore – affect companies' profitability. This means that corporate cost of capital does not reflect the sustainability of the firm. The consequences of this are that unsustainable companies have a lower cost of capital than they should and so are more likely to be financed than sustainable companies.

An Aviva White Paper on a Roadmap for Sustainable Capital Markets (2014)[67]

For example, fossil fuels provide energy at a cheap cost to many countries that need it to grow. On the other hand, fossil fuels raise significant sustainable development concerns because they contribute to pollution and climate change. Soft drinks manufacturers or fast-food providers provide much-needed investment in the poorest countries in the world and create jobs where they are scarcest. These industries also have a multiplier effect on employment through their supply chains and distribution networks. Equally, they do not necessarily provide long-term value in social terms given their reported adverse impacts on health and nutrition.[69] In other words, it is evident that different companies impact on development in multiple and complex ways, both good and bad.

The SDGs did not dictate new regulation to eliminate products and services that are inconsistent with sustainable development objectives – that is a choice for governments implementing the SDGs. But a much clearer acknowledgement of the potential contradictions surfaced by an emphasis on the private sector as a development partner is needed. There is a need as well to reflect on how different industries can impact negatively on specific development outcomes. In turn, this can inform specific industry targets (for example, in emissions reductions, water conservation, levels of sugar and salt in food products and responsible sourcing) to minimise negative impacts. Such industry specific targets should become an integral part of a "do no harm" approach to the SDGs.

> *Life sciences and pulp and paper companies are sourcing raw materials from small farmers; mobile phone companies are facilitating banking services for the poor; cement companies are offering low-income housing solutions; energy engineering companies are enhancing the access to clean and affordable electricity, cooking and heating; banks and insurance companies are providing micro-credits and micro-insurance respectively; mining companies are investing in local enterprise development; and electric engineering companies are enhancing the access to health services to rural populations.*
>
> World Business Council on Sustainable Development[70]

iii. Payment of Tax

Sustainable development certainly depends on countries having resources to fulfil the agenda, and a major source of revenue for governments is through the collection of tax revenues. Domestic taxation has been identified as a significant, perhaps the most significant source of financing for the SDGs.[71] Tax avoidance is high on the agenda in rich countries[72] because they have experienced slow growth in recent years and need resources to finance their own development plans, and it has also been identified as a major drain on developing countries' finances.[73] Not surprisingly, tax reform features heavily in discussions around meeting the SDGs.[74]

> *Just as compensation has been claimed from rich countries because of their "climate debt" rooted in their excessive pollution, the tax debt creates a moral obligation on developed countries to reform a global tax system which is structurally unfair to poorer countries and prevents them from raising domestic revenues which could help them to fill the financing gap.*
>
> ActionAid[75]

Many of the measures employed by companies with cross-border arrangements to reduce their tax bills might survive the legality test but are widely questioned in terms of legitimacy. It is awkward for businesses to claim a commitment to development if they are at the same time exploiting loopholes and differences in national tax policies to minimise their payments to impoverished governments.[76] It is no less awkward for the international community to enlist private sector support in meeting development targets in the full knowledge that many of the same companies may be using sophisticated techniques to reduce their tax bills on profits earned in developing countries. This is not to suggest that all impoverished governments have an exemplary record of putting tax revenues to good use for their population, nor is this often a key driver in tax planning strategies.

Tax transparency is clearly a sustainability issue and is surely a requirement for any company claiming to be contributing to implementation of the SDGs. In contrast to other issues around corporate responsibility, the Financing for Development Outcome Document is explicit on the importance of combating tax evasion and on promoting tax transparency[77] through mandatory reporting. Welcome though this is, it is likely to prove a long struggle. Tax transparency needs to be made an integral part of the corporate responsibility agenda. The revised OECD Guidelines for Multinational Enterprises already contain a chapter on taxation that calls for enterprises to "to comply with both the letter and the spirit of tax laws and regulation of the countries where they operate."[78] Other organisations working on the corporate responsibility agenda could make it a core part of their activities as well. Increased tax transparency is seen by many as inevitable[79] and the model pioneered by the Extractive Industries Transparency Initiative (EITI)[80] which requires companies to report on all payments to national and local governments, including profit taxes, and governments to report on what they receive, needs to be expanded to encompass a much wider range of sectors. Greater transparency by governments on how they are spending such revenue is the necessary next step.[81]

iv. Accountability

> *Attempts to include more stringent commitments in the SDGs regarding corporate regulation, human rights impact assessments, mandatory due diligence reporting, and fiscal transparency and accountability have been vehemently resisted…*
>
> Open Democracy blog[82]

Accountability has been repeatedly emphasised throughout the post-2015 discussions especially since the MDGs are judged to have been weak in this area.[83] It has been emphasised in relation to business as well.[84] As a development partner and key vehicle for implementation, accountability is critical to the measurement and assessment of the private sector contribution. But accountability for the business role in the SDGs is complex, mainly because there is little for which the private sector is directly seen as accountable. The emphasis in the SDGs is on setting clear targets, allocating responsibility accordingly and instituting appropriate mechanisms for review and enforcement – at least for governments. As has been noted, no targets for business have been set. This might be a concern for civil society but should be worrying for business as well. It raises the possibility of a kind of ad hoc 'accountability without responsibility' – companies coming under fire for failing to do something no one told them they should have been doing.

The UN Office of the High Commissioner for Human Rights (OHCHR) refers to three main dimensions to accountability: responsibility, answerability and enforceability[85] – all of which are relevant for building greater business accountability under the SDGs:

- **Responsibility** – As highlighted above, the most important signal SDGs implementation strategies can send is in establishing a framework that details expected standards of responsible business conduct.
- **Answerability** – Many of these standards include processes to understand and assess adverse impacts by business and to develop appropriate prevention and mitigation measures.[86] The SDGs focus on inclusivity should prompt far more significant investigation and consideration of the most vulnerable among those business affects than has heretofore been the practice in processes such as impact assessments or due diligence. Equally as important, these standards include requirements to engage with stakeholders in determining and measuring impacts and to communicate outcomes. Stakeholder engagement is a core part of building answerability into the business agenda.
- **Enforceability** – Standards need to be enforced through better oversight at an international level (e.g. OECD National Contact Points), through strengthened institutions at a national level (e.g. National Human Rights Commissions or equivalent), and through an enhanced monitoring role for civil society and community groups. Additionally, several multi-stakeholder initiatives have specific accountability mechanisms to enforce their own standards, which might also serve as models in the context of the SDGs.

Indicator 2: Businesses contribute directly to the Goals according to capacity and expertise

If the international community should set the targets on standards, businesses themselves should set the targets on their voluntary contributions to meeting the SDGs. All Businesses have responsibilities to individuals, communities and societies in relation to their own operations but are not beholden to a wider set of development objectives that may lie outside core mandates any more than any private individual would be. Beyond core activities, contributions to the SDGs should be determined by companies themselves even if these can be encouraged, promoted and incentivised by others. The two most obvious and significant mechanisms for such contributions are social investment and partnerships.

i. Alignment of Social Investment Strategies with SDG Targets

Some companies already allocate resources to a variety of projects and initiatives designed with positive social, environmental (and reputational) considerations in mind. These initiatives will be along a spectrum – ranging from social investments intimately linked to operations (in which case they are better seen and treated as part of operations) to pure philanthropy. Other types of initiatives are harder to place – addressing philanthropic objectives but potentially creating business opportunity as well. Aligning these more explicitly with SDG targets would ensure greater coherence and promote better cooperation between companies, governments and development agencies on the ground.

The nature of these commitments will inevitably differ from industry to industry highlighting the need for industry-based targets. For example, an oil or mining company might frame its support around the health, education and living standards of affected communities. An insurance company might be more focused on vulnerable groups' capacity to manage external shocks, such as natural disasters. An ICT company might concentrate on ensuring affordable access to mobile networks and Internet services amongst the most disadvantaged communities while a consumer goods company could provide infrastructure in isolated areas in order to encourage the growth of local markets. It is these kinds of targets, owned and set by businesses themselves according to expertise, capacity (and indeed self-interest) that will deliver the greatest benefits.

There are important initiatives underway to develop guidance and indicators for companies in relation to the SDGs (see box). These offer a valuable basis for shaping companies' contribution but they need to be adapted and integrated in ways that yield specific commitments. A proliferation of targets and indicators can cloud accountability by ensuring that there is always something positive to report.

Examples of Initiatives to Support Alignment with the SDGs

Insurance Sector and the SDGs – the Insurance 2030 Roundtable[87]	The Extractive Sector and the SDGs	SDG Compass[88]
UNEP Inquiry on the Design of a Sustainable Financial System and the UNEP FI's Principles for Sustainable Insurance together with over 70 participants of global insurers and regulators from around the globe recognised the need for a coordinated process to assess the outcomes of the 2015 milestones for the insurance industry. One option could be the development of ***Insurance Development Goals*** – clear global targets for risk reduction and resilience to natural and climate-based hazards, access to sustainable insurance products, and investments to support the transition to a low-carbon climate-resilient economy.	The World Economic Forum (WEF), UN Sustainable Development Solutions Network (SDSN), United Nations Development Programme (UNDP) and Columbia Center on Sustainable Investment (CCSI) are working with partners in industry, government, and civil society to create a shared understanding of how the mining industry can most effectively contribute to the SDGs. The product of this collaboration will be a mapping document for the industry that traces the many points of intersection between mining and the SDGs, including ways in which the mining industry can contribute toward the realization of the SDGs.	The UN Global Compact Office together with the Global Reporting Initiative (GRI) and World Business Council on Sustainable Development (WBCSD) are developing a toolkit designed to guide companies on how they can contribute to the realization of the SDGs. The 'SDG Compass' provides a five-part framework that help businesses to: • Understand the SDGs • Assess SDG impacts • Set goals • Implement goals • Report and communicate.

At an international level, broad areas could be set by global industry associations with the detail on specific and measureable targets more fully elaborated by national or local level industry associations – or even individual businesses.[89] Whether set within the framework developed with an industry association or set by companies themselves, the key point is that companies need to own their commitments and prioritise measurability and accountability in designing, setting and implementing them. Commitments should be small enough in number to be manageable, targeted enough in scope to be both appropriate and effective and concentrated enough to yield tangible benefits for individuals and communities and against which they can be held accountable.

At the same time, a 'do no harm' approach is vital. Carbon offsetting is a scientifically justified approach to carbon reduction, but no such concept works for many other parts of the SDG agenda. As the UN Guiding Principles on Business and Human Rights note, human rights harms in one area cannot be offset against positive contributions or donations in another – nor in the process of making positive contributions themselves. An approach which prioritises impact and accountability over scale and scope will prove much more effective and indeed sustainable.

ii. SDGs Development Partnerships

> *Forge a new global partnership. Perhaps the most important transformative shift is towards a new spirit of solidarity, cooperation, and mutual accountability that must underpin the post-2015 agenda.*
>
> A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development[90]

The need for more and better partnerships – between governments, donors, civil society and the private sector – has been a constant refrain throughout the discussions on the post-2015 agenda.[91] The urgency, ambition and scale of the SDGs mean that partnerships are viewed as one of the critical elements in designing, financing and delivering progress towards the Goals. The current emphasis on the role of business in development means that it is also becoming the default term for describing the intended relationship with the private sector. With its connotations of equality and cooperation, a partnership with business seems to offer the prospect of a perfect marriage between public good and private resources.

This trend towards partnering with business is underpinned by two factors: first, the need for resources – businesses are seen as a key source of added value in terms of resources, knowledge, skills and technology for wider multi-stakeholder partnerships targeting specific SDGs; second, the wider scope of the SDGs. While the MDGs were tightly focused on a few specific development outcomes, the SDGs are more numerous and expansive. Progress towards targets on health and education is less dependent on the private sector than targets on growth and infrastructure. These two factors carry important implications. Not only are more and bigger partnerships required; some will need to look very different. And the role of business in these partnerships will also vary considerably.

All these variations tend to be masked by the use of 'partnership' as a general term to describe what are fundamentally different arrangements. There is little comparison between a partnership designed to combat the spread of disease (for example, the Global Fund to fight AIDS, Tuberculosis and Malaria[92]) and a partnership designed to leverage private investment in infrastructure (for example, the Private Infrastructure Development Group).[93] The likely expansion of these different models of partnership emphasises the need to establish a set of baseline expectations. Even if there is a huge diversity in terms of objectives, governance structures, division of responsibilities, operating guidelines or implementation mechanisms, there still needs to be consistency and coherence with the principles that underpin the SDGs.

Recent studies focused on so-called 'Type II' or 'Johannesburg' partnerships developed following the 2002 UN World Summit on Sustainable Development have concluded that a significant number produced little by way of measurable output (such as research, capacity building, service provision, etc.).[94] Also concerning, only approximately 15 per cent of the total provided a clear budget plan, only 30 per cent reported dedicated and identifiable staff members and only about 5 per cent of all partnerships have an openly available memorandum of understanding (that would outline the precise roles and responsibilities of partners).[95] Other studies point out that Type II partnerships lack commonly agreed ground rules to foster accountability, capacity building and evaluation to ensure learning. These also note that the UN secretariat was not given the mandate to undertake review and monitoring of the partnerships.[96]

A review of selected global partnerships[97] that are targeted in particular at delivery of specific health and education goals suggests there is too little consistency on core principles. As these global, multi-stakeholder development partnerships to deliver on specific SDGs are likely to increase, as are smaller, national-level multi-stakeholder partnerships, the SDGs implementation process should include the development of core principles all SDG partnerships are expected to meet. While a more comprehensive partnership framework is appropriate for complex public private partnerships (PPP) that use public aid funding to leverage private sector resources in SDG relevant investments (see Partnership Principles in Chapter 3), any development partnership that is specifically targeted to delivering on the SDGs should live up to core principles underpinning the Goals themselves. At a minimum, development partnerships should be guided by three core principles:

- **Transparent governance arrangements**

  SDG partnerships should be setting an example through clearly accessible information on governance structures, decision-making processes, roles and responsibilities. They should have, clear conflict of interest policies, given the wide range of stakeholders involved in many of the partnerships, and some involving pecuniary interests. Transparency in contracting would provide a far clearer picture of who benefits from development partnerships. Particularly where public funds have been used, financial statements should be published, including funding sources and disbursements.

> *Better reporting is also needed for funds committed to multi-stakeholder initiatives, such as "Every Woman, Every Child" or "Sustainable Energy for All." While these initiatives claim billions of dollars in pledges and investments, it is usually difficult to assess where money has gone, whether it has been really new and additional to existing commitments, and which impact it had.*
>
> Misereor, Global Policy Forum, BROT[98]

- **Commitment to meeting international standards**

  As the UN has noted "[a]ctions in support of UN goals cannot substitute for a failure to respect international standards."[99] Given that many development partnerships focus on topics directly related to human rights, a more explicit human rights based approach should be a core part of operating standards. Human rights due diligence and required consultation with relevant stakeholders should be core parts of partnership processes. At a minimum, partnerships would be expected to adopt a "do no harm" approach but as many such efforts are geared at least in part to supporting the fulfilment of specific rights, that ambition is too limited. For partnerships contributing to the realization of economic, social and cultural rights (ESCR) such as health, education and food,[100] consistency with a rights-based approach requires that the relevant service must be: available in sufficient quantity, accessible to all, culturally and socially acceptable, and of sufficiently high quality in line with the "Availability, Accessibility, Acceptability, and Quality" (AAAQ) standard.[101]

- **Accountability**

  Accountability among the partners within the partnership and to the broader set of stakeholders involved should be at the heart of all SDG partnerships. Accountability mechanisms, such as a formal grievance procedure to address adverse impacts or other concerns would provide concrete, accessible evidence of living up to principles underpinning the SDGs. More rigorous monitoring and evaluation to demonstrate measurable output would also help more definitively answer questions about whether the rhetoric is

Chapter 1 Endnotes

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[60] SDG 12.6 is within SDG 12 on sustainable consumption and production and "encourages" companies to adopt sustainability practices.

[61] See the SDG Indicators home page: http://unstats.un.org/sdgs/

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[64] Despite the inclusion of the term "responsibility" in the term "corporate social responsibility", the emphasis in many discussions was posed as a voluntary v regulatory approach, with voluntarism often trumping. The discussion has shifted to a focus on the responsibility of business to be accountable for adverse impacts linked to its operations – the UN Guiding Principles on Business and Human Rights refer to the corporate responsibility to respect human rights, the OECD uses the term "responsible business conduct," the EU has changed its definition of CSR to focus on the responsibility of businesses for their impacts. The SDGs provide the opportunity to focus on businesses responsibilities for impacts on the topics covered by the Goals.

[65] See Revised Draft Outcome Document paragraph 36 (May 2015) *"We will adopt regulatory frameworks that foster a dynamic and well-functioning business sector…"*. Available at: http://www.un.org/esa/ffd/wp-content/uploads/2015/05/revised-draft-outcome.pdf

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[76] Tax avoidance by multinationals costs developing countries an estimated $100 billion a year. UNCTAD figures quoted in http://www.taxjustice.net/2015/03/26/unctad-multinational-tax-avoidance-costs-developing-countries-100-billion/

[77] Outcome Document. Paragraph 27 – although this too has been weakened from earlier drafts – *"We encourage countries, in accordance with their national capacities and circumstances, to work together to strengthen transparency and adopt appropriate policies, including multinational enterprises reporting country-by-country to tax authorities where they operate".*

[78] OECD Guidelines on Multinational Enterprises (2011), Chapter XI. Taxation.

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[83] UN Office of the High Commissioner for Human Rights and the Center for Economic and Social Rights, "Who will be Accountable? Human Rights and the Post-2015 Development Agenda", (2013). Available at: http://www.ohchr.org/Documents/Publications/WhoWillBeAccountable.pdf

[84] For example, Joint Statement of the Chairpersons of the United Nations Human Rights Treaty Bodies on the Post-2015 Development Agenda. Available at: http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=15505&LangID=E

[85] Ibid. OHCHR/CESR 2013

[86] For example, The UN Guiding Principles on Business and Human Rights set out a series of steps to guide companies in carrying out human rights due diligence. (UNGP 17-21). There is a wide range of tools, available to business to help them in doing so across a spectrum of the sustainable development agenda. See for example, Second Draft SDG Compass Impact assessment tools 7 July 2015.

[87] www.unepfi.org/psi/insurance-2030-roundtable

[88] https://sdgcompass.wordpress.com

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[94] Pattberg, Philipp, Frank Biermann, Sander Chan, and Aysem Mert. 2012: Public-Private Partnerships for Sustainable Development: Emergence, Influence and Legitimacy. Cheltenham; Northampton, Ma: Edward Elgar.

[95] Pattberg et al. 2012, Ibid., pp. 257-258.

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[97] Pingeot, Lou, "Corporate Influence in the Post-2015 process", Misereor, Global Policy Forum, Brot (2014), p.6. Available at: https://www.globalpolicy.org/images/pdfs/GPFEurope/Corporate_influence_in_the_Post-2015_process_web.pdf

[98] Based on work carried out by University of London, School of Oriental and African Studies, International Human Rights Clinic, 2014-15 on behalf of IHRB. See acknowledgment section.

[99] The UN currently has a set of criteria for registering a company's sustainability goals public as a commitment to the Sustainable Development Goals (SDGs). To register, corporate commitments to action are expected to meet certain criteria: (i) Advance one or more UN Goals and Issues; (ii) Include time-bound target(s) that can be measured for success; and (iii) Include an agreement to publicly disclose, on an annual basis, progress made to realise the commitment, throughout its duration. Although not a specific criteria, the following is also noted: "[a]ctions in support of UN goals cannot substitute for a failure to respect international standards." Available at: https://business.un.org/en/commitment_form

[100] See OHCHR Fact Sheet, No. 33: "Frequently Asked Questions on Economic, Social and Cultural Rights," (2008), p. 10. Available at: http://www.ohchr.org/Documents/Publications/FactSheet33en.pdf

[101] This definition is adapted from the ICESCR. Mads Holst Jensen and Marie Villumsen, "The AAAQ Manual and the Right to Water – Contextualizing Indicators" The Danish Institute for Human Rights (2014). Available at: http://www.humanrights.dk/publications/aaaq-manual-right-water-contextualising-indicators. However, the specific requirements for fulfilling the different human rights differ in their detail – for example the requirements around the right to food differ from the right to water.

CHAPTER 2
The Right Kind of Growth

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The Right Kind of Growth

"Economic growth should lead to shared prosperity. The strength of an economy must be measured by the degree to which it meets the needs of people, and by how sustainably and equitably it does so. We need inclusive growth, built on decent jobs, sustainable livelihoods and rising real incomes for all, measured in ways that go beyond GDP and account for human well-being, sustainability and equity"

Synthesis report of the Secretary-General on the post-2015 sustainable development agenda[102]

Cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts. We reiterate that each country has primary responsibility for its own economic and social development and that the role of national policies and development strategies cannot be overemphasized.

Outcome Document of the Third Financing for Development Conference[103]

Every country is responsible for its own development. This point has been repeatedly emphasised in all the processes shaping the post-2015 agenda. National ownership of development strategies is a fundamental principle that has underpinned the discussions around the SDGs. Although clearly a political pre-requisite for a global agreement, it has a strong economic rationale as well. Countries need to generate and manage more of their own revenues. The international community will support, assist and cooperate on addressing global challenges but each country's development will depend to a large extent on how effectively it can mobilise (and allocate) its own resources.

This emphasis on a country's own responsibility is a significant shift from the past. The MDGs emphasised development assistance predominantly in terms of aid transfers from richer to poorer countries. The responsibility for the use and disbursement of development aid remained with the recipient government (in principle, at least) but donor support was the primary instrument for meeting the MDGs themselves. By contrast, the SDGs place a much greater emphasis on domestic economic growth. In large part, this means an expansion in business activity, whether through the private sector – large, medium or small – or indeed through state-owned enterprises (SOEs).

If this were simply a matter of increasing GDP, it would be a relatively uncontested, if still challenging proposition. Business undoubtedly facilitates economic growth and it has been instrumental in lifting millions out of poverty. The current model has limits, however, in terms of quantity and quality. Without appropriate safeguards, it is unsustainable from an environmental perspective and, arguably, from a social one as well given concerns over rising inequality. Moreover, without fundamental changes, it is estimated that extreme poverty will continue to affect upwards of 100 million people (and possibly as many as one billion) by 2030 with the highest concentration in Sub-Saharan Africa.[104] But extreme poverty (defined as an income of $1.25 a day) is only the most basic target. The SDGs aim to cut poverty in all its forms: improving access to health care and education, ensuring basic rights and freedoms and improving overall quality of life. Addressing these multi-dimensional aspects of poverty assumes not only growth *per se*, but a different kind of growth, coupled with a fairer, more equitable distribution of its proceeds. The implications for states and the private sector are profound.

These challenges present a real threat to meeting the SDGs although the extent to which they play out will vary considerably in individual countries. In addition to the difficulty of overcoming the challenges, there is obviously a danger that the proposed model will simply be ignored, perceived by some governments as conflicting with short term political self-interest and by others as constraining freedom in shaping a development strategy. It might also be perceived as an abdication of responsibility by rich states: transferring much of the burden and the cost of development onto the shoulders of impoverished governments.[105] In reality, the opposite will need to be the case. Addressing these challenges is a matter of establishing the **right conditions** and the **right opportunities.**

1. The Right Conditions

The SDG model depends on better governance. This is stating the obvious perhaps but it is fundamental nonetheless. If business is to be an engine of growth, then it needs the right conditions. Business is especially sensitive to poor governance, more so even than aid. Unlike aid, business (at least responsible business) flows to where it is valued rather than needed. The private sector requires strong institutions, effective and fair regulation, respect for property rights and the rule of law. Without these foundations, economic activity has no platform on which to expand and diversify.

> *One overarching pre-condition for business of any size, sector or nationality to operate is effective governance, rule of law and stable societies.*
>
> International Chamber of Commerce to the UN on behalf of the Global Business Alliance (GBA) for Post-2015 for the Business and Industry Major Group[106]

1.1. Business and Fragile States

States that are unwilling or unable to foster a sound business environment will struggle to generate sufficient resources domestically to meet the ambitious targets laid out in the SDGs. This is of most concern in fragile states – countries where the government lacks capacity, accountability and often legitimacy.[107] Fragile states present intractable development challenges. By 2011, no low-income fragile or conflict affected country had achieved a single MDG.[108] By the end of 2015, only one-third are likely to meet the goal of halving extreme poverty while one-fifth will halve infant mortality.[109] The 50 countries on the OECD fragile states list are currently home to 37% of those living on less than $1.25/day. This figure could rise to 75% by 2030.[110] Meeting the ambitious targets set out in the SDGs in these countries will prove especially demanding and will need to be the focus of dedicated attention.

Outbreaks of widespread political or criminal violence are the most obvious and devastating symptom of fragility but not the only one. Mismanagement of state resources, poor or non-existent public services and inadequate security combine to undermine development efforts, entrench poverty, drive inequality and leave societies more vulnerable to natural disasters.[111] Business is another casualty of fragility. Until relatively recently, the effect of weak or dysfunctional governance on the business environment received less attention than the effect on aid. In respect of business, the emphasis at both national and international policy levels has traditionally been on how companies, especially in the extractive industry, impact on fragility rather than vice-versa. This will surely change yet the interaction between business and fragility is especially complex:[112]

- Poor governance discourages both domestic and foreign businesses, damaging the prospects of broad-based economic growth.
- At the same time, poor governance encourages corrupt or otherwise irresponsible business, either by exercising close political control over companies or by facilitating harmful practices through weak regulation and ineffective oversight.
- Poor governance undermines the ability of responsible business to act in accordance with international standards. Few companies are equipped to navigate the management challenges posed by social tension, high rates of inequality and political or criminal violence.

If the first of these were the only challenge, the use of development assistance to stimulate business would be simple common sense. To the extent that un-and under-employment is correlated with higher risks of conflict and instability[113] and, conversely, a burgeoning middle class with greater pressure to improve governance[114], private sector growth can be seen as an effective antidote to fragility. This understanding is certainly reflected in recent trends amongst donors. The amount of aid channelled towards the private sector has been increasing over the last decade[115] and the New Deal for engagement in fragile states agreed by the International Dialogue on Peacebuilding and Statebuilding in 2011 lists economic foundations (generate employment and improve livelihoods) as one of five goals, alongside legitimate politics, security, justice and revenues and services.[116]

> *...the draft sustainable development goals (SDGs) recognize the positive role of businesses to support and drive development. At the same time, in our view, they do not sufficiently reflect the fact that governance gaps in many situations enable business activities across a range of sectors and countries to undermine respect for human rights.*
>
> UN Working Group on the issue of human rights and transnational corporations and other business enterprises (2015)[117]

The relationship between governance and business is not so straightforward, however. The impact of business is strongly influenced by the system that surrounds it. Without the proper institutions in place, business is more a double-edged sword than an unrealized good: on the one hand, a powerful instrument of economic growth; on the other, a potential development liability. This is not a new insight. The debate over natural resources in developing countries and the role of extractive industries has illustrated this dilemma.[118] Countries' economies can grow, and grow fast, yet still not deliver real development to the whole population. Economic mismanagement is compounded by poor corporate conduct. Companies are free to disregard the principles of good practice or else they struggle to live up to them as a result of external pressures. The extractive industry may be exceptional in terms of its size, its impact and its revenue-generating potential but its real uniqueness lies in its willingness to invest almost regardless of the operating environment.[119] Other industries, assuming they can be persuaded to invest on the scale demanded by the SDGs, will struggle to dodge this poor governance bullet.

A similar argument applies to the domestic private sector. The corruption and patronage that thrive in weak as well as authoritarian states privilege unscrupulous businesses over responsible ones. It is difficult in such circumstances, and in many cases impossible, to establish and grow a company without having or buying the right contacts. In countries where this kind of unhealthy relationship between business and politics exists, the development potential of business is unpredictable at best. Just as open, transparent and participative governance is a threat to unaccountable political power, a flourishing and responsible private sector is a threat to entrenched economic power, including domestic monopolies. Business prospers when granted a strong measure of independence. In order to realise the private sector's full potential, governments need to sacrifice some control over the economy.

If the problem is most acute in countries where poverty and violence combine, it is also apparent in more prosperous middle-income countries with significant pockets of deprivation. Groups excluded from the economic, political and social benefits that economic growth has delivered to their compatriots often have neither the power to be heard nor the means to develop a public voice in such debates. It is these groups who can have the most to lose from the expansion of business. Living in countries where investment is attractive and domestic finance available, they are particularly vulnerable to the appropriation of their lands and livelihoods in the name of development. Institutions may be relatively effective and the rule of law relatively strong but they must still be accompanied by protection of individual rights and measures to empower the poorest. Good governance is about more than institutions. It is also the audible voice of every citizen and the equal protection of everyone.

1.2. Prioritising Good Governance

Good governance is about effective, accountable and inclusive institutions that are able to regulate and govern. The real key then to strengthening the role of business in sustainable development lies in SDG 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.'

If pursued vigorously, the inclusion of a goal on peace and governance is a real opportunity. It offers the international community and national stakeholders the incentive and perhaps the teeth to help address one of the most significant obstacles to development and it unlocks the potential of the private sector, not only by providing the right conditions but also by helping ensure that business operates in ways consistent with the other SDG targets.

The challenge of meeting this goal is as big as the opportunity. According to the OECD, only two states (Cabo Verde and Liberia) out of the 50 classified as fragile would reach the threshold for 'acceptable' institutional quality by 2030 based on current rates of progress.[121] Even a more optimistic projection based on faster than average progress adds only one more country (Cambodia) to the list.

Nevertheless, if the problem of poor and weak governance is not properly addressed, the whole SDG project will be endangered.[122] Unforeseen catastrophes resulting from climate change or disease can stall or undermine progress[123] but the more predictable obstacles come in the form of limited political will and capacity. Trillions of dollars may be theoretically available[124] from a combination of domestic resources, international aid and private investment, finance and philanthropy. However, much of this will remain hypothetical without the political direction to attract and regulate the new resources and the absorptive capacity to manage and channel them where most needed. This is true of aid but far more so of business investment. Poor governance makes for poor business while attracting good companies into fragile states will require large injections of public money (either directly or through loan guarantees and risk insurance) not to mention significant time, effort and expense in oversight of individual projects.

Global success in poverty reduction over the next 15 years will depend heavily on success in building resilient institutions and societies and on reducing conflict.

OECD[120]

There is increased interest ...in how to engage with the private sector to foster inclusive growth and poverty reduction, enabling an end to aid dependency through growth and jobs. We know that economic growth is the primary driver of poverty reduction and that the private sector is the engine of that growth; promoting new jobs, opportunities, markets and prosperity.

UK Department for International Development (DFID)[125]

Donors have made great progress in aligning aid with national strategies and encouraging better harmonisation in development co-operation.[126] But this is less evident in respect of "private sector development programmes" than in other areas of development policy[127] where donors have only recently started to engage in a proper debate about the challenges of the approach.[128] In the haste to identify the resources needed to meet the SDGs, the international community may be putting the cart before the horse.

Efforts to stimulate the right kind of private sector growth in developing countries cannot succeed without more emphasis on creating the conditions for responsible and sustainable business to thrive. This is usually understood as "the enabling environment." Donors expend a great deal of time, effort and money[129] on 'getting policies right'.[130] The problem is that without accompanying efforts to improve the overall governance situation, the impacts of these interventions in the most impoverished countries are likely to be diminished. There is considerable overlap between the bottom 50 countries in the World Bank's Ease of Doing Business ranking[131] and those in the OECD list of fragile states. This correlation is not a coincidence and although reducing barriers to doing business is important, it is less so than fostering strong and accountable institutions that ensure respect for the rule of law and protect human security. These are a pre-condition for genuine progress in regulatory reform even if they are more difficult to achieve. There is truth to the idea that the most easily measurable interventions are often the least transformational, while the most transformational are often the least measurable.[132]

Second, private sector development programmes rarely include any support to developing responsible and sustainable business practices – indicating a major missed opportunity to develop a coherent agenda around the role of business in the SDGs. With so much reliance on the private sector in meeting the SDGs and an increasing percentage of otherwise shrinking donor funding going to private sector development, those precious funds should be spent on developing the right conditions for the kinds of private sector development the SDGs define.

Donors will need to focus far more intensively on good governance both as a priority in its own right and as a means of unlocking responsible private sector investment. The argument that business drives poverty reduction through growth and employment is too simplistic in fragile states at least. An important start has been made with the New Deal for engagement in fragile states but practical support remains low.[133] Donors need to work together with recipient governments, businesses and civil society advocates to develop a set of principles and guidelines linking private sector development strategies with an increased focus on wider good governance. Perhaps the inclusion of Goal 16 in the SDGs provides the incentive and the legitimacy to do so while the New Deal offers the mechanism.

2. The Right Opportunities

The SDG model envisages a very different economic journey from developing to developed country. Every industrialising nation – from Great Britain in the nineteenth century to China today – has relied on a combination of cheap labour, abundant fossil fuels and a dose of protectionism to drive its development. While the first two remain in plentiful supply, neither corresponds to the vision outlined in the SDGs and the third is the antithesis of the free trade approach reemphasised in the Financing for Development Outcome Document. In short, poorer nations are being asked to take a greener, fairer and more open path towards industrialisation than any countries have done before.[134] Promoting a different model of economic development is easier than implementing one, particularly if many of the proven tools of growth are no longer considered appropriate.

The message of the SDGs is that growth alone is not the answer. In simple GDP terms, the developing world has grown strongly over the last 15 years[136], even when China is discounted and notwithstanding the global financial crisis. Yet even at these relatively high levels, there has not been the kind of widespread improvements in social indicators or increases in employment that might have been expected, certainly amongst the least developed countries (LDCs). This can be explained in part by population rises and the type of growth (and presumably also by the allocation of the proceeds of economic expansion). The pattern of economic growth matters as much as the pace of it[137] and growth driven by overdependence on individual sectors (e.g. natural resources) has not delivered the quantity of jobs or indeed the quality needed to spur development.[138]

> *No country has developed without fossil fuels to date, so cooperation is key to providing the technology, finance, skills and systems to create an alternative way of developing.*
>
> Mary Robinson[135]

This underlines the fact that growth should be understood not as an objective in itself, but rather as a means to an end by providing decent livelihoods, increasing security and improving the welfare of all citizens.[139] If growth does not deliver these, it has limited value from a development perspective.

This suggests a shift of emphasis and understanding over the last 15 years: from an assumption that employment is an output of growth to a greater focus on identifying and promoting the right kind of job opportunities as an input to growth.

This is reflected in popular opinion – better job opportunities currently ranks third in the UN's My World global survey[140] of key issues. The SDGs have highlighted decent work[141] as being central to sustainable development. Good jobs offer not only income but also access to products and services. They raise living standards, support the education of dependents and and enhance the dignity to individuals and families. They are a clear priority and are consistently cited as a priority for all age groups across all countries. The focus on jobs seems justified, especially in view of the financial crisis, which has had a dampening effect on employment prospects.[142]

The ILO estimates that some 670 million new jobs are needed by 2030 simply to contain the spread of unemployment and cope with rises in the working age population.[143] But bare employment statistics are a poor indicator of the real scale of the underlying problem. Although there has been a decline in the relative number of working poor since 2000 – those defined as in employment but living on less than $2 a day – the improvement has been driven overwhelmingly by progress in East Asia.[144] South Asia and Sub-Saharan Africa in particular continue to be plagued by the problem of working poverty. Overall, 839 million people around the world remain trapped in insecure jobs[145] with low incomes, little access to social services and limited prospects for the future.

Even these figures mask the still deeper crisis of youth unemployment. In 2013, the youth-adult unemployment ratio reached an historic peak.[147] The problem is acute in many developed countries, especially Europe, but with over 90% of global youth[148] concentrated in developing countries, it is even more of a challenge in those countries that are already beset by high levels of working poverty.

> *Achieving decent work within the post-2015 framework should be seen as a dynamic process of successive improvements in wages, working conditions, labour institutions and standards of employment and social protection that is related to the structural transformation of an economy.*
>
> ILO[146]

> *Therefore, meeting the new goals will require nothing short of a revolution in LDCs' economic performance. More specifically, it will necessitate their structural transformation on a scale unprecedented for these countries.*
>
> UNCTAD[151]

In contrast to other issues such as governance and climate change, employment was an explicit target in the MDGs.[149] If progress in this area has been patchy[150], the sin is not one of omission but of implementation. On this point, there is little that is genuinely transformational in the SDGs. New jobs are going to have to come from where they usually do – changes in domestic policy to promote entrepreneurship, investment from abroad to provide capital, expertise and technology and freer trade to reduce barriers so lowering costs, boosting exports and promoting competition. These are familiar ideas reflecting current economic orthodoxy. The transformative element of the SDGs comes in the way the jobs will have to be created driven by two main imperatives: inclusivity (specifically a focus on opportunities for the poorest) and sustainability (meaning fundamental changes in consumption and production).

Structural economic transformation is required in order to enable the transformation in sustainability of consumption and production. While some developing countries, notably in South-East Asia, have made progress in diversifying their economies and moving the workforce into more productive activities, many have not, with the highest concentration of these found in Africa.[152] In these countries, the opportunities are more limited for the private sector to be a driver of growth, let alone sustainable development.

Where then will new jobs come from in the short-term? This question seems to get less attention than the problem of financing but it is of no less importance, particularly given that the SDGs place so much emphasis on domestic resource mobilisation. Besides the jobs that may flow from investments in infrastructure (should those investments materialise – see Chapter 3), the options are limited and seem to revolve around three main areas: agriculture and micro, small and medium-sized enterprises (MSMEs)[153] and for some countries, through participation in global value chains.

2.1. Agriculture

By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment

Target 2.3 Sustainable Development Goals

The economic history of the modern world is written in rural to urban migration. Over the course of 100 years (1800-1900), employment in agriculture fell from 73% to 11% in England.[154] Industrialisation drove workers from the fields to the factories with the promise of better opportunities and higher living standards. Two centuries later, the same forces have been evident in China, only accelerated. Between 1990 and 2010, China's urban population almost doubled and a further 100 million farmers are expected to migrate by 2020.[155] More people globally now live in cities than in the countryside. The global rural population is nearing its peak and although Africa and Asia account for nearly 90% of these, both regions are urbanising faster than elsewhere.[156]

In employment terms, agriculture accounts for approximately 36% of the global workforce and falling[157] although the figures mask huge disparities between developed and developing countries. For example, in 2010, around 2% of the American working population were engaged in agriculture. In India the percentage was approximately 50%[158] and over 80% for Sub-Saharan Africa (including related rural enterprises).[159] At the same time, however, developed countries' share of agricultural production is similar to that of the combined total for Sub-Saharan and North Africa, Latin America and West Asia (around 25%).[160] The reality is that agricultural employment is more often linked to poverty than to rising prosperity.

If the trends are familiar, the economic context is changing. For the farm workers of 19th Century England and late 20th Century China, the pull to the cities was at least as strong as the push from the countryside. People moved because of new employment opportunities and to fuel a manufacturing boom. For too few developing countries, especially in Sub-Saharan Africa, the push from the countryside, whether because of grinding poverty, conflict, environmental damage or climate change, is stronger than the pull to the cities where few opportunities await. Migration overseas no longer offers the same possibilities for the low skilled.[161]

From the perspective of inclusive economic growth, agriculture is critical to sustainable development for one overwhelming reason: there are no other options that offer the same immediate potential in terms of quantity of jobs and impact on the poorest, particularly women and in stemming the flow of migrants to cities that cannot yet offer alternatives. The reason why only 2% of the American workforce is employed on farms is obviously not because the USA no longer produces any food but because it does not need a large labour force to do it.[163] By contrast, a priority for many developing countries is to retain the high percentage of the workforce currently in agricultural employment while driving up productivity to improve living standards. Business can undoubtedly deliver the latter but possibly only at the expense of the former. Additionally, business will most likely focus its investments in crops that

Reaching the SDG targets simply will not be possible without a strong and sustainable agricultural sector.

Farming First[162]

deliver the best margins. These are more likely to be grown for the export market than for domestic consumption offering little help in addressing the urgent problem of local food security. Business can play a critical role in transforming agricultural productivity and increasing countries' income from agricultural exports and production but whether it can do this while also employing millions is an important question.

From a sustainable development perspective, one of the keys lies in focusing on small-scale farmers (who currently produce some 70% of the world's food[164]). This assumes two things at minimum: an end to (or at least reduction in) rich country subsidies for farmers in rich countries, and much greater investment (domestic and foreign). The call in the Financing for Development Outcome Document to eliminate all forms of agricultural export subsidies[165] seems likely to fall on deaf ears. Greater domestic support coupled with better protection from foreign competition has proved to be a successful combination elsewhere.[166]

Foreign investment can be as big a threat as foreign competition. Since the 2007-2008 food crisis, which saw a rise in global prices, large-scale land acquisition, particularly for agriculture – sometimes carried out through 'land grabbing' – has been on the increase. An estimated 32 million hectares of land – an area the size of Poland – is currently owned by, or on long-term lease to, foreign investors with the vast majority of the investment taking place in Sub-Saharan Africa.[168] The deals are driven by three factors[169]: food security – although not necessarily global food security (foreign companies have been investing in land and agriculture more to satisfy international or their own home markets rather than host ones); energy and specifically bio-fuels (in part driven by government consumption targets as in the European Union) and; finally, rising food prices (ensuring more attractive returns).

Governments concerned about stability of food supplies are promoting acquisition of farmland in foreign countries as an alternative to purchasing food from international markets. Recipient countries, welcoming the new wave of foreign investment, are implementing policy and legislative reforms to attract investors.

FAO, IIED, IFAD[167]

The investments undoubtedly bring potential benefits, not least in the prospects for (some) job creation but there are many downsides too that echo long-standing concerns around the exploitation of other natural resources such as oil, gas and minerals. The land is usually under cultivation of some farmers or communities, despite government claims to the contrary[170], meaning that some people – often small-scale crop farmers or pastoralists – have to be relocated, losing their livelihoods. The familiar question of who really benefits is increasingly being directed as much at agribusiness as at the extractive sector.

...where rights are not well defined, governance is weak, or those affected lack voice, there is evidence that such investment can carry considerable risks of different types. Risks include displacement of local populations, undermining or negating of existing rights, increased corruption, reduced food security, environmental damage in the project area and beyond, loss of livelihoods or opportunity for land access by the vulnerable, nutritional deprivation, social polarization and political instability.

FAO, IFAD, UNCTAD, World Bank Group[171]

In recognition of these concerns, the Committee on World Food Security (CFS) has launched a set of principles designed to guide responsible investment in agriculture[172] that have been explicitly endorsed in the Financing for Development Outcome Document.[173] The principles are comprehensive, covering food security, inclusive economic development, respect for the environment and women's empowerment, and human rights, amongst other issues.[174] While this constitutes an important step forward in terms of awareness of the problem, there is enough experience from similar initiatives in other industries to suggest that implementation is never guaranteed (certainly not without strict accountability mechanisms) and not always even possible.

The SDGs clearly prioritise employment and development but this disguises a complex set of political choices and economic and social reforms. Does large-scale investment in agriculture actually contribute to sustainable development or does it undermine it? In the short-term, should governments pursue agriculture to maximise GDP or maximise employment? It implies a different model of large scale foreign investment, one that prioritises the needs of smallholders over short-term profits and one that discourages the type of deals currently on the increase in Africa in favour of a different approach – one more along the lines of Thailand than Brazil.[175] This means foregoing some of the benefits of mechanisation and greater efficiency to avoid potential losses in employment and abandoning the current approach to land acquisitions in favour of promoting innovative models of joint equity with local communities[176] or other alternative models of consolidating small farms, so as to benefit from economies of scale. None of this is impossible, nor is it a quick fix to the problem of poverty. It is a long-term endeavour.

Investment in the agriculture sector needs the same scrutiny that the extractive sector has received. Perhaps more so: companies need to be held accountable not only for their specific responsibilities in terms of consultation, impact assessments, benefits and grievance mechanisms but also in relation to wider effects on sustainable development. Small scale farmers need support to ensure they are not perpetuating the kinds of practices the SDGs seek to eliminate: as child labour, exploitation of girls and women, or use of forced labour, involving day labourers even more destitute than the small farmers. Governments need to be held accountable for ensuring that small-scale farmers are at the centre not the periphery of development strategies. Transparency is needed on land deals and, individual and community land rights need to be secured and strengthened. Finally, all governments need to be held accountable for how a broad range of policies – in trade, in energy and in aid – either support or distort the objective of making agriculture work for the poorest.

2.2. Micro, Small and Medium-Sized Enterprises[177]

As in agriculture, so in other industries – the future is small. Micro, small and medium-sized enterprises (MSMEs) are seen as one of the keys to job creation and income generation.[178] Globally, MSMEs comprise 95% of all enterprises[179], account for more than half of all jobs worldwide[180] and are responsible for generating the majority of new jobs.[181] Evidence suggests that MSMEs provide upwards of 75% of employment in low-income countries with the majority of these to be found in businesses with fewer than 20 employees[182], often in the informal sector.

Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

Target 8.3 Sustainable Development Goals

Beyond their basic employment generating potential, MSMEs offer an existing base of economic activity that can be expanded and developed; they provide employment opportunities to the poorest and the most disadvantaged; they are a potential source of wealth creation, innovation and tax revenue; they often require less in the way of formal qualifications and skills; they can improve countries' resilience to external shocks and global price fluctuations through their diversity and; not least, help address some of the more multi-dimensional aspects of poverty by enhancing personal security, providing a greater sense of dignity through employment and contributing to social cohesion.[183] For all of these reasons, MSMEs have been highlighted as a critical component of poverty reduction and sustainable development and therefore of meeting the SDGs. As the Chinese experience shows, one way to reduce rural poverty is by enabling the establishment of small enterprises which absorbed surplus farm labour and employed people in light manufacturing industries producing goods for exports, earning hard currency. This powered China's early growth and helped lift the rural poor out of absolute poverty through jobs which paid better than farm labour.

> *In many developing countries, the expansion of the private sector, notably micro-, small- and medium- sized enterprises (MSMEs) is a powerful engine of economic growth and the main source of job creation.*
>
> European Commission (EC)[184]

Not surprisingly, MSMEs are popular with donors and likely to become even more so. Over $24 billion of development assistance is directed annually towards MSMEs[185] via some 300 SME focused investment vehicles.[186] The largest share of this (around $21 billion in 2010[187]) is provided by Multi-lateral Development Banks (MDBs), with over half directed to Sub-Saharan Africa and South Asia. The bulk of this assistance is focused on financing[188] reflecting a wide consensus that the biggest obstacle to SME growth is access to credit.[189]

Are MSMEs a 'powerful engine of economic growth and job creation' or rather a symptom of a failure in the system and a brake on development?[190] The doubts around the real value of MSMEs in employment terms centre on questions over quantity, quality and productivity. The key justification for targeting small businesses is their effectiveness at creating new jobs.[191] On this, the evidence is mixed. While MSMEs are undoubtedly a prolific source of new jobs – accounting for more than 75% in developing countries where employment increased[192] – they are not necessarily a source of stable jobs. Survival rates for such jobs are low. In terms of their contribution to net job creation, they may be no more effective than larger companies.[193] A rapid growth in smaller firms is offset by a high failure rate that leaves former employees little better off than they were before.

Another challenge concerns whether MSMEs are a source of quality jobs. Few MSMEs, particularly in the informal sector, can offer decent wages, proper working conditions and access to benefits such as pensions and health and safety provisions.[194] Fewer still are large enough to be obliged to respect trade union rights. Larger firms pay higher wages and offer more job security.[195] Reducing the discrepancy between larger and smaller firms in respect of wages and working conditions is thus a key component in sustainable development.

The final concern revolves around productivity. Increases in productivity are one of the main sources of economic development and low productivity is commonly cited as a weakness of MSMEs (certainly in developing countries).[196] This is not to argue that MSMEs cannot be productive, but simply that they often are not and therefore their impact on wider growth is disproportionately low compared with their contribution to employment. The reasons are both economic and human. Productivity requires use of machinery and technology, both of which require capital, which MSMEs often lack. Productivity is also increased through collective organisation that allows cross-fertilisation of ideas, promotes more efficient routines and embeds institutional memories.[197] And although entrepreneurialism is certainly a vital component of productivity, not everybody is an entrepreneur. One of the problems in developing countries is that too many people have to start their own business because there are no other opportunities. MSMEs are often a survival option rather than a career choice.

> *What really distinguishes Ecuador or Vietnam from the US or Japan is not the raw entrepreneurial energy of the people that the neo-liberals so often talk about (which you probably have more in the former group of countries) but the abilities of a society to set up and manage productive enterprises that can channel that individual energy into raising productivity.*
>
> Ha-Joon Chang[198]

While none of these concerns are unfamiliar to donors, they may be in danger of being neglected in the 'overselling'[199] of small business as a large part of the answer to the problems of un-and under-employment. In low-income countries, small firms (5-19 workers) command the largest share of formal employment.[200] This figure, coupled with the fact that the informal sector comprises close to 50% of the labour workforce[201], might lead to the conclusion that expanding small business and formalising the informal sector offer a clear path to sustainable development. More telling, however, is that it is only in low-income countries that small businesses, formal and informal, play such a dominant role in employment. It makes little sense to reinforce a dynamic that is both a cause and a symptom of under-development. Developing countries, particularly the poorest, need more medium-sized and larger firms. These firms are needed because they generate more stable jobs, pay higher wages and provide better working conditions. These firms will also be able to invest in capital equipment to manufacture goods that meet the standards of global companies, and thus prosper and hire more people. Equally important, such firms drive the productivity that is fundamental to economic growth and can offer opportunities to the best-educated individuals who will otherwise look to move abroad.

From a donor perspective, entrepreneurs should certainly be encouraged and small businesses supported. Success should be measured, however, in the speed and extent of business growth and in the quality and security of jobs created. This will mean helping to remove constraints on business growth, including improvements in the enabling environment, infrastructure, and access to finance through a properly coordinated approach at the national level.

2.3. Participation in Global Value Chains

Strong arguments have been made for encouraging SME growth through global value chains (GVCs). GVCs have been described as 'factories that cross international borders'.[203] They offer three main advantages: encouraging much-needed economic diversification, bringing higher productivity and higher value industries and transferring technology, know-how and skills.

> *GVCs can make an important contribution to development, but GVC participation is not without risks.*
>
> UNCTAD[202]

The problem is that manufacturing and sourcing decisions are in the large majority of cases not driven by development objectives. The poorest countries have largely been excluded from GVCs because they do not have the workforce, the organisation, the infrastructure, the internal (or regional) market or in most instances the stable environment necessary to attract the interest of multinationals – at least not in diversified, high-value sectors. South-East Asia has seen significant progress in cutting poverty in recent years[204] through involvement in GVCs and it stands to gain the most from China's rising prosperity (and its ageing workforce). The region offers a young labour pool, market-friendly policies and the huge advantage of proximity to China. Between 2011-2014, Myanmar's clothing exports jumped from $700m to $1.7b largely on the back of production moving out of China while Thailand, Indonesia and Vietnam are all beginning to increase their presence in advanced manufacturing[205] to supplement their existing strengths in tourism, agriculture, natural resources and other industries.

GVCs may well drive economic growth in South-East Asia but are less likely to do so in Sub-Saharan Africa. If poorer countries (at least in some parts of the world) are likely to struggle to capture a slice of the market in higher value industries, what is left is either at the low end – the production of cheap goods in poor conditions on minimal wages or in areas related to countries' existing strengths, often meaning primary commodities. In this way, GVCs epitomise both the successes and failings of globalisation. For the lucky, they can help drive economic diversification and create a virtuous cycle of progressively rising living standards, wages and working conditions: for the rest, they can serve to cement under-development by reinforcing dependence on the exploitation of both natural and human resources.

Harnessing the benefits of GVCs will depend on points made throughout this Report: better governance, infrastructure,[206] and finance[207] and on more effective implementation and enforcement of social, environmental and human rights frameworks at both national and international levels. While GVCs have been associated with the so-called 'race to the bottom', chasing cheap labour and costs, there is a renewed focus on raising standards all the way down the GVC supply chain. GVC supply chains are one of the most obvious transmission channels for driving responsible business conduct into all corners of the globe as well as to local SMEs.[208] Stronger environmental, social and human rights standards are not only critical from a sustainable development perspective, but are also increasingly viewed as a way for governments to attract multinationals concerned about meeting international standards.[209]

Progress has been made where business, civil society, trade unions and governments have come together to address key challenges in problematic supply chains (e.g. conflict minerals[210] and palm oil[211]). Moving forward, increased transparency and accountability in global supply chains will be a critical component of corporate responsibility and should become an integral part of on-going global discussions on GVCs, and indeed in the follow up to the SDGs.

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[209] OECD, World Bank, WTO, "Global Value Chains – Challenges, Opportunities and Implications for Policy," (2014), p. 48. The report goes on to highlight the opportunities for companies and countries in this approach, highlighting the 1 trillion dollar green trade market that relies on the application of environmental standards.

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CHAPTER 3
The Right Kind of Financing

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The Right Kind of Financing

> ***"The private sector will play a pivotal role in financing the post-2015 development agenda."***
>
> From Billions to Trillions: Transforming Development Finance[213]

1. Setting the Context for Financing the SDGs

Sustainable development comes with a price tag – approximately $4 trillion annually in developing countries alone.[214] With current investment in SDG-relevant areas running at an estimated $1-1.5 trillion, there is a $2.5 trillion gap to fill. The largest share of this will need to be spent on infrastructure: social (schools, clinics, water and sanitation) and economic (transport, power, telecommunications), with as much as $1 trillion a year extra needed by 2020.[215] The precise figures can be no more than informed guesswork but they nevertheless present an intimidating challenge.

> *Public finances, although central and fundamental to investment in sustainable development, cannot alone meet the demands for financing. There is a growing consensus about the importance of private investment to scale up sustainable development.*
>
> UNCTAD, Global Compact, UNEP, PRI[216]

The sums involved are enormous; the timeframe short and at stake is not only the future of the poorest millions but also the credibility of donors and other funders. Funding for the MDGs has fallen short by tens of billions of dollars a year[217] and although this is far from the only reason for the uneven progress, it is the most obvious one and should have been the one most easily addressed. If funding for the MDGs has proved too difficult to find then what are the prospects for financing the more ambitious SDGs?

While there may be consensus on the need for both public and private financing of the SDGs, there is no agreement on the appropriate balance between them. The divisions are ideological as well as practical. Some argue that a substantial increase in private finance (most of which will have to come from outside of the countries most in need of financing) undermines state control and national ownership. It is viewed as amounting to a privatisation of public goods that diverts both power and profits into the hands of foreign companies (or donor agencies) and raises important issues of transparency and accountability. Others contend that private capital is more efficient, cost effective and potentially less likely to be lost to corruption. Additionally, there will simply not be enough public money available. From this perspective, there is no option other than to draw significantly on international private finance.

1.1. Public Sector Financing

Rapid and sustained domestic growth is necessary to increase the pool of funds available for SDG-related investment, but is not a solution in the short-term. Development is closely correlated to government spending: some 82% of the world's poor live in countries with annual public expenditure of less than PPP $1,000 per person.[218] Although the poorest countries have increased their tax revenue as a share of GDP, it remains at less than 14%, lower than in middle-income countries and significantly less than the 20-30% in developed nations.[219]

Domestic tax reform is equally urgent. Increasing revenues through more effective and more efficient tax regimes is a priority but it is also not a short-term endeavour. At a national level, it requires changes in capacity and in mind-sets. Tax administrations need practical support through better training, pay and technology for staff, while tax codes need to be fairer and fiscal policy needs to be more redistributive. Moving enterprises from the informal to the formal sector is a long-term challenge that must be met to improve domestic tax take. As corruption is always a risk when tax rates are raised, tax policy and rates will have to be determined judiciously, to prevent evasion and avoidance.

Tax is increasingly becoming a topic of international debate. The ease with which multinational companies are able to use the differences in national tax regimes to shift profits from one jurisdiction to another led some civil society groups to propose a global system of taxation[221] – a proposition that met with little success at the 2015 Financing for Development Conference.

> *We will work to improve the fairness, transparency, efficiency and effectiveness of our tax systems, including by broadening the tax base and continuing efforts to integrate the informal sector into the formal economy in line with country circumstances.*
>
> Financing for Development Outcome Document, paragraph 21[220]

> *Domestic spending on fundamental social needs, such as education and health, are often overwhelmed by the amount of illicit money flowing out of the economy, and, with it, domestic resources that could be mobilized to address basic human needs.*
>
> Global Illicit Financial Flows and Development Indices 2008-12. Global Financial Integrity (2015).[1]

Coupled with the growth in tax havens, these measures of tax avoidance prompt developing countries to compete against each other to offer the most attractive tax incentives to business. This creates opportunities for multinational firms to 'shop around' for the best investment location based on tax policies between countries that otherwise have similar endowments, such as land, labour, or natural resources. To be sure, tax havens also benefit politicians of many governments who have deposited their undeclared incomes in the same tax havens. Even this problem is dwarfed by the losses incurred through illicit financial flows out of developing countries. In 2012, these amounted to an estimated $991 billion. Asia accounted for the largest share of this but in GDP terms, Sub-Saharan Africa suffered the most.[222]

Faster and better economic growth, more efficient and fairer national and international tax regimes, international tax cooperation, eliminating tax evasion, reducing tax avoidance and a crackdown on illicit financial flows offer enormous potential but they will not prove easy to achieve and their benefits will be gradual and incremental.[223] They also depend on political will, global cooperation and availability of money. Helping developing countries build capacity to mobilise more domestic resources will itself be expensive and will not happen quickly.

The most immediate source of public financing to implement the SDGs in developing countries is international overseas development aid (ODA). The expansion in the scale and scope of the SDGs compared with the MDGs implies a corresponding increase in development assistance. This seems unlikely however, certainly in the amounts required. The commitment by developed countries to give 0.7% of national income in aid dates back to 1970.[224]The target was re-affirmed in the 2002 Monterrey Consensus and in 2005 the 15 member countries of the European Union pledged to achieve it by 2015. Of the 28 members of the OECD DAC, only five currently meet or exceed the target: Sweden, Norway, Denmark, Luxembourg and the UK. In 2014, total DAC development assistance stood at $135.2 billion, a decrease on the previous year in real terms.[225]

Importantly also, the overall share of aid going to the poorest countries has decreased over recent years.[226] The apparent paradox is often explained by the fact that aid is in some cases used as a political tool, granted to countries that are political allies, and not necessarily those who need it most.[227] There are also problems at the recipients' ends. There is no guarantee that ODA will be used for intended purposes, and recipient countries often lack the infrastructure to manage significant financial inflows. The problem of Dutch Disease[228] can occur. If unchecked, it can lead to macroeconomic instability or to unintended consequences such as overvalued domestic currency, eroding export competitiveness. Even if all developed countries were to meet their 0.7% target, there are serious questions whether developing countries could absorb such flows.

While a more favourable global economic climate in the coming years could see aid levels rise, the appetite among donor countries for meeting ambitious targets nevertheless seems to be diminishing. The EU has revised its 2005 pledge, promising to meet the 0.7% figure only 'within the time frame of the post-2015 agenda'[229] (i.e. by 2030). Regardless of whether the target is finally reached, this has implications for fulfilling the SDGs[230], particularly when set next to the even lower proportions of development assistance provided by non-EU rich countries.

1.2. Private Sector Financing

Given this context, the enthusiasm amongst wealthy nations for private finance becomes more apparent. The private sector is the third and final piece in the financing puzzle alongside domestic resources and overseas aid. Private financing for development is obviously not a new idea. To some degree, it has always been part of the funding mix and it was given an official stamp of approval as far back as the 2002 World Summit on Sustainable Development[232] and the 2002 International Conference on Financing for Development in Monterrey.[233] Long before the SDGs, private finance had been identified as an important element in supporting the MDGs although it was not accorded the kind of attention and focus it currently commands. This is presumably because financing needs are now so much greater although there is suspicion amongst civil society that the enthusiasm for private finance is connected to donor reluctance to commit fully to the 0.7% target.[234] Certainly, the less the amount of aid, the greater is the need for alternative sources of funding.

> *Encourage the private sector, including transnational corporations, private foundations and civil society institutions, to provide financial and technical assistance to developing countries;*
>
> Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 2002[231]

> *Thus there appears to be a paradox that has to be addressed. Enormous investment needs and opportunities are associated with sustainable development. Private investors worldwide appear to have sufficient funds available. Yet these funds are not finding their way to sustainable-development oriented projects, especially in developing countries.*
>
> UNCTAD[237]

In theory, the private sector offers huge potential, not only because of the depth of its available funds but also the potential for cumulative impact and the under-exploited opportunities in developing country markets. The cash holdings of multinationals total around $5 trillion, Sovereign Wealth Funds hold a further $6 trillion in assets, pension funds in developed countries alone have reached at least $20 trillion[235] and signatories to the Principles for Responsible Investment represent some $59 trillion of assets.[236] In theory, tapping into this vast reserve of private capital could unleash a flood of investment, thereby creating jobs, boosting tax revenues, improving government finances and reducing aid dependency. It should be a simple matter of matching supply with demand.

Despite this apparent potential, private finance remains controversial and will only become more so. Many in civil society do not appear convinced, preferring instead to highlight measures to increase domestic revenues and aid and downplay the contribution from private sources.[238] The scepticism reflects concerns over the developmental impact of private financing – such as the financialisation of infrastructure projects that focuses on developing infrastructure as an asset class for investors, with expected high level of returns that could imply trade-offs with ensuring that such infrastructure meets the needs of the poorest in line with the SDGs.[249]

These concerns are not the only ones. The money may exist but it is not necessarily available and nor is it lying idle. There are certainly many developing countries, especially in parts of Asia, where investment is attractive and will no doubt continue to flow regardless of the SDGs. The same is not true of the poorest countries where the need is greatest. Encouraging foreign investment on the scale required, and making it work for the poor, are two of the most urgent challenges facing the international community yet neither one is easy and both together more challenging still. Private finance is less likely to find its way to places where funds are needed most because of inherent risks and lack of assurance of rewards. The poorest countries are not on the cusp of an investment boom, certainly not one that is targeted at sustainable development. The focus therefore needs to shift from quantity to quality. Concerns over the proposed speed and size of proposed infrastructure investments (with references not just to "giga" but "tera" size projects in the trillions) risk undermining the very principles the SDGs seek to embody: inclusivity and sustainability.[240]

There should be two priorities:

- First, **investing for the SDGs.** This means the use of innovative financing mechanisms blending public and private finance to facilitate projects that are **explicitly focused on the poorest communities** and carried out at a pace and on a scale appropriate to the management and absorptive capacity of the recipient country.
- Second, **getting investment right.** If existing foreign direct investment (FDI) cannot be made to work better for the society as a whole, it is doubtful whether any new investments will prove different (even assuming the opportunities can be identified). The focus should be on better management of FDI.

> *Innovative financial instruments, such as blending using equity, loans and guarantees, can be important for mobilising private investment for policy priorities that support sustainable development and poverty eradication. Blending can be used to leverage private finance for development by sharing the risk and reducing costs. These instruments can contribute to green growth, job creation, innovation and support climate action, amongst other things.*
>
> EU Council[241]

2. Incentivising Investment in the SDGs through a Blending of Public and Private Funding

With public resources insufficient and private resources risk-averse, the hope is that part of the solution to financing the SDGs will lie in imaginative combinations of the two. Over the last decade, there has been a trend towards expanding various forms of innovative financing designed to harness the complementary strengths of public and private sectors. The projected expense of meeting the Goals means this trend will continue and almost certainly accelerate. The rationale is simple and seemingly strong – public resources can have a multiplier effect by "crowding in" private capital. Given the enormity of the needs and the limited amount of aid available, this is a powerful attraction and explains why donors are increasingly enthusiastic about the potential of various forms of leveraged finance. Private capital is being positioned as central to financing the SDGs and aid is viewed as a key means of unlocking it. The EU has repeatedly emphasised its support for measures to blend public and private resourcess[242] and the OECD is also calling for a greater share of aid money to be spent on attracting private investment.[243]

In the context of the SDGs, blending mechanisms to leverage private sector involvement in development facilitate projects that would otherwise be too risky, too expensive or too complex for either the private or the public sector alone. Aid can be used as a catalyst to spread and reduce risk and improve returns for private investors while financially underpinning the affordability and accessibility of infrastructure, and services. Blended finance mechanisms are diverse but essentially they seek to combine grants with loans from commercial lenders or publicly owned institutions[244] Each party has its own, distinct role to play. The public finance role is to take the kind of risks the private sector will not take, such as being the guarantor of first loss[245]and to catalyze private sector participation wherever possible. The public finance element of blended finance can be provided as cash, goods or services: for example, direct grants, technical assistance or measures to reduce risks for private sector investors (interest rate subsidies, loan guarantees, investment guarantees[246], political risk coverage, etc.[247]).

Infrastructure is key to tackling poverty and promoting inclusive growth. Infrastructure helps improve access to basic services, especially for poor people, links producers to markets and connects countries to the opportunities in the global economy.

Statement by the Heads of the Multilateral Development Banks and the IMF on Infrastructure[248]

Blended finance is not about the wholesale public underwriting of the private sector – but it should be about using public sector funds in a manner that is aligned to public sector goals. There is surely more that public financial institutions could and should be doing in a manner that is aligned with the SDGs, such as providing innovative finance to support new and innovative investment products that focus on specific social outcomes, such as social impact bonds and social impact investments.[249] A special task force of the Group of 8 (G8) industrialised nations focused on social impact investment testifies to the interest in deploying the financial sector to target specific social objectives.[250] Many of the growing set of public and private investors seeking to achieve social impact do so by investing in organisations that either sell products or services that benefit a specific target population or provide employment to target populations – approaches that align well with targeting the poorest.[251] Supporting further innovation can establish business models that specifically deliver on the fulfilment of human rights and other social development goals set out in the SDGs.

To date, however, much of the discussion has been focused on delivering on the enormous infrastructure needs (see below) and on the role development finance institutions (DFIs) are expected to play in many new SDG investments. DFIs can help catalyse private finance, set up rational financing structures for projects, as well as develop innovative finance products and solutions for development. With respect to specific transactions, they generally have primary responsibility for identifying suitable opportunities, coordinating and pooling the necessary finance from different sources (including their own funds), providing first loss guarantees, providing capacity-building and technical support and monitoring implementation.

It is worth noting that DFIs are largely self-financing[252] and without making money on their loans and equity investments, they would go out of business (or require a new injection of public funds). Is their business model one that focuses narrowly on economic development in developing countries or on sustainable development? Underlying these different perspectives is the tension between simultaneously pursuing development objectives and financial returns. As with so much of the discussion around the private sector and development, assumptions are made based on the dynamic role business plays in the general economy. Development is understood in different ways by different constituencies. Is an infrastructure project or business growth in a poor country inherently developmental? Some argue yes on the basis that both strengthen the economy. Others argue no on the basis that it depends on who really benefits and who bears the costs. A common understanding is necessary around this core question. If there is no agreement on expected development outcomes should public aid be used in this way? These are critical questions in relation to the SDGs that must be considered together with some further sobering considerations:

- **Shifting of aid money from public to private recipients** – If more aid is directed towards leveraging the private sector but aid levels themselves do not increase substantially, from where will existing donor funds be diverted? Given the wide range of development needs outlined in the SDGs and therefore the multiple calls on limited funding, any decision to increase support to private sector projects will mean shifting aid from other objectives. It risks being perceived as subsidising private profit and ignoring the deeper issue of why foreign investment is not flowing of its own accord. Justifying higher levels of aid spending on private sector projects will be difficult in light of the other increased demands of the SDGs for scaling up financing.

> *In short, blending could be seen as part of a potential sea change for development finance, which effectively shifts ODA from the public to the private sector, while at the same time helping to replace ODA with private finance.*
>
> Eurodad[253]

- **The challenge of coordination across a wide range of institutions** – An important key to success moving forward is the massive coordination effort needed. Money is expected to pour into 2030 development agenda financing but who will play the global traffic cop to ensure that financing is aligned with the SDGs? This is a global finance governance gap that must be filled quickly if the grand aspirations of the SDGs are to be met in as coherent and efficient a manner as possible. Less obvious is who can play this role meaningfully. Past experience, following the 2002 Monterrey Conference on Financing for Development is not encouraging. The recognised need for coordination among the MDBs, IFIs and UN agencies came essentially to naught, with no institution able to lead in coordinating. None of the characteristics of the existing financial players change with the SDGs, meaning there is still no clear lead. The Financing for Development Outcome document highlights the need for coordination[254] but not strongly enough, given that there appears to be insufficient consistency of approach among DFI and other public finance actors who are likely to be active in financing the SDGs. The challenge is even greater these days, with the rising stock of new financing sources. The private sector[255] is oftenon the scene before public financing institutions, meaning that the role the public sector plays in structuring deals and applying environmental, social and human rights safeguards can go awry from the very start of transactions.

- **Lack of safeguards for strategic, upstream decision-making on projects –** One of the reasons public finance is important is because it usually comes with a degree of safeguards – including protections for environmental, social and human rights dimensions. However, as important as these safeguards are, even with their existing faults,[256] they apply too far downstream (at least for large projects) to influence key, strategic choices made by the host country – such as which resources should be prioritised for development, which infrastructure routes best serve the most needed population, and where major social service infrastructure should be situated. These strategic choices should be guided by transparent host country procedures to engage their populations in deciding on development choices and the use of cost-benefit analysis that specifically incorporates environmental, social and human rights externalities to ensure that projects really do deliver on the SDGs. But it was precisely because the host countries that needed investment urgently lacked even the most basic safeguards that the MDBs began to develop their own set of environmental and social safeguards that apply when their financing is used. The SDGs demand attention to an even wider range of impacts yet the capacity of the countries most in need of financing to manage those strategic choices is still limited. This means a renewed emphasis on public sector financing partners to develop new tools and methods to work with host country partners to support prioritisation for larger scale development projects that are better aligned with the SDGs.

- **Lack of consistent environmental, social and human rights safeguards for a coherent approach on the use of public funds –** If more public money will be used to absorb some of the financial risks to companies in order to facilitate large-scale projects, a key concern is what safeguards, if any, will be put in place to ensure that proper process is followed, that relevant international sustainability standards are applied, and that development objectives are met. The Financing for Development Outcome Document has helpfully called for environmental, social and human rights safeguard systems for all development banks, including the new development banks such as the Asian Infrastructure and Investment Bank and the BRICs Bank. However that still leaves out many actors who may be involved in financing SDG projects. This puts even more emphasis on the need for strong coordination to ensure the most stringent safeguards apply to all actors participating in project financing.

We welcome efforts by new development banks to develop safeguard systems in open consultation with stakeholders on the basis of established international standards, and encourage all development banks to establish or maintain social and environmental safeguards systems, including on human rights, gender equality and women's empowerment, that are transparent, effective, efficient and time-sensitive.

Financing for Development Outcome Document[257]

- **Need for robust accountability for impacts –** Accountability for the development impact of projects risks becoming a "pass the parcel" game – whoever is left holding the parcel when the music stops must ex-post account for impacts of a project. Instead, intended development objectives and accountability mechanisms should be an integral part of SDG project design from start to finish. A number of DFIs have agreed to work together towards harmonizing a set of indicators to track development results.[258] This is a start towards a more coherent approach but will need to be revisited in light of the far more ambitious SDGs to understand as a first step whether all players have the same concept of "development impact." This should be accompanied by monitoring and evaluation carried out by independent, external parties for large projects. DFIs should set the example of ensuring the availability and effectiveness of grievance mechanisms for impacts on stakeholders affected by SDG projects, with processes that can provide remedies for harm caused, and enforce changes to ensure non-repetition of harms.

2.1. Blending Public and Private Finance – The example of Infrastructure PPPs

Financing "sustainable and resilient" infrastructure is one of the biggest needs identified in the SDGs. The bulk of the financing for infrastructure globally currently comes from domestic budgets with the rest provided by a combination of private and international public sources.[259] Blended finance to support infrastructure projects is not new. What is new is the projected scale, the expected outcomes and the target countries. Generating $1 trillion worth of extra investment in infrastructure would be a challenge under any circumstances. To meet the SDG targets, it is estimated that some $200-300 billion of the total investment required will need to be spent on ensuring investments are climate friendly and around 85% spent in low and lower-middle income countries.[260] In other words, more money directed towards riskier and more expensive projects (at least in the short-term) in poorer countries. Inevitably, higher-cost and higher-risk investments will need higher public subsidies in order to attract private capital.

The enormous scale and complexity of the financing needed raises some additional challenges:

The use of PPPs can be critical in channeling investment to SDG sectors because they involve the public and private sectors working together, combining skills and resources (financial, managerial and technical), and sharing risks.

World Investment Report 2014. UNCTAD

- **Keeping the focus on the poorest –** There is a real danger that the poorest in the poorest countries will be unfairly treated or ignored in the rush to get projects underway. A critical question has apparently been ignored: what are the implications of spending hundreds of billions of dollars on infrastructure over the next five years in countries with weak governance, poor protection of individual rights or systemic corruption? Experience shows that large investments in countries where the rights of the most vulnerable are ignored can have damaging impacts on the lives and livelihoods of those affected.[261] How can this level of investment be undertaken under current conditions without severe consequences for the rights of people often marginalized in society? In addition, do all the players even have their eye on the poorest? The obvious point is worth restating: not all institutions share the same commitment to being 'SDGs-compliant' (nor a common understanding of what this even means). There is no agreed set of objectives, standards, monitoring frameworks or common idea of what a development impact looks like.

- **A needed dose of realism about governance capacity –** What financial, management and absorptive capacities exist within poorer countries to handle sudden and substantial injections of investment? An internal evaluation of the World Bank Group's support for PPPs noted that, *"countries need to be sufficiently mature to apply the concept of PPPs wisely."*[262] There is a reason why only 4% of PPPs are in low-income countries[263] and there is a reason why the IFC's portfolio of investments through financial intermediaries is concentrated away from the poorest countries.[263] Making investment work and delivering returns for private investors requires more than capital. Identifying and supporting necessary reforms and building up relevant expertise is an important function of institutions like the World Bank and IFC but it will prove to be a lengthy process in poorer countries.

- **Competition in the hunt for bankable projects: stimulating better outcomes or a race to the bottom –** Will the increasingly competitive business to fund infrastructure projects in developing countries, with different institutions, not to mention different private sector investors and their advisers, chasing an inevitably limited number of the most viable projects, lead to better outcomes? The contribution to the SDGs masks the underlying competition between the growing number of institutions that mobilise private capital. All these bodies, both traditional and emerging, will be under pressure to justify themselves through numbers. This risks success being measured in quantity not quality and potentially undermines the place of safeguards for those for whom projects are supposed to be delivered. As a result, this kind of competition could easily result in a "race to the bottom" in order to get new projects off the ground, or the repackaging of otherwise viable projects within the SDG umbrella to tick boxes or benefit from public subsidies. All parties (including donors) will have a clear financial self-interest in keeping related costs to a minimum to stretch public funds.

There has been a proliferation in partnership bodies focusing on infrastructure development, ranging from:

- the newly established Global Infrastructure Facility (GIF)[265] hosted by the World Bank
- the donor-run Private Infrastructure Development Group (PIDG)[266]
- EBRD's Infrastructure Project Preparation Facility (IPPF)[267]
- the Asian Development Bank's Asia Pacific Project Preparation Facility (AP3F)[268]
- the African Development Bank's Africa50 Initiative[269]
- G20 mandated Global Infrastructure Hub (the Hub).[270]
- The new BRICS Bank and the Asian Infrastructure and Investment Bank (AIIB).

While both GIF and the Hub are also designed to be coordination and knowledge-sharing resources, and some are project preparation facilities, there is a real danger of overlap and competition.

- **Learning lessons from earlier experiences:** Are the designers of SDGs' blended finance mechanisms heeding lessons learned from earlier processes? The dangers of this massive scaling up of efforts to leverage private finance should be seen in the context of the debate over the actual value of current initiatives. Concerns have been voiced on multiple counts, including: the actual developmental impact in terms of targeting the poor; the sustainability of debt and the long-term costs particularly in relation to PPPs; the potential for crowding out private finance (rather than crowding it in); the transparency and accountability of projects; the hands-off and inconsistent approach to applying standards and the absence of proper systems for accountability, monitoring and evaluation.

Large-Scale Independent Evaluations of Existing Blended Finance Mechanisms for PPPs or Infrastructure – Findings on Long Term Development Impact

Several independent evaluations of different forms of blended finance have been conducted in recent years. All have questioned the evidence for the developmental impact of the projects reviewed.

The Independent Evaluation Group of the World Bank[271] noted that, *"To shed more light on important aspects of public service delivery – for instance, access, pro-poor aspects, and quality of service delivery – PPPs need to be measured in a more multifaceted manner. But such data are rare."*

A report by the World Bank on behalf of the G20 Investment and Infrastructure Working Group found: *"The literature on PPPs is abundant and covers best practice for most – if not all – steps of a country engaging in as PPP... However, ex post assessments of how PPPs worked out and delivered on their promise of efficiency gains and increased access and service levels are rare, and if available, are only partial."*[272]

An evaluation of DFID's work with business carried out by the Independent Commission for Aid Impact (ICAI)[273] recommended that, *"DFID needs to do more to translate its high-level intentions into sufficiently detailed operational plans and provide clear guidance on when, why and where it will engage with business. There is a risk that targets for LEG may distort DFID's spending decisions."*

The mid-term evaluation of the EU-Africa Infrastructure Fund (ITF)[274] – a blending mechanism designed to support investment in infrastructure – found that, *"The original objectives of the ITF, whilst still relevant, are too broad, do not sufficiently show the flow of inputs, outputs, outcomes and impacts and do not reflect the evolving context as well as current and future challenges, e.g. the role of private sector investment, good governance and risk management."*

A case in point is the Global Infrastructure Facility (GIF)[275], a flagship new initiative hosted by the World Bank. The GIF became operational in April 2015 with an initial capitalisation of $100 million and the intention of mobilising significant resources from institutional investors. Over the next three years, the GIF will invest in 10-12 projects as part of its pilot phase. A minimum of 20% of these projects need to be in low-income countries[276] – meaning that 80% do not. The GIF's primary objective is *"to increase private investment, particularly long-term finance, in complex Emerging Market and Developing Economies (EMDEs) infrastructure projects."*[277] It includes poverty reduction and inclusive and sustainable growth amongst its impacts but as it acknowledges itself, *"The GIF is not structured to monitor long term impact – that is, to what extent GIF-supported projects contribute to its ultimate development goals of poverty reduction and inclusive and sustainable growth in EMDEs."*[278] Other similar initiatives such as the Private Infrastructure Development Group[279], have more explicit poverty reduction goals, but for the most part, poverty reduction and sustainable development are assumed outcomes and seemingly secondary to the greater imperative of encouraging investment.

3. Getting Investment Right – Making the Most of Foreign Direct Investment

FDI is already the dominant financing mechanism in developing countries.[280] In 2013, such investment to developing countries reached $778 billion, more than half of the global total of FDI.[281] The basic numbers disguise huge disparities, however. While Asia accounted for over 29% of the total, Africa received less than 4% and, worldwide, FDI inflows into the poorest countries amounted to $57 billion – again, less than 4%. Countries with the highest poverty rates received the least foreign investment and therefore remained the most dependent on aid[282] whereas those countries more able to attract FDI tended to be comparatively richer. Additionally, FDI in the least developed countries has flowed into relatively few sectors, most obviously primary commodities, with heavy concentration in the extractives sector. This is still true today although less so than previously.[283]

The degree to which foreign investment is a driver as opposed to an outcome of development may be debatable but there is little doubt that it can play a part in creating a virtuous circle of rising wealth and lower aid dependency. FDI offers many benefits – although whether these are realised depends on many factors. FDI brings capital, technology and knowledge. It can boost employment, stimulate competition, promote local industry through supply chains, improve infrastructure and encourage trade.

FDI may offer real potential but it still needs to be attracted into the countries that need it most. There are good reasons why the poorest countries command such a small share of the global total, including high risk and low returns, a poor governance and investment climate and political barriers thrown up in order to protect domestic industries and wider economic sovereignty. Instability and fragility are also major reasons why FDI is shy. These are formidable obstacles and ones that have to be removed or at least reduced rather than navigated around. But the SDG ambition is not simply to increase investment in developing countries per se but to increase it in ways consistent with sustainable development objectives and in SDG-related areas. This implies investment that has a tangible (positive) impact on the poorest communities and/or that addresses specific goals such as inclusive and sustainable growth, decent work, an expansion in healthcare or education and wider access to water and proper sanitation. Collectively, these constraints suggest the intention of doubling annual investments for sustainable infrastructure over the next five years looks (as noted above) optimistic and highlights one of the major contradictions in the discussions around financing. The necessity of putting in place the right conditions to attract investment is repeatedly emphasised but the difficulty of doing so within a short period is not properly acknowledged. Even the 15-year timeframe of the SDGs may not be compatible with the scale of the challenge, at least not in relation to attracting the private sector contribution needed to meet financing needs.

We recognize the important contribution that direct investment, including foreign direct investment, can make to sustainable development, particularly when projects are aligned with national and regional sustainable development strategies.

Outcome document of the Third International Conference on Financing for Development

In light of these challenges and the unequal global distribution of FDI, increasing private investment alone cannot be considered a cure for poverty in the world's least favored economies in the foreseeable future.

German Development Institute[284]

There is a risk indeed in promoting new investment without building capability and infrastructure in countries that may have been historically incapable of managing significant inflow of investment. The real urgency therefore is not in identifying new sources of FDI but in first supporting and encouraging countries to put in place the systems and structures that will ensure investment contributes to the greater good of the society.

The emergence of the BRICS as important, perhaps even predominant, sources of financing for infrastructure in developing countries reinforces this point. Aid from non-OECD Development Assistance Committee (DAC) countries increased four-fold between 2000-2011 totalling more than $15 billion[285] but, by comparison, trade between Africa and the leading emerging countries collectively known as BRICS[286] is expected to reach more than $500 billion this year[287], with 60% of this from China making it Africa's single largest trading partner. India is growing in importance as well with its share of trade with Africa currently around one-third of China's but rising.[288] Africa may have gotten all the headlines in recent times but it is not the only focus of attention. China has announced that investments in Latin America will reach $250 billion over the next 10 years.[289] It is important for BRICS investors to operate in ways that are consistent with the emerging consensus on supporting SDGs.

The priority needs to be on the management of FDI and this will require concerted support in the following areas, particularly from donors:

- **Support overall governance reform alongside sector-specific reforms –** Developing country governments urgently need to put in place the appropriate legal and policy frameworks to facilitate large-scale infrastructure projects, the focus of some of the infrastructure project preparation facilities (see below). While this is necessary, the world will have missed important opportunities if such reforms become self-contained islands of protection within states that are otherwise failing their populations.

- **Ensure coherence amongst private sector development (PSD), FDI and responsible business promotion –** The SDGs "warrants a re-look at FDI policy and attraction efforts, to ensure efforts to attract FDI are good for the economy, social equity and environmental sustainability."[290] There is increasing recognition that to maximise the value of FDI, whether as part of global value chains (see Chapter 2) or otherwise, coordination between FDI policies and other policy areas (trade, industrial/SME development, and environment, social and human rights standards) are important to ensure FDI contributes to sustainable development. Coherent donor messages in policy and technical assistance are critical in ensuring partner governments and businesses adhere to international standards.

- **Align investment and trade agreements with the SDGs –** The SDGs are prompting reviews of international investment / investment protection agreements to calibrate the right balance between investor rights and obligations, country needs and obligations and the protection of stakeholder rights. UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD) seeks to address "systemic flaws" in the current system and support the need to mainstream 'sustainability' in investment strategies.[291] The OECD has also newly updated its Policy Framework for Investment.[292] These frameworks, and the treaties negotiated pursuant to them provide an important opportunity for signaling what is expected or required of private actors with respect to investment protection. For example, one solution would be to stipulate that only those investors that can demonstrate compliance with international standards, such as the OECD Guidelines for Multinationals, would be eligible for protection under investment protection treaties.[293]

There are a number of steps that donors, business and civil society can take to improve the outcomes of investments, often working together at the country level:

- **Increase transparency –** The transparency antidote is an important step on the path to building accountability into the DNA of investments, especially those linked to delivering on the SDGs. The clear push for transparency – around revenue, contracts and tax, started with the extractives sector given the importance of natural resources to many developing country economies. Significant progress has been made, largely as a result of the global Publish What You Pay campaign[294] and the creation of the Extractive Industries Transparency Initiative (EITI) – a multi-stakeholder initiative involving governments, business and civil society.[295] EITI implementing countries disclose information on tax payments, licenses, contracts, ownership, production and other key elements around resource extraction.

  While EITI itself is exclusively focused on extractive industries, the principles and approach that underpin it have important ramifications for strengthening the governance of other areas of natural resources that are often crucial in the least developed countries, and in strengthening the role and legitimacy of civil society in participating in open, public debates about the management of national wealth. These important principles should extend to other areas of public ownership. If infrastructure is to be a primary focus of FDI in the coming years, then it is imperative that systems are put in place to ensure maximum possible transparency in contracts, payments and cost and profit sharing arrangements.[296]

- **Strengthen linkages with local economies/local content[297] –** Any foreign investment has the potential to multiply its development impact through technology transfers, building relevant technical and management capacities and increasing local business opportunities. Although local content requirements have increasingly become standard features of contracts with multinationals, particularly oil, gas or mining multinationals,[298] these may not be realistic, especially in LDCs, and may not be easily met by one company working alone. As a result, investments too often become self-contained bubbles rather than hubs for a wider eco-system of economic activity. While some companies have tried to expand the scope of their positive impacts in this area (e.g. through capacity-building and skills training of local suppliers), others have done as little as possible. None has achieved as much as it might have done given coordinated support, assistance and, in some cases, forceful encouragement. Local content requires a much more strategic approach that combines the efforts of governments, companies and donors. Large-scale investments have enormous potential to act as a catalyst in otherwise struggling economies but, thus far, this potential has not been fully realised.

- **Encouraging effective Multi-stakeholder Initiatives (MSIs) –** There is little point in advocating for more investment if it is carried out in such a way as to undermine development objectives through environmental damage, human rights abuse or conflict with communities. Over the past two decades, a growing number of collaborative MSIs have been established to minimise the negative impacts resulting from different types of foreign investment – usually focused on operations in countries with significant regulatory gaps. MSIs have the potential not only to address the problem of variable regulatory requirements across different countries but can also be a stimulus to progressively setting higher standards while building local capacity. They differ from the types of partnerships set out in Section C below because their primary focus is on collectively setting – and implementing – norms and standards in particularly challenging circumstances where appropriate regulation is lacking – rather than on wider scale funding or delivering a particular public service, as many public-private partnerships do. MSIs negotiate broad principles and standards as well as operational and context-specific expected actions and systems of monitoring and accountability. These efforts develop their own governance structures and share the broad aims of improving corporate performance on sustainability issues – often a combination of environmental and social issues or with a particular focus on human rights. They also contribute to closing governance gaps at national and international levels.

  MSIs have the potential to contribute to the SDGs, but will also need to "up their game" to maximise impact including through robust reporting, monitoring and assessment of member performance, critical not only in bolstering legitimacy but also in ensuring long-term change in company and state performance. These initiatives will also need to give greater consideration to how they can play a more active role earlier in the investment cycle to prevent corporate involvement in human rights abuses or other negative impacts.

> *...Commercial mining activities will generate a series of economic impulses that reverberate across society…Taken together these impulses have the potential to catalyse longer term sustainable development, through direct, indirect and induced effects. However the contributions to local economies from these channels are not automatic."*
>
> ICMM, Raw Materials Group, Oxford Policy Management[299]

Chapter 3 Conclusion and Recommendations
SDG Partnership Principles for the Use of Public Funds for Goal 17

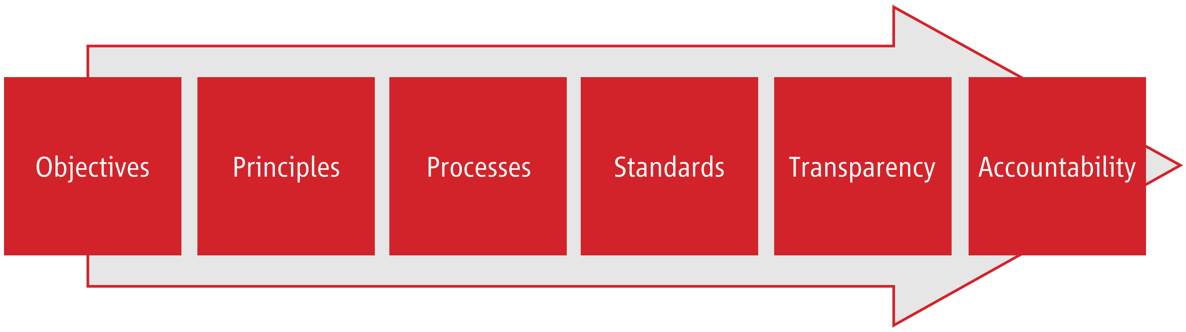
The financing needs of the SDGs are enormous and public finance may not be sufficient, but private capital will not offer a panacea. The trajectory from billions to trillions may be right but the urgency of fundraising has overwhelmed the necessary consideration of whether and how money for implementation efforts can be properly spent. Target-setting without setting the principles on how to reach them can lead to a blind pursuit of targets without regard to consequences. Money will continue to flow to safer areas where returns are assured, rather than to locations where the need is greatest – which is what the SDGs set out to achieve. There is a need to encourage more responsible investment in the poorest countries but attempting to do this at a speed and on a scale that ignores political fragility and macroeconomic instability, weaknesses in governance structures, administrative capacity and policy frameworks, and as well as lack of capabilities can become counter-productive. This Report has particularly emphasised the need to focus on strengthening good governance as a first step. These are the improvements that will ultimately unlock the trillions of dollars.

Corporate responsibility standards are designed to minimise harm but this cannot be the extent of the ambition of development assistance. The lesson of the last 15 years is that although economic growth has delivered prosperity to many, growth remains uneven; it is a blunt instrument. Too many people are blocked from sharing in its benefits. The individual achievements have not matched the wider ambition of delivering development for all. The SDGs reflect important changes in our understanding of development – that human capital development is crucial for economic development. Growth without sustainability is a false promise of advancement. Projects that deliver economic growth are essential (assuming they are carried out responsibly) but it is not the role of development assistance to subsidise them unless other public or social objectives are being met. Aid needs to be more carefully targeted at public private partnerships (PPP) or projects that specifically support the poorest and most disadvantaged. To get there, a clear framework is required for the use of public funds for blended mechanisms under SDG 17. Such a framework would help ensure that public funding is used for programmes and projects that not only support the SDGs in theory but in practice. A higher bar should be set for projects that draw on public money.

As is recognised repeatedly in this Report, there is certainly value in engaging the private sector in the huge task ahead to deliver on the SDGs. There is also real value in using development assistance to leverage private finance – but only where that partnership is focused on delivering on the SDGs. A shared set of **SDG Partnership Principles** is needed as part of the SDG implementation process to clarify what constitutes compliance with the SDGs and therefore when it is appropriate to use public funds. Such Principles could be used by all partners – governments (as host, home or donors), business and civil society – as a framework for implementation of partnerships involving the private sector and public funds under SDG 17.

Figure 3 below sets out a proposed approach to establishing a set of SDG Partnership Principles that could be part of SDG implementation efforts.

Figure 3: Proposed Approach to Establish SDG Partnerhip Principles



SDG Partnership Principles All SDG partnership programmes or projects should:	
Objectives	Be explicitly pro-poor, inclusive and targeted at: • Explicitly defined objectives that specifically focus on one or more SDG • Facilitating access to services • Enhancing capacity to participate in the economy
Principles for Service Design	Apply a human rights based approach and in particular: • Be designed to respond to the Availability, Accessibility, Acceptability, Quality Standard[300] to help ensure that such services benefit the poorest communities
Processes	Be informed by: • social, environmental and human rights due diligence • broad based and inclusive engagement with potentially affected stakeholders and other relevant stakeholders
Standards	Apply relevant standards of responsible business conduct to the private sector participants, including at a minimum: • UN Guiding Principles on Business and Human Rights • ILO Conventions – the ILO core labour standards & ILO conventions relevant to the partnership area • UN Convention Against Corruption • International environmental standards set out in multilateral environmental agreements • Relevant international standards for the areas covered by the partnership (e.g. CFS Principles for Agriculture)[301]
Transparency	Be transparent by default (with permitted exceptions limited to well-defined and justified areas of confidentiality), covering: • Governance arrangements for the PPP explaining clearly how the partnership is structured and funded, listing participants and directors and others in key roles. Entities at each level of governance should be both responsible and accountable for appropriate aspects of applying the relevant standards • Financing arrangements, (including private sector and government obligations, liabilities, including contingent liabilities and debt implications) • Operating agreements, concession contracts or other contracts • Impact assessments, action plans, monitoring results, evaluations • Revenue payments, taxes, royalties or other payments made to a government and received by a government • Periodic reporting to the public on the outcomes of the partnership
Accountability	Include a range of accountability mechanisms: • Ensuring that the PPP tracks and takes accountability for its development impact, and in particular is measuring impacts on the poorest communities and those who are the hardest to reach • Carrying out independent evaluations throughout the life of the PPP, including with input from relevant stakeholders • Put in place specific mechanisms (such as grievance mechanisms, ombudsman, or other arrangements) that can accept and effectively address and remedy grievances from stakeholders who have been negatively impacted by the PPP.

The inclusion of business as a partner in a global development framework assumes companies of all different sizes and all different sectors will increasingly operate according to environmental, social and human rights standards. It assumes business models will be reconfigured as necessary to ensure sustainability of products and services, sometimes perhaps at the expense of higher profits. Finally, it assumes that the business community, in partnership with states and civil society, will channel a greater share of its resources towards meeting SDG targets, through investment as well as philanthropy.

While many within the private sector might share the objectives expressed in the SDGs, the gap between business priorities and development objectives remains significant. The gap will not be closed by blind faith or vague promises and assumptions. It will be closed because a common understanding begins to emerge – one that is grounded in responsibility and informed by clear commitments. The follow-up process to the SDGs is an opportunity to close that gap.

Chapter 3 Endnotes

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The United Nations Sustainable Development Goals (SDGs) offer an inspiring and inclusive vision of the future: a world free from poverty, injustice and discrimination and a healthy planet for present and future generations. It is a vision that requires a global partnership of nations and peoples – from the poorest communities to the richest countries – and it is a vision that demands unprecedented changes in both thinking and behaviour. It is a universal vision that applies to all countries and to all sectors of society. It also assumes a substantial contribution from business - and perhaps to a greater extent than has been officially acknowledged. As the SDGs move from pledges to practice, a much wider and better informed debate is needed around how and in what circumstances business can add the most value.

This State of Play report, the fourth in a series by the Institute for Human Rights and Business (IHRB), is a contribution towards this debate. It suggests that the SDGs process presents an important opportunity to stimulate innovative ideas and fresh approaches to how business might engage in addressing some of society's most pressing challenges, and considers the respective obligations of governments, and responsibilities of companies and civil society in doing so.

Institute for Human Rights and Business
34b York Way
London, N1 9AB
UK

(+44) 203-411-4333
info@ihrb.org
www.ihrb.org

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Human Rights and Business

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