**FFD Business Sector Steering Committee**

# Submission to the FFD Co-Facilitators for consideration in drafting the FFD Elements Paper

7 January 2015

*FFD Business Sector Steering Committee Members*

- International Chamber of Commerce *(Chair)*
- Columbia Center on Sustainable International Investment
- Foundation Center
- Global Clearinghouse for Development Finance
- International Finance Corporation (IFC)
- PRI - Principles for Responsible Investment
- World Business Council for Sustainable Development (WBCSD)
- World Economic Forum (WEF)
- Women's World Banking
- UN Global Compact
- UN Foundation

*Please note the proposals have been submitted by individual members of the Business Steering Committee and do not necessarily represent the positions of all members and their respective organizations.*

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1. The Third United Nations Conference on Financing for Development (FfD) was given a mandate "to review the progress in the implementation of the Monterrey Consensus and the Doha Declaration, reinvigorate and strengthen the financing for development process, identify obstacles encountered for the achievements of the goals therein and actions to overcome these constraints, as well as support the implementation of the Post-2015 Development Agenda." The scope of the FfD agenda is immense and effective implementation will require the participation of all stakeholders. However, given that the key objective of the Monterrey Consensus has been to mobilize private sector for development, there is significant emphasis and expectations are high on what business can contribute to the definition of implementation strategies for the FfD Post-2015 agenda.

2. Businesses are as diverse in nature as the communities from which they come and in which they operate as investor, producer, employer, marketer, customer, entrepreneur, taxpayer and neighbor. Through these roles, business makes an invaluable contribution by providing capital, creating jobs and generating economic growth, which raises living standards and helps to lift people out of poverty. A robust private sector is the best guarantee of economic development and job creation and appropriate governance not only catalyzes private sector involvement but also ensures that its contributions will be made in a sustainable fashion and with the greatest impact on human development.

3. Towards this end, the FfD Business Sector Steering Committee has been actively engaging with the United Nations in the Roadmap to Addis Ababa, and is mobilizing its constituency to provide expertise and guidance to member states. In this regard, we are pleased to share with you our inputs for your consideration in preparing the "Elements Paper", categorized according to each chapter heading of the Monterrey Consensus. Attached to this submission is an annex providing a compendium of supporting documents from the members of the FfD Business Sector Steering Committee.

## CHAPTER 1: Confronting the challenges of financing for development: a global response

4. A more effective global development architecture needs to be established in order to effectively address the enormous challenges of financing a more sustainable world. Such architecture should be conducive to the current global financial and economic landscape, enable higher living standards, provide greater access to needed infrastructure services and social programs, job creation, and environmental sustainability. The core components should include: improving the pipeline of bankable investments by creating new conditions for finance at the project and fund level, including by improving data transparency and synchronization across countries, regions and sectors; anchoring significant increases in capacity to plan implement and regulate at all levels of government; creating meaningful performance metrics on financial flows, creditworthiness, fiscal decentralization, and development impacts; scaling up of blended finance, and use of technology for

transformative results particularly for better coordination of financial flows, improving sustainability of investments and impact measurement.

5. The critical role of the private sector in sustainable development is evidenced by global investment and trade developments. In the past decade, the value of cross-border direct investment has grown substantially, to the point where global inward investment flows now approach US$1.2 trillion; sales of affiliates worldwide are just under US$30 trillion, far in excess of world trade flows; and there are more than 2800 bilateral investment treaties, many of them "south-south".[1]

6. Moreover, outward investment also enables firms to establish a presence in global markets, particularly in emerging countries, while also expanding their activities at home through exports and harnessing efficiencies on a global scale. New global financial regulations should be complemented by effective international supervisory mechanisms and consistent implementation across jurisdictions and caution should be taken to ensure that new regulations do not have a detrimental effect on the availability of trade finance, especially in developing countries.

7. As the world becomes more and more integrated, businesses and investors are becoming increasingly aware of the need for better alignment of incentives between public and private interests which can only thrive in prosperous and sustainable societies. Conversely, both business and investors are coming to realize that social and economic disparities, as well as environmental degradation that hits the poor the hardest, are already having negative impacts on supply chains, capital flows, and employee productivity, posing new challenges for risk management. These daunting challenges require greater collaboration between governments, development institutions and the private sector, encompassing the development of climate smart approaches, project development, trade arrangements, production networks, and risk-mitigating finance structures.

8. **Recommendations:**

    a. Improved tracking of all financial flows: To be effective, the operational system supporting the new global development architecture needs to be integrated with the UN Sustainable Development Goals (SDGs) with effective reporting from governments, development partners, the private sector, foundations, and civil society. The tracking of financing flows can be implemented through the new OECD statistical measure "Total Official Support for Sustainable Development (TOSD)."

    b. Greater reliance on 'blended finance': There is a critical need to provide greater amounts of finance for developing countries by catalyzing private finance with limited public resources with other sources of finance from the private sector, foundations, among others, and use this expanded funding in high-impact climate smart infrastructure projects and social services. Such diversified funding ("blended finance") can be used by governments, domestic companies, international companies, and SMEs for both economic infrastructure and social services. It is important to ensure that public sector contributions to blended finance are used as mechanisms to mobilize private finance in markets, sectors, and projects that are unable to be financed without such credit enhancements and risk mitigation, and not for transactions in which private investors would have invested absent such public sector support.

[1] (2012), *ICC Guidelines on International Investment*, p.5

c. Better measurement of flows and impacts through better, more integrated data: Increasing the reliance on this broader variety of financial sources also necessitates better tracking of these flows through transparency and common data platforms that would enable more coordinated planning and targeting and prioritization of investment gaps. Increased transparency also enables the measurement, monitoring, analysis and scaling up of development results against the SDGs.

## CHAPTER 2A: Mobilizing domestic financial resources for development

9. Financing a transformative development agenda will require that available resources be used more effectively and strategically to catalyze additional financing from official and private sectors. Corresponding integrated country-level development architecture will be required with an operational system that enables effective public-private cooperation on a project basis at all levels across economic sectors.

10. Developing countries will need to increase efforts to finance their own development by improving domestic resource mobilization including by strengthening tax administration, better harnessing natural resource revenue, and curbing illicit financial flows. It will also be important for national governments to provide sufficient and predictable intragovernmental transfers to subnational governments providing essential infrastructure and social services.

11. The ability to mobilize domestic revenues will reduce aid dependency and improve country creditworthiness. Broadening the tax base, improving tax administration, and closing loopholes would make significant difference in low income countries where tax revenues account for only about 10-14 percent of GDP, one-third less than in middle income countries. Lower income country tax bases tend to be narrow, reflecting the smaller share of the formal sector in employment and business activity. This will also require that challenges posed by informality are addressed, including by identifying ways to tax the informal sector.

12. In sum, an enabling environment requires the establishment of institutional, regulatory, legal and investment frameworks that facilitate the mobilization of finance. Such reform processes must be carried out through robust consultation with the private sector, particularly local SMEs who have the greatest appreciation for local development needs and the reforms necessary to achieve an adequate business enabling environment.

13. **Recommendations:**

    a. Establish quality financial advisory services to identify and finance priority projects and programs: Governments at all levels require independent, quality, financial advisory services and support to increase their capacity for the identification, development, and finance of priority projects and programs. This, in turn, will require identifying and implementing the necessary required reforms in the institutional, regulatory and legal environment; and developing the underlying processes and training programs to build domestic operational frameworks for implementation.

    b. Develop and maintain investment performance metrics: A critical component is developing and maintaining investment performance metrics against national and local development goals, openly disclosing issues and results related to securing funding and development impact. Foreign financial institutions and other partners, such as foundations, development agencies and impact investors, can help by strategically underwriting domestic financial institutions' closer involvement in creating local markets for procurement of local services and domestic production related to development projects.

c. Establish consultative mechanisms and open processes for planning and reform: Open consultation and collaboration with the private sector would be necessary in reducing investment impediments and implementing remedies to properly mobilize both foreign and domestic capital. Furthermore, consultation mechanisms to actively engage SMEs would be necessary in effectively recognizing the needed improvements to create a business enabling environment and identify key opportunities for investment and development. The Global Clearinghouse for Development has developed a free on-line network service available to all governments as a means to cost-effectively facilitate such consultation. The Foundation Center, UNDP and Rockefeller Philanthropy Advisors are building a Platform whereby funders of the Sustainable Development Goals can network and share knowledge with the intent to foster partnerships with other sectors and in-country actors in support of national development plans. The value of a philanthropic portfolio is that it enables one institution, even with modest resources, to simultaneously, and over time, test and support disparate organizations and interventions.

d. Establish and support country-level sustainability networks: Governments and their development partners need to support country-level sustainability networks and initiatives, which offer compelling engagement opportunities and facilitate collective action at the local level, where the vast majority of business decisions, actions and challenges take place involving local stakeholders. Sustainable development requirements and priorities will vary by location, but must be pursued by government actors with robust input from local networks, of which there are already a wide variety: The International Chamber of Commerce (ICC) has over 130 National Committees, the UN Global Compact has over 85 Local Networks and the World Business Council for Sustainable Development (WBCSD) has 65 Regional Networks. Such business networks provide a platform for engagement and partnering with like-minded peers, a venue to dialogue with key stakeholders including civil society and government, and setting forth specific investment impediments and remedies.

## CHAPTER 2B: Mobilizing international resources for development: foreign direct investment and other private flows

14. Economic growth is one of the most powerful drivers of poverty reduction in the world, and business is the most reliable engine powering that growth. As companies expand their operations in emerging markets, businesses from developed and developing economies alike are having a profound, positive impact through employment, training and education, supply chain linkages and the provision of life-enhancing goods and services – all of which are strongly correlated to improved standards of living and broad-based development.

15. The greatest challenge in securing finance is the lack of bankable projects. Development partners can help by reducing transaction costs which becomes an impediment. Key measures that need to be implemented should include the standardization of application and reporting requirements and the simplification of procurement processes. It is also critical to invest in performance metrics such

as creditworthiness of national and subnational governments, and related government entities. An important performance benchmark is the development of fiscal decentralization standards, and ongoing monitoring.

16. To ensure effectiveness and transparency, there needs to be publicly-disclosed measurement of the leveraging effect of official actions such as ODA initiatives aimed at mobilizing private investment. The measurement should be disaggregated on a project and program basis and quantify the amount of private sector capital mobilized and the development impact sought.

17. **Recommendations:**

    a. Establish country-based databases containing a pipeline of bankable projects and experts: Develop and maintain public country-based databases facilitating access to qualified international and local experts (e.g., private sector technical experts by sector, financial advisors, lawyers, etc); project development support (e.g., identification of viable projects, feasibility studies, business models, legal support, financial advisory, etc); training (e.g., learn-by-doing programs, workshops, university degree programs, toolkits with operational templates, etc), and climate-smart products and services.

    b. Enhance transparency and access to risk-mitigation tools and information: Develop and maintain public databases facilitating access to: best practices reducing country systemic impediments (e.g., regulatory and institutional frameworks such as tariffs, climate smart strategies, etc.); available risk mitigation instruments (e.g., partial credit guarantees, first loss facilities, subsidized user fees, bank on-lending programs, contingency facilities to be provided by domestic pension funds, etc.); blended finance models (e.g., pooled finance funds, municipal cooperative structures, SME funds, etc.); lists of qualified international and local experts (e.g., infrastructure project finance and other financial experts who can structure sectorial programs, projects, instruments, and policies); and training tools to develop local risk mitigation service providers (e.g., learn-by-doing programs, workshops, university degree programs, toolkits with operational templates, etc.

## CHAPTER 2C: International trade as an engine for development

18. Over the past 60 years, international trade and investment and the multilateral trading system have contributed to improving the standard of living of billions of people around the world, by creating new economic opportunities for producers and consumers alike and by strengthening ties between nations, thereby contributing to global peace and prosperity and fostering greater freedom around the world.

19. Multilateralism offers a sound pathway to create shared global prosperity and legal certainty by lowering barriers to trade worldwide and creating a level playing field. The multilateral trading system is the guarantor of the consistency and predictability that are essential for companies to trade and invest across borders, as well as an insurance policy against protectionism.

## CHAPTER 2D: Increasing international financial and technical cooperation for development

20. The promotion of consensus-building through stakeholder dialogue – notably between governments, business and civil society – is vital for designing effective solutions for improved technical and financial cooperation. They create a shared sense of accountability and responsibility.

21. Improved state-business relations can be assumed to contribute to a better understanding of private sector needs by the government and thus to a more efficient allocation of resources in the economy. Being in constant dialogue with private investors is necessary to enable public officials to assess where markets can be expected to work and where they are likely to fail and offer or withdraw public support accordingly. This can create trust between the public and private sector and make policies more predictable.

22. Since the global financial crisis, policy-makers have been focusing on building a new regulatory framework to minimize the likelihood of another financial tsunami. The resulting atmosphere of caution, however, has led to the creation of various regulations that impose considerable costs on businesses and consumers and diminish the economic benefits of a competitive and dynamic financial services sector. Therefore, regulatory authorities should always be mindful that striking an optimal balance between stability and innovation will remain a key challenge in their quest for more sustainable economic growth.

23. The availability of economically feasible options to address global challenges will depend on the development, commercialization and widespread dissemination of effective existing technologies and new, currently non-commercial technologies. The private sector has been, and will continue to be, responsible for the vast majority of investments and the development and diffusion of the new and improved technologies that will be essential to meet these challenges. Business does not do this in isolation and often forms partnerships with governments, academic and other nonprofit research organizations to leverage resources and benefits.

24. **Recommendations:**

    a. Improve coordination of policies at the country level: Governments should ensure coordination between their policies on development and on intellectual property, as well as on trade, which could include developing national research programs targeted at local barrier identification and to recognize and support opportunities for provision of tax incentives, workable and effective patent systems and other positive incentives for research and development (R&D). National technology development strategies must cover fundamental research as well as emerging and near commercial areas in order to ensure a pipeline of new technologies.

    b. Focus on education and skills: Governments play an essential role in the education continuously needed to replenish and expand the pipeline of qualified individuals with essential technical training, as well as gathering and disseminating statistics on education and skills attainment levels in their countries, so the private sector can plan accordingly and make useful interventions where possible to complement or enhance government programs.

## CHAPTER 2E: External debt

25. Financial crises originate from the lack of adequate assessments of risks, improper use of debt, inadequate capacity to pay debt service, the nature of the debt instrument, and unexpected economic and political developments that impact debt service capacity. The prevention of financial crisis needs to ensure that the obligor undertaking the debt is well-informed about the full menu of finance options, and the respective obligations and risks. Therefore governments undertaking debt obligations need to be fully informed about the options for finance (debt and equity, domestic debt options, international debt options, etc), as well as the details and risks associated with specific finance instruments. To enable this, there needs to be independent, qualified financial advisory services available to governments.

26. Linkages to international and national development partner support and risk mitigation programs are critical. The urgent challenges of finance have resulted in a proliferation of global instruments with frequently weak linkages at the country level. Country-based dissemination mechanisms need to be established to enable country-level access to such instruments and sharing of knowledge and success stories.

27. **Recommendations:**

    a. Establish communication framework between the public and private sectors: A nonbinding global technical framework should be created aimed at enabling open communication and information sharing between the public and private sectors. Such an approach could promote a predictable and stable climate for investment as a practical tool to help countries review their debt profiles and international investment agreements. Such a non-binding framework could help to build common ground and understanding, and provide more clarity, predictability and transparency for companies investing across borders. Agreement on shared principles may serve as a basis for a more structured and wider process towards an agreed common multilateral framework in the long term.

    b. Establish creditor committees for sovereign debt: In terms of debt workout procedures, creditors committees are a common tool in all kinds of debt restructuring exercises, both in terms of driving a fair and transparent restructuring deal as well as in encouraging creditor participation and minimizing holdouts. These are demonstrably true for sovereign debt as well. As such, creditor committees, properly organized and supervised, must be a central component of all policy in improving sovereign debt restructuring.

### CHAPTER 2F: Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development

28. A coordinated approach on existing intergovernmental agreements that address issues of global governance should be considered in order to avoid significant overlaps in the measurement activities and/or fragmented international policy responses. This is particularly true as it pertains to the architecture of international finance. Internationally agreed frameworks from the Basel Committee, the Financial Stability Board, the International Monetary Fund, the World Bank and other relevant fora should be referenced as appropriate.

29. **Recommendations:**

a. Disclose and measure ODA initiatives: To ensure effectiveness and transparency, there needs to be publicly-disclosed measurement of the leveraging effects of official actions such as ODA initiatives aimed at mobilizing private investment.

b. Develop performance metrics for creditworthiness of all governmental entities: Governments and development partners need to also invest in other critical performance metrics such as creditworthiness of governments at all levels, and related government entities providing infrastructure and other social services. An important performance benchmark is the development of fiscal decentralization standards, and ongoing monitoring

c. Engage private sector experts: The sustainability of international financial institutions will require close engagement with private sector experts, including the insurance sector and the rating agencies, as well as other experts. There will need to be a coordinated global campaign for scaling up the use of such risk mitigation initiatives, with support from governments and development partners.

d. There is a proliferation of global and regional climate change initiatives and technologies with no global coordination coupled with complicated processes to access funding, leading to underutilization and aid ineffectiveness. Global and regional climate change initiatives need to streamline their internal processes reducing transaction costs and delays, using on-line technologies ("e-government applications").

## CHAPTER 3: Staying Engaged

30. For the more effective global development architecture to provide greater amounts of finance for developing countries, there needs to be a systematic and dynamic technical and multi-stakeholder FfD Follow-Up process with a specific mandate reflecting the new level of partnerships that are needed with governments, the private sector, and civil society.

31. The FfD deliverables should be technical tracking and assessment, leveraging existing programs and processes at the UN, Bretton Wood institutions, and development partners. A critical component is alignment with the SDGs and the OECD Development Assistance Committee (DAC) tracking of financial flows and progress against the SDGs.

32. Successful implementation of the new global development architecture will require a stronger FfD intergovernmental process with monitoring and accountability mechanisms, and effective linkages to other UN processes, bodies, and agencies as well as the World Bank Group, and the Global Partnership for Effective Development among others. It would be critical to bridge the gaps between FfD commitments, policymaking, and implementation with a results-based follow-up process, including policy reviews and performance benchmarks at the country level.

33. Technical standards, definitions and processes need to be developed and disseminated to enable clear and efficient collection and treatment of data. A multi-stakeholder process, engaging technical experts from development partners, the private sector, and foundations is a key requirement for ensuring stakeholder buy-in and that the approach is comprehensive.

34. Multistakeholder dialogue should be emphasized to strengthen policymaking by incorporating valuable private input, including technological know-how and other expertise, and creating

momentum for reform. Dialogue improves the flow of information relating to economic policy and builds legitimacy into the policy process which serves a number of broad objectives that are relevant to the private sector. Dialogue can set policy priorities, improve legislative proposals, and incorporate feedback into regulation. It creates a foundation for market-friendly policies that deepen economic reform and enhance national competitiveness. From a democratic point of view, a vibrant private contribution to dialogue expands participation in policymaking, improves the quality of business representation, and supplements the performance of democratic institutions.

35. **Recommendation:**

    a. Establish an intergovernmental process with multistakeholder participation: The complexity of the FfD process requires an intergovernmental results-based Follow-up Process with appropriate cross-linkages to other international institutions and policy processes, appropriate monitoring mechanisms and robust multistakeholder participation.

## ADDITIONAL ITEMS

### Learning from partnerships

36. Business contributes resources, skills, infrastructure, goodwill and technological innovation in support of economic and social development, even in the most adverse circumstances.

37. Business and philanthropy should become informed about relevant global and national development goals and targets, both to understand the external context better, and to unlock opportunities for leverage; use philanthropy networks or affinity groups to join UN and government processes; expand grantmaking to support a vibrant civil society, which will be even more important to the Post-2015 Agenda than it was for the MDGs; report programmatic spending as much as possible against national and global development goals and share information transparently; and include development cooperation experts at philanthropy and business events.

38. The challenge now is to scale up these models to make faster progress in wealth creation and sustainable development. Meeting the needs of the developing world, and especially those of the bottom-half of the pyramid, represents a huge opportunity for business, given long-term demand for investment, infrastructure, products and services in these regions. Business is committed to sharing the benefits of such opportunities by creating jobs, building skills, developing new technologies and investing in communities.

39. Collaboration between business, government and civil society, especially through public-private partnerships, has succeeded in furthering the objectives of poverty reduction and sustainable development. Business is convinced that substantial private investment will flow to countries that can establish conducive business environments and a level playing field. Business can do more if it is more embedded in the economic fabric of societies and has a greater stake in their future development. This will only happen if companies have a predictable stable investment and policy environment. In this regard, business has consistently emphasized the importance of mobilizing domestic resources, encouraging local entrepreneurship and fostering foreign direct investment. Further, creating an enabling environment for both domestic and international philanthropy and business will allow the sectors to flourish and contribute to their maximum potential.

40. Business alone cannot develop sustainable market-based solutions to poverty challenges. The support of government to successfully deploy sound enabling frameworks and new innovative funding mechanisms requires collaborative action.

### Corporate Sustainability and Responsible Investment

41. With the advancement of the corporate sustainability and responsible investment movements, companies and investors are increasingly engaged with the sustainable development agenda and are starting to work together to address major challenges. The adoption of environmental, social and governance considerations (ESG) considerations in private investments is evolving from a risk management practice of avoiding harmful investments, to becoming a driver of innovation and new investment opportunities that create long term value for business and society. It will be important to create an enabling environment that supports the advancement of corporate sustainability and responsible investment.

42. Private sector transparency and accountability have been advancing hand in hand with the development of corporate sustainability and responsible investment movements. The various actors in the investment value chain, including investors, banks and companies, have been increasingly including ESG and sustainability information in their reporting processes. It will be important to create an environment that enables for sustainability and integrated reporting to flourish and reach a mainstream.

43. Principle-based voluntary initiatives are critical to pave the way towards mainstreaming corporate sustainability and responsible investment. The ESG efforts by the various private actors are consistent with the SDGs but need leveraging to achieve stronger sustainable development outcomes. The elements for an ESG coalition are in place and a number of principle-based voluntary ESG initiatives are starting to gain traction throughout the private investment chain.

**BUSINESS SECTOR STEERING COMMITTEE**
**Submission to the FFD Co-Facilitators for consideration in drafting the FFD Elements Paper**

## ANNEX

**ANNEX 1. International Chamber of Commerce (ICC)**

1.1 ICC Guidelines for International Investment
1.2 ICC Global Trade and Finance Survey 2014
1.3 Enhancing Intellectual Property Management and Appropriation by Innovative SMEs
1.4 The ICC Intellectual Property Roadmap

**ANNEX 2. UN Global Compact Submission for FFD Elements Paper**

2.1 Private Sustainability Finance - Contribution to the Elements Paper of the Third Financing for Development Conference

**ANNEX 3. International Finance Corporation**

3.1 Key issues on Private Finance and Investment - IFC input to the Elements Paper of the FFD Addis Conference
3.2 Shared Prosperity through Inclusive Business: How successful companies reach the base of the pyramid

**ANNEX 4. World Economic Forum (WEF)**

4.1 Blending Capital, Catalyzing Change – A joint initiative of the World Economic Forum and the OECD DAC

**ANNEX 5. Global Clearinghouse for Development Finance (GlobalDF)**

5.1 Global Clearinghouse for Development Finance (GlobalDF) Compendium - Attachment for Business Sector FfD Elements Paper
5.2 Global Clearinghouse Inputs on Climate Change
5.3 Initiative for Risk Mitigation in Africa (IRMA), *African Development Bank: Initiative for Risk Mitigation - Needs Assessment for Risk Mitigation in Africa: Demands and Solutions* (March 2013)
5.4 World Economic Forum Report, *Building on the Monterrey Consensus: The Untapped Potential of Development Finance Institutions to Catalyse Private Investment* (2006)

**ANNEX 6. Vale Columbia Center on Sustainable International Investment**

6.1 A Framework to Approach shared Use of Mining-Related Infrastructure

**Annex 7. Foundation Center**

7.1 A Post-2015 Partnership Platform for Philanthropy
7.2 Planning Workshop Platform for Philanthropy Kenya