Co-Creating New Partnerships for Financing Sustainable Development

Outreach event of the Intergovernmental Committee of Experts on Sustainable Development Financing

Helsinki – Espoo / Finland, 3 - 4 April 2014

CHAIR'S SUMMARY

The ICESDF bases its work on four fundamentals: 1) the Millennium Declaration with its universal values and common global interests and objectives as an entry into the universality, 2) the Monterrey Consensus on financing for development, with its comprehensive approach covering all domestic and international, public and private financial flows and their interplay, 3) Rio+20 and the economic, social and environmental dimensions of sustainable development as cross-cutting elements, and 4) A multi-stakeholder approach based on a wide and inclusive participation and influence of the public, private and civil society sectors.

Official Development Assistance remains a critical financing source for extreme poverty eradication, especially in LDCs and countries in special situations. In addition, the Committee of Experts on Sustainable Development Financing (ICESDF) recognizes the primary importance of the mobilization and effectiveness of domestic financing and of harnessing private sector finance more strongly into sustainable development financing.

Outreach activities are essential for the work of the ICESDF, which will conclude its work in August 2014. The objective of this ICESDF multi-stakeholder outreach event was to discuss the role of private sector in financing sustainable development and the opportunities in creating new kinds of creative and mutually beneficial partnerships among stakeholders. The event, organized in co-operation with the Ministry for Foreign Affairs of Finland and Aalto Global Impact of Aalto University, brought together over a hundred experts on sustainable development and on financing from four continents, representing the public and private sectors as well as civil society.

This Co-chair's summary is prepared for the consideration of the ICESDF and is thus not an official record of the event.

TRANSFORMATIVE KEY MESSAGE

TOWARD A PARADIGM CHANGE

- Sustainable development needs to be mainstreamed into financing, domestic budgets and the world economic agenda – all human economic activities, whether public or private, should be based on sustainable development objectives and criteria.
- Private financial flows represent the largest stream of funding available for investment. Even a small change in the size and orientation of these flows as regards sustainable development objectives would have a significant quantitative and qualitative impact. Costs of inaction are high, but action in the wrong direction could be even more costly. Therefore, investment and partnerships should be targeted to the sectors of the Sustainable Development Goals to maximize their impact on sustainable development, addressing critical capacity gaps on the way.
- Capital markets need to be better understood and the whole capital supply chains must be considered when promoting sustainable development – there is a need to align incentives in a structural manner in these chains, above and beyond devising smart incentives at the project or program levels.
- There is an opportunity for a paradigm shift in sustainable development financing. The current commitments of business are inspiring and encouraging. These include commitments to UN principles on human rights, labor, environment and anti-corruption, to the Busan partnership and, in the case of private investors, to the Principles for Responsible Investment. These moral commitments need to be turned into concrete action, and they pave the way for sustainable development and poverty reduction, which need to be shared objectives of the private sector as well. Experience proves that commercial viability and sustainable economic feasibility can materialize at the same time.
- The paradigm shift can be facilitated by
  - making sustainable development an essential element in company strategies and a core competence of companies – making use of instruments that use sustainable development objectives as a positive label (like fair trade)
  - making better use of synergies, complementarities and interplay between public/private financing
  - creating new innovative partnerships within a more systematic and holistic framework, leading to country-led investments that are fair to tax-payers and secure wider stakeholder participation while avoiding excessive proliferation of partnerships. This could be done by
    - ➢ enabling stronger national level coordination and oversight as well as effective monitoring and evaluation for accountability
    - ➢ focusing on quality of the investments and partnerships above their quantity

- ➢ finding a systemic approach and the right platforms for engagement with all relevant actors and recognizing the existing differences of interests among stakeholders, to enhance understanding of and trust in partnerships
- ➢ establishing appropriate standards, codes and guidelines for partnerships

FRAMEWORK FOR PARTNERSHIPS

- The aim needs to be a systemic change, while strongly focusing on the national and local level economic, social and environmental impacts
  - The discourse about partnerships should not be only about large companies – SMEs and the informal sector are key components of the private sector, and partnerships have to be relevant to them as well. There is a need for a policy framework that understands the heterogeneity of the private sector.
  - There is an important role for national development policies and investment strategies in contributing to channel investment into priority sectors consistent with national development strategies.
  - Partnership projects need to be devised to develop local productive capacity and income generation capacity. Approaches exist that can help reconcile global development goals with local realities, such as fair trade and the use of public procurement to promote domestic economic development
  - It is important to recognize the existing differences of interests among stakeholders, to enhance understanding of and trust in partnerships, and be clear about what is expected from each partner in specific partnerships - partnerships are a means to an end, not an end in itself
  - Institutional investors such as pension funds, insurance companies and sovereign wealth funds could provide opportunities for attracting long-term finance to cover e.g. SMEs and social sectors. Experiences are already available, upon which new partnerships could be based. Green and social bonds have also been experimented. All these experiences should be further studied (WB, other IFIs) and contribute lessons for a more systemic and strategic approach for sustainable development financing
  - The provision of blended financing, risk mitigation and other incentives to alter the risk-return profile of private investment should be carefully assessed for their potential to deliver additionality, while avoiding to crowd out local businesses and transactions that would take place at market terms
  - Risk transfers between the public and private sectors implied by partnerships, and associated potential liabilities for the public sector, have to be fair and transparent. Democratic oversight, robust national accounting of partnerships and regular audits are important in this regard.

ADDITIONAL ENABLING CONDITIONS

- States need policy space in order to secure sustainable development and poverty reduction gains. A proper balance has to be maintained between regulation and the capacity of the policy environment to attract investments.
- There is a need for improvements and reform towards a new framework for international investments. The current international investment regime is composed of several thousands of bilateral investment agreements and other trade agreements covering investment issues. Its weaknesses are generally known and recognized. The situation creates special difficulties in mainstreaming the sustainable development perspective and criteria for general application of the investment regime.
- There is a strong call for strengthening the role of state in financial regulation, its enforcement, and in overall financial resource management. From the point of view of sustainable development, this is also essential in order to manage financing packages composed of many financing sources and instruments, and ensuring accountability for the feasibility, transparency, good governance and legality of the financial transactions.