United Nations Global Compact

Private Sustainability Finance
Implementing the Post-2015 Development Agenda

***Executive Brief*: The financing needs of an ambitious Post 2015 Agenda will be enormous. Fortunately, corporations, private investors, financial institutions and foundations, are more often adopting sustainability considerations in their investments. Public sector and multilateral action will also be critical, setting policies and incentives that direct private investment towards areas of advantage.**

Financing the MDGs and new SDGs

Addressing the large financing needs of an ambitious and truly transformational Post-2015 agenda will require all types of flows, including public, private, international and domestic.

Estimates for the investment needs around poverty eradication, education and health to achieve the Millennium Development Goals vary between $20bn and $200bn per year. Those for incremental investment requirements in infrastructure – taking in areas such as water management and sanitation, extension of energy grids and new and alternative sources, and cleaner, speedier urban and rural transport -- are on higher orders of magnitude, ranging between $600bn and $3tn per year. Some but far from all of infrastructure improvements will count toward climate investments of close to $1 tn, if global temperature increases are to be kept to 2 degrees Centigrade or less.

While official development aid remains a critical financing source for extreme poverty eradication, especially in least developed countries and countries in special situations, private investment is seen as a critical component of financing the SDGs, given the sheer volume of investment needs for the implementation of the post 2015 agenda.

The position of private finance in regard to meeting this demand is fraught with contradictions. The total world financial stock has regained, and then surpassed, levels it achieved prior to the 2007 crash. Financial instruments of increasing sophistication are being developed virtually every day. But in many cases they are devoted to objectives which are short-sighted both in time frame and as to the kind of value that is being created.

Addressing Post-2015 funding needs can be construed therefore not merely as a supplemental investment category, but as a path toward revitalizing private investment for sustainable development, reversing market failures and creating new markets that attract private resources towards the areas in need.

Revitalization will likely entail a shift toward longer-term horizons throughout the investment value chain, from investors in the financial economy to companies in the real economy. It will also require stakeholder analysis, since investment flows from different actors have a different impact on sustainable development. Institutional investors, philanthropic organizations (some with capitalization in billions of dollars) and corporations are major private actors whose investment can advance a new set of sustainable development goals (SDGs).

Beyond investment volumes, a focus on quality and an assessment of the positive social and environmental impact of investments will also be a critical component.

Sustainability considerations move toward centre of investment decision-making

Private companies are increasingly aware of the importance of embedding sustainability considerations in trillions of dollars worth of investments and increasing their impact on sustainable development. A similar movement is afoot within the investment community.

The adoption of sustainability considerations began as a risk management tool to avoid investments in businesses and sectors that detracted from social and environmental wellbeing, and might entangle shareholders and owners in severe public, legal and financial liabilities. The stress was on a "do no harm" approach.

More recently, pro-active, principle-based initiatives are starting to gain traction. Examples include the UNEP Finance Initiative and UN-supported Principles for Responsible Investment (with more than $30 bn under management), the Equator Principles, the Principles for Sustainable Insurance, the Sustainable Stock Exchanges, and sustainable FDI.

Private Sustainability Finance -- broadly understood as private finance that contributes to sustainable development -- is a new mindset that is gaining global attention throughout the private investment chain, from investors, banks and other institutions in the financial economy to companies in the real economy and foundations and philanthropy.

In terms of FDI, private sector consultations on the post-2015 agenda, for instance, noted a new two-way trend. Many countries are now taking sustainability impact into account when assessing proposed investments. Companies and other investors, for their part, are assessing sustainability qualities such as social and environmental stability, infrastructure and overall governance when choosing investment destinations. To attract them, countries now run advertising and educational campaigns to promote these virtues.

" 'New generation' investment policies place inclusive growth and sustainable development at the heart of efforts to attract and benefit from investment," UNCTAD reports. "At the national level, these include integrating investment policy into development strategy and incorporating sustainable development objectives in investment policy."[1]

Taken together, these approaches indicate a more deliberate and pro-active stance by private investors. They are seeking investment opportunities that deliver measurable positive social or environmental results to complement or underpin financial returns, and developing innovative mechanisms for this purpose. More and more, the aspect of doing good is being recognized not only as a moral imperative, but also a guarantee of long-term financial stability and dependable return on investment.

Establishing a private sector strategy in support of the SDGs

Investors, companies and foundations are increasingly bringing together complementary characteristics to address sustainability challenges. These include:

- **Establish SDG awareness**. A set of inspirational SDGs that clearly reflect the opportunities for private and philanthropic investment will help mobilize private action,
- **Think long term**. Companies in both private and public markets will enhance long-term success with less short-term pressure. Using long-term mandates and engaging in active ownership, investors can

[1] ibid, *World Investment Report 2012*

exercise their shareholder rights to promote durable value creation. Foundations can also increase impact of their interventions if they engage for longer periods and help address market failures in order to mobilize greater private investment towards areas in need.

- **Focus on results and accountability**: Private actors are increasingly setting, monitoring and reporting sustainability targets associated with their investments. Private actors refer to the need for commonly accepted definitions and metrics aimed at monitoring and reporting impact.
- **Capitalize on partnerships and scale**: Investors are looking for opportunities to collaborate with other categories of investors with different risk/return requirements in order to mitigate or share risks. International development banks, development finance institutions and foundations, for instance, can co-invest with institutional investors by offering to offset potential losses or insure against currency and country risks. With a greater tolerance for risk, foundations can act as pioneers to address market failures and catalyze responses to sustainability issues. Companies are critical to ensure the continuity and scale of sustainability approaches by bringing them to the market.

Public action to mobilize responsible and impactful Private Sustainability Finance

By establishing the right incentives and regulations, governments can level the playing field and create private competition in a way that advances sustainable development and delivers public goods and services, while discouraging private investment in areas that lead to social or environmental deprivation. Policies that encourage corporate transparency and accountability, for instance, can help inform private finance and align it with an SDG system.

Governments and multilateral organizations can direct private investment to where it is most needed by supplying catalytic finance to create risk adjusted returns. These make investments attractive for private actors in areas that they otherwise shy away from.

Development finance organizations play a unique role in mobilizing private sustainability finance. DFIs should make sure their investments do not compete or crowd out other private actors. Rather, they should be selective to place their resources in a way that directs private investment toward arenas strategic to sustainability.

Localizing Private Sustainability Finance

Not all finance is big finance, and sustainability must grow from the grassroots up.
Those working within the informal sector and on small-sized farms – the bulk of the world's poor, and most of them women – are hard pressed to obtain credit. They often lack legal title to land or even to a personal identity. This can be a rewarding market for legitimate lenders who can navigate these difficulties, and also a key entry point for poverty eradication.

While micro-credit schemes reach some of the poor, small and medium-sized enterprises (SMEs) are too large to qualify, but not large enough to interest most financial institutions. While SMEs account for most of the world's jobs, access to credit could help them overcome generally low levels of productivity, increasing both the quantity and quality of global employment.