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INTEGRATED FINANCING SOLUTIONS

| How countries around the world are innovating to
finance the Sustainable Development Goals





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This report is designed to be a live document and will be refined and updated periodically to add new case studies and insights into the innovations that countries are developing. Please contact us using the details below if you wish to discuss this further.

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Acronyms

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BdB	Banco do Brasil
CAP	Consolidated Action Plans (Cambodia)
CCP	Council for Clean Production (Chile)
CPA	Clean Production Agreement (Chile)
CRISA	Code for Responsible Investing in South Africa
CSMI	Cottage, Small and Medium Industry (Bhutan)
CSR	Corporate Social Responsibility
DFA	Development Finance Assessment
ECX	Ethiopian Commodity Exchange
ESG	Environmental, Social and Governance
FDI	Foreign Direct Investment
GRI	Global Reporting Initiative
IFC	International Finance Corporation
IMF	International Monetary Fund
MTEF	Medium-Term Expenditure Framework
NAMA	Nationally Appropriate Mitigation Action
NGO	Non-Governmental Organization
OECD	Organisation For Economic Co-operation and Development
PDP	Philippine Development Plan
PFM	Public Finance Management
PPP	Public–Private Partnership
PREXC	Programme Expenditure Classification tool (Philippines)
SDG	Sustainable Development Goals
SET	Stock Exchange Of Thailand
SME	Small and Medium Enterprises
SOE	State-Owned Enterprise
UNDP	United Nations Development Programme

Introduction

Countries around the world are looking for ways to mobilize public and private investments in the 2030 Agenda for Sustainable Development (2030 Agenda). The Sustainable Development Goals (SDGs) present an ambitious vision for global and country-level progress in sustainable development. Realizing these goals will require a diverse mix of investments that meet the scale, complexity and interconnectedness of this agenda.

There is growing recognition of the need for more integrated approaches to financing, where public and private sources of finance contribute to sustainable development according to their specific characteristics. This is a central feature of the Addis Ababa Action Agenda (AAAA), which calls for the SDGs to be implemented through nationally owned sustainable development strategies, supported by integrated national financing frameworks. It has also been the focus of many Development Finance Assessments (DFAs) which respond to demand from policymakers who are looking for new sources of finance and who wish to use their influence, policies and partnerships to promote greater sustainable development impact from existing sources of financing.

This report responds to the demand for practical guidance on integrated approaches to financing that have been identified through the DFAs. It showcases innovations that countries are making as part of efforts to develop more integrated, holistic approaches to financing the SDGs. It presents more than 40 case studies, covering a range of financing policy areas, which can inspire policymakers with ideas about the kinds of solutions that could be applicable in their contexts. In this way, it supports the DFA guidebook and complements other repositories of innovation on SDG financing (see Box 1).

Box 1. Complementary SDG financing repositories and services

The case studies and policy innovations discussed in this report are complementary to a range of services offered by UNDP, including MAPS,¹ the SDG impact finance initiative,² BioFin,³ derisking renewable energy investment,⁴ the innovation facility⁵ and support for establishing SDG, tobacco, and impact bonds and green *sukuks*, as well as the guidance and examples presented in other repositories:

Financing solutions for sustainable development:⁶ A UNDP platform that outlines the potential advantages and disadvantages, risks and characteristics of a wide range of public and private financing solutions for investing in the SDGs.

Financing the 2030 Agenda Guidebook:⁷ This guidebook provides an entry point for advice and information on financing for sustainable development and the tools and services offered by UNDP in this space.

Budgeting for Agenda 2030: Opting for the right model:⁸ This forthcoming document will provide guidance on a range of distinct solutions that countries may wish to consider for mainstreaming and accelerating the SDG agenda within national budgets.

1 See <http://www.2030agenda.undp.org/content/2030agenda/en/home/more/MAPS.html>

2 See <http://undp.socialimpact.fund/>

3 See <http://www.biodiversityfinance.net/>

4 See <http://www.undp.org/DREI>

5 See <http://www.undp.org/content/undp/en/home/development-impact/innovation.html>

6 See <http://www.undp.org/content/sdfinance/en/home.html>

7 See <http://www.undp.org/content/undp/en/home/librarypage/poverty-reduction/2030-agenda/financing-the-2030-agenda.html>

8 UNDP (2018). Forthcoming.



The report focuses on two key aspects of integration that can contribute towards the kind of integrated national financing framework called for by the AAAA:

- **Integrated planning and finance policy functions:**

Developing structures that build alignment between short-term and medium-term finance policies and the longer-term aspirations of a national plan

- **Integrated public and private financing:**

Developing more holistic approaches to financing that mobilize impactful investments from public and private sources according to their characteristics.

Countries around the world are innovating in these key aspects of integration across public and private financing. The report looks at efforts to strengthen the connection between planning processes and both the budget and private sector policy. It highlights innovations related to different aspects of private finance policy, from improving business regulations and using incentives to promote strategic private investments, to collaborating with the private sector on strategic projects and promoting social impact investment. It also explores efforts to promote better corporate governance and corporate social responsibility, and to build platforms for deeper and more systematic public–private dialogue. The report showcases innovations related to remittances, looking at the use of diaspora bonds and future flow securitization to raise additional development finance resources, as well as efforts to reduce the cost of sending remittances. It also highlights efforts to improve private sector reporting as well as transparency and accountability in relation to cross-cutting priorities, public–private transactions and other aspects of sustainable development.

This report is a living repository that will be updated and revised periodically over time. It will incorporate new case studies and respond to emerging priorities as countries continue to develop more integrated approaches to financing the SDGs. This version, version 1.0, is published alongside version 2.0 of the DFA guidebook.

The report is structured as follows:

- Chapter 1 discusses why countries would want to take a more integrated approach to financing the SDGs.
- Chapters 2 to 5 look at case studies and key considerations for policymakers in a range of policy areas related to the two areas of integrations outlined above, following the structure of the DFA analytical framework.
 - Chapter 2 looks at integrated planning and financing.
 - Chapter 3 focuses on public–private collaboration with a particular focus on private sector investment and remittances.
 - Chapter 4 focuses on systems for monitoring and review
 - Chapter 5 focuses on transparency and accountability
- Each chapter introduces the topic, presents a series of case studies and closes with a brief discussion of some of the key policy considerations that policymakers may want to consider.

1

Why an integrated approach to financing the SDGs?



The Addis Ababa Action Agenda (AAAA) presents a framework for financing the SDGs at the global level. It calls for a wide range of public and private financing to play a role in funding the investments and services that will be required to achieve the vision of the 2030 Agenda. Efforts to mobilize and invest much of this financing will be led at the national level, and the AAAA states that “cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts.”⁹

This call for integrated national financing frameworks responds to a number of characteristics of the 2030 Agenda that necessitate a more integrated approach to financing:

The breadth of the 2030 Agenda

The 2030 Agenda aspires to progress in sustainable development in all its dimensions – economic, social and environmental. The widely varying nature of the goals and targets in different aspects of the agenda will require very different types of investments and services. While some of these investments are suited to or can only be provided by public finance, others can be financed effectively on a commercial basis, within the right policy framework. Achieving the SDGs will therefore require investments from a diverse range of sources of financing according to their specific characteristics and the nature of the investments that need to be made.

The ambition of the 2030 Agenda

Estimates of the cost of achieving the SDGs, globally and at the country level, far exceed the scale of public finance and development cooperation that is available. Meeting the costs of the investments that are necessary to achieve the SDGs will require mobilizing wider forms of finance.

The interconnectedness of the 2030 Agenda

There are connections and interdependencies between many aspects of the 2030 Agenda. Progress in one area may enable or accelerate progress in another – or constrain it in yet another. Addressing these interconnections to exploit the synergies and trade-offs that exist requires an integrated, joined-up approach that builds from the type of financing and investments that will be made.

The need to ground the aspirations of the 2030 Agenda within policymaking

Much of the success of the 2030 Agenda will be determined by the way it is implemented at the country level. Policies implemented at the country level will drive much of the investment in the agenda. There is a need to create a strong link between aspirations about the progress that is desired and the policies that will mobilize investment in them. This will typically come via a national sustainable development plan or vision and its links to short-term and medium-term policymaking.

Integrated national financing frameworks will play a critical role in mobilizing and managing finance at the country level to address these challenges and realize the vision of the 2030 Agenda. These frameworks do not represent the creation of something new, but call for more holistic, comprehensive ways of organizing the policies and institutional structures that governments use to engage with all types of public and private financing. They can help frame government efforts to invest public resources, build partnerships with other actors and influence the scale and nature of private investment. They can help governments develop a strategic framework that draws together policies across this diverse range of financing for a common purpose: advancing the 2030 Agenda.



There are many aspects to an integrated national financing framework that can fully support a cohesive sustainable development strategy in the way that the AAAA calls for. This report focuses on two important aspects of a more integrated approach to financing that can contribute towards these larger integrated national financing frameworks.

Integrated planning and financing is at the foundation of efforts to mobilize the investments that will be needed to realize the 2030 Agenda. Integration between these core functions is critical for setting development aspirations that are in step with the policies designed to realize them, and conversely, to implementing policies that address the financing challenges and opportunities a country faces to mobilize the investments needed to achieve those aspirations.

Integrated public and private financing responds to the characteristics of the 2030 Agenda outlined above and seeks to establish a more holistic approach to public and private financing. It builds on an understanding of the investments and services that different forms of public and private finance can fund and develops policies and partnerships to mobilize and promote them.

These two key ‘integrations’ are critically supported and enabled by effective monitoring and review processes as well as functioning transparency and accountability mechanisms. They are explored in this report through chapters that correspond to the dimensions of the DFA analytical framework (Figure 1).

Box 2. What is a Development Finance Assessment?

A Development Finance Assessment (DFA) is a country-level process¹⁰ that supports governments and their partners to identify and build consensus for policy reforms that support more integrated public and private financing of the SDGs. The DFA uses a multidisciplinary approach to analyse the financing landscape and the institutional structures and policies by which government manages its approach to public and private financing for the SDGs. It uses an analytical framework that analyses financing trends and considers four aspects of government systems for instigating an integrated approach to financing the SDGs.

The DFA process brings together a wide constituency of actors at the national level to propose and build consensus around reforms for more integrated financing of sustainable development. These reforms focus particularly on ways for countries to strengthen the link between planning and financing, strengthen multi-stakeholder participation in financing dialogue, mobilize financing for the SDGs and strengthen finance policy to promote greater SDG impact.

¹⁰ For more on DFAs, including information on completed and ongoing assessments, see <http://www.asia-pacific.undp.org/content/rbap/en/home/ourwork/democratic-governance-and-peacebuilding/ap-def.html>

Figure 1. The dimensions of the DFA analytical framework





2 Integrated planning and financing



Governments play a central role in instigating an integrated approach to financing. They have a strong influence over all public and private finance flows. The way governments invest their resources and their policies influence the business environment, their regulations promote standards, and their partnerships promote investment and service delivery. All of these directly or indirectly affect the way finance is invested and the outcomes finance contributes towards.

Government's influence over financing is exerted through a complex network of financing policies, programmes and partnerships. These are managed by a wide spectrum of actors at the national, local and agency level, and through partnerships with other actors. Ensuring that these financing policies complement one another, contribute to national development objectives and effectively incentivize other flows is a significant policy challenge.

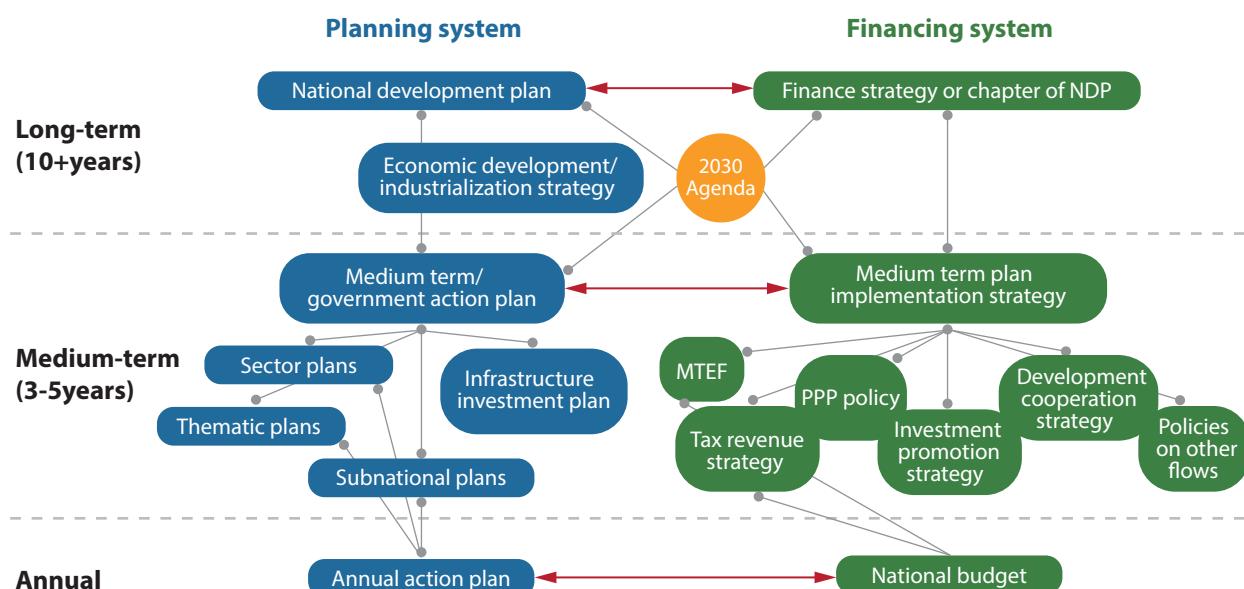
At its foundation, a key part of this challenge is the alignment between financing policies and the planning system. If the sustainable development aspirations

articulated through planning systems are to be realized, they must be cognisant of and supported by financing policies that can mobilize public and private investments and services to deliver them.

When planning and financing systems work in harmony with one another, short-term and medium-term policies mobilize and invest the resources needed to realize long-term national development goals (Figure 2). Many countries have increased the capabilities of both their planning and financing systems in recent years. Yet the integration of these systems, particularly in a way that incorporates policies towards achieving all of the public and private resources that will be needed to realize sustainable development objectives, remains a challenge in many contexts.

Inherent differences in the nature and outlook of planning and financing systems make such integration difficult. While planning processes are long-term in focus, financing policies are often more incremental in nature. Development plans focus on outcomes while many

Figure 2. Common elements of national planning and financing systems



Note: The red arrows highlight key points at which the planning and financing systems should be closely connected.

financing policies focus on outputs (though there is much innovation in this area, as is explored below). Planning processes may be aspirational in nature while financing policies are often more focused on costs.

Many planning and finance policy systems, and the tools utilized within them, have developed independently from one another, without an overarching strategic direction. Processes and tools to bring the systems together may be lacking, or underutilized. For example, national development plans may have been developed without consideration of the resources required to realize the vision they present. The indicators used to design and monitor short-term and medium-term financing policies may not be clearly linked to the outcome indicators used to articulate long-term sustainable development objectives in national plans. And processes to review and align budgets and new policies to national plan objectives may be lacking.

Even where strong connections between planning and financing policies do exist, they are often limited to a narrow subset of the financing landscape. This will typically be focused on public finance, sometimes incorporating public–private partnerships (PPPs) or development cooperation.

Nevertheless many countries have developed innovations that strengthen the integration of government planning and financing functions. The examples below showcase how countries are developing more holistic financing strategies (Bangladesh), strengthening the linkages between the budget and the national plan (Cambodia, Mozambique, the Philippines and Uganda), aligning policies towards private finance to the national plan (Bangladesh, India and Indonesia) and estimating the costs associated with a sustainable development vision (Bangladesh). These represent some of the key steps that policymakers can consider to strengthen the ties between planning and financing policies.

Establishing holistic public–private financing strategies

There is wide recognition of the need to mobilize public and private investment in the SDGs, according to their specific characteristics. Various forms of financing can

be used to support investment in different priorities and aspects of the 2030 Agenda. The appropriate mix and scale of public and private financing will look different in every country, depending on the priorities for investment, existing financing trends and the wider context. While all countries strategize, to some degree, about how they will invest their public resources to advance national objectives, an increasing number of countries are developing more holistic approaches that bring together policies towards public and private financing to ensure they are mobilizing the range of investments that will be required to realize the national plan.

This section looks at the steps one country, Bangladesh, is taking towards a more holistic financing strategy. It shows how a more holistic public and private financing strategy can be a foundation for stronger coherency and coordination. It can be a key link between the vision of a development plan and the policies that will mobilize the investments necessary to realize that vision, outlining the roles that different forms of financing can play and the priorities that they will be invested in.

Bangladesh's Perspective Plan outlines the roles that a wide range of public and private types of finance can play and this has acted as a foundation for policy in the short-term and medium-term. Policymakers can also consider whether to estimate the costs of the investments and services required to achieve the national development plan as Bangladesh has done. The example shows how such an exercise can provide targets and strategic guidance on which operational financing policies can be based. This matches the logic of realizing a vision at any level: every vision needs a plan, every plan needs a budget, and every budget needs an estimate of costs.¹¹ Estimating costs also creates the opportunity to link forecasting and ‘backcasting’ estimates that help ensure the feasibility of national plans. With quantified estimates for the cost of achieving a plan, the necessary policy changes and investments can be worked backwards and compared against forecasts of resource flows based on current trends and under various policy scenarios. While estimating the costs of large, complex and interconnected sustainable development plans is no small task, undertaking such an exercise can be worth it if it helps to identify priorities or strengthens the case for reform in priority areas.

¹¹ The author is indebted to Judith Randel of Development Initiatives for this adage.

**CASE STUDY 1.**

Bangladesh: Comprehensive, costed financing strategies

The Government of Bangladesh has developed a number of policies that support the alignment of planning and financing systems. The national development plan, Vision 2021, is supported by an implementation plan, the Perspective Plan of Bangladesh, that provides strategic guidance about various public and private flows that can be mobilized to realize the objectives articulated in the vision. Bangladesh is also one of the first countries in the world to have estimated the costs of achieving the SDGs.

A financing strategy for the national vision

The Perspective Plan articulates a strategy for how Vision 2021 can be realized and financed. It outlines the contributions that specific resources can make and identifies strategic actions to be taken to mobilize or enhance the impact of these flows.

Remittances, for example, are an important resource flow for Bangladesh and are an area of focus within the Perspective Plan. The Plan assesses the contributions that remittances make to sustainable development, in supporting poverty reduction at the community level and as an important source of foreign exchange at the national level. It presents a range of ongoing initiatives and proposes further strategic actions, such as the use of technology to improve remittance transfers and building skills for potential migrants to meet future demand for labour. In a similar way, the plan highlights specific sectors in which Foreign Direct Investment (FDI) is sought, and outcomes such as technology transfer that the government wishes to realize from it. Strategic actions are articulated, for example, to encourage investment in specific industries from specific source countries and further develop vehicles such as joint ventures in order to realize these objectives for attracting FDI.

In this way the Perspective Plan provides a framework for the outcomes sought from a wide range of public and private finance types that can guide the design and objectives of operational financing policies. This is an important bridge between Vision 2021 and implementation through Bangladesh's five-year plans and specific financing policies that tightens the link between planning and financing processes.

Estimating the cost of the SDGs

Since the development of the Perspective Plan and as part of Bangladesh's efforts to localize the SDGs, the Planning Commission has undertaken an exercise to estimate the costs of implementing the SDGs.¹²

The SDGs financing strategy, which was launched in 2017, quantifies estimates of how much the SDGs will cost to implement for specific resource types. The aim is to help identify key interventions and further develop a roadmap to achieve the goals of Vision 2021 and the SDGs. The exercise uses a methodology that looks at the costs related to each SDG and breaks down these costs into four types of resources – domestic public, domestic private, international public and international private.¹³ The strategy estimates overall that Bangladesh will need to mobilize additional costs of more than US\$900 billion over the timeline of the SDGs. Annually, this rises from additional costs of US\$32 billion a year between 2017 and 2020 to US\$100 billion a year between 2026 and 2030.

12 Planning Commission, Government of Bangladesh (2017). SDGs financing strategy. Available at: <http://www.plancomm.gov.bd/sdgs-financing-strategy-final/>

13 It is based on assumptions about how responsibilities are divided among these actors in each aspect of the SDG agenda. Importantly, the strategy accounts for the interlinkages between different aspects of the agenda. The approach taken looks at SDG 8 in particular, as well as SDGs 7 and 9, on the basis that economic growth is a key driver of development. The model used accounts for overlapping between the costs associated with these three SDGs and attempts to synchronize them. It also relates estimated costs to existing finance flows in order to approximate the level of additional resources that will be needed.

The SDGs financing strategy provides an important link for strengthening the alignment of the planning and financing systems in Bangladesh. Cost estimates are a valuable foundation that can both ground national plans, and present targets for operational financing policies to work towards. They can prompt and help to make implicit choices about prioritization explicit. In this way, they help to bridge the aspirational nature of planning processes and the intervention-based financing processes.

These innovations – the development of a financing strategy for the national vision and estimates of the costs of achieving the SDGs – have helped strengthen the connection between Bangladesh's planning and financing systems. This, in turn, has stimulated action to address some of the major priorities. For example, the Perspective Plan and five-year plans identify the significant contributions that will be needed from private sector actors. The five-year plan quantifies this, estimating that over three-quarters of the total volume of financing will need to be mobilized from domestic and international private finance. In order to boost private financing, a platform for public–private dialogue on sustainable development has been established. The platform aims to build trust between leaders in the public and private sectors and create a forum for discussing policy solutions that can unlock greater and more sustainable, inclusive private commercial investment. A new agency, the Bangladesh Investment Development Authority, was also established for this purpose in 2016.

Resources for further information: Holistic financing strategies

Achieving the SDGs in the era of the Addis Ababa Action Agenda, UNDP.¹⁴ This 2016 report brought together the experiences of countries across the Asia-Pacific region in building more integrated approaches to financing, including analysis of holistic financing strategies.

Financing the SDGs in ASEAN, ASEAN–China–UNDP.¹⁵ This 2017 report included snapshot Development Finance Assessments and analysed integrated national financing frameworks, including holistic financing strategies in eight ASEAN countries.

¹⁴ Available at: http://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/achieving-the-sustainable-development-goals.html

¹⁵ Available at: <http://www.asia-pacific.undp.org/content/rbap/en/home/ourwork/democratic-governance-and-peacebuilding/ap-def.html>



Aligning the budget with the national plan

A number of countries have developed public financial management (PFM) strategies designed to strengthen the way public finances are collected and spent, and to deepen alignment with the national development plan and SDGs. Effective PFM is critical for advancing national objectives and in most contexts the budget is the largest source of funding for investment designed to explicitly advance national sustainable development objectives.¹⁶ It is also critical that public finance is seen to be invested effectively in the national agenda, as it will be difficult for governments to persuade other actors to buy into and invest in a national agenda if it is not being seen to do so effectively itself.

There are many aspects to PFM and numerous ways in which its alignment to the national plan can be strengthened. The examples below show how many governments have developed long-term approaches

involving a sequence of iterative reforms that cumulatively build systems that are more efficient and more closely aligned to national objectives.

Iterative reforms to public financial management systems in the Philippines and Mozambique give the governments more control over how public resources are invested overall and greater insight into the performance of these investments. Uganda has implemented reforms designed to delegate clear authority to the planning authority to take responsibility for budgetary planning alignment while Mexico has established a system for SDG budgeting. These experiences highlight the complexity of budgeting systems, the number of iterative reforms that are often implemented to cumulatively strengthen such systems overall, and the types of reforms that can build deeper alignment with national planning. The examples can prompt policymakers considering similar reforms to think about the sequence, time and capacity-building that reforms will require.

CASE STUDY 2.



The Philippines: Iterative PFM reforms

The Government of the Philippines has introduced a series of reforms to PFM since 2007 to strengthen the way public resources are invested in advancing national objectives through the five-year medium-term plan, the Philippine Development Plan (PDP), and the long-term plan, Ambisyon 2040. In 2007, the government introduced a medium-term expenditure framework. This rolling three-year budget allocates financing to programmes which are linked to the government's strategic priorities.

As part of the 2011–2016 PDP, the government then introduced a monitoring framework and results matrices as part of a shift towards results-based management.¹⁷ This helped to strengthen the link between headline national development objectives and sector and subsector outcomes.¹⁸ Building further on these reforms, a Programme Expenditure Classification (PREXC) tool was introduced in 2014.¹⁹ Under PREXC, the budgets of all government agencies were restructured so that recurrent activities and projects were grouped together within programmes or key strategies. This restructuring enabled the collation of information on costs and performance at the programme or strategy level, as opposed to the organizational level as had been the case previously. It enabled better management over budgets by agencies themselves, and gave more depth to oversight from the highest levels of government, as well as by Congress and non-state actors. Overall, it helped to strengthen the link between planning and budgeting by bringing a greater degree of clarity about the contributions that

16 Although private finance investments may be larger in volume in many contexts, they are generally not made explicitly for the purposes of advancing national sustainable development objectives.

17 UNDP (2016). Achieving the SDGs in the era of the Addis Ababa Action Agenda. Available at: http://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/achieving-the-sustainable-development-goals.html

18 UNDP (2017). Country Briefs on SDG Integration into Planning, Philippines country brief. Available at: <http://www.asia-pacific.undp.org/content/rbap/en/home/library/sustainable-development/country-briefs-on-sdg-integration-into-planning.html>

19 Philippines Department of Budget and Management (2014). PREXC: Programme expenditure classification, the next phase of the performance-informed budget. Available at: <https://www.dbm.gov.ph/images/pdffiles/PREXC.pdf>

individual programmes and strategies within each agency are making. When PREXC was established, it was set up so that the objectives and performance indicators for each programme within an agency were linked to the objectives and mandate of the agency overall. Agency objectives and mandates were in turn themselves linked to national development objectives. For the 2018 budget however, this link between programme objectives and outcomes has been made more direct. As part of the budget preparation process, government agencies have been recommended to link proposed programmes to the outcome indicators of the PDP results matrices, as well as to the SDG indicators.²⁰

In this way, the government of the Philippines cumulatively strengthened its systems for managing public finance in relation to national sustainable development objectives. The stronger and more granular integration of planning and budgeting systems has allowed greater control and responsiveness in how public resources are invested in the outcomes of the country's national plan.

CASE STUDY 3.



Mozambique: A 15-year vision for public finance

In Mozambique, the government has developed a series of long-term, medium-term and short-term instruments to guide improvements in public finance management and strengthen the way public finance is used in line with national sustainable development objectives. A 15-year public finance vision (2011–2025) outlines 6 strategic objectives for improving public finance management. These include modernizing the budgeting system by reorganizing it around programmes and results; improving administration of state assets and public debt, as well as the management of state-owned enterprises (SOEs); strengthening financial accounting and statistical information across public institutions; and modernizing human resources. This vision aims to increase revenue in order to reduce both the deficit and reliance on development cooperation. It also aims to adjust the allocation of resources in line with the country's National Development Strategy. The 15-year vision for public finance is operationalized through a series of medium-term strategic plans for public finance (SPPFs) which are closely connected with medium-term planning instruments. The design foresees that the formulation of every SPPF 2016–2019 includes a detailed review of the implementation of the vision during the previous one.

The review included in the current SPPF 2016–2019 for the first interim period of the implementation of the vision provided valuable lessons to guide the design of the actions, indicators and targets to be developed within the PFM system by the end of 2019 in a way that is consistent with the long-term goals. This vision and strategic plans for public finance are unifying instruments within the Ministry of Economy and Finance since they summarize all existing plans and programmes in the PFM area of the Ministry and its subordinated institutions. They help to strengthen public financial management in the country and build stronger connections between government spending and the longer-term vision for sustainable development.

²⁰ UNDP (2017). Country Briefs on SDG Integration into Planning, Philippines country brief. Available at: <http://www.asia-pacific.undp.org/content/rbap/en/home/library/sustainable-development/country-briefs-on-sdg-integration-into-planning.html>

**CASE STUDY 4.** **Uganda: Aligning annual budgets to the national planning framework**

Revisions to Uganda's Public Finance Management Act in 2015 included stipulations to align the national budget to the country's National Development Plan. It states that the annual budget must be consistent with the National Development Plan.²¹ Alongside the annual budget, the National Planning Authority is also required to issue a certificate of compliance for the previous year's budget. The aim of this system is to institutionalize a process that tightens alignment between planning and budgeting processes.

CASE STUDY 5. **Mexico: SDG budgeting²²**

Mexico has introduced a system for mapping SDG targets through its budgeting process and programmes.²³ The aim is to understand how the government's current investments and development plans are aligned to the SDGs. It forms part of wider efforts to integrate functions for planning, public finance management, policy and oversight led by the Sustainable Development Goals Specialized Technical Committee.

The government has adapted its existing budgetary system to allow the tracking of expenditure and monitoring of outcomes related to each SDG target. Mexico has a programmatic budget where allocations are made to programmes which are grouped together according to a common purpose (as opposed to who will be spending the funds). To develop this system for the SDGs, the government first identified the links between the SDGs and its medium-term National Development Plan, around which budget allocations are structured.²⁴ Ministries then mapped the programmes they are responsible for against individual SDG targets, distinguishing between direct and indirect contributions. This allows budget allocations to be tracked against the SDGs. The government uses a matrix of indicators for results to monitor the outcomes of programmes against their contributions to the National Development Plan. The SDG mapping therefore also creates the potential to monitor the contributions that public spending makes towards each SDG.

The creation of this system has helped the government to build a clearer picture of how its resources are being invested against the long-term SDG framework, and to understand the coverage of the SDGs in its budgetary programmes.²⁵ It will support more accurate monitoring of budget decisions against the SDGs by government as well as non-state actors.

Resources for further information: Aligning the budget to the national plan

*Public financial management introductory guides, Overseas Development Institute.*²⁶ This series offers an overview of a range of topics within public financial management.

*Alternative paths to PFM and public sector reform, World Bank.*²⁷ This report analyses and draws out lessons from public financial management reform processes across East Asia.

²¹ It must also be consistent with the Charter for Fiscal Responsibility and the Budget Framework Paper.

²² This case study is based on UNDP (2018). Budgeting for Agenda 2030: opting for the right model.

²³ Ibid.

²⁴ Government of Mexico (2017). Investing for sustainable development: how does Mexico invest in the Sustainable Development Goals

²⁵ International Budget Partnership (2017). Mexico's budgeting for sustainable development, July 2017. Available at: <https://www.internationalbudget.org/2017/07/mexicos-budgeting-sustainable-development>. Accessed August 2018.

²⁶ Available at: <https://www.odi.org/publications/10626-public-financial-management-introductory-guides>

²⁷ Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/29924/9781464813160.pdf?sequence=2&isAllowed=y>

Aligning wider financing policy to the national plan

Achieving the SDGs will require mobilizing investments from a wide range of resources that go well beyond public finance alone. Various flows and instruments can contribute to sustainable development in different ways according to their specific characteristics. The policies designed to engage with these resources can have a powerful influence over how this happens in practice, and a more aligned, coherent framework of financing policies will be more effective in mobilizing the required resources.

Governments are increasingly realizing the need to strengthen the connection between their public and private financing policies and the objectives of the national plan. The examples below highlight a range of steps that can be taken. Indonesia has developed an integrated public and private strategy for financing investments in infrastructure, a strategic priority within the national agenda overall. It brings together reforms related to a range of finance types, from public investment and PPPs to credit and foreign direct investment, and aligns them around its infrastructure development objectives.

The Solomon Islands has deployed outcome-based contracting mechanisms to strengthen the contributions that its state-owned enterprises (SOEs) make towards sustainable development. In India, the government has undertaken a significant restructuring of its planning functions in order to establish an approach that is more appropriate to the structure of its private sector-led economy. It is moving away from five-year plans that specified how public finances would be invested to promote national sustainable development, to a structure that encompasses a long-term vision, medium-term strategy and short-term action agenda. And Bhutan has developed an innovative policy development and sign-off process designed to manage the impact that policies focused on specific priorities have on all aspects of the national agenda.

These examples – developing holistic, aligned public and private finance strategies for specific investment priorities, incentivizing effective SOE investment in the national plan, reorienting planning functions, and strengthening internal policy development processes – highlight some of the ways that governments can enhance alignment between financing policies and the national plan.

CASE STUDY 6.

Indonesia: Integrated strategy for infrastructure financing

The Government of Indonesia is implementing an integrated approach to financing its infrastructure strategy. The starting point was the bold decision of the government to gradually eliminate fuel subsidies and use the fiscal space created (estimated at US\$16 billion) to leverage investments to address a large infrastructure gap that was a constraint to higher growth.

An ambitious Infrastructure Sector Development Plan (RPJPN) was developed for FY2015–2019, proposing investments totalling an estimated IDR 2,216 trillion (approximately US\$187 billion) focused on national competitiveness and key SDGs. The central government is expecting to invest only about 40 percent of the total costs planned in the RPJPN. The strategy aims to mobilize a range of public and private sources of finance including private investment from national and foreign firms. A series of reforms has been undertaken to mobilize these funds.

- **Public investment management:** To address the challenge of historic underspending on the infrastructure budget, the strategy proposed a wide array of institutional reforms and measures to improve the quantity and quality of infrastructure public spending to ensure implementation results. One of the key institutional reforms was the transfer of the National Development Planning Agency (Bappenas) from the supervision of the coordinating economic minister to direct presidential control.
- **PPP development:** A key element of the strategy is the expansion of PPPs to leverage private investment, including community, private sector, and bilateral and multilateral institution financing. A new Directorate of PPP Development was created under Bappenas and received support from several development partners.



- **Access to finance for Indonesian firms:** In order to facilitate greater participation of national firms in the RPJPN, the government transformed the state-owned financing firm PT Sarana Multi Infrastruktur (SMI) into an infrastructure bank and implemented a six-fold increase in its capital, to \$2.05 billion. This move turned the SMI into an institution with sovereign status, making it eligible for loans from multinational banks. Reforms also included a substantial increase of the capital of state-owned PT Bank Mandiri Tbk, Indonesia's biggest bank, to improve the lender's capacity for infrastructure financing. The strategy also focused on access to finance for local SMEs to allow them to participate in small-scale PPPs for infrastructure development.
- **Integrated PPP-FDI promotion:** Several reforms were implemented to stimulate FDI participation in PPPs. These included increasing the limit on foreign ownership in certain sectors, deregulation packages for the main investment sectors, a one-stop integrated services centre and an online permit application system in the Investment Coordinating Board-BKPM. A selected portfolio of large-scale PPPs was also prepared to promote FDI.²⁸

The strategy was born and directly coordinated and monitored by the President's Office and achieved radical improvements to investment plans which include the possibility of combining private and public finance.

CASE STUDY 7.



Solomon Islands: Community service obligations for state-owned enterprises²⁹

As part of a state-owned enterprise reform programme that began in 2007, Solomon Islands introduced community service obligations contracting for its SOEs. This mechanism is designed to incentivize the provision of services by SOEs on non-commercial access to communities that would otherwise not have access to them.

Payments under a community service obligation contract are triggered after a service has been delivered, as opposed to being provided upfront as would be under a budget arrangement. The aim is to increase access to key services provided by SOEs while ensuring efficiency and financial sustainability.³⁰ The first community service obligations were established with the electricity authority and broadcasting corporation, but they have spread to a range of other SOEs.

This innovation has helped to broaden access to key services such as electricity, water, transportation and communication and helps to advance the objectives of the country's National Development Strategy in these areas. There have been some challenges in the deployment of these contracts – their usage has fluctuated year-on-year – in part because of wider issues at play in the relationship between the central government and SOEs. Nevertheless, they have made important contributions and there are plans to scale up their use in the future – the government anticipated signing agreements with six SOEs in 2018.³¹ The model has also been recognized as a particularly successful approach within the wider region³² and there is the potential for it to catalyse the wider use of outcome-based contracting by government.³³

28 This included Jakarta's Coastal Development, Jakarta's Mass Rapid Transportation (MRT), Sunda Strait Bridge, and other key infrastructure such as the addition of 35,000 MW to the nation's power capacity, 1,000 km of toll roads, 3,258 km of railway, 15 new airports and 24 new ports.

29 This case study is taken from the Solomon Islands Development Finance Assessment.

30 ADB (2016). Finding balance: benchmarking performance of SOEs in Island countries.

31 Solomon Islands Ministry of Finance and Treasury (2018). 2018 Budget Strategy and Outlook.

32 ADB (2016). Finding balance: benchmarking performance of SOEs in Island countries.

33 Government of Solomon Islands and UNDP (2018). Solomon Islands development finance assessment.

CASE STUDY 8.

India: Reforming structures for more holistic planning

India has recently implemented a significant restructuring of its planning system in order to modernize it and establish planning functions appropriate for a market-driven economy in which the private sector is a key driver of growth. In 2015, the Planning Commission, which had been responsible for the country's five-year plans, was replaced by NITI Aayog (National Institution for Transforming India). Previously the planning system had been structured around five-year plans that guided the national development strategy with a primary focus on public finance.

In place of five-year plans, NITI Aayog will guide government policy through vision, strategy and action agenda documents. Long-term development is to be guided by a Vision 2031/32 that is linked to the SDGs.³⁴ A seven-year strategy will link long-term aspirations to medium-term policies and a three-year action agenda will outline specific policy measures. The Action Agenda aims to strengthen links between future priorities as outlined in the vision and government spending and policy.

The first iteration of the Action Agenda, covering 2017/18 to 2019/20, starts to build a more holistic approach to financing development plans. It proposes reductions in non-developmental expenditure and a significant increase in public capital investment. It also proposes a number of reforms designed to reignite the use of public–private partnerships as a tool for mobilizing private finance, particularly in the infrastructure sector (see Case study 14), and outlines actions related to a range of other finance flows at an aggregate level and within specific priority areas.

With these changes to the planning system, the government of India is aiming to develop a longer-term vision for sustainable development and build structures that link it to a range of finance policies that go beyond public spending alone.

³⁴ This was under development at the time of writing.

**CASE STUDY 9.**

Bhutan: Policy screening tool

The primary objective of development in Bhutan is to increase "Gross National Happiness". A Gross National Happiness Index was designed between 2008 and 2010, comprising 9 domains,³⁵ 33 indicators and 124 variables.³⁶ The index forms the basis for designing and monitoring progress in the implementation of policies covering a range of areas, including many aspects of financing.

The government has developed a policy screening tool that helps ensure the effective contribution of new policies towards Gross National Happiness.³⁷ As new policies are developed, they are assessed against 22 variables that draw from the Gross National Happiness Index. The screening assesses the likely impacts of the policy against each of these variables on a four-point scale³⁸ and policies must achieve an overall score that shows the policy is at least neutral across the 22 indicators overall.³⁹ Screening is done in a joint exercise between the responsible ministry and a Gross National Happiness Secretariat that involves representatives from a range of professions and fields, to ensure the review takes in a wide range of perspectives on the policy.

While the screening tool is not exclusively used to align financing policies, they are subject to the process alongside other policies. For example, access to finance and incentives is a key part of the cottage, small and medium industry (CSMI) policy. This is a key policy area for the country as 98 percent of firms in Bhutan fall into the CSMI category.⁴⁰ The policy aims to expand credit to CSMIs through measures such as expanding access to bank finance by increasing the use of alternative credit appraisal approaches, and by expanding credit guarantee schemes. A number of financing strategies within the policy link to specific elements of the Gross National Happiness Index, for example prioritizing green and sustainable industries for incentives and emphasizing a focus on gender equality and rural poverty reduction in microfinance.

The 2016 public–private partnership (PPP) policy sets out a framework for mobilizing private sector participation in the delivery of goods and services. It also draws strong links with the Gross National Happiness Index and in addition to screening of the policy itself it establishes oversight mechanisms that tie PPP projects to Gross National Happiness objectives. The Gross National Happiness Commission plays a key role in the project approval process and in monitoring their delivery in relation to development priorities.

In this way, the government has established a mechanism that helps to objectively tie the design of financing and other policies to the overriding objectives of the national development plan.

Resources for further information: Aligning wider financing to the national plan

Achieving the SDGs in the era of the Addis Ababa Action Agenda, UNDP.⁴¹ This 2016 report brought together the experiences of countries across the Asia-Pacific region in building more integrated approaches to financing, including analysis of holistic financing strategies.

Financing the SDGs in ASEAN, ASEAN–China–UNDP.⁴² This 2017 report and snapshot of Development Finance Assessments analysed integrated national financing frameworks including holistic financing strategies in eight ASEAN countries.

³⁵ These domains are: psychological well-being, health, time use, education, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience and living standards.

³⁶ Royal Government of Bhutan (2013). Eleventh Five Year Plan

³⁷ Ibid.

³⁸ For example, the psychological well-being indicator screening asks whether policies will increase levels of stress in the population, have an unknown impact, have no impact, or will decrease levels of stress.

³⁹ A score from 1 to 4 is given against each of the 22 indicators. Overall a new policy must achieve a score of at least 66, representing an average score of 3 (neutral) for the 22 indicators overall.

⁴⁰ Royal Government of Bhutan (2013). Eleventh Five Year Plan

⁴¹ Available at: http://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/achieving-the-sustainable-development-goals.html

⁴² Available at: <http://www.asia-pacific.undp.org/content/rbap/en/home/ourwork/democratic-governance-and-peacebuilding/ap-def.html>

Policy considerations – integrated planning and financing

The integration of planning and financing is at the core of an integrated approach to financing the SDGs. Strong connections between the aspirations of a national plan and the policies designed to invest and mobilize the investments to realize those aspirations is key to effective implementation. Ensuring that these links extend to policy towards all forms of financing is important for mobilizing the range of public and private resources that will be needed in all contexts to realize the SDGs.

The examples above highlight innovations in a number of different ways that countries are strengthening the connection between planning and financing which policymakers facing similar challenges may wish to consider.

In Bangladesh, the SDGs financing strategy and Perspective Plan represent significant steps towards a more holistic financing strategy. These policies are helping ground the country's development aspirations by identifying the kinds and scale of public and private investments that will be needed to realize them. These are complex exercises, in the case of Bangladesh, involving a significant costing exercise, that bring together reforms and policy across a range of financing challenges. Yet they can help government to prioritize and focus efforts in the areas that are most important for advancing the national plan. They can also provide tangible estimates for short-term and medium-term policies in different areas of financing to work towards.

Many countries have taken steps to better align their budget with their national plan. The examples explored above show how this can lead to more effective use of public finance. This is critical – public resources are often the largest source of funds for direct investment in the national plan. The commitment and efficiency that government shows for investing its resources in the national plan will present a strong signal that can encourage or discourage others to buy into it too. The examples also show the complexity of reforms in this area as well as the number of cumulative steps that can be taken to enhance alignment over extended periods of time. Ongoing reforms in the Philippines began in 2007 and Mozambique and Cambodia have respectively developed 15-year and 20-year PFM reform strategies.

Achieving the SDGs will require investments from a range of actors beyond the government, and government will be most effective in mobilizing these investments if its policies towards those types of financing have a strong grounding in the national plan. The examples discussed above show a range of steps that countries are taking to align wider financing policies to the national plan, from building integrated public and private finance strategies around specific priorities, to creating stronger incentives for SOEs to invest in the national plan, reorienting planning structures and strengthening policy development and review processes.

Assessing the integration of planning and financing functions is a core part of the DFA and many assessments will identify ways in which linkages between them can be deepened and strengthened. Supporting innovations in these areas is a common part of the follow-up to many Development Finance Assessments. In Solomon Islands, for example, the DFA has supported the creation of a Solomon Islands Integrated Financing Framework. It will be used by the committee that oversees the country's national development strategy to manage reforms related to public and private financing being undertaken across government and with partners. In Samoa, the DFA has led to tailored support for the consolidation of planning and budgeting systems as well as capacity-building for staff in the Ministry of Finance. In Mongolia, recommendations from the DFA have supported the development of SDG criteria to inform the allocation of the health sector budget in a pilot before a potential wider rollout across other sector budgets. It has also fed into the formulation of implementation guidelines under Mongolia's Law on Development Planning and Policy.



3 Public–private collaboration



Achieving the SDGs will require a diverse range of public and private investments, as the varying nature of different aspects of the 2030 Agenda demands diverse investments and services. Many of these can be financed by private actors, whether commercially or social enterprises, NGOs or other private actors. Private actors control significant volumes of resources that have the potential to help meet the gap between the costs of the SDGs and the public finance available.

Mobilizing private finance that contributes towards the 2030 Agenda requires policies that promote and are conducive to sustainable, inclusive development of the private sector and participation of non-state actors. Dialogue between government and the private sector, as well as active partnerships on strategic projects, are also key parts of efforts to promote private investment that contributes positively to the economic, social and environmental dimensions of the 2030 Agenda.

The examples in this chapter look at how countries are innovating to enhance public–private collaboration and promote greater impact from private finance on SDG outcomes. The chapter looks in particular at two aspects of private finance: private sector investment and remittances. These represent two of the largest private flows and are areas that policymakers in many contexts are grappling with.

Public reforms to mobilize private investment

Private investment can be a key driver of progress in many aspects of the 2030 Agenda. Policymakers are keen to mobilize greater volumes of private sector investment and to enhance the contributions that the private sector at large can make towards sustainable development. Private sector investment is a key driver of economic growth and is important for job creation, technological innovation and skills development. It has an important

direct and indirect influence over a range of social and environmental outcomes.

Policymakers are looking for ways to create a business environment and opportunities that are attractive to businesses, and which encourage better private sector management of social and environmental outcomes. This is a multifaceted area of policy as there are many components of a business environment that can encourage or constrain the kind of investment that countries desire.

This section looks at some of the key challenges of policymaking around private sector investment highlighted by DFAs. It considers efforts to improve business regulations and to offer financial or fiscal incentives for sustainable, inclusive investment. It looks at collaboration between governments and private sector actors on specific projects through PPPs and other instruments, as well as initiatives to promote social impact investment, a small but growing proportion of the private sector that balances financial and other considerations for investing. It looks at efforts to enhance corporate governance and to promote corporate social responsibility. Finally it looks at efforts to enhance public–private dialogue which can strengthen and enhance efforts across all areas.

Improving business regulations

Implementing business regulations that make it easy to do business while promoting sustainable development impact is key to realizing the potential of private investment to contribute towards the SDGs. With an emphasis on the three dimensions of the 2030 Agenda, it is important for countries to consider how to develop regulations that do not solely promote economic gain, but consider how to promote social and environmental outcomes. A wide range of regulations, managed and enforced by a spectrum of actors across government, affect the setup and ongoing operations of all businesses. These include the rules and enforcement around starting

a business, getting a location, accessing finance, dealing with day-to-day operations and operating in a secure business environment.⁴³ Businesses take these factors into consideration when making investment decisions and global investment destinations are influenced heavily by the ease of doing business in different locations.

The example of Rwanda below shows how improving regulations to make it easier to do business can yield significant returns in terms of the investment stimulated. Despite being characterized by wider impediments to

the business environment such as being a small, relatively isolated market, Rwanda's wide-ranging and rapid regulatory improvements and investment promotion have helped the country mobilize significant volumes of investment. This investment is making important contributions to the country's overarching national objectives. However, Rwanda's experience also highlights the kind of commitment and coordination – across government and with private sector partners – that can drive improvements across the business environment overall.

CASE STUDY 10.



Rwanda: Improving business regulations to attract FDI

Strengthening regulations to make it easier to do business is a key part of developing a business environment that promotes sustainable, inclusive investment. Regulatory reform can be a powerful signal to investors, particularly when a country shows sustained commitment and progress over time in key international indices such as the Doing Business rankings.

Rwanda has implemented a significant number of reforms over recent years as part of a sustained effort to attract new and growing investment. In 2000, the country introduced its Vision 2020 document, which sets the ambitions for national development for the following two decades. The overarching objectives of Vision 2020 are to attain per capita income of a middle-income country in an equitable way and to become a modern, strong and united nation without discrimination between its citizens. Vision 2020 is structured around six pillars and three cross-cutting themes that are designed to advance the long-term transitions necessary to achieve these objectives. Private sector-led development is one of the six pillars. Vision 2020 aims to develop the formal and informal sectors with a focus on job creation, particularly outside the agriculture sector. The country aims to create around 150,000 off-farm jobs a year.

Private sector-led development has been prioritized by the highest levels of government. In 2008, the government created the Rwanda Development Board (RDB) to oversee efforts to improve regulation and the wider business environment. Its creation involved the merger of eight institutions with responsibility across a wide range of areas, including investment promotion, support for SMEs, IT and others.⁴⁴ A Doing Business Steering Committee was created at the Cabinet level to coordinate reforms across different ministries.⁴⁵ A technical task force comprising six working groups was created to report to the Steering Committee. These working groups focus on key areas of regulation – business entry, licensing reform, legislative changes, taxes and trade logistics, construction permits and property registration. Critically, they include private sector representatives who can both share their experiences and opinions to help shape the design of new reforms, and will engender greater buy-in to the reform process from the business community. A Doing Business Unit was also established to drive forward implementation of reforms. This unit links the working groups with the steering committee and identifies opportunities for reform that the task force can develop. It coordinates

⁴³ This list is based on the areas of business regulation covered by the World Bank's Doing Business framework.

⁴⁴ The eight agencies were the Rwanda Investment Promotion Agency, Tourism and Conservation, the Registrar General's Office, the Privatization Unit, Human and Institutional Development, the Centre for Support to Small and Medium-Sized Enterprises (CAPMER), the IT Agency and the National Environment Management Authority.

⁴⁵ World Bank (2013). Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises.



with development partners to promote targeted technical support and other efforts to improve the business environment. And it monitors the implementation of reforms and reports to the steering committee.⁴⁶

These structures have enabled Rwanda to develop and implement a wide range of reforms, including the establishment of a one-stop centre for investors, streamlined and simplified processes for permits and property registration, reforms to customs including the implementation of risk-based inspections and the provision of post-investment support through the Rwanda Development Board.⁴⁷ The country has rapidly climbed up the World Bank's ease of doing business rankings, something that the task force specifically targeted. By 2012, the number of procedures required to start a business was cut from 9 to 2 and the time required was cut from 18 days to 3. The time required to register property was cut from 371 days in 2004 to 25 in 2012,⁴⁸ and the country ranks second in the world in this aspect of the global Doing Business rankings.⁴⁹ Overall the country rose from 143rd in the 2008 Doing Business rankings to 41st in 2018.

The reforms have contributed to a rapid rise in investment. In 2017, the Rwanda Development Board registered total investments worth over US\$1.6 billion, more than double the volume in 2007. Over 60 percent of registered investments in 2017 were FDI.⁵⁰ This growing investment is contributing to job creation, with the investments registered in 2017 expected to create over 38,000 jobs.⁵¹

Resources for further information: Improving business regulations

*Doing Business, World Bank.*⁵² This initiative provides an annual standardized assessment of business regulations across 190 countries and collates information on reforms.

Offering incentives to promote private sector investment

In addition to improvements in business regulation designed to make it easier to do business overall, many countries deploy investment incentives designed to promote specific types of investment.

Investment incentives can be attractive for governments as they offer a way to promote specific strategic types of investment, and can also be more straightforward to establish and operate than more structural reforms in regulation and other areas. Incentives come in two broad types: financial incentives offer a payment or

financial contribution when certain criteria are met while fiscal incentives reduce the tax burden that a company faces. As the examples below show, incentives can be an important part of a private sector development strategy and are commonly used to promote different types of strategic investment – for example in priority industries, specific geographic regions, or particular types of business.

Incentives will be most effective, and generate more sustainable results, if they are deployed within the context of a strong business environment rather than as compensation for an environment in which it is difficult

46 Ibid.

47 McKinsey Global Institute, 2016, Lions on the move II: realizing the potential of Africa's economies.

48 World Bank (2013). Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises.

49 World Bank Doing Business profile for Rwanda. Available at: <http://www.doingbusiness.org/data/exploreeconomies/rwanda>. Accessed July 2018.

50 Rwanda Development Board (2018). Rwanda Development Board registers \$USD 1.675 billion worth of investments in 2017, 18 January. Available at: <http://rdb.rw/rwanda-development-board-registers-usd-1-675-billion-worth-of-investments-in-2017/>

51 Ibid.

52 Accessible at: <http://www.doingbusiness.org/>

to do business.⁵³ Research by the World Bank has found that using incentives to halve companies' effective tax rate raises FDI by 8 percent of GDP in countries with a stronger investment climate, compared to 1 percent of GDP in those where the investment climate is less attractive.⁵⁴

Incentives will also be most effective when they are effectively targeted and when they are temporary. The more incentives are targeted at promoting strategic investments that catalyse a country's intended specific outcomes, the more effective they will be. There may be opportunities in some contexts to move towards outcome-based incentives, particularly with improvements in private sector reporting and monitoring (see Box 3, as well as Chapter 4 on monitoring and review). It is also important for the timeline and nature of future support from public finance to be clear and limited, in order to create businesses and industries that are fully commercially viable and sustainable in their own right, without being reliant on public subsidies.

Policymakers should carefully consider the types of incentives to be offered. Incentive schemes can be very expensive⁵⁵ and there are many examples of countries struggling to remove costly incentive programmes

which have outlived their purpose but remain as they are seen as politically important. Fiscal incentives can come with a heavy cost that is often hidden, without strong tax expenditure reporting practices (see Chapter 5 on transparency and accountability). Many economically developed countries have moved away from them as an overly expensive way of incentivizing desired investments. Cost-based incentives may also be preferable to profit-based incentives for policymakers aiming to promote specific types of investment. This is because they directly lower the costs that will be incurred in the investment being considered, rather than affecting uncertain future profits. Profit-based incentives can also attract more mobile investments and may favour the most profitable businesses, which are also those that need least assistance from government.⁵⁶ However cost-based incentives are more administratively demanding and therefore require stronger capacity to establish and manage.

While the examples below show how investment incentives can be used to actively promote strategic investments, in many instances they are deployed responsively, to keep up with the competition. Regional cooperation is necessary to address these challenges.

53 IISD (2014). Rethinking investment incentives.

54 The comparison is between countries in the top and bottom half when ranked by the quality of their investment climate. James, S. (2010). Providing Incentives for Investment: Advice for policymakers in developing countries. *Investment Climate in Practice*; No. 7. World Bank, Washington, DC.

55 The same World Bank research highlights estimates from Yemen and Thailand where the money spent on incentives per job created was equivalent to 6 times the national income per capita and 16 times the average annual wage in each country respectively. The research, from 2008 and 1999 respectively, is outdated now but highlights an important point.

56 OECD (2018). *OECD Investment Policy Reviews: Southeast Asia*.

**CASE STUDY 11.** 

South Africa: Promoting priority industries with financial incentives

Financial incentives involve a payment from government to a private business once a certain set of criteria have been established. These criteria are typically designed to promote investments that can catalyse progress towards national objectives, or to promote investments that incorporate certain strategic considerations.

South Africa offers a series of grant incentives have been designed to stimulate private investment in key industries. These are managed through the industrial policy action plan (IPAP)⁵⁷ which links to the long-term National Development Plan 2030. It offers grants in five targeted industries,⁵⁸ one of which is the film incentive, which offers three distinct grants for film and TV productions.⁵⁹

The aim of the film incentive is to create jobs, develop skills and a technical knowledge base, and attract foreign exchange by promoting South Africa as an attractive destination for international filmmaking and stimulating growth in the local industry. These objectives link to the long-term aims of the national development plan, which addresses core challenges including low employment and the need for skills development.⁶⁰ The film incentive was established in 2004 and has expanded over time. It is a grant paid at key milestones to applicants whose projects meet certain conditions, including minimum spending levels and broad-based black economic empowerment criteria. Since 2011/12, it has paid out over R2.1 billion in support of 574 productions that spent over R13 billion.⁶¹

The incentive scheme has helped to stimulate private investment in the industry. There has been an increase in production in the country and industry experts note that the incentives are one factor which has made South Africa an attractive destination for international productions in a competitive market.⁶² However, its competitiveness depends on a wider range of factors; incentives have helped the country build on its natural advantages⁶³ and favourable business climate to gain a competitive edge. And while the scheme has been successful in attracting major productions, it has been less successful in supporting smaller productions.⁶⁴

In relation to contributions towards key national development objectives, the incentive scheme is estimated to have supported the creation of around 5,700 direct full-time equivalent (FTE) jobs a year over 2009–2011 as well as a further 10,000 indirect FTE jobs.⁶⁵ There is evidence of skills development and knowledge spillover from foreign productions. However, it has struggled to promote repeated investments over time. Promoting the participation of disadvantaged communities in the industry has also been challenging,⁶⁶ and led to the creation of a dedicated emerging black filmmakers incentive.

57 Department of Trade and Industry South Africa, Industrial Policy Action Plan 2018/19 – 2020/21.

58 The others are aquaculture, critical infrastructure, business process services and the automotive industry.

59 These are the foreign film and TV production and post-production incentive; the South African film and TV production and co-production incentive; and the South African emerging black filmmakers incentive.

60 National Planning Commission, National Development Plan 2030: Our future – make it work.

61 Department of Trade and Industry South Africa, Industrial Policy Action Plan 2018/19 – 2020/21.

62 Collins, A. and Snowball, J., Economic Research Southern Africa (2013). Transformation, job creation and subsidies to creative industries: the case of South Africa's film and television sector.

63 Such as a diverse range of filming locations.

64 Collins, A. and Snowball, J., Economic Research Southern Africa (2013). Transformation, job creation and subsidies to creative industries: the case of South Africa's film and television sector.

65 Ibid.

66 Ibid. Note this analysis of the success of the incentive scheme was undertaken in 2013.

CASE STUDY 12.

Viet Nam: Promoting social enterprises

In Viet Nam, the government has established a number of tax and credit incentives to support social enterprises. This differs from the focus of many fiscal incentive programmes, which more commonly focus on promoting investment in particular industries or locations. In Viet Nam, social enterprises face a lower income tax rate of 10 percent⁶⁷ than the standard 20 percent rate⁶⁸ and in addition are exempt from this for the first four years of their operations and entitled to a 50 percent reduction for the following five years. They also have preferential access to investment credit loans and can receive post-investment support.⁶⁹ The aim is to reduce costs for these particular businesses and encourage their growth.

Resources for further information: Offering investment incentives

Investment policy and promotion diagnostics and tools, World Bank.⁷⁰ This 2015 report presents an investment policy and promotion logical framework to support countries in efforts to use FDI to advance economic development.

Providing Incentives for Investment: Advice for policymakers in developing countries, World Bank.⁷¹ This 2010 note consolidates a range of resources on the efficacy of investment incentives and presents key points for policymakers to consider.

The role of tax incentives in encouraging social investment, City of London.⁷² A 2013 report which discusses the rationale and need for tax incentives to support social impact investment, outlining a methodology for calculating the potential impact and discussing how incentives could be developed. It has a UK focus but outlines principles and concepts applicable elsewhere.

Box 3. What are input, output and outcome-based incentives?

Many governments offer incentives to investors as a means of attracting them to the country or encouraging them to take certain decisions about their investments. The rationale behind the use of incentives is that, by providing a payment or service, or forgoing revenue that would otherwise be collected, government can influence private actors to make strategically important investments that can catalyse larger returns or impact on key national objectives in the long term. Often, governments use incentives as part of a strategy in areas such as growing new industries or providing jobs in deprived regions.

Most incentives are structured to indirectly promote strategic objectives. For example, if the policy objective is to stimulate growth in a new industry, an incentive may be provided to support an investment in that industry, regardless of whether the investment contributes to growth. If the policy objective is job creation in a deprived area, an incentive may be provided for locating an industry in that area. These are input-based or output-based incentives, where the support is provided for the outputs that firms make.

⁶⁷ British Council (2016). Viet Nam Social Enterprise Casebook.

⁶⁸ PWC Vietnam Corporate Income Tax summary. Available at: <http://taxsummaries.pwc.com/ID/Vietnam-Corporate-Taxes-on-corporate-income>. Accessed March 2018.

⁶⁹ British Council (2016). Viet Nam Social Enterprise Casebook.

⁷⁰ Available at: <https://openknowledge.worldbank.org/handle/10986/28281>

⁷¹ Available at: <https://openknowledge.worldbank.org/handle/10986/10511>

⁷² Available at: <https://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/The-role-of-tax-incentives-in-encouraging-social-investment.aspx>



With improvements in outcome monitoring, there may be potential in many contexts to focus incentives more directly on the outcomes that governments are ultimately targeting.

Outcome-based incentives⁷³ reward firms with support once a given outcome, directly linked to the outcomes of a national plan or strategy, has been achieved. In the example of job creation, this

could mean providing fiscal or financial benefits once a certain number of permanent jobs for people from a deprived region have been created. With the right private sector outcome data and the means for verification, such outcome-based incentives could be used in policy around tax breaks, preferential access to credit, subsidies and other types of incentives.

CASE STUDY 13.

Regional cooperation to avoid incentives for a race to the bottom

While incentives can be used actively to attract investment in strategic industries, businesses or locations, in practice there is often significant pressure to deploy them in order to keep up with international competition. This can constrain governments' ability to use them strategically and can be expensive. In many industries, globally mobile firms are able to encourage competition between potential destinations for their planned investments. While some aspects of competition can be beneficial, it can often result in fiscal or financial incentives which are favourable to the company but reduce the benefits of investment to the country, particularly via reduced current and future government revenues.

The international nature of such competition demands an international response and countries in some regions are cooperating to address the issue.⁷⁴ The EU has established a code of conduct for business taxation that both recognizes the benefits of tax competition and establishes a framework for removing harmful practices.⁷⁵ The criteria for potentially harmful tax competition measures include: effective levels of taxation which are significantly lower than the general level in the country concerned; tax benefits reserved for non-residents; tax incentives for activities which are isolated from the domestic economy and therefore have no impact on the national tax base; granting of tax advantages even in the absence of any real economic activity; the basis of profit determination for companies in a multinational group departing from internationally accepted rules, in particular those approved by the OECD; and lack of transparency. More recently, the East African Community has developed a draft code of conduct against harmful tax competition that will freeze the current provision of harmful tax incentives so new ones are not introduced. The ASEAN bloc is also in the process of developing a regional approach to addressing this challenge.⁷⁶

Collaborating with the private sector on strategic projects

Alongside efforts to promote private investment in general or in strategic priorities, governments in many contexts promote investment in specific strategic projects. Various instruments can be deployed in order to mobilize private investment in projects, often to meet

financing gaps in areas such as the provision of public infrastructure. These instruments can include various types of public–private partnership, models of blended finance as well as guarantees and other innovative mechanisms. This section does not go through examples in all of these modalities, but explores a small selection of case studies to highlight some key considerations for

73 Outcome-based incentives are sometimes referred to as 'sustainability-based' incentives. See for example UNCTAD (2018). Investment policy framework for sustainable development.

74 UNDP (2018). Financing the sustainable development goals in ASEAN.

75 European Commission (n.d.). Harmful tax competition. Available at: https://ec.europa.eu/taxation_customs/business/company-tax/harmful-tax-competition_en. Accessed July 2018.

76 Based on comments from ASEAN officials at the 2018 ASEAN–China–UNDP Symposium on Financing the SDGs in ASEAN.

policymakers. It looks at PPPs in particular, reviewing the ups and downs of PPPs in India, as well as the experience and lessons from a controversial PPP initiative in Lesotho.

These experiences highlight both the potential, the complexity and the risks of PPPs, with lessons that may be applicable to other similar instruments, such as guarantees or blended finance mechanisms. The potential of these mechanisms is clear, highlighted by the scale of private investment mobilized by India at the peak of the PPP programme. Yet the level of investment declined as challenges managing and delivering such a complex, multifaceted programme grew.

The experience of Lesotho will further highlight many of the risks associated with PPPs as well as considerations for other countries, particularly those with limited oversight capacity or limited data in the area in which

an investment is being made. It shows the challenge of negotiating a contract that fairly balances responsibilities and risks between actors, particularly where one side has stronger negotiating capacity, as well as the difficulty of determining demand and cost scenarios when there are little data on which to base projections. It can also prompt consideration of the capacity needed to manage such instruments – PPPs do not eliminate the need for active government involvement in service delivery, but demand a different set of functions and skills to oversee it.

The section also explores an innovative ‘works for taxes’ approach developed in Peru that showcases an alternative model for mobilizing private finance. This approach has inspired the recent creation of a similar scheme in Colombia and may be attractive to policymakers in a range of other contexts.

CASE STUDY 14.



India: Revitalizing its PPP programme

Public–Private Partnerships have been an important tool for mobilizing investment in infrastructure in India. The country is in the process of revitalizing its PPP programme as part of a restructured approach to planning (see Chapter 2 on integrated planning and financing above).⁷⁷

During the 1990s and early 2000s, India used PPPs to finance key projects, before the use of the instrument was rapidly scaled up from 2004 to 2011. This phase of PPP use saw a significant increase in private participation in infrastructure investments. During the 11th Five Year Plan (2007–2012), private contributions exceeded expectations, accounting for some 36.6 percent of total infrastructure investment. This helped to increase investment in infrastructure from 5 percent to 7 percent of GDP.⁷⁸ At its peak in 2011, India accounted for almost half of private participation in infrastructure projects in all developing countries combined.⁷⁹

There were a range of factors behind the rapid increase in PPP use over 2004 to 2011. Political drive at the highest levels meant that PPPs were high on the government’s agenda and a Committee on Infrastructure chaired by the Prime Minister was established to ensure engagement and coordination across government. Various appraisal and approval processes were simplified and initiatives, such the Viability Gap Funding Scheme, India Infrastructure Project Development Fund and India Infrastructure Finance Company Limited, as well as sector-focused initiatives, were created to address various challenges and obstacles in different aspects of the PPP process.

⁷⁷ NITI Aayog (2017). India: three year action agenda 2017–18 to 2019–20.

⁷⁸ Ibid.

⁷⁹ World Bank (2017). PPPs in India – will they regain their former glory? Available at: <http://blogs.worldbank.org/ppps/ppps-india-will-they-regain-their-former-glory>. Accessed July 2018.



Since the peak in 2011, there has been a slowdown in the use of PPPs. This has been driven by a range of factors including public sector issues such as delays in aspects of the PPP process related to land acquisition or utilities, and private sector issues such as a rise in non-performing assets and, relatedly, common challenges with inadequate due diligence.⁸⁰ Investment was also affected by global economic trends.

India plans to revitalize the use of PPPs for infrastructure as a key tool in its economic transformation strategy. The country's three-year action agenda highlights PPPs as a key instrument alongside other sources of funding such as equity markets and debt financing. It calls for a rapid rescaling up of PPPs in sectors such as highways, power, ports and airports across Central and State governments. To achieve this, the government is planning and implementing a range of initiatives. This includes enhancing coordination across ministries with a process for unblocking stalled projects. Systems for monitoring and dispute resolution will be strengthened as will processes to mitigate the challenges of aggressive bidding. A number of steps will also be taken to address the constraints in the financial capacity of domestic lenders, including creating incentives for them to take on debt with longer maturity periods that better match infrastructure project timelines and reorienting the focus of the India Infrastructure Finance Company Ltd. A national investment infrastructure fund will be operationalized and a range of new sector-specific initiatives will be launched.⁸¹

CASE STUDY 15.



Lesotho: A controversial health PPP

While the example from India shows a large PPP programme, Lesotho's experience with its health PPP highlights some of the challenges with individual PPPs, and issues that smaller countries without the need or capacity to implement a full programme of PPPs may face.

In 2005, the government established a PPP initiative to replace a hospital and build and upgrade four primary care clinics. Lesotho faces formidable challenges in health. It has the second highest prevalence of HIV in the world and the highest of tuberculosis. Nearly one in nine children die before their fifth birthday.⁸² The PPP was the first of its kind in Africa and was structured with the support of the International Finance Corporation (IFC). A private partner would build and operate the facilities under an 18-year contract before they were transferred back to the government. Over the life of the contract, the government will pay a lump sum to the private partner for treatment up to a fixed number of patients, to be supplemented by additional payments if excess numbers were treated above the maximum. The World Bank also provided a bridging grant upfront to support the initial design and operation of the clinics. Following the signing of the contract in 2008, the primary care clinics opened in 2010 and the new hospital and field clinic in 2011.

The facilities have contributed to significant improvements in health outcomes. A study in 2012 found death rates had fallen significantly, patient numbers had increased and there were significant improvements in indicators related to issues such as waiting times, equipment quality and cleanliness.

Yet the PPP has become a highly controversial issue due to escalating costs. There is disagreement about the exact extent and implication of these rising costs, but it is clear the government has had to spend more than anticipated and that this has diverted funds from elsewhere. There are a range of reasons for the rising costs.

⁸⁰ World Bank (2017). PPPs in India – will they regain their former glory? Available at: <http://blogs.worldbank.org/ppps/ppps-india-will-they-regain-their-former-glory>. Accessed July 2018

⁸¹ Ibid.

⁸² Ibid.

Patient numbers have been much higher than anticipated, due to higher overall demand than predicted as well as diversion of patients from other facilities. Contractual ambiguities in how certain aspects of health care, such as referrals for treatment in South Africa and the provision of ‘variation orders’, would be approved between the government and private partner, have also contributed,⁸³ as have interest and late payment charges.⁸⁴ These and other factors have led to overpayments from government and have also caused disputes between the public and private partners to the contract.

The experience in Lesotho highlights a range of challenges that can be faced in establishing and managing a PPP programme, from the difficulty of balancing risks between parties and predicting demand and costs to the kinds of capacity required to negotiate a robust contract and oversee its delivery.

CASE STUDY 16.

Peru: Works for taxes⁸⁵

Peru has developed an innovative ‘works for taxes’ scheme which has successfully mobilized private investment and accelerated delivery of public works infrastructure. The scheme was established in 2008 and allows private companies to ‘pay’ tax in advance by delivering public works projects.

The innovation arose within a context of booming revenues, driven largely by rising commodity prices, but low budget execution rates, due to insufficient public sector capacity to deliver public works, particularly at the regional and local government level. There were tensions between local communities, who witnessed the boom in commodities but saw little improvement in public infrastructure and services, and the extractive companies. The works for taxes scheme was created to address some of Peru’s infrastructure gaps by overcoming some of the constraints to public infrastructure development. Technical capacity in public institutions was low, the quality of pre-investment and investment studies was often poor, and many projects were characterized by high costs and timeline overruns.

To be approved for the scheme, projects must address an existing infrastructure or service gap. Project proposals can originate either from a pipeline of projects in the public investment system or be proposed by the private actors interested in financing them, so long as they address an identified priority. Most public entities have the authority to agree on projects, including regional and local governments as well as actors such as public universities.⁸⁶ Upon agreement and receipt of a declaration of feasibility from the national public investment system, the private company or companies finance the public works. Following completion of the project and an audit to verify the amount invested,⁸⁷ the companies’ costs are offset against their future tax payments, up to a limit of 50 percent of their annual income tax balance. The value is also deducted from future transfers to the public entity.

⁸³ World Bank (2016). Lesotho health network PPP. Available at: <http://www.worldbank.org/en/country/lesotho/brief/lesotho-health-network-ppp>. Accessed July 2018

⁸⁴ Oxfam (2014). A Dangerous Diversion: Will the IFC’s flagship health PPP bankrupt Lesotho’s Ministry of Health? 7 April.

⁸⁵ This case study is largely based on EM Compass (2018). Peru’s Works for Taxes scheme: an innovative solution to accelerate private provision on infrastructure investment. Available at: http://documents.worldbank.org/curated/en/163871532527022459/Peru-s-works-for-taxes-scheme-an-innovative-solution-to-accelerate-private-provision-of-infrastructure-investment?cid=WBW_AL_whatsnew_EN_EXT

⁸⁶ Proinversion, Works for taxes. Available at: <https://www.proinversion.gob.pe/modulos/jer/PlantillaPopUp.aspx?ARE=1&PFL=0&mod=4&gru=1&dom=2>. Accessed July 2018. The scheme is open to public entities which either collect taxes, revenue or royalties from private actors, or which receive special funds from the Ministry of Economy and Finance.

⁸⁷ Ibid.



The scheme has achieved some notable successes. Over 2009–2017, 318 projects have been pledged or completed under the scheme, with a total value of US\$1.25 billion. 82 private firms, 14 regional governments and 114 local governments have participated, with the largest sectors being transport (35% of investment value over 2009–2017), education (23%) and sanitation (15%). It is estimated that projects are delivered more quickly through the works for taxes scheme with transport projects concluded between 12 percent and 67 percent faster and sanitation projects between 27 percent and 52 percent faster. There have also been no documented cases of poor execution – the reputation of the private firms involved provides an incentive for quality investment and tight oversight of the construction firms that deliver the investments. Improved relations with local communities has been one motive for private participation and, given that many projects are located in the areas in which the firms operate, in many instances firms themselves stand to benefit.

Nevertheless, there are limitations and challenges with the scheme. There is a natural focus on projects located in the areas in or around those where firms operate, and this does not always correlate to the areas of the country which are most in need of infrastructure development. And while the scheme has successfully mobilized a significant volume of private investment, and has an important role to play in meeting the country's infrastructure needs, it will likely only go so far towards meeting the estimated \$160 billion infrastructure gap in the country over 2016–2025.

Overall, however, the scheme is regarded as having successfully increased the participation of private finance in infrastructure and improved delivery of key public works. In part, this success has been due to the willingness for engagement between public and private actors. Government has adapted and improved the processes and regulation involved in administering the scheme based on the feedback received and private firms have formed an alliance that focuses on identifying best practices and coordinating effectively with government.

Resources for further information: Collaborating on projects

Guidance on PPP contractual provisions, World Bank.⁸⁸ This guide aims to support countries with recommendations about key considerations in the establishment and management of PPPs.

Lessons learned and best practices in PPP projects, InterAmerican Development Bank.⁸⁹ This 2015 report summarizes the lessons learned through IDB's experience in supporting countries to establish PPP frameworks.

What lies beneath? Eurodad.⁹⁰ This 2015 report provides a critical assessment of PPPs and their impact on sustainable development.

Understanding options for public–private partnerships in infrastructure, World Bank.⁹¹ This 2010 report outlines a variety of approaches to PPPs for investments in infrastructure.

Peru's Works for Taxes Scheme, IFC. This 2018 briefing summarizes the experience of Peru in establishing and managing its works for taxes scheme.

⁸⁸ Available at: <https://ppp.worldbank.org/public-private-partnership/library/guidance-on-ppp-contractual-provisions-2017-edition>

⁸⁹ Available at: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39560533>

⁹⁰ Available at: <http://www.eurodad.org/whatiessbeneath>

⁹¹ Available at: <http://documents.worldbank.org/curated/en/99961468323693635/Understanding-options-for-public-private-partnerships-in-infrastructure-sorting-out-the-forest-from-the-trees-BOT-DBFO-DCMF-concession-lease>

Promoting social impact investment

Alongside efforts to promote private investment in general and in strategic priorities, many countries are taking a particular interest in promoting investment that explicitly balances financial and wider sustainable development concerns – social impact investment. There

is a significant amount of innovation in environmentally and socially responsible approaches to investing among certain segments of the private sector. Models of responsible, sustainable and impact investing (see Box 4) account for a small but growing proportion of investment.

Box 4. What is social impact investing?

Between traditional investing that focuses solely on financial returns and philanthropy that focuses solely on outcomes, there exists a spectrum of investment models. These range from those that place an emphasis on financial returns to those that emphasize social or environmental outcomes and place a secondary weight on generating financial returns. Figure 2.1 summarizes the spectrum of investment models, distinguishing between responsible, sustainable and impact investment.

For simplicity, this chapter uses the term 'social impact investment' as a catch-all term encompassing these three types of an investment model.

Social impact investing offers a range of direct and indirect benefits. It can develop sustainable new models for funding services in key areas of sustainable development. Globally it has been applied to a range of issues, from recidivism to early childhood development, youth unemployment and various aspects of health care. It can catalyse additional financing for these challenges, stimulate private sector development and foster closer public–private collaboration. It can also have powerful indirect effects as its principles, practices and tools are adopted and adapted in the wider private sector.

For these reasons, social impact investing offers significant potential to contribute towards the challenge of stimulating more sustainable, inclusive private investment.

Figure 2.1. The spectrum of capital



Source: Bridges Ventures (2015). *The Bridges Spectrum of Capital*.



Social impact investment is a small but rapidly growing segment of the private sector. It has the potential to make significant contributions to the SDGs as it offers an alternative, sustainable model for funding investments and services in key areas of the 2030 Agenda. It can also be a powerful catalyst for progress among the wider business community.

Countries around the world are aiming to establish or develop social impact investments as an alternative, sustainable model of funding services that does not draw on public funds and which can catalyse change among the wider private sector.

The examples presented below show how governments can play a role supporting the development of social impact investing. Growing a social impact investment industry requires developments in three aspects of the market in parallel: a growing body of social impact businesses that demand capital, a growing supply of capital willing to balance financial, social and environmental objectives, and intermediaries that can effectively link the two. The examples presented below

highlight some of the ways to address these challenges. The United Kingdom provided grant financing for nascent firms who struggle to access other sources of capital, and used funds raised from new banking legislation to capitalize a wholesaler that could provide sustainable financing as an intermediary. India is one of many countries in which impact bonds are being trialled to bring private capital into the delivery of services on a payment-for-outcomes basis. Social and development impact bonds are an important innovation in this space, providing a model for sharing risks, and that addresses the challenge for government to pay for an outcome once it has been verified, rather than once the outputs have been delivered.

Social impact investment offers considerable potential to bring private finance into key investments in sustainable development, and as part of a wider private sector development strategy. However, the instruments are often complex and require advanced capacity to manage and, as the examples show, it can take a significant amount of time before fully sustainable models are established.

Resources for further information: Social impact investment

Financing solutions platform: impact investment guide, UNDP.⁹² A reference page on impact investment that gives an overview of how impact investing works; the main benefits, risks and challenges; and guidance on policy design. The page is part of UNDP's Financing solutions for sustainable development platform.

UN SDG impact fund.⁹³ A co-investment partnership platform that brings together public and private actors to address financing gaps for achieving the SDGs through blended models that leverage capital markets.

Impact investment: the invisible heart of markets, G8 Taskforce.⁹⁴ A 2014 report that summarizes the findings of the G8 Taskforce on social impact investing. It outlines the structure and global landscape of social impact investing and makes a number of recommendations about how to further develop the sector. It is supported by reports from 10 national advisory boards as well as a number of subject papers.

Building an impact practice, GIIN.⁹⁵ This platform offers resources for impact investing for businesses and investors across a number of aspects of social impact investing practice.

Early-stage impact investing, The ImPact.⁹⁶ This 2016 report reviews different strategies for early-stage investment in social impact businesses. While geared towards investors, it presents concepts, information and case studies that may be useful to policymakers.

⁹² Available at: <http://www.undp.org/content/sdfinance/en/home/solutions/impact-investment.html>

⁹³ See <http://undp.socialimpact.fund/>

⁹⁴ Available at: <http://www.socialimpactinvestment.org/about.php>

⁹⁵ Available at: <https://thegiin.org/tools/>

⁹⁶ Available at: http://theimpact.org/wp-content/uploads/2016/04/TheImPact_EarlyStagePrimer_2016MR.pdf

CASE STUDY 17.

The United Kingdom: Early-stage grant financing and supporting financial intermediaries

Access to appropriate forms of capital can be critical to the development of any business through various phases of growth, from the early stages to the establishment of a mature business. This is true for social impact investment businesses, whose balance of financial and sustainable development concerns can require access to specialized sources of finance.

The United Kingdom was an early leader in social impact investing and has developed policies and measures to support and promote a number of aspects of the development of a social impact investing 'sector'. One important lesson from the experience of the United Kingdom is that social impact businesses often require some grant funding blended with investments that expect a return. Taking on too much debt can burden early-stage social impact businesses, alter incentives for innovation and bring a high risk of collapse, particularly given the higher rates that are charged on debt to newer organizations.⁹⁷

In the United Kingdom, a non-profit organization, UnLtd, was established in 2001 with a £100 million endowment funded publicly from resources raised through the national lottery to help address the challenge of early-stage financing. It supports 1,000 entrepreneurs every year with small grants alongside support such as practical advice and networking opportunities.⁹⁸ Well-structured grant programmes like UnLtd can help firms to become established and create the space to experiment and test which models work and can be taken to scale. The central challenge, however, is to find the right balance: supporting the establishment of firms in a nascent sector before moving them onto blended and then fully debt-based funding streams.⁹⁹

As social impact firms develop, they will reach a stage where they are able to take on debt which will enable them to continue to grow and offer services. Ensuring there are intermediaries that can provide access to this funding is key to supporting the continued growth of a social impact investment sector. Intermediaries play an essential role in matching the demand for financing with the supply of capital seeking financial, social and environmental returns.

The UK government played a key role in establishing two intermediaries – Big Society Capital and Bridges Ventures – that have been central to the growth of the social impact business sector.

In 2008, legislation¹⁰⁰ was passed to allow the government to collect and redistribute the money from unclaimed bank accounts. These funds were tied to the creation of a social investment wholesaler, which led to the creation of Big Society Capital by the Cabinet Office in 2012.¹⁰¹ Big Society Capital was also funded from a levy that was part of an agreement with major banks following the financial crisis. Since its establishment, the organization has invested and leveraged investment from partners totalling £1.1 billion in intermediaries who go on to invest in social enterprises. £434 million of this money came from Big Society Capital's funds and over £700 million from its partners.¹⁰²

⁹⁷ UK National Advisory Board Report to the Social Impact Investment Taskforce (2014). Building a social impact investment market: The UK experience.

⁹⁸ Ibid.

⁹⁹ Ibid.

¹⁰⁰ The Dormant Bank and Building Society Accounts Act.

¹⁰¹ UK National Advisory Board Report to the Social Impact Investment Taskforce, 2014, Building a social impact investment market: The UK experience.

¹⁰² Big Society Capital (2018). Our investment numbers. Available at: <https://www.bigsocietycapital.com/about-us/our-investment-numbers>. Accessed March 2018



Bridges Ventures is a community development venture fund that invests in social impact businesses. Following its establishment in 2002, its first fund was established with private sector investments that were matched by the UK government. This initial capitalization was worth £40 million, though within 10 years this had grown more than tenfold and the organization was managing £460 million, with the majority coming from pension funds and institutional investors.¹⁰³

These examples from the United Kingdom highlight the importance of social impact businesses being able to access appropriate funding at different stages of growth, and some of the steps that policymakers can consider in addressing these needs.

CASE STUDY 18.



Rajasthan: The Utkrisht impact bond

Beyond supporting the provision of appropriate finance for social impact investment, there is growing use of social or development impact bonds for mobilizing outcome-focused investment in sustainable development (see Box 5). In India, the Utkrisht impact bond was launched in 2017 to support improved maternal and newborn mortality in the state of Rajasthan. This example highlights some of the potential of social impact bonds, as well as the complexities involved in their establishment.

The Utkrisht bond funds a large programme of support for health care facilities in Rajasthan. It aims to support a targeted 360 facilities to reach accreditation by a new standard under the Manyat initiative (though this can rise as high as 444 facilities). While the ultimate aim of the intervention is to support improved maternal and newborn health outcomes, challenges in the measurement of these outcomes¹⁰⁴ meant that the payment metrics around which the impact bond was finally structured related to accreditation of health facilities. Accreditation involves certification against two standards, for patient care and hospital management, and related to specific practices regarding quality maternal and newborn health care. This provided a simpler focus for the initiative, yet retains a strong link with the ultimate desired outcome. It is estimated that the initiative could support up to 600,000 pregnant women with improved health care facilities, potentially saving up to 10,000 lives over a five-year period.

The intervention built on previous collaboration between service providers, though has a complex structure and took close to two years to move from conception to launch. It involves seven core contracting partners, with a further four organizations involved in an advisory capacity alongside programmatic oversight from the government of Rajasthan. The outcome funders pledged up to a total of US\$9 million for the initiative, of which up to US\$8 million can be returned to investors on the delivery of results, with up to US\$1 million set aside for outcome verification. The expected return for investors is 7.1 percent, with a cap of 8 percent.

While the outcome buyers for the Utkrisht impact bond are a development partner (USAID) and a foundation (Merck for Mothers), it explicitly aims to prove the concept in order for the State of Rajasthan to ultimately become an outcome buyer. Across the impact bond sector as a whole, development partners have been key drivers in establishing and spreading the use of impact bonds. There have now been more than 100 social or development¹⁰⁵ impact bonds launched worldwide.¹⁰⁶

¹⁰³ UK National Advisory Board Report to the Social Impact Investment Taskforce (2014). Building a social impact investment market: The UK experience.

¹⁰⁴ Data on maternal and newborn mortality proved challenging for reasons including paucity of baseline data, an unknown length to verification data and inability to conduct a robust risk analysis.

¹⁰⁵ The main distinction between a social and development impact bond is the issuer: social impact bonds are issued by governments while development impact bonds are issued by donors, NGOs or foundations.

¹⁰⁶ Author's calculations based on Instiglio data. See <http://www.instiglio.org/en/sibs-worldwide/>. Accessed April 2018.

Box 5. What are social impact bonds?

Social impact bonds are a model of public–private partnership designed to generate tangible outcomes at affordable costs, and with risk shared between government and private partners. Social impact bonds typically involve a payment for outcomes contract between government and an intermediary who commits to achieving specified social or environmental outcomes. Once these outcomes have been achieved and are verified, pre-agreed payment is received from the government. The bond component of a typical structure comes from the intermediary issuing a bond against the value of the future payment from government. This bond may be taken up by commercial or philanthropic actors and provides the upfront capital that funds the implementation of the project (which is often contracted by the intermediary to a service provider).¹⁰⁷ In this way, the upfront costs of a project are financed by third parties and government spending occurs only once results have been achieved. This mitigates the challenge of committing upfront public funding for projects with uncertain long-term outcomes. It also means risks are shared between government, the intermediary and the purchasers of the bond.

Box 6. What is impact measurement?

Impact measurement has developed through the social impact investing sector and is designed to track the effectiveness of investments and to demonstrate and communicate their impact. It focuses on the outputs that companies produce and increasingly on the medium-term to long-term effects of their goods and services. Its origins drew from rigorous applied economics techniques designed for evaluation purposes, although leaner approaches have been developed to reduce the time and cost of implementation.¹⁰⁸

While there are many similarities with sustainability reporting (see Box 9), impact measurement differs in purpose and in the types of firms that use it. Sustainability reporting is driven primarily by transparency and accountability objectives and is mainly used by larger or listed firms.

Resources for further information: Social and development impact bonds

*Social and Development Impact Bonds (Results-Based Financing), UNDP.*¹⁰⁹ A reference page from UNDP's financing solutions for sustainable development platform that outlines how social and development impact bonds work, their potential, common stakeholders, main risks and challenges, and key design features.

*Development impact bonds, Center for Global Development.*¹¹⁰ A web platform hosting a wide range of resources on development and social impact bonds.

*Impact bonds worldwide, Instiglio database.*¹¹¹ A database tracking social and development impact bonds issued worldwide, including details of the impact bond status, social issues addressed, outcome payer and the size and duration of the impact bond.

¹⁰⁷ There have been initial discussions in some countries to consider using diaspora bonds in this role within a typical social impact bond structure. See later in Chapter 3 for more on diaspora bonds.

¹⁰⁸ Business call to action, 2016, Measuring impact: How business accelerates SDGs. Available at: https://www.businesscalltoaction.org/sites/default/files/resources/MeasuringImpact_web_0.pdf

¹⁰⁹ Available at: <http://www.undp.org/content/sdfinance/en/home/solutions/social-development-impact-bonds.html>

¹¹⁰ Available at: <https://www.cgdev.org/initiative/development-impact-bonds-0>

¹¹¹ Available at: <http://www.instiglio.org/en/sibs-worldwide/>



Promoting better corporate governance

Beyond initial investment, the business models and corporate governance approaches that companies follow play a significant role in determining their ongoing impact on SDG outcomes. Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Businesses with weak corporate governance may offer poor quality products and services, treat their employees unfairly, avoid investing in beneficial value chains or cause environmental damage. Stronger governance avoids or improves these and other aspects of business, supporting greater contributions to the SDGs.

Many countries are establishing mechanisms to promote stronger corporate governance, with innovations led by both public and private actors. There are many aspects to corporate governance and this section focuses on two

examples related to the way that investors can promote corporate governance standards. It looks at changes to fiduciary rules in South Africa, a key factor guiding how institutional investors, such as pension funds, can deploy their resources balancing pure financial concerns with wider issues. With mixed results and impact emerging over a longer time horizon than envisioned, it highlights some of the challenges in influencing investors' perceptions and behaviour. The section also highlights a private sector-led approach from Thailand where asset management firms have come together to promote higher governance standards. This creates a softer incentive for improving corporate governance – by meeting certain standards, firms will have access to a new, significant source of funding. Corporate governance is a large and complex area and these examples highlight some of the kinds of steps that can be considered to create incentives for reform.

CASE STUDY 19.



South Africa: Using fiduciary rules to ESG investment

Rules about fiduciary duties have an important bearing on how asset managers, including of pension funds, can manage the way assets are invested. This is important because in contexts where the fiduciary duties require, or are interpreted to require, a focus on maximizing financial returns, it can limit the extent to which asset managers can make investments that are perceived to balance financial with other concerns. This is particularly important for mobilizing investment in responsible, sustainable and impact investment businesses (see also the social impact investing section above). Revising or clarifying regulations regarding fiduciary duty can unlock capital for firms that give greater weight to economic, social and governance (ESG) considerations while still meeting the financial interests of the asset managers' own investors.

South Africa was one of the first countries to formally encourage investors to integrate ESG considerations into their investment decisions.¹¹² In 2011, the government amended the regulation under its Pension Funds Act to state that prudent investing should consider all factors that could materially affect an investment, including factors of an environmental, social and governance character.¹¹³ At the same time, they launched the voluntary Code for Responsible Investing in South Africa (CRISA) that encouraged institutional investors to adopt an "apply or explain" approach to the key principles of the code. These included, among other principles, incorporating sustainability concerns including ESG factors into investment analysis and decisions. In this way, the government aimed to clarify fiduciary duties so that more capital would be released into responsible, sustainable and impact investments.

The impact of these changes in South Africa has been mixed, with increased awareness of responsible investing principles and some slow progress in altering the way investments are made. Awareness of sustainability issues among investors has risen greatly. Between 2007 and 2013, awareness of international standards for responsible

¹¹² Deloitte (2014). The relationship between CRISA and Regulation 28 of Pension funds act and integrated reporting.

¹¹³ Ibid.

investment¹¹⁴ rose from one-third of institutional investors to 94 percent.¹¹⁵ Yet there is mixed evidence on the extent to which this has changed behaviours. The incentives for change in the way assets are invested in practice have been weaker than expected.¹¹⁶ Progress has been slow, with challenges around the adaptation of pension fund mandates to respond to fiduciary rule changes, incompatibility in reporting standards and information disclosure, and little impact on overall incentives for fund performance to be in line with industry benchmarks. However, there are some signs of increased consideration of ESG factors in investments, albeit over a longer time horizon than envisaged when the changes were designed.¹¹⁷ For example, a 2017 global survey found that sustainable investing has become more important to 89 percent of investors in South Africa over the previous 5 years, one of the most rapid changes among countries surveyed.¹¹⁸ While some of this may be driven by wider trends, regulatory changes have probably been a contributing factor.

CASE STUDY 20.

Thailand: The corporate governance fund

Changes to regulation offer one route for altering investor behaviour with regard to corporate governance. In Thailand, investors keen on promoting stronger governance have developed a softer approach to incentivize changes in business practice.

The Corporate Governance Fund (CG fund) was launched in 2017. This equity fund is a collaborative effort between a number of asset management firms, supported by the Stock Exchange of Thailand (SET). The asset management firms involved in the CG fund collectively account for 90 percent of assets under management in the country. The CG fund aims to promote good corporate governance and transparency among companies and to encourage responsible investment practices by asset management firms. It has been capitalized to a value of US\$125 million.¹¹⁹

The CG fund will invest in companies listed on the Stock Exchange of Thailand or the market for alternative investments,¹²⁰ that have demonstrated good corporate governance. To be eligible for investment, companies must pass two criteria. Firstly, they must achieve at least a four-star rating in the Thai Institute of Directors' corporate governance report. This annual report assesses the structures and policies that companies have in place across five aspects of corporate governance.¹²¹ It includes assessment of financial and non-financial disclosure as well as sustainability reporting practices (see Case study 32. Thailand: Sustainability reporting example in Chapter 4 on monitoring and review below). Secondly, they must be certified by the Private Sector Collective Action Coalition Against Corruption, an initiative which verifies that companies have put in place anti-corruption policies and follow high compliance standards.

¹¹⁴ Specifically the principles for responsible investment.

¹¹⁵ EY (2013). The State of Responsible Investment in South Africa. Available at: [http://www.ey.com/Publication/vwLUAssets/The_State_of_Responsibility_Investment_in_South_Africa/\\$FILE/Responsible%20Investment%20Study%202013.pdf](http://www.ey.com/Publication/vwLUAssets/The_State_of_Responsibility_Investment_in_South_Africa/$FILE/Responsible%20Investment%20Study%202013.pdf)

¹¹⁶ UNEP and GGGI (2016). The experience of governance innovations in South Africa. Available at: http://unepinquiry.org/wp-content/uploads/2016/06/The_Experience_of_Governance_Innovations_in_South_Africa.pdf

¹¹⁷ Ibid.

¹¹⁸ Schroders (2017). Global perspectives on sustainable investing. Table 2, page 14. See: http://schroders.com/en/media-relations/newsroom/all_news_releases/schroders-global-investor-study-2017-sustainable-investing-on-the-rise/

¹¹⁹ CG Fund (2018). New investment tool to boost governance standard, 12 June. Available at: <http://www.cgfundthailand.com/?p=668>. Accessed July 2018.

¹²⁰ The market for alternative investment is a stock exchange for small and medium enterprises established by SET in 1999.

¹²¹ It covers five aspects of corporate governance: rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and board responsibilities. In total, it analyses 241 assessment criteria across these 5 categories. Source: Thai Institute of Directors (2016). Corporate governance report of Thai listed companies 2016.



In this way the fund aims to provide a dedicated source of funding for companies which have met these standards of corporate governance and raise the prominence of the issues. It hopes to encourage other firms to develop better corporate governance standards, and to encourage positive competition among other asset management funds. Overall, it aims to show how the investment community can move towards the creation of a transparent, bribe-free ecosystem within the Thai business sector.¹²²

Resources for further information: Corporate governance

Fiduciary duty in the 21st Century, UNEP FI.¹²³ This 2015 report assesses how ESG issues can be incorporated into investment decisions in a way that is consistent with fiduciary duties and presents recommendations for investors, intermediaries and policymakers.

CASE STUDY 21.



India and Indonesia: Mandatory CSR

In 2014, India introduced legislation that requires all companies that satisfy certain profitability and other criteria to spend at least 2 percent of their net income on corporate social responsibility. Official data estimate that this generated around US\$1.5 billion of CSR spending in 2015–16.¹²⁴ While the legislation in India goes further than other countries in obligating CSR spending, some countries have legislation or policy that mandates CSR spending for certain types of organizations. Indonesia, for example, passed legislation in 2003 that requires state-owned enterprises to allocate 2 percent of their net profit to CSR.¹²⁵ And a 2007 law obligates companies working in the natural resources or related sectors to allocate funds for CSR.¹²⁶ However, regulations are yet to be introduced so this is not being enforced.¹²⁷

Promoting corporate social responsibility

Corporate social responsibility (CSR) captures business approaches which aim to give something back to society through mechanisms such as philanthropy or staff volunteering, or which promote more ethical business practices. CSR can, but does not always, involve adaptations to a business's core operations – and as such is generally treated separately from corporate governance. Nevertheless, CSR can make important contributions to the 2030 Agenda and act

as a meaningful route to stronger engagement with businesses on sustainable development issues. The examples from India and Indonesia below highlight a regulatory approach to encouraging the spread of corporate social responsibility practices.

Building platforms for public–private dialogue

Underpinning the success of any of the policy tools discussed above is the need to ensure that they are

¹²² CG Fund (2018). New investment tool to boost governance standard, 12 June. Available at: <http://www.cgfundthailand.com/?p=668>. Accessed July 2018.

¹²³ Available at: <https://www.fiduciaryduty21.org/publications.html>

¹²⁴ Ministry of Corporate Affairs, Government of India (n.d.) CSR expenditure of 5097 companies for the F.Y. 2015–16. Available at: <http://www.mca.gov.in/MinistryV2/csrdatasummary.html>. Accessed April 2018.

¹²⁵ MVO Nederland (2016). Country scan: CSR in Indonesia. Available at: <https://mvonederland.nl/publicatie/csr-country-scan-indonesia-en>

¹²⁶ Ibid.

¹²⁷ Sustainable Square (2017). CSR landscape in Indonesia: the past, present and future. Available at: <http://sustainablesquare.com/evolution-csr-landscape-indonesia/>. Accessed April 2018.

appropriate for the context and have, to the extent possible, the buy-in and ownership of the private sector actors whose decisions they aim to influence. One key way to achieve this is by developing platforms for systematic dialogue between the public and private sectors. Such platforms can give non-state actors a voice in the process of designing and reviewing key policies, helping to build trust and mutual accountability. They can help develop a shared understanding of the opportunities, constraints

and capacity of public and private actors. And they can generate innovations to improve the policy environment and business practices. To this end, many countries are developing dedicated platforms for public–private dialogue or formalizing and systematizing opportunities for participatory policymaking. This section explores the example of one effective platform for public–private dialogue, around clean production in Chile.

CASE STUDY 22.



Chile: Public–private dialogue for clean production

The Council for Clean Production (CCP) in Chile is an example of effective dialogue between government and private sector actors on a key strategic issue. It operates as a space for dialogue and joint action between the public and private sectors, with the mission of articulating, improving and promoting initiatives to facilitate the development and impact of clean production in Chilean productive sectors. It started in 1997 following the recommendations of the Agenda 21 agreed upon at the Rio Earth Summit and dialogue at Chile's annual Productive Development Forums.

The search for effective ways to organize the dialogue and development of institutional solutions required several improvements over the past two decades. The private sector initially regarded the idea with scepticism and complained about the costs involved in the introduction of this concept in the production process, translated into investments of capital and technology that, they understood, would imply a re-engineering of processes and management.

However, over time and as the mechanism has evolved, the partnership between public and private actors has strengthened. The governance structure is now such that the Board of Directors is chaired by the Minister of Economy and composed of five government representatives alongside five from the corporate sector, trade unions and the small and medium enterprise sector. It operates with an Executive Director and Regional Secretariats for all geographic regions.

The initiative has focused on using public–private dialogue to develop a clear, shared strategic vision about clean production and has developed a number of concepts and tools to promote it. The public and private actors involved have defined key concepts including clean production actions¹²⁸ and best available techniques (BATs).¹²⁹

The initiative has also informed the design of clean production agreements (CPAs). These are formal, voluntary agreements between a whole business sector and the state that aim to apply clean production techniques through specific goals and actions, often using BATs. All firms participating in CPAs have access to a range of government-supported financial support for services including sectoral diagnostics, specialized technical assistance, disseminating good practices and technology, and supporting investment in equipment and technology. CPAs have been agreed for a wide range of productive sectors in agriculture, manufacturing, mining, construction, transportation and commerce, and were also reached in the public administration and

¹²⁸ Business management strategies applied to products, processes and work organization, whose objective is to minimize emissions and/or discharges at source, reducing risks to human and environmental health, and simultaneously increasing competitiveness.

¹²⁹ A term used for the most efficient and advanced operating practices in individual sectors, in terms of emissions and environmental impact. Best available techniques are used as part of the decision on finance support.



education sectors. They are credited with contributing to a reduction in emissions across a range of industries.¹³⁰ The success of these agreements is that in October 2012, the UN internationally validated all CPAs as the first NAMA (Nationally Appropriate Mitigation Action).

This example highlights both the potential and some of the challenges associated with building strong dialogue. It took time and various adjustments in structure before the CCP was brought from a place of private sector scepticism to one of effective public–private dialogue and collaboration. The initiative invested considerable time in defining key terms and concepts – something that can otherwise be a challenge to effective communication and partnerships between public and private actors. Building on these foundations has led to innovative solutions that have advanced strategic cleaner production reforms across a number of industries.

Resources for further information: Platforms for public–private dialogue

*Publicprivatedialogue.org, World Bank.*¹³¹ This online platform hosts a range of materials on using public–private dialogue to promote private sector development, open governance and poverty reduction. It includes case studies, lessons learned and good practice materials.

*The public–private dialogue handbook.*¹³² This 2006 handbook provides advice for establishing and implementing public–private dialogue platforms.

Policy considerations: private sector investment

Private sector investment has a critical role to play in advancing the 2030 Agenda. The scale and nature of private sector development has powerful direct and indirect influences over many aspects of the SDGs, from job creation and patterns of production and consumption to environmental management and the revenues available to fund public services. For this reason, one of the key challenges governments in many contexts are grappling with is how to stimulate a growing volume of sustainable, inclusive private sector investment that can advance progress towards the SDGs.

Promoting private sector investment is a complex, multifaceted policy area. The business environment includes a wide range of factors that can each promote or constrain private sector investment, and each promote or ignore enhanced management of social and environmental outcomes. The examples above highlight innovations in a number of different areas of private sector investment policy and collaboration.

Rwanda's successes show the potential that business regulation reform can generate, as well as the degree of sustained commitment and coordination, across government and with partners, required to undertake wide-ranging reforms. Despite being a small, relatively isolated economy, the country has attracted a growing volume of private sector investment that is creating jobs and helping advance the national agenda.

Investment incentives are an important tool in many policymakers' efforts to stimulate greater, more impactful private sector development. Incentives are most powerful when they are effectively targeted, and temporary. Fiscal incentives are easier to administer and are used by many countries, although their often-high cost means that many countries are moving away from them towards more targeted financial incentives. It is also important to note that the evidence shows that incentives are far more effective in complement to, rather than in place of, an attractive wider business environment.

¹³⁰ UNFCCC, NR-11 – Clean production agreements in Chile. Available at: <https://www4.unfccc.int/sites/PublicNAMA/SitePages/Country.aspx?CountryId=35>. Accessed July 2018.

¹³¹ Accessible at <http://www.publicprivatedialogue.org/>

¹³² Available at: <http://www.publicprivatedialogue.org/tools/PPDhandbook.pdf>

PPPs are a much-vaunted mechanism for attracting private investment in strategic public projects, particularly though not exclusively in the infrastructure sector. The examples from India and Lesotho above highlight both the potential and the potential pitfalls of these mechanisms. At its peak, the Indian PPP programme was mobilizing private investment in over 100 PPPs a year, though investment fell over time as the challenges managing and delivering the programme grew. Lesotho's experience highlights many of the risks of PPPs and raises pertinent considerations about the capacity and conditions for small states to successfully issue and manage such complex financing instruments.

The "works for taxes" example from Peru highlights an alternative, innovative approach to mobilizing private finance in strategic public infrastructure projects. This model may have the potential to be adapted and applied across a range of contexts facing similar challenges in funding and delivering public infrastructure.

Social impact investment is an area of rapid growth that many countries are encouraging as an alternative model for financing certain investments and services, and as part of a wider private sector development strategy. The examples above highlight a range of steps that countries are taking to promote social impact businesses, stimulate capital investment that is willing to balance financial objectives with social and environmental ones, and intermediaries that can link the two. They also showcased social and development impact bonds, which many countries are establishing as a first foray into social impact investment. These mechanisms offer a way to share risks between public and private actors while also addressing the challenge of allowing government to pay for a contract at the point of outcome verification rather than output delivery.

Beyond stimulating private investment, governments and private partners are innovating in a range of ways to improve the impact of private sector operations. Improving corporate governance – the rules, practices and processes that companies follow – can yield significant sustainable development returns. The examples from South Africa and Thailand highlight some of the ways that policy change and financial opportunities from private investors can support better corporate governance. In a related manner, the examples from India and Indonesia highlight some of the ways that governments are changing policy to bolster corporate social responsibility.

Underpinning innovations in all these areas is the benefit of effective platforms for public–private dialogue. Systematic engagement between the public and private sectors can be an important foundation to building trust and understanding between government and the firms whose decisions it aims to influence. Dialogue promotes joint solutions to the challenges of impactful private sector development and can be fertile ground for context-specific innovations.

These policy areas are representative of some of the key challenges and steps that can be taken to help countries boost private sector investment for sustainable development. The examples above and the lessons they highlight can be used by policymakers to consider the areas of reform that may be most appropriate in their own context. They can be used to inform discussions throughout a DFA process about the most pertinent and impactful reforms that a country may wish to undertake.

Public policy to leverage greater impact from remittances

Remittances make important contributions to economic and social development in many countries. They support local economies in the communities that receive them and provide a source of hard currency at the national level. Remittances can also be an important driver of social progress at the local level, with funds often used to support access to education and health care. Yet they are primarily used for consumption purposes. There may be opportunities in many contexts to both leverage these flows to generate additional development finance and to enhance the impact of remittances themselves.

This section looks at some of the innovations that countries have developed to leverage new sources of finance from remittances and to increase the impact they have for migrants and their families and communities. It explores diaspora bonds in Israel, India and Nepal and future flow securitization in Brazil and El Salvador. It also looks at innovations to enhance the impact of remittances at a micro-level, including efforts to reduce the cost of sending remittances as well as other initiatives such as policies to promote home ownership through regular remittances.



Leveraging additional development finance resources

A number of countries around the world have experimented with or established mechanisms that engage the diaspora or leverage remittance flows to release funds that can be directly invested in sustainable development outcomes. This section explores two key mechanisms: diaspora bonds and securitizing the future flows of remittances.

Issuing diaspora bonds

A growing number of countries around the world are experimenting with diaspora bonds, which can offer a viable source of additional finance for many countries. Diaspora bonds are debt instruments targeted specifically at emigrants from the issuing country. They can provide a means for countries with significant overseas diasporas to access international credit and borrow on more favourable terms than they would otherwise be able to.

The concept of diaspora bonds is not new (see Box 7), though they have a mixed record globally and their use remains nascent in many regions. Israel has developed a well-established programme of diaspora bonds, while India used them successfully to mobilize finance during times of crisis. Yet other countries such as Nepal have struggled to establish bonds, failing to raise the desired interest and levels of capital. Under the right circumstances and with effective design and management, diaspora bonds offer countries the potential to unlock a new, favourable stream of financing that can be invested for sustainable development purposes. This section explores some of these examples, analysing the lessons from successful and unsuccessful initiatives.

Box 7. What are diaspora bonds?

Diaspora bonds are instruments that allow a government to borrow from members of the overseas diaspora. They are potentially attractive to both borrowers and lenders for a number of reasons.

For issuing countries that have limited access to international credit markets, they offer the opportunity to borrow in hard currency and to build a stronger history of borrowing that can improve perceptions of sovereign risk. Even for countries that do have access to international credit markets, diaspora bonds can offer favourable borrowing terms: a ‘patriotic discount’ of lower interest rates and longer-term length. There may be countercyclical motivations too; in times of crisis when access to capital markets may be reduced, the diaspora may feel more motivated to offer financing than commercial lenders – this has been the case with India and Greece, for example.

For migrants, diaspora bonds can meet a desire to remain connected with their home country and offer a mechanism to support patriotic initiatives and contribute to progress.

For countries to successfully issue diaspora bonds requires both the right contextual circumstances that support their *potential* as well as certain features in their management, design and practical delivery.

The potential for diaspora bonds is influenced by a number of factors. There must be a significant overseas diaspora who feel a strong connection with their country of origin and the way it is being governed. The history of Israel Bonds shows how the connection may be strongest with first-generation diaspora. Wealthier emigrants will have more disposable income that can be invested in diaspora bonds so a diaspora that is more highly skilled and working in more developed or more rapidly growing economies may offer greater potential for raising finance.

Yet even where the potential for diaspora bonds exists, realizing it in practice requires the careful design and management of a diaspora bond programme. In the most successful examples, such as the Israel bonds highlighted, diaspora bonds may be part of a wider package of close engagement with the diaspora. It is important for policymakers to understand the profile of potential diaspora investors. Research to understand the potential appetite regarding key decisions such as the interest rate, term length, frequency of issuances and use

of a project-based or unearmarked funding structure¹³³ can be crucial.¹³⁴

Defining eligibility is also important – bonds should target a group big enough to provide the uptake and financing that is sought after, but not so wide that the target audience does not perceive it as something designed for them. Determining who specifically to target within the diaspora – emigrants in which countries and matching which profiles – is an important basis for designing a promotion and communication campaign. It can also have a significant bearing on product design choices. If the United States is a key source of potential diaspora finance, for example, then the product will need to be designed for compliance with US SEC regulations.

Promotion and communication before and during the lifetime of a bond is key to attracting and retaining interest. This is particularly important if the issuer has ambitions to establish diaspora bonds as a source of regular funding. Effective communication about the status of the bond and the investments it is financing can be a powerful mechanism for retaining the interest of and connection with the diaspora. This is particularly important where promotion of a bond has been centred around financing for specific projects or outcomes, or where the issuer intends to engage the diaspora for funding on a regular basis.

CASE STUDY 23.



Israel: An ongoing programme of diaspora bonds¹³⁵

Israel has developed what is probably the most successful programme of diaspora bonds worldwide. For over sixty years, it has issued Israel Bonds for the diaspora and Jewish community abroad through a dedicated organization, Development Cooperation for Israel (DCI). These bonds form an important source of regular financing for the country and are seen as an important part of maintaining ties between Israel and the diaspora. Bonds are issued annually, with issuances determined by a level of required financing and foreign exchange requirements determined by the Ministry of Finance.

Israel's history has been a key factor in the success of its bond programme. In the early years, bonds were regarded as a form of contribution to the State of Israel which was still in its infancy. They were launched in the United States by the first Prime Minister of Israel, who undertook a high-profile coast-to-coast tour of the country to promote the financing instrument. For a number of decades, bonds were sold at a rate of return significantly lower than the market rate. Over time, the profile of the diaspora has changed and a variety of bond products have been developed, including products targeting a younger generation as well as bonds designed specifically for small businesses. While bonds often still offer a rate below that of the market, the terms are now much closer to market rates.

The majority of bonds are sold in the United States as well as, to a lesser extent, Canada and some European countries. Marketing is not done with the involvement of commercial banks or brokers as is often the case, but DCI has a sophisticated approach to maintaining ties with the diaspora community and sells bonds to them directly. In the United States, for example, they have a significant staff complement who maintain close contact with Jewish communities in order to both understand investor profiles and changing preferences, and to host events with the purpose of maintaining ties and selling bonds.

¹³³There may be potential to use diaspora bonds as a mechanism for raising capital within a social impact bond. A diaspora bond could be issued to raise the capital by the social impact bond intermediary. While this has not yet been trialled in practice, it has been considered as a possibility in Armenia and Israel.

¹³⁴The examples explored above are all unearmarked funding, where the use of funds raised through the diaspora bond are not tied to specific purposes. There are examples globally of countries using diaspora bonds to raise funds for specific projects. These are often megaprojects that are of high national importance, such as Ethiopia's Grand Renaissance Dam.

¹³⁵The primary sources of information for this case study are Y. Rehavi and A. Weingarten, Bank of Israel (2004). Fifty years of external finance via State of Israel non-negotiable bonds, and D. Ratha, World Bank (2007). Development finance via diaspora bonds – track record and potential.

**CASE STUDY 24.****India: Diaspora bonds in times of crisis**

India has issued diaspora bonds on three occasions, 1991, 1998 and 2000, with a combined total value of over \$11 billion.¹³⁶ The first two issuances were in response to crisis – following a balance-of-payments crisis in 1991 and the imposition of sanctions in 1998. While there was an urgent need to raise financing on these occasions, the bonds were structured as diaspora bonds limited to investors of Indian origin only, as opposed to bonds that could be purchased more widely. A number of reasons are identified for this approach. Firstly, Indian investors may have been more willing to invest in an instrument that was exclusively for them. Secondly, there was an assumption that Indian investors may be more willing than others to receive repayment in rupees should the financial situation have demanded it when the time for repayment came. And thirdly, the Indian authorities had greater confidence that bonds sold to the diaspora would not be used for money laundering purposes.¹³⁷ These three issuances were successful in raising significant amounts of capital, though they were initiated on an ad hoc basis and have not been used by India since 2000. This is primarily because, given the way the economy, investment and public finances have since grown, there has been reduced need for additional sources of financing. However, in 2013, the government did consider reintroducing a programme of diaspora bonds.¹³⁸

CASE STUDY 25.**Nepal: Challenges establishing a diaspora bond programme**

Nepal has had less success in issuing its diaspora bonds than India and Israel. The Nepalese diaspora bonds, known as foreign employment bonds, were first issued in 2010. The objective was to raise Rs. 1 billion initially, leading up to an ultimate target of Rs. 7 billion (US\$100 million) through later issuances.

Uptake of these bonds has been low, however. The initial issuance sold only 0.4 percent of its intended volume. Nepal Rastra Bank has continued issuing bonds, with a total of 15 issuances since 2010, yet none has sold more than one-third of its target and the average uptake of all 15 issuances is 5.26 percent.¹³⁹

A number of potential reasons have been identified for these challenges.¹⁴⁰ Chief among these are marketing, the incentives created for intermediaries and the interest rate offered. Marketing of the initial bonds at least was limited and, though the money transfer intermediaries received a 0.25 percent commission on all bond sales they facilitated, they also had to forgo money transfer fees, which weakened incentives to actively promote the bonds. Finally, the interest rate has been set at between 9 percent and 10.5 percent in every issuance and this may not reflect favourably in comparison to the interest rates available to overseas workers through commercial savings accounts. At the time of the initial issuances, commercial banks in Nepal were offering an interest rate of up to 13 percent on comparable fixed five-year deposits.¹⁴¹

¹³⁶The primary source of information for this case study is D. Ratha, World Bank (2007). Development finance via diaspora bonds – track record and potential.

¹³⁷Ibid., p. 11.

¹³⁸As reported by The Hindu in June 2013. Available at: <http://www.thehindu.com/business/Economy/india-mulls-diaspora-bonds/article4841126.ece>

¹³⁹Nepal Rastra Bank, time series data of foreign employment saving bonds issued. Available at: <https://nrb.org.np/pdm/pdmindex.php>. Accessed March 2018.

¹⁴⁰World Bank (2011). Whatever happened to Nepal's diaspora bonds? People Move blog post. Available at: <http://blogs.worldbank.org/peoplemove/whatever-happened-to-nepals-diaspora-bonds>. Accessed March 2018. Note: This blog post was written in response to the challenges faced during the initial bond issuance. More recent information was not found in the research for this paper. It is therefore possible that some of the factors identified have since been addressed, though challenges remain as uptake of the most recent bonds at the time of writing in 2018 remained below 6 percent.

¹⁴¹Ibid.

Resources for further information: Diaspora bonds

*Development finance via diaspora bonds: track record and potential, World Bank.*¹⁴² This 2007 report analyses the history of diaspora bonds, discusses rationales for issuers and investors, and outlines the conditions under which diaspora bonds may be successful.

*Developing a roadmap for engaging diasporas in development, IOM.*¹⁴³ This 2012 handbook covers a range of mechanisms for engaging the diaspora in development, including examples of diaspora bond issuances.

Box 8. What is future flow securitization?

Remittances are a relatively stable flow of international currency to many countries in the region. The risks associated with remittances are generally tied to those of the sending economies, where emigrants are working, rather than those of the receiving economy – and there is evidence that remittances are often countercyclical, meaning they respond positively in times of economic downturn or the aftermath of disasters, as emigrants respond to increased need back home. In addition, some of the exchange rate risks that internationally denominated debt incurs are negated by the predictability of the flow, thereby allowing some reduced risk of rising repayment costs.

When remittances are transferred, they flow in international currency from the country where an emigrant is working to a financial institution in the home country. This institution converts them into local currency as they are deposited in the bank account of the recipient. As the currency conversions occur, these institutions have a stable, predictable source of international currency.

This stable, relatively low-risk source of international currency (often a hard currency such as US dollars) can be collateralized and used by these financial institutions to access debt through borrowing or issuing bonds. While these mechanisms have not been used in the Asia-Pacific region, a number of institutions worldwide, particularly in Latin America, have successfully used them to mobilize funding. As the examples from Brazil and El Salvador show below, they offer the potential to support lower-cost access to longer-term debt that can fund key investments in sustainable development, even in times of high domestic sovereign risk.

Establishing future flow securitization mechanisms

While diaspora bonds engage emigrants in development financing, a number of countries have used ‘future flow securitization’ mechanisms (see Box 8) to leverage the predictable flow of hard currency that remittances represent.

The idea behind future flow securitization is that the flow of remittances represents a relatively stable, low-risk source of hard currency. This can be used as collateral to access international credit which can then be used to finance investments in sustainable development. Such mechanisms offer potential for countries to boost financing in areas such as infrastructure and increasing access to credit. There are also successful examples showing that it can be leveraged for priorities such as increasing access to credit for the poorest households.

The securitization of future remittance flows, whether based solely on remittances or as part of a diversified payment rights transaction, offers significant potential for development banks and other financial intermediaries to access new forms of finance and expand their access to cheaper, longer-term international financing.

These transactions have been used by organizations internationally, particularly in a number of Latin American countries – alongside the examples given below, Argentina, Mexico, Peru and others have used similar approaches. Yet their potential elsewhere remains largely untapped. The examples show how they can be established in a variety of contexts where there are significant flows of remittances, both in larger countries like Brazil, and smaller countries like El Salvador. While the examples highlighted all provide unearmarked

¹⁴² Available at: <https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-4311>

¹⁴³ Available at: <https://publications.iom.int/books/developing-road-map-engaging-diasporas-development-handbook-policymakers-and-practitioners>



funding or support for financial services to low-income households, there is potential for their application in a range of other areas that generate a return by which the debt can be repaid. Sri Lanka, for example, has explored the potential to use securitization mechanisms for financing infrastructure.

Institutionally, state-owned development banks may be the primary candidates for establishing financing mechanisms. In many countries, they are the primary

intermediary for remittances: in Sri Lanka, for example, they account for over 50 percent of flows.¹⁴⁴ Being state-owned, they also benefit from a lower perception of risk, thereby increasing their ability to initiate new finance instruments. However, as the Fedecrédito example shows, organizations that are independent of government can also establish such mechanisms, often with the support of a multilateral development bank, and they can be powerful drivers of increased funding for projects that support investments in the poorest communities.

CASE STUDY 26.



Brazil: Future flow securitization¹⁴⁵

Banco do Brasil (BdB), a state-owned bank in Brazil, provides one of the earliest examples of remittances being used as collateral for a loan.

In 2002, BdB issued a US\$250 million bond that was collateralized against the flow of remittances specifically from Japan to Brazil. Total remittances to Brazil were \$2.5 billion in 2002¹⁴⁶ and Japan has long been a key source of remittances to the country.¹⁴⁷ Japan is also a country in which BdB has had a long history, with its presence dating back to 1972. BdB established a mechanism for accessing credit from American markets that entailed remittances from Brazil flowing via a special purpose vehicle in New York which paid off BdB's creditors before transferring the remainder to BdB in Brazil.

In this way, many of the perceived sovereign and exchange rate risks associated with lending to Brazil at the time were mitigated. The mechanism thereby provided access to international debt that could be used for economic and development purposes at a time of otherwise reduced access to international credit markets. A high debt-service coverage-ratio¹⁴⁸ was used to further mitigate the risks of volatility or seasonal variation in remittance flows from Japan.

The structure of the transaction and the collateralization against the predictable flow of remittances from Japan earned it a higher credit rating, BBB+, than both BdB (which had a local rating of BB+ at the time) and the sovereign foreign currency rating for Brazil (which was BB- at the time).

This mechanism, which successfully issued and managed the US\$250 million debt, not only provided valuable access to relatively low-cost financing for BdB but also helped establish a mechanism that both BdB and other Brazilian financial institutions have used repeatedly in the following years. It also helped strengthen perceptions of the country's sovereign risk at the time. Between 2002 and 2004, BdB and other major Brazilian banks completed a total of 22 issuances worth nearly US\$5 billion cumulatively that were fully or partially¹⁴⁹ collateralized by remittances. Nine of these were given an AAA rating. The average interest rate for 8 of these 22 transactions for which data are available was 7 percent lower than benchmarks for Brazil at the time.¹⁵⁰

¹⁴⁴ ADB (2016). Regional: Promoting Remittance for Development Finance.

¹⁴⁵ The main sources for this example are S. Ketkar and D. Ratha (2004). Recent Advances in Future Flow Securitization. *The Financier*, 11, p. 29, and D. Ratha (2005). Leveraging remittances for international capital market access.

¹⁴⁶ World Bank migration and remittances database.

¹⁴⁷ Bilateral remittance data are not available for 2002 though in 2016 Japan was the source of 21 percent of remittances to Brazil.

¹⁴⁸ The ratio of anticipated remittances to required repayments on the debt that BdB had borrowed.

¹⁴⁹ This refers to diversified payment rights' collateralization models which extended the concept established in the initial Japan–Brazil remittances mechanism by incorporating the future flow of remittances alongside other predictable flows of international currency such as payment for exports and foreign direct investment.

¹⁵⁰ This figure is taken from D. Ratha (2005). Leveraging remittances for international capital market access, and is based on a comparison against the Brazil component of the JP Morgan Emerging Market Bond Index.

CASE STUDY 27.**El Salvador: Future flow securitization**

The El Salvadorean financial cooperative Fedecrédito has issued debt backed by remittances on three separate occasions. This case study provides an interesting example of remittance-backed borrowing by an independent organization, designed specifically for initiatives that provide finance to poorer communities. Such investments would often be perceived as higher risk. The International Financial Corporation (IFC) played a key role in supporting Fedecrédito to establish this mechanism.

In 2010 and 2013, Fedecrédito issued debt worth US\$30 and US\$20 million respectively, backed by remittances flowing through the organization. This debt was taken on to fund a range of operations including scaling up microfinance, providing financial products and services to low-income households, and supporting the integration of micro- and small enterprises into the formal sector.

While the 2010 and 2013 issuances were wholly taken up by the IFC, a third issuance of \$50 million in 2017 was only 30 percent taken up by the IFC with the remainder funded by international investors.¹⁵¹

These transactions have established a new source of funding for Fedecrédito that has helped fund growth in its operations. Fedecrédito's loan portfolio, for example, more than doubled from US\$142 million in 2010 to \$299 million in 2016.¹⁵² The initial transaction supported 142,000 loans to micro-entrepreneurs and low-income households, a 25 percent increase in the number of loans.¹⁵³ Not only has it established a funding mechanism that can provide continued funding for Fedecrédito into the future, but it has also proven that the concept of future flow securitization can be applied to non-governmental organizations that provide services to low-income households.

Resources for further information: Future flow securitization

*Recent advances in future flow securitization, World Bank.*¹⁵⁴ This 2005 report gives an overview of future flow securitization in general, including the typical structure of a deal, the potential and constraints to use of future flow securitization, and public policy issues.

*Developing a roadmap for engaging diasporas in development, IOM.*¹⁵⁵ This 2012 handbook covers a range of mechanisms for engaging the diaspora, including an overview of future flow securitization.

¹⁵¹ Project documentation for the three projects are available at: 2010 issuance: <https://disclosures.ifc.org/#/projectDetail/SPI/28635>, 2013 issuance: <https://disclosures.ifc.org/#/projectDetail/SII/33879> and 2016 issuance: <https://disclosures.ifc.org/#/projectDetail/SII/37719>.

¹⁵² Fedecrédito Annual Report 2016.

¹⁵³ IFC 2014 annual report.

¹⁵⁴ Available at: http://siteresources.worldbank.org/INTMIGDEV/Resources/2838212D1237254959508/Recent_Advances_in_Future_Flow_Securitization.pdf

¹⁵⁵ Available at: <https://publications.iom.int/books/developing-road-map-engaging-diasporas-development-handbook-policymakers-and-practitioners>



Enhancing the impact of remittances

Remittances are personal transfers from migrants to their family and friends back home. They are typically used for consumption purposes and support a range of spending in the communities that receive them, supporting access to food, health care and education among other things. Given the impact they can have at the local level, many countries are taking steps to enhance and bolster this impact. A common objective is to lower the cost of sending remittances, thereby leaving more money in the hands of the families that receive them. Other initiatives include establishing mechanisms to encourage home ownership or productive investment.

Reducing the cost of sending remittances

The cost of sending remittances varies widely between different bilateral corridors. Globally, the average cost of sending remittances is slightly over 5 percent,¹⁵⁶ although prices vary widely from an average 5.17 percent for sending remittances to South Asia to more than 9

percent to sub-Saharan Africa.¹⁵⁷ With such wide variation in the cost of sending remittances, steps to reduce these costs can significantly increase the funds available to the recipients of remittances.

Internationally, there have been commitments made to reduce the cost of sending remittances; SDG target 10c aims to reduce average costs to 3 percent and eliminate costs above 5 percent in any corridor. A report on financing the SDGs in the ASEAN region, for example, concluded that reducing the cost to 5 percent in just the five most expensive intra-ASEAN corridors alone could save migrants US\$240 million a year.¹⁵⁸

A number of initiatives designed to lower the prices that migrants face in sending remittances are explored below: these tackle different aspects of the system, from encouraging the uptake of technology to establishing partnerships that can reduce the costs in key corridors. Countries are also innovating in other areas too, and the example from the Philippines shows a remittance policy designed to promote home ownership with remittances.

CASE STUDY 28.

Encouraging the development of fintech solutions worldwide

One of the most promising avenues for reducing the cost of sending remittances is fintech solutions, particularly related to mobile money. These systems are able to offer significantly reduced transaction costs by cutting out many of the intermediate steps between remittance sender and receiver in the traditional process. While money transfer operators may channel a remittance transfer through multiple financial institutions, fintech remittance companies are able to transmit more directly through the use of mobile wallets that keep the transaction online. The use of mobile money is estimated to be more than 50 percent cheaper than global money transfer operators, and is particularly competitive for lower value transactions.¹⁵⁹ There is also evidence that money transfer operators offer lower prices in the remittance corridors where mobile money options are available.¹⁶⁰

Globally, mobile money-based remittances are growing rapidly. Over 2015 and 2016, international remittances were the fastest growing product within the mobile money ecosystem¹⁶¹ and by 2017 accounted for 1.1 percent of incoming transactions to the mobile money ecosystem – almost double the 0.6 percent in 2012.¹⁶²

¹⁵⁶This is the global weighted average cost, which was 5.1 percent in the second quarter of 2018. Source: World Bank, Remittance prices worldwide, June 2018 update.

¹⁵⁷Ibid.

¹⁵⁸ASEAN–China–UNDP (2016). Financing the SDGs in ASEAN, p. 73. Available at: http://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/Financing-SDGs-in-ASEAN.html.

¹⁵⁹GSMA (2016). *Driving a price revolution: mobile money in international remittances*. Available at: <https://www.gsma.com/mobilefordevelopment/programme/mobile-money/driving-a-price-revolution-mobile-money-in-international-remittances/>

¹⁶⁰Ibid.

¹⁶¹GSMA (2016). Sending and receiving remittances with mobile money: Customer benefits and the potential to drive down cost, 16 June. Available at: <https://www.ifad.org/documents/10180/d20ef868-93a1-4443-833c-5b2a733fda35>

¹⁶²GSMA (2017). *State of the industry report on mobile money*. Available at: <https://www.gsma.com/mobilefordevelopment/sotir/>

Much of the growth in mobile money remittances has been in Africa but there are a growing number of actors offering services across other regions. Two key areas that can help to increase the growth in this industry are national regulation and interoperability between mobile money companies. Regarding regulation, many countries have legislation in place that limits international transfers from and in some cases to the country to formal banking institutions only. Mobile money has grown most rapidly in contexts where this is not the case, and mobile networks are able to offer money transfer services to their customers. Interoperability refers to the ability to transfer money between different companies' systems, thereby opening up a greater number of remittance channels. A growing number of partnerships are being established between companies and policymakers may be able to find ways to further encourage this.

CASE STUDY 29.



Mexico and the United States: a partnership for more effective remittance corridors

Direct partnerships between the organizations involved in each step of the process from sending to receiving remittances can help increase the efficiency of the process overall and contribute to lower costs.

Directo a México, a partnership between the Banco de México and the US Federal Reserve has helped increase efficiency and reduce costs in the world's largest bilateral remittance corridor.¹⁶³ The two institutions undertook joint scoping work about how to link their payment systems, as part of the Partnership for Prosperity Action Plan.¹⁶⁴ This led in 2003 to the creation of linked payment systems in both countries with the initial purpose of sending government pension payments to recipients in Mexico. In 2004, this was expanded so that payments could be made from any enrolled US financial institution to anyone with a bank account in Mexico.¹⁶⁵ The fees for sending money through this system are capped at less than \$5 per transaction, regardless of the transaction size. The exchange rates used are based on the interbank reference rate published by Banco de México, which ensures that they are competitive. Given the involvement of the central banks of both countries, payments are rapid.

CASE STUDY 30.



India: Immediate payment service

The Directo a México example is fairly unique, though in many countries worldwide there are initiatives underway to strengthen systems for more efficient, faster financial transactions.¹⁶⁶ In some instances, these have been linked with mechanisms for remitting from overseas.

The Immediate Payment Service was launched in India in 2010. It focused initially on mobile transactions though has grown to incorporate 76 Indian banks and incorporates payments across a range of platforms. Several of these banks have partnered with cross-border money transfer organizations in order to support more rapid transfer of remittances into the country.¹⁶⁷ This has the potential to help bring down the cost of remittances, although, despite rapid growth, the platform represents only a relatively small component of the Indian market.

¹⁶³ Note that the name Directo a México has been used since July 2005.

¹⁶⁴ The Partnership for Prosperity was agreed by the US and Mexican presidents in 2001. It aimed to "unfetter the economic potential of every citizen" as a contribution to narrowing economic gaps between the neighbouring countries. Reducing the cost of sending money home was a prominent item in the action plan. For more info, see <https://2001-2009.state.gov/p/wha/rls/fs/8919.htm>

¹⁶⁵ About Directo a México webpage, available at <http://www.directoamexico.com/>. Accessed March 2018.

¹⁶⁶ FIS (2015). Flavours of fast: a trip around the world in immediate payments. Available at: https://www.fisglobal.com/-/media/FISGlobal/Files/Report/Flavours_Of_Fast.pdf

¹⁶⁷ Ibid., p. 27.



Beyond the efficiency of transfers, access to remittance corridors remains a constraint in many contexts, particularly in rural areas. Across Asia, for example, almost two-thirds of payment locations for remittances are in urban areas.¹⁶⁸ This reduced access to remittance corridors is a contributing factor to the higher cost of sending remittances to rural areas. There is potential to address this challenge through collaboration with two key types of institutions that maintain large networks that are present in many rural areas: microfinance organizations and post offices. One of the key factors constraining the involvement of microfinance institutions in remittances is that regulations in many countries do not allow them to perform currency transactions.¹⁶⁹ Microfinance institutions in some countries have overcome this challenge by building partnerships with the money transfer organizations that facilitate

cross-border transfers. In Bangladesh, BRAC developed a wide pool of partnerships with remittance organizations that allow linkages between the remittances sent from overseas with BRAC's large network of payment points.¹⁷⁰ Asia, for example, accounts for more than half of the world's post offices, some 200,000 of which are located in rural areas, and there is potential to leverage this network more effectively in order to further increase access to and competition among remittance services that can lower costs.¹⁷¹ Indonesia is a leader in this area, accounting for more than half of payments.¹⁷² Facilitating and building partnerships between microfinance institutions, post office organizations and cross-border money transfer organizations, alongside capacity-building on the management of remittance transfers, can help increase access to remittance payment points, strengthen competition and lower costs, particularly in rural areas.

Resources for further information: Reducing the cost of sending remittances

Driving a price revolution: mobile money in international remittances, GSMA.¹⁷³ This 2016 report assesses the state of remittances in mobile money markets worldwide and proposes recommendations about how the industry can develop and further reduce remittance costs.

Sending money home to Asia, IFAD-World Bank.¹⁷⁴ This 2013 report gives an overview of remittances to countries in Asia and includes analysis and recommendations of options for improving remittance transfers to rural areas.

Flavours of fast, FIS.¹⁷⁵ This 2015 report gives an overview of immediate transfer systems worldwide.

Promoting investment

Alongside efforts to reduce the cost of sending remittances, a number of initiatives have been established to promote investment that benefits migrants and their

families and communities. These cover a range of areas of investment, from productive investments or support for entrepreneurship to investment in home ownership. One innovative mechanism from the Philippines involves the use of remittances as collateral for home loans.

¹⁶⁸ IFAD-World Bank (2013). *Sending money home to Asia*. Available at: <https://www.ifad.org/documents/10180/352c6b0f-dc74d4637d81aa-8fda3677d054>

¹⁶⁹ Ibid.

¹⁷⁰ Ibid.

¹⁷¹ Ibid.

¹⁷² Ibid. Note that this figure is quoted from a 2013 report.

¹⁷³ Available at: <https://www.gsma.com/mobilefordevelopment/programme/mobile-money/driving-a-price-revolution-mobile-money-in-international-remittances/>

¹⁷⁴ Available at: <https://www.ifad.org/documents/10180/352c6b0f-dc74d4637d81aa-8fda3677d054>

¹⁷⁵ Available at: https://www.fisglobal.com/-/media/FISGlobal/Files/Report/Flavours_Of_Fast.pdf

CASE STUDY 31.

The Philippines: Remittances for mortgages

In the Philippines, the Pag-IBIG overseas programme is a voluntary savings scheme which uses remittances as collateral for home loans. It gives members of the diaspora an opportunity to save towards the future purchase of housing. Migrants save money with the scheme on a monthly basis and, after a minimum of two years, can access a home loan. It offers particularly beneficial rates for low-income households, with preferential rates and longer home loan maturities for smaller home loans than are offered by private sector lenders. The scheme is guaranteed by the government and is funded by the largest government pension fund.¹⁷⁶

Other innovative solutions include mechanisms to support diaspora investments in their country of origin,¹⁷⁷ as well as funds that match the charitable use of remittances in areas such as education.¹⁷⁸

Policy considerations – remittances

Remittances account for significant flows of finance to many countries and though their primary use is often for consumption at the personal or family level, the examples above highlight the range of options that are available to policymakers wishing to amplify their SDG impact.

Diaspora bonds and future flow securitization both offer the potential to generate additional resources that can be used for strategic SDG investments by governments and state banks or other financial institutions respectively. While there is potential in both instruments, both are complex to establish and require well-designed and careful management. Both instruments may take time and sustained commitment to become established sustainably. Nevertheless, under the right conditions and with strong management the benefits can be significant – diaspora bonds have been a critical source of funding for Israel and for key investments in other countries, while future flow securitization is creating new streams of revenue to boost access to finance in El Salvador.

At the micro-level, the examples above highlight a range of options for enhancing the impact of remittance flows for families and communities. Transaction costs remain high in many remittance corridors and reducing these costs, through fintech solutions, partnerships between sending and receiving countries, or utilizing institutions such as microfinance lenders and post offices, can increase the money reaching the families that rely on remittances. Initiatives such as the “remittances for mortgages” example from the Philippines shows the potential to leverage these flows to support access to specific priorities such as housing.

¹⁷⁶Ibid.

¹⁷⁷Ibid.

¹⁷⁸K. Ambler, D. Aycinena and D. Yang (2015). Channelling remittances to education: a field experiment among migrants from El Salvador.



4 Monitoring and review



An effective framework for monitoring financing and SDG outcomes, and feeding the lessons into policy implementation and design, is an important component of an integrated approach to financing. Linking planning and financing functions requires the ability to connect and monitor how the outcomes of short-term policies contribute towards longer-term objectives. For public and private finance flows to contribute effectively to SDG outcomes, it requires policies that promote and incentivize these contributions. The design and implementation of these policies is informed by information on what is being invested, what progress is being made and the outcomes generated by different types of investment.

There are a number of components to effective monitoring and review systems. Finance tracking systems capture information on financing, on the resources that are being invested, by whom and how. Monitoring systems capture information on development results and the progress that is made towards the SDGs. These will typically be distinct systems and there may be multiples of each in any given country. The quality of these tracking and monitoring systems and the ability to connect information between them will determine the extent to which a clear picture can be developed about the impacts that different types of investment have on SDG outcomes.

This chapter looks at finance tracking systems, with a particular focus on private sector financing, an area that has been highlighted as a priority through a number of DFAs. The private sector plays a key role in determining a country's sustainable development path, yet in many contexts there is limited ability to track the kinds of investments that are being made or the direct and indirect effects on sustainable development outcomes.

Improving the systems that exist for private sector monitoring is therefore a priority for policymakers as it can inform more targeted, nuanced and responsive policymaking. It is also increasingly a priority for private businesses themselves. Understanding their sustainable development impacts allows businesses to adapt their operations and can support efforts to engage government on the policies that affect them. There is also growing demand among investors on global markets for more information about ESG factors within the firms they invest in and many firms are expanding their ESG reporting in response. This section explores three different approaches towards improving systems for reporting or tracking the investments and contributions that private sector actors are making towards the SDGs.

Improving private sector reporting

Innovations are underway in a number of countries to improve the data on, or reported by, private sector actors. This chapter focuses particularly on innovations in this area, considering examples from three countries and discussing how policymakers may be able to promote better private sector monitoring – and use that information for more effective policymaking. In Thailand, the stock exchange has promoted an international sustainability reporting standard among firms as part of a strategy to attract international investment that is increasingly conscious of ESG considerations. In Papua New Guinea, the Business Council has launched an initiative to promote reporting on SDG activities among companies as a means for deepening policy dialogue with government. And in the Philippines, an initiative has been established to showcase business contributions to the SDGs as part of efforts to promote a greater role for business in dialogue on advancing the SDGs.

CASE STUDY 32.

Thailand: Sustainability reporting

Improved private sector reporting can benefit businesses themselves, and frameworks for reporting and sharing information will be most sustainable when businesses understand that reporting is in their interest. One of the strongest incentives for improving private sector reporting is when it creates opportunities to access new sources of finance. Globally, there is a growing volume of finance controlled by investors who want a fuller understanding of the firms that they invest in and the impacts these businesses have.

Thailand is a leader in private sector sustainability reporting and many Thai companies have responded to the growing interest among international investors for ESG information. Many companies have established sustainability reporting practices, publishing information on environmental, social and governance indicators from their operations annually. Thailand has, for example, more companies included in the international Dow Jones Sustainability Index (DJSI) than any other ASEAN country and the sixth largest number of firms in the emerging markets DJSI.¹⁷⁹

The trend in sustainability reporting has been driven largely by the Stock Exchange of Thailand (SET) and champions among large Thai companies. A key motivation has been responding to increased demand from international investors for ESG information that may materially affect their business operations in the future. This international demand presents an opportunity: by being an early mover among emerging markets in adopting sustainability reporting, the country can attract greater volumes of international capital through its stock exchange and financial markets. While it was large and listed firms that first started establishing sustainability reporting practices, momentum has been built and these practices are increasingly widely adopted. Reporting is now sufficiently widespread that an annual assessment of the 'ESG 100' has been established to assess performance on ESG issues which are material to investors' decision-making.¹⁸⁰ The 2017 assessment included 656 companies.¹⁸¹

Adopting the standard has required a wide programme of capacity-building among listed and other firms. Most sustainability reports published by Thai companies use the international Global Reporting Initiative (GRI) framework; SET and other private sector bodies have championed this framework.

While the drive behind this trend has largely been to support increased access to finance, it offers a significant body of information that can be used by both firms themselves and policymakers to design reforms that can advance sustainable development (see policy considerations below).

¹⁷⁹ Stock Exchange of Thailand press release, September 2017. Available at: <https://www.set.or.th/set/pdfnews.do?newsId=15050869954560&equence=2017075170>

¹⁸⁰ Thaipat Institute, Our rating model webpage. Available at: <http://thaipat.esgrating.com/p/our-rating-model.html>. Accessed March 2018.

¹⁸¹ Thaipat Institute, 2017 ESG 100 companies webpage. Available at: <http://thaipat.esgrating.com/2017/06/2017-esg100-companies.html>. Accessed March 2018.



Box 9. What is sustainability reporting?

Sustainability reporting is the publication of information on firm's economic, social and/or environmental contributions. Its aim is transparency and accountability, and it allows internal and external actors to gauge the contributions that a firm is making towards sustainable development. Most firms that undertake sustainability reporting use one of a number of common international standards. Sustainability reporting has grown rapidly since its beginning in the 1970s and by 2015 over 60 countries had established regulatory frameworks that mandate or encourage companies to disclose information beyond financial performance alone.¹⁸²

While there are many common elements, sustainability reporting differs from impact measurement (see Box 6) in that it is externally driven for transparency and accountability purposes as opposed to tracking progress for a funder. It is also largely characterized by the use of common standards and application primarily by large and/or publicly listed firms. 89 percent of organizations publishing sustainability reports

in 2015 were either large or multinational and 72 percent were publicly listed.¹⁸³

Sustainability reporting represents a big step forward in understanding companies' impacts on sustainable development. Yet practices in reporting vary between companies and sustainability reporting may go only so far in presenting a full picture of impact. Central to this is the definition of 'materiality'. Materiality can be defined as any factors that may have an impact on a company's activities and position (and on its value to shareholders) now or in the future. Potential investors in a company are very interested in materiality because it may reveal factors that impact that value of their investment in the future. Yet how this is defined for any particular company can be subjective and can be interpreted narrowly or broadly. Depending on how the definition is applied, and the approach taken towards materiality in sustainability reporting, sustainability reports may yield more or less information on sustainable development outcomes.

Resources for further information: Sustainability reporting

*Global reporting initiative standards.*¹⁸⁴ The GRI standards are a commonly used international framework for sustainability reporting.

*IRIS initiative, GIIN.*¹⁸⁵ This platform includes a catalogue of generally accepted performance metrics used by the majority of impact investors.

*Measuring impact: How business accelerates SDGs, Business Call to Action.*¹⁸⁶ This report looks at the role of business in the SDGs, sustainability reporting and impact measurement frameworks for monitoring business outcomes, and governmental approaches to private sector action on the SDGs.

UN Global Compact reporting. Reporting by signatories to the UN Global Compact in the form of 'communications on progress' that detail work to embed the 10 Global Compact principles.

¹⁸² Business call to action (2016). Measuring impact: How business accelerates SDGs. Available at: https://www.businesscalltoaction.org/sites/default/files/resources/MeasuringImpact_web_0.pdf

¹⁸³ Ibid.

¹⁸⁴ Available at: <https://www.globalreporting.org/standards>

¹⁸⁵ See: <https://iris.thegiin.org/>

¹⁸⁶ Available at: https://www.businesscalltoaction.org/sites/default/files/resources/MeasuringImpact_web_0.pdf

CASE STUDY 33.**Papua New Guinea: The SDGs Dashboard**

In contrast to the approach in Thailand, where an international standard for private sector reporting is used to attract international capital, businesses in Papua New Guinea have developed a bespoke approach to private sector reporting. This has been motivated by the desire to enhance and deepen engagement with the government on policy issues that are important to businesses, as well as a desire to enhance their public image.

Businesses in Papua New Guinea have come together through the Business Council of Papua New Guinea to develop a reporting mechanism, the SDGs dashboard, that captures their contributions towards sustainable development. The businesses were motivated in part by a desire to engage in deeper dialogue with the government about how the private sector can contribute to national development priorities and how to unlock those contributions through closer public-private collaboration. It was prompted particularly by the process to develop a national medium-term plan that links annual government operations with the national long-term vision to 2050.

The dashboard, which is in its first phase at the time of writing, has been designed with specific reference to the SDGs.¹⁸⁷ While some of the companies involved in the development of the dashboard publish sustainability reports using ESG frameworks, there was a motivation among businesses to build something that captures contributions to SDGs systematically. This enables a close link to national development objectives that are linked with the international SDGs, and is important for public branding. The dashboard is structured to present data aggregated at the national level that can be disaggregated by individual companies. Sustainable development data for the country are presented alongside survey data on the sustainability practices of individual companies, mapped against the SDGs. Individual companies are given a sustainability score which is an assessment of how effectively their work is contributing to the SDGs. Data are gathered through a survey that has been designed specifically for the dashboard, with tailoring to the context of individual sectors.

CASE STUDY 34.**The Philippines: Showcasing transformational business**

In the Philippines, UNDP and Philippine Business for the Environment have established a process for showcasing the contributions that the private sector is making towards the SDGs in the country. The aim is promote dialogue and engagement on how the private sector contributes and can contribute more to the SDGs.

The initiative encourages and enables businesses to report on their sustainability strategies and specific initiatives that are contributing to sustainable development outcomes. In its first round, the initiative gathered information from 75 companies in the country, covering 139 specific initiatives.¹⁸⁸ This survey provides information on the volumes and types of investments made in core business practices and programmes and identifies how these are aligned to each of the SDGs. It identifies gaps and opportunities as well as some areas in which there are potential for partnerships. The initiative aims to institutionalize a process by which this information can be gathered and shared on a regular basis, and be used to feed into dialogue around policymaking towards the private sector.

¹⁸⁷ UNDP Papua New Guinea (2017). Businesses track sustainable development goals contribution, 13 December. Available at: http://www.pg.undp.org/content/papua_new_guinea/en/home/presscenter/pressreleases/2017/12/13/businesses-track-sustainable-development-goals-contribution.html. Accessed March 2018

¹⁸⁸ PBE and UNDP (2017). Transformational business: Philippine business contributions to the UN SDGs.



Policy considerations – measuring private sector outcomes

Private sector monitoring is an important part of an integrated approach to financing the SDGs. Improvements in the reporting or tracking of private sector investments and outcomes offer a more accurate, granular understanding of the outputs and direct and indirect outcomes that private sector actors generate. This can inform policy design that is more targeted at leveraging the strategic benefits of private investment for national sustainable development, and mitigating the risks. It can inform deeper dialogue with private sector actors about the contributions they can make to sustainable development and about the role of government in creating the incentives and policy environment that encourages it.

The examples above highlight some of the range of options for encouraging private sector reporting and improved monitoring that can be considered by policymakers and as part of a DFA process and follow-up. Governments may be able to support private sector reporting initiatives by providing resources, promoting standards or supporting capacity-building. As in the examples above, this may include collaboration with actors such as chambers of commerce, stock exchanges or development partners. Policymakers can adapt policy in areas such as procurement and tendering, or incentives, so that eligibility is dependent on reporting social and environmental impact. It is seen as standard practice in most contexts that firms must have up-to-date financial accounts in order to be eligible for government tenders, for example. This helps government ensure that they are entrusting the provision of goods or services in the care of financially responsible organizations. Policymakers may wish to consider expanding such criteria to cover reporting on social and environmental outcomes, to also ensure they are entrusting the provision of goods and services to socially and environmentally responsible organizations. Governments can engage with private sector reporting standards to build mutual compatibility with their own monitoring systems. The more that standards can be harmonized,¹⁸⁹ the easier it will be for governments and private sector representatives to exchange comparable information. Policymakers and private sector representatives can also work together to build an understanding of how to interpret linkages between private sector outputs, the outcomes they generate and the contributions that those outcomes make towards the results targeted in national plans.

Beyond informing the design of policy, there may be potential for the data used and produced in private sector reporting to be used in the implementation of policy itself. Governments are increasingly experimenting with models of contracting centred on outcomes rather than outputs, for example. In such models, payment to a contractor is dependent on verified outcomes (e.g. the number of pupils passing an exam) rather than outputs (e.g. number of classes taught). Private sector outcome data could be used by governments to reorient investment incentives around the outcomes they aim to encourage, targeting job creation among deprived communities rather than investment in deprived regions, for example. With the right private sector outcome data and the means for verification, such outcome-based incentives could be used in policy around tax breaks, preferential access to credit, subsidies and other types of incentives (see Chapter 3, Offering incentives to promote private sector investment).

¹⁸⁹For example in the choice of indicators, use of common definitions and terminology, or common units and bases of measurement.

5 Transparency and accountability



Transparency and collective accountability between public and private actors is a key part of an integrated approach to financing the SDGs. Transparency and effective accountability mechanisms are important for building trust that promotes collaboration between actors, supports scrutiny over the way resources are used and contributes overall towards greater effectiveness.

Transparency and accountability are two-way responsibilities. For government, they encompass making information accessible on the way that finance is raised, spent and the outcomes that are generated, as well as the degree of openness to scrutiny from actors including parliament, civil society, the media and others. Private actors and development partners also have a responsibility to publish information on their activities. Transparent reporting enables these actors to be held to account and supports enhanced public and private contributions to the SDGs. Mutual accountability and transparency support effective partnerships, stronger monitoring and lesson learning, and enable greater effectiveness and impact from public and private financing.

This chapter looks at a selection of examples that highlight some of the steps being taken by public and private actors to promote transparency and accountability in the way that resources are being used. It looks at the role transparency can play in a number of key areas of financing the SDGs, public investment in cross-cutting priorities, public-private transactions and other initiatives that can advance key strategic priorities within the 2030 Agenda.

Reporting public spending on cross-cutting priorities

Transparency and openness on the part of government about the way that public resources are used is vital for ensuring that government spending is responsive to the priorities of the country and is efficient and effective. It is also an important precursor to government advocacy for greater transparency among private actors.

Many governments have taken steps to make their annual budget and spending more transparent, and initiatives in this area are well covered elsewhere. This section focuses on two case studies which highlight innovations being made to transparently respond to the 2030 Agenda. It looks at how the South Korean government has developed a system for gender budgeting and how Pakistan has established climate tagging systems within the budget process, as well as at efforts to improve public awareness of the investments being made in a key cross-cutting priority, such as climate change in Nepal. These examples highlight some of the steps that governments can take to go beyond simple reporting of budget allocations to monitor and publish information against priorities that are important to their constituents, which sit within or cut across the way budget allocations are structured. They highlight some of the steps that may need to be taken to present this information: in both instances a new mapping or tagging system was established to gather the cross-cutting information. The Nepal example further highlights steps to ensure that information is not just available, but accessible – publishing information is the first step to ensuring that transparency leads to accountability and greater efficiency.

**CASE STUDY 35.****South Korea: Gender budgeting¹⁹⁰**

South Korea is one of a number of countries that has established systems for monitoring investments in gender equality and women's empowerment that cut across ministerial briefs. Gender budgeting systems in South Korea are grounded in the Finance Act which, in 2006, called for the establishment of gender budgets and gender balance reports from 2010 onwards.

The government annually produces gender budget statements which analyse the impact of budget allocations on women and men in advance. These statements analyse the objectives, anticipated outcomes and gender breakdown of beneficiaries to spending programmes, and also consider the gender sensitivity of government revenues. The government produces a separate gender balance sheet that assesses the balance of benefits to men and women, and takes action to remedy any imbalances. Work was also undertaken to identify gender needs in key areas of public services such as infrastructure, where modifications were made to public facilities to reduce waiting times for women, and care programmes, where funding to support home care for the elderly was increased in order to help the women, who often provide home care, to participate in the labour market.

The Finance Act allowed four years for procedures to be established. In this time, the government undertook detailed research of best practices in gender budgeting in other countries and established clear definitions and guidelines for key concepts, working with leading national think tanks. Key tools, such as a gender information database, were piloted and refined, and a manual and training system were developed for use by government officials. Women's Focal Points were put in place in key ministries to lead and facilitate gender budgeting across core national ministries. As the system became established at the national level, efforts were made to extend the approach and tools to subnational government entities.

CASE STUDY 36.**Pakistan: Climate change tagging¹⁹¹**

Climate change poses major threats to sustainable development in Pakistan, which ranks as one of the countries most vulnerable to the long-term risks of climate change. The government has developed tools including a climate tagging system to improve transparency about how it invests its resources in addressing these risks.

Climate change has been incorporated within the coding of the country's national budget as well as the provincial budget for Khyber Pakhtunkhwa. This enables climate change relevance weights to be applied to individual lines of spending within the budget. These can then be aggregated and assessed to understand the overall picture of public investment to address climate change. A climate change budgeting chapter which draws on this climate tagging information has been added to the country's Budget in Brief publication, which summarizes the national budget.¹⁹²

¹⁹⁰This case study is based on L.Chakraborty, IMF (2016). Asia: A survey of gender budgeting efforts.

¹⁹¹This case study is based on UNDP (2018). Budgeting for Agenda 2030: opting for the right model.

¹⁹²UNDP Pakistan (2016). UNDP helps bring climate change into the Federal Budget for 2016–2017, 20 June. Accessible at: <http://www.pk.undp.org/content/pakistan/en/home/presscenter/articles/2016/06/20/undp-helps-bring-climate-change-into-the-federal-budget-for-2016-2017.html>. Accessed September 2018.

CASE STUDY 37.



Nepal: Parliamentary and citizen scrutiny of climate spending

Climate change is a key consideration for Nepal as it is one of the countries most vulnerable to the impacts of climate change.¹⁹³ Several laws and structures have been put in place to manage climate resources including a climate-tagging expenditure system that was established to monitor public spending on climate change initiatives. Building on the climate-tagging system, there have been efforts to enhance the accessibility and scrutiny of information about climate spending by the Nepalese government.

In 2017, a Climate Citizens Budget¹⁹⁴ was launched by Freedom Forum, a Nepalese NGO, and UNDP. It aims to increase awareness and understanding about how the government is budgeting for climate change and the way this cuts across sectors. The document builds on information generated by the climate-tagging system which is published by the government, but is of a technical nature and so relatively inaccessible to many interested parties. It summarizes this information and presents headlines about the scale, focus and trends in climate budgeting. It shows how much is being invested in different sectors, the volumes budgeted for capital and recurrent spending, and the degree of climate-relevance of different areas of budgeting. The analysis was developed with the collaboration of technical staff from the Ministry of Finance to ensure the validity of the information. It has been distributed widely across the country and has generated significant interest from citizens, civil society and media who can use it to advocate for effective investment in climate change priorities and strengthen government accountability.

Alongside the development of the Climate Citizens Budget, steps have been taken to increase the engagement of the Nepalese Parliament with climate finance issues in national plans and the budget. A Handbook for Parliamentarians was established to enable two key thematic committees (the Environment Protection Committee and the Finance Committee) to scrutinize the annual budget from a climate change perspective. The two committees also jointly conducted an inquiry during the monitoring of climate change expenditure in the field in two districts (Myagdi and Bardia) in September 2017. This was the first time that two committees worked in partnership on climate and finance issues. The handbook will also be used by other thematic committees of the parliament when they discuss the budget for the sectors they are responsible for.

Resources for further information: Citizens budgets

What are citizens budgets?, International Budget Partnership.¹⁹⁵ This guide provides information on the importance and nature of citizens budgets, the kind of information they should include and the process for their development.

¹⁹³ For example, according to the Global Climate Risk Index, Nepal ranks as the 14th in the list of countries most at risk from climate change.
Source: Germanwatch (2017). Global Climate Risk Index 2018.

¹⁹⁴ Nepal's Citizens Climate Budget

Available at: <https://www.climatefinance-developmenteffectiveness.org/sites/default/files/bookletNepalEng.pdf>

¹⁹⁵ IBP (n.d.) Citizens Budgets. Available at: <https://www.internationalbudget.org/open-budget-survey/resources-for-governments/citizens-budgets/>



Reporting public transactions with private actors

The government interacts with private actors in various ways and the efficiency and accountability of these interactions is important for establishing more integrated public and private financing for the SDGs. Governments procure many goods and services from private actors and, as Chapter 3 above has explored, directly collaborate

with and offer incentives to businesses to support a range of strategic objectives. Ensuring that the terms, spending and outcomes of these and other public–private collaborations are transparent is vital for ensuring their efficiency. This section looks at examples of transparency in two areas of public–private interaction that are central to more integrated approaches to financing the SDGs: procurement and investment incentives.

CASE STUDY 38.

Thailand: Transparency and accountability in public procurement

Public procurement accounts for a significant proportion of government spending, accounting for more than half of total government expenditure in many countries.¹⁹⁶ Yet inefficiency or corruption can mean that without effective safeguards in place a significant proportion of this value is lost. It is an issue that crosses borders, too – public procurement accounts for around 1 trillion euros in trade globally each year and half of all preferential trade agreements in the Asia-Pacific region include measures targeting government procurement.¹⁹⁷

In 2014, Thailand piloted a new methodology for diagnosing integrity risks in procurement.¹⁹⁸ It undertook a risk assessment that identified gaps and areas for improvement and capacity-building. The assessment led to the establishment of a subcommittee focused on procurement within the country's National Reform Council. The creation of an e-procurement system was expedited and a checklist for mitigating corruption risks was developed, with government officials trained in its application. Integrity Pacts were introduced to raise standards in major infrastructure projects, with a value exceeding 1 billion baht. And in 2017, a law was introduced outlining provisions across the whole public sector for procurement framework agreements, the professionalization of public procurement functions, and transparency and citizen monitoring of public procurement.

These reforms to Thailand's procurement practices are contributing to the development of more transparent and accountable procurement functions. Given the high proportion of spending by many governments on procurement, increased transparency and accountability has the potential to significantly enhance the use of public finance overall.

Resources for further information: Public procurement

*Tackling integrity risks in government contracts, UNDP.*¹⁹⁹ This 2017 guidebook presents a practical methodology to help governments diagnose integrity risks in the public procurement system and highlights actions that can be taken to mitigate them.

¹⁹⁶ World Bank (2015). Benchmarking public procurement.

¹⁹⁷ UNDP (2017). Why combating corruption in government contracts is key to funding the SDGs. Available at: <http://www.asia-pacific.undp.org/content/rbap/en/home/blog/2017/3/1/Why-combating-corruption-in-government-contracts-could-be-key-to-funding-Sustainable-Development.html>. Accessed July 2018.

¹⁹⁸ UNDP (2017). Tackling integrity risks in government contracts.

¹⁹⁹ Available at: http://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/tackling-integrity-risks-in-government-contracts.html

CASE STUDY 39.

Dominican Republic: Tax expenditure reporting

Tax expenditure is a key part of many governments' efforts to promote strategic policy objectives. Exemptions to taxes can be used across a variety of policy areas, from supporting individuals – for example by allowing deductions on mortgage interest to encourage home ownership – to promoting private investment, notably via incentive schemes designed to attract FDI and stimulate domestic investment (see the discussion on investment incentives in Chapter 3). While tax expenditure can support key policy objectives, it can also be very expensive in terms of forgone revenue. In Latin America for example, tax expenditure exceeded 20 percent of central government tax revenues in 9 of 11 Latin American countries for which data are published and exceeded 40 percent in 4 of these countries.²⁰⁰ Tax expenditure can be easier to establish politically than other forms of support for strategic policy objectives which require actual budgetary expenditure. Yet, though it is often used in similar ways as budgetary outlays and has equal significance for the public finances, there is in many contexts considerably less scrutiny over tax expenditure than on budget expenditure.²⁰¹

The effective use of tax expenditure requires regular monitoring of revenue forgone and benefits accrued; tax expenditure reporting is a key part of this, allowing scrutiny by both government and non-governmental actors.

In 2008, the Dominican Republic introduced tax expenditure reporting under the Public Sector Budget Law. This calls for publication of all tax incentives in the annual budget as well as the publication of estimates of the revenue forgone through these tax incentives. In 2011, an Interinstitutional Tax Expenditure Commission was created within the Ministry of Finance's Audit and Evaluation Unit. It was set up to estimate forgone revenues as well as to conduct cost–benefit analyses on the exemptions offered, to ensure they are effective and are being used for the purposes for which they were designed. The annual publication, *Gastos Tributarios en República Dominicana*, provides a breakdown of estimated tax expenditure²⁰² under each tax exemption scheme as well as by the sectors and industries, and domestic and foreign actors, that are thought to have benefited.²⁰³

Establishing this system for monitoring tax expenditures has allowed the government of the Dominican Republic to better understand the costs that its tax exemption programmes are incurring. This has provided the foundation for accurate analysis of the cost–benefit ratio of different schemes. It has also fed into plans to establish a fiscal pact. The country's National Development Strategy 2030, which was introduced in 2012, calls for a fiscal pact that will, among other reforms, consolidate tax expenditure into a single section of the tax code. The aim is to establish a more coherent approach to tax that reduces the fiscal impact and distortions associated with tax incentives.²⁰⁴

While a growing number of countries have established tax expenditure reporting systems – nine Latin American countries introduced monitoring between 2005 and 2014 – many countries do not publicly report on tax expenditure, or provide only limited information. The 2017 Open Budget Survey, for example, found that only 15 percent of countries report core information on all tax expenditures. More than half of countries do not present any information on tax expenditures.²⁰⁵

²⁰⁰ Note that this is based on 2012 data. Source: Centro Interamericano de Administraciones Tributarias (2014). Tax expenditures in Latin America 2008–2012.

²⁰¹ Neubig, T. and Redonda, A. (2017). Shedding light on hidden government spending: tax expenditures, December. Available at: <http://blog-pfm.imf.org/pfmblog/2017/12/shedding-light-on-hidden-government-spending-tax-expenditures.html>

²⁰² The estimates published by the Dominican Republic are based on a revenue-forgone methodology, which calculates the loss of revenues by exemptions without accounting for potential changes in taxpayer's behaviour. Other potential methods include the revenue-gain method, which estimates the additional revenue that eliminating exemptions would generate and accounts for behavioural change, and the outlay-equivalent method, which calculates the amount of direct spending that would provide the same benefit to taxpayers. Source: World Bank (2017). Gearing up for a more efficient tax system.

²⁰³ Ministerio de Hacienda (Dominican Republic) (2016). *Gastos Tributarios en República Dominicana*.

²⁰⁴ World Bank (2017). Gearing up for a more efficient tax system.

²⁰⁵ International Budget Partnerships (2017). Open budget survey: data download. Data accessed August 2018. The question on information related to tax expenditure covered 115 countries.



Resources for further information: Tax expenditure reporting

*Fiscal transparency handbook, IMF.*²⁰⁶ This handbook outlines an international standard for reporting on public finances and includes a section focused on tax expenditure reporting.

*Tax expenditures in OECD countries, OECD.*²⁰⁷ This 2010 study looks at tax expenditures in 10 OECD countries covering key technical and policy issues behind their use.

Using transparency to support sustainable development progress

Transparency can be an important catalyst of sustainable development progress beyond the public sector alone. The previous chapter explored initiatives to monitor private sector investment and activities, and the examples above highlight how transparency can bolster public spending and public–private interactions. The examples below highlight wider transparency initiatives

that can catalyse advances in key aspects of the 2030 Agenda. The first focuses on a recent legislative change in the United Kingdom which requires all large public and private organizations to report on key gender pay ratios. The second highlights how transparency can support the development of markets to play an important part in economic and sustainable development progress, looking at an initiative in Ethiopia to boost agricultural market information.

CASE STUDY 40.

United Kingdom: Gender pay gap reporting

The United Kingdom is the first country in the world to introduce mandatory reporting, by public and private organizations, on pay by gender. It builds on reforms over a number of years, beginning with the Equal Pay Act in 1970 that made it illegal to discriminate in pay by gender. The Office of National Statistics has collected national data on male and female earnings since 1997 and though the gap is falling – from 17.4 percent in 1997 to 9.1 percent in 2017, it remains high.

As of 2018, all organizations employing more than 250 people have to report on the gender pay gap, with reporting published at the company level.²⁰⁸ Companies are required to publish a number of statistics that summarize, in some depth, the salaries made to male and female employees.²⁰⁹ The statistics are not detailed enough to identify specific instances of unfair pay or unequal pay among employees at particular levels of an organization. However, they do give a clear sense of differences in overall pay and seniority between men and women in individual organizations. Over 10,000 organizations reported this data in 2018.

There are no provisions for follow up or enforcement of equality against these overall gender pay gap statistics. However, transparently highlighting pay differences can strengthen the case for reform and pressure on individual companies. The initial release of data in 2018 generated a substantial amount of media and public interest which many prominent companies and public organizations were pressured to respond to.²¹⁰

206 Available at: <http://www.imf.org/external/np/fad/trans/>

207 Available at: https://www.oecd-ilibrary.org/governance/tax-expenditures-in-oecd-countries_9789264076907-en

208 UK Government (2018). Gender pay gap reporting guidance. Available at: <https://www.gov.uk/guidance/gender-pay-gap-reporting-guidance>. Accessed July 2018.

209 The statistics that must be published are: mean gender pay gap in hourly pay, median gender pay gap in hourly pay, mean bonus gender pay gap, median bonus gender pay gap, proportion of males and females receiving a bonus payment, and proportion of males and females in each pay quartile.

210 Note that the initial data release happened only three months before the time of writing so it is as yet too soon to evaluate the impact of this reform.

CASE STUDY 41.

Ethiopia: Spreading agriculture market information

The Ethiopian Commodity Exchange (ECX) was established in 2008 to provide a reliable system for trading agricultural products in Ethiopia. The exchange aimed to address inefficiencies in agricultural markets which were characterized by poor information, high transaction costs and high risks.²¹¹ Farmers would come to local markets with little information on prices, leaving them vulnerable to price fluctuations which reflected local conditions but not wider national or international market trends. This left many farmers vulnerable to falling prices during a local glut, regardless of trends in national or international prices.²¹²

The exchange was launched to create a more transparent trading environment. It disseminates information about crop prices widely across the country. Initially launching with price dissemination in major market towns, it now operates electronic price displays in 160 of the 500 Woredas (districts) nationwide.²¹³ It provides transaction security with systems for grading and storing commodities, matching offers and bids for commodity transactions and processing payments and goods delivery.

Since launching, the exchange has achieved notable successes. The volume of coffee and sesame traded has grown rapidly, from 138,000 metric tonnes in 2008–09 to 715,000 metric tonnes in 2015–16.²¹⁴ It settles transactions of more than \$10 million a day.²¹⁵ The exchange is estimated to have reached almost three million farmers across the country²¹⁶ and has contributed to reduced price variation between regions.²¹⁷ Informing farmers of the price differentials between different grades of produce has encouraged the production of higher quality crops.²¹⁸ And farmers receive a larger proportion of the final price – estimated to have risen from 38 percent before the exchange was opened to 70 percent in 2012.²¹⁹

²¹¹ IFPRI (2008). Ethiopia's commodity exchange opens its doors, 14 April. Available at: <http://www.ifpri.org/news-release/ethiopias-commodity-exchange-opens-its-doors>. Accessed July 2018.

²¹² Ibid.

²¹³ UNDP (2014). Private sector success stories from UNDP country offices in Africa.

²¹⁴ EM Compass (2017). Creating agricultural markets: how the Ethiopia Commodity Exchange connects farmers and buyers through partnership and technology.

²¹⁵ Ibid.

²¹⁶ UNDP (2014). Private sector success stories from UNDP country offices in Africa.

²¹⁷ Andersson, C. et al. (2015). The Ethiopian Commodity Exchange and spatial price dispersion.

²¹⁸ Gabre-Madhin, E. (2012). A market for Abdu: creating a commodity exchange in Ethiopia.

²¹⁹ Ibid.



Policy considerations: transparency and accountability

Transparency and collective accountability between public and private actors are key aspects of an integrated approach to financing the SDGs. The examples above are only a few of the kinds of innovations that countries are taking to improve transparency for more effective investment in the SDGs. The examples from Mexico and Nepal highlight efforts to improve transparency about investments in priorities that go beyond the structure of national budgets, reporting on investment against the SDGs and in climate change respectively. They highlight the steps that governments may need to take to create systems for mapping spending against these cross-cutting priorities, and the example from Nepal highlights efforts to go beyond pure transparency alone to increase accountability by enhancing access to key information and promoting its use for effective scrutiny of public spending. The examples from Thailand and the Dominican Republic highlight steps that can be taken to improve transparency and accountability in key areas of public–private interactions, covering public procurement from the private sector and fiscal investment incentives respectively. Improving transparency and efficiency in these and other areas of direct public–private interaction is an important step towards integrated approaches to financing the SDGs. Finally, the examples from the United Kingdom and Ethiopia highlight other cases of improved transparency bolstering progress towards the SDGs. The United Kingdom is the first country to mandate reporting of gender pay ratios, while the Ethiopian example highlights the importance of transparency for effective, inclusive market development.

Conclusion

Countries around the world are looking for ways to mobilize greater and more impactful investments in the SDGs. There is wide recognition of the need for more integrated approaches to financing, where public and private resources contribute to different aspects of sustainable development according to their specific characteristics.

The DFAs that have been completed or are underway across more than 25 countries worldwide²²⁰ have highlighted the demand that exists from policymakers for innovations that will help strengthen an integrated approach to financing. In particular, there is demand across many contexts to strengthen the integration of planning and finance policy functions and to develop more holistic public and private approaches to financing the SDGs or national development plans. These two aspects of integration are critical for implementing the kind of integrated national financing framework called for by the Addis Ababa Action Agenda.

This report has presented examples of a wide range of innovations that countries around the world are using to strengthen these fundamental aspects of an integrated approach to financing the SDGs. In this way, this report is a complement to the DFA guidebook and can be used in DFA processes, and more widely, to inspire thinking about the kinds of solutions that may be appropriate

for the financing challenges that policymakers face in a given context. It has looked at examples across a range of policy and institutional structures that can help government to play its role in implementing and instigating such an approach. The examples presented highlighted innovations that talk directly to these factors, focusing on steps for strengthening the alignment of national plans and financing policies as well as efforts to enhance and better integrate policies towards key private finance flows – notably private sector investment and remittances.

The report also examined innovations in key supporting or cross-cutting areas, looking at reforms that improve the ability to track financing and monitor the contributions that different flows make towards SDG outcomes, and to strengthen transparency and accountability systems. Improvements in these areas can have a significant impact on policymaking and partnership and collaboration between actors.

The aim of this report is to inspire ideas about potential solutions to the financing challenges faced by policymakers across a variety of contexts. It is hoped that the examples presented can highlight the kinds of reforms that may be possible and spur further thinking and engagement to adapt and apply them in other contexts.

²²⁰ At the time of writing, in September 2018.

