The Role of the Private Sector in the Agenda 2030: Modalities of Engagement and Financing Alternatives

O Papel do Setor Privado na Agenda 2030: Modalidades de Engajamento e Alternativas de Financiamento

DOI: 10.21530/ci.v15n1.2020.979

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Abstract

This article proposes a conceptual framework to analyze the potentialities and limits for private sector participation in the Agenda 2030. The framework consists of two categories: corporate awareness for development and active partnership for development. The first deals with the introduction of corporate sustainable responsible practices or business strategies based on development concerns. The second contemplates the roles of resource provider, executor or beneficiary of development cooperation initiatives in the context of the Agenda 2030. In addition, this article proposes financial mechanisms that could promote private sector engagement. In sequence, this article provides an analysis and examples of the current participation of companies in the Agenda 2030 based on the analytical framework.

Keywords: Development Cooperation; Sustainable Development Goals; Development Financing; Private Sector Engagement.

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Artigo submetido em 28/07/2019 e aprovado em 27/01/2019.

Resumo

O estudo propõe um quadro de referência analítico para avaliar as potencialidades e limites da participação do setor privado na agenda 2030. O quadro analítico está dividido em duas categorias: conscientização corporativa para o desenvolvimento e parceria ativa para o desenvolvimento. A primeira considera a introdução de práticas de responsabilidade sustentável corporativa ou a introdução de estratégias empresariais com preocupação no desenvolvimento. A segunda contempla os papéis de provedor de recursos, executor ou beneficiário de iniciativas de cooperação para o desenvolvimento no âmbito da agenda 2030. Adicionalmente, este artigo apresenta relação de mecanismos de financiamento que possam promover o engajamento do setor privado. Em seguida, o artigo apresenta análise e exemplos do estado atual de participação das empresas na agenda de desenvolvimento a partir do quadro analítico.

Palavras-chave: Cooperação técnica; Objetivos do Desenvolvimento Sustentável; Financiamento do Desenvolvimento; Engajamento do Setor Privado.

Introduction

In 2015, the Sustainable Development Goals — SDGs were launched in the United Nations Conference Rio + 20 with great expectations from the international community. Member States decided to build them upon the Millennium Development Goals and converge with the post-2015 development agenda. The so-called Agenda 2030 — approved by consensus by heads of states from all member countries — consists in a declaration, 17 sustainable development goals and 169 targets that deal with global challenges related with “people, planet and prosperity”[3]. This initiative became the global mainstream to promote development cooperation (Kanie and Biermann 2017). The Agenda 2030 has an ambitious architecture of execution since it takes into consideration the distinct economic, social and planetary realities (Kanie and Biermann 2017). It also implies a concerted multi-level negotiation and management process that count with different state and non-state actors working in different platforms.

The implementation of the SDGs demands a broad engagement of governments, private sector and civil society in general through the creation of new governance arrangements, programs of action and partnerships. In regard to financing,

3 For information about SDGs, please see the United Nations (2015).

the implementation of the SDGs projects a funding gap of more than US$ 2,5 trillion for the horizon 2015 -2030 projected by the Organization for Economic Co-operation and Development — OECD in 2017. As an example, the United Nations Intergovernmental Committee on Sustainable Development indicates that the sustainable goal related to eradication of extreme poverty implies the allocation of resources of US$ 35-195 billion per year during the period 2015-2030 (Voituriez et al 2017). The most recent estimate of financial needs from the International Monetary Fund — IMF projects that the achievement of a subset of SDGs in 49 developing countries —focusing on health, education, water and sanitation, roads and electricity— forecasts additional spending of about US$ 520 billion a year, or an increase of 14 percentage points of GDP on average[4].

In contrast, the amount of official development assistance — ODA spent by OECD DAC member countries has had a slight increase of 28.7% in 2016 in relation to 2008 when it reached US$ 144.9 billion[5]. If other emergent donors are added (Arab countries, China, India, Brazil, Mexico, South Africa, among others), the total amount of aid assistance could be estimated as a total of US$ 161 billion in 2017[6]. However, the main increase of ODA in the last five years was due to aid assistance spent on refugee and humanitarian crisis that totaled US$ 14.3 billion in 2017[7]. In this scene, the total amount of bilateral aid spent on development aid in 2017 is similar to the amount of 2008. In addition, emerging donors — like China, India and Brazil — have strengthened their South-South cooperation initiatives with an estimated allocation of US$ 7.4 billion[8]. The data of China needs a further analysis. A study conducted by Johnston and Rudyak (2017) has pointed out that China's net aid had reached US$ 5.4 billion in 2013, most of which was being disbursed on bilateral schemes. Despite these differences, the total amount spent on development cooperation by these emergent donors is far behind the figures of the OECD countries, as seen below:

4 For more information, please see IMF (2019).

5 According to the OECD, ODA includes the total amount of funding allocated by members of the *Development Assistance Committee — DAC* of the OECD and countries that are non-members. The Development Assistance Committee — DAC is a forum that discuss cooperation, technical assistance and poverty reduction in the OECD. It counts with more than 30 members from OECD, plus other non-member countries like Chile, Israel, Estonia, Latvia and Turkey. In addition, the World Bank, IMF, UNDP, the Development African Bank, the Asian Development Bank and the Inter-American Development Bank participate as observers.

6 Idem. N.A. Although the data could be underestimated in the case of China.

7 Idem.

8 Idem. N.A. There were no official data available for 2017.

Table 1 — Estimates of Gross Concessional Flows of Development Co-operation from Emergent Donors, 2012-2016 — (USD Million)

Country	2012	2013	2014	2015	2016	Source
Brazil	412	316		-	-	Institute of Applied Economic Research — IPEA and the Brazilian Agency of Cooperation
Chile	38	44	49	33	33	Ministry of Finance
China	3.123	2.997	3.401	3.113	3.615	Fiscal Yearbook, Ministry of Finance
Colombia	27	42	45	42		Strategy institutional plans, Presidential Agency of International Cooperation
Costa Rica	-	21	24	10	9	Annual budget figures, Ministry of Finance
India	1.077	1.223	1.398	1.772	1.695	Annual budget figures, Ministry of Finance
Indonesia	26	49	56	-	-	Ministry of National Development Planning
Mexico	203	526	169	207	125	Mexican Agency for International Development Cooperation — AMEXCID
Qatar	543	1.344	-	-	-	Foreign aid reports, Ministry of Foreign Affairs
South Africa	191	191	148	100	95	Estimates of public expenditures, National Treasury

Source: OECD. Development Co-operation Report, 2018.

Multilateral organizations have also increased the volume of subsidized credit lines to developing countries, reaching US$ 70 billion. Finally, the private sector foundations have been gaining a more prominent role in the development cooperation agenda, allocating the amount of US$ 24 billion in development aid between 2013 and 2015[9]. However, the growth of private sector foundations in development cooperation has occurred mainly due to the Bill and Melinda Gates Foundation that is responsible for 48% of the total funding allocated by foundations in 2016 (OECD 2018). This panorama of development financing shows that traditional donors have increased aid spending on a very moderate pace, on one hand, and multilateral organizations and new donors — such as emergent countries and private foundations –, on the other, have had an expanding role in this agenda but far behind the OECD members.

In this context, private sector engagement became a key strategy to tackle the global challenges that were translated into the SDGs. Since the 4th High Level Forum on Aid Effectiveness of 2011 in Busan, the private sector has been recognized as a relevant actor in the promotion of development cooperation. Sequential international forums — such as the Group of Twenty meetings, the United Nations Summits about the Millennium Goals and the Agenda 2030, the Conferences on Financing for Development and the 2o High Level UN Conference on South-South

9 Idem. According to the same

Cooperation of 2019 — BAPA + 40 — also call for private sector engagement. With the launch of Agenda 2030, companies were invited to participate in the financing of the development agenda and to adopt corporate sustainable practices in their operations. According to Addis Ababa Action Agenda of 2015, corporations should take part in the development process by investing in areas critical to "sustainable development and by shifting to more sustainable consumption and production patterns".

Examining the role of the private sector in development is a new issue in the field of international relations. There are studies on private transnational environmental governance and few academic references that examine the role of the private sector in development cooperation, but most deal with the role of private foundations that have different missions and business strategies. Other academic references come from the field of business administration, like the work of Porter and Kramer (2011) that defines the notion of shared value to justify the adoption of corporate strategies based on sustainable development concerns. In this scene, most of the concepts that discuss private sector engagement nowadays in the development agenda comes from think-tanks and international organizations. And these definitions are usually related to advocacy, implementation of corporate sustainable practices and roles that consider a direct contribution to development cooperation initiatives in general[10].

Therefore, this article proposes an analytical framework that consolidates the forms of private sector involvement in the context of the Agenda 2030. Two general categories were identified: corporate awareness for development and active partnership for development. In addition, we propose to examine potential funding mechanisms that could promote the mobilization of companies in line with the financial needs of the SDGs. Our first assumption is that there are many similar concepts presented by distinct think-tanks and international organizations to evaluate the forms of private sector engagement in the development agenda. Secondly, there is need to seek for new indicators that could measure the participation of companies in development in terms of financial support and adoption of corporate sustainable practices. By proposing this framework and possible financial mechanisms, we seek to understand the potential role and limits for private sector engagement in the development agenda.

Drawing on a literature review and analysis of official data, this article unfolds as follows. Initially, it presents an update of concepts and modalities to

10 See reports from OECD, DIE, North-South Institutes, among others.

organize the forms of private sector participation in development based on the works conducted by Byiers and Rosengren; Di Bella et al.; Vaes and Huyse and Porter and Kramer. Then, it describes alternative funding mechanisms that could promote private sector engagement with the agenda 2030 in the future. Finally, this article evaluates the role of the private sector on the proposed modalities, using comparative data of the present scenario of development cooperation.

The Roles and Modalities for Private Sector Engagement in Development Cooperation

Before examining the available studies about private sector engagement, it is important to define private companies. In this sense, we consider the following definition introduced by the OECD Co-operation Report of 2016:

> Organizations that engage in profit-seeking activities and have a majority private ownership (i.e. are not owned or operated by a government). This term includes financial institutions and intermediaries, multinational companies, micro, small and medium-sized enterprises, co-operatives, individual entrepreneurs and farmers who operate in the formal and informal sectors. It excludes actors with a non-profit focus, such as private foundations and civil society organizations.

This concept is being used by most international initiatives that are supporting the implementation of the Agenda 2030, like the Global Partnership for Effective Development Cooperation. This is a multi-stakeholder platform that provides guidelines for effective implementation of the SDGs. Another relevant concept regards private sector engagement that is defined by the OECD Co-Operation Report of 2016 as “an activity that aims to engage the private sector for development results, which involves the active participation of the private sector”. The definition is broad and includes all modalities (finance, policy dialogue, capacity development, technical assistance, knowledge sharing and research for engaging the private sector in development co-operation from informal collaborations to more formalized and encompasses all sectors (e.g. health, education, private sector development, renewable energy, governance, etc.). According to the same report from the OECD, private sector engagement deals with the capacity to leverage the innovation potential of companies as well as its contribution to finance the SDGs while, at the same time, recognizing the need for financial return for the private sector.

In order to understand the companies' motivations to participate in the development agenda, the article of Michael Porter and Mark Kramer (2011) introduces the notion of shared value. Porter and Kramer propose a new business strategy for companies that conciliate the creation of economic value with benefits for society "by addressing its needs and challenges." According to these researchers, business should seek to reconnect the company's success with social development. By pursuing this strategic position, corporations could legitimize business again. They also remember that the notion of shared value goes beyond the adoption of corporate responsibility policies that, on their view, has a limited effect in terms of business stainability. Porter and Kramer indicate that the shared value strategy has a well-defined rationale: companies would seek to reduce profits and margins in the short term in exchange for a long term sustained success.

This concept proposed by Porter and Kramer is being used as guiding principles by international organizations and forums to attract companies to the development cooperation agenda. According to the OECD Development Co-operation Report of (2016):

> Companies that introduce sustainability into their business models are profitable and successful, with positive returns on capital in terms of reduced risks, diversification of markets and portfolios, increased revenue, reduced costs, and improved value of products. Increasingly, investments in developing countries — and even in the least developed countries are seen as business opportunities, despite the risks involved. On the other hand, companies provide jobs, infrastructure, innovation and social service, among others.

The same report from the OECD states that the opening of new potential markets in developing countries and the expansion of global supply chains create an opportunity for transnational companies to adopt a corporate responsible attitude towards local consumers and suppliers. And this understanding implies the introduction of a development perspective on business strategies. In line with the concept of shared value, initiatives such as the Global Compact of the United Nations are also promoting private sector mobilization towards introducing a sustainable development perspective on their business activities.

Based on these definitions, many studies have conceptualized and proposed modalities to understand the role of the private sector in development cooperation. Most of the research come from think-tanks, international organizations and initiatives. Byiers and Rosengren (2012), for example, organize the private sector engagement in two categories: While the first addresses how companies promote the development of the country's domestic economies and support governments to design and implement policies to stimulate economic transformation through investment, productivity growth, business expansion and employment; the second has to do with donor engagement with international business activities and financing to achieve development objectives.

In a research conducted by the Belgian Institute KU Leuven entitled Private Sector in Development of 2015, Vaes and Huyse analyze the perspectives for the private sector cooperation. According to the researchers, a combination of the following drivers has given visibility for the private sector in the development agenda:

Box 1 — Drivers behind the Current Private Turn

GLOBAL CONTEXT	DONOR GOVERNMENTS
– Increasingly complex cross-boundary problems require complex multi-stakeholder solutions; – Financial crisis and the search for alternative financing mechanisms to leverage and compliment public funds for development; – Increasingly scarcity and the expected climate change on food supply shows the need for sustainable business models; – Changing expectations from consumers and employees, regarding business practices and the products; – Changing attitudes towards entrepreneurship and the introduction of new business ethics and business models	– Assumption that business would be good (or even better) at delivering on aid effectiveness – Assumption that private sector is the driver of growth which in turn will lead to development and poverty reduction – Central role for the private sector in the international cooperation of emerging powers (e.g. BRICS) – International development policy designating private sector as a prominent actor in development cooperation – Neighboring countries or other OECD-DAC donors placing private sector more central in their development cooperation
PRIVATE SECTOR	**CSOs and NGOs**
– Globalization and developing markets and business opportunities in developing countries – Changing expectations and external pressure from employees, governments, customers and watchdogs regarding business practices and products – Frontrunners experiment (successfully) with new business models – Maintaining supply chain will require more sustainable production methods and linkages with producers – Increasing reporting requirements (e.g. GRI)	– Financial crisis and the search for alternative financing mechanisms to replace or complement government and public funding – Unable to achieve its mission alone – Increase power, reach and impact of private companies – Increasingly privatized provision of essential services – Increasingly pro-business attitude of development policy – Looking for ways to include poor and marginalized in sustainable product chains – Competing with private sector for development contracts

Source: Belgian Institute KU Leuven.

The model presented by Di Bella Et al. (2013) goes deeper in the definitions and proposes to classify the various forms of private sector mobilization. These authors published a relevant and detailed study coordinated by the North-South Institute about the private sector engagement in aid initiatives. According to Di Bella Et al., there is a growing perception in the international community about the importance to bring the private sector to play a more active role in this agenda. The private sector can bring innovation and provide financial support for development cooperation. And business strategies can be tied to sustainable development business models that bring profits and promote inclusive growth. This research of the North-South Institute proposes the following roles for the private sector in the development agenda:

Box 2 — Key concepts: Private Sector and Development

PRIVATE SECTOR DEVELOPMENT: Activities carried out by governments, financial institutions and development organizations geared toward creating an enabling environment for business to flourish. Includes activities by development cooperation actors aimed at increasing private sector investment in developing countries.

PRIVATE SECTOR IN DEVELOPMENT: The roles of and activities carried out by the private sector as part of its regular core business operations that affect development outcomes and economic growth through positive impacts such as job creation, provision of goods and services, and taxation, and negative impacts such as environmental degradation and poor labor practices.

PRIVATE SECTOR ENGAGEMENTS FOR DEVELOPMENT: Instances when engagements with the private sector go beyond the traditional impacts of the private sector in development. Private sector engagements for development include firms' active pursuit of positive development outcomes. This occurs through, for example, funding and/or carrying out development projects, adopting and implementing inclusive business models, aligning core activities to explicitly contribute to the achievement of development outcomes, creating inclusive value chains, adopting and supporting the widespread adoption of responsible business practices in areas such as environmental sustainability and human rights, improving accountability and transparency in business operations, and targeting the transfer of technologies to host communities.

Source: Di Bella Et al (2013).

Di Bella Et al. (2013) remember that these concepts of private sector participation can be combined with the following ways of implementation:

- Political dialogue
- Sharing of knowledge
- Technical cooperation
- Capacity building
- Donations
- Loans

Another study from Kindernay and Reilly-King (2013) defines the participation of the private sector in terms of levels of intervention: macro, meso and micro level. Macro level interventions focus on business environment; that is creating the legal, economic and regulatory conditions for business to flourish. Interventions of meso level would be related to making the markets work better by reducing market imperfections through the building of value-chains or through integration of players in the market. And micro is related to interventions in business, people and support services. The Belgian Institute KU Leuven also conducted a research in 2012 to evaluate the involvement of the private sector in selected European Countries and the Flandres region. The authors Vaes and Huyse (2012) indicate a list of ten possible functions for the private sector in the development cooperation agenda:

1. Resource provider: financial resources for development initiatives;
2. Resource provider: expertise and other strategic resources such as network, data, research capacity;
3. Beneficiary: beneficiary of efforts to create an enabling business environment;
4. Beneficiary: capacity development, information provision and/or knowledge sharing initiatives that aim to increase capacity to contribute to development goals;
5. Beneficiary: beneficiary of financial support that aims to boost private sector activity or investment with particular development impact;
6. Beneficiary: executor of contracts for implementing aid projects and programs: (role of subcontractor);
7. Target of regulation, lobby or advocacy: the private sector is pushed by global governance institutions, governments or civil organizations to change business practices;
8. Reformer: change of existing business models through corporate social responsibility, corporate social accountability or stakeholder value maximization: the private sector adapts its own business model to increase its positive development impact and sustainability
9. Developer-implementer: implementation of new, social inclusive or solidarity economy initiatives and business models or initiatives with particular development relevance.
10. Participant: taking part in development related policy dialogue or multi-stakeholder initiatives that aim to influence business and development policy and practice.

The analysis of the models and modalities presented by Byiers and Rosengren; Di Bella Et al. and Vaes and Huyse indicate that the participation of the private sector in the Agenda 2030 could be divided in two well defined categories: Corporate Awareness for Development and Active Partnership for Development. The first contemplates mobilization, advocacy or the introduction of strategies and practices aligned with social and sustainable impacts. The second deals with the roles of resource provider, executor or beneficiary of development cooperation initiatives, usually in partnership with governments or multilateral organizations. Thus, we propose five main roles for private sector engagement for the Agenda 2030, as follows:

Box 3 — Proposal of Modalities for Private Sector Participation for the Agenda 2030

Corporate Awareness for Development	Active Partnership for Development
Corporate Responsible Participant: Private sector introduce practices of corporate sustainable principles. It also includes the participation of companies in initiatives to promote the awareness of the development agenda like policy dialogue & multi-stakeholder initiatives on development issues. **Corporate Reformer:** Corporate sustainability becomes a key component of the business strategy. Companies also act in the advocacy a of sustainable policies in international forums. Corporate strategy based on sustainable practices include innovative services and products that generate value for customers and local capacity building and social and economic development. Companies adopt the notion of shared value in their global strategies as to sustain long term presence of their business activities.	**Resource provider:** Private sector offers financing or participate in co-financing initiatives. The provision of financial support considers loans, grants, public-private partnerships and the use of new financial schemes — such as blended finance — when linked to a development initiative. **Executor:** Private sector takes part in implementing new, social inclusive initiatives with particular development relevance. It includes coordination of development initiatives that have partnership with other stakeholders and/or count with public-private financial mechanisms. The execution of development initiatives contemplates sharing of knowledge and capacity building with the use of innovative practices. **Beneficiary–** private sector is a beneficiary of the results of development projects and programs. It can also include the promotion of private sector development as a result of technical cooperation initiative.

Source: based on Byiers and Rosengren; Di Bella Et al.; Vaes and Huyse; and Porter and Kramer.

The proposed notion of Corporate Awareness for Development is well in line with the definitions of Di Bella et al. since it has a direct relation with the positive impact that can be generated by private sector actions. We propose to divide this category into two modalities: Corporate Responsible Participant and Corporate Reformer. The role of Corporate Responsible Participant is the first stage of private sector involvement with the development agenda. It considers the adoption of corporate sustainability measures by companies. As an example, the establishment of the *Global Compact Initiative by the United Nations* is one of the many initiatives aimed to promote the development agenda through the introduction of corporate governance principles. This initiative mobilizes almost ten thousand companies from more than 164 countries and propose guidelines for companies to follow in line with the SDGs.

The Corporate Reformer is a modality that deepens the participation of the private sector in the development agenda. Also, it includes measures to promote better corporate sustainability practices and ways to address positive impacts. The promotion of a sustainable development agenda becomes a key component in the companies' strategy. According to Ioannou and Serafeim (2019), the adoption of strategic sustainability practices is significantly and positively associated with both return on capital and expectations of future performance. Companies also have an active role in the design of policies related to private sector engagement in international forums. The concept of shared value proposed by Porter and Kramer is also an integral part of global strategies of the corporate reformers.

In this context, there are new financial mechanisms that can address company's interests to invest in sustainable initiatives. To Dalberg (2014), innovative financing is shifting from the fundraising approach to the delivery of positive social and environmental outcomes. In this scene, the growth of impact investment funds follows this direction. And a growing number of investors are expressing a desire to "do good while doing well." These are impact investors, who seek opportunities for financial investments that produce significant social or environmental benefits. Private funds which invest in companies that promote social impacts is another example of the role of resource provider. The Rise Fund measures impact investment in 30 key outcome areas, aligned with the United Nations Sustainable Development Goals — SDGs through a measurable evidenced-based, quantifiable assessment. For each potential investment, an indicator called Impact Multiple of Money (IMM)™ aims to estimate a company's potential for positive impact that is used for investment selection criteria (Addy Et al. 2019). Environmental, social and governance principles are part of the investment diligence and the decision process. These are examples of organizations of the New Economy that are able to reconcile business with sustainable development concern.

The Active Partnership for Development deals with a more direct role of companies in the implementation of initiatives that are in line with the Agenda 2030. It considers institutional arrangements of the private sector with governments, multilateral organizations and non-profit institutions engaged in development cooperation initiatives. These arrangements consist in the establishment of governance mechanisms, public-private partnerships, institutional arrangements and financial mechanisms that can be allocated by companies to tackle development challenges. In this context, the *Global Partnership for Effective Development Cooperation* is an example of a global governance mechanism that provides practical guidance and shares knowledge to boost the development impact, supporting country-level implementation of the internationally-agreed development effectiveness principles. It counts with high level representatives from governments, international organizations, civil society and the private sector that are effectively participating in the implementation of the development agenda. In April 2019, the Global Partnership launched guidelines to stir private sector participation in the development agenda.

We propose to divide this category into three distinct roles: resource provider, executor and beneficiary. The resource provider contemplates the allocation of resources by the private sector through funding mechanisms and institutional arrangements. Foundations of transnational companies are among one of the main relevant actors of this modality, according to Di Bella Et al. Major corporations have established foundations that act on behalf of those companies or are responsible for implementing their corporate responsible strategy. Therefore, they do not act as independent corporations and thus could be included in the definition of private sector, according to Di Bella Et al. (2013).

In addition, public-private partnerships — PPPs could be one of the attractive ways to seek extra resources from companies for the Agenda 2030. PPP is a contract between a government and a private company under which the private company finances, builds and operates some element of a service that was traditionally considered a government domain. PPPs are typically employed to implement infrastructural projects when public budgets are constrained. For Thamer and Lazzarini (2015), PPPs should not be mistaken with other types of acquisition of public services since they consider a cooperative and risk sharing initiative between the government and the private sectors. Properly managed, they may also improve public service efficiency through technical expertise provided by the private sector. Usually, a partnership agreement is signed between the public and private organizations "to mitigate the level of risk-taking for all parties and create a win-win situation".

Developing agencies are fostering the use of PPPs to attract companies in development cooperation initiatives. For example, the Japan International Cooperation Agency (JICA) has defined policies to foster partnerships with Japanese corporations to promote local business development (Hayashi 2014). JICA has a series of ODA schemes to support private business in developing countries in line with the SDGs. According to Hayashi (2014):

> With this increased interest on the part of Japanese business in developing countries, the government has developed programs of support for these companies. Among these support programs are ODA schemes providing companies with the resources to initiate a business in developing countries, which would address social problems in these countries. The government is working on the assumption that acceleration of overseas operations by Japanese companies potentially contributes not only to the economy of the countries concerned, but also to Japan's national interests.

The role of resource provider also contemplates new funding mechanisms such as blended finance that have a variety of models and consists in mobilizing capital investment through public-private partnerships. This type of funding mechanism seeks alternatives to leverage private investments with a limited amount of official development assistance. For the OECD, blended finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries. Blended Finance refers to a financing package comprised of concessional funding provided by development partners and commercial funding provided by financial institutions and co-investors. Blended Finance solutions can provide financial support to a high-impact project that would not attract private funding on strictly commercial terms because the risks are considered too high and the returns are either unproven or not commensurate with the level of risk. It also reduces risks for the private sector initiatives that are in line with public interest. According to Voituriez Et al (2017):

> In this respect, lending most traditionally involves combining a variety of instruments — basically loans and grants — from a single institution. This type of blending translates into subsidized loans and represents the core business of development finance institutions such as the European Investment Bank, the French Development Agency, and German Development Bank KfW.

The establishment of blended finance schemes consider the use of different financial instruments as follows:

Box 4 — Private Sector Engagement Through Development Cooperation: instruments

Grants: cash or in-kind transfers which do not generate debt for recipients
Debt instruments: cash or in-kind transfer which incur in debt for the recipient
Mezzanine finance: transfers that incur in debt or preferred stock, as subordinated loans, preferred equity or hybrid instruments
Equity and shares in collective investment vehicles: investment through collective mechanisms to reach regions that would not be attractive for sole or long-lasting investments.
Guarantees and Liabilities: risk-sharing mechanism: the guarantor pays part of the entire amount due on a loan, equity or other instrument to the lender/investor in the event of non-payment by the borrower or loss of value in the case of investment.

Source: BRICS Policy Center (2018).

The role of executor contemplates an active role of companies in designing and implementing new social inclusive initiatives in partnership with the public sector. The implementation of public-private partnerships schemes is also part of this category. The *executor* mobilizes technical and financial resources (usually grants) and coordinates projects that promotes capacity building and knowledge transfer in line with development challenges. Consultancy companies, for example, compete for public funding and grants to implement projects in developing countries. The Palladium Consulting Group (http://thepalladiumgroup.com) and Mckinsey (http://www.mckinsey.com) — among other players — are examples of global consultancies that develop business activities implementing capacity building projects in developing countries. In the case of the Palladium Consultancy Group, there is a list of development cooperation initiatives that are funded by different development agencies like the British and the Australian. In addition, there is an extensive emphasis on evaluation in order to demonstrate and monetize positive impacts. Many cooperation agencies also mobilize the private sector to support their execution activities. In the case of Brazil, the National Service for Industrial Training — SENAI is one of the main partners of the Brazilian Cooperation — ABC. SENAI is a private non-profit organization that promotes skills development for the industrial sector in Brazil and has established more than nine technical schools in Africa, Latin America and East Timor. In Germany, there is an extensive list of consultancy and non-profit organizations that also act on behalf of the German Cooperation Agency — GIZ implementing their development agenda.

Finally, the role of beneficiary consists of private sector actors — usually from developing countries — that benefit from the results of development initiatives. It also includes the notion of private sector development presented by Di Bella Et al. (2013). Beneficiary institutions take part in the development initiatives seeking to absorb know-how and capability to deliver products and services that foster social and economic development.

The categories proposed above can facilitate the understanding of possible ways through which the private sector has been engaging in the development agenda. Together they encompass an analytical framework intended to highlight the different roles that companies can play in the implementation of the Agenda 2030. Such roles can vary from a socially responsible company carrying on its business activity to a more active one of a development-partner.

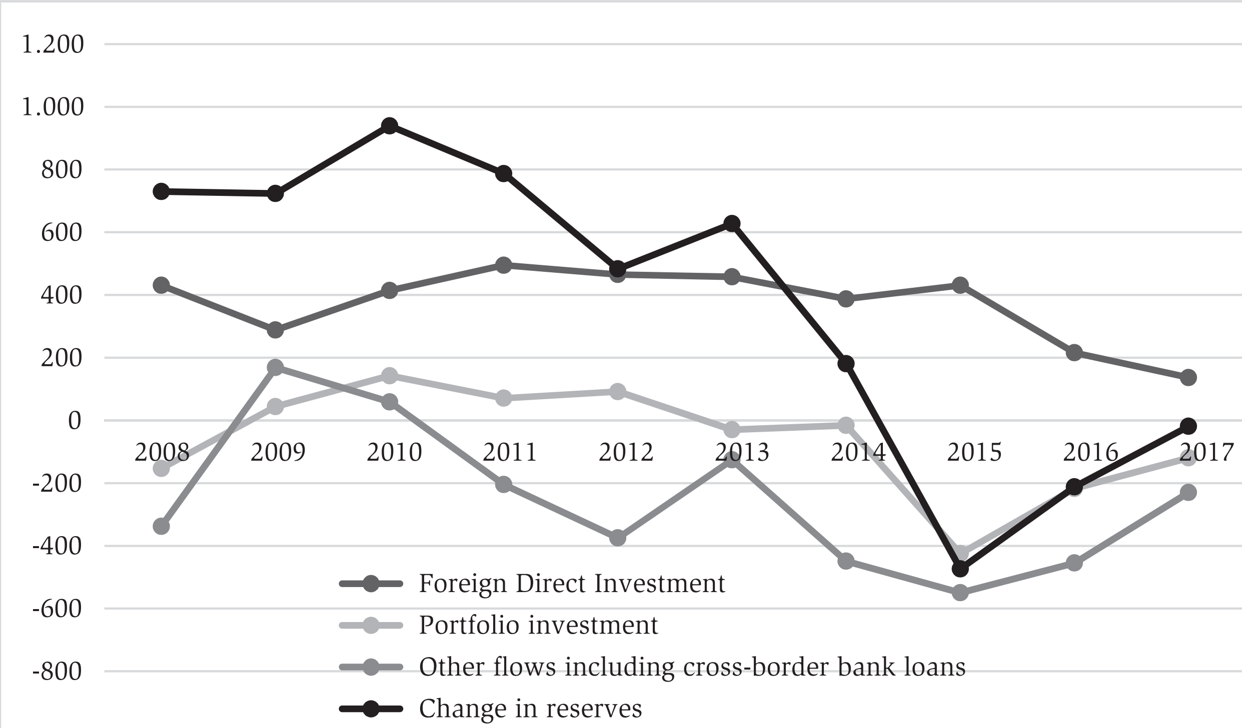
Examining the Recent Private Sector Engagement in Development Cooperation

In this part of the article, we propose to conduct a preliminary evaluation of the current engagement of private corporations in the Agenda 2030 based on the available data. The intention is to identify future ways to measure the mobilization of companies through indicators or examples aligned with the proposed modalities of private sector engagement.

In regard to the role of Corporate Awareness for Development, foreign direct investments are presently one of the only indicators to demonstrate the volume of corporate investments carried out by companies. Although the use of FDI is an important measure of economic growth, it does not provide a complete picture of the promotion of development agenda in terms of social and economic impacts. Nevertheless, FDI is the largest source of external finance for many developing economies, according to the IMF[11]. It is also more stable than other cross-border financial flows, such as portfolio investment and cross-border bank loans, according to data presented by the International Monetary Fund — IMF (Figure 1). FDI can enhance productive capacity, transfer know-how and generate employment, particularly when it creates linkages with domestic suppliers and help local companies integrate into international value chains.

11 IMF Annual Report 2019: our connected world

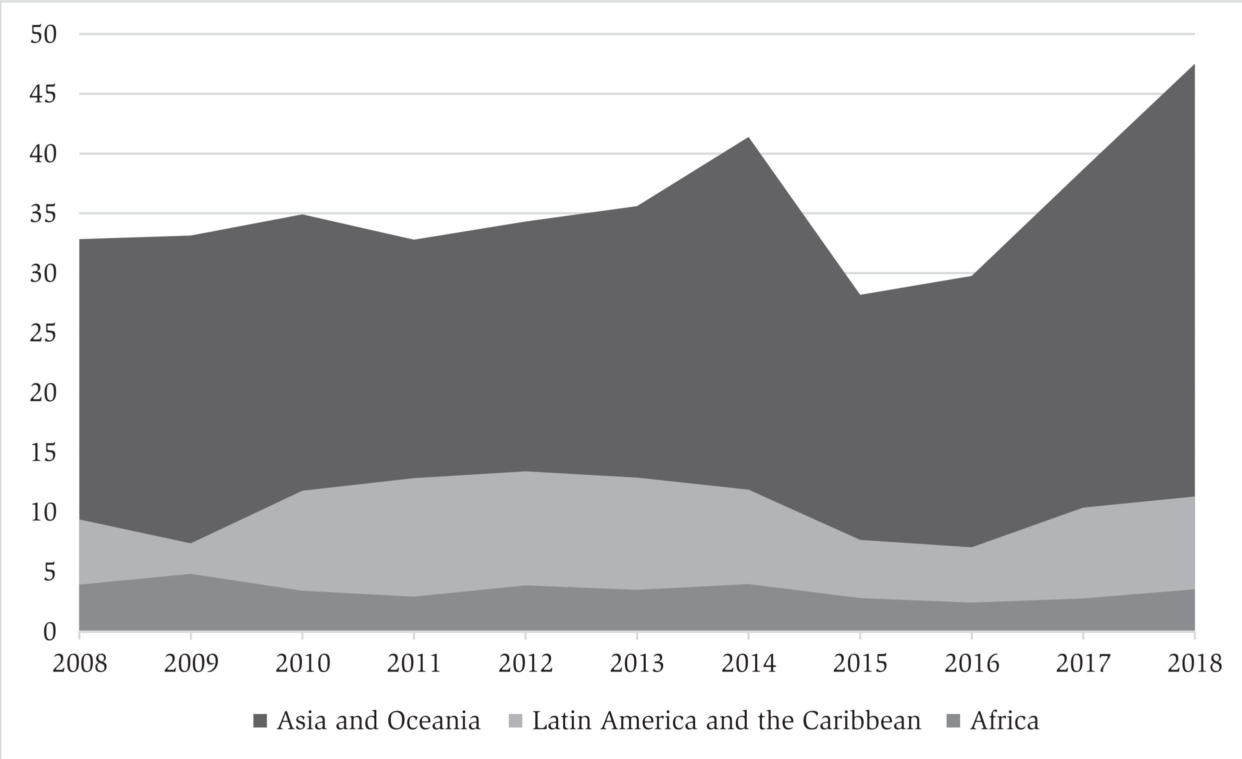
Figure 1 — Trends in Cross-border Net Financial Flows to Developing Countries and Economies in transition (US$ Billions)



Source: IMF World Economic Outlook database, October 2016 and UN/DESA calculations.

Figure 2, below, shows the evolution of foreign direct investments — FDI from developed countries to developing countries. Looking at the figure 2, the rise of foreign direct investment — FDI has been moderate. China is responsible for the biggest share of inflows of FDIs in the period 2008-2016, while investments in developing economies in the African continent and the Americas total less than US$ 30 billion in 2016. Although there are no frameworks available to identify the percentage of the investments allocated to the development agenda, these figures indicate that the volume sent by companies to the developing countries is far behind the needed amount projected by the Agenda 2030.

Figure 2 — Foreign Direct Investments to Developing Countries — 2008-2018 (% of total world inflow)



Source: UNCTAD Data Base.

In this context, Berger and Sebastian (2019) from the German Development Institute — GDI defends that governments should foster ways to attract FDI aimed to improve environmental and social conditions. It proposes policies that could stimulate links between foreign and domestic firms to improve local business and governance, thus leading to a sustained development. According to the German thin-tank, the World Trade Organization is promoting discussions with developing countries to design an International Invest Facilitation Framework — IFF. Also, GDI indicates that developing countries have made limited progress to implement facilitation measures to attract foreign investments. The GDI proposes six recommendations to foster FDI to developing countries:

1. Bridge the implementation gap by providing capacity building.
2. Strengthen developing countries' negotiation capacities.
3. Respect the policy space of developing countries.
4. Focus special and differential treatment on longer implementation periods.
5. Include a commitment by home countries to support their investors' responsible-business conduct.

6. Establish international cooperation mechanisms and increase inclusivity by supporting multi-stakeholder processes.

In regard to impact investment, a recent report by the International Finance Corporation — IFC (2019) evaluates the size of this market. According to this study, there are two segments that contribute to measurable positive social and environmental impact. According to the IFC:

> The first is privately managed debt and equity funds, which manage about US$ 71 billion. The second is development finance institutions (DFIs), like IFC, which have a mandate to invest in commercial returns to achieve development impact. The group of 25 DFIs that share common impact metrics manage about US$ 742 billion. Beyond these two segments, two intriguing asset classes have the potential to contribute to measured impact. First, green and social bonds, which may contribute additional financing to firms generating positive environmental and social impacts, have grown rapidly to a USD 456 billion market. Second, shareholder engagement strategies in public equities, which are a USD 8.4 trillion market, can be deployed to influence firms towards greater impact.

However, the IFC remembers that the rapid growth of the field of impact investing has been accompanied by questions about how to assess impact, as well as concerns about potentially unrealistic expectations that social impact and market-rate returns can be simultaneously achieved. Nevertheless, there is a great expectation that impact investment can be further stimulated through the introduction of regulations and incentives for companies. As an example, impact investment funds like the TPG Growth and the Rise Fund already count with resources to invest in sustainable responsible projects of around US$ 14 billion and US$ 2,1 billion respectively[12]. TPG Growth have, for example, a great focus on sustainability and proposes “responsible investing” through the life cycle of their projects.

In addition, an extensive list of financial mechanisms could support development cooperation. Voituriez et al. (2017) indicate that the volume of private and public savings amounts US$ 22 trillion and financial assets US$ 218 trillion. Institutional investors held assets estimated in US$75-85 trillion. Pension funds, life insurance companies and sovereign wealth funds have financial assets

12 Para https://www1.folha.uol.com.br/empreendedorsocial/2018/09/so-filantropia-e-governo-nao-irao-resolver-os-problemas-diz-investidor-social.shtml

that totals US$ 60 trillion[13]. These are examples of funding mechanisms that can give bright perspectives for the aid financing agenda in the future. The question lies on how governments can mobilize the private sector and these mechanisms to be directed to the development agenda. Also, there is a need to define metrics to establish a correlation between the SDGs and the development initiatives to be funded by new financial schemes.

In the case of the corporate responsible and the corporate reformer roles, there is no available data to evaluate, for example, the motivations for companies to introduce business strategies aligned with the development agenda. Nevertheless, Ioannou and Serafeim (2019) indicate that 93% of the largest 250 companies in the world are publishing corporate sustainability reports. Both authors also indicate that 78% of these companies include and/or integrate sustainability information in their (audited) annual financial reports, according to a study coordinated by KPMG in 2017. Through qualitative research, this information could be of relevant use for future policy making as well as to promote further engagement and awareness of the private sector.

When analyzing the Active Partnership for Development, information to quantify and measure private sector engagement through the roles of executor and beneficiary is dispersed. As an example, annual reports from developing agencies — like the Japanese Agency of Cooperation — JICA and the German Development Cooperation Agency — provide examples of partnerships with companies with the amount spent in projects. In regard to the modality resource provider, the OCDE (2020) has informed that USD 48.4 billion was mobilized from the private sector in 2018 by official development finance interventions carried out by development banks. This amount remains modest in scale since it represents less than a quarter of total aid assistance spent in the same year.

This figure has a great potential to growth when compared with the total allocation of resources spent by PPPs in the world. According to the UNCTAD (2016), PPP funding for infrastructure projects in developing countries has totaled approximately US$ 159 billion in 2013. According to the same report, PPP investment has been concentrated in relatively few countries and sectors. Almost 60% of the total private participation in projects recorded in developing countries were in (by order of magnitude) China, Brazil, the Russian Federation, India,

13 Based on information from the Intergovernmental Committee of Experts on Sustainable Development of the United Nations.

Mexico and Turkey. This indicates that PPP investors act in the same rationale as institutional investors, preferring large and dynamic markets to the more vulnerable economies where financing needs are greatest. Only 10% of the total went to Africa, although in sub-Saharan Africa investments have been steadily rising (primarily because of investments in telecoms) (UNCTAD 2016).

In regard to private foundations, the OECD has published a special report about their role in the development agenda entitled Private Philanthropy for Development in 2016. According to the OECD, the total flow of the 143 private foundations reached the amount of US$ 24 billion in the period 2013- 2015. This report points out that more than 81% of the total funding are concentrated in around 20 foundations that are in its majority American organizations. This amount is also far below the resources allocated by official sources of development assistance.

The biggest organization sponsoring aid development is the Bill and Melinda Gates Foundation that has allocated over US$ 11,6 billion in the period 2013-2015[14] and is responsible for 48% of the total funding allocated by foundations[15] with a special focus on health projects. Other foundations have also an increasing participation in the development agenda. The Rockefeller Foundation focus its core business in the sustainable development objectives related to food, health, energy and jobs, mobilizing similar amount of funding[16]. In addition, the JP Morgan Foundation has structured a global initiative to promote skills development in the workplace after the financial crisis of 2008. This program called *New Skills at Work* started in the US and it was then expanded to other countries with resources totaling US$ 250 million[17]. These foundations act in partnerships with other donor and recipient countries funding or executing development projects.

Conclusions

The objective of this study was to propose a framework that organizes the modalities of private sector engagement in two main categories: **Corporate Awareness for Development and Active Partnership for Development**. It goes in the direction of enabling the establishment of indicators in the future. The

14 See The Bill and Melinda Gates Foundation (2016).

15 OECD (2018).

16 See Rockefeller Foundation (2016).

17 See JP Morgan & Chase (2017).

proposed framework for private sector engagement shows that the participation of the private sector in development cooperation can occur in different ways and through distinct mechanisms. The available data provides a partial estimation of the private sector engagement in the development agenda. And it indicates that private sector still plays a reduced role in the implementation of the Agenda 2030 when we compare the volume allocated by PPPs and by Private Foundations in relation to the total resources spent on aid assistance by official sources. Further studies should detail and propose future indicators to facilitate a deeper comprehension of the private sector participation based on the proposed framework. In this scene, future studies can propose methods to analyze if the SDGs are being fulfilled as a direct or indirect contribution of the private sector. The establishment of criteria to identify the percentage of FDI allocated to the development agenda will also be relevant.

The launch of the Agenda 2030 with its Sustainable Development Goals — SDGs has provided a great opportunity to promote awareness to the challenges of our planet and to mobilize the private sector. In this sense, initiatives that stimulate corporate sustainable practices, such as the Global Compact and the Global Partner for Effective Development Cooperation, are positive ways to promote awareness and effective engagement of the private sector. However, the figures available indicate that there is a huge gap between the present funding allocated versus the estimated goals of the Agenda 2030. Therefore, there is an urgent need to test and mobilize new funding mechanisms in order not to compromise the SDGs. This research has indicated that the shared value strategy could be a way to promote private sector engagement with a market rationale. We have also pointed out examples of financing mechanisms that imply a concerted effort between official donors, multilateral organizations and the private sector. These examples give a promising perspective to address the development challenges posed by the Agenda 2030 with private sector engagement. When companies act in this direction, they become true reformers.

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