



UNDP's Private Sector Development and Partnership Strategy (2018-2022)

Making Markets Work for the SDGs



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Table of Contents

I. STRATEGIC SETTING.....	2
1. <i>POVERTY, INEQUALITY AND MARKETS.....</i>	<i>2</i>
2. <i>THE PRIVATE SECTOR AND THE SDGs.....</i>	<i>2</i>
3. <i>DESPITE CHALLENGES, A POSITIVE MOMENTUM IS BUILDING IN MARKETS.....</i>	<i>3</i>
II. UNDP’S PRIVATE SECTOR VISION AND MISSION.....	4
1. <i>WHY MAKE MARKETS WORK FOR THE SDGs?</i>	<i>4</i>
2. <i>ESSENTIAL COMPONENTS OF UNDP’S PRIVATE SECTOR STRATEGY</i>	<i>4</i>
3. <i>WHY UNDP?</i>	<i>6</i>
4. <i>HOW DOES THIS STRATEGY ALIGN WITH UNDP’S STRATEGIC PLAN (2018-2021)?</i>	<i>7</i>
III. STRATEGIC PRIORITIES.....	8
IV. SERVICE OFFERS	11
V. CONDITIONS FOR STRATEGY IMPLEMENTATION	14
1. <i>STRATEGIC ENABLERS.....</i>	<i>14</i>
A. <i>INNOVATION.....</i>	<i>14</i>
B. <i>PARTNERSHIPS</i>	<i>15</i>
2. <i>OPERATIONAL ENABLERS.....</i>	<i>16</i>
A. <i>INTERNAL FINANCIAL AND REGULATORY FRAMEWORK</i>	<i>16</i>
B. <i>RESOURCE MOBILIZATION FROM THE PRIVATE SECTOR.....</i>	<i>17</i>
C. <i>PEOPLE, CULTURE AND WAYS OF WORKING</i>	<i>18</i>
VI. NEXT STEPS: ROLLOUT IMPLEMENTATION PLAN	19
VII. LIST OF ANNEXES:.....	21

I. Strategic Setting

Faced with challenges of immense scale and complexity – from growing inequality, conflict and displacement to catastrophic impacts of climate change – the international community has rallied around a shared agenda of unprecedented ambition. The 2030 Agenda and the Sustainable Development Goals (SDGs) reflect a systemic approach to advance truly sustainable development that embodies economic, social and environmental progress and leaves no one behind.

The scope and ambition of the 2030 Agenda, together with the important commitments made in the Paris Agreement on Climate Change, are far beyond what international organizations and aid flows can achieve alone. The SDGs, unlike the Millennium Development Goals, have been formulated as a universal framework to be implemented in all countries. They demand collective effort that brings together governments with the private sector¹ and civil society, and makes the SDGs a driving force of their actions. Moreover, they demand that markets be fundamentally reshaped to be more inclusive, equitable and sustainable while generating profits, innovation and growth.

1. Poverty, Inequality and Markets

Global poverty has fallen from 35 percent in 1990 to under 10 percent in 2015, reducing the number of poor people in the world by over 1.1 billion.ⁱ At the same time, inequality persists, more than 2.1 billion people lack clean water,ⁱⁱ 1.1 billion lack access to energy,ⁱⁱⁱ more than half of the world's population do not have access to the internet^{iv} and 1.7 billion people lack access to a bank account.^v As a result, poor people's potential for consumption, production, innovation and entrepreneurial activity is largely untapped. The opportunities are vast, but so are the obstacles. Rural villages and urban informal settlements are difficult environments for doing business: market systems rarely exist for delivering goods and providing services, and essential market infrastructure is limited or nonexistent. Without inclusive financial systems, the poor inhabit a cash economy. Without reliable law enforcement and equal access to legal systems, market actors find it difficult to enforce contracts. Bringing poor people into the marketplace can provide them a critical pathway out of poverty.^{vi} For businesses, this can provide new spaces for growth and innovation.

2. The Private Sector and the SDGs

In the average developing country, the private sector accounts for 60 percent of gross domestic product (GDP), 90 percent of jobs and 80 percent of capital flows.^{vii} It can contribute to sustainable development by creating decent jobs, building future-oriented skills, spurring innovation, and providing essential infrastructure and affordable goods and services. The private sector also stands to gain handsomely from achievement of the SDGs, which could unlock US\$12 trillion in market opportunities across just four sectors: food and agriculture; cities; energy and materials; and health

¹ See Annex I for UNDP's definition of the private sector.

and wellbeing.^{viii} If the SDG on gender equity were achieved and women participated in the economy identically to men, between \$12 and \$28 trillion would be added to global GDP.^{ix} Companies are increasingly being confronted by customers and employees with high expectations (for purpose, not just profit) as well as intense public scrutiny made possible by data-driven transparency.^x Against this backdrop, the boundaries between business, civil society and government are blurring, and interdependence and collaboration are increasing.^{xi} New business models like social enterprises are growing, as is the use of impact investing, blended finance and environmental, social and governance (ESG) principles.^{xii}

According to the OECD, official development assistance (ODA) was US\$146.6 billion in 2017.^{xiii} By comparison, foreign direct investment (FDI) flows to developing economies was US\$671 billion in the same year. Global FDI totaled US\$1.43 trillion in 2017^{xiv}. However, domestic financial flows are the largest and most stable source of development-related funding in developing countries.

3. Despite Challenges, a Positive Momentum is Building in Markets

Globalization is associated with deep discontent and dangerous polarization,^{xv} as is inequitable growth. Fragile and conflict-affected states are too often left behind entirely. It is imperative that globalization and growth proactively address sustainability and inequality going forward. The SDGs provide a framework for how the private sector can pursue profit and growth while reducing poverty and inequality, preserving the planet and promoting human development. The SDGs also empower governments to create policy and regulatory frameworks that incentivize sustainable actions by the private sector.

The private sector has shown promising potential to be a vital actor in sustainable development. From 2014 to 2016, global sustainable investment increased 25 percent from US\$18.28 trillion to US\$22.89 trillion.² From 2013 to 2017, green bond issuance increased 14-fold from US\$11 billion to US\$155 billion.^{xvi} Investors increasingly demand social and environmental results, and farsighted business leaders realize that the SDGs offer a framework for confronting a complex, uncertain and resource-scarce future. In a recent global survey of institutional investors, 67 percent report using ESG principles as a component of their investment approach.^{xvii} In fragile settings, a new generation of flexible shock- and risk-responsive instruments are emerging that can rapidly respond to deteriorating situations or opportunities for reform, stabilization or peace.^{xviii}

Important momentum for change is building; yet the overriding market tendency is still to reinforce or incrementally improve the status quo. If the momentum for change is not strategically leveraged into broader impact, the progress to date may remain in a niche of the world economy. This strategy focuses on the role UNDP can play (in partnership with governments, businesses, investors, communities, civil society and academia) to amplify and accelerate the momentum for market change into irreversible transformation.

² Sustainable investment encompasses: (i) negative/exclusionary screening; (ii) positive/best-in-class screening; (iii) norms-based screening; (iv) Integration of environmental, social and governance factors; (v) sustainability-themed investing; (iv) impact/community investing; and (vii) corporate engagement and shareholder action. See: http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf.

II. UNDP's Private Sector Vision and Mission

UNDP's Private Sector Strategy seeks, in partnership with governments, civil society and businesses, to ***make markets work for the SDGs*** with an emphasis on inclusion of poor and marginalized communities. It seeks not only to enhance the private sector's role as a vital actor in advancing the SDGs but also to promote the adoption of the SDGs as the main framework for private sector strategies and operations so that all business outputs are contributing to the SDGs. This strategy builds upon UNDP's longstanding adoption of a market system approach^{xix}, which is also the main basis for work on private sector development and partnerships championed by a number of other international agencies.^{xx, xxi}

1. Why Make Markets Work for the SDGs?

UNDP's analysis indicates that, despite positive momentum, significant bottlenecks remain in unlocking the full contributions of businesses and markets to the SDGs. For example, many businesses cannot access capital to support investments and innovation that produce profits while being green and inclusive. Short-term horizons still drive most investment decisions, working against long-term sustainability. Poorly targeted subsidies often create perverse incentives for companies to behave in unsustainable ways, and companies are often not held accountable for the negative externalities (in terms of the environment, public health, etc.) they generate. Governments struggle to create policy and regulatory frameworks that incentivize long-term investments and implement policies that encourage businesses to align their core strategies with the 2030 Agenda (see Annex II). Furthermore, many businesses do not know how to adapt their business models toward sustainability and inclusiveness, and most of the private sector is often not engaged in policy dialogue related to sustainable development.

The current momentum for change reflects an *emergent market system* that, if effectively leveraged and multiplied, could eventually become the *dominant market system*, ensuring achievement of the SDGs. This requires systemic change that involve not only introducing alternative innovative sustainable business models^{xxii} but also generating market incentives to finance and adopt such models at scale. Such system change can lead to large-scale impact, sustainability and resilience of market actors.^{xxiii}

2. Essential Components of UNDP's Private Sector Strategy

This strategy focuses on how UNDP can help catalyze sustained transformation of market systems from emergent to dominant based on its distinctive positioning, experience, lessons learned (see Annex III) and existing and future capacity.

The ***vision*** of this strategy is:

By 2030, the SDGs will be the main global guidance framework for businesses, investors and governments, unlocking US\$1 trillion³ in private capital and increasing the number of businesses of all sizes that align their strategies and operations with the SDGs. This will be supported and regulated by a policy environment that reduces risk and fosters an inclusive and green economy, leading to the eradication of poverty.

This vision is based on the hypothesis that, if businesses have access to capital that seeks economic, social and environmental results and they can adapt their strategies and operations accordingly and policy, legal and regulatory environments encourage businesses to pursue long-term economic, social and environmental results, then markets will work for the SDGs.

The *mission* of this strategy is to:

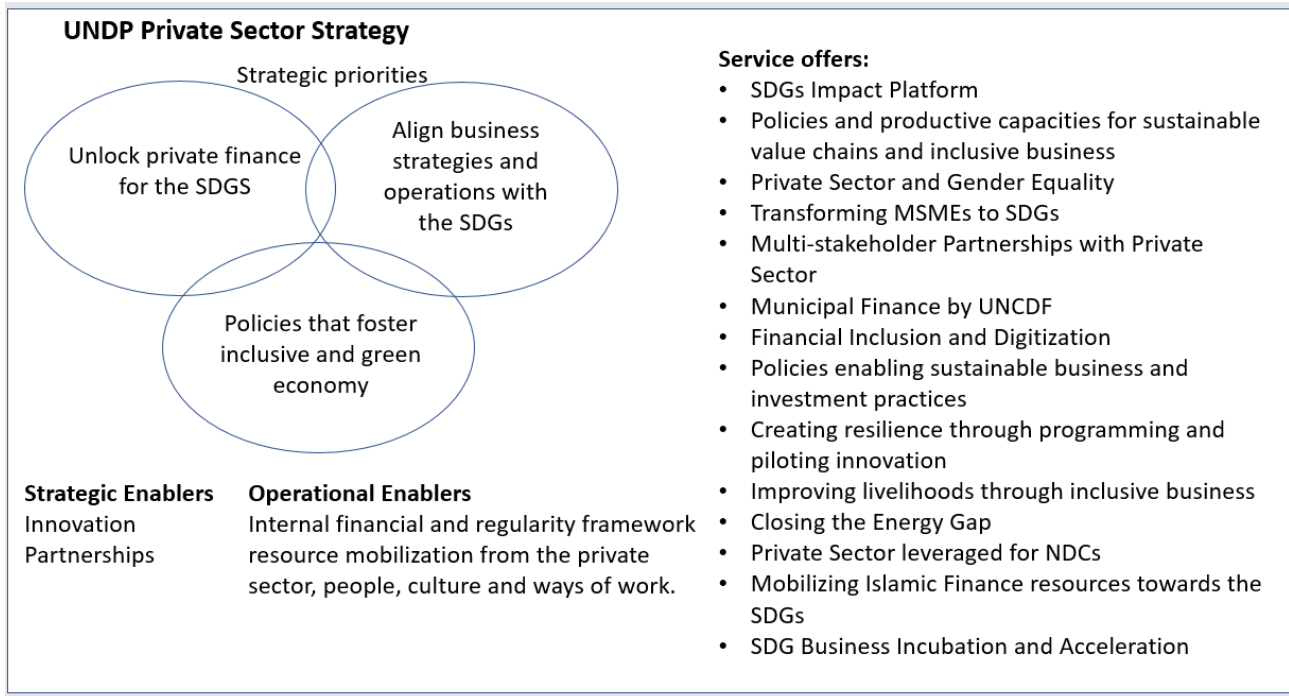
Assist countries to align private sector activities and investments with the 2030 Agenda by: influencing investors and businesses of all sizes; embedding the SDGs into their decision making and practices; and supporting governments to establish enabling policy and regulatory environments while facilitating multi-stakeholder partnerships.

Given its distinctive positioning at the country and global levels, UNDP will take an integrated approach to engaging in private sector issues – working *upstream* (macro – policy) as well as *mid-stream* (meso – market services, trade and institutional support) and *downstream* (micro – business and productive capacities).

As set out in the figure below, UNDP will advance the vision of *making markets work for the SDGs*, by driving progress on three *strategic priorities* by deploying a suite of *service offers*⁴ at sub-national, country, regional and global levels (see catalogue of service offers in Annex VII). Progress on the three strategic priorities will be facilitated by two *strategic enablers* and three *operational enablers*.

³ This amount can be achieved through the alignment of social responsible investments and corporate venture activities (as of 2016 totaling US\$18.3 trillion and US\$22.89 trillion respectively), and the deployment of capital into blended finance in order to leverage private-sector investments (US\$27 billion in 2015).

⁴ These service offers are drawn from the expertise, tools and innovations found across UNDP (and beyond) and will be made accessible to all country offices through an easy-to-use application. Each service offer typically advances all strategic priorities, although it may be associated more strongly with one. Service offers will evolve over the strategy implementation period: new service offers will be added and existing service offers may be adapted or closed.



3. Why UNDP?

A landscape analysis of international organizations working with the private sector identified several areas of comparative advantage for UNDP (see Annex IV). While many other international organizations focus on the private sector’s role in economic development, infrastructure and specific sectors, key gaps remain in making markets work for the poor, women, youth and populations in conflict and transitional contexts. Most funding for private sector engagement in climate change work has focused on credit lines to financial institutions, and not on de-risking, capacity building and transitioning to a green economy. In addition, most enabling environment and blended finance investments benefit middle income countries and do not reach least developed countries and fragile states. UNDP is well positioned to help make markets work for the SDGs because of:

- its role at the country level as an *integrator* of SDG efforts and *operational backbone* of the United Nations system;^{xxiv}
- its positioning as an *honest and neutral broker* that facilitates, influences and supports interactions between all levels of government (i.e. global, national, sub-national) and the private sector to achieve the 2030 Agenda;
- its mandate on sustainable development, democratic governance, peacebuilding, and climate and disaster resilience; and
- its global presence in approximately 170 countries across a range of development settings, including fragile, conflict-affected and transitional contexts.

A recent AidData survey of policymakers ranked UNDP first in effectiveness in development information for policy making in a variety of country settings and policy areas.

This combination of role, positioning, mandate and presence equips UNDP to focus its work strategically in ways that catalyze investment, influence corporate behavior and shape policy environments in order to help make SDGs the guiding framework for governments, investors and businesses.

UNDP's experience with the private sector spans inclusive business, inclusive value chains, SME competitiveness, transition to low-carbon economies, market-driven climate and nature-based solutions, business-enabling environments in fragile contexts, gender-responsive policies and women's economic empowerment (see Annex III). For example:

- UNDP manages several multi-stakeholder platforms to promote dialogue, knowledge sharing and collaborative action between businesses and governments, while advocating for businesses' alignment with the SDGs.
- UNDP also provides hands-on support to governments and businesses through advisory services, along with practical tools, business development services, skills development, technology transfer and co-creation of development solutions.
- UNDP helps to attract new private capital to the SDGs and increases poor people's access to affordable finance by de-risking private sector investments (via policies) and developing new financial instruments.
- UNDP enjoys the trust of governments due to its role supporting national SDG planning, budgeting and implementation as well as its global and country level convening capacity.

Illustrative examples of UNDP's private sector track record

- As one of the largest service providers in the UN system working to help countries adapt to climate change and reduce greenhouse gas emissions, UNDP built over 130 partnerships with private sector actors between 2000 and 2016 (including 19 in disaster risk reduction, 78 in sustainable energy and 25 in climate).
- The GEF/UNDP/IMO GloBallast program catalyzed the global Ballast Water Convention, which helped to create a new ship ballast water treatment industry valued at over US\$35 billion. It facilitated the creation of the Global Industry Alliance for Marine Biosecurity (GIA) consisting of six major shipping companies that contributed financing and promoted technology transfer and diffusion.
- UNDP's Montreal Protocol Unit works with governments and large private sector chemical suppliers (the Montreal Protocol is considered one of the most successful international environmental agreements to date).
- The UK Department for International Development (DFID) has recognized UNDP's Business Call to Action as having a real impact in developing the evidence base for inclusive business.

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