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United Nations Development Programme

STRATEGY NOTE

UNDP'S PRIVATE SECTOR AND FOUNDATIONS STRATEGY FOR THE SUSTAINABLE DEVELOPMENT GOALS 2016–2020

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CONTENTS AND ACRONYMS

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Cover Photo: *Jordanian women receive training in the Vocational Training Centre in Jarash, Jordan*
Photo: *UNDP Salah Malkawi*

ACRONYMS

AFIM	African Facility for Inclusive Markets
BCtA	Business Call to Action
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DCED	Donor Committee for Enterprise Development
GCP	Green Commodities Programme
IB	Inclusive Business
IICPSD	Istanbul International Center for Private Sector in Development
IMF	International Monetary Fund
MAPS	Mainstreaming, Acceleration, Policy Support
MSME	Micro, Small and Medium-sized Enterprises
NGO	Non-governmental Organization
ODA	Official Development Assistance
OCHA	Office for the Coordination of Humanitarian Affairs
OECD	Organisation for Economic Co-operation and Development
SDGs	Sustainable Development Goals
SIB	Sustainable and Inclusive Business
SME	Small and Medium-sized Enterprise
UNCDF	United Nations Capital Development Fund
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNISDR	United Nations Office for Disaster Risk Reduction

1. INTRODUCTION

UNDP's Private Sector and Foundations Strategy for the Sustainable Development Goals 2016–2020 defines how UNDP plans to engage with – and work on – sustainable development issues with the private sector and philanthropic foundations. The goal is to enable these actors to become transformative partners in implementing all Sustainable Development Goals (SDGs) in order to achieve UNDP's vision of poverty eradication and a reduction in inequalities. The strategy aims to position UNDP as a partner of choice for the private sector and foundations in SDG implementation, while maximizing the impact of the private sector and philanthropy on sustainable development.

This updated strategy builds upon UNDP's 2007[1] and 2012[2] strategies for the private sector and foundations while taking into account recent developments such as the adoption of the SDGs. UNDP's Strategic Plan 2014–2017 and structural reorganization in late 2014, also call for a revised approach. The private sector and philanthropy have taken on an increasingly important role in these new frameworks and are seen by many stakeholders as critical for delivering sustainable development outcomes. Based on this growing consensus and lessons learned from previous strategies, UNDP has unified its Private Sector and Foundations' Strategies to articulate a converging approach for the common global agenda.

The target audience for this strategy includes our partners in the private sector and philanthropy as well as UNDP Headquarters units, regional bureaux, regional hubs and country offices that work with the private sector and foundations on development issues. It explains UNDP's programmatic approach in working directly with the private sector and foundations as well as with other partners involved in development. By engaging the private sector and foundations through this strategy, UNDP can support governments to establish an enabling environment for aligning these stakeholders' core operations with the SDGs. This strategy is complementary to UNDP's Green Commodities and Trade Guidance Note, UNDP Guidance Note on Jobs and Livelihoods, UNDP's Strategy for Supporting Sustainable and Equitable Management of the Extractive Sector for Human Development, International Financial Institutions Partnership Strategy 2016-2020, the Recovery Strategy, UNDP support to the implementation of the 2030 Agenda for Sustainable Development Policy and Programme brief and the Mainstreaming, Acceleration, Policy Support Approach (MAPS) enabling responsive, coherent and inclusive support to the implementation of the 2030 Agenda for Sustainable Development.

This strategy comprises five sections:

- **1: Introduction** describes the purpose and target audience and provides a summary of the strategy's main elements.
- **2: The Development Issue** explains why the private sector and foundations are critical to the Agenda 2030 and elaborates the theory of change that enables the private sector and foundations to become transformative partners in implementing the SDGs.
- **3: UNDP's Role** describes the rationale for UNDP's support in this area, links the strategy to UNDP's Strategic Plan and elaborates its vision for work with the private sector and foundations.
- **4: Overview of UNDP's Policy and Programme Support** describes UNDP's policy and programme support framework, highlights lessons learned and provides an overview of actions in four work areas: 1) an enabling environment is created for sustainable and inclusive business and philanthropy; 2) The strategies and actions of the private sector and foundations are more aligned with the SDGs; 3) productive capacities, sustainable and inclusive business and value chains are advanced; and 4) resilience among MSMEs is improved and private sector and foundations are better engaged in crisis response.
- **5: UNDP's Partners** provides an overview of the partners working in these areas and describes how UNDP works with other United Nations agencies and development actors.

This strategy will be supported by an 'operational enablers' document and an action plan.

[1] UNDP Private Sector Strategy 2007
[2] UNDP Private Sector Strategy 2012 and UNDP Foundations Strategy 2012

Definition of the private sector

The private sector includes market actors from the **informal or formal economy, including:**

Companies	Business intermediary institutions	Social enterprises	Mutual organizations	State-owned enterprises
Multinational companies Large domestic companies Micro, small and medium-sized enterprises (MSMEs) Cooperatives	including chambers of commerce and industry, business associations, innovative alliances, business roundtables, stock exchanges and cooperatives	and other innovative enterprises formed to address specific development issues	e.g., Visa, MasterCard, asset management companies, cooperative banks, mutual saving banks, credit unions, mutual insurance and healthcare companies	may be wholly or partially owned by a government

Note: Sporadic, non-commercial income-generating activities by individuals are not considered to be in the private sector.

Definition of philanthropic foundations

Foundations include

not-for-profit institutions (asset based or with established source of income)

&

mission-based grant-making or programmatic institutions

with a stated purpose and a delineated income source

Foundations can be

- ☐ private
- ☐ public
- ☐ family-run
- ☐ corporate
- ☐ community
- ☐ faith-based

Sources of foundations' assets include

- ☐ endowments
- ☐ earned income
- ☐ combination of public and/or private fundraising
- ☐ trusts
- ☐ family donations
- ☐ community donations
- ☐ corporations donations
- ☐ new forms are emerging (e.g., online crowdsourcing)

Additional avenues for philanthropic giving include

- ☐ donor-advised funds
- ☐ direct giving
- ☐ high net-worth individuals
- ☐ impact investing
- ☐ giving circles
- ☐ family-governed operating organizations
- ☐ social enterprises
- ☐ planned giving instruments
- ☐ corporate giving by a family business
- ☐ liquidation or restructuring of state owned assets or unclaimed financial assets in the public domain

Rational for integrating UNDP's private sector strategy and foundations strategy

- The private sector and foundations are both very diverse stakeholder groups.
- Many actors from the two groups resemble one another (i.e. private-sector actors and corporate foundations can be very similar).
- Both types of partners are often innovative in nature and should be engaged through their 'core business'; they are not necessarily major funding partners even though there is potential for resource mobilization from private sources for activities that are strategic to their interests and 'core business', and their strengths can be utilized beyond just funding.
- Philanthropy is emerging as a bridge between private sector and civil society in areas like impact investing and social enterprise.
- New synergies can be created by looking at philanthropy, social enterprise, impact investing and other inclusive business initiatives together. Possible activities include: convening foundations with private sector and other partners for regional- and country-level collaboration; research, mapping and development of knowledge products in priority sectors; modelling and pre-feasibility studies; efforts to foster innovations and scale up successes; and co-creating an impact investment fund with foundations.

UNDP aims to work with both private-sector and foundation actors to align their core businesses with the SDGs through policy dialogue, creating an enabling environment, leveraging complementary strengths, knowledge and resources and project implementation.

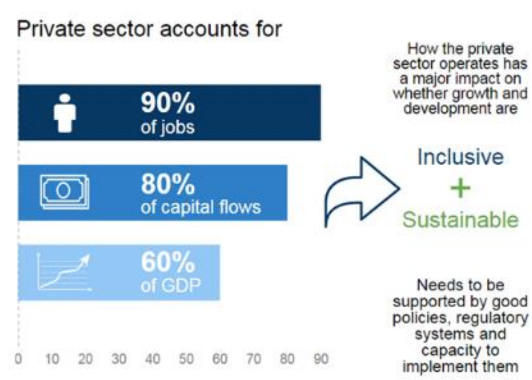
2. THE DEVELOPMENT ISSUE

Sub-Saharan Africa is urbanizing and growing rapidly. Making sure that growth benefits the many is a key challenge for African countries. Photo: UN Christopher Herwig

DEVELOPMENT CONTEXT

It is now widely accepted that the private sector and foundations have a crucial role to play in eradicating poverty and inequality and in promoting sustainable development in order to achieve the newly adopted SDGs.

As the engine of growth in most developing and developed countries, the private sector contributes to poverty eradication indirectly by creating aggregate income and wealth and directly by generating employment and providing affordable goods and services. On average, the private sector accounts for 60 percent of GDP, 80 percent of capital flows, and 90 percent of jobs in developing countries.[3] Global wealth has grown consistently since the crisis of 2008, surpassing US$260 trillion in 2014.[4] Between 2000 and 2010, domestic and foreign investments in developing countries quadrupled from US$1.6 trillion to US$6.9 trillion; according to estimates by the International Monetary Fund (IMF), they could double again within the current decade. Private investment and capital flows (including foreign direct investment and domestic private investment) outweigh official development assistance (ODA) and other resource flows to the developing world. International trade grew twice as fast as global GDP since 1990, reaching 20 trillion in 2014 with developing countries playing a bigger part: merchandise exports by developing countries increased from 31 percent to 43.8 percent between 2000 and 2014 and their share of world services exports grew from 24 percent to 30 percent over the same period.[5]



By removing constraints to participation in the labour force, enhancing household incomes, increasing tax yields, raising living standards and promoting non-discriminatory and rule-based systems of exchange, inclusive markets also

[3] Business Manifesto http://unsdsn.org/wp-content/uploads/2014/10/Business-manifesto.pdf
[4] Credit Suisse, 2014. *Global Wealth Report 2014.* Zurich.
[5] United Nations (2015). Taking Stock of the Global Partnership for Development. MDG Gap Task Force Report 2015. Millennium Development Goal 8, United Nations, New York.

contribute to good governance and human resilience and ultimately to the quality of life of local populations. Also, without proper policies and regulatory systems and capacity to implement them, the private sector can equally have a negative impact on human development and environment.

Despite the backlash against financial and other markets in many parts of the world, there remains a strong recognition that sustainable, inclusive and equitable economic growth is needed to achieve sustainable development. With the right type of market mechanisms – and the right regulatory frameworks – and appropriate business models, the private sector will continue to be essential in generating sustainable and inclusive growth.

THE SDGS

The new global development agenda calls for more public-private collaboration: the recently adopted 2030 Agenda for Sustainable Development is more ambitious than the Millennium Development Goals, reflecting the full range of challenges faced by the developing and the developed worlds. This new agenda aims to tackle global problems ranging from education and health, gender equality and the fight against youth unemployment to elimination of poverty and inequality and the preservation of biodiversity. As detailed in the SDG Compass, the private sector and foundations clearly have a role to play in each of the 17 SDGs.

At the global level, total investment needs in SDG-related sectors have been estimated at US$5 trillion to 7 trillion per year. Total investment needs in developing countries alone are estimated at US$3.3 trillion to 4.5 trillion per year;[6] these estimates point to the enormous challenge of financing and meeting the SDGs. In contrast, ODA totalled US$135.2 billion in 2014 (an average of 0.29 percent

Differences and similarities between the private sector and philanthropy

There has been a growing trend in the development of impact investing supported and fostered by foundations. In this context, the traditional dichotomy between business and philanthropy is becoming blurred. The traditional investment spectrum includes philanthropy on one end – defined as investment that only seeks positive development impact without financial returns. On the other side of the spectrum is traditional investment, which only seeks financial investments without an interest in social returns. Anything in between these two extremes is considered to have 'blended' social and financial value. This includes impact investing, which is now increasingly practiced by philanthropy, and socially responsible investments, which are typically initiated by companies interested in changing their business models. UNDP's 2015 study by the African Facility for Inclusive Markets (AFIM) offers a useful graphic – see Figure 1 below.

Figure 1: Spectrum of investment approaches

Social value	'Blended' social and financial value			Financial value
Philanthropy	**Impact investment**	**Socially responsible investment**	**Responsible investment**	**Traditional investment**
Capital that seeks to create positive social or environmental impact and does not seek financial return	Investments that seek measurable social or environmental impact alongside financial return	'Negative screening' to exclude investments not compliant with environmental, social and governance frameworks	Investments acknowledge environmental, social and governance factors	Investments that seek financial return

[6] UNCTAD, 2014. *World Investment Report*. Geneva.

of the GNI).[7] While ODA is important, all sources of finance – public and private, domestic and international – are needed. As the SDGs are internalized in national and subnational economies, inevitably, the largest share of funding for the SDG development agenda will come from the private sector, especially the domestic private sector. For this reason, the SDGs and the Addis Ababa Action Agenda on Financing for Development call for the private sector and foundations to play a greater role in advancing sustainable and inclusive development.

While aggregate economic growth is a necessary – but not sufficient – condition for poverty eradication, the private sector's contribution to reducing poverty and inequality and to promoting human development is not assured. Many countries lack the enabling environment or have weak frameworks for encouraging private-sector activity. In addition to growth, we need to consider not only the rate of economic growth, but also its quality. Good economic performance needs to translate into inclusive and sustainable development that reduces poverty and inequality whilst also protecting our planet. Economies and societies should also pursue low-carbon, climate-resilient and inclusive paths to growth and development. There is a need to decouple economic growth from the unsustainable use of natural resources. The SDGs are urging all countries to actively encourage and adopt this change.

OPPORTUNITIES, BARRIERS AND UNDP'S SUPPORT

There are several strong motivating factors for companies to operate sustainably. Sustainability is good for the bottom line. The growing demand for environmentally friendly products and services has already created new markets and opportunities in which the early mover entrepreneurs are reaping rewards. The Nielsen market research company in 2014 found that 55 percent of online consumers surveyed from 60 countries would be willing to pay more for products and services if those products and services were provided by companies that were committed to positive social and environmental impact. Employee motivation for a greater societal cause is also an important factor. In addition, socio-economic fragility generated by community conflicts, unethical business practices, unsustainable management of natural resources and unsustainable production patterns can be costly to companies. These unsustainable practices can severely impact a company's brand value, stakeholder relations and access to financing, resulting in operational delays, commercial losses, long legal proceedings and fines, and difficulty obtaining licenses to operate in new markets. Ultimately, they may jeopardize the company's core business and have lasting repercussions.[8] Other motivating factors relate to local and global stakeholder and shareholder perception and the need to embed operations organically within the local social community context and develop human resource pipelines.

Nonetheless, there are significant challenges to scaling up inclusive business models and making businesses environmentally and socially sustainable. Difficult operating conditions, a weak supporting environment (including a lack of information, weak infrastructure, difficulty accessing financing, insufficient support services and a lack of incentives) still restrict the private sector's contributions to sustainable development. UNDP works at many levels with the private sector and foundations, including: (i) directly with pioneer firms and philanthropic organizations; (ii) at the value chain level with clusters of partners; (iii) on common and public goods like infrastructure; and (iv) on public policy and regulation. Often, UNDP's engagement focuses on multiple levels at the same time. The barriers at various levels of intervention differ, requiring unique support actions.[9] The figure below illustrates the barriers and support activities that UNDP offers to help the private sector to contribute to development and benefit from it through its core business.

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[7] OECD. http://www.oecd.org/dac/stats/development-aid-stable-in-2014-but-flows-to-poorest-countries-still-falling.htm

[8] According to a study by the World Economic Forum, more than 25 percent of a company's market value is directly attributable to its reputation. In the Deloitte Global Survey on Reputational Risk (2014), 87 percent of respondents rated reputational risk more important than any other strategic risk. In the Global Tolerance Values Revolution Report 2015, 62 percent of the millennials surveyed in the United Kingdom reported wanting to work for a company that makes a positive impact; half preferred purposeful work to a high salary; and 53 percent would work harder if they were making a difference to others. Weak rule of law and corruption not only result in reputational risk, but add up to 10 percent to the total cost of doing business globally and up to 25 percent to the cost of procurement contracts in developing countries, according to Partnering Against Corruption Initiative's Business Case Against Corruption report. Community conflicts, especially in the extractive sector, can have especially high costs. One international oil company experienced an estimated value erosion of US$6.5 billion over two years from stakeholder-related crises, as revealed by the University of Queensland and Harvard Kennedy School report.

[9] Barriers and Opportunities at the Base of the Pyramid, IICPSD 2014

UNDP's engagement with the private sector covers a range of sectors including agriculture, extractive industry, energy, finance, tourism, health, education, manufacturing and information technology and basically any sector, except those excluded in [UNDP's 2013 Policy on Due Diligence and Partnerships with the Private Sector](). UNDP's work with the private sector and foundations can take place in urban or rural areas, including those undergoing urbanization. All development interventions should also consistently apply [UNDP's Social and Environmental Standards]() and offer an appropriate stakeholder response mechanism.

Figure 2: UNDP's work with the private sector – Barriers at different levels and UNDP's support (illustrative examples)

Level of UNDP focus	Barriers	What UNDP offers
1 Pioneer firms	• Lack of incentives to commit • Business case is weak and evidence base is limited • Inappropriate business models • Inadequate management capability and technical skills in in inclusive business • Lack of investment and financing	• Advocating and raising awareness about the SDGs • Designing new skills-development approaches • Advocating for and increasing awareness of sustainable and inclusive businesses through advocacy platforms like the BCtA • Strengthening corporate social and environmental responsibility commitments and capacities • Enhancing accountability and transparency, including through stakeholder engagement and grievance mechanisms • Engaging companies in crisis preparedness, response and recovery
2 Value chain	• Insufficient or inappropriate inputs • Inadequate sourcing channels from poor suppliers to poor customers • Lack of financing through the value chain • Lack of support-service providers • Market access barriers in export markets	• Developing sectoral policies for pro-poor value chain formation and integration, especially in employment-intensive growth sectors, financial services, goods and services and other markets that benefit poor people • Addressing issues in national and regional value chains or commodities through technical assistance and knowledge-sharing
3 Common/public goods	• Lack of BoP demand for socially beneficial products • Shortage of skilled workers • Lack of industry know-how • Lack of market information • Lack of effective standards	• Advocacy and awareness-raising • Convening actionable partnerships with companies to tackle development challenges based on solid research • Mobilizing new partners • Social and environmental standards and a stakeholder response mechanism
4 Public policy & regulation	• Poor responsiveness of public policies and regulations to innovative models • Lack of official support for standards • Red tape, inefficient import and export procedures	• Developing policy options to advance sustainable and inclusive business based on evidence and quantifiable data • Building supporting ecosystems • Facilitating public-private policy dialogue

Source: Adapted from *Goods, Services and Jobs for the Poor* by Ashish Karamchandani and Harvey Koh, Monitor Deloitte. 2013.

PHILANTHROPIC FOUNDATIONS

With regard to foundations, two important trends have emerged in recent years: the blending of philanthropy with