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Thematic debate on theme 2: ***"Financing for sustainable development, including leveraging of private capital, in the context of the follow-up to the outcome of the Rio+20 Conference"***

Leveraging private investment for sustainable development: Challenges and policy actions

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Chair, Ladies and Gentlemen,

The key challenge in leveraging private capital for sustainable development is to channel and increase private productive investment into key sectors and industries that contribute to sustainable development; and to ensure that the private sector is part of the solution, rather than part of the problem, as it is sometimes perceived.

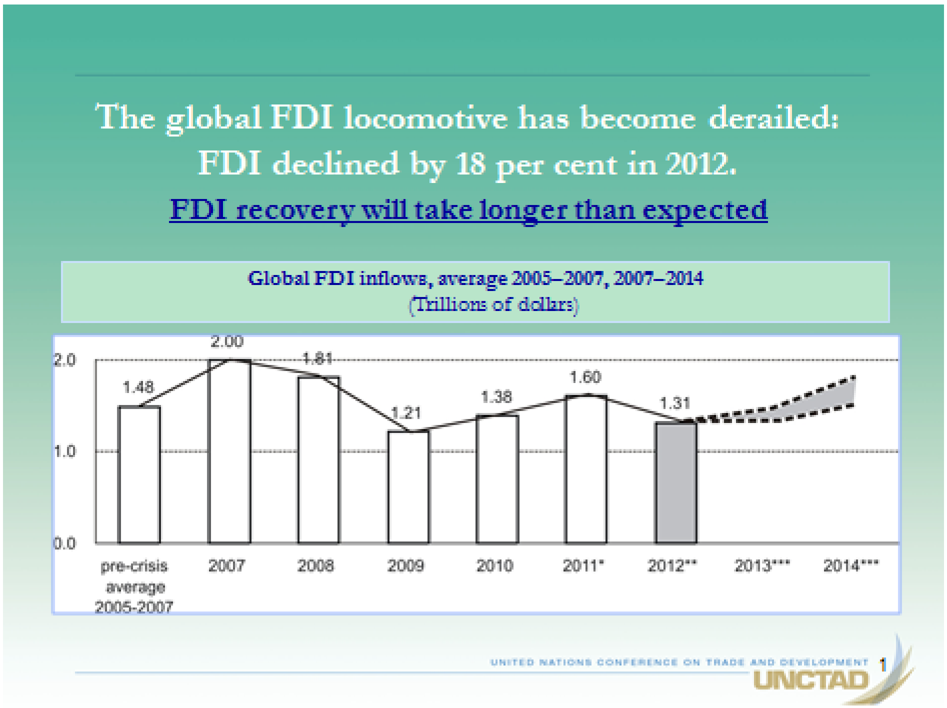
Four policy actions stand out in this pursuit:

1) Mainstreaming sustainable development into investment policies.
2) Promoting investment in inclusive growth.
3) Promoting responsible investments, and
4) Channeling investment into green growth and infrastructure development.

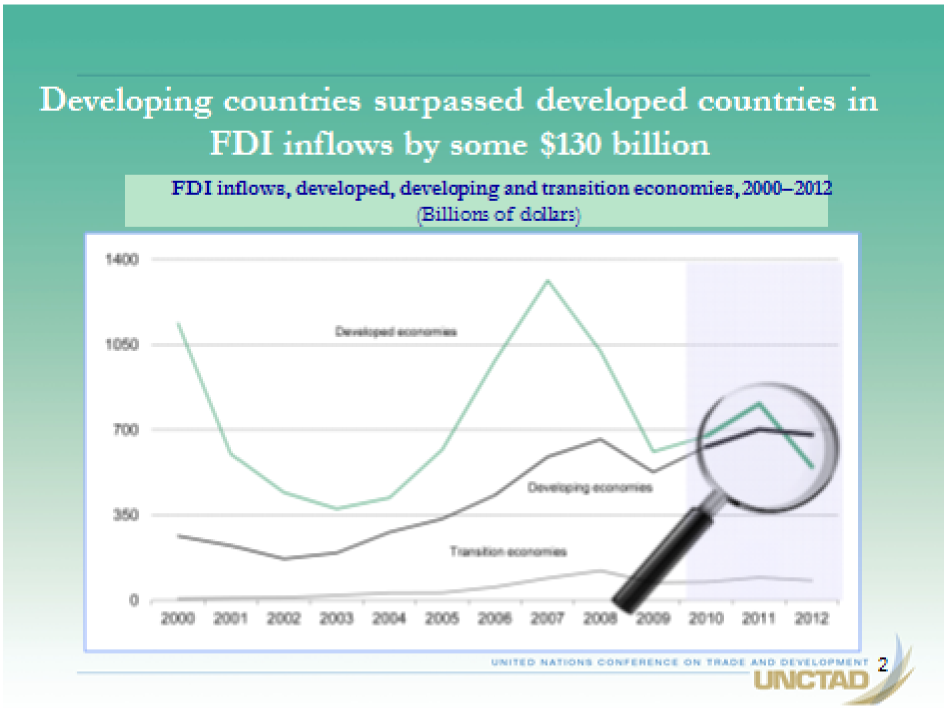
Before addressing each of these policy actions in turn, allow me first to provide you with some background information on the role of private investment, and specifically global foreign direct investment (FDI).

A) Global FDI trends

Global foreign direct investment inflows declined by 18% in 2012, to an estimated US$1.3 trillion – a level close to the trough reached in 2009 – due mainly to economic fragility and policy uncertainty for investors. The fragility is driven by a weakening macroeconomic environment and by risk factors related to broad-based policy changes with implications for FDI.



As a result, the global FDI recovery that had started in 2010 and 2011 will now take longer than expected. FDI flows could rise moderately to US$1.4 trillion in 2013 and US$1.6 trillion in 2014, due to slight improvements in macroeconomic conditions and the re-profiling of transnational corporations (TNCs). However, significant risks to this scenario persist, including structural weaknesses in major developed economies and in the global financial system, and policy uncertainty in areas crucial for investor confidence. In fact, TNCs from major economies are sitting on a record amount of cash reserves for investment, estimated at US$ 6 trillion, and are reluctant to invest.



In recent years, the investment and investor landscape has undergone fundamental changes. Since 2010, developing and transition economies have absorbed more than half of global FDI inflows. In 2012, FDI flows to developing economies, for the first time ever, exceeded those to developed countries, by some US$130 billion.

Developing and transition economies have not only become important recipients of FDI, they are increasingly large investors themselves, with their share in world outflows approaching 34%. While these countries might previously have been more concerned with the pressure they faced to provide protection for investments made by others, they now also have to consider the security and treatment of their own investors' interests abroad.

Transnational corporations play a significant role in the global economy

Item	Value at current prices (Billions of dollars)	
	1990	2011
Global FDI stock	2 081	20 438
Income on inward FDI	75	1 359
Rate of return on inward FDI	*4.2*	*7.1*
Income on outward FDI	122	1 471
Rate of return on outward FDI	*6.1*	*7.3*
Sales of foreign affiliates	5 102	27 877
Value-added (product) of foreign affiliates	1 018	7 183
Total assets of foreign affiliates	4 599	82 131
Exports of foreign affiliates	1 498	7 358
Employment by foreign affiliates (thousands)	21 458	69 065

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Today, TNCs and their international production networks play a significant role in the global economy. The total FDI stock of TNCs worldwide has reached US$20 trillion. Foreign affiliates now employ an estimated 69 million people, who generate US$ 28 trillion in sales and US$ 7 trillion in value added. Their total asset holdings have reached US$ 82 trillion. The 80,000 TNCs with over 900,000 foreign affiliates worldwide can and should make important contributions to sustainable development and inclusive growth.

B) Leveraging private investment for sustainable development: policy challenges and actions

Turning now to the policy challenges identified above, allow me to highlight the problems at hand and UNCTAD's response.

1. Mainstreaming sustainable development in national and international investment regimes -- a new generation of investment policies

Investment policymaking takes place in a political and economic context that in recent years has been hit by a series of crises in food security, energy, finance and the environment, and that faces persistent global imbalances and social challenges. As a result of a paradigm shift in development thinking, a "new generation" of investment policies is emerging that places inclusive growth and sustainable development at the heart of efforts to attract and benefit from investment. Characterized by simultaneous moves to further liberalize investment regimes and promote foreign investment, on the one hand, and to regulate investment in pursuit of public policy objectives, on the other, this new generation recognizes that mobilizing investment and ensuring that it contributes to sustainable development and inclusive growth have to be part of the same equation.

Designing and implementing such policies poses a number of important challenges at the national and international levels:

At the national level, key challenges include:

1. Channelling investment to areas key for the build-up of productive capacity;
2. Ensuring coherence between investment policies and other public policies;

3. Maximizing positive and minimizing negative impacts of investment.

At the international level, key challenges are:

- Safeguarding regulatory space for sustainable development objectives;
- Balancing rights and obligations between investors and states in international investment agreements (IIAs);
- Dealing with gaps, overlaps and inconsistencies in the international investment regime.

To address these manifold challenges, UNCTAD last year launched its new *Investment Policy Framework for Sustainable Development (IPFSD)*, which provides policymakers with advice on how to design a new generation of national and international investment policies. To this end, the IPFSD consists of a set of eleven Core Principles for investment policymaking, concrete guidelines for national investment policies, and detailed policy options for the design of IIA provisions. UNCTAD has also set up an online platform for consultation and discussion with all investment stakeholders to provide feedback and suggest improvements.

Together with UNCTAD's other ongoing work on intergovernmental cooperation, policy research and analysis (e.g. the World Investment Reports, Investment Policy Monitors), and its technical assistance programme (for the negotiation of IIAs, the Investment Policy Reviews of individual countries), it is hoped that the IPFSD will help policymakers to design their investment policies in a way that best suits their specific strategies and needs in the context of sustainable development.

2) Promoting investment in the poor, for the poor and with the poor, as well as entrepreneurship policies -- inclusive growth

One of the biggest challenges is ensuring that investment reaches the poor and marginalized. To address this issue, UNCTAD launched in 2010 an initiative aimed at developing a new business model that encourages foreign investors to "invest in the poor, for the poor and with the poor". Specifically, this foresees "investing in the poor" through making viable and sustainable investment in poverty alleviation, "investing for the poor" through producing accessible and affordable goods and services, and "investing with the poor" through fostering business linkages with domestic small and medium-sized enterprises. The overall objective of the project is to contribute to boosting pro-poor investment through the promotion at all levels of pro-poor investment policies and strategies. The underlying assumption is that with the right strategies, policies and appropriate business models in place, foreign direct investment and the activities of TNCs in developing countries, especially to LDCs, can yield important gains in terms of productive capacity building and human development.

A key issue in this regard is therefore the development and nurturing of a receptive domestic enterprise sector. To address this issue, UNCTAD developed its *Entrepreneurship Policy Framework* to help in the creation of local firms and indigenous productive capacity in poor countries. It addresses key entrepreneurship challenges in five areas: namely, optimizing the regulatory environment, enhancing entrepreneurship education and skills development, facilitating technology exchange and innovation, improving access to finance, and promoting awareness and networking. The emphasis on the policy setting is complemented by UNCTAD's entrepreneurship skill development at its training centers in 35 countries, and its SMEs-TNCs business linkage program.

Allow me to add in this context our partnership with the International Chamber of Commerce (ICC). The ICC has a worldwide network of 6 million enterprises, big and small. We are working together in quite a number of areas geared towards increasing the development dimension of foreign investment. This includes in particular our joint high-level events in the context of the LDC IV Conference, and our collaboration in promoting business for development in Africa and the LDCs through the Investment Advisory Council, our joint LDC Investment Guides, and TNC-SME business linkages. This partnership extends to the ICC's regional and national chapters, many of which have been involved in the pursuit of Investment Guides and Investment Policy Reviews and their national stakeholder events.

3. Promoting responsible investment for sustainable development

Another key issue in terms of leveraging private capital for sustainable development is to promote responsible investment. This has been pursued by UNCTAD on at least three tracks: (1) the Sustainable Stock Exchange Initiative, (2) the Principles for Responsible Investment in Agriculture; and (3) the Indicator and Standards work within the G20 High-level Development Group's pillar on job creation and private investment.

a) The Sustainable Stock Exchange Initiative

The Sustainable Stock Exchanges (SSE) Initiative is a UN initiative, co-organized by UNCTAD (Investment and Enterprise Division), the UN Global Compact, UNEP, and the UN-backed Principles for Responsible Investment. Recognizing that stock exchanges -- which are uniquely positioned at the intersection between investors, companies, and regulators -- can play a key role in promoting responsible investment and sustainable development, the SSE initiative explores how exchanges can work together with institutional investors, security regulators, and stock exchange executives to enhance corporate transparency, and ultimately performance, on environmental, social and corporate governance (ESG) issues and encourage responsible long-term approaches to investment.

Launched by UN Secretary-General Ban Ki-Moon in 2009, the SSE initiative has been named by Forbes magazine as one of the “World’s Best Sustainability Ideas” and has been supported by the World Federation of Exchanges (WFE) and the International Organization of Securities Commissions (IOSCO), as well as a number of stock exchanges and leading regulators around the world. At the 2012 SSE Global Dialogue, UNCTAD Secretary-General Supachai Panitchpakdi issued an open invitation to stock exchanges around the world to partner with the SSE in promoting long-term sustainable approaches to investment. Seven leading stock exchanges (including NASDAQ OMX which has over ten affiliated stock exchanges) listing over 10,000 companies in developed and emerging markets have accepted the invitation to sign up to this new initiative. The SSE continues to sign up new partner exchanges from around the world and the SSE Global Dialogues continue to take place on a biennial basis. In addition, the SSE includes a number of ad hoc projects conducted through its standing Consultative Group, comprised of stock exchanges, regulators, investors, companies and other relevant stakeholders.

The work of the SSE is coordinated closely with UNCTAD’s Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (known as ISAR). UNCTAD has been designated as one of the official implementing bodies of the Rio+20 call for action on sustainability reporting and this work is conducted through ISAR and the SSE. Founded by ECOSOC in 1982, ISAR will hold its 30th annual session in November this year.

The SSE provides a unique platform for communicating the UN’s policy advice on responsible investment and sustainable development to key capital market stakeholders. It is also a vehicle for peer-to-peer learning among these same stakeholders about best practice around the world.

b) The Principles for Responsible Investment in Agriculture

The Principles for Responsible Agricultural Investment (PRAI) were developed by UNCTAD, FAO, IFAD and the World Bank to both encourage necessary investment in agriculture and address concerns around issues such as land grab.

The Principles have been mandated by the UNGA and supported by the G8, G20 and other bodies. The expected benefit of the PRAI is to reduce negative externalities associated with agricultural investment and raise the likelihood of positive impacts. The IAWG are pursuing an action plan which generates evidence about existing investments with a view to (a) promoting good practices and ameliorating bad practices in various areas of responsible investment in agriculture; and (b) fine-tuning the PRAI as a basis for their effective use by governments, investors and other stakeholders. Field-testing of PRAI with investors and communities has been undertaken with 29 investments in Africa and 8 in South-East Asia.

c) The Indicator and Standards work within the G20 Development Group's pillar on job creation and private investment

In response to the request from the G20 that recognizes "*the critical role of the private sector to create jobs and wealth*", an Inter-Agency Working Group was formed under the leadership of UNCTAD – with UNDP, ILO, OECD, World Bank and other invited organizations – to "*identify, enhance as needed, and promote the best existing standards (developmental, social and environmental) for responsible investment in value chains and voluntary investor compliance with these standards*" and to "*develop key indicators for measuring and maximizing the economic and employment impact of private sector investment*" (G20 Seoul Summit 2010).

This work resulted in a report on Promoting Private Standards for Responsible Investment. This report took stock of existing standards at several levels (international organization standards, multi-stakeholder initiative standards, industry association standards and individual company codes) and concluded that integrating CSR standards into the architecture of investment and enterprise governance could meaningfully complement existing public policy instruments for the pursuit of sustainable development objectives, whilst guarding against unintended consequences such as the potential of standards to act as barriers to trade and investment.

The second element ("indicators") concentrated on developing indicators for Measuring the Development and Employment Impact of Investment, which should inform policy making to maximize economic value-added and job creation from private investment. The indicators were tested in a number of low-income countries to provide value-added recommendations to policymakers in each country on attracting and benefiting from private investment in targeted study sectors. The results of these pilots were used to refine the indicator methodology and to provide guidance for the meaningful use of development impact indicators in the formulation of policy recommendations in the area of investment.

4) Channelling investment into green growth and infrastructure

Sustainable development is not possible without investment in infrastructure and green growth. Both issues have been addressed in recent World Investment Reports issued by UNCTAD, namely in 2008 on infrastructure, and 2009 on investing in a low-carbon economy.

Turning first to infrastructure, policy advice needs to take into account that finance for infrastructure is mainly project finance. That means that it involves a number of stakeholders, both domestic and foreign. What is common is that a majority of investment projects undertaken in developing countries have foreign participation. In other words, either investors or project sponsors (or both) are foreigners. Developing countries accounted for 65% of global project investment in infrastructure in value terms ($5.8 trillion out of $9 trillion) and 51% in terms of the number of projects (more than 4,900 out of 9,600 projects) over the past decade (2000-2012) in energy/power, telecommunications, transportation and water & sewerage.

Infrastructure's potential for high returns in the long term is attractive for companies, and in recent years, a number of players other than infrastructure firms have increased their presence in the sector (including SWFs and private equity firms). In addition, TNCs engage in a variety of investment modalities, both equity and non-equity based, which provide alternative platforms to conduct projects in infrastructure in developing countries. To date, developing countries face large financing gaps in their plans to invest in physical infrastructure, and their lack of institutional capabilities is preventing the realization of such investments. They must continue to pay attention to the provision of an adequate institutional and regulatory framework so as not to lose out by opening up infrastructure to TNCs.

G20 Finance Ministers and Central Bank Governors, recognizing "*that long-term financing for investment, including infrastructure, is a key contributor to economic growth and job creation in all countries*", recently established a new Study Group on Financing for Investment, which will work closely with the World Bank, OECD, IMF, FSB, UN, UNCTAD and other relevant international organizations. UNCTAD is requested to take a lead on the work related to FDI and TNCs in Infrastructure, both from the perspective of industry-, firm-, and country-specific factors, and of the role of TNCs, SWFs, SOEs and Private Equity Funds. The aim is to develop constructive and effective ways of combining these various sources of infrastructure financing for the benefit of development.

In terms of green growth, Rio+20 re-confirmed that the global policy debate on tackling climate change is no longer about whether to take action, but on how much action to take, which actions need to be taken, and by whom. In moving towards a green economy, fully cognizant of the opportunities and risks, developing countries are faced with two major challenges: first, securing financing and implementing investment in appropriate activities; and, secondly, generating or accessing relevant technology.

In this regard, TNCs are both major carbon emitters and low-carbon investment and technology providers. They are therefore inevitably part of both the problem and the solution to climate change. Some 50% of low-carbon FDI projects, by value, were in developing countries. As in the case of infrastructure investment, established TNCs are major investors, but new players, particularly those from the South as well as special funds are also emerging.

Based on our analysis in WIR2009, we recommended policy action in terms of clean-investment promotion strategies, enabling the dissemination of clean technology, securing the contribution of international investment agreements to climate change mitigation, harmonizing corporate greenhouse gas emissions disclosure and setting up an international low-carbon technical assistance center.

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Together, the policy initiatives suggested by UNCTAD provide an initial attempt to meet the challenge of channelling and increasing private productive capital into key sectors and industries that contribute to economic, social and environmental development; and ensuring that private investment is part of the sustainable development solution and not part of the problem.

Given the enormity of the challenges we face today, we also need to ask what else can be done in terms of policy actions in the pursuit of leveraging private investment for sustainable development. Before I conclude, I would like to put forward three ideas.

The first idea relates to encouraging *Sovereign Wealth Funds* (SWFs) to engage more proactively in the sustainable development cause. This idea emanated from a special session we organized as part of the World Investment Forum 2012 in which we brought together SWF Chief Executives and ministers from developing countries to explore ways and means to encourage SWF investment in long-term development projects in developing countries. As documented in WIR2012, FDI by SWFs is still small, accounting $125 billion out of $5 trillion estimated assets under management – or, for less than 1 % of global inward FDI stock. However, with their long-term and strategically oriented investment outlook, SWFs appear well placed to invest in infrastructure development and green growth industries in developing countries, particularly the LDCs. What is needed is a partnership platform for developing projects that engages SWFs, host-country governments and development finance institutions.

The second idea concerns what is referred to as *Impact investment*, namely investment that is aimed primarily at pursuing specific social or environmental objectives while retaining profit expectations. Policy can increase the available pool of Impact Investment capital through initiatives such as enabling intermediaries to offer Impact Investment vehicles; promoting more potential investors; creating networks of Impact Investors to share experiences and opportunities; facilitating a better understanding of risk versus perceived risk; and building confidence in the investment approach. Impact investing could also benefit from reducing impediments that occur in the identification and preparation of pipelines of suitable and attractive investment projects, and public-private sector partnerships (PPP). Demand-side initiatives may involve host country government action, investor-country support, and participation by other actors in the international development community. Again, a broad-based development partnership involving a multitude of stakeholders would greatly benefit the development of this phenomenon.

The third idea is to set **sustainable investment as one of the future *Sustainable Development Goals* (SDGs)** for the post-2015 UN development agenda. Agenda 21, the Johannesburg Plan of Implementation and the Rio Principles all emphasize that sustainable development is only possible with investment, and therefore promoting investment for sustainable development is an SDG in and by itself.

An SDG on "Promoting investment for sustainable development" should aim at making investment work for sustainable development and inclusive growth. To ensure that investment should be in the poor, for the poor, and with the poor, as I elaborated earlier, this goal should set two targets, namely a quantitative target and a qualitative target.

The quantitative target could be the **quadrupling of investment in poor and vulnerable economies** (LDCs, LLDCs, SIDS and SSA) in the next decade; and the qualitative target could be the channelling of investment (a) into green growth sectors (including sustainable infrastructure, cleaner energy technologies, and sustainable agriculture and tourism), (b) for the creation of (green and equitable) jobs in developing countries, and (c) for productive capacity building in poor and vulnerable economies.

Achieving this goal would require working together with all stakeholders, taking into account that investment is a partnership among host and home countries, the public and private sector. Related actions would be to work towards synergizing private investment with ODA and other development finance, and to build an investment policy framework for sustainable development, coupled with a public private sector partnership action plan.

With a global partnership and effective policy actions, we can ensure that private investment becomes part of the sustainable development solution, instead of part of its problem.

Thank you for your attention.

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