First session of the Preparatory Committee for the fourth International Conference on Financing for Development

Multi-Stakeholder Round Table Discussion on "Domestic and international private business and finance"

Thursday, 25 July 2024 11:30 – 13:00

Concept Note and guiding questions

The Addis Ababa Action Agenda emphasizes the role of private business activity, investment and innovation in driving productivity, inclusive economic growth and job creation. To support a sustainable transition, the Addis Agenda highlights the importance of government actions in four areas: i) fostering an enabling environment for private investment; ii) mobilizing private investment for sustainable development at scale; iii) aligning business and finance with sustainable development; and iv) advancing financial inclusion.

While there have been positive developments since 2015 – including growth in sustainable investment and advances in financial inclusion, in large part due to digitalization – many developing countries face enormous challenges in mobilizing private resources at scale. Investment, including FDI, slowed substantially after the 2008 global economic and financial crisis, with only a partial subsequent recovery, following rapid growth in the 1990s and early 2000s. The cost of capital continues to be high for many countries. Investments, such as renewable energy projects, can have financing costs two to three times higher in developing than in developed countries. As a result, projects that would be competitive in developed countries not financially viable in developing countries.

To mobilize private investment and systemically change private business practice and investment patterns, profitability and sustainability incentives must be more closely integrated. Efforts to create an enabling environment for the private sector and the provision of relevant public goods must be fully aligned with sustainable development. In addition to enhancing enabling environments, targeted policies to promote private sector development – so-called green or sustainable industrial policies – are experiencing a revival across the world. However, many developing countries face fiscal and capacity constraints that risk creating unlevel playing fields. One modality of targeted support is blended finance. The Addis Ababa Action Agenda had emphasized the potential of using concessional finance to leverage private investment, and elaborated principles for sharing risks and reward fairly between the public and private partners. However, to date, only around $213 billion has been mobilized, far below the trillions projected to a decade ago, with only a small proportion channeled to LDCs.

Over the last decade, actors in the financial sector have increasingly embraced sustainability considerations, fueled in large part by increasing climate risks. Sustainable investing reached $30.3 trillion in 2022, marking a significant increase since 2015. Financial institutions are rolling out new products and services aligned with sustainability goals. Nevertheless, sustainable fund assets are estimated at less than 5% of the global fund market in 2023, and concerns over continued misalignment, regression, and greenwashing abound. The key challenge remains to turn the substantial interest around sustainable investment into transformative change in business behavior and investment patterns.

To achieve this, countries must create the right enabling environments by incentivizing sustainable investments and disincentivizing traditional strategies. One of the preconditions will be to further improve sustainability management frameworks and measurement standards to enhance the credibility and realization of corporate commitments. This could include measures to enhancing the interoperability of sustainability legislation for the private sector across jurisdictions; and encouragement of national disclosure standards with a double materiality approach.

Guiding questions for discussion

1. Creating an enabling environment for private investment

- What measures, including domestic policies and private sector incentives, are needed to strengthen domestic markets and attract more investment to developing countries in the current global economic landscape?
- What actions are needed to create an enabling environment for sustainable investment and business activity?
- What reforms are needed to international trade and investment rules to provide developing countries with sufficient policy space to pursue sustainable industrial transformations, while avoiding a rise in protectionism and further fragmentation of the global economy?

2. Mobilizing private investment for sustainable development at scale

- How can the international community help lower the high of capital in developing countries?
- What instruments can help ensure access to finance by SMEs?
- What are the impediments to scaling up blended finance, including in LDCs? What measures and/or instruments can increase country ownership and ensure that risks and returns are shared fairly? What would a new approach to blended finance entail?
- How can countries improve project pipeline preparation, in collaboration with national regional, and multilateral development banks, and the UN system?

3. Aligning business and finance with sustainable development

- What additional or reinforced measures are needed to align private incentives with sustainable development?
- How can greenwashing be more effectively avoided?

- What measures are needed to enhance the interoperability of sustainability legislation for the private sector across jurisdictions?
- How can the international sustainability data architecture be improved to reduce the current fragmentation across jurisdictions?