Annexes

I. **UNDP's definition of the private sector**
II. **Key challenges to private sector-driven inclusive, circular and sustainable growth**
III. **Lessons learned from past and current work on private-sector issues**
IV. **Landscape analysis of development cooperation for private sector work**
V. **Partnerships for UNDP's work with the private sector**
VI. **Guiding principles for working with the private sector**
VII. **Catalogue of service offers**

Annex I. UNDP's definition of the private sector

The private sector is a basic organizing principle of economic activity in a market-based economy where private ownership is an important factor, where markets and competition drive production, and private initiative and risk-taking set activities in motion.[1] The private sector includes a wide range of market actors that may operate either in the inform al or formal economy. For the purpose of this strategy, the following actors will be considered a s part of the private sector or as important market actors and their representatives that UNDP may work with:

- Multinational companies[2] with global reach and operations (e.g. from the North and the South, and with wide presence in multiple countries, including in UNDP prog amme countries);
- Large domestic companies;[3]
- Micro, small and medium enterprises[4] (MSMEs);
- Business intermediaries and interlocutors such as Chambers of Commerce and Industry, business associations, innovative alliances, business roundtables, stock exchanges and a new generation of cooperatives.[5]

---

[1] The definition of "private sector" is drawn from the following sources: https://www.investopedia.com/terms/p/private-sector.asp; OECD. (2004). Accelerating Pro-Poor Growth through Support for Private Sector Development. Retrieved from: http://www.oecd.org/development/povertyreduction/34055384.pdf; http://www.acdi-cida.gc.ca/acdi-cida/acdi-cida.nsf/eng/REN-218124828- P9B

[2] A multinational corporation (MNC) or multinational enterprise (MNE) is a business that manages production or delivers services in more than one country. It can also be referred to as an international corporation.

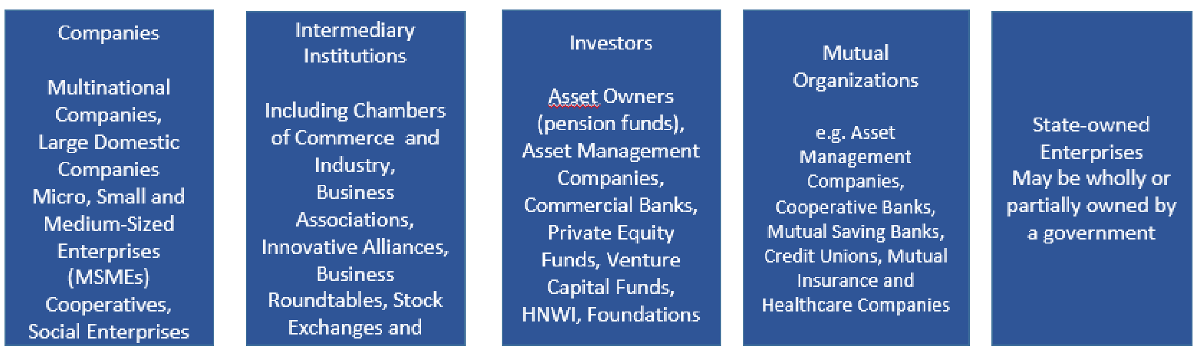
[3] This includes both local firms and subsidiaries of foreign corporations that follow and respect the UN Global Compact principles and that are capable of investing in and creating opportunities for multi-stakeholder engagement and collective action for sustainable development.

[4] The statistical definition of MSMEs varies by country and is usually based on the number of employees or the value of assets. The lower limit for "small-scale" enterprises is usually set at 5 to 10 workers, and the upper limit at 50 to 100 workers. The upper limit for "medium-scale" enterprises is usually set between 100 and 250 employees.

[5] A cooperative is a legally incorporated business arrangement that provides for the control of the business by its

- Social enterprises[6] and other innovative constellations formed to address a specific development issue or cause;
- Mutual organizations (such as Visa, MasterCard, asset management companies, coopera tive banks, mutual saving banks, credit unions, mutual insurance/assurance and health care companies); and
- State Owned Enterprises (SOE),[7] i.e. either wholly or partially owned by a government and that engage in commercial activities as part of an open market system.

UNDP's Definition of Private Sector



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

membership. A new generation co-op (NGC) is a type of cooperative that uses a system of delivery rights and obligations to encourage business loyalty and provide a form of vertical integration. NGCs are particularly suitable to ventures involved in value-added agricultural processing and marketing.

[6] A social enterprise is an organization that applies commercial strategies to maximize improvements in human and environmental well-being, rather than maximizing profits for external shareholders. Social enterprises can be structured as for-profit or non-profit, and may take the form of cooperatives, mutual organizations, social businesses or charity organizations.

[7] Legal entities created by governments to partake in commercial activities on their behalf. An SOE can be either wholly or partially owned by a government, and is typically earmarked to participate in commercial activities.

Annex II: Key challenges to private sector-driven inclusive, circular and sustainable growth

The 2030 Agenda acknowledges that private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation. However, there are still many challenges related to accelerating the private sector's contribution to the SDGs.

At the **macro level**, policy and structural features of national economies impede the alignment of market activities with the SDGs. These include the following:

Perverse incentives and market failures reinforce activities not aligned with the SDGs due to "subsidies that create perverse incentives for companies to behave in unsustainable ways"[8] and "basic price signals fail to reflect environmental costs, such as those associated with climate change mitigation and adaptation, or fresh water extraction"[9]. Market failures such as inadequate information on products, uncertainty of financial benefits and behavior norms impede investments in SDG-aligned activities.

The private sector is often excluded from key policy dialogue focusing on countries' national development and SDG implementation strategies. Governments need to create real partnerships with private-sector actors (including MSMEs) and ensure that their voices are heard. Often the successful implementation of SDG-focused national development strategies depends upon the buy-in and active support of the private sector.

Inadequate government policy frameworks governing the role of markets in national development, including meeting the SDGs (including policies, regulations and incentives). The basic foundations for entrepreneurship and market development are often simply too weak. Poor governance, lack of rule of law and corrupt practices are significant challenges that discourage investment in businesses. Corruption adds up to 10 percent to the cost of doing business globally, and up to 25 percent to the cost of procurement in developing countries.[10]

There is a high perception of risk in developing markets; however, in reality, these markets are nuanced and the risks vary by context. The Global Impact Investing Network (GIIN) Annual Investor Survey identified "appropriate capital across the risk-return spectrum" as the greatest challenge to industry growth between 2014 and 2016.[11] Investors in developing markets face unpredictable and limiting regulatory environments. In these markets, market and regulation reform often lags behind business innovation. The World Bank Group's Multilateral Investment Guarantee Agency identified "breach of contract and regulatory risks" as the top concerns for investors in developing countries.[12]

At the **meso level**, general ***market-oriented business value chains (including global value chains) and linkages are too often weak and uncompetitive due*** to tariff- and non-tariff barriers, logistics

[8] OECD. (2015). Development Co-operation Report 2015: Making Partnerships Effective Coalitions for Action. Paris: OECD Publishing. Retrieved from: https://www.oecd-ilibrary.org/docserver/dcr-2015-en.pdf?expires=1539001314&id=id&accname=guest&checksum=.

[9] *Ibid*.

[10] OECD. (2018). OECD, An Active Partner of the G20 and B20 in the Global Fight Against Corruption. Retrieved from: https://www.oecd.org/g20/topics/anti-corruption/oecdanactivepartneroftheg20andb20intheglobalfightagainstcorruption.htm.

[11] GIIN. (2017). Annual Impact Investor Survey 2017.

[12] World Bank Group. (2013). World Investment and Political Risk.

and transportation costs, lack of “soft” infrastructure (i.e. enabling policies, procedures and institutions),[13] capacity gaps within firms and productive capacities[14].

Furthermore, a **lack of environmental and social considerations** is leading to supply chain disruptions and significant negative impacts on natural capital, including biodiversity loss. At the same time, they are leading many **meso-level socio-technological systems** to focus on activities that are not aligned with the SDGs. For example, dominant companies have the benefit of networking effects from interdependent technologies, infrastructures and industries. By comparison, new business models and technologies initially produce low payoffs sine they have not yet benefited from dynamic scale and learning, resulting in cost reductions per unit of output and increment improvements.[15]

At the micro level, **economic development opportunities are often missed because investors and companies** seeking new business models to meet the demands of the 4 billion people at the base of the pyramid (people living with less than US$10 per day in purchasing power) **lack knowledge and understanding** of local market opportunities.[16] As the World Economic Forum’s 2015 report on blended finance cited, “limited data and information” as well as “lack of familiarity with local context, laws and operating norms” are key barriers to investment in developing country enterprises.[17]

Furthermore, significant **knowledge and capability gaps** contribute to asymmetrical information among investors and broader market inefficiencies. **Fragmentation among players, instruments, and intermediaries** – evident in the lack of standard nomenclature in this space – hinders growth, leading to a lack of **investment-ready opportunities,** which in turn raises the costs, timelines and risks involved in doing business. This causes reticence among investors and development actors who could otherwise take advantage of these opportunities (as noted by the GIIN Annual Investor Survey, which identified “high-quality investment opportunities with a proven track record” as the second greatest challenge to industry growth between 2014 and 2016)[18].

The private sector has limited capacity for responding to sustainable and inclusive market opportunities in developing countries. The capacity of enterprises in developing countries to seize domestic and global market opportunities is often relatively weak. Businesses still face internal barriers to engaging with the SDGs and the level of private sector investment in sustainable development remains low.[19]

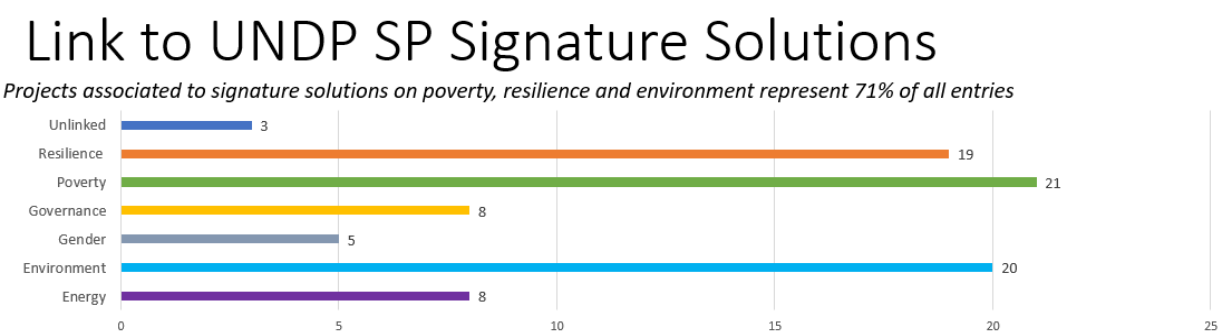
[13] OECD and World Trade Organization. (2013). Aid for Trade at a Glance: Connecting to Value Chains.
[14] GIIN. (2017). Annual Impact Investor Survey 2017.
15 Never, B. and Kemp, R. (2017). Developing Green Technologies and Phasing Them In. Green Industrial Policy.
16 OECD and World Economic Forum. (2015). Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders Report.
[16] GIIN. (2017). Annual Impact Investor Survey 2017.
17 *Ibid.*
[18] GIIN. (2017). Annual Impact Investor Survey 2017.
19 PriceWaterhouseCoopers. (2015). Make it Your Business: Engaging with the Sustainable Development Goals: 87 percent of businesses report that they lack sufficient knowledge and capacity to identify, manage performance, and monitor bankable projects with strong sustainable outcomes, particularly in frontier markets.

Annex III: Lessons learned from past and current work on private sector issues

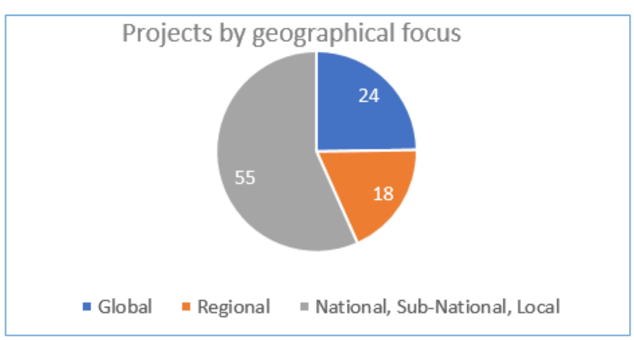
The major objectives of UNDP's current portfolio involve: (i) fighting poverty by promoting and strengthening inclusive business, inclusive value chains, markets and ecosystems, and enhancing SMEs' competitiveness, with a focus on women and youth; (ii) economic transformation to low-carbon energy systems and identifying and delivering market-driven climate- and nature-based solutions; and (iii) gender-responsive policies, women's economic empowerment in the public and private spheres, and gender equity in the workplace. Implementing this portfolio requires strong partnerships, especially the establishment and support of public-private and multi-stakeholder partnerships to leverage capacities and investments.

1. **Links to Signature Solutions**

A recent survey of UNDP's portfolio highlighted 71 active initiatives and 13 pipeline initiatives. An important part of UNDP's work with the private sector is related to climate action: this is reflected in 27 initiatives. In addition, resilience and environment are among the top three projects aligned with the Signature Solutions in [UNDP's Strategic Plan]() (2018-2021).



UNDP places a strong emphasis on implementation at the national and local levels: more than 65 percent of its projects have a national, sub-national or local focus. When analyzed against the signature solutions, projects with a national and local focus are spread proportionally. Projects with a regional focus are aimed at poverty eradication and resilience.



Country offices[20] recognize the private sector as increasingly important (78 percent) or as important (19 percent) as other partners. Country office respondents recommended engaging in partnerships with companies in the extractive sector and public-private partnerships for green economies. This requires that UNDP leverage its own capacity to deliver expertise in these areas as well as in: scalable and replicable programmes on youth and women's economic empowerment; value chains; SDG financing; and impact investment.

Signature Solution 1: Keeping people out of poverty

UNDP work in support of inclusive businesses, MSMEs, agricultural value chains, gender equality, youth entrepreneurship, job creation, skills building and capacity building of policy makers to build conducive ecosystems. While establishing multi-stakeholder platforms to increase engagement around the SDGs, UNDP fosters public-private dialogue, partnerships and collaboration, knowledge sharing and networking opportunities for entrepreneurs and giving voice to different stakeholders and MSMEs.

Success story: Enterprise Challenge Fund – **Malawi Challenge Fund**
In the past decade, challenge funds have become an increasingly integral part of the "development tool box" for propelling private-sector innovation that delivers social impact. UNDP has implemented a successful enterprise challenge fund in Malawi with US$8 million in financing from the United Kingdom Department of International Development (DFID). The impact has been impressive, with manufacturing projects estimated to have created 900 jobs and increased the incomes of 21,500 households. The initial success of the challenge fund led the German Government to contribute EUR 3 million for a second-round competition on manufacturing and logistics, and the International Fund for Agricultural Development (IFAD) to provide another US$2.5 million.

Inclusivity is often a focus area of projects linked to the Signature Solution on poverty. Such initiatives often focus on inclusive businesses, value chains, markets and ecosystems, competitive MSMEs, gender, youth, skills and job creation.

Signature Solution 2: Strengthen effective, inclusive and accountable governance

Projects linked to the signature solution on governance are oriented towards SDG 16: Peace, Justice and Strong Institutions. These include projects to enhance transparency, accountability, anti-corruption, human rights and gender equality as well as advisory support to companies on environmental and social governance, and business integrity.

[20] UNDP. (2017). Country Office Private Sector Development and Engagement Survey 2017.

Success story: UNDP Armenia Kolba Lab

Through the Kolba Lab, UNDP offers a platform for citizens and innovators to involve themselves in the development process, defining the problem they want to solve and providing the space to incubate their idea, project or social start-up. The Kolba Lab has generated citizen-led projects in local governance, human rights, the green economy, smart city solutions and many other spheres. Hosting a social start-up incubator, Kolba Lab also functions as a research and development laboratory within UNDP's Armenia country office. Over the past few years, Kolba has experimented with solutions related to foresight, big and open data, behavioral insights, alternative financing and design thinking. Significantly, the lab has initiated a deep engagement in public-sector innovation, building relationships with the Office of the Prime Minister and key ministries, and incubating the ideas of reform-minded public servants.

Signature Solution 3: Enhance national prevention and recovery capacities for resilient societies

UNDP projects on resilience focus on improving adaptive capacity and reducing climate risks for communities, businesses, value chains and governments. Between 2000 and 2016, UNDP formed 132 partnerships with the private sector, of which 19 were related to disaster risk reduction, 25 to climate change and 78 to sustainable energy.[21]

Success story: Get Airports Ready for Disaster (GARD) Programme

The airport-preparedness programme Get Airports Ready for Disaster (GARD) was launched in 2009 by the UNDP and Deutsche Post DHL Group, and funded by the German Government. GARD is a workshop-based training programme that prepares airports and provides training to airport personnel in high-risk countries for worst-case scenarios. It has been implemented in Armenia, Bangladesh, Dominica, the Dominican Republic, El Salvador, India, Indonesia, Iran, Jordan, Lebanon, Mauritius, Nepal, Panama, Peru, the Philippines, the Seychelles, Sri Lanka, the former Yugoslav Republic of Macedonia and Turkey.

Signature Solution 4: Promote nature-based solutions for a sustainable planet

UNDP projects in support of nature-based solutions focus on: sustainable commodity production; acceleration of greenhouse gas policies; support for national access and benefit-sharing frameworks; climate-finance solutions; technology transfer; nature-based solutions; conservation and sustainable use of biodiversity; climate action; sustainable cities; and low-carbon lifestyles.

[21] United Nations Development Program. (2017). UNDP and the Private Sector: 25 Years of Partnership on Climate Change, Disaster Risk Reduction and Sustainable Energy. New York: UNDP.

Success story: The Green Commodities Programme
More than 70 percent of low-income people in developing countries rely on agriculture for their livelihoods while 736 million people worldwide live in extreme poverty.[22] The Green Commodities Programme addresses the challenges faced in the agricultural commodities sector through policy reform, capacity development, enabling access to finance and incentives and promoting livelihood diversification and value-added agriculture commodities.

The numerous successful projects within the Green Commodities Programme include a partnership among UNDP, the private sector and Ghana's Government aimed at sustainable cocoa production in that country. UNDP convened public and private actors in the cocoa industry around the Ghana Cocoa Platform to promote interaction and collective strategy setting. Another output of the project, the Cocoa Life Programme, has reached 120,500 cocoa farmers, trained 88,000 community members on good agricultural practices and provided training to 68,000 farmers on good environmental practices in Côte d'Ivoire, the Dominican Republic, Ghana and Indonesia. It also supported financial literacy through 1,800 village savings and loan associations, and established child protection committees in 516 communities. This highly successful project has been extended to 2020.

Success story: Global Environment Facility (GEF)
For the last 20 years, UNDP has engaged in a series of GEF-financed partnerships with the International Maritime Organization to "green" the shipping industry. This initiative has focused on two key shipping-related environmental threats: aquatic invasive species and greenhouse gas emissions. The GloBallast, GloMEEP and GloFouling projects have applied a three-pronged "Glo-X" approach, which includes building national capacity, engaging the shipping sector and raising awareness. This partnership has leveraged approximately US$35 billion from the shipping industry.

Signature Solution 5: Close the energy gap

UNDP's work related to the energy Signature Solution has focused on increasing energy access, promoting renewable energy and enhancing energy efficiency. These initiatives have included: (i) policy de-risking for large-scale grid-based electricity projects using wind, solar, biomass and geothermal energy; (ii) sustainable cities initiatives emphasizing energy and waste management; (iii) policy-based energy-efficiency projects introducing minimum energy performance standards and building codes; (iv) projects focused on commercial entities such as energy service companies (ESCOs); and (v) mobilizing finance for SDG 7.

[22] World Bank Group. (2018). Piecing together the Poverty Puzzle (p. 2). Washington D.C.: World Bank Group.

Success story: Mauritius Solar Project
One success story related to signature solution 5 was implemented in Mauritius, where UNDP's solar photovoltaic (PV) project catalysed US$40 million from the private sector – double the original target – and generated quadruple the targeted power. As the end project evaluation noted, the "PV Solar energy sector in Mauritius has clearly taken off, with a very effective public-private partnership catalysed by the project".

Signature Solution 6: Strengthen gender equality and the empowerment of women and girls

Of all UNDP's projects that explicitly mention gender in their objectives or expected results, only a few are linked to the Signature Solution on gender. This solution focuses on a gender-responsive approach to low-carbon development, resilience initiatives, implementation of nationally determined contributions and workplace gender equity. Examples include the: Gender Equality Seal Programme, agriculture sector, reducing the employment gender gap, gender equity and women's empowerment in public leadership and decision making, and public dialogue.

Success story: Gender Equality Seal Programme
To close persistent gender gaps in the workplace, UNDP is assisting both public and private-sector organizations in implementing a Gender Equality Seal Programme. Through this programme, UNDP provides partners with tools, guidance and assessment criteria to ensure successful implementation and certification. More than 400 companies across ten countries have been certified since 2009.

2. UNDP's current financing portfolio

UNDP supports domestic markets in many countries. This has included: designing domestic carbon pricing in the Philippines; developing a national access and benefit sharing framework in Malaysia; setting up an entrepreneurship innovation lab in Honduras; and strengthening the private social investment sector in Brazil. This support also comprises engagement platforms such as a philanthropy platform in Brazil; the Business Call to Action; and the multi-stakeholder GARD platform.

Success story: CAMBio project
CAMBio was implemented by UNDP, the Global Environment Facility (GEF) and the Central American Bank for Economic Integration (CABEI) from 2007 to 2015 in Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. It sought to develop financial mechanisms through national financial institutions to encourage the adoption of biodiversity-friendly practices by farmers, livestock producers, tourism operators and other SMEs. Its main

objective was to remove barriers to banking and business, and create an enabling environment for biodiversity-friendly investments in Central American SMEs. CABEI provided US$55.5 million to 27 financial institutions lending to biodiversity-friendly MSMEs in biodiversity-rich areas. The 3,831 bio-awards given to SMEs totaled US$947,861 in investments for promoting sustainable practices. By supporting attractive financial products with non-reimbursable incentives, the project strengthened the ties between financial institutions and SMEs.

UNDP's projects linked with capital for sustainable development include:

- De-risking and leveraging (e.g. establishing the Cambodian Energy Efficiency Financing Facility for capitalization with equity investments by the private sector);
- Launching and supporting investment platforms (e.g. Climate Investment Platform, UNDP SDG Impact Finance [UNSIF], global Islamic finance and impact investment platforms, and the Trine crowd-investment platform);
- Innovative finance (e.g. crowd funding in Moldova, weather-index insurance in Sudan, insurance products for the Mesoamerican reef in Mexico and Islamic finance); and
- Fund design (e.g. Mongolia Value-chain Investment Fund and the global Direct Green Technology Incentive Fund);

Projects in which capital is essential or that are indirectly linked to capital focus on:

- Creating an enabling environment (e.g. support for designing domestic carbon pricing in the Philippines, developing a national access and benefit-sharing framework in Malaysia, establishing an entrepreneurship innovation lab in Honduras and strengthening the private social investment sector in Brazil); and
- Engagement platforms (e.g. the Philanthropy Platform in Brazil; Business Call to Action and the multi-stakeholder GARD platform).

3. UNDP resource mobilization:[23]

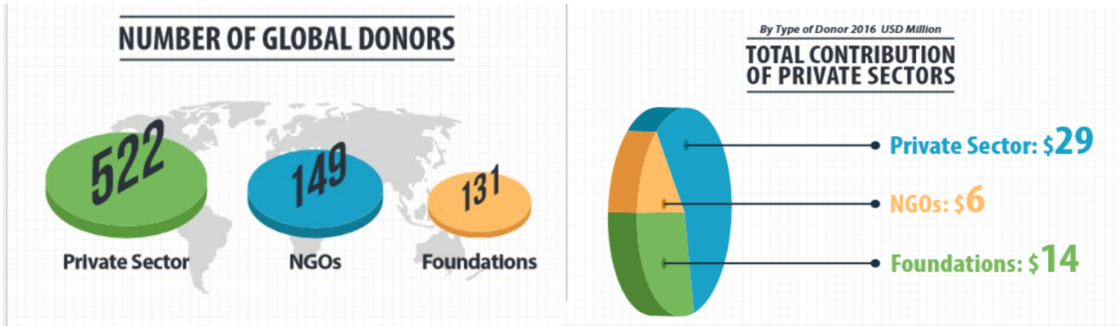
In 2017, UNDP received contributions totaling US$4.9 billion, comprised of US$612 million in regular resources and US$4.2 billion in other resources.

Total contributions to UNDP rose from US$4.49 billion in 2015 to US$4.87 billion in 2016 – an increase of 8 percent. Of these contributions, US$2.1 million (43 percent) came from donor country governments, US$1.78 million (37 percent) came from multilateral partners and $996 million (20 percent) came from programme country governments.

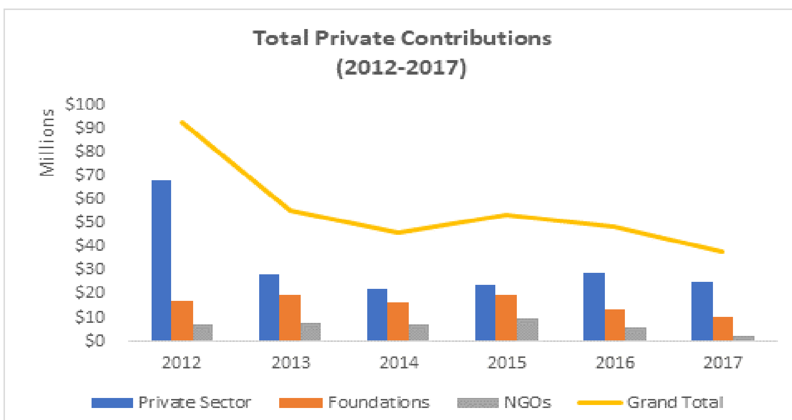
Contributions to regular resources decreased by 12 percent to US$618 million from US$704 million in 2015. In 2016, 52 Member States and one NGO partner contributed to regular

[23] UNDP. (2016). UNDP Funding Compendium. Retrieved from: http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Funding%20Compendium%202016.pdf; country-level data derived from Atlas.

resources. This continued downward trend in UNDP's regular resources constrains its ability to ensure its effectiveness and make forward-looking choices and investments. The **private sector's** contribution in 2016 was US$29 million.

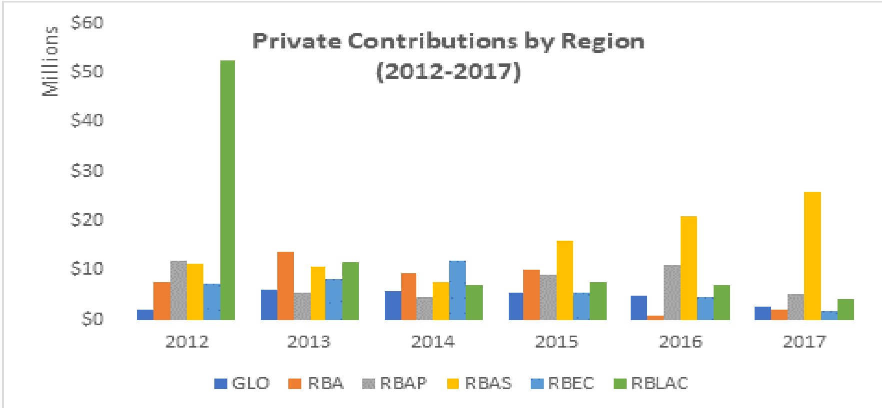


Total private contributions fell by 56 percent **between 2012 and 2017**[24] from approximately US$90 million to US$40 million. As shown in the graph below, contributions from the private sector dropped precipitously between 2012 and 2013 but remained constant thereafter. Foundations and NGOs represented the lowest total private contributions to UNDP during the period studied; funding from these sources did not experience significant variations.

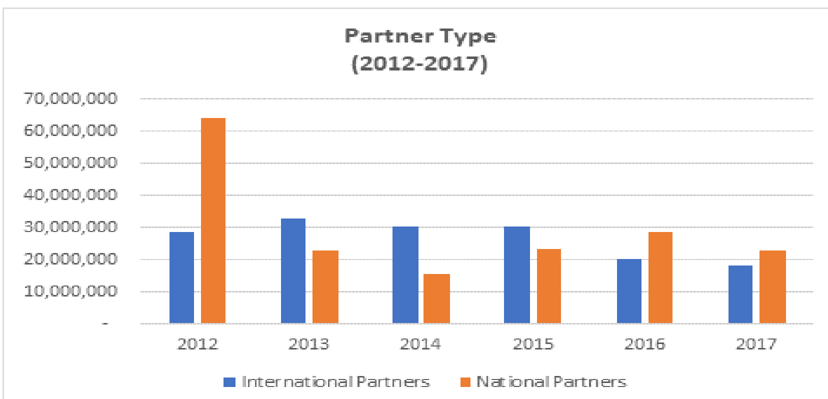


Private contributions by region (2012-2017):[25] In 2012, the Regional Bureau for Latin America and the Caribbean led the organization in private contributions, with more than US$50 million. However, this region saw a drastic fall in the following years, with only US$10 million in private contributions in 2013. During that year, the Regional Bureau for Africa received the greatest amount of private-sector donations. Private contributions in the Regional Bureau for the Arab States remained constant in 2012 and 2013, then experienced a steady increase from 2015 onwards, reaching US$25 million in 2017 while private contributions in other regions remained limited.

[24] The data is taken from an internal research on resource mobilization conducted by BERA as input for the UNDP Private Sector Strategy development.
[25] *Ibid.*



Contributions by partner type (2012-2017):[26] National private sector partners contributed almost US$65 million in 2012 – more than doubling the contributions of international private sector partners. However, in subsequent years, this number fell below that of international business's contributions to approximately US$22 million in 2017. Contributions from international private-sector partners remained relatively stable until 2015, after which UNDP saw a slight rise in national partner contributions. Between 2013 and 2017, the amount of both international and national private-sector partner contributions remained relatively stagnant (between US$10 million and US$30 million).



"Other" resources earmarked to specific initiatives represent a critical complement to UNDP's regular resource base. Other contributions totaled US$4.25 billion in 2016, marking a 12 percent increase over the US$3.78 billion received in 2015. The greatest growth in funding came in the form of government cost sharing (domestic resources), United Nations pooled funding and funding from financing institutions.

26 *Ibid.*

As of January 2018,[27] primary regular resource contributions for 2017 had come from the United States (US$79,804,287); United Kingdom ($72,559,367) and Sweden (US$70,525,392).

Annex IV: Landscape analysis of development cooperation for private sector work

UNDP conducted a review of landscape analyses by governments, donors and multilateral agencies, including United Nations organizations and international NGOs involved in cooperation for private-sector development, to gauge the areas being prioritized by UNDP's counterparts and identify gaps and niches for UNDP.

Initial findings and niche opportunities for UNDP:

- **UNDP's focus correlates with the priorities of national governments, bilateral donors and multilateral agencies for private-sector development (excluding "hard" infrastructure and labour markets).**
  UNDP's prioritization of financing, an enabling business environment, value chains and business intermediaries, and direct support to enterprises is strongly correlated with the priorities of donor governments and multilateral development banks, with the exception of hard infrastructure such as roads[28] (where UNDP does not have a comparative advantage). Only two respondent agencies selected private-sector development-related labour markets as a priority since this work is within the International Labour Organization's mandate. UNDP's approach is closely aligned with the strategies of bilateral donor agencies, which "tend to have a stronger narrative than the multilateral development banks in focusing on the poor, women and youth".[29]

[27] UNDP. (2018). Retrieved from: http://www.undp.org/content/undp/en/home/funding/core-donors/.

[28] Organisation for Economic Co-Operation and Development (OECD). (2017). Development Co-operation for Private Sector Development: Analytical Framework and Measuring Official Development Finance. Paris: OECD Publishing. Retrieved from: https://www.cbd.int/financial/2017docs/oecd-privateoda2017.pdfMiyamoto.

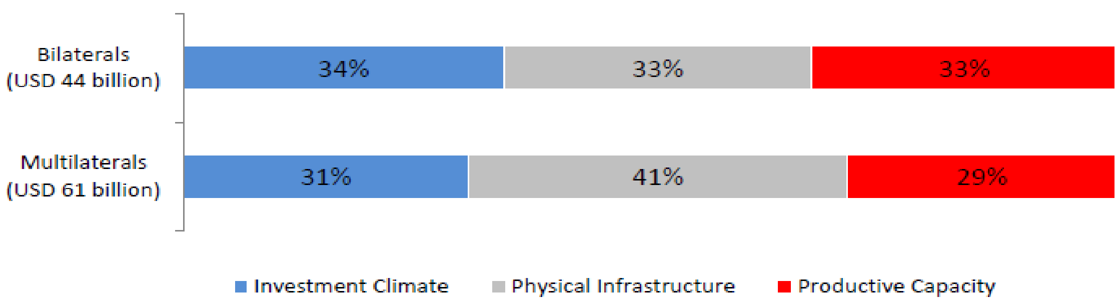
[29] *Ibid*. p.18.

Table 1. PSD Focus areas in development partner strategies

	INVESTMENT CLIMATE				PRODUCTIVE CAPACITY				BOTH
	Macro-Stability	Business Environment	Labour Markets	Trade Policy	Agricultural and Industrial Policy	Financial Services	Value Chains and Business Intermediaries	Enterprise Resources	Infrastructure
AfDB	•	•			•	•	•	•	•
AsDB	•	•							
IADB		•		•	•	•		•	•
WBG	•	•		•	•	•	•	•	•
EU	•	•			•	•	•	•	•
USA		•		•			•	•	•
Sweden	•	•	•	•	•	•	•	•	•
Norway		•		•			•	•	•
Germany		•	•		•	•	•	•	•
Netherlands		•		•		•	•	•	•
UK		•				•	•	•	•
Japan		•		•	•		•	•	•

Source: Institutions' websites and relevant PSD policy documents.

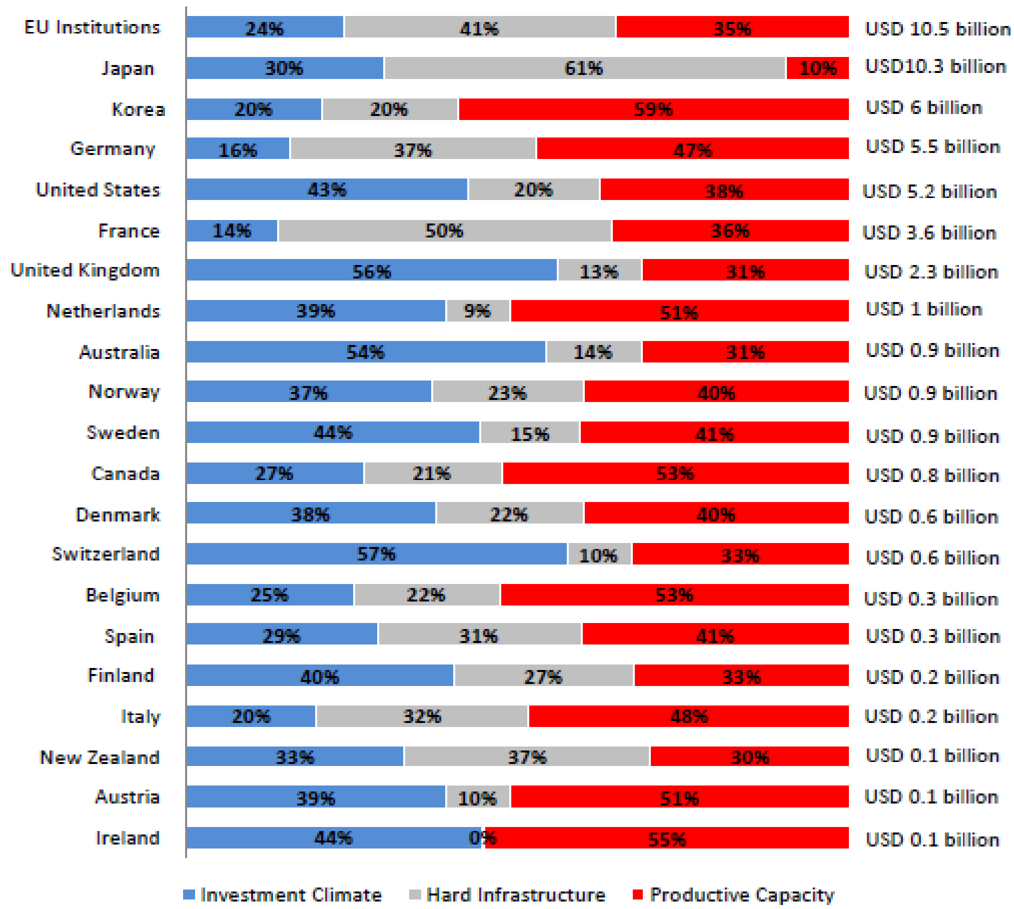
- **There has been a significant surge in official development assistance towards private-sector development, with an upper estimate of US$101 billion in 2013 according to the most comprehensive analysis by the Organisation for Economic Co-operation and Development (OECD). This includes US$44 billion from bilateral donors and US$61 billion from multilateral donors.**



Source: OECD Creditor Reporting System

- **However, 61 percent of Japan's US$10.3 billion, 50 percent of France's US$3.6 billion and 41 percent of the European Union's US$1.5 billion are going towards hard infrastructure.**

Figure 4. Distribution of ODF to PSD-related areas by DAC Members, 2013



Source: OECD Creditor Reporting System.

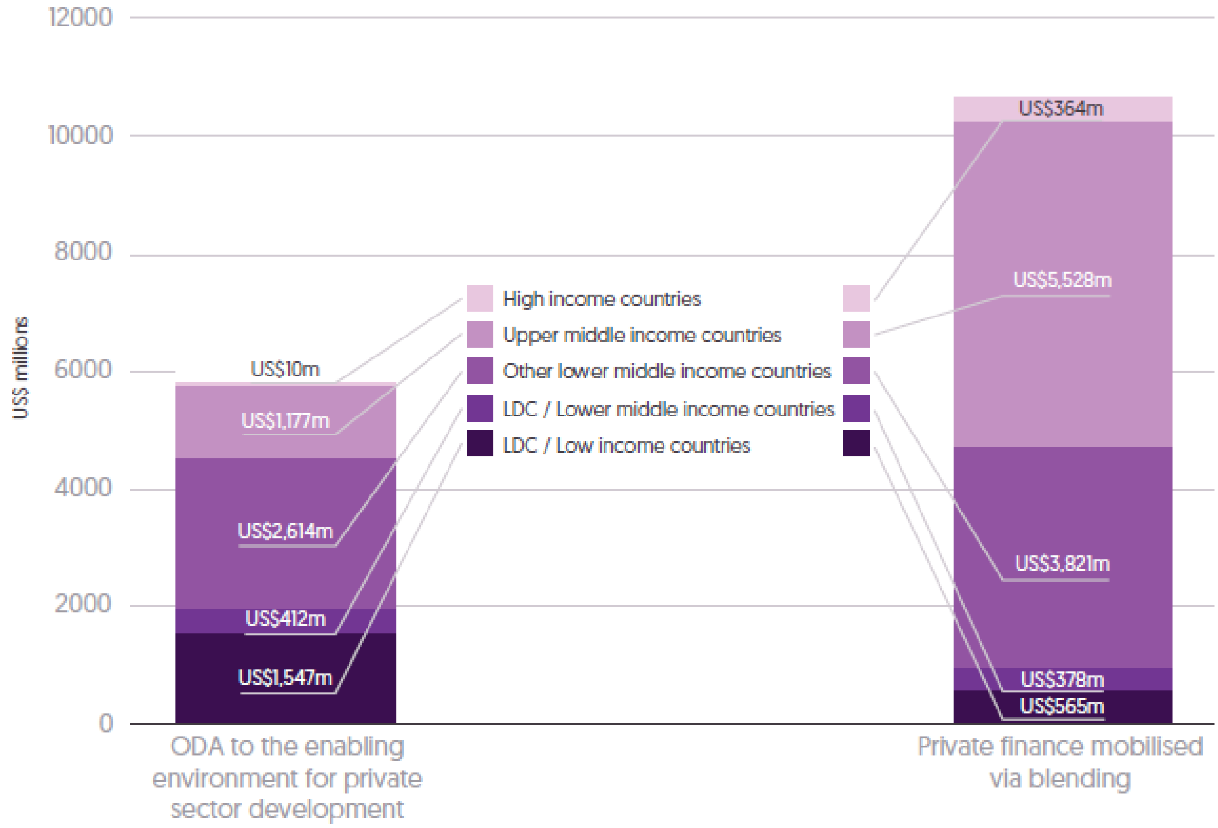
- **Approximately US$9.9 billion from major donors and development agencies is focused on building an enabling environment for private-sector development, with US$3.4 billion for "upstream" policy and institutional reforms.** An enabling environment can be defined as "the conditions necessary for domestic business and entrepreneurs to operate and the conditions that facilitate international trade and private investment into a country."[30] Official development assistance towards an enabling environment for private-sector development totaled US$9.9 billion in 2015.[31] Of that total, US$3.4 billion – 34 percent – went to "policy and institutional reforms".
- **Most enabling environment and blended finance investments benefit middle income-countries, and do not reach least-developed countries and fragile states.** While a wide range of actors together provided US$9.9 billion for establishing an enabling environment in 2015, least-developed countries only received about US$1.9 billion

[30] Ibid. p.2

31 Development Initiatives. (2018). The Enabling Environment for Private-sector Development Donor Spending and Links to other Catalytic Uses of Aid. Retrieved from: http://devinit.org/wp-content/uploads/2018/03/the-enabling-environment-for-private-sector-development_discussion-paper.pdfCaio.

despite commitments made. In addition, countries with high poverty levels tend to attract relatively low blended finance investments. This presents a huge risk to achieving the SDGs.[32]

Non-LDC MICS receive most enabling environment ODA, as well as benefiting most from blended finance



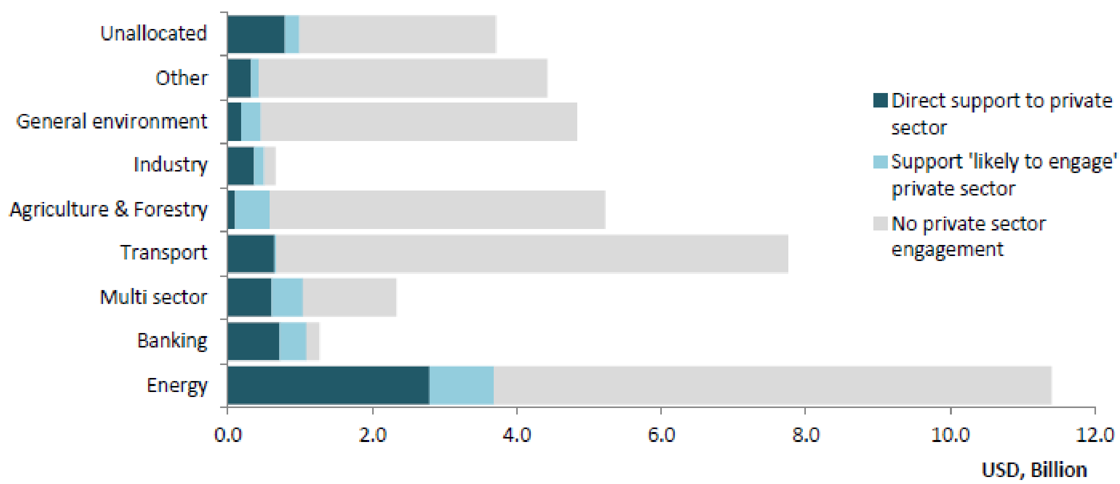
Source: Development Initiatives based on OECD CRS, World Bank and 2016 OECD survey 'Amounts Mobilised from the Private Sector by Official Development Finance Interventions'.[10]

- **Approximately US$9.5 billion (one fifth) of climate-related development finance went to private-sector engagement in 2013, with 70 percent provided directly to private-sector enterprises** by bilateral and multilateral development banks according to the Development Assistance Committee's Creditor Reporting System.[33] The rest of this financing went to support activities by the public sector, NGOs and United Nations agencies in which there was a high likelihood of private-sector engagement.
- **Nearly 80 percent of this funding was devoted to climate mitigation-efforts including clean energy and green financial products, while 11 percent targeted adaptation and another 12 percent targeted a combination of mitigation and adaptation.[34]** Around US$4 billion was directed at the energy sector while and banking accounted for

[32] *Ibid*.
[33] OECD. (2017). Engaging the Private Sector for Green Growth and Climate Action: An Overview of Development Co-Operation Efforts Paris: OECD. p. 27. Retrieved from: https://www.cbd.int/financial/2017docs/oecd-private2017.pdf.
[34] *Ibid*.

approximately US$1.5 billion; direct support for agriculture and forestry made up less than US$1 billion.

Figure 3.2. Climate-related development finance supporting private sector engagement in 2013, by sector



Source: OECD DAC statistical system, estimates based on USD commitments for 2013 (see Annex 1).

- Funding for private-sector engagement in efforts related to climate change has **focused too much on "low hanging fruit"** through credit lines to financial institutions. There is a need for greater investment in building capacities, policy, de-risking and transitioning to a green economy.[35]
- While private-sector development aims to build the capacity of local enterprises, **many bilateral donors are trying to achieve commercial objectives for companies while furthering development goals, which makes it difficult to take local priorities and contexts into account.** In line with the Paris and Busan Aid Effectiveness Principles, commercial interests should not override development objectives. An evaluation of the Dutch private-sector for development programme by the Ministry of Foreign Affairs pointed out that tied assistance "can incentivize the purchase of goods and services from Dutch companies that are not necessarily needed by the partner country; and goods and services acquired by partner countries through tied aid are generally 15-30 percent more expensive than those selected through international competitive bidding processes."[36] In the area of private-sector engagement related to climate change, Whitley (2013) estimated that all public flows from Japan for private-sector engagement to developing countries either directly or indirectly supported Japanese technologies, expertise or firms.[37]

---

36 *Ibid*.
37 OECD. (2017). Engaging the Private Sector for Green Growth and Climate Action: An Overview of Development Co-Operation Efforts. Paris: OECD. p. 19. Retrieved from: https://www.cbd.int/financial/2017docs/oecd-private2017.pdfCrishna.

- **Poverty, gender mainstreaming, broader inclusion of stakeholders such as NGOs and trade unions, and specific constraints faced by informal businesses and MSMEs have not been adequately addressed in targeted private-sector development interventions. A synthesis of 33 evaluations carried out by development institutions highlighted that** the relevance of private-sector for development programmes' objectives in supporting poverty reduction was not clearly demonstrated; policy and regulatory reforms were necessary but not sufficient conditions.[38] It also highlighted that: (i) coverage of gender issues was limited; (ii) analysis by multilateral development banks focused only on enterprises and generally did not include stakeholders like NGOs and trade unions;[39] and (iii) constraints affecting the informal sector were rarely assessed.[40]
- **A landscape assessment undertaken by the North South Institute of more than 100 development cooperation actors' policies for engaging the private sector highlighted that:** (i) development finance institutions and other international finance organizations (not surprisingly) engage mostly in finance activities; (ii) the United Nations predominantly engages with the private sector through policy dialogue and receiving donations; (iii) bilateral donor engagement focuses on the provision of grants and technical assistance to the private sector; (iv) for international NGOs, engagement mainly comprises donations from the private sector, followed by knowledge sharing; and (vi) the predominance of knowledge sharing as the engagement mechanism of think tanks is not surprising given their mandates.[41]

Based on these findings, the UNDP should explore the following niche areas of opportunity:

- Leveraging the organization's mandate and comparative advantage in sustainable development, democratic governance, peacebuilding, and climate and disaster resilience, UNDP can complement multilateral development banks' focus on infrastructure and economic development. UNDP can also convene the thematic expertise of other United Nations agencies to provide integrated, multi-sector responses focusing on making markets work for the SDGs.
- UNDP is recognized for its important role in linking poor people to markets and promoting inclusive business. Its work on building an enabling environment, supporting target populations like youth in fragile and conflict-affected countries, policy de-risking and capacity building has also been widely acknowledged.
- UNDP's comprehensive research portfolio on inclusive business, especially its G20-endorsed work through the G20 Inclusive Business Framework, has positioned the organization as a leader in providing policy advice and capacity support to governments and businesses.[42] The DFID Independent Commission on Aid Effectiveness specifically highlighted UNDP's work with Business Call to Action, noting that its "real impact is on

[38] Independent Development Evaluation, African Development Bank and Norad. (2016). Towards Private Sector Led Growth: Lessons of Experience Evaluation Synthesis Report. Retrieved from: http://idev.afdb.org/sites/default/files/documents/files/IDEV%2C%20PSD%20Report%20EN_WEB_.PDFIndependent.
[39] *Ibid*.
[40] *Ibid*. p.13.
[41] Di Bella, J.
[42] G20 Development Working Group Turkey. (2015). G20 Inclusive Business Framework. Retrieved from: http://g20.org.tr/wp-content/uploads/2015/11/G20-Inclusive-Business-Framework.pdf.

developing the evidence base. It collates case studies of member initiatives and helps them to understand their impact on the poor".[43] In its review of the Malawi Challenge Fund, DFID gave this work an A+, highlighting the fact that "businesses supported through the Malawi Innovation Challenge Fund innovate in a way that benefits the poor."[44]

- UNDP's presence in vulnerable states, post-conflict and transition situations allows it to rapidly respond with needs-based solutions. An analysis by the World Bank and the International Finance Corporation of 312 published evaluations carried out between 2005 and 2014 noted that while "the majority of the projects related to investment climate or improving the business enabling environment have not been successful overall in their effectiveness",[45] UNDP's Uzbekistan Investment Climate Project was a notable exception. This project "was well-designed, with clear steps identified to carry out this work. UNDP had strong local partners and champions, particularly within local chambers of commerce. The project was designed to take into account local entrepreneurial and business needs, and 81 percent of 550 SMEs surveyed at the end of the project were satisfied with the new services."[46]
- The same report noted that a UNDP project in Sierra Leone focused on micro-franchising with at-risk youth had created a "new model of youth training and franchisor-franchisee relationship brokering that built on locally available assets and capabilities"[47] and "played an important role in strengthening private sector development in Sierra Leone as a whole by expanding markets for local SME owners."[48]
- As the United Nations system's largest service provider working on adaption to climate change and reducing greenhouse gas emissions, UNDP built over 132 partnerships with the private sector between 2000 and 2016 (including 19 in disaster risk reduction, 78 in sustainable energy and 25 in climate).[49] The work of UNDP's Montreal Protocol Unit with governments and large private-sector chemical suppliers is considered one of the most successful international environmental agreements to date. In the area of energy, UNDP's comparative advantage lies in assisting developing countries with reducing risk for the private sector with interventions that remove the underlying barriers to investment. One example is in Mauritius, where UNDP catalysed a US$40 million investment from the private sector (double the original target) to generate quadruple the power planned.[50]

---

[43] Independent Commission for Aid Impact. (2015). Business in Development. Retrieved from: https://icai.independent.gov.uk/wp-content/uploads/ICAI-Business-in-Development-FINAL.pdf.
[44] Private Sector Development Programme in Malawi. (2016). Retrieved from: http://iati.dfid.gov.uk/iati_documents/5344611.odt.
[45] Development Impact Department, International Finance Corporation and World Bank Group. (2016). The Effectiveness of Private Sector Development Interventions in Fragile and Conflict-Affected Situations: Evidence from Evaluations (p. 25). Retrieved from: https://www.ifc.org/wps/wcm/connect/e6f42677-7747-42a0-b7f1-b15a76d492e1/Report+of+a+systematic+review+of+PSD+interventions+in+FCS_final.pdf?MOD=AJPERESLiu.
[46] *Ibid*. p.25.
[47] *Ibid*. p. 28.
[48] *Ibid*. p. 28.
[49] UNDP. (2017). UNDP and the Private Sector: 25 Years of Partnership on Climate Change, Disaster Risk Reduction and Sustainable Energy (p. 7).
[50] Lari, D. (2017). Terminal Evaluation Report of the UNDP-GEF Project "Removal of Barriers to Solar PV Power Generation in Mauritius, Rodrigues and the Outer Islands" (p. 21).

- Since it is not involved in direct financing like other development institutions, UNDP has a reputation as a neutral partner to engage the private sector in policy dialogue, sustainable investments and market-oriented business models.
- UNDP’s country-based platforms and “whole of society” approach support policy dialogue that is inclusive of civil society, informal enterprises and marginalized communities.
- Comprehensive worldwide coverage allows for greater knowledge sharing and an ability to employ experiences and best practices globally. This global coverage can be optimally leveraged through South-South cooperation.

Annex V: Partnerships for UNDP’s work with the private sector

Current partnerships with the private sector

UNDP’s current private sector portfolio comprises: public-private partnerships; partnerships with the private sector to increase investments for the SDGs; capacity-related partnerships with the private sector; and the facilitation of multi-stakeholder partnerships involving companies and governments (e.g. Green Commodity Platform).

Private companies and their associations are strategic counterparts of UNDP. In addition to chambers of commerce and private-sector associations, UNDP works with enterprises of all sizes, from multinationals to local companies, MSMEs and foundations. Private partners include the World Business Council on Sustainable Development, more than 200 Business Call to Action member companies and hundreds of individual companies. Philanthropic partners include the Ford Foundation, the Conrad N. Hilton Foundation, the MasterCard Foundation and Rockefeller Philanthropy Advisors.

UNDP has a maturing partnership with large corporations at the global, regional and country levels. For example, its current collaboration with Microsoft Philanthropies on digital transformation towards the SDGs combines innovation with a pragmatic focus on risk-informed skills development.

Governments, regional entities and development agencies

UNDP works with host governments as well as regional entities like the African Union and European Union. Partners include the Government of Finland, the Japan International Cooperation Agency (JICA), the Government of the Netherlands, the Swiss Agency for Development and Cooperation (SDC), the Government of Turkey, the Turkish Cooperation and Coordination Agency (TIKA), DFID and the United States Agency for International Development (USAID). Other government-linked partners include Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Netherlands Development Organisation (SNV). Many of these partners provide UNDP with funding for private sector-related activities.

United Nations agencies

The United Nations development system is the world's largest knowledge network, making it essential that UNDP strengthen collaboration with specialized United Nations agencies to deliver on this strategy. Whenever another United Nations agency is in a better position to advance any of the service offerings defined in this strategy, UNDP will seek to partner with that agency. As a matter of principle, UNDP will always seek expertise from a sister agency to complement its existing capacity. The value of United Nations collaboration is evident in the work of the informal United Nations value chain development working group, co-chaired by UNDP and the International Labour Organization with ten agencies participating, as well as the United Nations private sector focal point network.

International financial institutions

In UNDP's efforts to engage partners that can leverage additional resources and expertise for the private sector, and in line with UNDP's Strategy on International Finance Institutions (IFIs), the organization needs to strengthen cooperation with IFIs, which include multilateral, regional and national development banks like the World Bank, Islamic Development Bank, African Development Bank, Asian Development Bank, Inter-American Development Bank and the German national development bank KfW. Engagement with IFIs should focus on innovative financing in shared priority areas such as green and inclusive value chains, sustainable energy and enterprise development in fragile states, and Islamic finance towards the SDGs. UNDP should also explore ways to link financial instruments such as venture capital, loans and guarantee facilities, the Green Climate Fund and GEF with UNDP's work on capacity building, policy advocacy and private-sector engagement. UNDP and the World Bank Group (via the International Finance Corporation) already have a strong partnership for advancing inclusive business.

Civil society organizations

UNDP has already collaborated with many civil society organizations and sector associations. However, there are additional opportunities for engagement, especially at the country level where multi-stakeholder SDG-focused discussions with civil society have already commenced.

Academia

UNDP's work with academia includes research initiatives and background studies. The Istanbul International Center for Private Sector in Development (IICPSD), which leads UNDP's global efforts with the private sector and foundations, has collaborated with researchers from 32 universities worldwide. At the country level, UNDP helped to create a research advisory committee in Kenya that involved prominent academics in developing the country's United Nations Development Assistance Framework.

Other groups and alliances

At the global level, UNDP will continue to collaborate with several working groups and alliances on initiatives related to the private sector, including the: International Chamber of Commerce

Donor Committee on Enterprise Development (DCED);[51] G20 Development Working Group; World Economic Forum; Inclusive Business Action Network; and Global Steering Group for Impact Investment.

Annex VI: Guiding principles for working with the private sector

In order to deliver clear benefits to countries and people, certain principles should guide all of UNDP's work with the private sector. The Guidelines on a Principle-Based Approach to the Cooperation between the United Nations and the Business Sector and the Global Compact Ten Principles provide a systemic approach to partnerships among United Nations agencies and businesses, placing great emphasis on transparency, coherence, impact, accountability and due diligence. UNDP's approach to development and partnerships also draws on UNDP's Social and Environmental Standards along with related procedures and accountability mechanisms.[52] These standards ensure that all interventions respect human rights, promote gender equality and women's empowerment, and protect the environment. In addition, the following principles for private sector-related work have been developed over several years of engagement with a range of actors:

- ***Sustainable human development, inclusion and equity***: All of UNDP's work with the private sector ultimately aims to achieve sustainable development through more inclusive businesses and markets. This emphasis on human development focuses on social progress, economic empowerment and equity, gender equality, resource efficiency, participation and unrestricted access to rights and freedoms.
- ***Human rights***: UNDP protects and promotes the universal values of human rights and rule of law – guided by the Charter of the United Nations and the Universal Declaration of Human Rights. In its private-sector work, the UNDP also abides by the Guiding Principles on Business and Human Rights.
- ***Multi-stakeholder approach and civil society involvement***: UNDP's engagement with the private sector is based on multi-stakeholder approaches, which engage governments and civil society as well as the private sector and foundations.
- ***Results and measurability***: With a firm commitment to be a results-based organization, UNDP follows the standards for results measurement adopted for its quality assurance system as well as guidance developed by DCED and other results-based management tools.
- ***Specificity and strategic significance***: Achieving measurable results requires prioritization and focus. All of UNDP's work with businesses will focus on its strategic priority areas of expertise; open-ended engagements will be avoided. UNDP will take a proactive and targeted approach to outreach, and will clearly communicate its priorities.

[51] UNDP has stopped engaging with DCED since there were no resources to pay the annual membership fee; it is strongly recommended that the organization re-engage.
[52] Social and Environmental Compliance Review Process and Stakeholder Response Mechanism. (2018). Retrieved from: http://www.undp.org/content/undp/en/home/accountability/audit/secu-srm.html.

- ***Relevance to core interests of the private sector***: To ensure sustained engagement and maximize development impact, UNDP will prioritize its work with the private sector in areas of common interest.
- ***Value for money***: UNDP will ensure that engagement with the private sector is of sufficient scale to deliver impact and value for money. Partnerships with potential for multi-country intervention will be encouraged in order to harness economies of scale and share risks.
- ***Global initiatives linked to country-level results***: Global initiatives should be linked to demand-driven country-level activities and results. Exceptions will be made only when initiatives support UNDP's agenda for change or promote its leadership role.
- ***Visibility and branding***: Proper recognition will be afforded to private-sector partners in line with UNDP's rules and regulations, and its focus on impartiality.
- ***Risks, due diligence and accountability***: As per UNDP's 2013 Policy on Due Diligence and Partnerships with the Private Sector, and its 2015 Guidelines on a Principle-Based Approach to Cooperation between the United Nations and the Business Sector, potential UNDP private-sector partners and corporate foundations must undergo a due diligence screening, which precedes a risk-informed decision regarding whether to engage or refrain from a formal partnership. The Policy on Enterprise Risk Management (2016) guides UNDP on risk acceptance, escalation and risk reporting. UNDP does not accept or transfer upon itself any risk from private-sector partnerships by its affiliated entities or hosted organizations, which are responsible for their own due diligence and scrutiny.
- ***South-South cooperation***: UNDP recognizes the critical role of national capacity to engage in South-South cooperation and the importance of universal access to knowledge achieving the 2030 Agenda. In its work with the private sector, UNDP will scale up its support to South-South cooperation by: providing policy advice and strengthening national capacities; supporting global dialogue and system coordination; and establishing global development solution-exchange platforms.