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The Role of the Private Sector in the Promotion of the Sustainable Development Agenda: a study case of Japan and Germany

Dissertation Thesis

PhD Candidate: Frederico Lamego de Teixeira Soares

Academic Advisor: Prof. Cristina Yumie Aoki Inoue

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Para meu filho, ***Henrique Dantas de Teixeira Soares***, motivo de orgulho pela sua capacidade de superar desafios sempre procurando o bem

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Introduction

The current background of aid has acquired a complex dimension since the inaugural speech of President Truman in 1949 (Truman 1949). At that time, the former American President stated that half of the world's population was living in poverty and called for action. Truman proposed that wealthy countries should provide economic assistance and knowledge transfer to "underdeveloped" countries to achieve economic growth. The general belief was that development aid could lead to economic growth and to an increase in per-capita income, thus strengthening the relations between donors and beneficiary countries. This period also marks the birth of many developing agencies. In 1961, the United States Agency for International Development - USAID was created with the approval of the Foreign Assistance Act of 1961 by the American Congress. In 1963, The German Development Service - DED – the predecessor of today's development service of the German Agency for International Cooperation – GIZ – was founded (GIZ 2020). In Japan, the Overseas Technical Cooperation Agency - OTCA was established in 1962, along with the Japan Emigration Service in 1963 (JICA 2020).

In the following decades, developed countries and multilateral organizations began to implement diverse models of development assistance. In the 1960s, they started to offer special credit lines and subsidized loans to developing countries aiming to trickle down underdeveloped areas and sector ("trickle-down effect) (Persky, Felsenstein e Carlson 2004). There was a general belief that development cooperation would be effective through knowledge transfer and capacity building in the beneficiary countries based on successful experiences from donors. That is, funding could offset the existence of negative savings and promote an increase in investments that would, in sequence, lead to private sector development and economic growth. In this process, the mechanism of international cooperation was usually carried out within intergovernmental cooperation between two states (donor and beneficiary). The implementation of this cooperation also followed domestic policies of these actors.

Despite the volume of resources transferred to developing countries, poverty levels remained high, and no structural change has been promoted in the beneficiary countries. The context of the Cold War also influenced the allocation of funding and support to developing countries in accordance with their alignment and geopolitical relevance. New development theories were introduced in 1970s, presuming that economic growth would start after the basic needs of the people were taken care of (Keeley 2012). Instead of money, food and other basic goods were sent to former colonies. The development of education institutions and health services were also encouraged.

In pursuit of different pathways, developing countries also looked for their own policies to reduce their economic dependence in the West or in the East. Latin American and Southeast Asian countries, for example, conceived theories that led to import substitution policies aiming to change the structural dependence on developed countries in the late 1960s and 1970s. In the case of Latin America, studies from the Economic Commission for Latin America and the Caribbean - ECLAC gave rise to the Theory of Dependence that has influenced many social scientists and at that time. In this context, the economic development of Latin American countries should consider its economic processes, structural conditions and the historical context that are distinct from the establishment of the capitalist system in developed countries (Cardoso e Faletto 1970). It advocated a strong presence of the state in the economy. It was also during the late 1970s that the concept of South-South cooperation has emerged from the adoption of the Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries - BAPA by 138 UN Member States in Argentina, 1978 (United Nations 1978). The plan established a scheme of collaboration among least developed countries, mostly located in the south of the planet.

During this period, the importance of the private sector has always been a controversial issue. Since the creation of the Development Assistance Committee – DAC[1] of the Organization for Economic Co-operation and Development – OECD in 1960, there was a general concern to establish borderlines between development cooperation and business. Despite recognizing their role in contributing to development

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[1] The Development Assistance Committee – DAC is a forum that discuss cooperation, technical assistance and poverty reduction in the OECD. It counts with more than 30 members from OECD, plus other non-member countries like Chile, Israel, Estonia, Latvia and Turkey. In addition, the World Bank, IMF, UNDP, the Development African Bank, the Asian Development Bank and the Inter-American Development Bank participate as observers.

in the global south, many development cooperation agents strived to regulate or to promote voluntary codes of conduct in regard to its relations with the private sector (Coleman 2003) (Kolk, Tulder e Welters 1999) (Jenkins, Pearson e Seyfang 2002). As Coleman has observed, at that point "main concerns included a wish to separate foreign direct investment - FDI from official development assistance - ODA, and a desire to limit the ability of transnational corporations to side-step taxation and policy restrictions" (Coleman 2003, p342). However, such boundaries were never impervious: financial institutions (national and international) always worked in both fields, providing loans or export credits for public and private agents alike (Esteves e Lamego de Teixeira Soares 2020).

By the end of the 1970, the challenge to reduce poverty levels on a global scale was not accomplished despite the economic growth of some emerging economies like South Korea, Brazil, China and a few others. Bad investments, corruption and misuse of resources led to a debt increase and financial difficulties in many developing countries in the late 1970s. The increase of interest rates by developed countries to control inflation has worsen this situation. Also, the implementation of development assistance programs to send basic goods to developing countries had a negative side effect: local suppliers were marginalized from the markets because they were unable to compete against free aid supplies. Moreover, the impacts of two oil shocks led to a global recession whose effects were felt in many developing countries in the 1980s. With Mexico's default on its debt in 1982, an economic crisis was triggered in Latin America. African countries also struggled to run increasing debts during this period.

The debt crisis led to another major shift in the panorama of development aid. Donor countries began to defend new approaches: the introduction of stabilization and structural adjustment in developing countries. According to Brian (2012), developing countries were called to stabilize their economies by reducing fiscal imbalances. Also, structural reforms were stimulated to promote trade liberalization. In this context, the role of the state was put into question. Aid assistance became linked to "conditionalities" and policy advice, which were often criticized. As Riddel (2007) had noted:

> "In line with neo-liberal orthodoxies, recipients were 'encouraged' to open up their markets, privatize state assets, adopt a more export-oriented, less protective trade regime as a quid pro quo for receiving aid, and reduce direct government expenditures, a condition from which key services, such as health and education, were not to be exempted (Riddel, 2007, p.36)."

The 1980s became the decade of free-market economic policies and the strengthening of democracy. Outside the OECD countries, economic performance of developing countries was polarized: excellent performance in East, and to a lesser extent, South Asia was in stark contrast to the economic retrogression of sub-Saharan Africa and Latin America. In the case of South Korea, Chang (1993) questions the incorrect idea of free-market theorists that have argued that state intervention was prescriptive with not net impact in the development of the private sector. For Toye (1993), the success of countries like Taiwan and Korea considered the view that governments have improved economic performance by strong, intelligent, and selective, interventions in market behavior. Nevertheless, the 1980s was also considered as a lost decade for many developing countries since they failed to improve their social and economic conditions. The examination of the development process of the 1980s was also characterized by the existence of a range of economic constraints such as the deterioration of trade, debt squeeze, shortage of administrative capacity, among other factors (Toye 1993). These countries also failed to attract foreign investment needed to promote private sector development to counterbalance budget constraints. Another issue that has damaged the performance of many developing countries was the existence of rent seeking societies that consists in the practice of manipulating public policy or economic conditions as a strategy for increasing profits (Krueger 1974).

From the 1990s until the Financial Crisis of 2008, there was a general belief about the triumph of free-market principles. This was also a period characterized by an accelerated process of global integration in which trade and FDI expanded rapidly. The collapse of the Soviet bloc in the late 1980s had a direct impact on development co-operation policies. The geopolitical motivations to keep developing countries on one side or the other of the East-West division swept away. The subsequent improvement of social indicators seen in Eastern European countries as well as in countries such as China, India and Brazil supported this view about the benefits of the globalization process. At the same time, new thinking on development was translated in the report carried out by the United Nations Development Programme - UNDP called Human Development Report and Index, published in the beginning of the 1990s (Keeley 2012). Other publications such as the World Bank's Development Report highlighted "poverty" as the main global challenge at that moment. The Rio Declaration on Environment and Development of 1992

was also a milestone to promote visibility on the concept of sustainable development that had, as guiding principle, the objective to meet human needs while simultaneously sustaining natural systems to ensure resources and ecosystem services based upon which the economy and society depend. In the early 2000s, the subsequent launch by the United Nations of the Millennium Declaration – with eight Development Goals to be achieved by 2015 –, represented the first holistic strategy to meet the development needs of the world with measurable targets and defined indicators. For the first time, global issues became global concerns, demanding cross-border approaches.

However, this scenario of optimism faded way with the financial crisis of 2008. The financial crisis was the worst economic downturn since the Great Depression of 1929. The trigger was the deregulation of financial markets and the wild speculation that took place (Bresser-Pereira 2010). The recession that followed threatened to destroy the international financial system with the closure of several major investment and commercial banks, mortgage lenders and insurance companies. In response, developed countries adopted Keynesian policies, promoting fiscal expansion, reducing interest rates, and increasing liquidity to trim down the negative effects to the world economy. Despite these efforts, the crisis led ordinary people to lose their jobs, their life savings, their homes, or all three.

The Financial Crisis of 2008 can be looked from a geopolitical and macroeconomic perspective as the end of the unipolar post-Cold War era, characterized by US's power preponderance (Xinbo 2010). America's political and economic model of development – the so-called Washington Consensus –, and the benefits of the globalization were put into question. The new era is characterized by the emergence of a multipolar power structure, South-South cooperation, plural political-economic models, and multiple players on the international stage. These structural geopolitical and economic changes that came after the crisis had immense impacts in the panorama of aid assistance. Given the increase in public deficits that came as consequence to contain the social and economic impacts of the downturn, major donors reduced their spending on aid assistance. Furthermore, the Financial Crisis of 2008 reduced the perspectives to increase resources to support developing countries despite the pressing global challenges related to environment, inequality, education, among others.

In this context, the development cooperation agenda has witnessed significant changes in terms of financing, actors, and governance since 2008. The amount of official development assistance – ODA given by the main develop countries had a slight increase of 28.2% in 2018 in relation to 2008 when it reached the estimated amount of **USD 149 billion[2]**, according to the Development Co-operation Report OECD of 2018.[3] If other donors are added (Arab countries, China, India, Brazil, Mexico, South Africa, among others), the total amount of external assistance totaled USD 161 billion in 2016.[4] However, the main increase of ODA in the last five years was related to refugee and humanitarian crisis that summed USD 14.3 billion in 2017. In contrast, the funding from traditional donors to bilateral technical cooperation projects has lost share in the total amount of ODA from 58% in 2009 to 47% in 2017. The decrease is even greater when we consider that there has been significant resource allocation for humanitarian crises amounting US$ 15,5 billion in 2017 (OECD 2018). Multilateral development organizations have also increased concessional and non-concessional flows reaching the amount of USD 33 billion and USD 68 billion respectively in 2016 (OECD 2019a).

In developed countries, many development cooperation institutions have gone through processes of reform in their management and financing models since 2008. Among the most emblematic cases, we can mention the restructuring of the new German Agency for International Cooperation – GIZ – in 2011 and the new Japan International Cooperation Agency – JICA – in 2008 (Devex 2011). In Germany, the new GIZ was the result of a merge of three German cooperation organizations: the German Agency for Technical Cooperation - GTZ, the German Development Service - DED, and the German Agency for International Training and Development - InWent. The goal was to increase synergy between development agencies (GIZ and Development Finance Institution – KfW) in line with the policies defined by the Federal Ministry for Economic Cooperation and Development – BMZ. In addition, GIZ has structured the international service unit to co-finance its cooperative activity in countries with the ability to pay the German

[2] From 2018 onwards, the OECD has introduced criteria called Grant Equivalent to measure ODA that would increase the total amount of ODA to USD 153 billion.

[3] ODA includes the total amount of funding allocated by members of the Development Assistance Committee – DAC of the OECD and countries that are non-members.

[4] N.A. Last available data.

expertise. In Japan, the operations of ODA loans previously managed by the former Japan Bank for International Cooperation - JBIC were integrated into JICA's mandate. As result, the new JICA began to offer concessional loans to developing countries. In all these reforms, one of the common drivers was the need to seek alternatives sources of revenue to implement their governments' development policies. In the case of Japan, its development cooperation agenda became part of the revitalization strategy introduced by Prime Minister Shinzo Abe to stimulate the recovery of the Japanese economy since 2013. In this context, there are specific guidelines to allocate ODA to promote public-private partnerships in developing countries (Government of Japan 2015).

Another relevant fact that became more prominent after the financial crisis was the emergence of China, India, and Brazil as new actors in development cooperation. The dominance of the OECD countries in development policy definition has seen a rapid shift due to the rise of other non-OECD countries acting as the locomotive for growth in in the following decade. And the magnitude and speed of this change came as surprise. Until approximately 2005, China and India were not considered to have sufficient influence to be relevant for the framing of EU development cooperation policies (Humphrey 2010). According to this report from the Institute of Development Studies, the rise of these countries as economic powers brought questions to the framework of development cooperation established by the OECD countries that pegged conditionalities to aid assistance since the 1980s.

The South-South cooperation model carried by these countries covers a wide range of areas such as trade, investment, and technology. In the case of China, there is an extensive use of development finance instruments that combine grant support, concessional loans, subsidized credit, technical assistance, among others. In this context, the Chinese government is very cautious about the use of the word "aid," and prefer the "economic and technical cooperation" to refer to Beijing's foreign aid activities, emphasizing "equality and mutual benefit." And this "package of resources" is very significant. As an example, the China Development Bank – CDB has given loans totaling USD 170 billion in 2017 to support partner countries of the Belt and Road Initiative in the implementation of infrastructure projects (Liu, Xu and Fan 2020). In a similar way, India has structured its development cooperation model by linking grants and concessions

with trade. India's model is based on mutual gains without conditional ties (Chaturvedi, et al. 2014). In Brazil, its South-South cooperation framework advocates a model free from economic and political influences to distinguish itself from the cooperation promoted by developed countries. Aid support is usually carried out through development cooperation projects identified by a demand driven approach (Milani, Muñoz, et al. 2015) (IPEA; ABC 2018).

In addition, private philanthropic foundations have been acquiring a more prominent role as a development cooperation actor since the financial crisis of 2008. As an example, the Bill and Melinda Gates Foundation that provides 49% of total philanthropic finance has allocated more than USD 3 billion for technical assistance and humanitarian aid projects in 2016 (OECD 2018). The Rockefeller Foundation works in in many developing countries, mobilizing similar amounts of funding (Rockefeller Foundation 2016). In addition, the JP Morgan Foundation structured a broad global agenda for technical and vocational education (New Skills at Work). Originally designed to mitigate the unemployment effects of the 2008 financial crisis in the US, this initiative was extended to other countries with resources of the order of USD 250 million (JP Morgan and Chase 2017). Therefore, the panorama of development financing shows that traditional donors have increased aid on a very moderate pace, on one hand, and multilateral organizations and new donors – such as private philanthropic foundations -, on the other, have had an expanding role in this agenda.

Following the crisis, the year of 2015 marked the launch of the Sustainable Development Goals – SDG – within the scope of the Rio+20 United Nations Conference. The 2030 Agenda – approved by consensus by Heads of Governments of the world's major economies – consists of a Declaration, 17 Sustainable Development Goals, and 169 targets that address global challenges related to "people, planet, and prosperity" (United Nations 2015). **Figure 1** shows the list of the 17 goals:

Figure 1 - The 17 Sustainable Development Goals - SDGs

Source: (United Nations 2015).

The 2030 Agenda became the **global mainstream to promote development cooperation**. Kaine and Bierman (2017) indicated the need to implement complex transnational governance mechanisms since the accomplishment of the SDGs implies a concerted multi-level negotiation, management, and evaluation process. It also aims to highlight the main global challenges that will define the future of humanity – such as climate change and the reduction of inequality –, that demand effective multi-stakeholder actions and an integrated framework of development cooperation. In addition, its implementation entails a complex architecture that considers the different economic, social, and planetary realities. The structuring of governance mechanisms integrates the recommendations of this agenda, as the operationalization of the SDG implies arrangements that go beyond geographical boundaries, as well as the coordination of multiple actors.

In this scene, efforts to implement a global development strategy – such as the 2030 Agenda and its Sustainable Development Goals – require integrating an extensive framework of international cooperation. There is need for a broader structure of international cooperation and global collective actions to tackle challenges like climate change, poverty reduction, food insecurity, among other issues (Sebastian 2014). This new understanding is distinct from the historical path of development cooperation since it considers the need to mobilize different actors – such as the private sector –, as well as

diverse finance mechanisms. At the same time, there is a clear **emphasis on global challenges** that should be tackled by all countries. The approach on sustainable goals reinforces this view. In this scene, the SDGs embrace the so-called triple bottom line approach: the combination of economic development, environmental sustainability, and social inclusion (Sachs 2012). It also stimulates partnerships as a key component to support the implementation process (**SDG. N. 17 - Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development Finance).**

Poverty reduction **(SDG N. 1 - End poverty in all its forms everywhere)**, for example, can no longer be dealt with simple economic assumptions based on a direct aid-investment relationship or past solutions based on donor's recipes. **Figure 2**, below, presents the evolution of the percentage of the global population that lives in extreme poverty.

Figure 2 - Share of population living in absolute poverty, 1993-2015
(Percentage of Total Population)

Source: World Bank, Poverty and Inequality Database.
Notes: Poverty headcount ratio at $1.90 a day is the percentage of the population living on less than $1.90 a day at 2011 international prices. As a result of revisions in PPP exchange rates, poverty rates for individual countries cannot be compared with poverty rates reported in earlier editions.

According to **Figure 2**, poverty reduction has seen progress in all continents, with a special significant decrease in East Asia and Pacific. Also, the rate of poverty reduction in other parts of globe has been moderate in comparison to the countries located in East Asia and Pacific. This trend indicates the existence of a significant part of the global population that lives in extreme poverty. Despite these improvements, there were still approximately 830 million people (or 11% of the global population) still living below the international poverty line. If this poverty line were to be adjusted to $2.50 a day, a further 25% of the global population would fall below this line, totaling 1.8 billion people (UNCTAD 2016). There are still pockets of extreme poverty in the world that their persistence and complexity often is related to social, cultural, political, and economic factors. Effective social protection schemes and policies, along with government spending on key services, can be alternatives to help those left behind "get back on their feet and find a way out of poverty" (United Nations 2015).

Another relevant issue regards inequality of wealth that has not improved, despite the economic growth and the expansion of democracy in many emergent countries. Wealth inequality is much greater than income inequality (usually measured by the GINI coefficient). Wealth usually considers the stock of assets held by a person or a household in a period of time, while income refers to money received by a person in a period as well. Wealth inequality is increasing in many developed and emerging countries (Pikkety 2014). According to the French Economist:

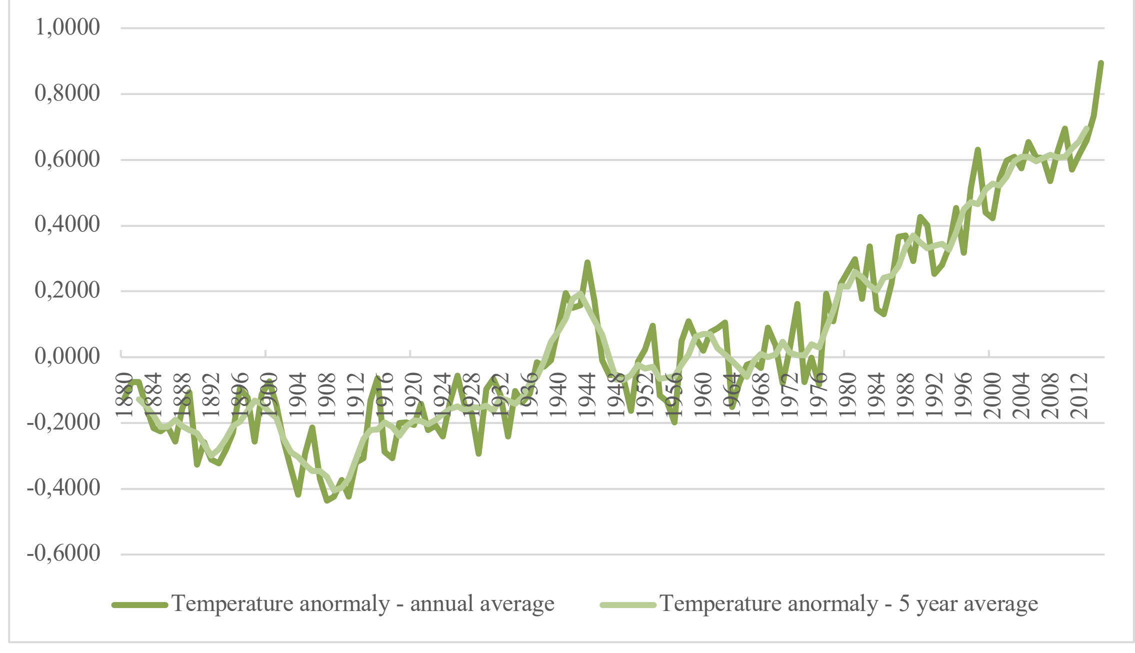
> "Today, in the second decade of the twenty-first century, inequalities of wealth that had supposedly disappeared are close to regaining or even surpassing their historical heights. The new global economy has brought with it both immense hopes (such as the eradication of poverty) and equally immense inequities (some individuals are now as wealthy as entire countries). Can we imagine a twenty-first century in which capitalism will be transcended in a more peaceful and more lasting way, or we simply wait the next war (this time truly global)? (Pikkety 2014)"

In this context, Stiglitz (2019) defends the need to abandon the "mistaken faith" that economic growth promotes everyone's growth. The wealth of nations rests on two pillars: nations grow wealthier – achieving high standards of living – by becoming more productive and through the increase in productivity that depends on the expansion of

knowledge. And nations grow wealthier because of the overall organization of society (Stiglitz 2019). The "true wealth" of nations can only occur when wealth leads to high standards of living for all its citizens in a sustained way. Therefore, designing effective initiatives to address poverty reduction should consider measures to tackle income inequality. In addition, new development policies should conciliate these measures with global issues and local realities.

Another pressing global concern is climate change (**Sustainable Development Goal N. 13**) that calls for a renewed and strengthened effort to address this issue (**Figure 3**), through the integration of climate change mitigation and adaptive measures into national strategies and the implementation of existing commitments. The scientific data relating to this field is complex and highly specialized, according to the UCTAD monitoring report of the SDGS. In this scene, one of the key objectives of the UNFCCC 21st annual session of the Conference of the Parties (COP 21) (Paris) agreement is to limit the rise in global temperatures to within 2°C of pre-industrial levels or lower – 1.5 degree.

Figure 3 - Global Land-Ocean Temperature Index, 1880-2015



Source: UNCTAD/ National Centers for Environmental Information.
Notes: Temperature anomaly is defined as a departure from a long-term average. The global anomalies are calculated with respect to the 20th century average.

Given its ambition, the 2030 Agenda also considers the need to mobilize different actors such as the private sector. In this context, it calls for an active engagement of companies since the projected funding needs to implement the SDGs total USD 2,5 trillion for the horizon 2015-2030, according to the Development Co-operation Report 2016 (OECD 2016). These resources are far beyond the volume of ODA allocated by traditional and emergent donors. As an example, the United Nations Intergovernmental Committee on Sustainable Development indicates that the sustainable goal related to eradication of extreme poverty implies the allocation of resources of USD 35-195 billion per year during the period 2015-2030 (Voituriez Et al. 2017). The most recent estimate of financial needs from the International Monetary Fund – IMF projects that the achievement of a subset of SDGs in 49 developing countries —focusing on health, education, water and sanitation, roads, and electricity— forecasts additional spending of about USD 520 billion a year, or an increase of 14 percentage points of GDP on average (International Monetary Fund 2019).

Based on the ODA resources allocated by official donors, multilateral institutions, and philanthropic corporations, the achievement of the SDGs implies new forms of international cooperation that goes beyond aid assistance, as well as the orchestration of diverse finance mechanisms. In this scene, the mobilization of new actors – like the private sector - is a must to bring finance, technology, and efficiency. However, it is important to consider the risks. Bringing the private sector to become a 'development agent' should also contemplate the menaces related to the company's emphasis on its capital assets, the reinterpretation of positive outcomes, benefits, and beneficiaries (Blowfield e Dolan 2014). There are also risks of compliance and transparency in the use of public money when governments mobilize ODA resources to sponsor **public-private partnerships – PPPs**. And private sector flows could hide illicit financial flows (Mawdsley 2018). Nevertheless, the fulfillment of the SDGs lives no room to minimize the role of companies in this agenda.

From a governmental perspective, developing agencies and financial institutions from traditional donors have been structuring mechanisms to foster private sector engagement - PSE. In the case of PPPs, a partnership agreement is signed between a public and private organizations "to mitigate the level of risk-taking for all parties and

create a win-win situation" (OECD 2016). Blended finance is another model of financing that aims to leverage private investments with a limited amount of official development assistance. It is an approach to development finance that employs the "strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets (World Economic Forum 2015)." Blended Finance offers the opportunity to scale up commercial financing for developing countries and to channel such financing toward investments with development impact. The OECD Co-operation Report of 2016 points out that the viability of such mechanisms depends on measures to monitor and evaluate the impact of public sector mobilization on private investment.

Moreover, an increasing number of companies have been adopting business strategies aligned with the **environmental, social and governance – ESG** principles. Initiatives such as the UN Global Compact are promoting corporate sustainable awareness to more than 200,000 companies worldwide in line with the SDGs. Also, a growing number of financial institutions are looking to make a positive impact seeking to allocate their resources in companies that follow ESG standards. BlackRock's decision - the world's largest asset manager with nearly USD 7 trillion in investments -, to avoid investments in companies that "present a high sustainability-related risk" follows this direction (New York Times 2020). In this context, there are already empirical evidence that has shown that companies that follow ESG standards obtain higher financial returns than its competitors. And BlackRock's announcement has the potential to induce other investments funds to adopt similar strategies. This is a global trend that is shifting the way companies do business in the future.

In this regard, Germany and Japan are examples of countries that have been actively taking part in the global discussions related to the promotion of the sustainable development agenda. Also, both countries count with a highly competitive private sector integrated to global supply chains. According to the Atlas of Economic Complexity that measures the complexity and diversity of exports of countries, Japan is rank in the 1st position, followed by Germany (2nd highest ECI).[5] Likewise, both countries figure among

[5] The Atlas of Economic Complexity is an online platform developed by the Harvard Kennedy School to allow people to explore global trade flows across markets, track these dynamics over time and discover new growth opportunities for every country. The Atlas places the industrial capabilities and knowhow of a

the top 30 countries in the Doing Business Report of 2020 (Germany 22nd and Japan 29th respectively)[6] that measure the local environment to foster private sector development. Their financial system is also very solid and has been following the global trend to introduce ESG standards in their portfolio.

They also count with distinct policies to engage companies in development initiatives. The German development cooperation framework has development finance mechanisms to attract companies that have for more than 20 years of existence. The new JICA, on its turn, has aligned its development cooperation agenda with the aim to contribute to the internationalization of Japanese companies. Hence, a study case analysis of these two countries can provide a critical understanding about the potential role of the private sector to the 2030 Agenda from two distinct approaches to promote private sector engagement. Since both countries count with very dynamic and innovative companies that operate on a global scale, the study-case of these two experiences can also lead to broad insights about the feasibility of meeting the SDGs goals.

In view of the above, the promotion of sustainable development has passed through many experiments since President Truman's call for action in 1949. However, the Financial Crisis of 2008 decreased the capacity for government spending. And it has also shown the need to rethink effective ways to foster development in an "age of discontent," as recalled by Stiglitz (2019) that shows how capitalism has failed to sort out issues such as inequality. In this scene, the 2030 Agenda proposes new approaches to tackle global challenges through concerted mechanisms of governance and intensive development cooperation. But its implementation requires trillions of dollars to meet the respective targets.

If, on the one hand, there are growing constraints by traditional donors to finance the 2030 Agenda, on the other hand, new donors – such as emerging countries and the private sector foundations – gain momentum. However, the volume of resources allocated by traditional, emerging donors and private foundations is still far from the funds needed to

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country at the heart of its growth prospects, where the diversity and complexity of existing capabilities heavily influence how growth happens. For more information, see (Hausmann, et al. 2013) and https://atlas.cid.harvard.edu/

[6] See (World Bank 2020) and https://www.doingbusiness.org/en/rankings

enable the implementation of the SDGs. It is in this context that the private sector is called to play a relevant role in the promotion of sustainable development. On the governmental perspective, developing agencies are already sponsoring new finance mechanisms to leverage additional resources and know-how from companies. In addition, financial institutions and companies are shifting their mindset pursuing sustainable business strategies. The question lies on how to classify and quantify the various forms of private sector engagement to understand their contribution to the global endeavor to promote sustainable development.

Objectives and Hypothesis

General Objective

The purpose of this dissertation is to analyze how the private sector in Germany and Japan has taken part in the promotion of the sustainable development global effort, with a special focus on the 2030 Agenda, during the period 2008-2018. This investigation examines the role of development institutions to mobilize the private sector, as well as the voluntary forms of engagement in the sustainable agenda adopted by companies and financial institutions in these two countries.

Specific Objectives

This research also proposes the following specific objectives:

- To propose a framework that consolidates the modalities of private sector engagement – PSE in the promotion of the sustainable agenda to be applied in the study analysis of Germany and Japan.
- To identify and categorize existing funding mechanisms that promote private sector engagement.
- To understand the motivations and interests of the private sector to participate in the development agenda in these countries.

- To verify how the Sustainable Development Goals – SDGs are being implemented by development cooperation institutions in partnership with the private sector.
- To examine if there are governance mechanisms to guide private sector engagement in development cooperation.
- To compare the approaches of private sector engagement in Germany and Japan.

Study Hypotheses

From the discussion above, the premise used to identify these objectives assumed that budget constraints to promote sustainable development have led governments to search for alternative funding mechanisms. Moreover, this research has considered the private sector as relevant actors of the international relations, but they do not substitute governments in promoting development cooperation.

In this sense, this study presents the following hypotheses:

1. The participation of the private sector in the promotion of sustainable development has occurred through different modalities of engagement. Besides taking part in public-private initiatives or development cooperation initiatives at the international level, an increasing number of German and Japanese companies and financial institutions are promoting the adoption of sustainable practices on a voluntary basis.
2. The private sector has increased its role in the financing of the sustainable development agenda in Germany and Japan respectively. However, the total volume of funding spent by governments to promote private sector engagement has grown but it was not significant to offset ODA spending during the period 2008-2018.
3. The financing of the 2030 Agenda will depend on voluntary forms of private sector engagement such as the increase of sustainable responsible investments due to existing budget constraints from traditional and emerging donors.
4. Development institutions and the private sector have had mutual interests to collaborate. From the government's perspective, budget constraints encourage ways to foster private sector engagement at the international level. From the

company's standpoint, there is a business rationale to establish partnerships with governments to reduce risk in investment operations in developing countries.

Research Method

Most of the data and research available on private sector engagement in development cooperation come from studies and reports carried by international organizations and think-tanks. Thus, my goal was to present an academic analysis about the various roles of companies in the sustainable agenda. To comprehend these potential roles, I have constructed a framework to organize the participation of the private sector in the sustainable agenda through its different modalities of engagement. This structure was designed from a multi-disciplinary approach with sources from the field of international relations, development studies and business administration.

Based on this framework, I conducted the case study analysis of two countries that are among the main donors of development aid**:** Japan, Germany. Both countries are active participants in the main global discussions that deal with the promotion of the sustainable development agenda. As previously described, they also count with a competitive private sector with a high level of internationalization. Moreover, German, and Japanese companies have been increasingly adopting ESG practices as part of their corporate global strategies. The respective governments of both countries have also well-structured policies and organizations to implement their respective development cooperation agenda. However, each country counts with distinct approaches to mobilize companies. Hence, the study of the German and Japanese models of private sector engagement could be used as future reference for academic work on interrelated studies. The use of the proposed framework in the study case analysis of the German and Japanese models of private sector engagement has enabled a critical overview about the perspectives of bringing companies to take part in the sustainable development agenda.

Germany counts with a solid financial sector and an extensive list of companies that are benchmarks in the adoption of ESG standards. It is also worth mentioning that the Dieselgate[7] scandal has pushed German companies to incorporate sustainability in their strategies to improve their reputation among clients and stakeholders. Regarding the German government, the Federal Ministry for Economic Cooperation and Development (BMZ) is the organization responsible for defining Germany's development cooperation policy. BMZ mobilizes the German Agency for International Cooperation - GIZ and the Development Finance Institution – KfW to carry out its development cooperation policies. As operating agencies, GIZ and KfW have complementary missions. While GIZ coordinates development cooperation programs, KfW is a state-owned development bank that works with development finance. KfW counts with a subsidiary organization called DEG - *Deutsche Investitions und Entwicklungsgesellschaft* (German Investment Corporation) to promote private business initiatives in developing countries. In addition to these two organizations, Sequa gGmbH is a non-profit organization which assists German chambers of commerce, business associations and companies, providing support in the implementation of international cooperation projects. These implementing agencies count with specific mechanisms to foster private sector engagement such as the DeveloPPP.de Program that has more than 20 years of existence.

Japan, on its turn, has also an extensive list of companies that are adopting ESG practices and are market leaders in their respective segments. In regard to the government, the Ministry of Foreign Affairs - MOFA is responsible for defining the development cooperation policies in collaboration with other government ministries and agencies. The Japan International Cooperation Agency – JICA is responsible for implementing the bulk of Japan's ODA in accordance with MOFA's policies. The new JICA – result of a merge between former JICA and the Japanese Bank for International Cooperation – JBIC – offers credit lines integrated with the Japanese economic and trade agenda in line with the SDGs. It is important to highlight the existence of a strategic partnership between the government and the private sector that has historical roots in Japan's economic

[7] The Volkswagen emissions scandal, also known as Dieselgate began in September 2015, when the United States Environmental Protection Agency (EPA) issued a notice of violation of the Clean Air Act to German automaker Volkswagen Group. The agency had found that Volkswagen had intentionally programmed turbocharged direct injection (TDI) diesel engines to activate their emissions controls only during laboratory emissions testing. The scandal has also involved other German companies that were part of Volkswagen's supply chain.

development. This alliance became explicit when Japan's aid agenda became part of the recovery plan implemented by Prime Minister Shinzo Abe in 2013 with the use of bilateral ODA to support Japan's commercial and economic interests at the global level. In this scene, MOFA has defined specific development cooperation policies that prioritize partnerships with Japanese corporations to increase their international presence.

To ensure a coherent comparative analysis, I have chosen not to analyze other cases of relevant traditional and emergent donors of development cooperation, such as the United States and China. In the case of the US, private sector mobilization occurs through many mechanisms, public entities and foundations that would make it difficult to compare with the other selected countries. In addition, the United States Agency for International Development - USAID is presently restructuring its model of financing and management, so there is not enough information about the current forms of private sector engagement from a development agency's perspective (DEVEX 2019). Nevertheless, it is important to acknowledge that many of the innovative financial mechanisms, such as the adoption of environmental social governance - ESG and impact investment, have been created in the US. And their concepts and definitions have been used throughout this research. Regarding China, there is not enough and consistent information to evaluate the role of the private sector. Also, the relationship between the public sector and companies has peculiar characteristics that makes it difficult to classify the private sector as an "independent actor" with specific interests and motivations.

Initially, this research project presented a bibliographic and documental analysis to highlight the complexity of the 2030 Agenda. My aim was to offer an overview about the financial gaps and alternatives to implement the SDGs with the participation of companies. I have also proposed an overview of the governance mechanisms responsible for financing and promoting private sector engagement. To this end, I conducted documental analysis to map guidelines from forums of development cooperation that have highlighted the role of the private sector engagement. The final documents of the 4th High Level Forum on Aid Effectiveness of 2011 in Busan called companies to play an increasing role in development cooperation. The Group of Twenty meetings, the United Nations summits about the Millennium Goals and the Sustainable Development Goals, and the last Conference on Financing for Development of Addis Ababa of 2015 have also encouraged private sector partnerships. More recently, high level global forums – like the

BAPA+ 40 2o High Level UN Conference on South-South Cooperation of 2019, the ECOSOC Forum on Financing for Development of 2019, and the High-level Political Forum on Sustainable Development. – have also indicated the need to identify new funding mechanisms and ways to promote an increasing participation of the private sector.

In addition, the Global Partnership for Effective Development Cooperation is a key forum to look for guidelines for private sector engagement. This initiative brings together governments, bilateral and multilateral organizations, civil society, private sector, among others, to address policies and possible financial schemes to tackle the 2030 Agenda. In this context, they have published the Kampala Principles that define strategies to promote effective private sector engagement in development cooperation in 2019.[8] Moreover, the United Nations Global Compact became the largest global forum to promote corporate sustainability in line with the SDGs and ESG practices. It mobilizes more than 12,000 members in 160 countries.

Besides the governance mechanisms, there are new alternative sources of financing that could corroborate with the global efforts to meet the sustainable goals. These are new financial mechanisms that integrate ethical considerations into the investment process. Among them, environmental social governance - ESG, socially responsible investing - SRI, impact investing and green bonds are the most well-known. The mapping of these resources was useful to seek alternatives to cope with a scenario of budget constraints from traditional donors. My goal was to provide an overview of these new funding mechanism and an estimate of the total volume of sustainable responsible investments in the world, as well as in Germany and Japan.

In sequence, I have proposed a framework of modalities of private sector engagement. This analytical construction provides a lens to better understand and evaluate the role of companies in the promotion of sustainable development. The target was to present a conceptual framework that allows one to analyze the potentialities and limits for private sector participation in the development cooperation agenda that will be used in the study analysis of Germany and Japan. This framework points out the main forms of private sector engagement to comprehend the role of companies in the promotion

[8] For more information, see (Global Partnership for Effective Development Co-operation 2019)

of sustainable development at the international level. Here, it is important to highlight that governments mobilize companies at the national level to implement their respective policies, programs and initiatives that contribute to the fulfillment of the 2030 Agenda. However, only initiatives and programs related to foster PSE in development cooperation will be considered for the purpose of this research.

To this end, I reviewed concepts of private sector engagement based on the studies conducted by Byiers and Rosengren; Di Bella et al.; and Vaes and Huyse. There are also references in the field of business administration that provide insights about the rationale behind the company's interest to adopt sustainable practices. Michael Porter and Mark Kramer (2011) introduced the notion of **shared value**. Porter and Kramer proposed a new business strategy for companies that conciliate the creation of economic value with benefits for society "by addressing its needs and challenges." The work of Porter and Kramer has been serving as guidelines for international forums to attract companies to be engaged with corporate sustainable practices.

In line with Porter and Kramer, other relevant study is the article of Nidumolu, Prahalad, and Rangaswami entitled *Why Sustainability Is Now the Key Driver of Innovation* of 2009. For these authors, sustainability can be a source of competitive advantage when linked with innovation. Eccles, Ioannou and Serafeim (2014) evaluated the performance of corporations that have adopted environmental social governance – ESG practices into their strategies. For these researchers, the introduction of business strategies with ESG criteria in their business strategy characterizes the **High Sustainability Companies**. There are also data that have shown that "sustainable corporations" have performed better in terms of return on investments. Another relevant work is the notion of Stakeholder Capitalism that defends that a firm should focus its mission on meeting the needs of all its stakeholders: customers, employees, partners, the community, and society. It was launched in the 1932 in the management classic entitled *The Modern Corporation, and Private Property*, by Adolf Berle and Gardiner Means. This concept became the central theme of the World Economic Forum's (WEF) 50th Annual Meeting of 2020 in Davos: "Stakeholders for a Cohesive and Sustainable World."

In contrast to the positive view of engaging the private sector in development cooperation, the work of Blowfield and Dolan discussed the limitations to bring

companies to take part in the development agenda. (Littig 2009), Mawdsley, Scheyvens Et al. have evaluated the interests and risks mobilizing the private sector to this the development agenda. Another necessary research considered the study of public-private partnerships applied to development cooperation. Among them, the work of Kate Bayliss and Elisa Van Waeyenberge provided a critical empirical understanding about the effectiveness of PPPs.

Other relevant references were the documents produced by think-tanks, such as the North-South Institute (Canada), the German Development Institute – DIE (Germany), Hudson Institute (USA), the DEVEX Platform (USA), the BRICS Policy Center of the Pontificia Universidade Católica of Rio de Janeiro (Brazil), among others. Di Bella, Kindornay, and Tissot (2013) have published a complex evaluation on the role of the private sector in the cooperation agenda through the North South institute. The document entitled *Mapping Private Sector Engagements in Development Cooperation* presents modes of engagement modalities and statistics, as well as criteria for resource allocation, monitoring, and evaluation. In addition, the Belgian Institute KU Leuven conducted a study to evaluate the involvement of the private sector in selected European Countries and the Flandres region in 2012. Another study by Byers and Rosengren (2012) organized forms of private sector engagement in two categories: private sector development and private sector for development.

This cross-analysis has provided the necessary inputs to design the **proposed framework of modalities of private sector engagement**. To this end, I have reviewed the study carried by Prof. Inoue and myself in 2020 where we have outlined a first draft of a construction model. In this scene, the referred framework contemplates two main groups of private sector engagement: **Active Partnership for Development** and **Corporate Awareness for Development**. The first category contemplates those forms of mobilization sponsored by governments to leverage capital and technical expertise from companies for international initiatives. The second considers the various forms of voluntary engagement of companies and financial institutions related to the adoption or promotion of corporate sustainable strategies and principles (**Hypothesis n. 1**). Based on these two categories, I have presented and classified the various forms of engagement.

With the framework, it was possible to carry out the analysis of Germany and Japan. This evaluation considered the two main categories of private sector engagement. For the

category of **Corporate Awareness of Development**, I aimed to identify the numbers of companies that were adopting corporate sustainable practices, as well as those classified as High Sustainability companies. To this end, the United Nations Global Compact[9] – a global initiative that sponsor private sector mobilization – was used as reference to map the listed companies and their respective form of engagement. This forum provides data about the member companies in Germany and Japan, including number of companies and modalities of participation. In the case of the High Sustainability companies, the main source is the **100 Global Index Report** that measures the most sustainable corporations. The results are announced every year at the World Economic Forum in Davos, Switzerland. I also looked at other financial flows that are not sponsored by developing agencies – such as Foreign Direct Investment - FDI, Sustainable Responsible Investments – SRI, resources allocated by private philanthropic foundations, – to comprehend the size of the "voluntary" forms of mobilization carried out by companies.

For the category **Active Partnership for Development,** I have mapped the main mechanisms to foster private sector engagement that are coordinated by the respective development institutions of each country. There are many new funding instruments that could support the development agenda such as public-private partnerships, blended finance, among others.[10] This research identified the mechanisms that have been used by the respective development agencies of each country and, when possible, estimate the total volume of resources spent. Furthermore, I went over the identification of the main private philanthropic foundations of each country to calculate the volume allocate with sustainable initiatives.

To this end, I used reports, minutes of forums and interviews to understand how the respective development agencies were promoting private sector engagement in practice. The main sources of ODA data and the volume of resources mobilized by companies through public finance are the official annual reports from the respective developing agencies and the OECD. In addition, reports from the International Monetary Fund - IMF, World Economic Forum, World Bank and the United Nations Conference on Trade and Development - UNIDO complemented the analysis. Other referred documents were the

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[9] For more information, see https://www.unglobalcompact.org/. This global forum promotes private sector engagement with the SDG agenda and counts with more than 10,000-member companies.
[10] N.A. Based on the recent co-operation development reports of the OECD, World Bank, among others.

annual report of the respective developing agencies, as well as the reading of institutional materials, journals, press articles and on-site research. These annual reports were used as inputs for quantitative analysis and to comprehend priority areas, allocation of resource per SDGs, etc. In this context, all the data obtained was presented in American Dollars (USD). The information obtained in Euro or in Japanese Yen was converted to the average USD dollar of the respective year of analysis.

Among these references, special attention was given to studies published by the Organization for Economic Cooperation and Development - OECD. The OECD produces annual reports about the status of the development agenda of its member countries. In particular, the document 2016 Development Co-operation Report: *The Sustainable Development Goals as Business Opportunities* examines the role of private sector foundations engaged in development cooperation. It also gathers statistics and analyses on current international cooperation that will serve for several quantitative analyzes. This report highlights the achievement of sustainable development goals as "business opportunities." It also presents a list of funding mechanisms that could be effective for the international cooperation agenda. It contemplates the dimensions of co-financing (including access to subsidized loans) and resource mobilization. It also suggests that the private sector could expand its engagement through the introduction of stimulus, regulation, and transparency mechanisms.

This cross-analysis of the two categories of PSE provided an estimate about the private sector's contribution for the promotion of the sustainable agenda. Thus, it was possible to compare the volume of resources allocated by development agencies to promote PSE versus the total volume of ODA spent by Germany and Japan (**Hypothesis n. 2**). This comparative analysis also enabled to verify if the financing of the 2030 Agenda were dependent on voluntary forms of private sector engagement (**Hypothesis n. 3**). After the study-case of each country, this research presented a comparative analysis of the private sector engagement models of Germany and Japan. My goal was to highlight different approaches from each country to promote private sector engagement. Also, I have verified how such forms of mobilization occurs in practice.

Besides the quantitative analysis, a limited number of interviews were conducted to validate the data and insights found during the quantitative and bibliographic investigation. Moreover, it identified the motivations and interests of development

institutions and companies to take part in the sustainable development agenda **(hypothesis nº 4)**. I aimed to verify the rationale behind the development agency's interest to mobilize companies to participate in development cooperation. In addition, it was important to comprehend the company's policies to adopt ESG standards and business strategies. It was also relevant to understand the company's motivation to embrace sustainability as part or integral component of its corporate strategy.

I have conducted interviews on a selected group of actors that are part of the corporate elite or considered experts. The questions will be related to the challenges faced by companies and financial institutions to embrace the 2030 Agenda. For development agencies, I looked over the instruments used to mobilize the private sector. As explained by Littig (2009), representatives of the elite can provide information on specific areas of knowledge that would otherwise be difficult to obtain. In this sense, I mapped who occupies a senior or middle level managerial position that influence the decision-making process (Littig, 2009). Since the interviews contemplate sensitive issues related to financial information and corporate strategies, the identities of all respondents were protected with the adoption of an informed consent form (Kaiser 2012). It must be mentioned that the Pandemia has restricted the number of planned interviews to around 10-12 since the scope of the questions deals with sensitive issues that cannot be conducted through virtual meetings. Despite this fact, I have managed to interview representatives from companies, development agencies and financial institutions to obtain a significant sample for consideration.

The objective of these interviews aimed to indicate if the participation of the private sector occurs in a coordinated, articulated, or complementary way with the public sector. In this scene, I aim to understand what are the main governance forums that promote public-private dialogue. Among the available references on governance, the studies of James Roseneau, Andova Et Al., Gomes and Merchán, Liouchen provided a critical perspective about the motivations and interests of companies to take part in developing initiatives. In addition, the work *Governing through Goals* by Kanie and Biermann (2017) is a groundbreaking work in the analysis of how challenges and the appropriate governance strategy to address the Sustainable Development Goals – ODS – were established.

In sum, the innovative contribution of this research was to present a framework that identifies and quantifies the different modalities of private sector engagement in the sustainable development agenda. To this end, the proposed structure covers academic references from development studies, international relations, economics, and management. This PSE frameworks expands the notion of development cooperation by encompassing the role of companies in the provision of financial resources and expertise. In this perspective, the private sector was considered as a relevant actor of international relations that has key responsibilities in the implementation of the 2030 agenda. In this scene, the participation of companies occurred through voluntary forms of engagement or public-private partnerships. Thus, the mapping of multistakeholder governance mechanisms has shed light on the motivations behind the company's interest to get involved in sustainable initiatives. A second contribution of this research comprised the case study of PSE in Germany and Japan. As relevant donors of ODA, a comparative analysis offered a critical and innovative perspective about the feasibility to count with the respective private sector of each country to meet the SDGs targets. The use of reports, databases and interviews supported this view by offering a cross-analysis to better comprehend the limits, potentialities, and risks of engaging the private sector in the development agenda.

This research was carried out during a Pandemic crisis brought by the Coronavirus and a war between Russia and Ukraine. Both events will bring enormous effects in the geopolitics of international affairs. The impacts for development cooperation in the post-Corona world are huge and will bring new priorities, forms of collaboration, funding modalities, among other structural changes. In this context, the entire feasibility of the 2030 Agenda can be put into question. The difficulty faced by developing countries to acquire vaccines was an example of how far we are from creating a coherent and moral system of cooperation. The food supply crisis brought by the war reinforces this view. Besides these events, the dissemination of ESG practices has been gaining increasing notoriety in the corporate world. Financial institutions worldwide have been launching new initiatives and credit lines with environmental and social concerns. Companies are also communicating and promoting business strategies that highlight their sustainable commitments. In this context, a key issue is to separate those firms that have effective sustainable strategies from the rest to avoid "greenwashing." Despite the focus of my research contemplates the period of 2008-2018, I have provided insights for future studies

on development cooperation over the issue of private sector engagement at the end of this document.

The present dissertation is organized in five main chapters. The first chapter presents the main global challenges to be addressed by the 2030 Agenda. It presents the scenario of ODA with preliminary calculation in terms of financial gaps to meet the goals of the 2030 Agenda, as well as alternatives of new finance mechanisms that could count with the participation of companies. I have also described the main governance mechanisms that are supporting the agenda with a special attention on policies and guidelines that could foster the mobilization of companies. Chapter 2 presents the framework of modalities of private sector engagement. It evaluates the rationale behind the company's interests to adopt sustainable practices, as well as the current discussions about bringing companies to take part in development cooperation. The following Chapters 3 and 4 examined the study case of Germany and Japan, respectively, based on the proposed framework of modalities for private sector engagement. Finally, Chapter 5 provides final remarks regarding a comparative analysis of the German and Japanese experiences in promoting private sector engagement.

February 2023.

1. The Implementation of 2030 Agenda: Governance and Financial Challenges

1.1. Opening Remarks

The financial crisis of 2008 brought to light the vulnerabilities of a global financial system that experienced excessive deregulation and market integration since the 1980s. The social and economic impacts that came due to the crisis increased public spending to unthinkable levels. For some, the neoliberal capitalism system has reached its limits (Mason 2015). So, the international community might be in the brink of a structural change so big and profound that would lead to a postcapitalist word. Moreover, the financial crisis gave rise to discussions about the purpose of corporations that should not be profit per se (Porter and Kramer 2011). At the same time, traditional donors of ODA have faced financial constraints to promote development cooperation at a time of desperate need to address initiatives to tackle global challenges such as climate change, poverty reduction, increase of inequality of wealth, among others.

With the launch in 2015 of the Sustainable Development Goals – SDG in the framework of the 2030 Agenda, a new global strategy became the main guideline to promote development cooperation. In this context, Kaine and Bierman (2017) have indicated the need to implement complex transnational governance mechanisms since the accomplishment of the SDGs implies a concerted multi-level negotiation, managerial and evaluation process. However, the 2030 Agenda counts with no universal framework to evaluate the quality, impact, or the results of development cooperation (Chaturvedi, et al. 2021). Development institutions can align any initiative with the SDGs because the 2030 Agenda does not provide specific guidance on defining the quality of development cooperation (Pérez-Pineda e Wehrmann 2021) (Uchenna e Simplice 2018). There are no global standards to measure the quality of development cooperation since it is done at the level of providers, beneficiaries, and individual projects, among other things (Besharati, Rawhani e Rios 2017).

Nevertheless, it is important to acknowledge that, after 70 years since President Truman's call for action, the international community has reached a wide, but vague compromise that global framework conditions matter for development (Sebastian 2014). This development framework is not perfect, but it points out the main challenges faced by humanity translated into goals, targets, and indicators. The problems arise when we move from planning to implementation. Firstly, the accomplishment of the SDGs demands complex governance mechanisms to orchestrate governments and multiple stakeholders towards common goals. In addition, the funding needs to meet the SDGs implies the mobilization of trillions of dollars that are far beyond the projected ODA resources of traditional and emergent donors.

In this scene, the emergence of new actors - such as China, India, and Brazil, as well as the role of private companies and foundations indicate that the development agenda is no longer restricted to the traditional approach of aid assistance. Thus, the implementation of a list of ambitious goals needs to consider a different global perspective from the historical pattern of North and South cooperation. It also demands a concerted effort between countries and different actors in a scenario of weaking of multi-lateral approaches. The trillions of dollars needed to accomplish the SDG goals also demand innovative solutions and new forms of cooperation. It is in this context that the private sector is called to play a relevant role in this agenda.

This chapter evaluates the present scenario of development cooperation that came with the inauguration of the 2030 Agenda. My goal was to present a critical overview about the potential role of the private sector to finance the 2030 Agenda at the global level. To this end, I initially went over the existing governance mechanisms to understand existing guidelines and policies that promote the mobilization of companies. In sequence, I evaluated the financial gaps to meet the SDG targets. Furthermore, I presented an overview of new funding mechanisms that could reduce the gap of resources needed to fulfill the SDGs. This cross-analysis enabled a critical overview about understanding the feasibility to meet the targets of the 2030 Agenda through private sector engagement.

1.2. Governance Mechanisms to Support the 2030 Agenda

1.2.1. From Planning to Implementation

The book *Governing through Goals* by Kanie and Biermann (2017) is a groundbreaking work in the analysis of how challenges and the appropriate governance strategy to address the Sustainable Development Goals – ODS – are established. One of the key concepts is the use of goal setting as an instrument to steer behavior through the establishment of priorities, concentration of efforts and the identification of targets that can be used to track targets or benchmarks. The success of these arrangements implies "the articulation of targets and indicators associated with specific goals as well as the organizational arrangements to oversee the effort to attain goals." In the same book, Young (2017) recalled that, while governance can be seen in generic terms as a social function centered on steering individuals or groups towards desired outcomes, goal setting should be understood as a distinct strategy since it is associated with key goals. Goal setting aims to steer behavior by:

> "(i) establishing priorities to be used in allocating both attention and scarce resources among competing objectives, (ii) galvanizing the efforts of those assigned to work towards attaining goals, (iii) identifying targets and providing yardsticks or benchmarks to be used in tracking progress towards achieving goals, and (iv) combating the tendency for short-term desires and impulses to distract the attention or resources of those assigned to the work of goal attainment. Global setting thus differs from rule making, which seeks to guide behavior of key actors by articulating rules (and associated regulations) and devising compliance mechanisms whose purpose is to induce actors to adjust their behavior accordingly." (Young 2017)

Since the work of Rosenau and Czempiel of 1992, the adoption of governance mechanisms became an integral part of the institutional framework and the decision-making process to tackle global challenges in development cooperation. In this scene, effective governance system implies responses and results (Rosenau and Czempiel 1992). It also considers the ability to implement decisions if they are not met (Holsti 2016). The establishment of governance arrangements contemplates the public nature of its

objectives. Transnational governance occurs when networks operating in the transnational political sphere authoritatively steer constituents toward public goals (Andonova, Betsill and Bulkeley 2009). Thus, governance must be the result of an institutionalized process that serves to "guide and constrain governance behavior in the future." The authors emphasize that one of the main concepts of governance is the notion of steering to achieve specific objectives. In addition, there is a premise of mutual recognition of the role of the actors involved.

Gomes and Merchán (2017) have carried out a wide study to conceptualize transnational governance. For these scientists, the concept of transnational governance is broad and arises in the context of contemporary capitalism. They have highlighted three characteristics or dimensions:

- It involves multiple actors, both the government and its agencies, as well as civil society organizations and businesses.
- It comprises multi-level relationships; that is, the local, national, and global dimensions intertwine.
- It involves negotiation, as the types of governance are not established by the imposition of one of the actors, and consensus is sought.

Based on these references, the coordination of the SDGs considers problems related to interdependence of policies, collective action, and disconnected policymaking at national and global level (Chaturvedi, et al. 2021) (Barbier e Burgess 2019). In this context, the 2030 Agenda involves a complex web of interdependences with potential synergies and trade-offs (Chaturvedi, et al. 2021). Despite the existence of research on the topic of network analysis (Le Blanc 2015) (Nilson, Griggs e Visbeck 2016), countries have not applied these tools to support the decision-making process and the monitoring of the SDGs. Policies are also disconnected between the global and national level. National plans aligned with the SDGs appear to be shaped by path dependencies, rather than by systematic interlinkages between SDGs (Breuer, Janetscheck e Malerba 2019) (Tosun e Leininger 2017).

Due to the broad scope of the agenda, problems may also rise in terms of power disputes since it allows different actors and stakeholders to legitimize or influence their interests and policies. For Gomes and Merchán (2016), power relations are a critical

aspect in the study of transnational governance. In this scene, bringing the private sector to take part in governance frameworks may rise questions about their capacity to influence the implementation process. For the scientists:

> "This is mainly because private players gain too much importance to discuss and regulate issues of public interest, for even though they have public interests, they surely also have private interests." (Gomes e Merchán 2017)

Besides power disputes, collective action is another issue of concern since there are multiple actors with conflicting interests that need to cooperate through multiple sector and jurisdictional levels (Bowen, et al. 2017). Collective action problems occur when individual actors do not act in the common interest even if they can benefit from a particular result (Olson 2009). This leads to potential coordination failures or poor outcomes. Moreover, there problems related to goal incoherence due to the imbalanced implementation of internally agreed goals (Chan, Iacobuta e Hägele 2021). For these authors:

> "The key areas in which coherence needs to be enabled for the implementation of the 2030 Agenda are: coherence between global and national goals; coherence across international agendas and processes; coherence between economic, social and environmental policies; coherence between different sources of finance; and coherence between diverse actions of multi-actors and stakeholders. (Chan, Iacobuta e Hägele 2021)."

Therefore, the implementation of the global challenges expressed in the SDGs consider complex structures of governance. To work, these mechanisms of governance need to address unresolved coordination disputes, contested responsibilities and coherence in the whole process to increase the chances of the achievement of the 2030 Agenda.

1.2.2. Governance and the Private Sector

Based on these references, the participation of the private sector brings implications in the functioning of governance mechanisms that is acknowledged throughout this research. The studies of Gomes and Merchán, Chaturvedi et al, as well as the work of Kanie and Biermann, have indicated that mobilizing companies to the development agenda affects the design of policies, as well as the planning and the expected outcomes of development cooperation initiatives. The 2030 Agenda indicates **SDG 17 - Strengthen the means of implementation and revitalize the Global Partnership for Sustainable**

Development Finance to address issues related to financing, governance, partnerships, and monitoring. In total, there are 19 specific targets with their respective 24 indicators to support SDG 17 (United Nations 2015). Regarding the private sector, the list below shows the targets and indicators of SDG 17 that can imply their participation:

Figure 4 - SDG 17 and Its Targets Related to Private Sector Engagement

17.3 Mobilize additional financial resources for developing countries from multiple sources

> 17.3.1. Foreign direct investment, official development assistance and South-South cooperation as a proportion of gross national income
>
> 17.3.2. Volume of remittances (in United States dollars) as a proportion of total GDP

17.7 Promote the development, transfer, dissemination and diffusion of environmentally sound technologies to developing countries on favorable terms, including on concessional and preferential terms, as mutually agreed

> 17.7.1 Total amount of funding for developing countries to promote the development, transfer, dissemination and diffusion of environmentally sound technologies

17.16 Enhance the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in all countries, in particular developing countries

> 17.16.1 Number of countries reporting progress in multi-stakeholder development effectiveness monitoring frameworks that support the achievement of the Sustainable Development Goals

17.17 Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships

> 17.17.1 Amount in United States dollars committed to public-private partnerships for infrastructure Data, monitoring and accountability

Source: Extracted from the 2030 Agenda (United Nations 2015).

Among the targets selected in **Figure 4**, there are specific challenges related to investment attraction (target 17.3), knowledge transfer (target 17.7 and 17.8), governance (target 17.16) and public-private partnerships (target 17.17). These targets indicate the relevance that companies have acquired in the implementation of the 2030 Agenda. Also, it shows that foreign direct investment is a measure of development promotion despite the difficulties to establish links with the improvement of social and economic conditions. Private sector engagement goes beyond funding. It contemplates responsibilities in governance mechanisms, knowledge transfer and capacity building. However, the SDG 17 does not provide guidance on how to promote public-private partnerships - PPPs. For

Copper and French (2018), this leads to weak normative commitments with a situation of voluntarism in development cooperation.

In the context of the 2030 Agenda, specific governance mechanisms were created with the intent to steer the behavior of actors towards goals as well as to mobilize the needed financial support. With the objective to monitor the results of the Addis Ababa Action Agenda, **The Inter-Agency Task Force on Financing for Development**[11] was set up by the Secretary-General and it is comprised of over 50 United Nations agencies, programs and offices, regional economic commissions and other international The Task Force is chaired by the Under-Secretary-General for Economic and Social Affairs. The Financing for Sustainable Development Office of the UN Department of Economic and Social Affairs acts as the coordinator, while the major institutional stakeholders of the Financing for Development process, the World Bank Group, IMF, World Trade Organization - WTO, UNCTAD and UNDP, also participate in the governance process. However, it does not count with the participation of companies as members. This governance body has been responsible to monitor the progress on the Addis Agenda and advise governments on Financing for Sustainable Development. In this context, the Task Force has given great importance in designing policies to promote private sector engagement.

In 2015, world leaders met in Ethiopia to discuss policies to finance the 2030 Agenda and the 17 Sustainable Development Goals (SDGs). The Addis Ababa Action Agenda,[12] which was subsequently adopted, has provided a global framework for financing the implementation of the SDGs by aligning finance with economic, social and environmental priorities. Regarding the recommendations for private sector engagement, the United Nations called the private sector to participate in the development process, "to invest in areas critical to sustainable development, and to shift to more sustainable consumption and production patterns." The final report of Addis Ababa also defended the need to attract private capital flows through foreign direct investments to less developed countries. In this scene, it indicates the intention to develop regulatory frameworks "to better align private sector incentives with public goals, including incentivizing the private sector to adopt sustainable practices, and foster long-term quality investment." In

[11] (United Nations s.d.)
[12] (United Nations 2015)

addition, it has encouraged the adoption of business models that value environmental, social and governance impacts of their activities.

According to the inaugural report of 2016, the task force mapped the commitments of the Addis Ababa Action Agenda and discussed how the Task Force could monitor their implementation in future years (United Nations 2016). One of the main concerns was to offer metrics and how leverage private investments to the 20230 Agenda. Since its first report, the Inter-agency Task Force has discussed the need for the international community to push for reforms in the international financial system to meet the challenges of the 2030 Agenda (United Nations 2017) (United Nations 2018) (United Nations 2019). All reports have also indicated the need to create frameworks at the national and international levels to redirect investments to least developed countries. Both recommendations are complex and were not translated in practical consensual agreements in the main global forums. The reports of the Inter-agency Task Force have also listed proposals to stimulate new development finance mechanisms such as blended finance, but there was no hint on financial indicators or parameters to be followed.

Another relevant governance mechanism is the **Global Partnership for Effective Development Co-operation – GPEDC,**[13] a multi-stakeholder platform created at the Busan Conference of 2011 to promote effectiveness of development efforts on a global scale. It counts with representatives from governments, bilateral and multilateral organizations, civil society, the private sector and representatives from parliaments and trade unions, among others. The platform provides guidance and knowledge to boost development impact, supporting country-level implementation of the internationally agreed development effectiveness principles. One of the goals of the Global Partnership is to drive global progress and support countries in strategically managing diverse development co-operation resources, steering effective practices to deliver on national development targets.

Among its initiatives, GPEDC has created a business-leaders caucus to subsidize guidelines for private-sector engagement. Companies can participate in GPEDC events to take part in discussion and knowledge-sharing activities (Pérez-Pineda e Wehrmann 2021). GPEDC produces biannual reports of ten indicators that capture the essence of the

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[13] For more information, see (GPEC n.d.)

four internationally agreed principles for effective development co-operation and the quality of partnering that takes place to deliver development results: country ownership; focus on results; inclusive partnerships; and transparency and mutual accountability. GPEDC have also highlighted the need to improve the quality of the existing public-private dialogue – PPD in partner countries in its last report of 2019 (OECD/UNDP 2019). According to the GPEDC's report of 2019, partner country governments and private stakeholders agreed that mutual trust and willingness to engage in policy dialogue exist, but there is limited capacity to engage. Besides the results of their biannual reports, the GPEDC developed a set of principles to guide collective work on making private sector partnerships for development co-operation more effective. In July 2019, the Kampala Principles were launched and provide the following five mutually reinforcing principles to guide private sector engagement (**Table 1**).

Table 1 - The Kampala Principles

Principle 1	**Inclusive Country Ownership:** strengthening co-ordination, alignment and capacity at the country level
Principle 2	**Results and Targeted Impact:** realizing sustainable development outcomes through mutual benefits
Principle 3	**Inclusive Partnership:** fostering trust through dialogue and consultation
Principle 4	**Transparency and Accountability:** measuring and disseminating sustainable development results for learning and scaling up of successes
Principle 5	**Leave No One Behind:** recognizing, sharing and mitigating risks for all partners

Source: Global Partnership for Effective Cooperation.

Although these principles might be seen as generic, the objective is to overcome several challenges to promote private sector engagement through development cooperation. These include lack of safeguards on the use of public resources; insufficient attention to concrete results and outcomes (particularly for the benefit of those furthest behind); and limited transparency, accountability and evaluation of projects that count with private sector participation. Nevertheless, they are seen as recommendations that should guide development organizations when they mobilize companies to participate in joint initiatives. Moreover, GPEDC could be seen as an orchestrator since it supports the integration of different approaches to tackle common goals (Wehrmann 2012) (Caplan 2013). This is an interesting perspective since orchestrators are neither apolitical nor

impartial, but they can obtain representative consensus. In this scene, GPEDC's could strengthen its role of an orchestrator by providing institution regulation to surpass general approaches of private sector engagement that neglect the national context (Pérez-Pineda e Wehrmann 2021).

Another initiative is the UN **Global Compact** of the United Nations. It is the main global forum to promote corporate awareness regarding sustainability. It gathers CEOs from companies all over the world that are committed to implement universal sustainability principles and to take steps to support SDG goals. It has a complex governance structure since there is an articulation between the international and the country levels forums. Companies share knowledges and participate in the design of recommendations of corporate sustainable practices. It is a voluntary program that embodies the widely shared norm of corporate responsibility (Berliner e Prakash 2012). There are two types of membership: **signatory** and **participant**. The signatory considers a "first level" of involvement where companies take part in discussions and receive guidance and tools to adopt corporate sustainable practices. The participant plays active role in taking part or coordinating multi-stakeholder platforms and leadership programs. Thus, this latest category shows a deeper involvement of companies in taking part in the sustainable agenda. The UN Global Compact has also created the following 10 principles for member companies to adopt upholding their basic responsibilities to people and planet, but also setting the stage for long-term success:

Table 2 - The 10 Principles of the UN Global Compact

Human Rights	**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
Labor	**Principle 2:** make sure that they are not complicit in human rights abuses.
	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
	Principle 4: the elimination of all forms of forced and compulsory labor.
	Principle 5: the effective abolition of child labor and
	Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment	**Principle 7:** Businesses should support a precautionary approach to environmental challenges;
	Principle 8: undertake initiatives to promote greater environmental responsibility; and
	Principle 9: encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	**Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

Source: UN Global Compact.

The Global Compact has been leading discussions related to the adoption of ESG standards by companies in line with the SDGs. The **Global Compact has been developing tools for companies to introduce environmental, social and governance - ESG** information into all communication with investors. The UN Global Compact and Principles for Responsible Investment (PRI) helps companies to assess and communicate the financial impact of their sustainability strategies, as well as to support investors to integrate sustainability data into their existing investment processes. Companies are invited to use the **Value Driver Model** to their strategies, operations, and communications (**Figure 5**). The Value Driver Model utilizes key business metrics to determine and illustrate how corporate sustainability activities contribute to overall performance. It enables firms to build their own metrics to evaluate connection between their top financial objectives (e.g., return on capital or return on equity) and other indicators such as revenue growth from sustainability-advantaged products, total annual

cost savings (and cost avoidance) from sustainability-driven productivity initiatives, reduced sustainability-related risk exposure that could materially impair a company's performance, among others.

Figure 5 - Value Driver Model of Corporate Sustainability

Source: extracted from (Global Compact 2019).

However, the Global Compact fails to hold companies accountable if they potentially misuse the Global Compact as a public relations instrument for **bluewash**[14] or **greenwash** that refers when a company spends more time and money on marketing themselves as being sustainable than on actually reducing their environmental impact. In addition, Global Compact lacks mechanisms to monitor companies in their effort to adopt corporate sustainable practices, as wells to sanction member companies due to non-compliance practices. Despite these limitations, the Global Compact became the main corporate forum to foster corporate engagement, counting with more than 15,515[15] companies all over the world as members.

[14] Bluewashing refers to the alleged practice of companies that use their membership or participation in philanthropic and charity-based activity as an excuse or way to increase their corporate influence on international organizations (Knight e Smith 2008).
[15] The total contemplates active members (participants and signatory) in June 2021. See: https://www.unglobalcompact.org/participation

In view of the above, it is possible to conclude that the scope of action of these governance mechanisms are related to policy recommendations, guidelines support and advocacy of the 2030 Agenda. From the reports of the Inter-Agency Task Force, the financial indicators do not count with a permanent process of monitoring.[16] Although the 2030 Agenda indicate the need for a systematic process of data collecting and analysis, the financial reports from the Inter-Agency Task Force fails to provide a complete understanding about the evolution of financial gaps of the 2030 Agenda. Also, it does not count with the participation or structured mechanisms of dialogue with the private sector. These are critical issues in the process of steering and goal setting since it makes difficult to mobilize and inform the international community about the real funding needs. The Global Partnership for Effective Cooperation, on its turn, has gained relevance due to the voluntary nature and the broad participation of different stakeholders interested in finding policy recommendations for key issues of the development agenda.

The Global Compact became the main forum to disseminate practices of corporate sustainability. The growing number of companies that are becoming member of this initiative shows promising perspectives in terms of change in the mindset of companies. It has a clear focus to promote awareness. However, it must be acknowledged that this governance initiative represents an initial step of engagement in the development agenda. As companies become registered as participants, usually they incorporate sustainability as part of their corporate strategy. Thus, these firms assume an active form of engagement since the purpose of the whole organization is redefined with environmental, social and governance concerns. This issue will be examined in depth in the next chapter.

[16] N.A. It is important to acknowledge that the United Nations have a monitoring system of the SDGs that are carried out by United Nations Statistic Division. Nevertheless, not all the SDGs counts with a structured process of monitoring of indicators, including SDG 17.

1.3. Understanding the Financial Gap

1.3.1. Official Development Financing and Non-State Actors

The implementation of the 17 Sustainable Development Goals - SDGs demands new innovative financing mechanisms to cope with an annual projected funding gap of more than **USD 2,5 trillion for the horizon 2015-2030 and the target of 0,7% of the Gross National Income - GNI coefficient of ODA spending from developed countries** (OECD 2017). While ODA provides a fundamental source of financing, especially in the poorest and most fragile countries, much more is needed. Investment in infrastructure alone reach up to **USD 1,5 trillion** a year in emerging and developing countries (Dahan e Gelb 2015). In addition, the financial requirements calculated by the United Nations Intergovernmental Committee on Sustainable Development indicates that the sustainable goals related to eradication of extreme poverty implies the need of USD 35-195 billion per year during the period 2015-2030 (Voituriez, et al. 2017). In this context, the most recent estimate of financial needs comes from the International Monetary Fund – IMF. To achieve the SDGs in a subset of 49 developing countries —focusing on health, education, water and sanitation, roads, and electricity— the IMF has indicated additional spending of about **USD 520 billion a year**, or an increase of **14 percentage points of GDP on average** (Lagarde and Gaspar 2018).

In comparison to the indicated financial needs, the amount of net official development assistance – ODA[17] had a modest decrease of 2.7%, according to the United Nations SDG Report,[18] totaling **USD 149 billion** (United Nations 2019) (**Figure 6**). The decline was largely influenced by the reduction in aid for hosting refugees. According to

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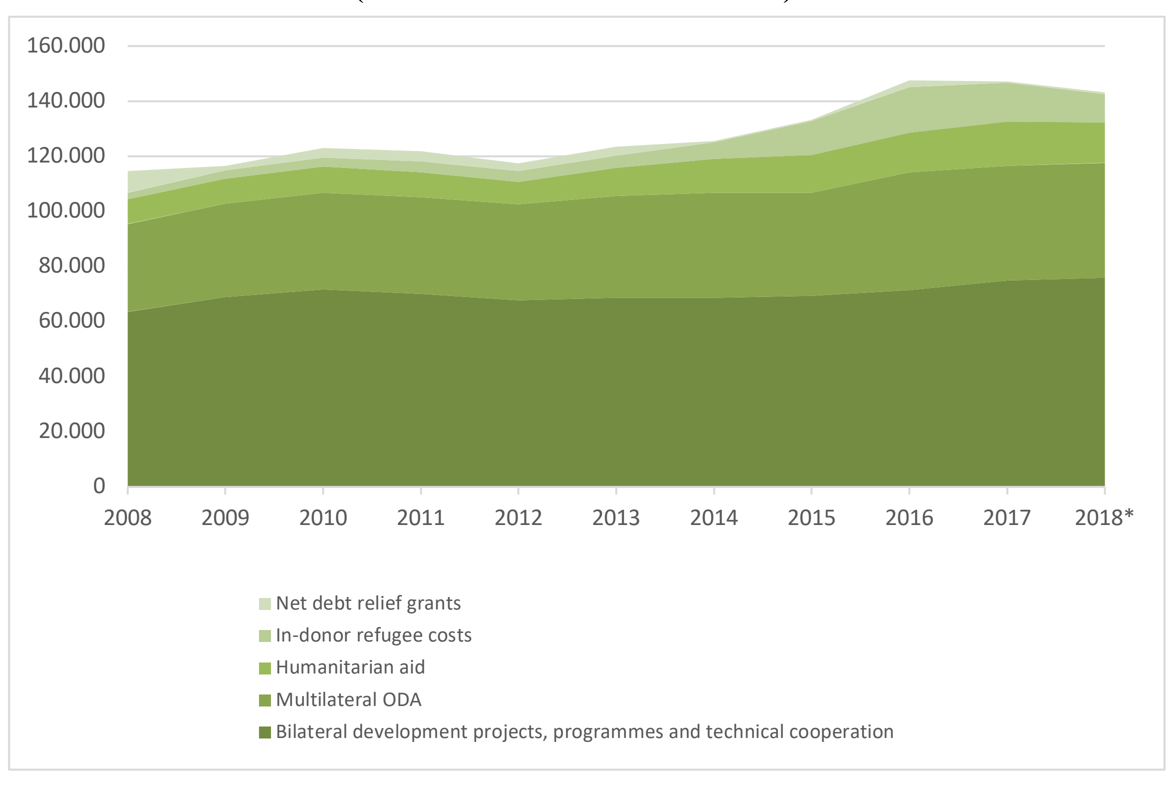
[17] ODA consists of flows to developing countries and multilateral institutions, provided by official agencies, including state and local governments, or by their executive agencies, each transaction following the two criteria:

1. It is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
2. It is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).

the same report, contributions to multilateral organizations - which represent about one third of total net ODA - were stable. However, humanitarian assistance dropped by 8% in real terms. In terms of bilateral projects, expenditure on programs and technical assistance - which represents over half of total net ODA - rose by 1.3 per cent in real terms from 2017 to 2018. From a historical perspective, the total amount of ODA flows in 2018 grew by 75% when compared with the year 2000. However, the data showed values at constant prices. If one examines the period 2015-2018, there wasn't any increase in ODA flows since the launch of the 2030 Agenda. Therefore, projections have reinforced the view of no significant change in ODA spending by developed countries in the future.

Figure 6 - Components of Net ODA flows, 2008-2018
(USD billions of constant 2017 dollars)



Source: SDG Report 2019. United Nations Statistics Division.

If other donors are added (Arab countries, China, India, Brazil, Mexico, South Africa, among others), the amount of external assistance totaled **USD 161 billion in 2016.**[19] Emerging economies – like China, India, and Brazil – have strengthened their South-South cooperation initiatives, allocating of USD 7,4 billion in 2016[20]. The data of China needs a deeper analysis. A study conducted by Johnston and Rudyak (2017) has pointed out that China's net aid had reached USD 5,4 billion in 2013, most of which was being disbursed on bilateral schemes. Despite these differences, the total amount spent on development cooperation by these emergent donors was far behind the figures of the traditional donor countries (**Table 3**).

Table 3 - Estimates of Gross Concessional Flows of Development Co-operation from Emergent Donors, 2012-2016 - (USD Million)

Country	2012	2013	2014	2015	2016	Source
Brazil	412	316				Institute of Applied Economic Research – IPEA and the Brazilian Agency of Cooperation
Chile	38	44	49	33	33	Ministry of Finance
China	3,123	2,997	3,401	3.113	3,615	Fiscal Yearbook, Ministry of Finance
Colombia	27	42	45	42		Strategy institutional plans, Presidential Agency of International Cooperation
Costa Rica	-	21	24	10	9	Annual budget figures, Ministry of Finance
India	1,077	1,223	1,398	1,772	1,695	Annual budget figures, Ministry of Finance
Indonesia	26	49	56	-	-	Ministry of National Development Planning
Mexico	203	526	169	207	125	Mexican Agency for International Development Cooperation - AMEXCID
Qatar	543	1,344	-	-	-	Foreign aid reports, Ministry of Foreign Affairs
South Africa	191	191	148	100	95	Estimates of public expenditures, National Treasury

Source: OECD Development Co-operation Report 2018

In addition to the official development assistance, there are other non-state actors, including private foundations and NGOs that have been gaining a prominent role in the development cooperation agenda in the last decade. According to OECD (2016), the total flow of these private foundations and NGOs reached the amount of USD 40,4 billion in

[19] Idem. N.A. Although the data could be underestimated in the case of China.
[20] Idem.

2016, representing a 60% increase in relation to 2008.[21] As shown in **Figure 7**, the US is responsible for the biggest share of the total amount of disbursement allocated by these organizations. Other countries like Germany and Japan – that will be examined in the following chapters – do not have significant expenditures by their respective private philanthropic foundations and NGOs to the development agenda when compared with the US.

Figure 7 - Grants by Private Philanthropic Foundations and NGOs 2008-2016 (USD million)

Source: OECD.

It is interesting to acknowledge that, despite the decline of expenditure after the financial crisis of 2008, the resources allocated by private philanthropic foundations to the development agenda increased in the subsequent years. In addition, the OECD report pointed out that more than 81% of the total funding were concentrated in around 20

[21] Grants by private voluntary agencies and non-government organizations (NGOs) are defined as transfers made by private voluntary agencies and NGOs in cash, goods or services for which no payment is required. The private sector comprises private corporations, households and non-profit institutions serving households. Development funding from the private sector is becoming more significant. This includes private philanthropic foundations, which play an increasing role in funding development and in finding innovative ways to promote it; non-government organizations; and the for-profit private sector. This indicator is measured in million USD constant prices, using 2014 as the base year.

foundations that are in its majority American organizations. The biggest organization is the Bill and Melinda Gates Foundation that has allocated over USD 3 billion in development aid, being responsible for 49% of the total funding allocated by foundations (OECD 2016). Another relevant organization is the Rockefeller Foundation that focuses its core business on the sustainable development objectives related to food, health, energy, and jobs, mobilizing similar amount of funding (Rockfeller Foundation 2016). In addition, the JP Morgan Foundation has structured a global initiative to promote skills development in the workplace after the financial crisis of 2008. This program called *New Skills at Work* started in the US and it was then expanded to other countries with resources totaling USD 250 million (JP Morgan and Chase 2017). These foundations act in partnerships with other donors and recipient countries, funding or executing development projects.

Therefore, the panorama of development financing shows that traditional donors have not increased aid in a significant way, on one hand, and multilateral organizations and emergent donors, on the other, had an expanding role in this agenda, but not significant in relation to the traditional donors. In this context, the total amount of development assistance allocated by traditional and emergent donors – plus multilateral organizations – were far below the projected figures to meet the SDGs implementation based on the **IMF projections of USD 520 billion per year**. So Traditional donors could have spent more during the period 2015-2018 (The increase of ODA was mainly related to refugee crisis). In this context, the increasing financial capability of emergent donors and private foundations are worth mentioning. When one includes the USD 166 billion allocated by traditional and emergent donors in 2016 plus the total amount of USD 40,4 billions spent by private foundations, the total amount of development assistance reached an estimated volume of **USD 206,4 billion**. Although these actors do not respond for a significant part of the ODA, their participation has increased.

1.3.2. SDG 17 and Private Sector Participation

Besides ODA and the resources from private philanthropic foundations and NGOs, the 2030 Agenda indicates the need to mobilize additional financial resources from multiple

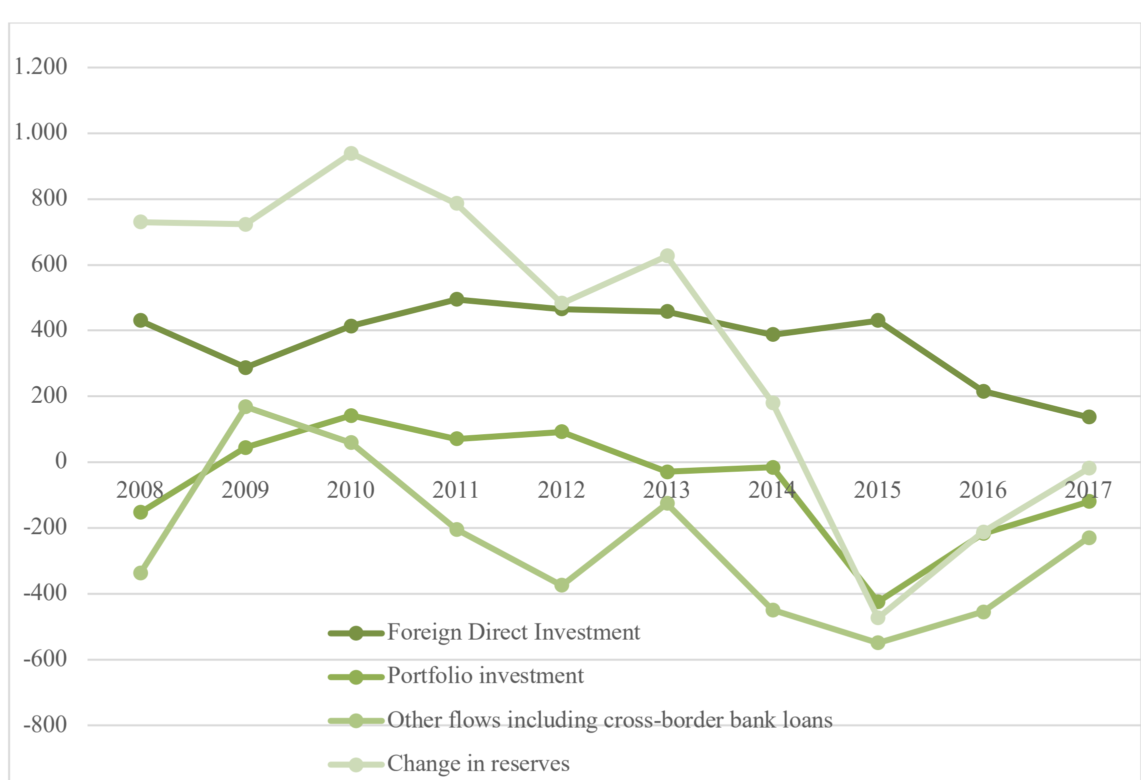
sources, with a special emphasis on the private sector. In this scene, the 2030 Agenda suggests foreign direct investment – FDI as an indicator to support the goal of SDG N. 17. That is, the 2030 Agenda assumed that private flows of resources are a relevant source of economic growth. However, tackling global concerns such as the reduction of inequality standards or climate change depends on a holistic approach and a multi-stakeholder commitment that goes beyond the increase in FDI, for example.

In this context, Berger and Gsell (2019) of the German Development Institute – DIE proposed that governments should foster ways to attract FDI aimed to improve environmental and social conditions. For these researchers, there is a need to design policies that could stimulate links between foreign and domestic firms to improve local business and governance, thus leading to a sustained development. According to the same report, the World Trade Organization is promoting discussions with developing countries to elaborate an International Invest Facilitation Framework – IFF. Also, the German think-tank indicated that developing countries have made limited progress to implement facilitation measures to attract foreign investments (BDI 2019). The GDI proposed six recommendations to foster FDI to developing countries:

1. Bridge the implementation gap by providing capacity building.
2. Improve countries' negotiation capacity.
3. Respect the policy space of developing countries.
4. Focus special and differential treatment on longer implementation periods.
5. Include a commitment by home countries to support their investors' responsible-business conduct.
6. Establish international cooperation mechanisms and increase inclusivity by supporting multi-stakeholder processes.

Despite these discussions, it is difficult to estimate the volume of FDI that went to the promotion of sustainable development in terms of social and economic impacts. Nevertheless, FDI is the largest source of external finance for many developing economies. It was also more stable than other cross-border financial flows, such as portfolio investment and cross-border bank loans, according to **Figure 8**.

Figure 8 - Trends in Cross-border Net Financial Flows to Developing Countries and Economies in transition (USD Billions)

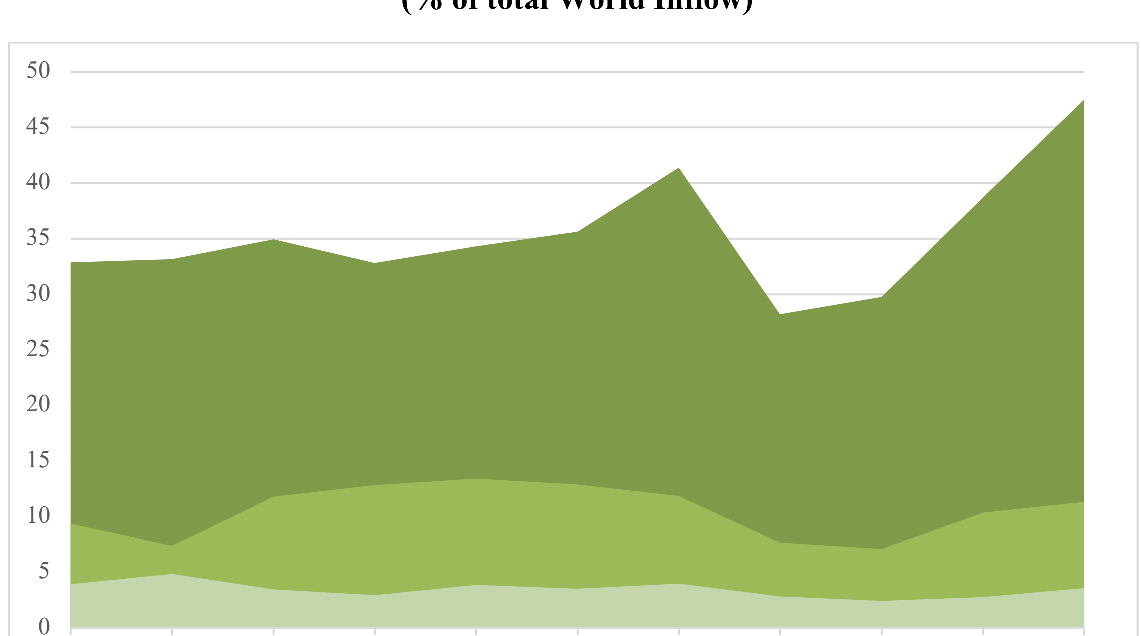


Source: IMF World Economic Outlook database, October 2016 and UN/DESA calculations.

Figure 9 showed the destination of foreign direct investments – FDI. China and Oceania were responsible for the biggest share of FDI inflows absorbing almost 48% of all developing economies (1/3 of the world's FDI if America and Europe are included). The African continent received only around 3.5% of the total FDI allocated in emerging markets. Also, the volume of resources allocated to Latin America in 2018 was similar to the amount of 2008, while Asia and Oceania were the only continents where FDI inflows have increased since the financial crisis of 2008.

Figure 9 - Foreign Direct Investments to Developing Countries 2008- 2018

(% of total World Inflow)



Source: UNCTAD.

In terms of volume of FDI, **Table 4** indicated that almost USD 548 billion were allocated to Asia. Africa, on the other hand, received USD 84 billion. Similar distribution was verified in the destination of financial flows such as portfolio equity, bonds, and other types of lending. It is widely known that FDI can enhance productive capacity, transfer know-how and generate employment, particularly when it creates linkages with domestic suppliers and helps local companies integrate into international value chains. However, since investors seek the highest return on capital invested with the lowest risks, an increase of corporate investments to continents such as Africa will depend on innovative financial mechanisms and new global policies related to investment facilitation.

Table 4 - Global Financial Private Flows in 2017 (USD Million)

Regions	Equity Flows		Debt Flows	
	Foreign direct investment, net inflows	Portfolio Equity	Bonds	Commercial bank and other lending
East Asia and Pacific	547,97	98,601		
Europe and Central Asia	649,731	952,2		
Latin America and Caribbean	245,734	20,07		
Middle East and North Africa	55,378	494		
North America	382,173	193,034		
South Asia	47,105	6,153	36,515	9,251
Sub-Saharan Africa	28,723	13,562		
Total	1956,814	1777,62	36,515	9,251

Source: World Bank / World Development Indicators.

Additional sources of funding to the 2030 Agenda have been stimulated through the promotion of Public-Private Partnerships – PPPs (SDG - Indicator 17.7). PPPs is a contract between a government and a private company under which the private company may invest, build, and operate some element of a service that was traditionally considered a government domain. PPPs are typically employed to implement infrastructural projects when public budgets are constrained.

For Thamer and Lazzarini (2015), PPPs should not be mistaken with other types of acquisition of public services since they consider a **cooperative and risk sharing initiative** between the government and the private sectors. Properly managed, they may also improve public service efficiency through technical expertise provided by the private sector (ECLAC, 2015). PPP projects are based on long-term collaborative contractual relationships, where governments rely on the resources and expertise of private partners for the direct provision of public goods or services (Kivleniece and Quelin 2012). Partnership actors assume the risks, costs, and resources connected to these products and services (Van Ham e Koppenjan 2001). PPPs are a widely used and tested instrument in several countries for their (1) comparative performance with traditional hiring models (Aisbeck, Duffield e Xu 2010); (2) cost-saving potential and delays common to traditional public sector procurement methods (Grimsey e Lewis 2004); and (3) potential for improving public efficiency in the allocation of resources and management of major

infrastructure works (Ribeiro e Meyer 2006). Voituriez et al (2017) indicated that PPPs are types of partnership agreement signed between the public and private organizations “to mitigate the level of risk-taking for all parties and create a win-win situation.”

PPP funding for infrastructure projects in developing countries amounted to approximately USD 159 billion in 2013 (UNCTAD 2016). According to **Figure 10**, PPP investment has been concentrated in relatively few countries and sectors. Almost 60% of the total private participation in projects recorded in developing countries was in (by order of magnitude) China, Brazil, the Russian Federation, India, Mexico, and Turkey. This indicates that PPP investors act in the same rationale as institutional investors, preferring large and dynamic markets to the more vulnerable economies where financing needs are greatest. Among developing regions, Latin America has traditionally hosted the largest share of PPPs and still accounted for 45% of the total in 2013. Only 10% of the total went to Africa, although in sub-Saharan Africa investments have been steadily rising (primarily because of investments in telecoms) (UNCTAD 2016).

Figure 10 - Private Sector Participation in Infrastructure Projects by Region, 2008-2014 (USD Billion)

Source: UNCTAD secretariat calculations, based on World Bank, Private Participation in Infrastructure Project Database (UNCTAD 2016).

In terms of sectors (**Figure 11**), PPPs have been concentrated in relatively few areas, with telecom accounting for 37% (USD 58 billion) and energy for 37% (USD 59 billion) of the total volume of investments. Sectors such as water and sanitation received only USD 3,5 billion in 2013, even though it is one of the most needed infrastructure services in developing countries. According to the same UNCTAD report, PPPs also appeared more likely to be seen in brownfield projects rather than in greenfield projects or risky transformative activities such as those related to climate change (World Economic Forum 2014).

Figure 11 - Private Sector Participation in Infrastructure by Sector, 2008-2013 (USD Billion)

Source: UNCTAD secretariat calculations, based on World Bank, Private Participation in Infrastructure Project Database.

Besides the use of PPPs, another type of potential funding instrument is blended finance that have a variety of models and consists in mobilizing capital investment through different financial mechanisms. In the context of the official development assistance, **blended finance** is presently one of the main alternatives to help to bridge the investment gap to meet the targets of the SDGs in developing countries. This type of funding mechanism seeks alternatives to leverage private investments with a limited amount of official development assistance. The Addis Ababa Action Agenda has also stimulated the use of public-private partnerships, such as blended finance, **defined as the**

combination of concessional public finance with non-concessional private finance and expertise from the public and private sector, special-purpose vehicles, non-recourse project financing, risk mitigation instruments and pooled funding structures (United Nations 2015). The Action Agenda proposed a series of guidelines for its use:

Table 5 - Private Sector Participation in Infrastructure by Sector, 2008-2013 (USD Billion)

1. Careful consideration given to the structure and use of blended finance instruments (para. 48)
2. Sharing risks and reward fairly (para. 48)
3. Meeting social and environmental standards (para. 48)
4. Alignment with sustainable development, to ensure sustainable, accessible, affordable and resilient quality infrastructure (para. 48)
5. Ensuring clear accountability mechanisms (para 48)
6. Ensuring transparency, including in public procurement frameworks and contracts (paras. 30, 25 and 26)
7. Ensuring participation, particularly of local communities in decisions affecting their communities (para. 34)
8. Ensuring effective management, accounting, and budgeting for contingent liabilities, and debt sustainability (paras. 95 and 48)
9. Alignment with national priorities and relevant principles of effective development cooperation (para. 58)

Source: Extracted from the 2017 Report from the Inter-Agency Tans Force on Finance for Development.

For the OECD (2018), blended finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries. Blended Finance refers to a **financing package comprised of concessional funding provided by development partners and commercial funding provided by financial institutions and co-investors**. Blended Finance solutions can provide financial support to a high-impact project that would not attract funding on strictly commercial terms because the risks are considered too high, and the returns are either unproven or not commensurate with the level of risk. According to the OECD (2018):

> "It includes official development finance (i.e. both concessional and non-concessional development finance from official sources) and private funds that are governed by a development mandate (e.g. financing provided by philanthropic organizations). Additional finance refers to commercial finance such as public and private sources of finance whose principal purpose is commercial rather than developmental (e. g. investment by public or privately-owned pension funds or insurance companies, banks, businesses, etc.)" (OECD 2018a)

The key objective of blended finance is to use development finance to increase the mobilization of additional financing for development, particularly from commercial sources. It characterized by three characteristics:

- Leverage: use of development finance and philanthropic funds to attract private capital.
- Impact: investments that drive social, environmental, and economic progress.
- Returns: Returns for private investors in line with market expectations based on perceived risk (World Economic Forum 2015).

For the OECD (2018), finance providers can be governments, foundations, development finance institutions (DFIs), while resources may be concessional or non-concessional. This framework considers development finance as only "one part of the total financing for a project, but one which is deployed in such a way that it enables overall financing needs to be met to the greatest extent possible by non-development finance." According to Voituriez Et al. (2017):

> In this respect, blending most traditionally involves combining a variety of instruments – basically loans and grants – from a single institution. This type of blending translates into subsidized loans and represents the core business of development finance institutions such as the European Investment Bank, the French Development Agency, and German Development Bank KfW." (Voituriez, et al. 2017)

In sum, blended finance comprises the use a list of different mechanisms as shown in **Table 6**:

Table 6 – Instruments of Blended Finance

Grants: cash or in-kind transfers which do not generate debt for recipients
Debt instruments: cash or in-kind transfer which incur in debt for the recipient
Mezzanine finance: transfers that incur in debt or preferred stock, as subordinated loans, preferred equity or hybrid instruments
Equity and shares in collective investment vehicles: investment through collective mechanisms to reach regions that would not be attractive for sole or long-lasting investments.
Guarantees and Liabilities: risk-sharing mechanism: the guarantor pays part of the entire amount due on a loan, equity or other instrument to the lender/investor in the event of non-payment by the borrower or loss of value in the case of investment.

Source: BRICS Policy Center.[22]

The use of these instruments can also be mixed through different structures of blended finance, as shown in **Figure 12**.

Figure 12 - Structures of Blended Finance

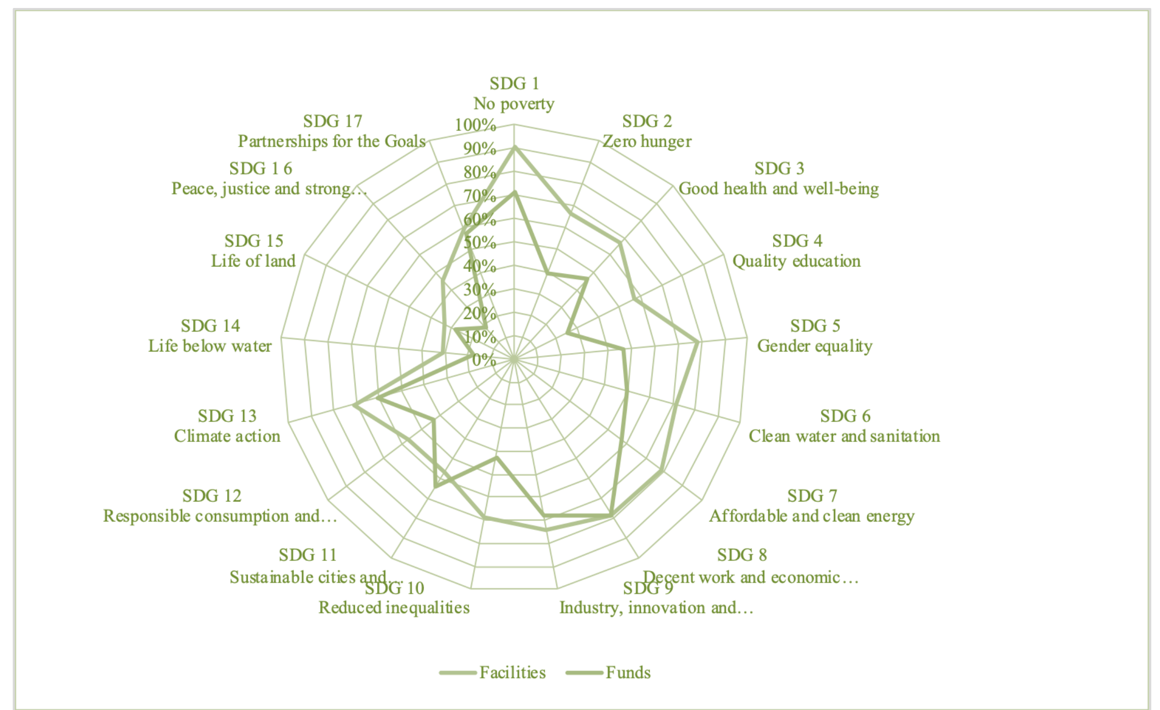
Source: Convergence

[22] http://www.bricspolicycenter.org/en/publicacoes/private-sector-engagement-through-development-cooperation-pse/

For the International Finance Corporation – IFC of the World Bank Group, development projects need different types of capital at various stages of their evolution. In this sense, large amount of capital could be deployed to emerging markets, but they are not flowing since providers of funding require risk mitigation, facilitation, or partnerships with other capital providers along the risk-capital spectrum. Concessional financing can help to mitigate real or perceived risks which often lead to higher costs or prevent a transaction from happening. In other words, it can help to bridge gaps and address market barriers to bring private sector development in areas of strategic importance and high development impact. This type of funding also reduces risks for the private sector initiatives that are in line with public interest.

According to a special report from the OECD (2018), blended finance has mobilized more than **USD 81 billion** from the private sector in **2012- 2015**, the majority (77%) in middle-income countries. Also, the OECD acknowledges that most of its member countries are participating in some type of blending. However, it is not a simple mechanism to design. Blended finance usually applies to individual transactions where there is clear mobilization of commercial finance. The blending element is the development contribution that is identified and reflected in the individual financial arrangements for the investment. Its nature or financial structure can take diverse forms (debt, equity, guarantees, grants, technical assistance, etc.) and the official development support be routed directly to a project or via an intermediary (OECD 2018). The same study has also pointed out that the blended finance has the potential to contribute to many of the SDGs, according to **Figure 13**:

Figure 13 - How Blended Finance Funds and Facilities Target the SDGs



Source: Extracted from OECD (2018) based on OECD 2017 Survey on blended finance funds and facilities

1.3.3. The Sustainable and Responsible Investments - SRI

Presently, a growing number of investors are looking to make a positive impact on society and the world at large. To Dalberg (2014), innovative financing is shifting from the fundraising approach to the delivery of positive social and environmental outcomes. Based on this view, the value of an investment is no longer about financial returns. In this scene, there is a proliferation of funds and strategies that integrate ethical considerations into the investment process. Among them, **environmental, social, and governance (ESG)**, **socially responsible investing (SRI), impact investing and green bonds** are the most well-known. However, there are differences in terms of purpose and the way an investment portfolio can be structured.

Environmental, Social and Governance – ESG

Environment, social, and governance – ESG refers to sustainable investment criteria used alongside traditional financial criteria in managing and selecting investments. ESG refers to the environmental, social, and governance practices of an investment that may have a material impact on its performance. The integration of ESG factors is used to enhance traditional financial analysis by identifying potential risks and opportunities that goes beyond technical valuations. While there is an overlay of social consciousness, the main objective of ESG valuation remains financial performance. ESG measurements aim to capture additional dimensions of corporate performance, which are not revealed in accounting data (Tarmuji, Maelah and Tarmuji 2016). Corporate financial statements lack the capacity to inform investors about the value of reputation, quality, brand equity, safety, workplace culture, strategies, know-how and other assets. Thus, ESG indicators catch a more extensive scope of non-financial data on environmental, social performance and corporate governance that can be used to evaluate the company's management capability as to support risk management (Galbreath 2013).

Investments with good ESG scores have the potential to drive returns, while those with poor ESG scores may inhibit returns. As already seen, the Global Compact has been stimulating companies to adopt ESG standards in their strategies as well as in their reports. **Table 7** below lists common ESG criteria that could be considered when selecting an investment opportunity.

Table 7 - Example of ESG Criteria

Perspectives		
Environmental	**Social**	**Governance**
Energy consumption	Human rights policy	Quality of management
Pollution	Child and forced labor	Board independence
Climate change	Community engagement	Conflicts of interest
Waste production	Health and safety	Executive compensation
Natural resource preservation	Stakeholder relations	Transparency & disclosure
Animal welfare	Employee relations	Shareholder rights

Source: Adapted from https://www.investopedia.com/articles/investing/111816/how-esg-sri-and-impact-funds-differ.asp

Socially Responsible Investing - SRI

Socially responsible investing goes one step further than ESG by selecting investments according to **specific ethical guidelines**. The underlying motive could be religion, personal values, or political beliefs. Unlike ESG analysis which shapes valuations, SRI uses ESG criteria to introduce negative or positive filters on the investment analysis. As an example, an investor may wish to avoid a mutual fund or exchange-traded fund (ETF) that invests in companies engaged in tobacco production. Alternatively, an investor may opt to allocate a fixed portion of their portfolio to companies that contribute to charitable causes. For clients engaged in socially responsible investing, making a profit is still important, but must be balanced against principles. The goal is to look for returns without violating one's social conscience.

Impact Investing

The International Finance Corporation – IFC defines impact investment as "investments made in companies or organizations with the intent to contribute measurable positive social or environmental impacts, alongside a financial return."[23] In impact or thematic investing, positive outcomes are of the utmost importance. That is, investments need to have a **positive impact** in some way. In this scene, the objective of impact investing is to help a business or organization accomplish specific goals that are beneficial to society or the environment. For example, investing in a non-profit company dedicated to the research and development of clean energy, regardless of whether success is guaranteed, is an example. In terms of size, the IFC has estimated the impact investment market in **USD 71 billion** in 2016, including managed debt and equity funds. Thus, **impact investing is a small segment** of the broader sustainable and responsible investing universe.

According to the IFC, the definition of impact investment encompasses three attributes:

- **Intent:** the investor articulates a desire to achieve a social or environmental goal by identifying outcomes that will be pursued through the investment, thus identifying who will benefit from these outcomes.
- **Contribution**. The investor follows a credible narrative, or thesis, which describes how the investment contributes to achievement of an intended goal – that is, how actions of the impact investor will help to achieve that goal. In this case, the contribution is considered at the level of the impact investor. It can take financial or non-financial forms.
- **Measurement.** The investor has a system of measurement in place linking intent and contribution to the improvement of social or/and environmental outcomes delivered by the enterprise. The measurement system enables the investor to assess the level of expected impact, *ex-ante*, to continuously monitor progress and adopt corrective measures when needed, as well to evaluate the achievement of the impact, *ex-post* (International Finance Corporation 2019).

[23] See (International Finance Corporation 2019).

Green Bonds

Green Bonds are an innovative financial instrument to address climate change. It offers new possibilities for investors who are looking for opportunities that incorporate environmental, social and sustainability considerations. They are regulated instruments subject to capital market and financial regulation used for issuers to amplify sustainability strategy, forecast risks more aptly and communicate values to investors (EUROSIF 2018). It is a win-win situation for both the bond issuer and the investor, as both parties can contribute towards a sustainable future while showcasing themselves as responsible players.

For the IFC (2019), green bonds can be defined as any type of bond instrument applied to finance or refinance new or existing projects that leads to measurable environmental benefits. Hence, green bonds provide financing for projects in renewable energy, energy efficiency, sustainable housing, and other eco-friendly industries. Usually, the issuer assesses and, where possible, quantifies these benefits. The Green Bond issuer classifies the use of procedures based upon its primary objective for the underlying projects and provides a description of the requisites in the underlying legal documentation. Issuers must inform investors about the environmental sustainability objectives, the process to determine that the projects fit within the eligible green project categories as well as the procedures used to identify and manage potentially material environmental and social risks.

In view of the above, sustainable investing has grown in both absolute and relative terms in the same period. The latest report of the Global Sustainable Investment Alliance (GSIA)[24] has calculated that the total volume of sustainable investment assets reached **USD 30,7 trillion** in 2018, indicating a 34% increase in two years (**Table 8**).

[24] N.A. The Global Sustainable Investment Alliance - GSIA is an international collaboration of membership-based sustainable investment organizations. Its mission is to deepen and expand the practice of sustainable investment through international collaboration.

Table 8 - Overview of Global Sustainable Investment Assets, in USD Billion

Region	2016	2018
Europe	12,040	14,075
United States	8,723	11,995
Japan	474	2,180
Canada	1,086	1,699
Australia/New Zeland	516	734
Total	**22,839**	**30,683**

Source: 2018 Global Sustainable Investment Review.
Note: All 2016 assets were converted to US dollars at the exchange rates as of year-end 2015.
All 2018 assets are converted to US dollars at the exchange rates at the time of reporting.

As a result, sustainable investing represents more than 50% of the total professionally managed assets in Canada, Australia, and New Zealand, nearly half in Europe, 26% in the United States and 18% in Japan in 2018 (GSIA 2018). This growth reflects the expanding awareness of the business community for sustainable investing. According to the same report, there are important definitions highlighted to classify sustainable investments:

Table 9 - Definitions of Sustainable Investments

1. NEGATIVE/EXCLUSIONARY SCREENING: the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria;
2. POSITIVE/BEST-IN-CLASS SCREENING: investment in sectors, companies or projects selected for positive ESG performance relative to industry peers;
3. NORMS-BASED SCREENING: screening of investments against minimum standards of business practice based on international norms, such as those issued by the OECD, ILO, United Nations and UNICEF;
4. ESG INTEGRATION: the systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis;
5. SUSTAINABILITY THEMED INVESTING: investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture);
6. IMPACT/COMMUNITY INVESTING: targeted investments aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose; and
7. CORPORATE ENGAGEMENT AND SHAREHOLDER ACTION: the use of shareholder power to influence corporate behavior, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

Source: extracted from (GSIA 2018, p.7).

However, the rapid growth of the field of sustainable investments has been accompanied by questions on how to assess impact, as well as concerns about potentially unrealistic expectations that social impact and market-rate returns can be simultaneously achieved. In the case of ESG, the criteria are broad there are no international standards or taxonomy that could facilitate a detailed and comparable analysis between financial institutions and companies. The ESG integration is still an open topic for discussion. Therefore, there is a great expectation that sustainable investment can be further stimulated through the introduction of regulations and incentives for companies in the future. In this context, the IFC (2019) indicates four challenges that constrain the growth of these investments:

1. Continued uncertainty about whether impact investors can earn commercial financial returns in line with non-impact investors limits the appetite for impact investment.
2. Lack of clarity about how investments are managed to achieve impact gives rise to concerns about “impact washing,” which deters potential investors and threatens the credibility of the industry. The financial industry lacks common standards and metrics to manage an investment portfolio for impact.
3. Limited comparability of measured impact across projects and investment managers poses a challenge to investors who are trying to allocate capital to impact investments. Unlike financial return, the assessment of impact has not yet evolved to the point at which common approaches, metrics, and conventions have become widely accepted.
4. Regulatory frameworks often do not support investment managers who seek to create impact alongside financial returns. Fiduciary duty is frequently interpreted too narrowly as only concerned with maximizing financial returns. Although beneficiaries may care about more than financial returns, asset managers are often discouraged from pursuing additional objectives in their investment strategies. While fiduciary duty has an important rationale to protect asset owners from reckless or underperforming fiduciaries, a one-dimensional interpretation constrains pension funds and other institutional investors from pursuing impact objectives when their beneficiaries would like them to do so.

Moreover, a particular challenge is related to the risk-return trade-off that investors must consider before allocating assets. To the IFC:

> The acceptable level of risk typically depends on the investor’s risk capacity and risk appetite. Risk capacity, in essence, is the amount the investor can lose without having a significant impact on the portfolio or fund. Even when risk capacity is present, an investor’s risk appetite may lag behind. Risks related with a project in a developing country may include the regulatory environment, currency volatility, political stability, or the economic fundamentals of the project, among others. As the risk grows, so too will investors demand for higher yields or returns and/or shorter maturities for debt instruments. This pressure makes the financing either so expensive or so uncertain in the future that the project likely becomes unviable and never gets off the ground (International Finance Corporation 2019).

Nevertheless, a growing number of investors are expressing a desire to “do good while doing well.” These are investors, who seek opportunities for financial investments that produce significant social or environmental benefits. As an example, impact

investment funds like the TPG Growth and the Rise Fund already count with resources to invest in sustainable responsible projects of around USD 14 billion and USD 2,1 billion respectively (Folha de São Paulo 2018). TPG Growth have, for example, a great focus on sustainability and proposes "responsible investing" through the life cycle of their projects. The announcement of BlackRock - the world's largest asset manager with nearly USD 7 trillion in investments -, that will avoid investments in companies that "present a high sustainability-related risk" has the potential to boost the sustainable responsible investment market in the future (New York Times 2020). According to its CEO Larry Fink: "awareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance." Mr. Fink has also that "the evidence on climate risk is compelling investors to reassess core assumptions about modern finance." Given their size, BlackRock's decision has the potential to induce other investments funds to follow similar strategies. In addition, BlackRock has announced during the last World Economic Forum of Davos its intention to create a private equity fund worth initially USD 50 million that will invest in climate change-linked infrastructure upgrades in emerging markets (Reuters 2020).

1.4. Final Considerations

Based on the above, the arrival of new actors such as emergent donors – like China, India, and Brazil –, private philanthropic foundations and companies radically shifts the way development cooperation was carried out until the launch of the 2030 Agenda. Development cooperation alters the predominant logic of assistance provided by traditional and emergent donors, "no longer restricted to helping by giving (van Van Ongevalle, Develtere e Huyse 2021)." This scenario implies the functioning of complex mechanisms of governance that could mobilize different actors towards common goals, as well as new alternatives of financing.

In this context, there were many initiatives created since the launch of 2030 Agenda. Global governance mechanisms were also created to mobilize these actors at the global and national levels seeking to steer policies, behaviors, and interests towards common goals. The Addis Ababa Action Agenda, for example, has provided an initial framework for financing the implementation of the SDGs. Platforms such as the Global Partnership

for Effective Cooperation – GPEC and the Global Compact have been promoting private sector engagement through policies and awareness. However, governance mechanisms could move beyond this role. At a first look, the Global Compact has a distinct proposal that could not be classified as a governance mechanism that promotes engagement through goal setting as proposed by Kanie and Bierman (2017). Surely, company members are not penalized if they do not have follow the SDGs as an integral part of their respective corporate strategy. Despite this fact, companies and financial institutions are using the SDGs to review behavior and their corporate agenda. As companies increase their involvement in the many initiatives promoted the Global Compact, they are steered towards common goals.

In the topic of funding, the ESG agenda became a global trend that led the creation of multiple credit lines by financial institutions. Companies have also embarked in this agenda adopting these standards as part of their commitment with a more sustainable and responsible business approach. As shown, the volume of sustainable investments has reached USD 30,7 trillion in 2018, according to the GSIA. So, the perspective to meet the SDG targets will necessarily come through the allocation of these funds for sustainable initiatives. The recent news from investments funds, such as BlackRock, that have redirected the applications of their portfolio to sustainable projects show good perspectives for the future.

In this context, there are gaps and huge challenges to channel these resources to the sustainable agenda. Countries that need the greatest amount of development finance are often those that have domestic constraints and underdeveloped markets. Since structural changes of the international financial system is a complex and unseen task in the near future, the use of new financial mechanisms should be further stimulated. As seen, blended finance can help to reduce risk for investors willing to embark on public-private initiatives in developing countries. Since investment operations have a direct correlation between financial returns and risks, the use of blended finance mechanism could be a way to attract investors to allocate funds to developing countries in most need. The OECD has shown that most of its member countries are adopting some form of blended mechanism in their development cooperation initiatives. However, the total volume allocated of USD 81 billion in the period 2012-2015 is modest in relation to the needed funding gaps projected. So, governance mechanisms could go deeper in proposing standards for PPPs (including blended finance) and in finding innovative alternatives that could reduce risk

operations. Moreover, the taxonomy to comprehend sustainable responsible investments is vague. The IFC has also highlighted the importance to better comprehend the investors intent to do good, as well the definition and measurement of positive impact. In addition, ESG indicators used by financial institutions or by companies do not follow common and comparable standards, neither always are correlated with the ones associated with the SDGs.

Despite these issues, the challenges posed by the 2030 Agenda reinforces the need to reconsider the private sector as a key actor that brings expertise and financial resources. Companies and financial institutions acquire a new status in the development cooperation agenda. They are part of the solution, so governments and international organizations should share with them their responsibilities and commitments on equal footing. This view does not omit the risks involved in shifting the way countries carry out their sustainable development agenda. But it may be the only pragmatical way to accomplish the SDGs.

2. The Roles and Modalities for Private Sector Engagement in the Sustainable Agenda

2.1. Opening Remarks

This chapter proposes a framework to organize the various forms of private sector engagement – PSE in the sustainable agenda. As seen in the previous chapter, the private sector has been called to become a crucial partner to take part in the challenges of the 2030 Agenda. International agreements and forums alike have encouraged private-sector partnerships to bring knowledge and to fill the gap of the needed financial resources to implement the SDGs. However, the inclusion of the private sector in the sustainable development agenda is a contested issue (Pérez-Pineda e Wehrmann 2021). In parallel, the adoption of environmental, social and governance practices by companies and financial institutions has become a global trend in the corporate world. New business strategies driven by sustainable practices advocate that is possible to conciliate the creation of economic value with benefits for society. Financial institutions alike have been also increasing the offering of credit lines that obey ESG standards. In this context, the participation of the companies and financial institutions in the sustainable agenda is a broad topic.

In this scene, I have initially reviewed the recent literature from business administration that provides the rationale for companies to take part in the agenda. There are relevant works that reveal that sustainable business can be attractive from a financial and long-term perspective. In sequence, I have examined the distinct forms of private sector engagement linked to the promotion of sustainable development proposed by think-tanks and international organizations. The commitments and policies recommended by different governance mechanisms – as already presented – have also contemplated different references to promote or engage the private sector for development. Finally, there are many studies that examine the risks for mobilizing firms in the development effort, especially in the field of public-private partnerships.

Understanding these issues from the academia, think-tanks and international organizations aims to provide a critical overview to designate those forms of private sector engagement that directly and/or indirectly contribute to the promotion of sustainable development at the international level. Based on this cross-analysis, the proposed framework will show two main forms of PSE: **Corporate Awareness for Development** and **Active Partnership for Development**. The first group considers the voluntary forms of mobilization carried out by companies and financial institutions. It includes the participation of the private sector in multi-stakeholder forums that promotes awareness, the adoption of sustainable strategies and the volume of resources allocated by financial institutions to sustainable responsible investments. The second deals with the roles of governments and corporate philanthropic foundations to promote PSE. It considers the roles of resource provider and executor of development initiatives usually in partnership with governments. This framework provides a consolidated overview on how the private sector is taking part in the sustainable development effort.

2.2. Private Sector and Sustainable Development

Many studies have proposed to map the many ways that companies can take part in the sustainable development agenda. These modalities range from voluntary forms of engagement – such as the adoption of ESG standards - to partnering with the government to implement a development cooperation program. Moreover, it also includes the improvement of the environment for businesses in developing countries. There is a vast array of roles that makes it difficult to comprehend the relevance of companies in taking part in the sustainable development agenda. Thus, the classification of the various roles of companies in the sustainable development agenda aims to facilitate the analysis about the magnitude and importance of its contribution.

In this context, the term "private sector" is a broad concept that includes all types of organizations that are profit oriented. A good definition is the following proposed by Di Bella et al. (2013):

> "The private sector refers to organizations that have a core strategy and mission to engage in profit-seeking activities, whether by the production of goods, provision of services, and/or commercialization. This includes financial institutions and intermediaries, small and medium sized enterprises (SMEs),

> individual entrepreneurs, farmers, co-operatives, and large corporations operating in formal and informal sectors. This definition excludes independent foundations, NGOs, and civil society organizations (including business associations) (Di Bella, et al. 2013)."

The concept offered by Di Bella et al. excluded private philanthropic foundations that are non-profit organizations but are run based on managerial standards. Di Bella et al have argued that independent foundations share more characteristics with non-profit organizations, such as OXFAM, than with private companies. Lindey McGoey (2014) recalled that philanthrocapitalism was devised in 2006, based on an article of The Economist.[25] Later, the concept was further settled by Bishop and Michael Green in the book published in 2008 entitled *Philanthrocapitalism: How the Rich can Save the World.* According to this book, a new generation of billionaires brought business style strategies and innovative financing to tackle development issues. Lindey McGoey (2014) has pointed out concerns for its effectiveness as well as for public-private partnerships. For the researcher, governments can surrender potential sources of future revenues or the legal ability to determine the cost-effectiveness of projects. In this regard, "Both knowledge and income are sacrificed in the name of purported increases in efficiency." (McGoey 2014). Nevertheless, these foundations have become relevant and influential actors in development cooperation as they bring new concepts and techniques from venture capital finance and business management, as well as with new approaches to development (Pezzini 2018).

The OECD have already published more than three surveys about its contribution to the development agenda. In its report entitled Private Philanthropy for Development of 2018, the OECD has indicated policy recommendations to improve their role in the promotion of development cooperation. Among them, the OECD has suggested that development countries should improve the environment for philanthropy by adopting or adapting existing regulation, from establishing a legal status clearly distinguishing foundations from Civil Society Organizations - CSOs to possible tax incentives. In addition, the OECD has defended that donor countries should stimulate more systematic approaches to engagement with foundations in terms of financial and non-financial contribution to development. Finally, foundations could make better use of existing

[25] See https://www.economist.com/special-report/2006/02/25/the-birth-of-philanthrocapitalism

platforms at the global, regional and local levels to improve the transparency and availability of data on philanthropic giving in support of development.

Besides the private philanthropic foundations, there is a vast spectrum of private actors that could be characterized by a "self-organized economic community of organizations and interdependent stakeholders organically seeking to promote wider systemic change to support the creation of purpose-driven businesses (Dahlmann, et al. 2020)." These authors have acknowledged that these private sector actors can create 'purpose-driven businesses' that contemplate social and environmental objectives into their strategy. And they propose three types of initiatives within a group of actors that would constitute an ecosystem of firms:

Table 10 - The Purpose Ecosystem as an Emerging Form of Private Sector Involvement in Earth System Governance

INITIATIVES AND ACTORS	METHOD OF TRANSFORMATION	SYSTEMIC PURPOSE
Impact Investment Family offices, high net worth individuals (HNWIs), foundations, charities, endowments, religious investors, investment managers, Global Impact Investor Network (GIIN)	• Investing in social enterprises or organizations with an explicit sustainability impact purpose • Accepting various levels of trade-offs between profits and impact	• Changing the broader purpose of investing beyond maximizing financial returns
Sustainability Target Initiatives Non-profits such as Science-Based Targets, We Mean Business Coalition, Future Fit Business, Pivot Goals, World Benchmarking Alliance, etc.	• Developing guidance on organizational target setting in non-financial performance areas	• Changing the way in which companies set strategic targets that are aligned with scientific evidence on Earth system science, sustainable development and the UN SDGs
Business Purpose Change Agents Social movements, non-profits, charities, micro-consultancies and other stakeholder coalitions such as B Lab, Blueprint for a Better Business, B Team, Conscious Capitalism, Forum for the Future, Net Positive, Volans, etc	• Setting norms and principles for business management • Developing guidelines and tools for organizational behavior and decision making • Evaluation and certification of nonfinancial performance measures • Community-building	• Changing the governance, business model and purpose of business to account for and address a wide range of social and environmental concerns • Changing mindsets among business leaders

Source: extracted from (Dahlmann, et al. 2020).

Table 10 has not indicated all types of firms that could be engaged in the development agenda. However, it offers visibility to certain groups such as business coalition, as well as investor managers, that have different characteristics from individual firms.

Based on the above, Byiers and Rosengren (2012) organized PSE in two categories: private sector development and private sector for development. While the first addresses how companies promote the development of the country's domestic economies and support governments to design and implement policies to stimulate economic transformation through investment, productivity growth, business expansion and employment; the second has to do with donor engagement with international business activities and financing to achieve development objectives (Byiers e Rosengren 2012).

Vaes and Huyse (2015) form the Belgian Institute KU Leuven has conducted research entitled Private Sector in Development. According to these scientists, donor agencies have been emphasizing "value-for-money," assuming that business would bring better results at delivering aid effectiveness. Policy makers were also in need for additional finance to complement scarce public resources. Vaes and Huyse have also acknowledged the repositioning of foundations that were in need for alternative funding due to decreasing government resources. In this context, a combination of the following drivers has given visibility for the private sector in the development agenda:

Table 11 - Drivers behind the Current Private Turn

CONTEXT	DONOR GOVERNMENTS
− Increasingly complex cross-boundary problems require complex multi-stakeholder solutions − Financial crisis and the search for alternative financing mechanisms to leverage and compliment public funds for development − Increasingly scarcity and the expected climate change on food supply shows the need for sustainable business models − Changing expectations from consumers and employees, regarding business practices and the products − Changing attitudes towards entrepreneurship and the introduction of new business ethics and business models	− Assumption that business would be good (or even better) at delivering on aid effectiveness − Assumption that private sector is the driver of growth which in turn will lead to development and poverty reduction − Central role for the private sector in the international cooperation of emerging powers (ex. BRICS) − International development policy designating private sector as a prominent actor in development cooperation − Neighboring countries or other OECD-DAC donors placing private sector more central in their development cooperation
PRIVATE SECTOR	CSOS AND NGOS
− Globalization and developing markets and business opportunities in developing countries − Changing expectations and external pressure from employees, governments, customers and watchdogs regarding business practices and products − Frontrunner's experiment (successfully) with new business models − Maintaining supply chain will require more sustainable production methods and linkages with producers − Increasing reporting requirements (ex GRI)	− Financial crisis and the search for alternative financing mechanisms to replace or complement government and public funding − Unable to achieve mission alone − Increase power, reach and impact of private companies − Increasingly privatized provision of essential services − Increasingly pro-business attitude of development policy − Looking for ways to include poor and marginalized in sustainable product chains − Competing with private sector for development contracts

Source: based on (Vaes e Huyse 2015).

The model presented by Di Bella Et al. (2013) went deeper in definitions and proposed to classify the various forms of private sector mobilization. These authors published a relevant and detailed study coordinated by the North-South Institute about the private sector engagement in aid initiatives. This research has mapped how development cooperation actors across the international aid architecture seek to engage the private sector for development. According to these researchers, private sector can bring innovation and provide financial support for development cooperation. And business strategies can be tied to sustainable development business models that bring

profits and promote inclusive growth. The research of the North-South Institute proposed the following roles for the private sector in the development agenda:

Table 12 - Key concepts: Private Sector and Development

PRIVATE SECTOR DEVELOPMENT	Activities carried out by governments, financial institutions and development organizations geared toward creating an enabling environment for business to flourish. Includes activities by development cooperation actors aimed at increasing private sector investment in developing countries.
PRIVATE SECTOR IN DEVELOPMENT	The roles of and activities carried out by the private sector as part of its regular core business operations that affect development outcomes and economic growth through positive impacts such as job creation, provision of goods and services, and taxation, and negative impacts such as environmental degradation and poor labor practices.
PRIVATE SECTOR ENGAGEMENTS FOR DEVELOPMENT	Instances when engagements with the private sector go beyond the traditional impacts of the private sector in development. Private sector engagements for development include firms' active pursuit of positive development outcomes. This occurs through, for example, funding and/or carrying out development projects, adopting and implementing inclusive business models, aligning core activities to explicitly contribute to the achievement of development outcomes, creating inclusive value chains, adopting and supporting the widespread adoption of responsible business practices in areas such as environmental sustainability and human rights, improving accountability and transparency in business operations, and targeting the transfer of technologies to host communities.

Source: adapted from (Di Bella, et al. 2013).

In sequence, these researchers have underlined that these concepts of private sector participation can be combined with the following ways of implementation:

- Political dialogue
- Sharing of knowledge
- Technical cooperation
- Capacity building
- Donations
- Loans

Another study from Kindornay and Reilly-King (2013) defined the participation of the private sector in terms of levels of intervention: macro, meso and micro level. Macro level interventions focus on business environment; that is creating the legal, economic, and regulatory conditions for business to flourish. Interventions of meso level would be related to making the markets work better by reducing market imperfections through the building of value-chains or through integration of players in the market. And micro is related to interventions in business, people, and support services. The Belgian Institute KU Leuven also conducted research in 2012 to evaluate the involvement of the private sector in selected European Countries and the Flandres region. The authors Vaes and Huyse (2012) have indicated a list of ten possible functions for the private sector in the development cooperation agenda:

1. Resource provider: provision of financial resources for development initiatives.
2. Resource provider: provision of expertise and other strategic resources such as network, data, research capacity.
3. Beneficiary: the beneficiary of efforts to create an enabling business environment.
4. Beneficiary: capacity development, information provision and/or knowledge sharing initiatives that aim to increase capacity to contribute to development goals.
5. Beneficiary: the beneficiary of financial support that aims to boost private sector activity or investment with a particular development impact.
6. Beneficiary: the executor of contracts for implementing aid projects and programs: (role of subcontractor).
7. Target of regulation, lobby or advocacy: the private sector is pushed by global governance institutions, governments or civil organizations to change business practices.
8. Reformer: to promote the change of existing business models through corporate social responsibility, corporate social accountability or stakeholder value maximization: the private sector adapts its own business model to increase its positive development impact and sustainability.
9. Developer-implementer: implementation of new, social inclusive or solidarity economy initiatives and business models or initiatives with a particular development relevance.

10. Participant: taking part in development related policy dialogue or multi-stakeholder initiatives that aim to influence business and development policy and practice.

Moreover, Kindornay and Reilly-King (2013) have evaluated how bilateral donors interact with companies to mobilize them for development initiatives. According to the authors, donors take an apolitical and technocratic approach to growth and to the private sector that "largely ignores ongoing debates about the role of the state in development." Most important, governments promote their own private sector to play a key role in these initiatives, but to varying degrees. At the same time, donors contemplate solutions to development on two dimensions: solutions for growth (through private-sector development) – and solutions to development (by partnering with the private sector) (Kindornay and Reilly-King 2013). Donors have also considered partnerships with the private sector as a win–win–situation for recipient governments, donors, the private sector and civil society. This study provides relevant insights for the interviews in the study analysis of Germany and Japan in terms of examining geopolitical commitments and common interests.

Based on the above, there are many forms of private sector engagement. The alternatives for PSE can be well defined in two categories, as shown by Di Bella et al (2013): an indirect contribution, called Private Sector in Development and a direct form, entitled Private Sector Engagement for Development. Similar studies from (Byiers e Rosengren 2012) and (Vaes e Huyse 2015) also organize PSE in similar perspectives. These studies have subsidized an updated proposal to classify the forms of private sector mobilization at the end of this chapter. Before presenting it, I went deeper in the rationale motivations that are behind this private shift of corporate mindset. And the risks involved that can put at risks the fulfillment of the SDGs. Surely, bringing firms to participate in the development agenda should not be seen to substitute or to reduce the responsibility of governments.

2.3. Rationale for Companies to Adopt Sustainable Practices

There is a vast literature in the field of business administration about the adoption of sustainable corporate practices. Among the most influential works, Michael Porter and Mark Kramer (2011) have introduced the notion of **shared value**. These authors proposed a new business strategy for companies that conciliate the creation of economic value with benefits for society "by addressing its needs and challenges." Companies became widely perceived by prospering at the expense of the local community. In addition, corporations became trapped in an outdated approach to value creation that has emerged over the past few decades. By pursuing this strategic position, corporations could legitimize business again. They also remember that the notion of shared value goes beyond the adoption of corporate responsibility policies that, on their view, have a limited effect in terms of business sustainable practices. To these authors, "the purpose of the corporation must be redefined as creating shared value, not just profit per se."

This might sound contradictory when considered the famous model of Competitive Advantage proposed by Michael Porter in the mid-1980s. (M. Porter 1985). Nevertheless, this paradox is addressed in the same article. Both authors recalled that this new strategy theory suggested that corporations should create a value proposition focused on the needs of a chosen set of customers. The competitive advantage of a corporation would then depend on the structure of a value chain or the set of activities related to creating, producing, selling, delivering, and supporting its products or services. Porter and Kramer recognized that these strategies of positioning led corporations to ignore opportunities to meet fundamental societal needs and misunderstood how societal harms and weaknesses affect value chains. For them, "Our field of vision has simply been too narrow."

Porter and Kramer have indicated that the shared value strategy has a well-defined rationale: companies would seek to reduce profits and margins in the short term in exchange for a long term sustained success. Also, they considered that the company's value chain is affected by many issues, such as natural resource, health and safety conditions, equal treatment. This externality issues led to economic costs to the company's value chain. The authors defined the concept of shared value "as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates."

In this scene, they defend that shared value creation implies identifying and expanding the connections between societal and economic progress. For Porter and Kramer:

> "The concept rests on the premise that both economic and social progress must be addressed using value principles. Value is defined as benefits relative to costs, not just benefits alone. Value creation is an idea that has long been recognized in business, where profit is revenues earned from customers minus the costs incurred. However, businesses have rarely approached societal issues from a value perspective but have treated them as peripheral matters. This has obscured the connections between economic and social concerns (Porter and Kramer 2011)."

The proposal of shared value is also in line with the concept of **Stakeholder Capitalism** that was originally conceived in 1932 by Berle and Means defends that a firm should focus its mission on meeting the needs of all its stakeholders: customers, employees, partners, the community, and society as a whole (Berle e Means 1932). This concept became the central theme of the World Economic Forum's (WEF) 50th Annual Meeting of 2020 in Davos: "Stakeholders for a Cohesive and Sustainable World."

In line with this business approach, Kaplan and McMillan (2020) have redefined the performance model Balanced Scorecard (BSC), commonly used since the 1990s to describe and implement a organization's strategy. According to these authors:

> "The Financial perspective is replaced by "Outcomes" to encompass financial, environmental, and societal metrics; Customer becomes "Stakeholders" to reflect the interests of the multiple participants in the ecosystem; and Learning & Growth becomes "Enablers" to include the new capabilities for collaboration and alignment." (Kaplan and McMillan 2020)

Another relevant work from business administration is the article of Nidumolu, Prahalad, and Rangaswami entitled *Why Sustainability Is Now the Key Driver of Innovation* of 2009. For these authors, sustainability can be a source of competitive advantage when linked with innovation. It implies a rethinking of business models, as well the redesign of products, technologies, and processes. For the authors:

> The key to progress, particularly in times of economic crisis, is innovation. Just as some internet companies survived the bust in 2000 to challenge incumbents, so, too, will sustainable corporations emerge from today's recession to upset the status quo. By treating sustainability as a goal today, early movers will develop competencies that rivals will be hard-pressed to match. That competitive advantage will stand them in good stead, because sustainability will always be an integral part of development (Nidumolu, Prahalad and Rangaswami 2009).

Sustainability should not be view by executives as a burden. On the contrary, the introduction of environment-friendly strategies can lower costs and increase revenues. That is why sustainability should be a "touchstone for all innovation." (Nidumolu, Prahalad and Rangaswami 2009). For companies aiming to pursue a sustainable strategy, they propose 5 steps:

1. Viewing compliance as opportunity
2. Making value chains sustainable
3. Designing sustainable products and services
4. Developing new business models
5. Creating next-practice platforms.

Moreover, Nerurkar (2015) has proposed a conceptual framework called Sustainability Driven Innovation Matrix to enable managers in their task to focus on environmental sustainability innovations. Other studies have also shown that corporations have an economic opportunity when adopting innovation practices to address sustainability issues (Morrish, Miles e Polonsky 2011) (Polonsky, et al. 1997) (Miles e Covin 2000) (Ginsberg e Bloom 2004) (Polonky e Jevons 2009).

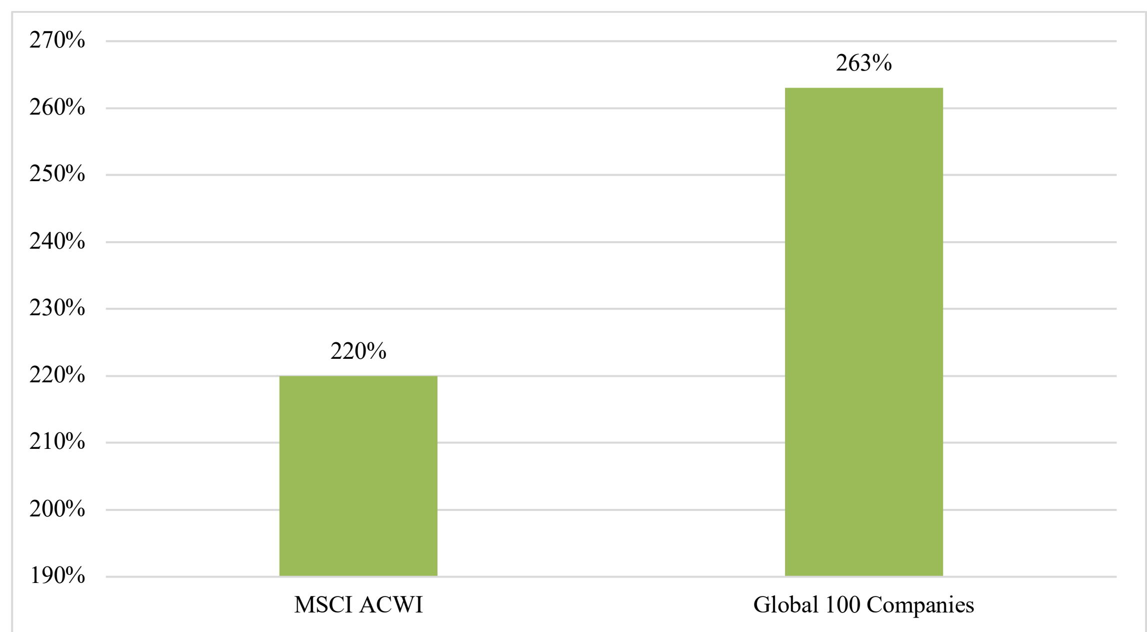
Another relevant work is the research conducted by Eccles, Ioannou and Serafeim to evaluate the performance of corporations that have adopted environmental social governance – ESG practices into their strategies. For these researchers, the introduction of corporate policies that integrate such dimensions leads to a distinct organization. This type of organization is characterized by a governance structure that, in addition to financial performance, considers the environmental and social impact of the company, a long-term approach towards maximizing inter-temporal profits, an active stakeholder management process, and more developed measurement and reporting systems (Eccles, Ioannou and Serafeim 2014). These authors have conducted a performance analysis on 90 companies (called **High Sustainability Companies**) that have introduced a significant set of environmental and social policies in their business operations since the mid-1990s and compared with other similar 90 companies that have adopted none of these policies (termed **Low Sustainability Companies)**. In this matching process, the authors compared corporations with identical size, capital structure, operating performance, and growth opportunities.

As a result of this analysis, they found that the High Sustainability companies had achieved better results in terms of return-on-equity (ROE) and return-on-assets (ROA). That is, the High Sustainability companies had a superior performance in relation to the Low Sustainability ones in terms of stock market and accounting results during the 18 years of study (**with average return on assets almost twice as high and average share values 46% higher**). In addition, this outperformance was more pronounced for companies that sell products to individuals (business-to-customer companies), compete based on brand and reputation, and make substantial use of natural resources. Also, they have estimated that the forecasts of annual earnings have shown that the market have underestimated the future profitability of the High Sustainability companies in relation to the Low Sustainability ones. Another research carried out in Malaysia and Singapore has also demonstrated that the adoption of ESG practices can lead to better corporate performance (Tarmuji, Maelah and Tarmuji 2016).

In this context, Corporate Knights, a media and investment company, produces every year detailed survey on the world's most sustainable corporations called the **100 Global Index**.[26] It contemplates an evaluation of publicly traded companies with more than US$1 billion of gross revenue with a focus on its impact to the economy through a calculation of a series of key performance indicators. The results of this Index have gained wide publicity in international discussions such as the Davos Forum. Corporate Knights also have published reports showing that sustainable corporations perform better than publicly traded companies (**Figure 14**). These are examples of the reports that are being used to support the view that sustainable business can be attractive for financial institutions to offer new credit lines and for companies in a long-term perspective.

[26] See https://www.corporateknights.com/reports/global-100/

Figure 14 - Total Net Return % of High Sustainable Companies (2005-2020)



Source: Corporate Knights
MSCI ACWI - All Country World Index
The evaluation considers publicly traded companies with more than US$1 billion of gross revenue with a focus on its impact to the economy through a calculation of a series of key performance indicators.

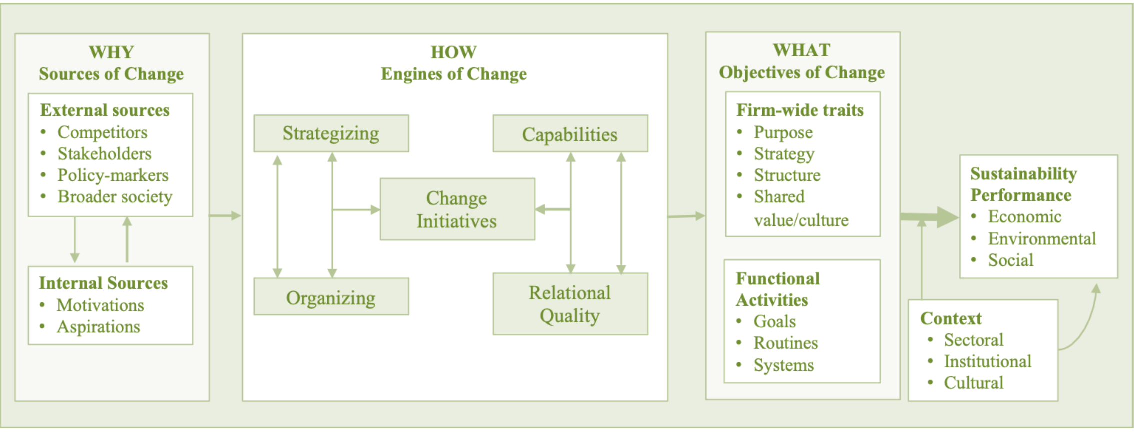
Another study conducted by Friede, Busch and Bassen (2015) have looked over more than 2000 empirical studies to understand the correlation between environmental, social, and governance (ESG) criteria and corporate financial performance since the 1970s. These scholars have shown that sustainable investments have outperformed other funds in many markets. For them, long-term responsible investing can be a rational choice for rational investors aiming to fulfill their fiduciary duties and to better align investors' interests with the broader objectives of society (Friede, Busch e Bassen 2015). Despite these results, there are still no clear evidence that companies that have introduced ESG standards have performed better in comparison to its competitors. Moreover, financial institutions that have signed the United Nations Principles for Responsible Investment - which advocates for a greater focus on environmental, social, and governance (ESG) - did not improve the social and environmental performance of their investments (O'Leary e Valdmanis 2021).

Besides these financial results, Eccles, Ioannou and Serafeim proposed a definition for sustainable organizations: "a category of modern corporations that compete by integrating social and environmental issues into their strategy and processes." For them,

these organizations have introduced different practices in terms of governance, stakeholder engagement, time horizon of decision-making and measurement/reporting) that are directly related to its commitment with sustainability as well they constitute key determinants in the ability to build a sustainable organization in the long run (Eccles, Ioannou and Serafeim 2014). These researchers have also indicated that these results have gone against many studies that argued that the adoption of environmental and social policies could destroy shareholder wealth due to the existence of an agency cost: companies that do not promote corporate responsible measures were more competitive. However, they defend the argument that such understanding is valid for those companies that did not insert sustainability as a key strategic driver. That is, corporate social policies would be characterized as additional costs in their business operations.

To understand the steps needed for firms to adhere to sustainable practices, Zollo, Cennamo and Neumann (2013) have projected a process of implementation. These authors have indicated that becoming a "**sustainable enterprise**" is an evolutionary process of discovery and refinement. Zollo, Cennamo and Neumann (2013) have considered that transitioning towards a sustainable model comprehend changes in different dimensions of the organization such as cultural aspects (purpose, shared value and beliefs), functional structure (redefinition of processes and related systems), as well as individual mindset (beliefs, motivations, emotional and psychological dispositions for learning and growth). And they proposed the following framework for companies to follow towards a sustainable perspective:

Figure 15 - A General Framework of Sustainable Enterprise Model Innovation



Source: adapted from (Zollo, Cennamo and Neumann 2013).

This framework presented in **Figure 15** indicates that the motivations to adopt sustainability comes from internal and external forces. The challenge is to introduce "engines of change" that will create a learning and innovation environment that, on its turn, would promote change in the company's purpose, strategy, structure, and culture. The expected result is sustainability performance that will be influenced by the external context. In this scene, they understand that becoming a "high sustainability company" is a process of continuous refinement and persistence. Thus, those organizations classified as high sustainability companies have gone through a long process of change management. The message here is to address that this type of organization has a sustainable perspective as a key component of their respective strategy. This is a different understanding from adopting corporate responsible policies that are usually related to the way companies work ethically, considering human rights, as well as the social, economic and environmental impacts. Corporate social responsible companies also practice philanthropy, taking part in initiatives that promote well-being (Carrol 1991).

Therefore, the implementation of corporate sustainable strategies could be appealing from a business perspective. The research from Eccles, Ioannou and Serafeim has provided impressive data results to support the rationale to demonstrate that sustainability can bring financial performance. And it provides the academic framework to advocate sustainable strategies that promote innovation and, thus, can lead to a virtual cycle of long-term success for the corporation. In this scene, companies that adopt social and sustainable policies in their strategies would legitimize their business again by doing good. This understanding is also in line with the OECD development policies:

> "Companies that introduce sustainability into their business models are profitable and successful, with positive returns on capital in terms of reduced risks, diversification of markets and portfolios, increased revenue, reduced costs, and improved value of products. Increasingly, investments in developing countries – and even in the least developed countries are seen as business opportunities, despite the risks involved. On the other hand, companies provide jobs, infrastructure, innovation and social service, among others (OECD 2016)."

One should evaluate the complexity to shift a strategic positioning and what are the opportunity costs involved. Surely, there is a process of transition to become a "High Sustainability Company" that is not trivial and could put in jeopardy their own business. Zollo, Cennamo and Neumann have indicated that adopting corporate strategies is not

simple and it involves a permanent process of evaluation. Despite the need to incorporate sustainable strategies, the adoption of ESG standards has become a corporate trend. In this scene, companies can count with the Global Compact – as seen in the previous chapter – to support them in their effort to introduce ESG standards. This platform counts with an extensive list of guiding principles to support companies in line with the 2030 Agenda. The pressing global issues such as climate change, energy transition, health and safety (post-pandemic), gender equality, among others are now part of the firm's concern. But it could be seen as a strategic opportunity. In addition to the bibliographic analysis, there are other benefits brought by the ESG agenda to motivate corporate engagement that are worth mentioning:

- Potential new sources of revenue growth through the development of new consumer markets and the establishment of long-term relations.
- Positive environment for collaboration and strategic partnerships (including connection with local communities).
- Attractiveness for investors.
- Brand repositioning and positive reputation.
- Stimulus for employees' engagement.
- Control of operational costs (potential increase in raw-material costs, as well as the true cost of water or carbon).
- Risk reduction (compliance, loosing customer base, war for talents, facilitated access to credit lines).

2.4. Concerns and Risks to Mobilize Companies for the Development Agenda

There are a series of articles and reports that examine the menaces to attract firms to take part in the development agenda. Blowfield and Dolan (2014) have highlighted that bringing private sector to become a 'development agent' should consider the risks related to the company's emphasis on its capital assets, the reinterpretation of positive outcomes, benefits, and beneficiaries. Also, partnerships with multinational companies can reproduce "patterns of domination, exclusion and geographical asymmetry (Pérez-Pineda

e Wehrmann 2021) (Pattberg e Widerberg 2014). Other views discuss the risks of bringing companies to influence priorities in multi-stakeholder initiatives such as the Global Partnership for Effective Development Co-operation (GPEDC).

There are few studies in the field of business administration that discuss poverty reduction beyond the firm's "role as an engine for its alleviation[27]." Moreover, business usually considers problems that can be solved with an existing competence of the enterprise or the marketplace. Thus, they have indicated the need for companies to change their corporate mindset about the poor as a passive victim of poverty to a value driven consumer, whose needs, desires and preferences are defined and fulfilled by the market.

In addition, Blowfield and Dolan (2014) have criticized the notion of share value proposed by Porter and Kramer since it goes against Porter's theory of competitive advantage. Only a limited number of companies could implement development strategies or use the company's surplus for philanthropic purposes. According to these researchers:

> "They are a small minority compared with the number of companies performing the role of the development tool, but they include multinational companies, large international and national companies, and a host of smaller enterprises, many of which were founded on the principle that for-profit entities can deliver positive developmental outcomes." (Blowfield e Dolan 2014)

Another risk is related to "Greenwashing." Corporations can project an image of corporate sustainability without promoting an effective transformation in their values and the way they do business. Corporations can publish reports based on ESG standards that do not reflect their real commitments with sustainability, social intentions, and transparency with its stakeholders. That is, the adoption of ESG practices cannot be seen as a marketing strategy. According to O'Leary and Valdamis (2021):

> "When companies offer insincere commitments or overpromise transformation, they risk undermining the real work being done by others. Most people struggle to differentiate bad-faith recycling claims from substantive actions to eliminate waste, like Unilever's commitment to cut its plastic use in half or Philips's to repurpose all of its used medical systems. Or to differentiate temporary payments for workers during the pandemic from permanent improvements, like Costco's announcement it would raise baseline pay to $16 an hour, more than double the national minimum wage."

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[27] N.A. They have considered the work of Bruton (2010) that reviewed leading management journals and has found that only 11 articles published between 1989 and 2010 contained terms related to poverty.

These researchers defend the need for companies to publicly report on their social and environmental impact with clear, standardized, easy-to-understand metrics, such as carbon emissions, investments in training programs, etc. In addition, corporations should be held accountable for their commitments from the perspective of its employees and shareholders. Moreover, those companies that are "serious about becoming more sustainable, inclusive, and socially responsible" should declare their purpose into their charter to become "benefit corporations."

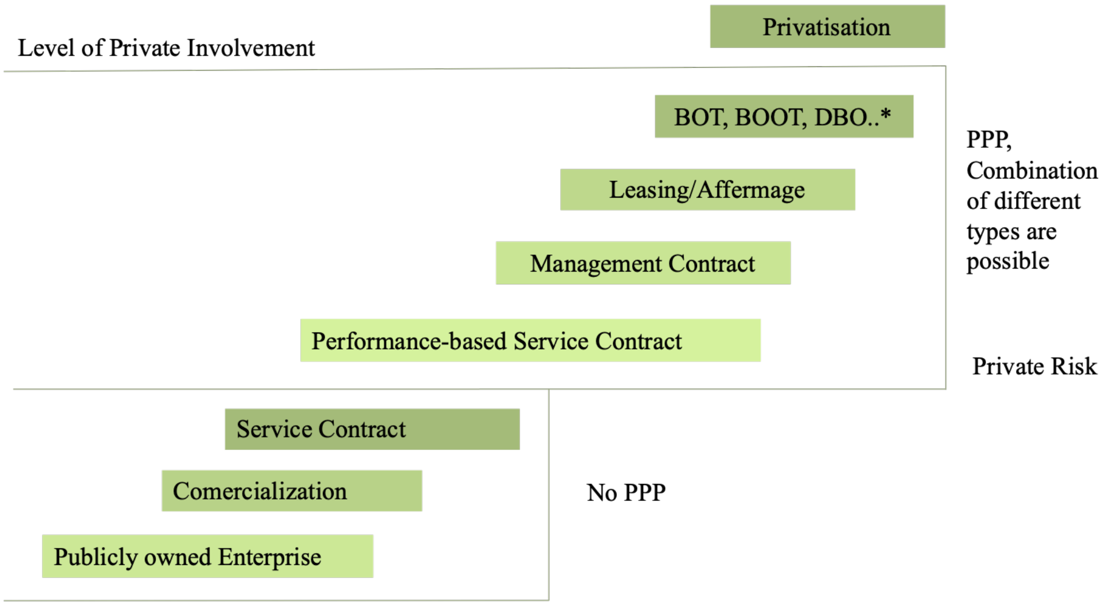
From the governmental perspective, Mawdsley (2021) highlights that developing institutions are shifting its focus away from the Millennium Development Goals – MDGs and the SDGs to an approach oriented for economic growth. This is a relevant issue. By promoting private sector engagement, development institutions might delegate their role to foster sustainable development in cooperation with partner countries to the firm's corporate sustainable agenda. However, the company's commitments to generate sustainable impacts do not necessarily coincide with the goals of public policies. For the researcher:

> "Development institutions are increasingly partnerships with venture capital, hedge funds, investment banks, sovereign wealth funds, credit rating agencies, global accountancy firms, and corporations, which are themselves increasingly governed by financial logics (Krippner 2011), in order to open up new circuits of financial investments, speculation, and extraction." (Mawdsley 2021)

Regarding PPPs, many studies have discussed concerns about its benefits, as well as its hidden or unexpected fiscal costs. As already shown in the previous chapter, the international community has been promoting the use of Public-Private Partnerships – PPPs to attract companies to obtain additional resources for the development agenda. PPPs are often described as a long-term contractual arrangement between public and private actors for the performance of a public task. Usually, PPPs are referred to long-term infrastructure projects, encompassing areas such as energy, telecommunication, water supply, as well public social infrastructure (health and education). There are many models of PPPs, as shown in **Figure 16**. From the governmental perspective, PPPs are mechanisms that can reduce pressure on public budgets by leveraging private capital. Companies, on their part, seek to exploit market opportunities through defined business

parameters (profit, turnover). A PPP arrangement is established when there is a contractual convergence of interests and objectives between both actors.

Figure 16 - PPP Models in the Infrastructure Sector



Source: Extracted from (BMZ 2011, p. (BMZ 2011)

*Types of PPPs: BOT – build-operate-transfer, BOOT – build-own-operate-transfer, ROT, DBO design-build-operate.

PPPs may improve public service efficiency through technical expertise provided by the private sector (ECLAC 2015). KS et al (2016) have published a detailed report on the use of PPPs to support the 2030 Agenda. For these researchers, the concept of PPPs should be better defined with accepted international guidelines to ensure that such mechanisms can bring innovation, minimizing fiscal risks and improving accountability. This report has shown that overall evidence indicates that PPPs have often tended to be more expensive than the alternative of public procurement. As an example, KS et at (2016) have recalled the study of Hall (2015) to demonstrate that the transactions costs of tendering and monitoring PPPs could add 10-20 per cent to their costs in higher income and developing countries. Also, construction costs are higher under a PPP since financiers usually require a turnkey contract, which is about 25 per cent more expensive.

Many studies have also indicated that PPPs have failed to deliver the envisaged gains in the provision of quality services, including its efficiency, coverage and development

impact in many cases. Romero (2015), for example, has shown that efficiency gains is related to the sector, type and size of the project, the contractual arrangement, as well as the country regulatory environment and governance. Similar reports and survey put in question the efficiency of PPPs (see Perkins (2013); IEG (2014); IMF (2004); IMF (2015); Funke, Irwin e Rial (2013). KS et al (2016) have acknowledged that PPPs are better suited for infrastructure projects such as transport and electricity, since "better infrastructure can reduce cost at the operational stage and impact on the level of service and where demand is relatively stable and easy to forecast." In contrast, PPPs are less likely to deliver efficiency benefits in the social sector such as hospitals and schools, where service quality is mainly determined by human capital investment and that demand evolves quickly.

With a special focus on the 2030 Agenda, KS et al (2016) have indicated that governments should introduce a list of the following measures to improve the use of PPPs in terms of quality of service, efficiency, development impact and compliance (**Figure 17**):

- Correct identification and selection of projects where PPPs would be viable,
- Infrastructure contracts should ensure an appropriate pricing and transfer of risks to private partners.
- Establishment of a comprehensive and transparent fiscal accounting and reporting standard for PPPs.
- Implementation of legal, regulatory and monitoring frameworks that ensure appropriately pricing and quality of service. That is, it is necessary that countries develop the institutional capacity to create, manage, evaluate and monitor PPPs.

Figure 17 - Key Components of an Enabling Institutional Framework for PPPs

Institutional Framework for PPPs

Project selection and implementation

Contracts to price and transfer risks

Fiscal accounting and standards

Legal, regulatory and monitoring framework

Credible cost/benefit analysis

Optimum risk allocation

Transparency on fiscal implications

Safeguarding citizens' welfare and sustainable development

Value for Money!

Delivering higher quality and efficient saving in comparison to public provision

Ensuring proper governance and democratic accountability of PPPs

Source: extracted from (KS, et al. 2016).

Another relevant work about the revival of PPPs was published by Bayliss and Waeyenberge (2018). These authors have listed a series of risks and concerns with the increasing promotion of PPPs, particularly in poor countries. Investors have little interest in these countries and PPPs can lead to fiscal demands with no evidence of greater efficiency. In addition, these countries have poor regulation and institutional capacity to implement such models of partnerships, as well low levels of public investment. According to Bayliss and Waeyenberge (2018):

> Far from freeing resources to invest in poverty reduction, PPPs can absorb funds that could have been devoted directly to infrastructure investment. Rather than compensating for weak state capacity they place significant extra demands on it. Rather than substituting for public investment, investors are attracted to locations with high levels of public investment. PPPs draw on the resources of multilateral development institutions and governments which are deployed to create a context ('investment climate') and project profiles that are commercially attractive to private investors. Official agencies further provide funds to co-finance projects in order to reduce the risk exposure of private investors. And even if these efforts are successful and bids are attracted and contracts are signed, government agencies face the challenge of regulating and financing contracts with sophisticated private agents for decades into the future.

Regarding PPPs as a development cooperation mechanism, Mawdsley (2018) has criticized the use of Official Development Assistance - ODA to “unlock” and mobilize larger amounts of private finance through public-private partnerships, including blended finance. National development institutions are increasing the share of ODA used to leverage private funds with financial instruments such as debt and equity finance (Mawdsley 2018). Moreover, these private sector investment flows “can be hidden behind the layers of commercial privacy, or in some cases, routed through highly secretive tax havens.” Therefore, development finance mechanisms - such as loans, equity investments, risk guarantee investments - can make it difficult to track the use of ODA since it is part of a bigger project finance scheme. So, it may lead to implications for transparency and accountability related to the use of public money. Above all, it can put into question that “the various forms of public-private partnerships are leading to the inclusive and sustainable growth claimed by the SDGs (Mawdsley 2021).”

This issue brought by Mawdsley can be expanded in the context of illicit financial flows – IFFs that relates to flows of money associated with crime and corruption, including tax evasion, usually with a focus on cross border flows. IFFs is closely associated with money laundering – transforming profits from illegal activities and corruption into ‘legitimate’ assets. Organized crime groups, kleptocrats and large-scale tax evaders use three main means to illicitly move assets offshore: physical cash; financial instruments and entities such as bank accounts and ‘shell corporations’; and movement of goods through the trade system (Development Initiatives 2018). The Addis Ababa Action Agenda has highlighted the need to address IFFs through the adoption of good practices such as good governance, rule of law, and measures to tackle corruption. The United Nations has also been discussing the issue of IFFs. In 2019, the High-Level Meeting on International Cooperation to Combat Illicit Financial Flows and Strengthen Good Practices on Asset Return has highlighted challenges related to measurement, technology and share of knowledge.[28]

The think-tank Development Initiatives has acknowledged that financial crime was not a priority area of development agencies. However, many development agencies have

[28] Please see https://www.un.org/pga/73/event/international-cooperation-to-combat-illicit-financial-flows-and-strengthen-good-practices-on-asset-returns/

started to tackle illicit financial flows like UK's Department for International Development - DFID. In the case of Germany, the same report has highlighted the establishment of an inter-ministry committee on IFFs to coordinate cross-government action. This committee assists authorities in countries such as Kenya and Peru to identify and trace IFFs and to engage internationally to secure the return of stolen assets. The OECD (2014) has also acknowledged that donor country institutions have been using development assistance to fight corruption and money laundering in developing countries. Nevertheless, the OECD Report on illicit financial flows has indicated that such measures were modest to tackle this issue. In this context, Development Initiatives has recommended the promotion of technical assistance with the strengthening of the anti-money laundering practices, as well as acting on specific cases through legal cooperation or sanctions. In addition, it is critical to ensure that anti-money laundering regulations do not push costs onto the poor, making it harder and more expensive for migrants to make remittances, non-profit organizations to assist in emergencies, and small and medium-sized firms to access financial services.

In sum, there are a list of concerns and risks involved in bringing firms to take part in the development agenda. The adoption of ESG standards should be taken seriously and verified by common metrics and criteria. The use of PPPs, including blended finance, can also bring menaces in terms of costs-efficiency, transparency and regulations that are well documented. Also, the UNCTAD report of 2016 has shown that private investments to least developing countries accounted for less than 10% of the total volume of PPPs. Nevertheless, international organizations and developing agencies throughout the world have been stimulating its use to leverage additional private funds to compensate for existing budget constraints. So, the question is how to make PPPs less risky and more effective to bring value for money, as proposed by KS et al (2016). Since PPPs are complex initiatives, there is need to improve frameworks and regulations – in line with global compliance and transparency standards - to reduce these risks and to attract companies to invest in least developing countries.

This will imply in intense knowledge sharing to improve the institutional capacity of developed and developing countries on this matter. And, most importantly, companies that embark on these initiatives should change their mindset to better address positive impacts in terms of social and economic development in the places they operate. In this

scene, developing agencies that are promoting the use of PPPs should consider all these issues when mobilizing companies.

2.5. The Proposal of Modalities of Private Sector Engagement at the International Level

In view of the above, the participation of the private sector in the promotion of sustainable development considered the existence of an "ecosystem of companies" that play different roles in the promotion of the sustainable development agenda at the international level. In this context, I have updated the framework originally proposed by Lamego de Teixeira Soares and Yumie Aoki Inoue (2020) to organize the different forms of private sector engagement. From the various studies and reports examined, it is possible to classify companies in two groups: a first group that considers those companies and financial institutions that have taken a voluntary decision to adopt sustainable strategies and/or to invest in social and environmentally friendly initiatives. And a second group that contemplates those companies participate or collaborate with the government in PPPs or development cooperation initiatives. In this group, there are also those companies that are mobilized or contracted by governments to participate in development cooperation projects. In addition, there are private sector companies in developing countries that benefit from the results of development cooperation. Finally, one must not forget the role of private sector foundations that have a direct role in the development cooperation usually partnering with governments to tackle development challenges.

It is important to highlight that governments mobilize companies at the national level to implement their respective policies, programs and initiatives that contribute to the fulfillment of the 2030 Agenda. However, only initiatives and programs related to foster PSE in development cooperation were considered for the purpose of this research. This understanding aimed to facilitate a compared analysis between the volume of resources spent to mobilize the private sector to take part in development cooperation initiatives versus the stock of potential resources that could be directed on a voluntary basis by companies and financial institutions to support the 2030 Agenda.

Therefore, the suggested framework seeks to update the models and modalities presented by Byers and Rosengren; Di Bella et al.; Kindornay and Reilly-King; and Vaes and Huyse by incorporating the new business rationale presented by Porter and Kramer; Berle and Means; Nidumolu, Prahalad, and Rangaswami; Nerurkar; Eccles, Ioannou and Serafeim. Thus, the framework to classify the modalities of private sector engagement is divided in two well defined categories: **Corporate Awareness for Development** and **Active Partnership for Development**. The first group contemplates mobilization, awareness or the introduction of strategies and practices aligned with social and sustainable impacts. The second deals with partnerships with governments at the international level that include roles of resource provider, executor or beneficiary of development cooperation initiatives. Thus, the proposed framework is structured in two categories with its respective set of modalities, as follows:

Table 13 – Modalities for Private Sector Engagement in the Development Agenda at the International Level

Corporate Awareness for Development	Active Partnership for Development
Responsible Participant • Companies adopt practices of corporate sustainability by taking part in formal networks that promote awareness of the development agenda. • The private sector participates in multi-stakeholder forums and policy dialogues aimed to tackle development issues along with public actors and civil society.	**Resource Provider** • Companies partner with governments and multilateral organizations to co-finance initiatives that contribute to the sustainable development agenda at the international level. It includes Public-Private Partnerships – PPPs, as well as strategic alliances and contracts linked to a development initiative. • Companies and/or Private Philanthropic Foundations team up with governments to provide technical expertise and know-how to joint development initiatives. • Companies are mobilized by governments to carry out a development cooperation initiative
Corporate Reformer • Corporate sustainability becomes a key component of the firm's business strategy. Companies adopt the notion of shared value in their strategies seeking long term results. This group also comprises High Sustainability Companies. • Financial institutions allocate resources to sustainable initiatives through new mechanisms (Sustainable Responsible Investments – SRI) and standards (like ESG criteria).	**Executor** • Private sector is mobilized by governments to implement initiative with development relevance that leads to positive impacts. It considers the coordination or co-participation of a development initiative that promote sharing of knowledge and capacity building with the use of innovative practices.

The proposed notion of **Corporate Awareness for Development** comprehends voluntary actions taken by the private sector in line with the sustainable agenda that aim positive impacts. This category is divided in two modalities: **Corporate Responsible Participant** and **Corporate Reformer**. The role of **Corporate Responsible Participant** is the first stage of private sector involvement with the development agenda. It considers

the adoption of corporate sustainability measures by companies, such as ESG standards. In addition, it embarks the participation of companies in multi-stakeholder initiatives and forums that promote awareness of the sustainable agenda, such as the GPEDC, Global Compact, among others.

The **Corporate Reformer** is a modality that deepens the participation of the private sector in the development agenda. Also, it includes the adoption of corporate sustainability practices. The promotion of a sustainable development agenda becomes a key component in the companies' strategy. In this scene, some of these firms might become High Sustainability Companies in the future. The concept of shared value proposed by Porter and Kramer is an integral part of global strategies of the corporate reformers. The group of corporate reformers embraces a new mindset that goes beyond the adoption of corporate sustainability principles. This change of culture expresses a voluntary commitment with the sustainability of our planet and the view that positive financial returns can be associated with doing good.

In addition, this category adds new funding mechanisms such as the "sustainable responsible investments" that are becoming part of the portfolio of financial institutions. In this view, the investment fund BlackRock – that have redirected the applications of their portfolio of investments to sustainable initiatives –, can be classified as a Corporate Reformer. Another example is The Rise Fund that measures impact investment in 30 key outcome areas, aligned with the United Nations Sustainable Development Goals – SDGs through a measurable evidenced-based, quantifiable assessment. For each potential investment, an indicator called Impact Multiple of Money (IMM)™ aims to estimate a company's potential for positive impact that is used for investment selection criteria.[29] The adoption of ESG criteria is part of the investment diligence and the decision process.

The **Active Partnership for Development** deals with institutional arrangements between the private sector, governments and/or private philanthropic foundations engaged in development cooperation initiatives at the international level. The nature of this modality is the establishment of different forms of alliances or contracts between these stakeholders. The establishment of partnerships between these actors normally occurs through mechanisms such as PPPs, development cooperation projects or contracts.

[29] See http://therisefund.com/impact-measurement.html

This modality is divided in three distinct roles: **resource provider and executor**. The **resource provider** contemplates the allocation of resources by governments and private philanthropic foundations to mobilize private sector engagement. Through these partnership agreements, governments can leverage additional financial and economic resources from companies. In addition, the private sector can offer technical expertise - including the use of strategic resources such as network, data and research capacity as proposed by Vaes and Huyse (2012) – linked to a development initiative. Development institutions have a list of distinct mechanisms to promote private sector mobilization that aim to reduce risk for private investments and to promote corporate participation in development programs.

The **executor** deals with the role of companies in designing and implementing new sustainable initiatives in partnership or with financial support from the public sector at the international level. The executor mobilizes coordinates or takes part in the execution of development cooperation projects that promote capacity building and knowledge transfer and contribute to positive impacts. Consultancy companies, for example, compete for public funding and grants to implement projects in developing countries. The Palladium Consulting Group (http://thepalladiumgroup.com) and Mckinsey (http://www.mckinsey.com) – among other players – are examples of global consultancies that develop business activities implementing capacity building projects in developing countries. In the case of the Palladium Consultancy Group, there is a list of development cooperation initiatives that are funded by different development agencies like the British and the Australian. In addition, there is an extensive emphasis on evaluation to demonstrate and monetize positive impacts. Many cooperation agencies also mobilize the private sector to support their execution activities. In the case of Brazil, the National Service for Industrial Training – SENAI is one of the main partners of the Brazilian Agency of Cooperation – ABC. SENAI is a private non-profit organization that promotes skills development for the industrial sector in Brazil and has implemented more than nine technical schools in Africa, Latin America, and East Timor. In Germany, there is an extensive list of consultancy and non-profit organizations that also act on behalf of the GIZ implementing their development agenda. Thus, this category does not include those companies that were awarded by development institutions with contracts to supply goods and deliver services since this is a traditional client-contractor relationship.

Finally, there is another type of engagement that considers the notion of **private sector development** presented by Di Bella Et al. (2013). The modality of beneficiary was originally proposed by Lamego de Teixeira Soares and Yumie Aoki Inoue (2020) but it was not considered in the present framework of PSE. The role of beneficiary was not included since it is not a voluntary form of participation, neither part of an alliance or institutional arrangement. In this case, private sector actors – usually from developing countries – benefit from the results of development initiatives. That is, they absorb know-how and capability to improve their own business. Thus, it is difficult to be measured since it considers an impact analysis.

2.6. Final Considerations

The proposal of this framework aims to facilitate an understanding about the various forms of how companies and private philanthropic foundations can contribute to the challenges of the 2030 Agenda and its SDGs at the international level. The separation of these modalities in two categories seeks to demonstrate that governments alone won't be able to coordinate all efforts to bring corporations to tackle development challenges. In this context, companies are engaging towards sustainable practices to do their part for the sustainability of our planet. And this "awareness" is being supported by a new rationale that is indicating that long term profits can be compatible with corporate sustainable practices as brought by the articles of Porter and Kramer; and Nidumolu, Prahalad, and Rangaswami, as well as the empirical evidence presented by Ioannou and Serafeim. Therefore, the participation of companies in the development agenda is voluntary by nature.

Despite all the risks to bring firms to take part in development initiatives, budget constraints provide no alternative for governments to mobilize resources from the private sector to the development agenda. Such risks could be mitigated through better regulations – such as compliance, participatory decision-making process, among others – , and evaluations as companies increase their partnership with governments. In addition, bringing companies to become a 'development agent' should consider the risks related to their emphasis on its capital assets, the reinterpretation of positive outcomes, benefits, and beneficiaries, as pointed out by Blowfield and Dolan (2014) and Mawdsley (2018). These are the challenges that arise in this context. By collaborating with governments,

companies also participate in development initiatives in distinct ways as shown in roles of executor and beneficiary.

Finally, it is also important to address that this framework does not consider a naïve approach of the private sector's interests. Surely, companies expect financial returns as their main goal as corporate reformers or partners of the development agenda. In addition, development agencies should count with the needed transparency and compliance requirements to avoid risks in partnering with companies. In this scene, bringing corporations to take part in these global challenges should no longer be an issue. The question is how to ensure that companies have a more positive responsible attitude towards the social and environmental issues of our planet. And, such change of mindset has limitations if one expects firms to generate similar development impact results as those offered from the public sector. Therefore, companies should be considered as new actors of international relations, but they do not substitute governments in promoting development cooperation. In the following chapters, this framework will be used to map the role of the private sector in Germany and Japan respectively. The proposed framework utilized similar indicators as the references presented in this Chapter to offer a critical perspective on how German and Japanese companies took part in the promotion of the sustainable development agenda.

3. The Traditional German Model of Private Sector Engagement

3.1. Introduction

The aim of this chapter is to evaluate the role of German companies in the sustainable development effort. Germany has a highly competitive private sector integrated into global supply chains. Likewise, Germany is ranked 22nd in the Doing Business Report of 2020[30] that measure the local environment to foster private sector development. Since the Financial Crisis of 2008, the German economy has performed well supported by prudent economic management and past structural reforms (IMF 2018). According to the International Monetary Fund, growth has been robust, employment is rising with low unemployment levels not seen in decades. The Dieselgate scandal came to light in 2015 when it was shown that the Volkswagen group had equipped 11 million diesel cars with software that made them appear cleaner during emissions tests (Gardner, Lienert e Morgan 2015). This scandal has exposed the entire German automotive industry leading to questions about the private sector's commitment to the sustainable agenda. Despite this fact, a growing number of companies and financial institutions have embarked on the ESG trend. And many are ranked among the most sustainable in their respective market segments.

In addition, the German government has been actively participating in the global discussions related to the promotion of sustainable development. In this context, Germany counts with an institutionalized system of development cooperation. At a first look, there are well-defined policies at the federal level, as well as operating agencies to put into practice Germany's commitments to tackle global challenges. Germany also counts with traditional development policies and instruments to foster private sector engagement. The issue is to understand how representative these initiatives are in comparison to the overall official contribution to development assistance. As one of the main donors of development cooperation, the examination of the German case will demonstrate the

[30] See (World Bank 2020) and https://www.doingbusiness.org/en/rankings

importance and limitations of bringing companies to finance and take part in the sustainable development agenda.

To this end, this evaluation will be based on the framework of **Modalities of Private Sector Engagement**, presented in the previous Chapter (**Table 13**). The mapping of the various forms of private sector engagement will be classified in the two main categories: Corporate Awareness for Development and Active Partnership for Development. The analysis contemplates the use of quantitative and qualitative information related to financing and governance mechanisms. Regarding financing, I have examined data from various sources such as the OECD, World Bank, as well reports from the development institutions, foundations, banks, and investment funds. In the topic of governance, I have listed the main formal networks and multi-stakeholder forums that count with private sector engagement. In addition, interviews were conducted with different stakeholders in Germany to identify the motivations and interests of companies to take part in the development agenda.

This cross-analysis will provide a critical understanding to test the three hypothesis of this research: firms are increasing their participation in the sustainable development agenda through the adoption of corporate sustainable practices and through public-private partnerships; the volume of financing mobilized by companies is growing, but not significant to meet the challenges of the 2030 Agenda; and the government and the private sector have mutual interests to collaborate in development cooperation. Moreover, the use of the framework will provide a consolidated overview on how private sector engagement takes place in Germany.

3.2. Corporate Awareness for Development

3.2.1. Overview of Germany's Economy and the Private Sector

Germany is well-known for its competitive economy. It has the largest economy in Europe, the fourth-largest by nominal GDP in the world, and fifth by GDP (PPP). In 2017, the country accounted for 28% of the euro area economy (IMF 2017a). The German economy has performed well after the 2008 financial crisis, supported by prudent

economic management and past structural reforms (IMF 2018). According to the same report from the International Monetary Fund, growth has been robust, employment is rising with low unemployment levels not seen in decades. The service sector is responsible for around 70% of the total GDP, industry 29.1%, and agriculture 0.9%. Germany's private sector counts with 32 German companies figuring among the world's 500 largest stock-market-listed companies, measured by revenue in 2018.[31] Among them, Volkswagen, Mercedes-Benz, BMW, SAP, Siemens, Bayer, BASF, Bosch are listed as global brands. In addition, Germany's private sector is also recognized for its specialized small and medium enterprises – SMEs, known as "mittelstand model." SMEs represent 99% of all German Companies.[32] And many are considered market leaders in their segments.

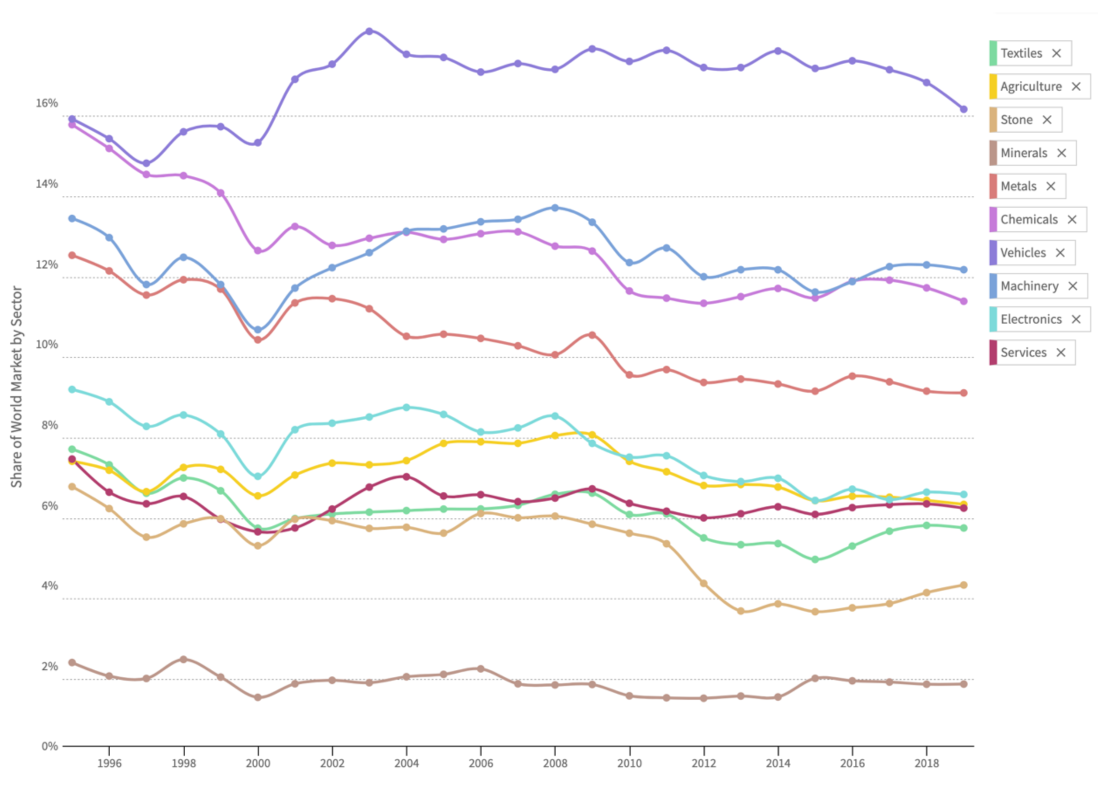
Germany's financial system can be divided in three separate categories: private banks, publicly owned savings banks (Landesbanks), and member-owned credit unions. The German banking system is made up of almost 1800 banks, which include 200 private banks, 400 publicly-owned banks, and 1100 member-owned credit unions. In terms of volume of assets in 2018, the top five banks were: Deutsche Bank (USD 1,76 trillion), DZ Bank Group (USD 627,11 billion), Commerzbank (USD 543,34), Landesbank Baden-württermberg (USD 285,78) and Bayerische Landesbank (USD 257,59).[33] Despite the size of assets, large German banks underperform in comparison to its European counterparts, "with a relatively low return on equity reflecting high operating costs, outdated IT systems, provisions for compliance violations, and in some cases legacy costs from exposure to the shipping industry" (IMF 2018). According to the same report, the continued weak profitability reduces "the banks' ability to generate capital organically." In regard to small and medium-sized banks, the context of low interest rates with strong competition in a highly fragmented market has led to low interest margins.

Germany is also one of the largest exporters in the world with USD 1,555 billion worth of goods and services exported in 2018.[34] Exports accounted for 41% of national output.[35] The main trading partners are the United States, China, France, Netherlands, and

[31] See https://fortune.com/global500/2018/search/?hqcountry=Germany
[32] See https://www.tatsachen-ueber-deutschland.de/en/global-trade-partner/power-smes
[33] See https://rlist.io/l/largest-banks-in-germany-by-total-assets
[34] Destatis.de (Germany's Federal Statistical Office)
[35] Idem.

the United Kingdom. According to the Atlas of Economic Complexity that measures the complexity and diversity of exports of countries, Germany has the 2nd highest ECI.[36] The top 10 exports of Germany are vehicles, machinery, chemical goods, electronic products, electrical equipment, pharmaceuticals, transport equipment, basic metals, food products, and rubber and plastics. However, global market share in machinery manufacturing has stagnated over the previous decade. Germany's export dynamics has been driven by services despites the decline of its exports in recent years (**Figure 18**).

Figure 18 – Germany's Growth in Global Market Share 1996-2018 (%)

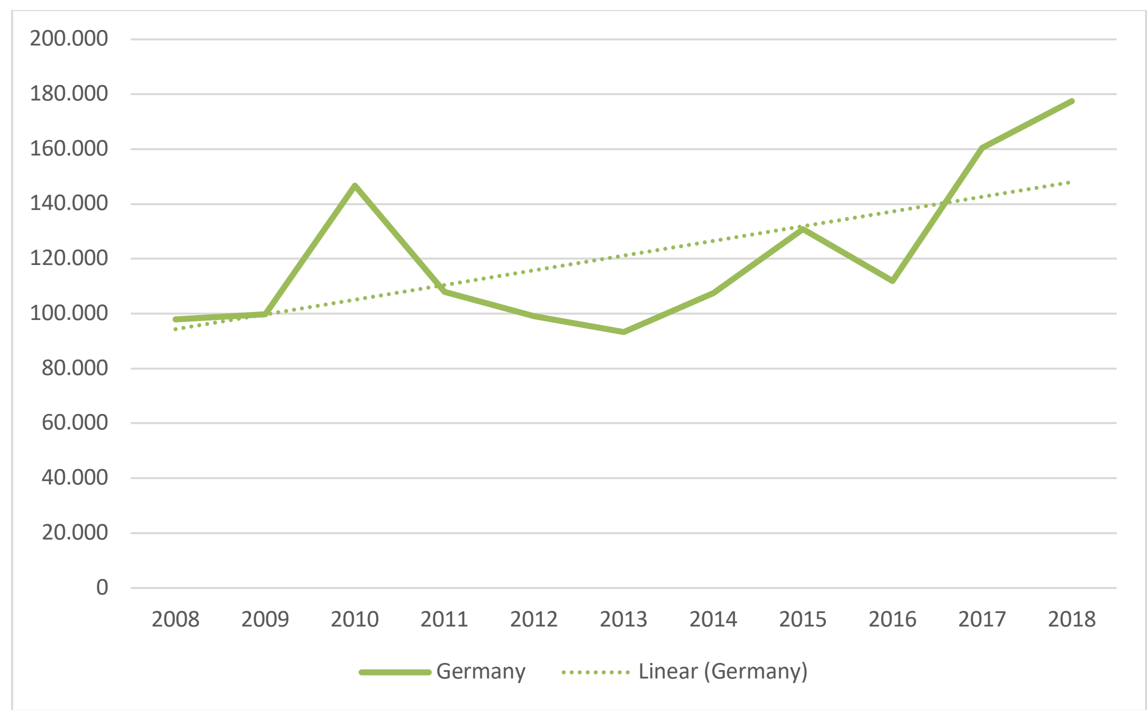


Source: Atlas of Economic Complexity.

German companies have a diversified allocation of their investments throughout the world. **Figure 19** shows the evolution of Germany's net outflow of Foreign Direct investment in the period 2008-2018. In 2018, Germany FDI totaled the amount of **USD 177,5 billion**, representing an increase of 81% in relation to 2008.

[36] The Atlas of Economic Complexity is an online platform developed by the Harvard Kennedy School to allow people to explore global trade flows across markets, track these dynamics over time and discover new growth opportunities for every country. The Atlas places the industrial capabilities and knowhow of a country at the heart of its growth prospects, where the diversity and complexity of existing capabilities heavily influence how growth happens. For more information, see (Hausmann, et al. 2013) and https://atlas.cid.harvard.edu/

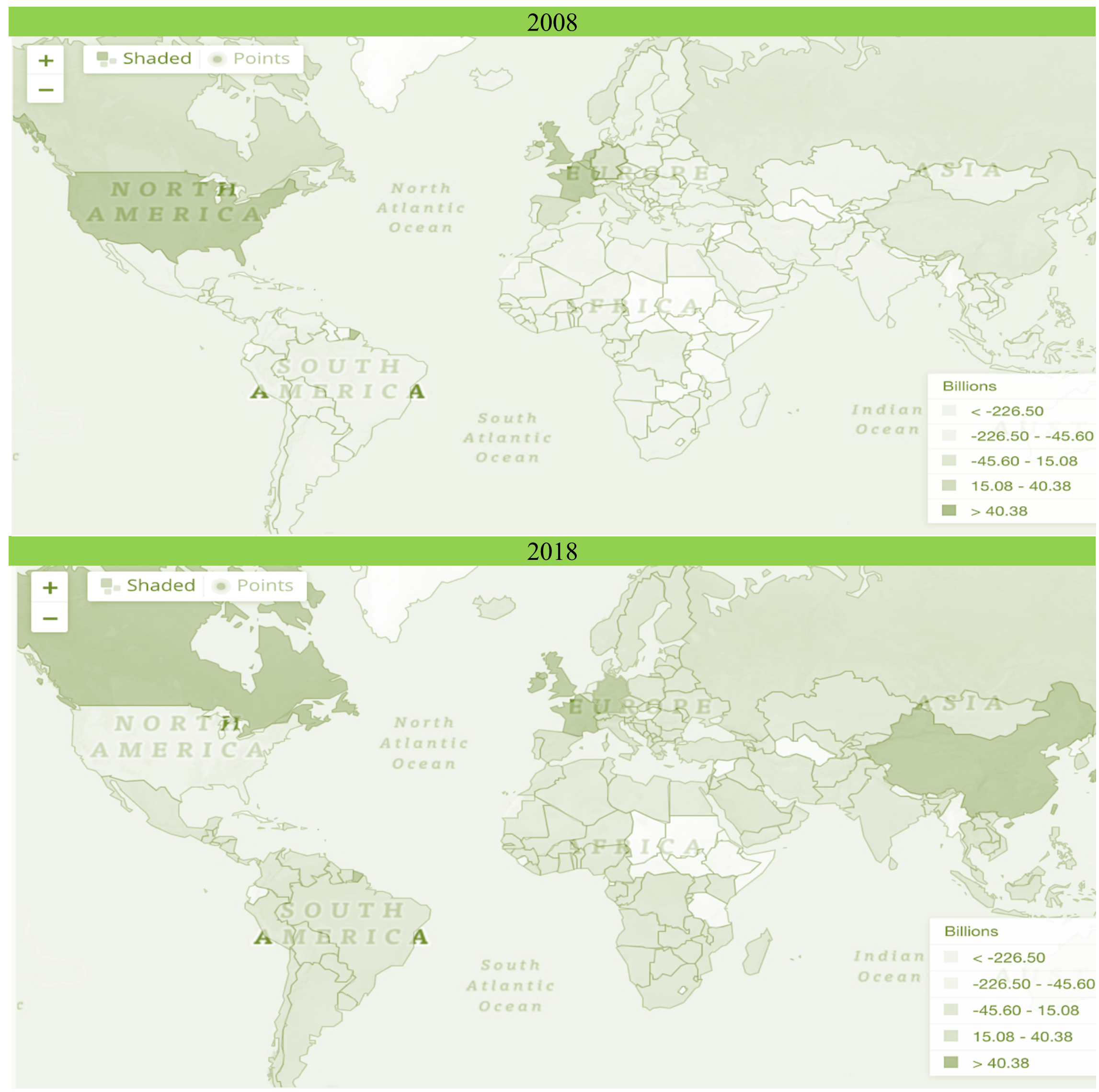
Figure 19 - Germany's Foreign Direct Investment Outflows (current USD billion)



Source: World Bank Database. Extracted from International Monetary Fund, Balance of Payments database, supplemented by data from the United Nations Conference on Trade and Development and official national sources.

In terms of destination, Germany's FDI in 2018 had as main destinations China, Canada, European countries, Russia, and Saudi Arabia. (**Figure 20**). When compared to 2008, Germany's FDI shows a trend that has started since the reunification process in the 1990s when Europe, China and USA became the main destination of Germany's investments. Nevertheless, it is important to point out that a significant number of countries in Latin America, Africa, Asia, and South-East Asia have also received investments from German companies in 2008 and 2018. **Figure 20** has also exhibited how the African continent became a destination of Germany's investment in 2018 in comparison to the previous decade.

Figure 20 - Destination of Germany's FDI in 2008 and 2018 (in USD Billion)



Source: World Bank Database. Extracted from International Monetary Fund, Balance of Payments database, supplemented by data from the United Nations Conference on Trade and Development and official national sources.

Figure 21 shows the evolution of the net total flows of financial resources from Germany to developing countries in the period 2008-2018. In comparison to 2008, the net volume of resources flown to developing countries had an increase of 42%. Most of the growth came from the allocation of official development assistance that has increased 195% and from private flows that grew 118% in the period 2008-2019. Nevertheless, it is important to point out the significant volume of private resources that are flowing to developing countries that totaled **USD 18,7 billion** in 2018.

Figure 21 - Total Net Resource Flows from Germany to Developing Countries 2008-2018 (USD 1,000 constant prices)

Source: OECD.

In sum, Germany had a successful economic performance since the financial crisis of 2008. With a high degree of internationalization, many companies figure among the global leaders of their respective market segments. Germany companies have also allocated financial resources throughout the world, including Latin America, Africa, Asia and South-East Asia during the period of 2008-2018. In this scene, German companies could play a relevant and impacting role in the sustainable development agenda due to its international presence. The question lies in understanding how this engagement takes place and how representative it is vis-à-vis the official development assistance provided by the German government.

3.2.2. Responsible Participant

As presented in the framework, this category considers initiatives that promote awareness with the sustainable agenda. In this context, the **United Nations Global Compact** is the main forum to promote knowledge sharing on corporate sustainable practices. At the global level, it counts with a list of **645 German companies** registered

out of a total of 15,515 active members.[37] Out of this, **509 countries are listed as signatory members** that is considered the first step in terms of private sector's involvement with sustainable approaches.

In the **German Chapter of the Global Compact Network**, there are **350 member companies**, ranging from global enterprises, small and medium size companies, plus 50 organizations from civil society, academia, and the public sector (including GIZ). Among them, global companies such as BMW, Siemens, Bosch, Allianz are listed as members. This initiative counts with a participants' assembly, a Steering Committee, a secretariat ('Focal Point'), as well and the German Global Compact Network Foundation[38]. The Steering Committee controls the activities of the network strategically, promoting discussions with the participants based on the ideas and proposals from the New York office. The Secretariat manages the implementation of the strategic objectives. It acts on behalf of and in coordination with the Federal Ministry for Economic Cooperation and Development - BMZ, German Foreign Office and the German Agency for International Cooperation - GIZ. The network is funded by grants from the Federal Government and by an increasing proportion of funds of the German Global Compact Foundation since 2009. Among the initiatives, it publishes guidelines for greenhouse gas emissions, as well as initiatives to tackle migration issues in Germany. However, there was no information available regarding public-private interactions in development cooperation initiatives. That is, the Global Compact is focusing its mandate on promoting awareness.

Besides the Global Compact, there are thematic platforms structured by the German development cooperation institutions. The **Strategic Partnership Technology in Africa (SPTA)** was a network connecting German development cooperation and around 200 European companies with the aim to develop public-private cooperation projects relating to digitalization and innovation in Africa. The partners worked in thematic expert groups on education, energy, health care, e-governance, agriculture, and mobility in line with the SDGs. The **Business Alliance on Energy** is coordinated from within a sector project

[37] The total contemplates active members (participants and signatory) in June 2021. See: https://www.unglobalcompact.org/participation
[38] See https://www.globalcompact.de/en/about-us/german-network/#anchor_df5309af_Accordion-1-Organisational-structure-and-funding

coordinated by BMZ. It comprises companies and associations from the green hydrogen value chain – from generating energy to constructing facilities.

3.2.3. Corporate Reformer

In terms of corporate sustainable practices, **440 companies are registered as participants** in the United Nations Global Compact**.** This category of engagement implies a formal commitment in terms of adopting sustainable development practices, as well as taking part in global initiatives carried out by the forum. Companies in this category also need to report the SDGs that are prioritized in annual progress reports. For the purpose of this research, this list of signatory companies are the ones classified as **corporate reformers** as seen in Chapter 2. The list is extensive and includes German multinationals such as Siemens, SAP, Thyssenkrupp, Bosch, BMW and Siemens that are listed as signatory members.

During the period 2008-2018, 15 German companies have figured among the **100 Global Index that measures the most sustainable corporations in the world**, according to Corporate Knights, a media and investment company that lists the world's greenest businesses every year. The list includes the following companies: Adidas (Textiles, Apparel & Luxury Goods), Fresenius Medical Care (medical), BASF (Materials), SAP (software and services), Deutsche Post (Communication), Hochtief, Henkel (Household Products) Allianz (insurance), BMW (automobiles), Daimler (automobile), Fraport Frankfurt Airport (Transportation Infrastructure). All of these companies figure among the **top 100 German Companies in market cap value**.[39] The results of this survey are announced every year at the World Economic Forum in Davos, Switzerland. **Table 15** below presents the results of 2018. For the purpose of this research, these companies are the ones classified as the **High Sustainable Companies**, as proposed in the previous chapter by Zollo, Cennamo and Neumann (2013). That is, they have adopted corporate sustainable practices as a key part of their business strategies.

[39] See Global Ranking report at https://companiesmarketcap.com/germany/largest-companies-in-germany-by-market-cap/. The only exception is Aareal Bank that is ranked in 107th position.

Table 14 - List of German Companies in the 100 Global Index 2018

Rank	Company	Sector
9	Siemens	Industrial Conglomerates
11	Aareal Bank	Thrifts & Mortgage Finance
17	Bayerische Motoren Werke	Automobiles
30	Deutsche Borse	Capital Markets
60	Daimler	Automobiles
71	Allianz	Insurance

Source: Global 100 Index. Corporate Knights.

The case of Siemens is worth mentioning. Following the launch of the 2030 Agenda in 2015, Siemens was one of the first companies in the world to embrace the challenge of becoming climate-neutral by 2030. Sustainability became the core of its business and “the engine that drives it.” To achieve this vision, Siemens has developed an ambitious sustainability framework called DEGREE that encompasses a set of goals with measurable targets:

a. **D**ecarbonization: support the 1.5ºC target to fight global warming
b. **E**thics: foster a culture of trust, adhere to ethical standards, and handle data with care
c. **G**overnance: apply state-of-the-art systems for effective business conduct
d. **R**esource efficiency: achieve circularity and dematerialization
e. **E**quity: foster diversity, inclusion, and community development with a sense of belonging
f. **E**mployability: enable our people to stay resilient and relevant in a permanently changing environment (Siemens AG 2021).

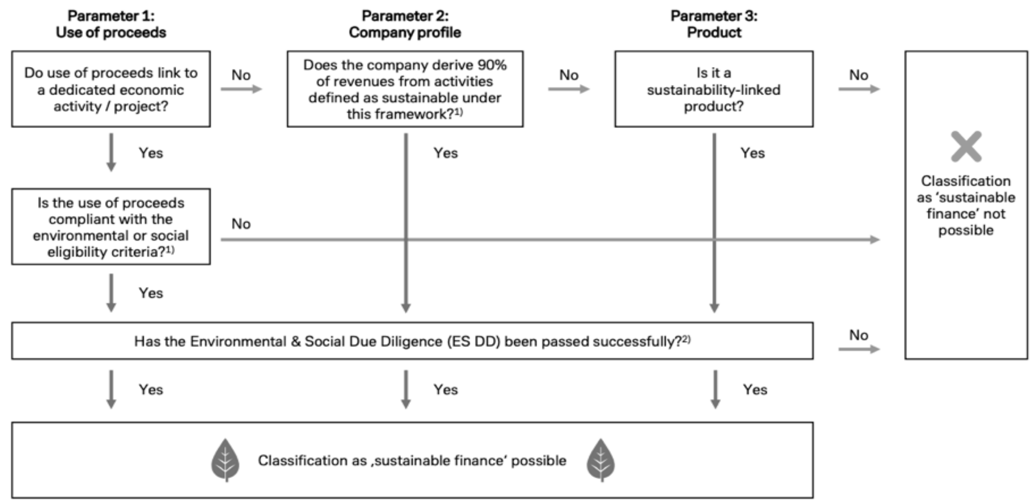
In the context of these six goals, Siemens also has an ESG radar to identify potential risks when dealing with new clients. That is, there is a formal policy to avoid dealing with clients that do not comply with Siemen’s value. They also have goals to increase women's participation in high-ranking positions. The biggest challenge nowadays is to ensure the adoption of ESG standards for all its supply chain (Interviewer C 2022). Similar goals were reported by Bosch, a German multinational company that is a leader supplier of

technology and services. Bosch has been adopting corporate sustainable practices for more than 20 years. Despite not figuring among the Global 100 Index, its business activities have achieved carbon neutrality in all its 400 locations worldwide (BOSCH AG 2021). Nowadays, Bosch's main sustainable challenge considers the diffusion of its ESG strategy and standards for the whole value chain at the global level (Interviewer H 2022). The same challenge was reported by a representative from Volkswagen that has the goal to promote the decarbonization of 100% of its plants and products until 2050 (Interviewer F 2022). Volkswagen has also adopted new governance standards, following the Dieselgate scandal (The group was suspended from Global Compact until 2021).

Regarding the role of the financial system, sustainable responsible investments – SRI became a trend in Germany. All major banks in Germany have introduced SRI credit lines using their own ESG criteria, aligned with the Sustainable Development Goals – SDGs. Like many financial institutions, the Deutsche Bank has introduced ESG screening[40] to select sustainable investment funds, green real estate assets, social finance innovations, and impact investments, based on their own ESG methodology and indicators shown in **Figure 22** (Deutsche Bank 2020).

[40] Screening contemplates the use of filters to determine which companies, sectors or activities are eligible or ineligible to be included in a specific portfolio. These criteria might be based on an investor's preferences, values and ethics. For example, a screen might be used to exclude the highest emitters of greenhouse gases from a portfolio (negative screening) or to target only the lowest emitters (positive screening). It can be based on the policy of an asset manager or asset owner.

Figure 22 - Sustainable Finance Framework Process of the Deutsche Bank



Source: extracted from (Deutsche Bank 2020, p.3).

DZ Bank Group also counts with its own process of selecting ESG investments with the evaluation of around 150 environmental, social, and corporate governance indicators that are weighted by sector as part of a multi-stage evaluation process (DZ Bank Group 2020). DZ Bank's classification requires their securities to achieve a minimum number of points based on these indicators. In the equity and bond markets, DZ bank awards issuers with a seal of approval for sustainability based on this screening method. Commerzbank also integrates ESG criteria on their lending and risk strategies. One of its core sustainable businesses is the financing of around 15% of all Germany's wind power generation activity (Commerzbank 2019).

Another example is the Landesbank Baden-Württernberg – LBBW that has its own ESG guidelines that include the energy sector, agriculture and forestry, mining, arms, pornography, and gambling (Landesbank Baden-Württemberg 2021). Their screening process contemplates a uniform review of borrowers based on the 10 principles of the UN Global Compact as a framework for socially and ecologically responsible corporate governance. In the case of uncertainty or topics that do not count with binding rules or review criteria, an opinion can be requested from the sustainability area. LBBW maintains an ongoing dialogue with its stakeholders. Their main challenges in incorporating

sustainability lie in the extent, validity, and implementation of structured data (Interviewer I 2022) (Landesbank Baden-Württemberg 2021).

In terms of market size, **Figure 23** below shows the evolution and distribution of the sustainable and responsible investments - SRI market in Germany from 2013 to 2017. The amount of SRI totaled **USD 1,94 trillion** in 2017**,** representing a 213% increase over 2013. The exclusions strategy was the dominant responsible investment strategy in Germany. It amounted to approximately USD 1,68 trillion in 2017. Exclusion strategies contemplate the act of barring a company's securities from being included in a portfolio due to business activities that are deemed unethical, harmful to society or in breach of laws or regulations. When the data is compared between 2017 and 2013, the increase in the modality exclusion strategy is impressive.

Figure 23 - Market size of sustainable and responsible investments (SRI) in Germany from 2013 to 2017, by strategy (in USD million)

	2013	2015	2017
ESG Integration	0	0	56.062
Impact investing	1.817	5.287	5.912
Sustainability themed	5.489	9.054	10.378
Norms-based screening	13.535	17.071	57.392
Best-in-class	21.031	23.408	24.937
Engagement and voting	15.609	35.387	104.055
Exclusions (product specific)	33.608	49.821	1.680.492

0 200.000 400.000 600.000 800.000 1.000.000 1.200.000 1.400.000 1.600.000 1.800.000

Source: Eurosif.
Note: Due to the European diversity, the wide definition of responsible investment contemplates any type of investment process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues.
All values were converted from Euro to USD dollars based on the average annual exchange rate.

As seen in **Figure 23**, the German market for impact investment is small compared to other forms of sustainable and responsible investments. Nevertheless, this modality has benefited from national and international market-building initiatives and the increased attention that followed them (Bertelsmann Stiftung 2016). Among the main players, the Bertelsmann Stiftung report has acknowledged the activities of the two established social venture capital fund managers (BonVenture and Ananda Ventures). According to the same report, there are still structural problems for the market to grow, such as a small investors base, few intermediaries with little diversification, a limited number of investment products, few investment-ready impact-driven organizations and continued need for assistance in developing a functioning market environment with advisers and supporters. Finally, the report calls for a more active role from German policymakers to promote the strategic development of the impact investment market.

In sum, the category of **Corporate Awareness for Development** in Germany is presented as follows:

Table 15 - Corporate Awareness for Development in Germany 2018

Corporate Awareness for Development	
Responsible Participants	
Number of Companies listed as signatory members in the Global Compact Network	509
Number of Companies registered in the German Chapter of the Global Compact Network	304
Corporate Reformers	
Number of Companies listed as Participants in the United Nations Global Compact Network	440
Number of High Sustainable Companies	6 (2018) 15 (2008-2018)
Volume of Sustainable and Responsible Investments (SRI)	USD 1,94 trillion (2017)

Source: United Nations Global Compact. Global 100. Corporate Knights. Eurosif.

3.3. Active Partnership for Development

3.3.1. The Public Actors of Development Cooperation

The German development cooperation framework counts with distinct public institutions that have complementary roles and mandates. The **Federal Ministry for Economic Cooperation and Development - BMZ** is the main governmental organization responsible for Germany's development cooperation policy. It works in collaboration with Germany's Foreign Office. Besides the BMZ – that is politically responsible for approximately 65% of all of Germany's ODA[41], other German Ministries also take part in the structure of Germany's development cooperation (part of their expenditures can be eligible for ODA's contribution).

In this context, BMZ's strategy paper, entitled *Development Policy 2030: new challenges, new solutions,* outlines Germany's strategy to address global challenges. According to this paper, development policy should tackle the following megatrends:

1. Demographic development
2. Resource scarcity
3. Climate change
4. Digital technology and interdependence
5. Displacement and migration (BMZ 2018).

Moreover, BMZ has indicated six instruments to support this policy:

1. The increase of ODA at National and European Level – and using it effectively.
2. Supporting sustainable private investment.
3. Facilitating fair trade.
4. Partner's own efforts key to progress.
5. Expanding cooperation with local authorities, political foundations and civil society.
6. Strengthening multilateral development cooperation.

[41] (Bohnet, Klingebiel e Marschall 2018)

In the topic of private sector engagement, the German Federal Ministry of Cooperation – BMZ has indicated six forms of partnering with companies:

Table 16 - Forms of Development Cooperation involving the Private Sector

Basic form of Cooperation	Sub-forms/models *(examples, not exhaustive)*	
Sponsoring and co-financing (small-scale)	– philanthropy/patronage – socio- and eco-sponsoring	Increasing assumption of risk by private actors / Increasing private investment
Multi-stakeholder dialogues and formal networks	– consultative processes – institutionalized dialogues (ex. public-private dialogue, PPD) – multi-stakeholder platforms (ex. round tables on CSR) – cross-sectoral networks – associations	
Development partnerships with the private sector	– development partnerships from idea competitions – strategic alliances – round table	
Public-private partnerships (PPP)	– performance-based service contract – output-based aid – management contract – leasing/afterimage – concession – BOT, BOOT, DBO – (privatization, sale) – credit lines through commercial banks – private fund management – arrangements, syndicated financing	
Mobilization and combination of private and public capital	– structured funds with various risk tranches – securitization – equity participation – establishment of new or follow-on investment in microfinance banks or microfinance holdings – capital market development (ex. promotion of bond issues by municipalities or utility companies) – large-scale co-financing arrangements with private actors pursuing project activities of their own	
Financial and advisory services for private investment in developing countries	– Finance for private corporate investment in developing countries, ex.: • investment loans for manufacturing industry • finance for private infrastructure • SME finance • finance for private contributions in PPPs	

Source: Extracted from (BMZ 2011, p6)

*Types of PPPs: BOT – build-operate-transfer, BOOT – build-own-operate-transfer, ROT, DBO design-build-operate.

In terms of implementing agencies, BMZ mobilizes the **German Agency for International Cooperation - GIZ** and the **Development Finance Institution – KfW** to carry out its development cooperation policies. As operating agencies, GIZ and KfW have complementary missions in the context of the German framework of development cooperation. The division of labor between the German government, GIZ and KfW is specified in terms of regulations and policies, such as the Federal Guidelines for Bilateral Financial and Technical Cooperation, the General Agreement, and the joint Code of

Conduct for BMZ, GIZ, and KfW Development Bank. This code of conduct regulates the working relations. Whereas BMZ is responsible for setting policies and for commissioning programs to the respective agencies, GIZ and/or KfW put into practice these programs through its organizational structures and partners. In strategic partner countries, BMZ also counts with a representative to oversee GIZ and KfW initiatives. This is an interesting characteristic that aims to ensure a hierarchical control and stronger monitoring process between BMZ and its implementing agencies.

The GIZ (*Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH*) is a state company owned by the Federal Republic of Germany represented through the Federal Ministry for Economic Cooperation and Development (BMZ) and the Federal Ministry of Finance. GIZ has started its activities in January 2011 from the merge of three German cooperation agencies: the German Agency for Technical Cooperation (GTZ), the German Development Service (DED), and the German Agency for International Training and Development (InWent). In terms of figures, GIZ works in around 120 countries with more than 20,736 employees, 70% of whom are German nationals. GIZ had a total budget of almost **USD 3,54 billion in 2018** (GIZ 2019). Out of this total business volume, USD 2,92 million were allocated by the BMZ and USD 479,1 million by other public sector organizations. In addition, USD 128,9 million came through the provision of international services (an increase over 24% in relation to 2017) to companies, international organizations and partner countries that were able to pay for the German expertise[42].

KfW (*Kreditanstalt für Wiederaufbau*) is a German state-owned development bank. Its name originally stands for Credit Institute for Reconstruction. It was created in 1948 after World War II, as part of the Marshall Plan. KfW is ranked among Germany's top five largest bank by balance sheet with assets totaling **USD 533,7 billion** in 2017.[43] It works with domestic promotion, export and project finance, development finance and special tasks that range from the privatization of German state-owned companies to old claims of the former German Democratic Republic - GDR.

[42] This modality refers to GIZ consultancy services to companies. Based on its international experience of development projects, GIZ offers services in a wide area of topics related to the promotion of sustainable development.
[43] Please see https://www.german-way.com/travel-and-tourism/banks-money/top-german-banks/

Regarding the activities of development finance - that are the main concern of this research - KfW Development Bank operates Germany's official Financial Cooperation in more than 100 developing and transition countries in Africa, Asia, South and Central America, the Middle East and the Caucasus. According to its financial report of 2018, KfW has provided funds totaling **USD 89,1 billion** (40% spent on measures aimed to protect the climate and the environment) (KfW Group 2018). Out of this total amount, KfW Development Bank provided around **USD 10,3 billion** in financing to developing countries and emerging economies on behalf of the German Federal Government. KfW has also taken part in the green bond market with the issue of USD 1.9 billion bonds in 2018 (resulting in an accumulated amount of USD 17.1 billion) to support environmental initiatives.

In the case of developing countries, KfW finance projects that mainly involve public sector players from their conception and execution to monitoring their implementation. Financial cooperation is usually conducted in close consultation with other German and international development cooperation measures. KfW mobilizes a wide range of financial instruments – from concessional loans to risk capital provision and guarantees. The funding model offered by KfW depends on the size of a country's debt, its economic output and level of development, the performance capacity of the project partner as well as the type of project. KfW counts with a subsidiary organization called **DEG - *Deutsche Investitions und Entwicklungsgesellschaft*** (German Investment Corporation) to promote private business initiatives in developing and transition countries with a volume of funds of **USD 2,2 billion** and with total volume of commitments of **USD 9,6 billion** (total of commitments paid out and new commitments on own account approved, but not yet paid out) in 2018 (DEG 2018). DEG supports companies through investment operations in developing and emerging countries. DEG offers advisory service and special financial mechanisms to facilitate private investments in these markets. Usually, DEG provides long-term capital in the form of loans or equity operations that could be difficult for companies to obtain in developing countries. To be entitled to receive such funds, companies should demonstrate that such investments generate positive impacts. In addition, firms are obliged to follow a wide range of corporate social and sustainable responsibility guidelines that would be subject to future evaluation by DEG during the execution phase.

In addition to these two organizations, **Sequa gGmbH** is a non-profit organization that has been assisting German chambers of commerce, business associations and companies for over 25 years by providing support in the implementation of international cooperation projects. Sequa's main shareholders are the Association of German Chambers of Industry and Commerce (DIHK), German Confederation of Skilled Crafts (ZDH), Federation of German Industries (BDI), Confederation of German Employers' Associations (BDA) and GIZ.

Finally, GIZ, KfW and DEG publish annual reports that demonstrate alignment with the SDGs. In the case of GIZ, the 2030 Agenda is being used as a framework to guide the planning, implementation, and monitoring of projects. However, it was not possible to find the volume of resources allocated per SDGs or which of these goals became priority areas. KfW publishes annual reports on how the different financing mechanisms are linked to the SDGs since 2019. KfW has developed a standardized method to determine financial commitments per SDG. In its annual report of 2019, KfW has indicated the following SDGs as priority areas of financing:

- SDG 11: Sustainable Cities and Communities (approx. USD 32,5 billion)
- SDG 13: Climate Action (approx. USD 31,6 billion)
- SDG 8: Decent Work and Economic Growth (approx. USD 31,5 billion)
- SDG 7: Affordable and Clean Energy (approx. USD 29,6 billion)(KfW Group 2019).

DEG, on its turn, has developed a specific tool to measure how the private sector contributes to sustainable development. The **Development Effectiveness Rating (DERa)** combines quantitative and qualitative indicators to measure impact for each customer on an annual basis of all its funding mechanisms. These results are consolidated in five central dimensions for private sector development: decent jobs, local income, market and sector development, environmental stewardship, and community benefits. By directly linking selected indicators, the DERa can determine significant contributions made by companies to the SDGs. In the 2018 report, DEG's customers have contributed to the following SDGs:

- SDG 1: 86% of customers have shown successful financial development and are helping to fight poverty through higher local income
- SDG 8: 95% of DEG's customers create additional local income or new, decent jobs.
- SDG 9: 62% of the companies and project financiers (energy and infrastructure) financed by DEG are innovative or are financial institutions that provide targeted support to SMEs.
- SDG 13: Almost 25% of DEG's customers generate renewable energies or are particularly resource efficient in the way they operate (DEG 2018).

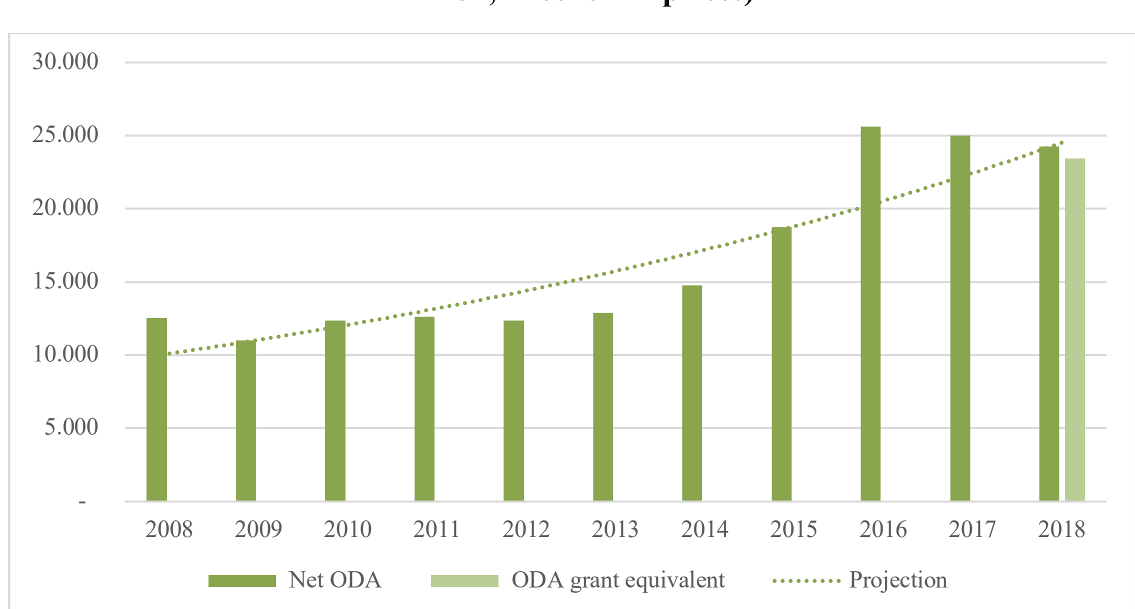
This is an innovative feature that correlates the contribution of companies to the achievement of 2030 Agenda on a measurable way. In this scene, it is important to acknowledge that DEG was one of the first development financial institutions to sign the Operating Principles for Impact Management, coordinated by the International Finance Corporation (IFC) that have set standards for development investments.

3.3.2. Panorama of Germany's Official Development Assistance

Presently, Germany is one of the main donors of development aid in the world, ranked as the second largest donor among OECD-DAC members. Despite the financial crisis of 2008 that brought budget constraints worldwide, Germany has increased the volume of aid in absolute terms in the period 2008-2018. In 2018, Germany has provided **USD 25 billion** in ODA, according to **Figure 24**, using the new "grant-equivalent" methodology adopted by OECD-DAC members in the same year to count donor effort in development loans.[44] It is important to acknowledge that in-donor refugee costs totaled USD 4,1 billion (15.7% of the total net ODA) in 2018 in comparison with USD 6,4 billion in 2017. This explains the slight decrease of ODA from 2017 to 2018.

[44] (OECD 2020a)

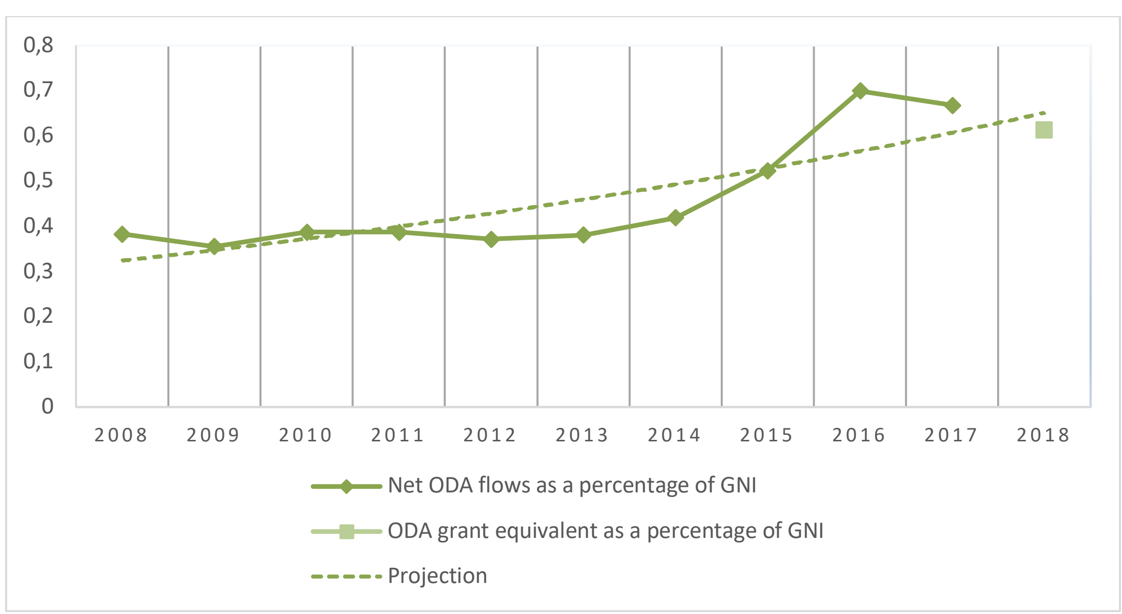
Figure 24 - Allocation of Disbursements of Germany's ODA 2008-2018 (USD million, in constant prices)



Source: OECD Germany (2020a).

Besides the growth in the volume of disbursements in ODA, Germany has tried to fulfill its commitment to meet the goal of 0.7% of ODA spent in relation to the gross national income – GNI. Among OECD-DAC member countries, Germany has the sixth position in relation to its ODA/GNI ratio. In 2018, the projected figures totaled 0.61%, slightly below Germany's target, as seen in **Figure 25**.

Figure 25 - Evolution of Germany's as a Share of GNI - ODA 2008-2018 (%)



Source: OECD Germany (2020a).

Figure 26, below, presents the allocation of ODA spending. Out of the total volume spent by Germany with development assistance, 81.4% was offered bilaterally, mostly channeled through the public sector by the development institutions GIZ and KfW (78%). Most of Germany's total contribution to multilateral organizations were allocated to EU institutions, the United Nations (UN) and the World Bank Group (82% of the total support to the multilateral system).

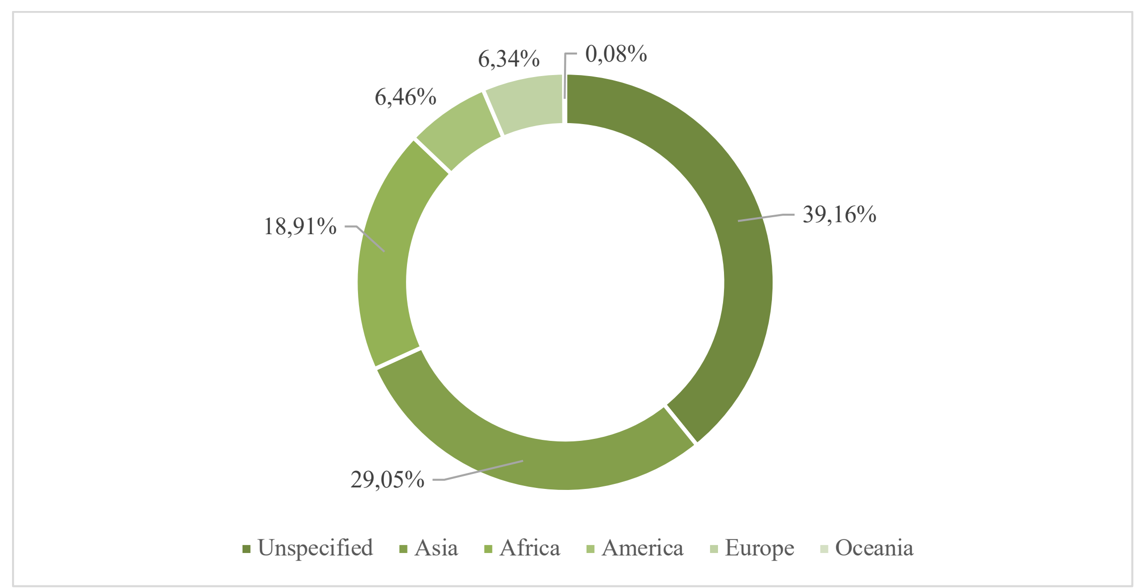
Figure 26 - Evolution of Germany's Allocation of ODA Gross Disbursements in the period 2008 -2018 (USD million, in constant prices)

Source: OECD Germany (2020a).

In terms of distribution of the bilateral ODA in 2017, most of the resources were allocated in Asia and Africa (47.9%) (**Figure 27**). According to the OECD,[45] 11.1% of the total ODA were spent on Least Developed Countries – LDCs. Out of the total amount of bilateral disbursements, USD 2,7 billion were allocated in sub-Saharan Africa. In Asia, USD 2,4 billion were given out to South and Central Asia and USD 2,5 billion to the Middle East. When FDI's is compared with ODA's destination (**Figure 25**), it is possible to verify a similar pattern in terms of FDI and ODA allocated for developing countries. Nevertheless, FDI shows a more diverse destination throughout the world in 2018 while 60% of Germany's ODA is allocated in 10 developing countries (**Figure 20**).

[45] Idem.

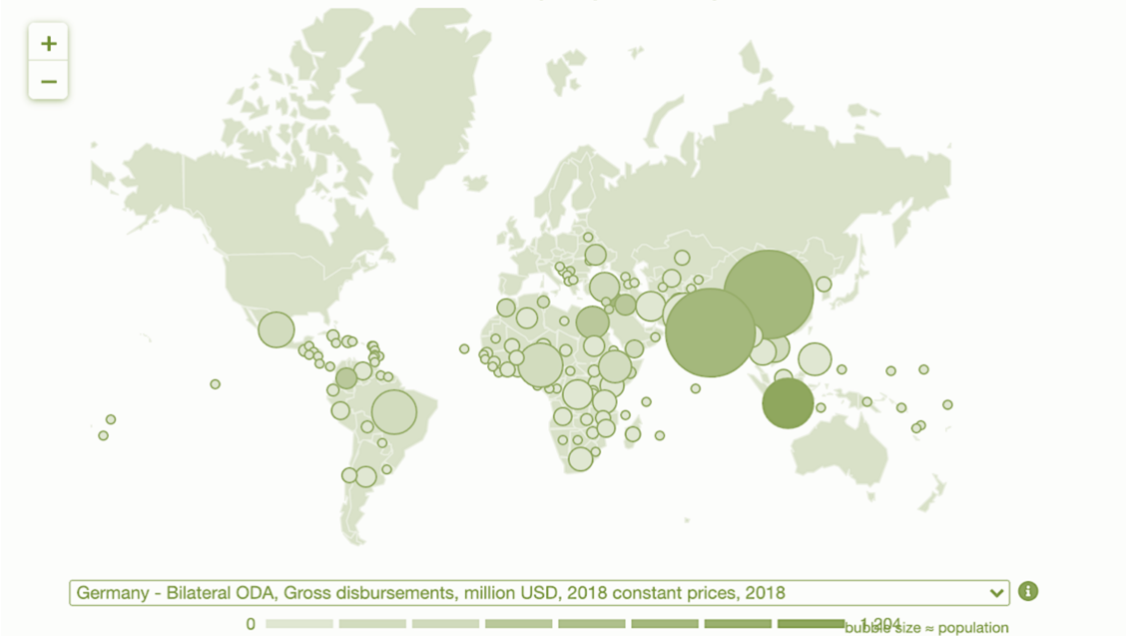
Figure 27 - Germany's Gross Disbursements of ODA per Region in 2017 (%)



Source: OECD Germany (2020a).

Figure 28 has shown a map of the countries that have received Germany's bilateral ODA. As seen below, the resources were allocated to numerous countries.

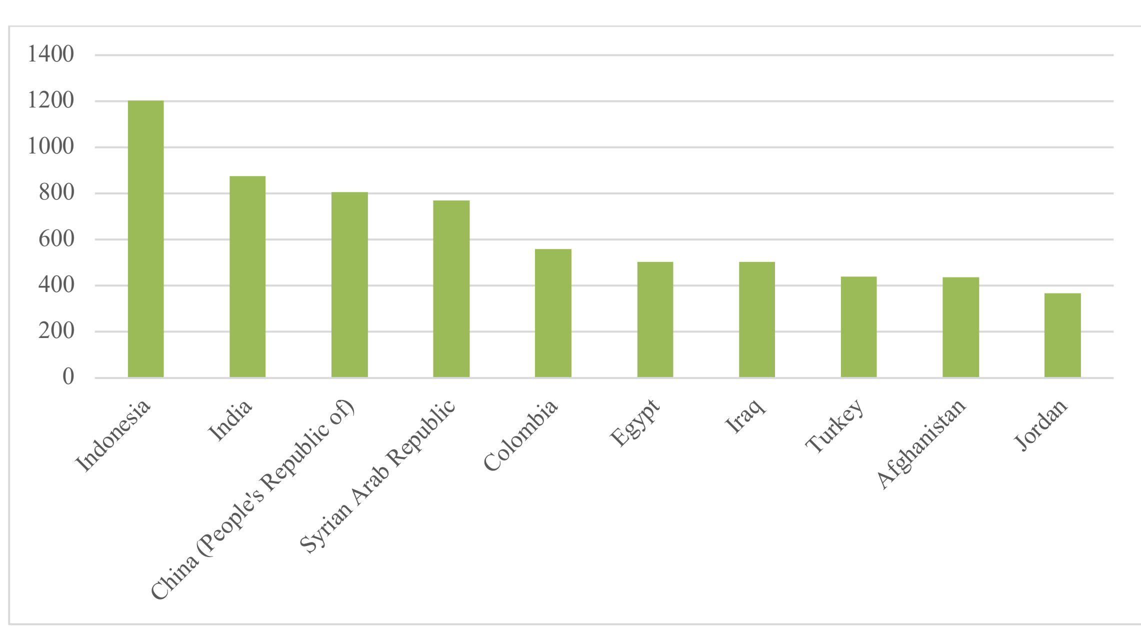
Figure 28 - Bilateral ODA by Recipient Country in 2018 (USD million)



Source: OECD Germany (2020a).

However, emerging countries like Indonesia, India, China, Colombia, and Turkey have figured among the most important destination of Germany's development assistance, absorbing together almost USD 3,8 billion out of the total USD 6,4 billion (60%) spent on the top 10 recipients of Germany's ODA (**Figure 29**).

Figure 29 - Top 10 Recipients of Gross Disbursements of ODA in 2018 (in USD Million)



Source: OECD Germany (2020a).

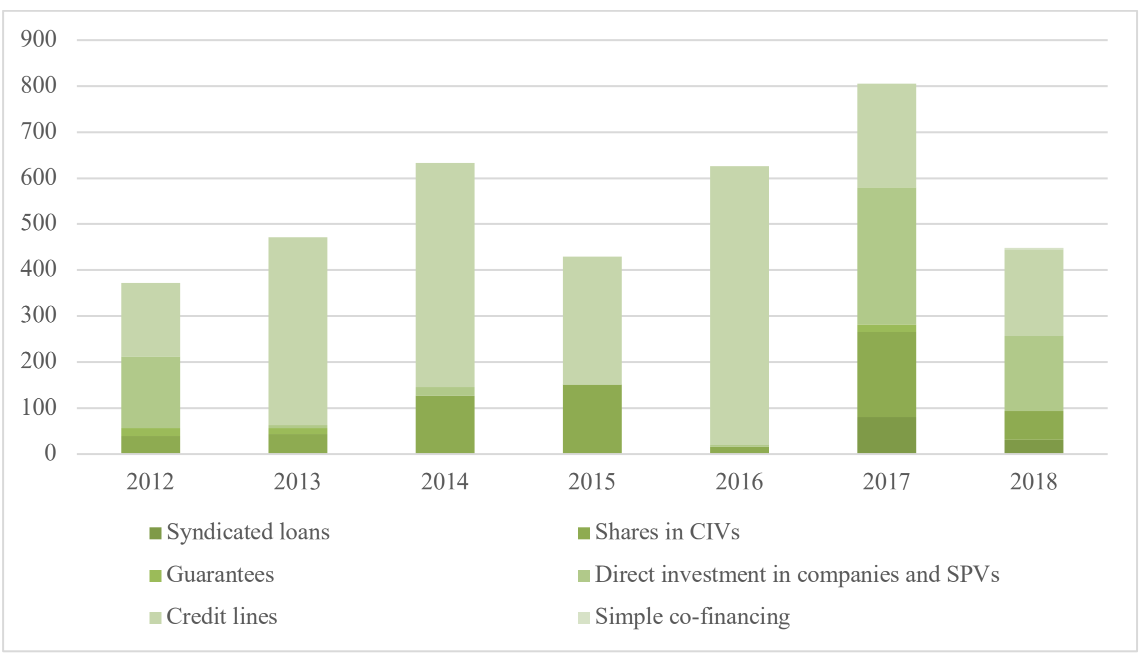
Despite the effort to increase the volume of ODA during the period 2008-2018, emerging countries were still classified as priority partners for Germany's development cooperation agenda. Nevertheless, **Figure 28** has shown that a significant number of African countries were participating in development cooperation initiatives. When one considers that most of these resources were allocated to emerging economies that are also relevant economic partners of Germany, it is possible to verify a direct correlation between Germany's cooperation policy and the private sector commercial interests. This view is also supported when one compares the destination of FDI and the allocation of Germany's ODA in the world.

3.3.3. Resource Provider

3.3.3.1. Volume and Mechanisms to Foster PSE

In 2018, BMZ, KFW and its development finance institution German Investment Corporation (DEG) mobilized together **USD 448 million** from the private sector through credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies (**Figure 30**). The reduction of the total amount mobilized in 2018 considers the fact that DEG has only shared data on the amounts assembled from the private sector through climate-related activities (OECD 2020a). When compared to 2012, there is an increase of 216% in total amount mobilized from companies through the support of German development institutions in relation to 2017 (112% in relation to 2018). However, there was not enough historical data to verify if this growth could represent a trend. **Figure 30** has also shown that most of the support to companies came through credit lines and through direct investment in companies (in 2012, 2017 and 2018). Syndicated loans, guarantees, shares in CIVs had modest participation in the total amount mobilized from the private sector.

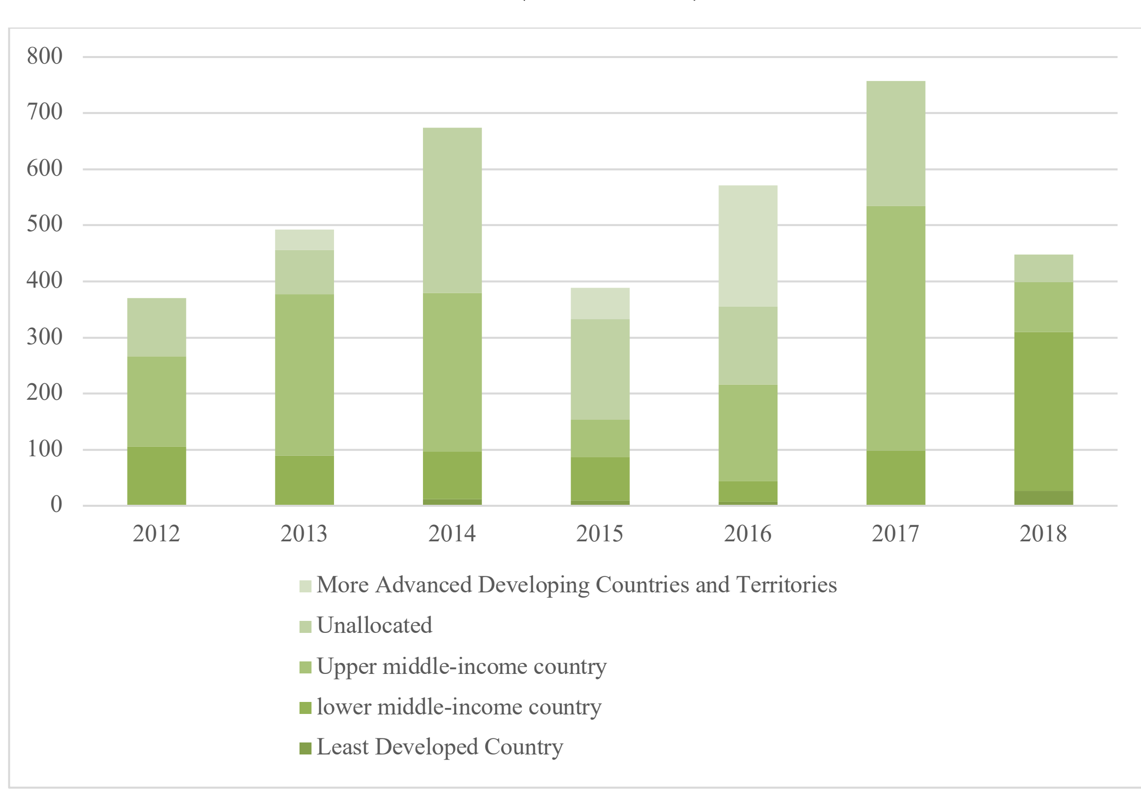
Figure 30 - Total Amounts Mobilized from the Private Sector by Leveraging Mechanism in 2012-2018 (Million USD, current prices)



Source: OECD Germany (2020a).

Figure 31 indicates that most of the funding mobilized by the private sector at the international level were invested in upper-middle income countries, followed by lower-middle income countries. Despite the not enough historical data, firms are seeking countries that have lower risks for their investments despite the official support provided by the German government. Least developed countries only had representative values in 2018 (USD 26,8 million).

Figure 31 - Amounts Mobilized from the Private Sector by Income Group in 2012-2018 (USD million)



Source: OECD Germany (2020a).

Besides project finance schemes, BMZ supports companies in short to medium-term projects through a PPP scheme. The establishment of such partnerships, according to the BMZ, occurs on equal footing. That is, both parties aim to benefit from the results of the project, so they share costs and risks. The main mechanism to promote private sector engagement is the **DeveloPPP.de**.[46] This initiative was created by the German Federal Ministry for Economic Cooperation and Development (BMZ) over 20 years ago to

[46] https://www.developpp.de/en/our-programme-funding-for-development-partnerships-with-business/

promote the involvement of the private sector in areas where business opportunities and development policy initiatives overlap. According to the BMZ, innovative projects and commercial investments can be supported in developing and emerging countries if they are able to offer long-term benefits for the local population. To this end, BMZ offers financial and technical support to companies that are planning to do business or have already begun operating in developing countries aligned with the SDGs.[47]

The company is responsible for covering, at least, half of the overall costs. During the planning and execution, the partner company works with one of the two official partners commissioned by BMZ to implement the program on its behalf: DEG and GIZ. Sequa also takes part as an implementing agency of the developPPP.de, coordinating initiatives in the areas of vocational educational and training. Four times a year, a develoPPP.de competition is open for companies to submit their proposals. The financial support varies between EUR 100,000 and EUR 2 million euros **(USD 112,359 and USD 2,5 million**) on top of the company's contribution (≥ 50%). To participate, companies must have a minimum turnover of EUR 800,000 (**USD 898,876**) with at least 8 employees.

In the case of GIZ, the DevelopPPP.de is the main mechanism to foster private sector engagement. Projects cover a wide range of sectors and areas such as training of experts, piloting innovative technologies, protecting value chains, improving environmental standards, among others. GIZ also implements the develoPPP.de with a special focus on private sector development in least developed countries. The financing support is given when a project proposal is innovative and presents sustainable impacts with the use of indicators. During the planning and implementation phases, GIZ provides training and advisory for companies to meet the sustainability requirements. Pilot-projects are encouraged to test and improve potential new business. **Figure 32**, below, outlines how the partnerships with the private sector are designed through DevelopPPP.de Program. The most relevant characteristic is to define the win-win goals for both parties involved. That is, how to align commercial interests with the development cooperation agenda.

[47] http://www.bmz.de/en/issues/wirtschaft/privatwirtschaft/ppp/develoPPP/index.html

Figure 32 - Scope of DeveloPPP.de Partnership Arrangements

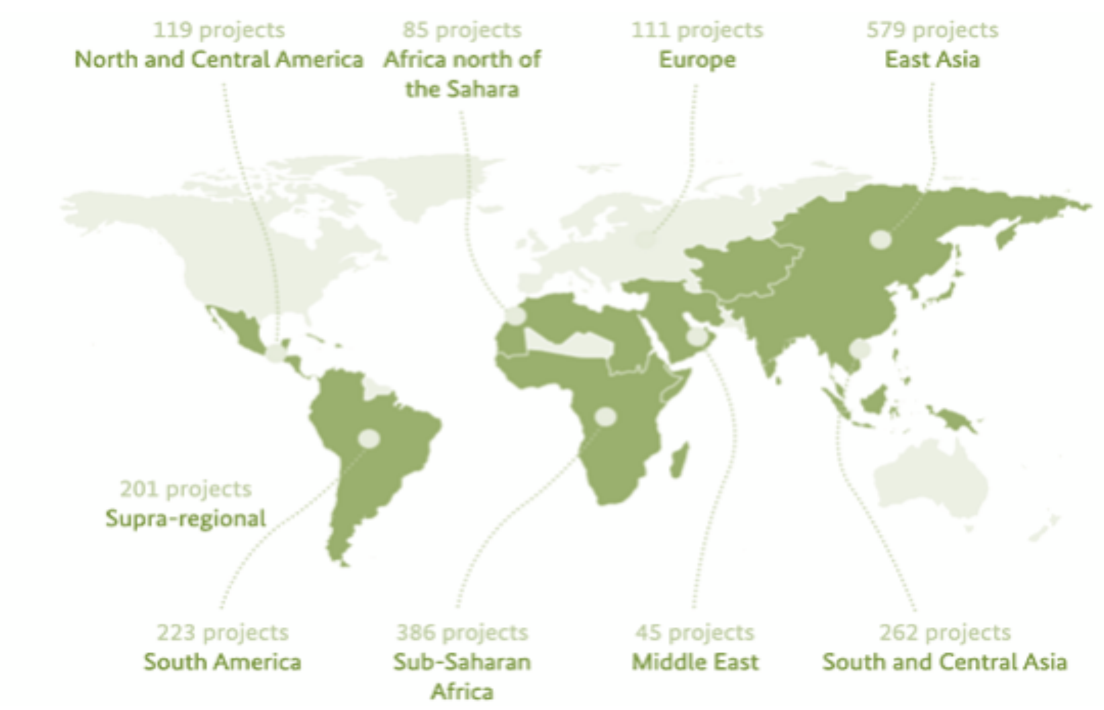
Source: GIZ

In the case of DEG, companies that take part in the DevelopPPP.de can count with multifaceted financing and advisory services. Among the mechanisms, the **AfricaConnect** helps European companies to invest in Africa with long-term loans. Investments in reform-oriented African countries are specifically promoted and facilitated through a special model of risk sharing. In the program **Up-Scaling**, DEG finances innovative pioneering investments of German and local small and medium-sized enterprises (SME) in developing countries that are in the start-up phase. Projects can be co-financed by up to EUR 500,000 (USD 560,000) – repayable on success. Also, DEG can finance feasibility studies - up to EUR 200,00 (USD 224,000) – for European SMEs planning to invest in a developing country and conduct a feasibility or environmental study, a legal survey, or a market analysis. The funds come from the BMZ. DEG also provides business support services to support corporate investments, such as the implementation of management systems that can help to identify and mitigate risks during the implementation phase. In addition, DEG offers financing schemes of larger-scale investments with equity capital and loans.

From 1999 to 2018, DeveloPPP.de managed to support more than 2,000 development initiatives in 100 countries, with a total mobilized investment of public and private resources worth **USD 1,386 billion**. This amount is equivalent to an average investment

of **USD 73 million per year**. **Figure 33** indicates a proportional distribution of these initiatives in the regions that were beneficiaries of this Program. Out of this total, USD 522,5 million (37.7%) came from public contribution, while companies and contributions from third party have corresponded with USD 863,5 million (62.3%). This indicates that **for every USD 1 of public investment, DevelopPPP.de has leveraged an equivalent amount USD 1.65 in private investment.** Despite these results, communication needs improvement to reach a higher number of companies. In addition, procurement processes contemplated in the scope of the approved projects may benefit suppliers that are not German (Interviewer A 2020). Although this procedure is considered a good practice recommended by the OECD to ensure transparency and private sector development, it is hard to justify to German taxpayers.

Figure 33 - Number of Projects by the Program DevelopPPP.de (1999-2018)



Source: extracted from DevelopPPP.de website[48]

[48] See https://www.developpp.de/en/our-programme-funding-for-development-partnerships-with-business/facts-and-figures-about-the-developppde-programme/

The main sectors that were benefited by the DevelopPPP.de in the period 1999-2018 were initiatives with focus on sustainable economic development (36%) with a total investment of USD 503 million, followed by agriculture (19%) with USD 263 million and environment (13%) with USD 178 million (**Figure 34**). However, it was not possible to obtain the list of German companies that have participated in DevelopPPP.de Program during this period due to non-disclosure agreements signed between them and the respective German agencies. Nevertheless, all initiatives presented to this mechanism must be linked to a SDG (Interviewer E 2022).

Figure 34 - Main Sectors Supported by DevelopPPP.de 1999-2018 (USD million)

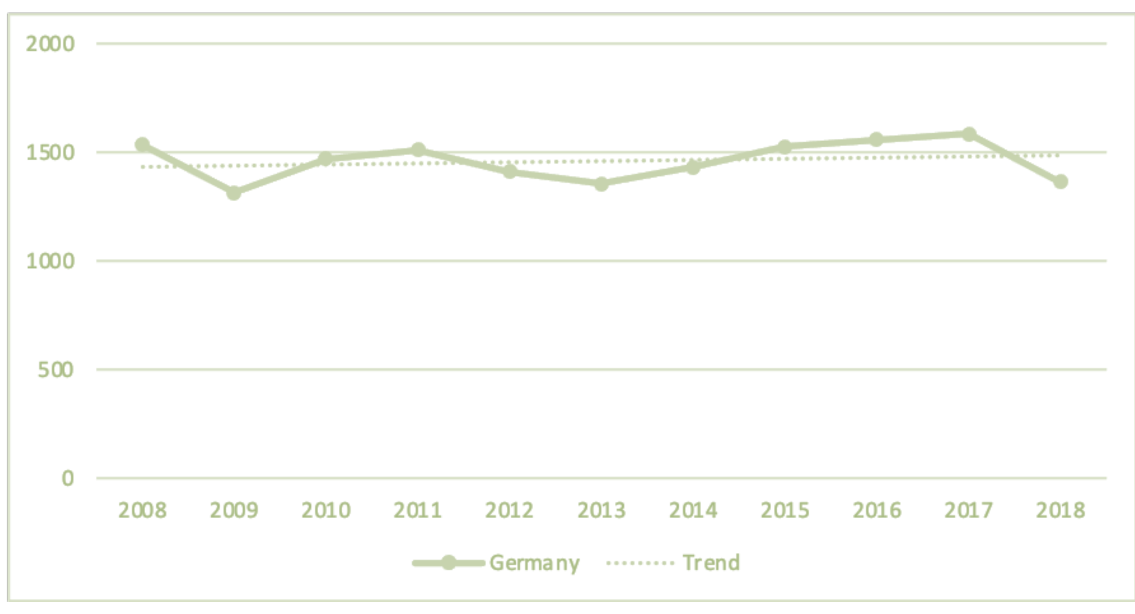
Source: extracted from DevelopPPP.de website.[49]

[49] Idem.

3.3.3.2. Private Philanthropic Foundations

BMZ has also highlighted private philanthropic foundations key actors in development cooperation. Besides their financial support, they can bring innovative and business-based approaches[50]. In this context, BMZ maintains dialogues with relevant German philanthropic foundations such as the *Bundesverband Deutscher Stiftungen* (The Association of German Foundations) to address global challenges. This organization represents the interests of more than 23,000 foundations vis-à-vis the public, politics, and the German government.[51] In this scene, Germany has a significant number of foundations that take part in development cooperation initiatives. However, none of them figure among the top global foundations (OECD 2018b). Over the period 2008-2018, the volume spent by these German Private Philanthropic Foundations and NGOs did not vary significantly with an average amount of **USD 1,5 billion** per year (**Figure 35**).

Figure 35 - Grants by German Private Philanthropic Foundations and NGOs in 2008-2018 (USD Million)



Source: (OECD 2018b)

[50] For more information, see https://www.bmz.de/en/ministry/approaches/bilateral_development_cooperation/players/private-foundations-and-philanthropists/index.html
[51] For more information, see https://www.stiftungen.org/en/home.html

Private philanthropy does not mobilize significant volume of funds like the American and United Kingdom counterparts. Based on the work of Lew and Wojcik (2009), most of the supported activities of these German private philanthropic foundations were also primarily executed within Germany. German foundations depend mostly on stock dividends of their parent companies or direct voluntary donations. Another feature of the German private philanthropic foundations was that most of them coordinate their own initiatives and projects rather than distributing grants to other non-profits institutions. When they did support other countries, their initiatives tool place in countries such as Israel, Turkey, Bulgaria, or regions such as Central and Eastern Europe. Another report entitled **The Global Philanthropy Environment Index 2018** has highlighted the role of German's foundations in supporting the refugee crisis during the 2015-2016 period. According to the same report:

> "In 2015 and 2016, more than 2.5 million people applied for asylum in the European Union. In these two years, almost half of the asylum applications were filed in Germany, after it implemented its "open border policy." Because the governmental assistance for immediate and adequate support was limited, individuals and local organizations launched initiatives addressing the social issues that emerged due to the influx of refugees. From education to housing to social inclusion, several projects have been successfully implemented in the country. These examples remind us of the value and power of grassroots initiatives and bottom-up philanthropy in times of crisis." (IUPUI 2018, p.19)

According to the OECD report on Private Philanthropy for Development Cooperation, there is need for regulators at the national and European level to improve the enabling environment for these foundations to work in ways that are "effective, efficient, accountable and sustainable" (OECD 2018b). Taxation barriers and uncertainty about charitable status in the recipient country were listed as limitations to foster an increasing activity of these foundations abroad. Among the recommendations to boost philanthropy in Germany, the OECD report has recognized the relevance of impact investment as a market-based vehicle of increased philanthropic effectiveness, as well the need to improve the landscape of professional capacity building to improve the overall effectiveness of the sector and meet donor values of high impact expectations.

3.3.4. Executor

This modality comprehends the participation of companies in initiatives sponsored by German development institutions through service contracts. In the case of GIZ, consultancies and companies are mobilized to take part in development cooperation initiatives. They are obliged to be qualified before participating in any procurement process. GIZ aims to ensure that the respective companies have the minimum requirements in terms of know-how and availability of personnel to support development projects. In its 2018 report, GIZ has spent **USD 821 million** in service contracts with companies, consulting firms, consultants, and translators, out of the total volume of USD 1,860 million awarded to procurements contracts (GIZ 2018). The KfW Group mobilizes consultants to support their financial cooperation programs. However, it was not possible to identify the volume of resources awarded to companies since these expenses are part of KfW's operational costs of all its project finance schemes (KfW Group 2018). Based on the available information, the modality of **Active Partnership for Development** is presented as follows:

Table 17 – Active Partnership for Development in Germany 2018

Active Partnership for Development	
Resource Provider	
Volume mobilized by BMZ, KFW and DEG through credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies	USD 448 million
Volume mobilized by public and private companies in the DevelopPPP.DE Program	USD 73 million (average)
Volume spent per year by Private Philanthropic Foundations and NGOs	USD 1,4 billion
Executor	
Volume spent by GIZ on service contracts	USD 821 million

Source: OECD, DevelopPPP.DE, GIZ Annual Report 2018.

3.4. The Framework Analysis of Germany's Private Sector Engagement in the Development Agenda at the International Level

Based on the previous analysis, I now present a consolidated overview of the private sector engagement in Germany at the internatilnal level in 2018 (**Table18**). For this task, I have included the latest available information in terms of number of companies or volume of resources allocated for each modality.

Table 18 – Overview of Germany's Private Sector Engagement in the Development Agenda - 2018

Corporate Awareness for Development		Active Partnership for Development	
Responsible Participants		**Resource Provider**	
Number of Companies listed as signatory members in the Global Compact Network	509	Volume mobilized by BMZ, KFW and DEG through credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies	USD 448 million
Number of Companies registered in the German Chapter of the Global Compact Network	304	Volume mobilized by public and private companies in the DevelopPPP.DE Program	USD 73 million (average)
		Volume spent per year by Private Philanthropic Foundations and NGOs	USD 1,4 billion
Corporate Reformers		**Executor**	
Number of Companies listed as Participants in the United Nations Global Compact Network	440	Volume spent by GIZ on service contracts	USD 821 million
Number of High Sustainable Companies	6 (2018) 15 (2008-2018)		
Volume of Sustainable and Responsible Investments (SRI)	USD 1,94 trillion (2017)		

Source: United Nations Global Compact. Global 100. Corporate Knights. Eurosif. OECD. DevelopPPP.DE, GIZ Annual Report 2018.

The framework provides a summary about private sector engagement in the sustainable agenda at the international level. It has also validated the view that PSE engagement in Germany has occurred through different modalities (Hypothesis n.1). Despite the existence of a dynamic and competitive private sector, there are a limited number of companies engaged as **responsible participants** and as **corporate reformers**. Most of these listed companies are world-class benchmarks and market leaders in their

respective segments such as Bosch, BMW, Siemens, SAP, Mercedes, among others. And some German companies have been figuring in the Sustainable Corporation Index over the last decade. During the period 2008-2018, there were 15 German companies among the top 100, indicating the existence of corporations that have defined their respective strategies based on sustainable principles. These companies also figure among the top 100 German most valuable companies in market cap. Since becoming High Sustainability Company is a complex process, as shown by Zollo, Cennamo and Neumann (2013), there are no indication that a significant number of German companies will figure in this category in the future. So, the existence of a reduced number of German companies in both modalities show that private sector engagement in the sustainable agenda is a long-way process. But it is a trend followed by 15% of Germany's top 100 most valuable companies.

Companies like Volksvagen - penalized after the Dieselgate scandal - are also adotping a strong decarbolization strategy. As seen by the inteviews, German multinationals are nowadays providing support to their respective value chain of suppliers and sellers to adopt ESG guidelines and standards. This effort implies a long-term strategy based on innovation and intensive multi-stakeholder collaboration. In addition, the growth of sustainable responsible investments - SRI that rose from from USD 36,8 billion to USD 1,68 trillion in the period 2013-2018 reinforces the view that financial institutions are also embracing the ESG agenda.

In the modality **Active Partnership for Development**, I have tried to map the total volume mobilized by development institutions to promote private sector engagement. In the role of resource provider, the data has shown that the total sum allocated by the development institutions through credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investments in companies, plus the average amount spent on DevelopPPP.DE represent less than half of the volume spent by private philanthropic foundations. In the case of DevelopPPP.DE, the average amount spent represents a very small percentage of the budget of DEG, GIZ and SEQUA that coordinate its implementation. Although private sector engagement is part of BMZ's strategy to tackle global challenges, the volume mobilized of resources totals less than USD 2 billion. When considered that the volume of ODA allocated by the German Government (USD 25 billion in 2018), the total amount mobilized represents less than

8% of the official spending on development cooperation. So, it is also true the hypothesis that the volume of resources mobilized by the private sector through government support has increased but was not sufficient to offset the official spending during the period 2008-2018 (Hypothesis n.2).

Despite the existence of federal guidelines and policies to foster private sector engagement in Germany, the data presented have shown that such policies still need to be translated into a larger sum of resources. In this scene, the average amount allocated per year for the DevelopPPP.DE of USD 73 million is far behind the funding needs to tackle global challenges, especially considering the information that this Program can leverage USD 1.65 of private investment for every USD 1 spent by public funds. Also, the volume allocated to DevelopPPP.DE is far behind GIZ's total spending on procurement contracts. These figures have indicated that the participation of the private sector was more significant in the modality of executor.

On the governmental side, Germany counts with a well-structured and traditional model of development cooperation, but not singular in terms of policies and initiatives to foster private sector engagement. Nevertheless, this institutional framework contemplates a pragmatic approach in terms of shared responsibilities between BMZ (policy definition) and its implementing agencies KfW (financial institution) and GIZ (specialized project management organization) and DEG. In this scene, the analysis has shown that private sector engagement had a relative importance in the context of BMZ's policies (hypothesis n. 4). There are guidelines in line with Germany's commitments in the context of the 2030 Agenda and the OECD, but the effort to increase the mobilization of companies has not been translated in a higher number of projects and volume of resources. Surely, there are funding mechanisms available – such as the DeveloPPP.DE –, but such instruments already existed before the 2030 Agenda. The interviews carried out with companies and government officials did not express a mutual commitment from either side to partner. In addition, the volume mobilized by German development institutions from the private sector has not increased during the period 2012-2018 (**Figure 30**). Moreover, no channels of public-private dialogue were identified that could facilitate the participation of companies in the development agenda. It seems that the existing mechanisms to promote

PSE were created as a one-way process. Finally, it is important to acknowledge the limited volume of resources spent by private philanthropic foundations in Germany.

In view of the above, the contribution of Germany's private sector to the sustainable agenda will come through their own actions and initiatives. Therefore, the proposed hypothesis that private sector engagement in the promotion of sustainable development has occurred mainly through the direct adoption of corporate sustainable practices by companies is confirmed (hypothesis n. 3). It is possible to acknowledge that companies and financial institutions have embraced the sustainable agenda on a voluntary basis when the growth of sustainable responsible investments - SRI is considered. On the governmental side, however, policies were not translated into new public resources to foster PSE. In this context, the growth of an active partnership for development will depend in the future on the German government's capacity to attract part of the SRI to joint international initiatives in context of the agenda for cooperation on sustainable development.

4. The Japanese Model of Private Sector Engagement Oriented for Competitivity

4.1. Introduction

Since 2012, Japan has experienced a steady economic expansion supported by "Abenomics", characterized by a bold monetary policy, flexible fiscal management, and structural reforms. It is the longest period of economic growth since the post-war era. Presently, Japan is also the sixth most competitive country in the world and ranked 29th in the Doing Business Report of 2020 that measures the local environment to foster private sector development (World Economic Forum 2019) (World Bank 2020). In addition, Japan's economy is highly integrated to global supply chains with exports representing 18.5% of its GDP in 2018 (OECD 2019b). Japan's banking, investment, and insurance complex also comprise some of the most capitalized financial institutions in the world. Most recently, Japanese companies and the financial corporations have been embarking in the **ESG agenda**. Some of them figure among the most sustainable companies in the world. Sustainable responsible investments have also been growing in recent years.

In this context, the Japanese government has been fostering low-green carbon infrastructure investments and measures to implement the SDGs, despite continuing to promote coal-fire power generation (Schumacher, et al. 2020). Japan has put into march a series of structural and regulatory changes to facilitate the transition toward a low carbon society, especially after the Fukushima Daiichi nuclear power accident in 2011. These initiatives also consider studies that have highlighted that Japan is already facing stronger atmospheric warming than the global average (MOEJ 2018). This issue will demand a deep restructuration of energy and industrial systems that were built upon carbon-intensive architectures in the past.

In the international scene, Japan has been playing an active role in the implementation of the 2030 Agenda. It is the third-largest contributor of funds to the United Nations and the second largest to the United Nations Development Program - UNDP (United Nations 2019a, United Nations 2019e) (UNDP 2019). Since the establishment of the 2030 Agenda, Japan has moved quickly to establish a broad-based, whole-of-society approach to implement the Sustainable Development Goals (SDGs) based on eight priorities around the themes of people, prosperity, planet, peace, and partnerships (OECD 2020b). Regarding private sector engagement, Japan has created specific policies and programs to promote the mobilization of companies under the mandate of JICA. This orientation goes in line with a historical and deep-routed "partnership" between the public and private sector that emerged out of the economic doctrine of "developmentalism" (Moore 2018).

Thus, this chapter examines the role of Japanese companies in the sustainable development effort. To this end, I have mapped how firms are engaging on this agenda on a voluntary basis, as well as through partnerships sponsored by the Japanese government. This investigation will be carried out based on the framework of **Modalities of Private Sector Engagement presented** in Chapter 2. This structure has two main dimensions - **Corporate Awareness for Development** and **Active Partnership for Development** – that classifies and presents the various forms of mobilization in its respective sub-modalities. This cross-analysis will offer a consolidated overview about the different roles of private sector engagement that could be replicated on a global scale given Japan's economic size and commitments with the sustainable efforts.

4.2. Corporate Awareness for Development

4.2.1. Overview of Japan's Economy and the Private Sector

Japan's current economic growth is its longest of the post-war era. From 2012 till 2018, the increase in the output per capita has accelerated supported by the economic policies carried out by Shinzō Abe, during his second term as prime minister. The so-called "Abenomics" was implemented based upon "three arrows" of monetary easing from the Bank of Japan, fiscal stimulus through government spending, and structural reforms. For *The Economist,* the program was characterized by a "mix

of reflation, government spending and a growth strategy designed to jolt the economy out of suspended animation that has gripped it for more than two decades".[52] In addition, persistent deflation has ended and the government budget deficit has fallen from 8.3% of GDP in 2012 to 2.4% (OECD 2019b). Despite the economic recovery, Japan still maintained the highest level of public debt than any other developed nation, standing at 266% of GDP.[53] The Japanese economy also faces considerable challenges posed by an aging and declining population, which peaked at 128 million in 2010 and has fallen to 125.9 million as of 2020 (World Bank 2019). Half of the children born in Japan in 2007 are expected to live to the age of 107, which has major implications for the labor market.

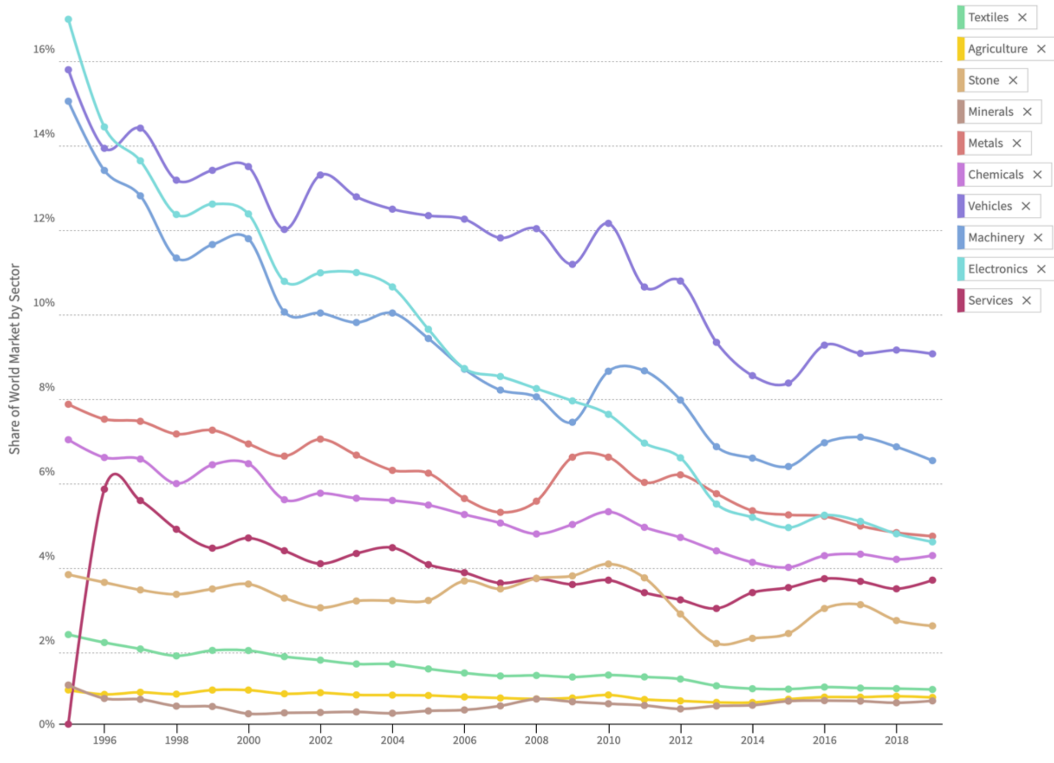
Japan is also the third-largest economy in the world by nominal GDP and the fourth largest by purchasing power parity (PPP). According to the International Monetary Fund, the country's per capita GDP (PPP) was at $41,637 (2020) (IMF 2017b). Regarding the private sector, more than 50 companies figure among the world's 500 largest stock-market-listed companies, measured by revenue in 2018.[54] Among them, Toyota, Honda, Nissan, Hitachi, Mitsubishi, Mitsui, Nippon Steel are examples of transnational corporations that are leaders in their respective market segments.

In 2018, Japan was ranked the fourth largest importer and exporter in the world (WTO 2019). According to the Atlas of Economic Complexity that measures the complexity and diversity of exports of countries, Japan has the 1st highest ECI.[55] This position has remained unchanged in comparison to the previous decade. Despite facing increasing competition from China and South Korea, Japan counts with competitive manufacturing and electronic industries.[56] Its production capacity focuses primarily on high-tech and precision goods, such as optical instruments, hybrid vehicles, and robotics. Nevertheless, Japan's participation in the global market share in machinery

[52] https://www.economist.com/leaders/2013/05/18/abes-master-plan
[53] https://asia.nikkei.com/Spotlight/The-Big-Story/The-money-pushers-The-world-is-embracing-Japan-style-economics
[54] https://fortune.com/global500/2018/search/?hqcountry=Japan
[55] The Atlas of Economic Complexity is an online platform developed by the Harvard Kennedy School to allow people to explore global trade flows across markets, track these dynamics over time and discover new growth opportunities for every country. The Atlas places the industrial capabilities and knowhow of a country at the heart of its growth prospects, where the diversity and complexity of existing capabilities heavily influence how growth happens. For more information, see (Hausmann, et al. 2013) and https://atlas.cid.harvard.edu/
[56] Among the factors, Japan has one of the highest investments in research and development in the world, having spent 3.6% of its GDP in 2020 (Statista 2020).

manufacturing has stagnated over the previous decade. Japan's export growth in the past five years has been driven by service (**Figure 36**).

Figure 36 - Japan's Growth in Global Market Share 1996-2018 (%)



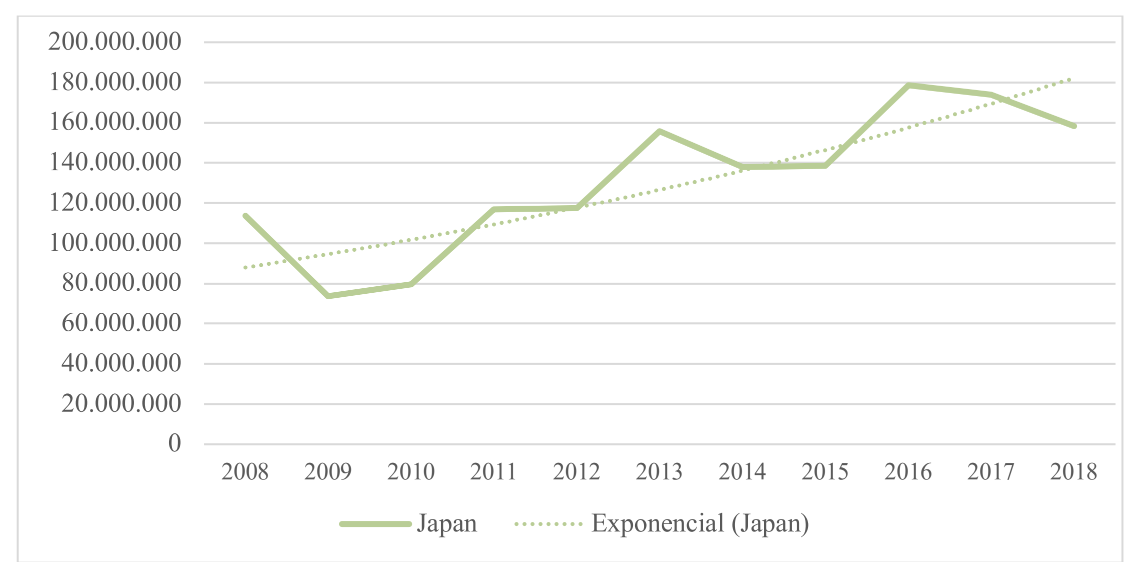
Source: Extracted from Atlas of Economic Complexity – Japan (2020).

Japan's banking, investment, and insurance complex also comprise some of the most capitalized financial institutions in the world, with an estimated volume of USD 25–30 trillion of household savings invested in financial assets. This explains why the Nikkei 225 is the world's third-largest stock exchange by market capitalization.[57] Since the financial crisis of 2008, Japan's financial system has maintained strong resilience in terms of capital and liquidity (Bank of Japan 2019). However Japanese banks – notably the three largest universal banks, MUFG, Mizuho, SMBC –, are still among the largest global funders of coal-fired power plants in developing and emerging countries (Schumacher, et al. 2020). If part of these trillions of assets were directed to sustainable investments, it would cause a positive impact on a global scale.

[57] https://indexes.nikkei.co.jp/en/nkave

Japanese companies have a diversified allocation of its investments throughout the world. In terms of Foreign Direct Investment - FDI, Japan had a steady increase of its outflows in the period 2008-2018 (**Figure 37**) since 2011. After the financial crisis of 2008, Japanese firms have accelerated outward foreign direct investment – FDI. There was a growing perception about the rise of emerging economies as potential consumer markets in developing countries (Small and Medium Enterprise Agency 2010). In 2018, Japan's outflow of FDI totaled the amount of **USD 158,4 billion**, representing an increase of 39% in relation to the total amount of 2008.

Figure 37 - Japan's Foreign Direct Investments - FDI Outflows (USD Million)



Source: World Bank Indicators.

Japan has increased its allocation of FDI to Asia, Africa, and Latin America in 2018 when compared to 2008 **(Figure 38)**. Since the data only considers a comparison between 2008 and 2018, it is not possible to assume the existence of a trend. Nevertheless, the destination of Japan's FDI shows similarity with the allocation of Japan's official development assistance in 2018 that will be seen in sequence. This reinforces the view that Japan's development cooperation strategy is in line with the internationalization of Japanese companies. In this context, it is also important to highlight how diversified is the outflow of Japan's FDI spread through many developing countries.

Figure 38 - Destination of Japan's FDI in 2008 and 2018 (in USD Billion)

2008

Billions
< -144.08
-144.08 - -29.98
-29.98 - 15.90
15.90 - 55.72
> 55.72

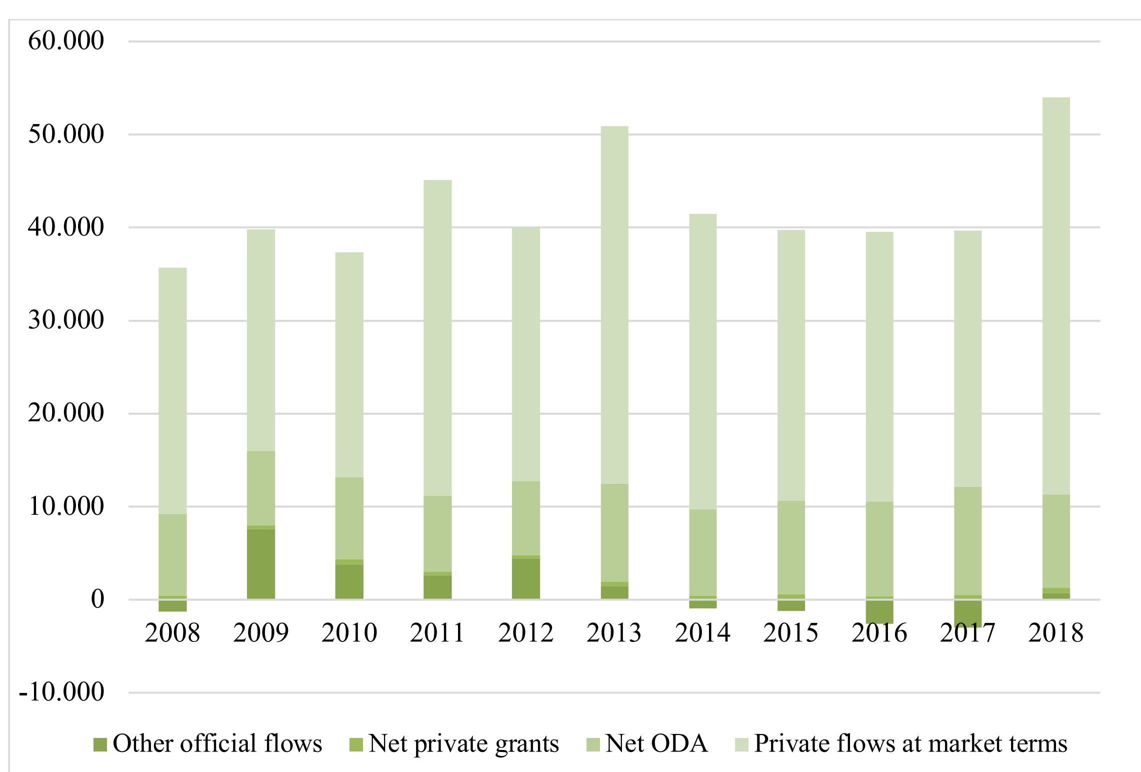
2018

Billions
< -144.08
-144.08 - -29.98
-29.98 - 15.90
15.90 - 55.72
> 55.72

Source: World Bank Database. Extracted from International Monetary Fund, Balance of Payments database, supplemented by data from the United Nations Conference on Trade and Development and official national sources.

The total net flows of resources to developing countries, private flows represent 79.1% of the total amount of 2008, followed by net ODA (18.3%) (**Figure 39**). That is, private flows from Japan to developing countries provided at market rates are four times greater than Japan's net ODA and follows similar trend during the period 2008-2018.

Figure 39 - Japan Total Net Resource Flows to Developing Countries (USD Million)



Source: OECD.

In sum, Japan's economic performance has improved significantly due to a mix of fiscal stimulus and structural reforms during the period 2012-2018. Moreover, Japan's financial system counts with some of the most capitalized institutions in the world whose funds could be directed to sustainable initiatives. These facts reinforce the view that Japanese companies could positively impact the sustainable goals on a global scale in the modality of corporate awareness for development. The historical alliance between the Japanese government and the private sector also shows a potential for a strong corporate partnership for development. These are the issues that will be evaluated in sequence.

4.2.2. Responsible Participant

In the topic of governance, Japan counts with specific forums to promote private sector engagement in the context of the sustainable agenda. The **United Nations Global Compact** is the main forum to promote awareness about corporate sustainable practices in Japan. At the global level, it counts with a list of 417 Japanese organizations registered out of a total of 15,293 active members.[58] From this total, 75% were companies, 16.6% small and medium size companies and 8.4% were business associations, NGOs and public sector organizations.[59] Moreover, **326 companies** were listed as **signatory members** that is considered the first step in terms of private sector awareness with sustainable practices. The main sectors listed as members companies were electronic/electrical equipment, general industrials, chemical and construction and materials. This category of engagement implies a formal commitment in terms of adopting sustainable development practices, as well as taking part in global initiatives carried out by the forum. Companies in this category also need to report the SDGs that are prioritized in annual progress reports. Japan also counts with a local chapter of the United Nations Global Compact where most of these companies are members.

Another governance forum is the **Japanese National Advisory Board of the Global Steering Group for Impact Investment (GSG-NAG Japan)**. Founded in 2014, Japan National Advisory Board contributes to the development of the impact investment market through three areas: research and publication, awareness-raising, and networking. It counts with a limited number of **24 companies**, financial institutions and JICA, listed as supporting members.[60] The GSG-NAG has been publishing reports to set standards and guidelines on the topic of impact investments. For the GSG-NAG, impact investing refers to investing activity that is intended to generate a positive, measurable social and environmental impact alongside financial returns. In this sense, they have structured a useful framework to classify the various modalities of impact investing (**Figure 40**).

[58]The total contemplates active members (participants and signatory) in August 2021. See: https://www.unglobalcompact.org/participation
[59] Idem.
[60] The total of supporting members was obtained in May 2021. See: https://impactinvestment.jp/en/about/members.html

Figure 40 - Spectrum of Impact Investment

Impact investment
ESG investment
Regular investment (Negative screening) (Positive screening) Regular donation

Financial Only	Responsible	Sustainable	Impact			Impact Only
Conventional investment style aimed at economic returns No active interest in ESG	Investment style focused on ESG considerations and risk mitigation from the standpoint of not damaging corporate value and not only on financial returns	Investment style that emphasizes he ESG from the standpoint of increasing value	Generating market-com-petitive economic returns to investors while simultaneously providing social impact	Generating economic returns while simultane-ously providing social returns Economic returns may be below regular market rates in some cases	Generating economic returns while simultaneously providing social returns Economic returns below regular market rates	Helping to solve social problems Providing economic returns to investors is not the objective

Investment in companies/projects capable of generating market-competitive financial returns
Providing investment and funding focused on ESG considerations and mitigating risk
Providing investment and funding for companies/ projects actively engaged in ESG initiatives
Providing investment and funding for companies/ projects for which social impact can be ascertained for the purpose of solving social issues
With market-competitive economic returns
With economic returns lower than market rates
Economic returns not intended / Only social returns

Source: extracted from (GSG-NAB Japan; SIIF 2020) based on Position Paper on Expanding Impact Investing 2019.

Besides this initiative, a **Taskforce on Climate-related Financial Disclosures - TCFD Consortium** was created in 2019. The TCFD Consortium aims to facilitate constructive dialogues between financial institutions and business corporations, specifically on climate-related financial issues. This initiative was initially launched at the global level through the Task Force on Climate-related Financial Disclosures (TCFD). It was a result of a series of events and guidance reports sponsored by the Ministry of Economy, Trade, and Industry – METI since 2016. It counts with representatives from METI, Japan Financial Services Authority - JFSA, the Ministry of the Environment - MOEJ, as well as private sector corporations, including the Japanese Business Federation

– Keidanren, totaling **398 members**.[61] The Consortium provides guidance and recommendations in the topics of governance, strategy, risk management, and metrics.

In addition, the Japan Business Federation – Keidanren[62] has launched the initiative called "The New Growth Strategy" in November 2020 that advocates sustainable capitalism. According to the proposed guidelines, the Japanese business community has a duty to act "to help resolve social issues such as economic disparity and climate change through their own business activities." (Keidanren 2021) This plan sets out a future vision to be accomplished in 2030 proposed by the Japanese business community focused on five key areas: new growth through digital transformation, transformation of work styles, regional revitalization, rebuilding of the international economic order and promotion of green growth. However, it was not possible to verify how the plan will be translated into action or coordinated. Nevertheless, it indicates the commitment of this business association to encourage members to adopt corporate sustainable strategies as proposed by the works of Porter and Kramer (2011), Berle e Means (1932), Berle and Means (1932), Nidumolu, Prahalad, and Rangaswami (2009); and Zollo, Cennamo and Neumann (2013).

4.2.3. Corporate Reformer

In the United Nations Global Compact, there are **50 Japanese companies listed as participants members.**[63] For the purpose of this research, this list considers those classified as **corporate reformers** with the sustainable agenda. That is, these companies are entitled to take an active role in this Forum on action platforms and global partnerships programs. The list includes major Japanese multinationals such as Toshiba Corporation, Sumitomo, Mitsui, Nissan Motors, Seiko, Shiseido Company, Japan Airlines, Mitsubishi, Kyocera Corporation, Honda.

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[61] The total number of members are listed on August 26th, 2021. See https://tcfd-consortium.jp/en/member_list
[62] Keidanren – Japan Business Federation is the main Japanese association of companies. It counts with more 1461 company-members, including 109 other nationwide and regional associations.
[63] The total contemplates active members (participants and signatory) in August 2021. See: https://www.unglobalcompact.org/participation

Moreover, many Japanese companies have figured among the most sustainable corporations in the world. Since the financial crisis of 2008, there was an increasing trend and awareness among Japanese firms to foster ethically responsible business practices (Sugawara, Ohno e Tsuchiya 2011). According to Corporate Knights, a media and investment company that lists the world's greenest businesses every year, four Japanese companies were listed in the 100 Global Index of 2018 that ranks the most sustainable corporations (**Table 19**). The results of this survey are announced every year at the World Economic Forum in Davos, Switzerland.

Table 19 - List of Japanese Companies in the 100 Global Index 2018

Rank	Company	Sector
21	Honda Motors Corporation	Automobiles
44	Takeda Pharmaceutical	Pharmaceutical
55	Sekisui Chemical	Households Durables
68	Nissan Motors Corporation	Automobiles

Source: Global 100 Index. Corporate Knights.

In previous reports of the Global 100 Index from 2008 to 2018, additional Japanese companies have been listed totaling **37 companies**. Among them, there are an extensive list of companies from different segments that have been ranked in the top 100 global sustainable corporations such as Astellas Pharma (Pharmaceutical), NEC Corporation (Technology, hardware, storage, peripherals, equipment and supplies), Sysmex (Health care), Eisai (Pharmaceutical), Mitsubishi Heavy Industry (capital goods), Daiwa House Industries (Real Estate), Panasonic Corporation (Technology, Hardware and Equipment), Ricoh Corporation (Technology, Hardware and Equipment), Toyota Motor Corporation (Automobile), Yamaha Motors (Automobile), Seksui Chemical Company (Chemical) Aeon (Food and staples), Komatsu (capital goods), Lawson (Food and staples), among others. Out of this total, **16 (43%) of these companies figure among the top 100 Japanese companies in market cap**.[64] As proposed by Zollo, Cennamo and Neumann (2013), these are examples of the **High Sustainable Companies** that have adopted sustainable practices as a key part of their business strategies.

[64] See Global Ranking Index accessed on December 14th 2022 at https://companiesmarketcap.com/japan/largest-companies-in-japan-by-market-cap/

Among these companies, the case of Toyota is worth to be highlighted since it is Japan's most valuable company according to the Global Ranking Index.[65] Sustainability is part of Toyota's concern for a long time. For example, climate change related issues are key inputs for Toyota's global strategy. This might explain why Toyota has been one of the leading electric car manufactures. According to their annual report, there are challenges to be tackled until 2050 (**Figure 41**) (Toyota Motor Corporation 2021). Their sustainability report also connects its corporate strategies with the SDGs. Moreover, these corporate challenges also consider the regional reality of their operations. In the case of Toyota's presence in Angola, one of the main goals is related to skills development (Interviewer B 2022). The Toyota Academy is an example of a corporate sustainable initiative carried out by Toyota in developing countries, implemented in collaboration with the local government, JICA and Brazil's National Service for Industrial Training. This initiative is a triangular development cooperation project that aims to provide skills training for Angolans that could work in Toyota's operations in Africa.

Figure 41 - Toyota's Environmental Challenges (2020, 2030, 2050)

Toyota Environmental Challenge 2050	2030 Milestone	2020 Initiatives Results
Completely eliminate all CO_2 emissions throughout the entire vehicle life cycle	• Reduce CO_2 emissions by 25% or more throughout the vehicle life cycle compared to 2013 levels by promoting activities for the milestones of New Vehicle Zero CO_2 Emissions Challenge and Plant Zero CO_2 Emissions Challenge, and with support from stakeholders such as suppliers, energy providers, infrastructure developers, governments, and customers	• Steadily promoted life cycle CO_2 emissions reduction through environmental management for product development
Reduce global *2 average CO_2 emissions (TtW*3) from new vehicles by 90% compared to Toyota's 2010 levels by 2050	• The estimate of global *2 average CO_2 emissions reduction (TtW *3 g/km) from new vehicles will be 35% or more, which may vary depending on market conditions, compared to 2010 levels.	•Reduced global *2 average CO_2 emissions from new vehicles by 23% compared to 2010 levels by improving environmental performance and expanding electrified vehicle lineups • Achieved cumulative global sales of 16.98 million electrified vehicles, exceeding our 2020 target of 15 million units
Achieve zero CO_2 emissions at global plants by 2050	• Reduce CO_2 emissions from global plants by 35% compared to 2013 levels	• CO_2 emissions were 4.9 million tons (down 22% compared to 2013 levels) • Introduced innovative technologies, including an airless paint atomizer, and promoted energy-saving through daily *kaizen* • Achieved an 11 percent introduction rate for renewable electricity. • Continuously conduct various verification tests to support the utilization of hydrogen.

*2 Countries and regions: Japan, the U.S., Europe, China, Canada, Brazil, Saudi Arabia, India, Australia, Taiwan, Thailand, and Indonesia
*3 Tank to Wheel: CO_2 emissions during driving (CO_2 emissions during the production stage of the fuel and electricity are not included; TtW emissions are zero in the case of battery electric vehicles and fuel cell electric vehicles)

Source: Extracted from Toyota's Annual Report, p. 36.

[65] Idem.

Japan's financial sector has been responsible for accounting for the largest increase in the volume of sustainable assets in the world, according to the Global Sustainable Investment Review of 2018. The volume of managed assets grew 308% during the period 2016-2018, totaling **USD 2,180 trillion** in 2018 (**Table 20**). Japan became the third largest center for sustainable investing after Europe and the United States. This represents 18% of the total volume of managed assets in Japan.

Table 20 - Evolution of Sustainable Investing Assets in Japan, 2016–2018 (USD Billion)

2016	2018
474	2,180

Source: 2018 Global Sustainable Investment Review
Note: Asset values are expressed in billions of US dollars. All 2016 assets are converted to US dollars at the exchange rates as of year-end 2015. All 2018 assets are converted to US dollars at the exchange rates at the time of reporting.

According to the same report, the leading sustainable investing strategy in Japan has been corporate engagement and shareholder action (GSIA 2018). In the last few years, several developments have driven the significant expansion in the sustainable responsible investment - SRI market in Japan. From the governmental side, the Abe administration has introduced new initiatives to attract corporations and investors to the sustainable agenda that include Stewardship Code and the Corporate Governance Code; Guidance for Collaborative Value; Green Bond Guidelines, among others. Moreover, the announcement of two major asset owners to become signatories of the Principles for Responsible Investment – PRI gave a boost for the market of sustainable assets. The Government Pension Investment Fund (GPIF) became a signatory in 2015 and the Pension Fund Association in 2016. Since then, GPIF has been encouraging its institutional investors to opt for ESG investments (GSIA 2018).

Other Japanese financial institutions have also been directing efforts to foster SRI. The main Japanese bank, Mitsubishi UFJ Financial Group, tracks CO_2 reductions of all its loans, as well as the economic positive impact generated by these projects.[66] Another example is the Sumitomo Mitsui Financial Group that has created a sustainable management system to implement ESG and SDGs targets, including climate change

[66] https://www.mufg.jp/english/csr/data/csrdata/index.html

mitigation measures, to all its member companies (SMFG 2019). Similar initiative has been carried out by the Japan Post Group (Japan Post Group 2020). The Mizuho Financial Group, on its turn, has included key strategic areas with targets associated with the SDGs in their 5-year Business Plan (**Figure 42**).

Figure 42 - Mizuho Financial Group - Key Sustainability Areas

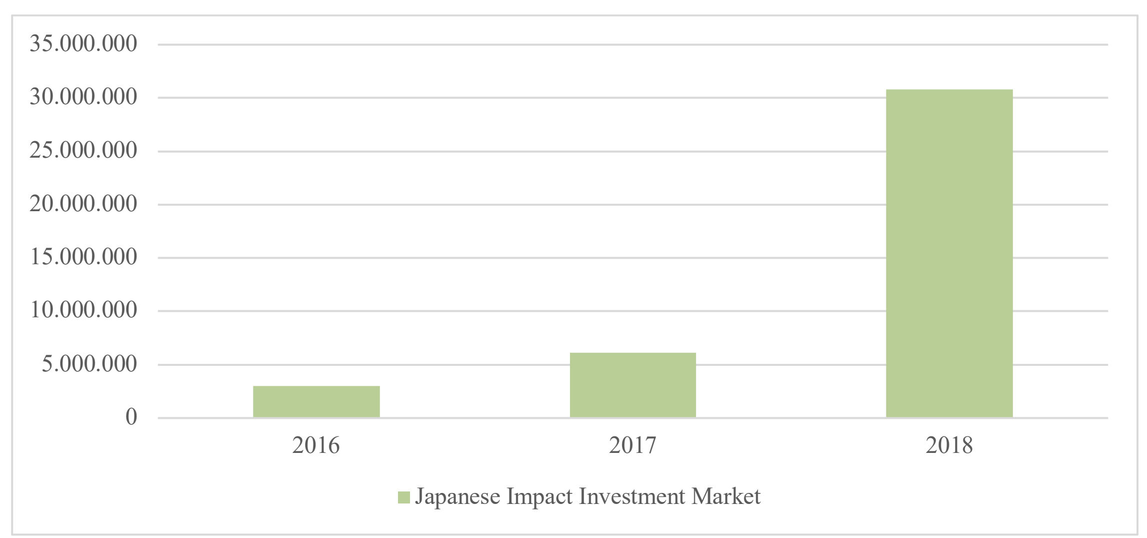
	Area	SDGs	Focus
Business	Declining birthrate and aging population, plus good health and lengthening lifespans	1, 3, 8	Asset formation to prepare for the future Expand services that respond to a society with a declining birthrate and aging population Convenient services in line with diversifying lifestyles
Business	Industry development & innovation	7, 8, 9, 11	Smooth business succession Industry transformation Acceleration of innovation Growth in Asian economic zones Creating resilient social infrastructure
Business	Sound economic growth	8	Strengthening capital markets functions Transition to a cashless society Environmentally conscious social programs
Business	Environmental considerations	7, 13	Promoting action to address climate change and supporting the transition to a low carbon society
Corporate foundations	Corporate governance	16, 17	Enhancing corporate governance Risk management, strengthening our IT infrastructure, and compliance Disclosure of information in a fair, timely, and appropriate manner, and holding dialogue with stakeholders
Corporate foundations	Human capital	5, 8	Talent development and creating workplaces that give employees a sense of purpose
Corporate foundations	Environment & society	7, 10, 13, 4	Environmental and human rights considerations for investment and lending Addressing climate change Improving financial and economic literacy, and promoting activities that contribute to society based on regional and societal needs
	Open partnerships and collaboration with a diverse range of stakeholders	17	Note: Icons indicate relation to major Sustainable Development Goals (SDGs)

Source: extracted from (Mizuho 2020).

Regarding impact investment, the market remains small in Japan. According to the Japan's National Advisory Board (GSG - NAB)[67], the size of the Japanese impact investing market was estimated in **USD 30,8 million** in 2018, representing a nearly sixfold increase from 2016 (**Figure 43**).

[67] The Global Social Impact Investment Steering Group (GSG) was established with the objective of globally promoting social impact investment, based on a call by UK Prime Minister David Cameron at the G8 Summit in June 2013. The GSG has annual meetings to tackle specific issues. The GSG requires its member countries to form a national advisory board. Founded in 2014, Japan's National Advisory Board is comprised of experts from various sectors throughout Japan.

Figure 43 - Evolution of the Japanese Impact Investment Market (in USD)



Source: Japan's National Advisory Board - Global Social Impact Investment Steering Group (GSG-NAB).
OBS: the values were converted from Japanese Yen to USD on an annual basis.

The increase in the volume of impact investment has been influenced by the expansion of financial products offered to individual investors though crowdfunding and investments trusts. In addition, the growth was driven by issues such as disaster relief, elderly care, and healthcare.[68] The GSG-NAB report of 2019 has also highlighted the need for the Japanese government to foster new funding resources from the private sector. As an example, the approval of a new law in 2017 has enabled the transfer of funds from dormant bank accounts to a social impact investment bank.[69] According to estimates, dormant bank accounts with Japanese financial institutions, including banks, are estimated in USD 902 million annually. Although half of this amount is used to pay back the respective depositors, at least USD 350 million could be available to be used for environmental and social purposes (GSG-NAB Japan; SIIF 2020).

Nevertheless, there are still many challenges to consolidate the market of sustainable investments. According to the Japanese Forum on Sustainable Investment, one of the issues to tackle is related to the establishment and definition of ESG investments and standards, as seen in **Figure 40** (JSIF 2020). Another matter is the ESG screening criteria adopted by Japanese banks. Usually, the process of selecting projects follows standards

[68] See https://www.responsible-investor.com/articles/impact-investment-is-blossoming-in-japan
[69] N.A. Dormant account is an account that has had no financial activity for a long period of time. Usually, financial institutions are required by state laws to transfer resources held in dormant accounts to the state's treasury after the accounts have been inactive for a certain period.

from the European Union that differ from the Japanese practice. In addition, the need to define report standards regarding mandatory and non-mandatory disclosure of non-financial information by Japanese banks is still an open discussion. This is a relevant issue in the topics of transparency and compliance. Finally, Japan has not ratified ILO Conventions in the context of the Declaration on Fundamental Principles and Rights at Work.

In view of the above, I have consolidated an overview of Japan's private sector engagement in the development agenda in the dimension **Corporate Awareness for Development in 2018** (**Table 21**) This category highlights the modalities of voluntary engagement and illustrates the existence of a significant number of companies listed in forums that promote corporate awareness. It also indicates a significant amount of funds allocated to sustainable responsible investments. However, there are no financial institutions registered as signatory or participant members at the Global Compact. Moreover, the Taskforce on Climate-related Financial Disclosures mobilizes more Japanese corporations than the Global Compact Network and counts with the representatives from companies and financial institutions. These facts indicate that financial institutions might prefer to take part in climate-related issues, but it also shows room for improvement in the adoption of ESG standards. As seen, Japanese financial institutions have issues to tackle such as the funding of coal-fired power plants, as well as related to governance and transparency (JSIF 2020) (Schumacher, et al. 2020). This could explain why there were no financial institutions ranked as High Sustainable Companies in the period 2008-2018. Despite these elements, the perspective of **Corporate Awareness for Development** corroborates with the view that the sustainable agenda has become a priority for the Japanese companies.

Table 21 - Corporate Awareness for Development in Japan 2018

Corporate Awareness for Development	
Responsible Participants	
Number of Companies listed as signatory members in the Global Compact Network	326
Number of Companies that are part of the Japanese National Advisory Board of the Global Steering Group for Impact Investment (GSG-NAG Japan)	24
Number of Companies that are members of the Task Force on Climate-related Financial Disclosures - TCFD Consortium	398
Corporate Reformers	
Number of Companies listed as Participants in the United Nations Global Compact Network	50
Number of High Sustainable Companies	4 (2018) 37 (2008-2018)
Volume of Sustainable and Responsible Investments (SRI)	USD 2,18 trillion (2018)

Source: United Nations Global Compact. Global 100. Corporate Knights. GSG-NAB.

4.3. Active Partnership for Development

4.3.1. The Public Actors of Development Cooperation

To understand the role of the private sector in development cooperation, one must consider the characteristics of Japan's economic growth in the post-war period. There is a historical and deep-routed "partnership" between the public and private sector that emerged out of the economic doctrine of "developmentalism." Japan's economic miracle – and the subsequent success cases of other East Asian economies such as South Korea, Taiwan, and Hong Kong – has been characterized by a strong state industrial policy that guided capitalist investment into strategic areas such as infrastructure development, export promotion, and domestic market expansion. In the case of developing countries, the "Japanese model" served as a compelling path to follow. This fact led the Japanese

government to offer Official Development Assistance – ODA such as loans, grants, and credits to large-scale infrastructure and heavy industrial projects in the developing world in line with this approach since the post-war period (Moore 2018). While there are critics for ignoring human rights and environmental issues, Japan's development cooperation model based on an infrastructure project remains relevant nowadays as countries like China began offering similar large-scale infrastructure project to the developing world (Moore 2018).

During the 1990s, Japan was the world's top donor. However, the fiscal and financial deterioration of 2008 led to a reduction of Japan's Official Development Assistance - ODA. Over a period of 14 years, the ODA budget declined continually so that by 2013, it represented just 48% of its peak amount of 1997 (I. Ohno 2014). In addition, the earthquake that struck Japan in March 2011 has placed a further fiscal burden on Japan's governmental budget to tackle the devastation and reconstruction of the affected areas. According to Ohno (2014), this situation led to a series of ODA reforms that were pushed through as part of a wide governmental administrative and financial reform. The goal was to increase the transparency and efficiency of aid, and moreover, to build an organizational structure "that provided more timely assistance on the ground in support of active aid partnership efforts that were unfolding in developing countries." Among the measures, these reforms contemplated an increase of decentralization of the decision-making process to the field; the creation of ODA taskforces in major partner countries; the strengthening of the ODA evaluation system; the establishment of the New Japan International Cooperation Agency (New JICA) to coordinate most of ODA operations under the management of one agency; the strengthening of the International Cooperation Bureau in the Ministry of Foreign Affairs – MOFA and the formation of an ODA special committee in the Upper House of the Diet (I. Ohno 2014).

The Japanese development cooperation has a traditional and centralized decision-making process. In terms of policy formulation, the Ministry of Foreign Affairs - MOFA is responsible for planning development co-operation policies and promotes collaboration with other governmental ministries and agencies. JICA is the main development operating agency accountable to MOFA. A committee from upper house of parliament oversees the implementation of the development cooperation agenda. One important feature is that decision making process is centralized in Tokyo, with almost no delegation of financial

or programming authority to the field. This makes decision making a longer process. Cabinet approval can be required for grant and loan projects, including some grant projects of less than USD 1 million.

The Prime Minister and his cabinet also play a significant decision-making role in the allocation of investments using ODA or other official flows. The Prime Minister's Office coordinates the Management Council for Infrastructure Strategy which aims to promote the export of Japan's quality infrastructure (OECD 2019b). The goal is to conciliate the economic development of partner countries with the capacity building of local officials on infrastructure technologies. This initiative mobilizes the Ministry of Economy Trade and Industry (METI) in co-operation with the Japan Oil, Gas and Metals National Corporation (JOGMEC), the Japan Bank for International Cooperation (JBIC), the Nippon Export and Investment Insurance (NEXI), JICA and the Japan External Trade Organization (JETRO).

Japan's development strategy is outlined in the Development Cooperation Charter (revised in 2015). The last Charter highlighted three main policies: contributing to peace and prosperity, promoting human security, and self-reliant development and collaboration based on Japan's strengths (Government of Japan 2015). It has also defined the following development priorities:

- **Free and Open Indo-Pacific**: Support economic development in Africa and Asia and connectivity between these two regions.
- **Global health**: Expand universal health coverage and invest more in managing infectious diseases through Gavi and the Global Fund.
- **Infrastructure**: Enable strong and sustainable growth through funding (primarily loans) for core infrastructure projects such as transportation, energy, and natural resource development.

In addition, the Charter highlighted the need to strengthen partnerships with developing countries including emerging donors, private companies, local governments, and NGOs (MOFA 2015). Even though the Charter was approved before the 2030 Agenda, Japan has sought to align the charter with the SDGs. In this context, the Japanese government established the **SDGs Promotion Headquarters** headed by the Prime Minister and composed of all ministers to monitor its implementation in May 2016. The

Japanese government has also been taking part in all discussions carried out at the **High Level Political Forum on Sustainable Development**. Moreover, the Japanese government has organized Japan’s SDGs Implementation Guiding Principles that counts with a monitoring process with different stakeholders. These guiding principles call Japanese companies to adopt corporate strategies based on the SDGs. Companies should also contribute to the achievement of the SDGs through their own core business, as well as through Public-Private Partnerships – PPPs. Moreover, Japan should encourage inclusiveness and fairness in the labor market to promote gender equality and the empowerment of women. According to these principles, small and medium sized companies should be mobilized to adopt practices based on the SDGs.[70]

The Japan International Cooperation Agency – JICA is responsible for implementing the bulk of Japan’s ODA in accordance with MOFA’s policies. Originally created in 1974, JICA acquired the status of an administrative agency in October 2003 after a structural reform that took place during 2001-2002. In 2008, the operations of ODA loans that were managed by the former Japan Bank for International Cooperation - JBIC and a portion of Grants provided by Japan’s Ministry of Foreign Affairs - MOFA were integrated into JICA’s mandate. As a result of these reforms, the new JICA currently offers concessional loans to developing countries. It has become the largest development organization in the world with a network of 96 overseas offices with an estimated annual budget of approximately **USD 8,5 billion** (JICA 2019). The reorganized agency is also responsible for administering the major part of Japan's grant aid which is currently under the jurisdiction of the Ministry of Foreign Affairs and so all three major ODA components—technical cooperation, grant aid, and concessional loans—are now managed "under one roof."

In terms of strategy, JICA organizes its operations on medium-term plans with five-year cycles. In the 4th Medium-term Plan that began in 2017, the following priorities are listed below in JICA’s Strategic Map (**Figure 44**). In this scene, the strengthening of

[70] N.A. The companies listed by MOFA are: Accenture PLC, Ajinomoto Co. Inc, Blue Capital Management Co. Ltd, Dai Nippon Printing Co. Ltd, Daiwa Securities Group Inc; Fuji Xerox Co. Ltd; Fujitsu Limited; IDEC Corporation; Japan Securities Dealers Association; JVC KENWOOD Corporation, Kao Corporation, KOSÉ Corporation, Mitsubishi Electric Corporation, NEC Corporation, Nippon Koei Co. Ltd, PADECO Co. Ltd, Seiko Epson Corporation, Sompo Holdings, Inc, Sony Computer Science Laboratories Inc, Sugihan Corp, Yokogawa Electric Corporation.

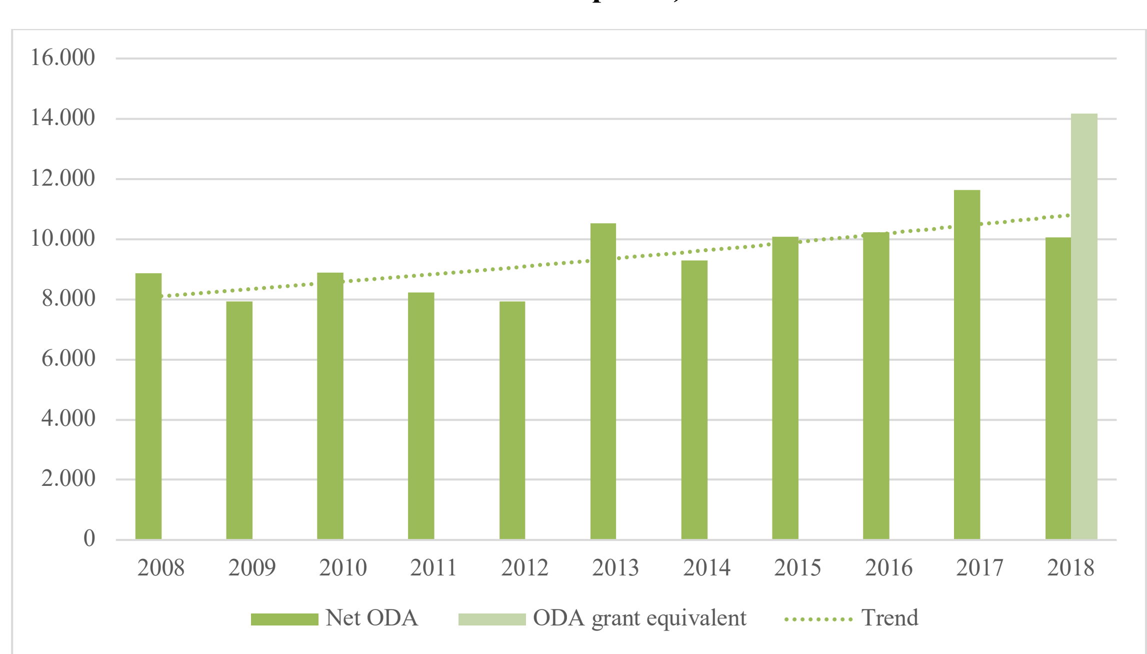
partnerships is listed as one of the key operational focus areas. This is relevant for the purpose of this research since it highlights the role of Japanese companies as one of the key actors to support this agenda. Also, the Development Cooperation Charter, the SDGs and the Paris Agreement are key inputs to orient JICA 4th Medium Term Plan. JICA's annual reports are organized in total alignment with the SDGs. However, there was no information related to the total amount of ODA or the equivalent leveraged by the private sector allocated per SDG.

4.3.2. Panorama of the Official Development Assistance

The volume of ODA allocated by the Japanese government had a modest increase of 13% in the period 2008-2018 (**Figure 44**). Nevertheless, the total volume of disbursements rose to USD 14.2 billion in 2018 with the introduction of the new grant equivalent methodology[71] by the OECD to measure ODA. The increase was due mainly to lending to developing countries (OECD 2020b).

[71] N.A. OECD DAC members decided, at their 2014 High-Level Meeting to introduce a new way of measuring aid loans to better reflect the actual effort by donor countries and their respective taxpayers: only the "grant equivalent" of loans would now be recorded as ODA. The more generous the loan, the higher the ODA value. Instead of recording the actual flows of cash between lender and borrower, the new measure of ODA is based on the loans' "grant equivalents". For the OECD, this provides a more realistic comparison of loans and grants and stronger incentives to use grants and highly concessional loans to support the mobilization of resources to the Sustainable Development Goals (SDGs). For more info: https://www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm

Figure 44 - Evolution of Japan's ODA Disbursements 2008-2018 (USD Million in constant prices)



Source: OECD.

The bulk of Japan's ODA is delivered bilaterally through the public sector, with just under half going to lower middle-income countries and to fragile contexts, mainly in Asia (OECD 2020b). While the volume of net ODA has remained largely the same since 2013, its ODA levels and ODA/GNI ratio began to rise with the use of the grant-equivalent methodology in 2018. Nevertheless, Japan has not achieved the target of 0.7% ODA/GNI spending agreed in the 2030 Agenda.

Figure 45 - Japan's ODA's Disbursements as a Share of GNI 2008-2018

Source: OECD.

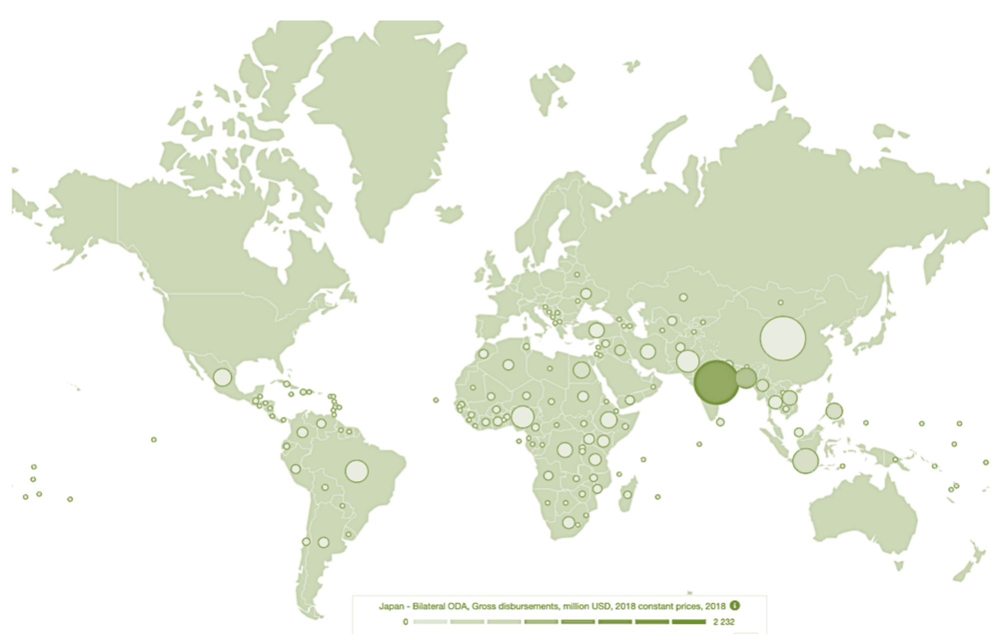
During the period 2008-2018, Japan provided the largest proportion of its ODA bilaterally (**Figure 46**). In 2018, gross bilateral ODA accounted for 77% of the total ODA, of which 10% was directed through multilateral organizations (earmarked contributions). Core contributions to multilateral organizations represented 23% of total ODA in 2018.

Figure 46– Evolution of Japan's allocation of ODA Gross Disbursements in the period 2008 -2018 (USD million, in constant prices)

Source: OECD.

In 2018, Japan's bilateral ODA was primarily focused on Asia and Africa. USD 8,5 billion was allocated to Asia and USD 1,9 billion to Africa, accounting respectively for 64% and 14% of gross bilateral ODA. USD 219 million was allocated to Oceania and USD 214 million was allocated to ODA eligible countries in Europe. Asia was also the main regional recipient of Japan's earmarked contributions to multilateral organizations. Fifteen per cent of gross of the bilateral ODA was unspecified by region in 2018. The distribution is similar to **Figure 38** that shows the allocation of FDI by Japanese companies in 2018. This reinforces the view that the allocation of ODA coincides with the internationalization process of Japan's private sector.

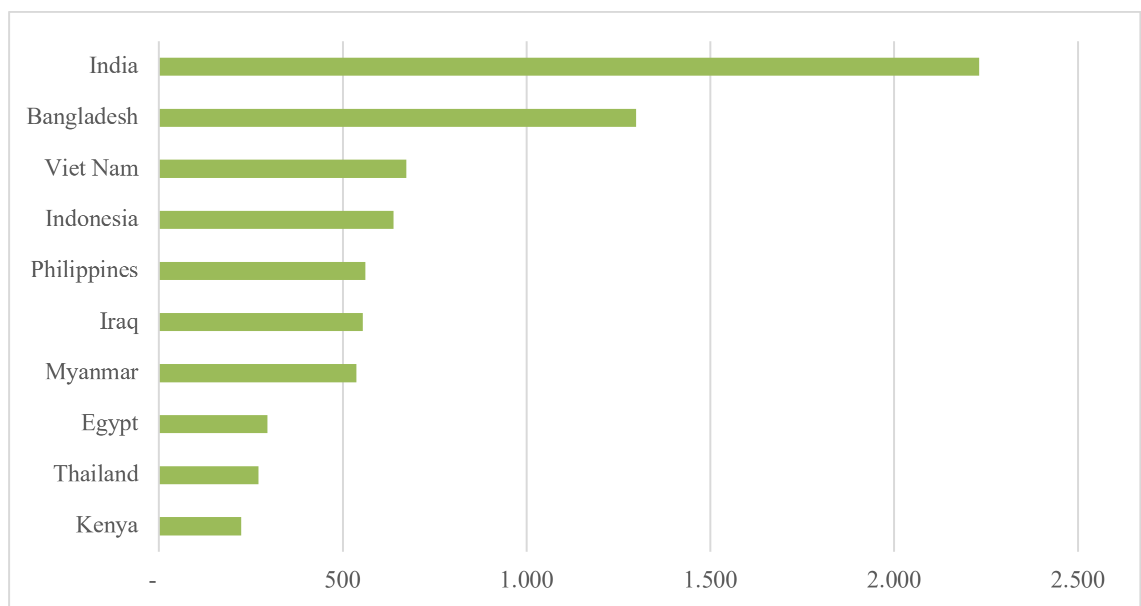
Figure 47 – Destination of Bilateral ODA by Recipient Country in 2018



Source: OECD.

In 2018, 55% of gross bilateral ODA went to Japan's top 10 recipients. These countries are in the Asia, Middle East and Africa regions, in line with Japan's focus on a free and open Indo-Pacific (**Figure 48**).

Figure 48 - Japan's Top 10 Recipients of ODA in 2008 (in USD million)



Source: OECD.

4.3.3. Resource Provider

4.3.3.1. Volume and Mechanisms to Foster PSE

In 2018, Japan has mobilized **USD 110,9 million** from the private sector through credit lines, syndicated loans, direct investment in companies (**Figure 49**). When compared to 2017, there is a decrease of 220% in total amount mobilized from companies through the support of the Japanese development institutions in relation to 2017. However, there was not enough historical data to verify if this growth could represent a trend. **Figure 49** has also shown that most of the support to companies came through credit lines and direct investment in companies in 2018. In 2018, 59.2% of these investments were allocated in South America and 40.2% in South and Central Asia.

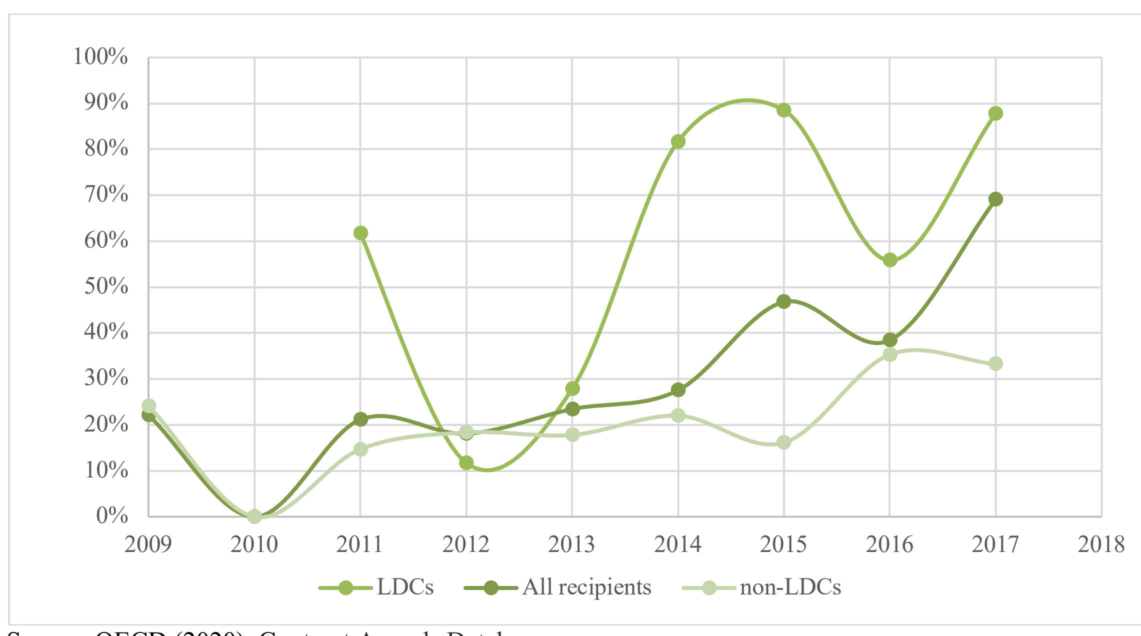
Figure 49 - Total Amounts Mobilized from the Private Sector by Leveraging Mechanism in 2017-2018 (Million USD, current prices)

Source: OECD.Stat.

One of the key characteristics of Japan's aid is the share of untied aid contracts awarded to Japanese companies in LDCs that has increased substantially since 2012 (**Figure 50**). Despite adopting OECD - DAC recommendations, 88% of untied aid contracts in LDCs were awarded to Japanese companies in 2017 (69% of all aid contracts awarded to Japanese companies in all recipient countries), compared to 12% in 2012. According to the OECD (2020), Japan's reporting process lacks transparency in the case of contracts awarded to joint ventures. In these reports, it is not possible to identify the

main contractor, nor there is a breakdown of the contract amount by individual contractors.[72] The partner country government manages the procurement process, detailing the technical specifications, terms of reference and requests for proposals, all of which is usually reviewed in sequence by JICA's headquarters.

Figure 50 - Untied Aid Contracts Awarded to Japanese companies 2019-2018



Source: OECD (2020). Contract Awards Database.
Note: According to JICA's Procurement Guidelines, joint ventures are "jointly and severally" responsible for execution of the whole contract. For this reason, Japan notifies only one contract value for the entire joint venture, unlike other DAC members who either indicate which company is the main contractor or report separate amounts by contractor, Since only one contract value is provided, the DAC Secretariat divides the amount evenly among the contractors Japan reports so as to be able to compare across DAC members. As a result, these figures may not fully reflect the reality on the ground.

According to the 2020 Japan Peer Review published by the OECD, almost 33% of Japan's aid was tied in 2018. Besides aid - which falls within the scope of the DAC recommendation -, 67.2% of Japan's bilateral ODA was reported as untied in 2018. This represents an estimated volume of **USD 3,9 billion of tied aid** awarded to Japanese companies in 2018 (OECD 2020). This situation is worse than the **78.2% in 2014** and goes against the recommendations of the Busan Fourth High Level Forum on Aid Effectiveness to untie aid to the maximum extent. Tied aid projects are planned on

[72] According to JICA's Procurement Guidelines, joint ventures are "jointly and severally" responsible for execution of the whole contract. For this reason, Japan notifies only one contract value for the entire joint venture, unlike other DAC members who either indicate which company is the main contractor or report separate amounts by contractor.

requests by developing countries seeking concessional loans to acquire Japanese technologies and infrastructure.

This policy reinforces the characteristic of Japan's development cooperation strategy to pursue development and commercial interests together. It is also part of Japan's recovery plan to use ODA as one instrument to support Japan's growth. It came in the context of the **Japan Revitalization Strategy: Japan is Back,** launched in 2013 by the Prime Minister Shinzo Abe with measures to promote the recovery of the Japanese economy.[73] This initiative set three pillars to foster economic growth: Plan for the Revitalization of Japanese Industry; Strategic Market Creation Plan; and Strategy of Global Outreach **(Figure 51)**.

Figure 51 – Three Action Plans of Japan's Revitalization Strategy

Source: Extracted from https://japan.kantei.go.jp/96_abe/documents/2013/1200485_7321.html

In the case of the Strategy of Global Outreach, there are specific guidelines to promote public-private partnerships in developing countries using ODA, as well as measures to encourage Japanese companies to participate in infrastructure projects abroad. In this context, the Japanese government began offering grant support to Japanese companies in developing countries through public-private partnerships – PPPs mechanisms with a special focus on infrastructure projects. In addition, the Japanese government started to provide technical cooperation to support these initiatives with

[73] See https://japan.kantei.go.jp/96_abe/documents/2013/1200485_7321.html

quality assurance, trade facilitation and by securing debt sustainability. The goal was to promote the expansion of Japanese business in developing countries through the offering of grants to facilitate the establishment of PPP, anchored with technical cooperation provided by JICA. Through human resource development, Japan could also contribute to the improvement of the business environment through investment promotion and overseas expansion by Japanese corporations (MOFA 2020). Such policy went against OECD's recommendations that recalls that such policy may undermine regional and partner countries' own private sector development efforts that Japan sees as the key to sustainable development (OECD 2019b).

Despite this view, it is important to acknowledge a shift from the historical role of JICA in Japan's development cooperation agenda. According to a study conducted by National Graduate Institute for Policy Studies – GRIPS:

> "Economic cooperation agencies like the Ministry of Economy, Trade and Industry (METI), the Japan External Trade Organization (JETRO) and the Overseas Human Resources and Industry Development Association (HIDA) have long supported Japanese business, forging public-private partnerships as the core part of their operations. **Now, notably even MOFA and JICA—which previously had demonstrated reluctance in supporting individual firms and rarely became involved in any business proposals presented to them—have started to use ODA budget to support new private sector partnership activities, including support for the overseas expansion of small and medium-sized enterprises (SMEs)**. Another interesting development is that METI and related agencies have begun to promote Base of the Pyramid (BOP) business to Japanese companies to broaden the interface between the private sector and development. Targeting the BOP presents a new business model in which core business operations aim directly at solving the social and development challenges faced by the poor in developing countries and emerging economies (I. Ohno 2014)."

For Ohno (2014), the motivations to foster private sector engagement derived from a series of factors. There was a common belief about the potential role of private capital in contributing to poverty reduction and sustainable growth in developing countries. Also, the private sector could bring technology, know-how, and innovation to solve global challenges such as environment, climate change, infectious diseases, food security and energy. Moreover, there were mutual interests to collaborate from the perspective of developing countries and Japan. Based on these finding, Ohno has consolidated the main existing mechanisms to foster private sector mobilization provided by the Japanese government:

Table 22 - ODA Modalities to Support Partnerships with the Private Sector

Area of Support	ODA Modality & Launch Date	Purpose
Entire Private Sector		
Fact-finding surveys	Preparatory survey for infrastructure PPP projects (FY2009, JICA)	Support the design of infrastructure PPP projects that seek concessional loans or Private Sector Investment Finance - PSIF support
	Preparatory survey for BOP business (FY2010, JICA)	Support the design of pro-poor, BOP business
Pilot and dissemination	Pilot-projects for disseminating private sector technologies for the socio-economic development of developing countries (FY2013, JICA)	Support the introduction and dissemination of a company's products, technologies and systems
Financial cooperation	Private Sector Investment Finance - PSIF (FY2012, after pilot carried out in FY2010, JICA)	Provide financial support (loans and equity) to private sector projects that contribute to the socio-economic development of developing countries
Human resource development	Private Sector Cooperation Volunteer System (FY2012, JICA)	Support global human resources development through the dispatch of private sector professionals as volunteers
	Japan Centers (in six overseas locations, JICA)	Train local business managers and workers focusing on Japanese business management
Targeted at SMEs Only		
Fact-finding surveys	Needs survey (FY2012, MOFA: commissioned to JICA); Project formulation survey (FY2012. MOFA: commissioned to JICA; FY2014, coordinated by JICA)	Verify developmental needs for a company's technologies and products in developing countries, and support project formulation
	Preliminary survey for preparing for SME outward FDI (FY2012, JICA)	Support information gathering and project formulation prior to outward FDI into developing countries
Pilot and dissemination	Feasibility study and pilot projects for disseminating SME's technologies in developing countries (FY2012, JICA)	Verify the suitability of SME's products and technologies in developing country and disseminating them
Grant aid	Non-project grant aid (2012, MOFA)	Provide SME's with grants to products that contribute to the socio-economic development of developing countries
Partnership with Local Governments		
Grass-roots technical cooperation	Grass-roots technical cooperation in partnership with local governments and for economic reactivation (FY2012 supplementary budget, JICA)	Support the socio-economic development of developing countries, by mobilizing resources of local governments/communities (technologies, experiences, human networks)

*FY= Fiscal Year. The Japanese fiscal year runs from April to March
Source: Extracted from Ohno (2014). Compiled by the author using information available in Japanese from the JICA website. JICA also has a variety of other collaborative partnerships with developing country partners at the local level in training programs and grassroots cooperation that are not included here.

The main mechanism to foster private sector engagement is related to investment finance. The **Private Sector Investment Finance (PSIF)** is a modality to support Japanese companies in developing countries through the provision of loans and equity in sectors such as infrastructure development, poverty reduction, and measures against climate change. Through collaboration with private and international financial institutions and combined operations with JICA's other ODA programs and projects, JICA seeks to reduce risks associated with the projects and to ensure a link with development outcomes. In the design of project finance schemes, JICA also works with other international finance institutions to promote co-financing. The following products are offered by the PSIF modality:

Figure 52 – Private Sector Investment Finance - PSIF Products: Debt & Equity

Debt	Corporate Loan	Agribusiness (upstream to downstream), Manufacturing, Social sector (Health, Education etc.) , Infrastructure
	Project Finance	Power & Energy, Infrastructure such as Transport (port, airport, road, railway) , Water and sewerage, Waste to Energy, Health etc.
	Financial Institutions (Bank Loan)	Local Tier 1 –Tier 2 banks outreaching to SMEs, MFIs, farmers and vulnerable people. Multi-project facility for climate change etc.
Equity	Private Equity Investment	Ranging from early-stage to growth-stage Strong justification of JICA participation required
	Fund Investment (Limited Partner)	Climate change (renewable energy, energy efficiency), SMEs, vulnerable regions/countries etc.

Note: Mezzanine products (sub-debt, preferred equity, etc.) can be also considered.

Source: JICA Annual Report 2019.

Debt operations contemplate the offering of loans in the amount of USD 10 million to USD 150 million. The maximum volume of JICA's loan is equal to the lead co-financier of the project (sometimes, JICA can cover 70% of the total project cost). In the case of equity projects, JICA can participate as a minority investor with up to 25% of the total capital investment. The amount allocated by JICA can range from USD 5 million to USD 20 million for private equity investment and USD 10 million to USD 50 million in fund

investment operations. One of the interesting characteristics of JICA's project finance model is related to the requirements for companies to participate. Private enterprises should be viewed as a "quality company" by aligning their strategy with the SDGs or with Environmental Social Governance – ESG practices, etc. In addition, the project proposal should indicate impacts related to the SDGs, climate change or quality infrastructure. That is, JICA promotes private sector mobilization by tying the firm's contribution to the SDGs or development impacts. On the company's perspective.

Besides the modalities of private sector investment finance, JICA also counts with another mechanism to support the internationalization of Japanese companies. JICA offers technical and grant support for companies to prepare business plans prior to their investment decision as seen in **Figure 53**. This mechanism is operated through call for proposals open for Japanese companies.

Figure 53 - Framework for Supporting Japanese SMEs and Large Corporations

Source: Extracted from JICA Annual Report 2019.

These surveys contemplate three support schemes for the following different business phases:

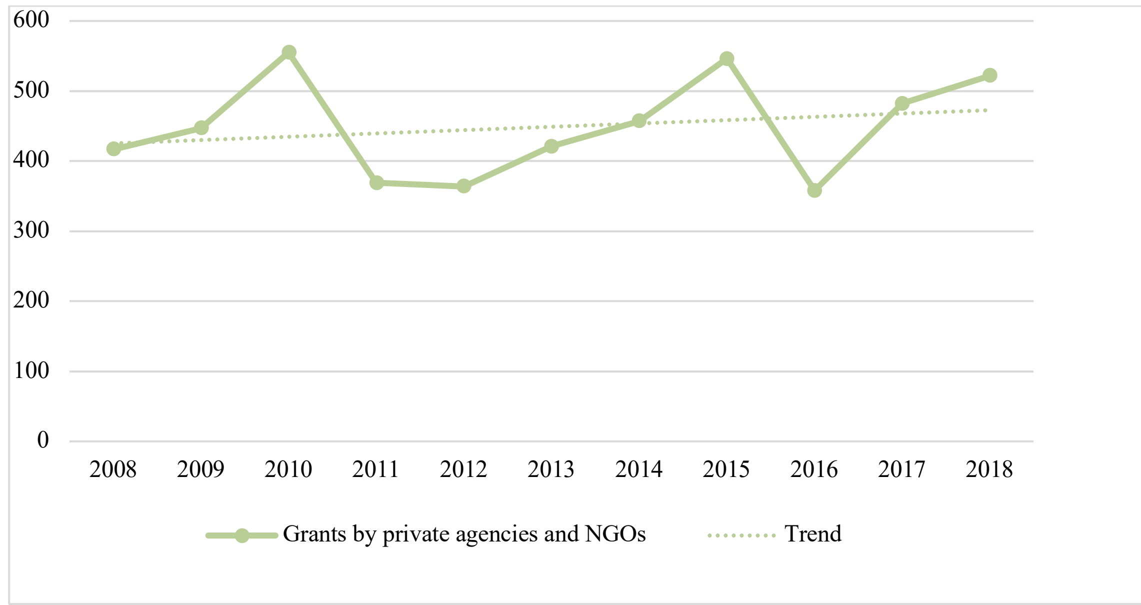
1. **SMEs Partnership Promotion Survey**: supports SMEs in gathering basic information to explore a potential business model in a selected developing country (Only SMEs are eligible). It came as a response to the Development Cooperation Charter of 2015 that has indicated their potential role as key driving force to promote economic growth in developing countries. In 2018, 26 proposals were supported by JICA (JICA 2019).
2. **SDGs Business Model Formulation Survey with the Private Sector**: This scheme is aimed to assist Japanese companies to try out technologies, products, and processes in developing countries as part of their business plan. Also, it considers the feasibility analysis of the business plan in ODA projects and the transformation of these ideas into business models. In 2018, a total of 69 proposals were sponsored in this scheme (58 were of the SME support type and 11 were SDGs Business support type) (JICA 2019).
3. **SDGs Business Verification Survey with the Private Sector**. This type of survey contemplates the validation of technologies, products, and processes; the evaluation of the proposed business models; and the assessment of their possible adaptability into ODA projects.

In addition, the **Preparatory Survey for Private-Sector Investment Finance**, facilitates the design of a PPP project that could count with a concessional loan or with the support of the Private Sector Investment Finance - PSIF. Besides these mechanisms offered by JICA, The Japan Bank for International Cooperation (JBIC) offers non-ODA loans, equity and guarantees in PPPs initiatives in themes such as energy and mineral resources that are strategically important for Japan. For example, JBIC has financed the construction in Mozambique and Malawi of the Nacala railway and port infrastructure to secure a stable supply of mineral resources to Japan in 2017 (OECD 2019b). Finally, the Japan External Trade Organization (JETRO) supports Japanese companies to understand the business and regulatory environment in a partner country.

4.3.3.2. Private Philanthropic Foundations

As seen in Chapter 2, corporate private foundations have become relevant and active partners in development cooperation. Their contribution contemplates financial support, as well as new approaches to partner with different stakeholders to tackle development challenges. In this context, corporate Private philanthropy has a short history in Japan, but it may be emerging as a new and significant social force. The impacts of the tsunami of 2011 have also motivated an increase in donations throughout Japan. Nevertheless, the volume allocated by Japanese philanthropic foundations and NGOs is relatively small when compared to the United States and other developed countries. According to the OECD, the amount of Japanese grants given by private philanthropic foundations and NGOs totaled **USD 548 millions** in 2018, a 25% rise in compared to the volume of **USD 417 millions** in 2008 **(Figure 54).**

Figure 54 - Japanese Grants by Private Philanthropic Companies and NGOs



Source: OECD.

In Japan, the majority (75.4%) of philanthropic giving comes from corporations while individual giving accounts for only 24.6 percent (Yamauchi, Takafumi e Takayoshi 2007). Foundations in Japan have largely emulated the US model, but there are interesting differences. The first wave of foundations in Japan came during the 1920s. Following Bolshevik success in Russia and communist agitation in other Western countries the great conglomerates of this era, the Zaibatsu, feared the rise of Socialism in Japan. They created foundations, modelled largely on the Rockefeller Foundation. With the end of World War II, the four largest Zaibatsu were dissolved. Only in the 1970s, major companies were again in position to establish major foundations to tackle popular resentment on health and environmental problems arising from industrial emissions. The Mitsubishi Foundation (1969) and the Toyota Foundation (1974) followed Ford's experience and provided models for other new or revived Japanese foundations (OECD 2003).

Private philanthropy in Japan is relatively small when compared to the United States that count with an extensive list of donors. One of the reasons is related to cultural aspects. Research has shown that the Anglo-American culture tends to be more individualistic than the Japanese (Christensen e Levinson 2003). Japanese culture tends to delegate to the national government on a variety of issues, including education, health care, and social welfare (Buckley 2001). There is also a deference to authority and the extent of individualism (Lew e Wojcik 2009). Japan is also a success model in providing health care and other social services (Ilchman 1998). Over the last decades, Japan introduced policies that have ensured a more equitable distribution of wealth. Japan lacks a culture of giving, tax incentives and does not count with an extensive list of wealthy individuals. Japan has also a distinct model of tax treatment for charitable giving (Onishi 2007).

In terms of model of operation, Japanese private philanthropic foundations are financed by stock dividends of their parent companies or direct voluntary donations (Ex. Toyota Foundations). Most large Japanese foundations rely on corporation funds, and practically all big companies have foundations. There are, however, some personal foundations established by the founders of particularly successful companies. For example, Kazuo Inamori, the founder of the Kyoto Ceramic company (now Kyocera Corporation) made a substantial fortune in Japan's electronics boom and established a foundation which bears his name in 1984. (OECD 2003). According to Lew and Wojcik (2009), these foundations are responsible for coordinating their own projects rather than

outsourcing to other non-profit institutions. That is, their operation is restricted to their own resources. When Japanese allocate their grants to other organizations, it was in the form of awarding scholarships. In terms of geographic focus, Japanese foundations' geographic operate exclusively within Japan. In addition, their beneficiaries were mainly Japanese students, Japanese subjects abroad. In the case of foreign subjects, these foundations support those who are residing or studying in Japan (Lew e Wojcik 2009). In their overseas work, foundations concentrate on niches outside the priorities of the ODA programs. Their activities include support for archaeological investigations (including at Angkor Wat) and local history and language projects in other Asian countries (OECD 2003).

In sum, it is possible to confirm the existence of many mechanisms to foster private sector engagement. Despite the extensive list, the volume mobilized by JICA through credit lines and investments in companies is modest when compared with total volume of ODA. As shown, the main source to partner with companies comes from the use of bilateral ODA to award Japanese companies in international contracts. Moreover, the volume and the international activity of private philanthropic foundations is not significant when compared to US and UK foundations. These findings are presented below in the framework of **Active Partnership for Development**.

Table 23 – Active Partnership for Development in Japan 2018

	Active Partnership for Development	
	Resource Provider	
	Volume mobilized by development institutions through credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies	USD 110,9 million
	Volume spent per year by Private Philanthropic Foundations and NGOs	USD 522 million
	Executor	
	Estimated volume of tied contracts awarded to Japanese Companies	USD 3,9 billion

Source: OECD. JICA Annual Reports.

4.4. The Framework Analysis of Japan's Private Sector Engagement in the Development Agenda at the International Level

In view of the above, I now present a consolidated overview of private sector engagement in Japan in 2018. Based on the framework presented in Chapter 2, I have included the latest available information in terms of number of companies or volume of resources allocated for each modality. My goal is to present a panorama of the participation of Japanese companies in the promotion of the development agenda. This framework is presented in **Table 24**, as follows:

Table 24 – Overview of Japan's Private Sector Engagement in the Development Agenda in 2018

Corporate Awareness for Development		Corporate Partnership for Development	
Responsible Participant		**Resource Provider**	
Number of Companies listed as signatory members in the Global Compact Network	326	Volume mobilized by development institutions through credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies	USD 110,9 million
Number of Companies that are part of the Japanese National Advisory Board of the Global Steering Group for Impact Investment (GSG-NAG Japan)	24	Volume spent per year by Private Philanthropic Foundations and NGOs	USD 522 million
Number of Companies that are members of the Task Force on Climate-related Financial Disclosures - TCFD Consortium	398		
Corporate Reformer		**Executor**	
Number of Companies listed as Participants in the United Nations Global Compact Network	50	Estimated Volume of tied contracts awarded to Japanese Companies	USD 3,9 billion
Number of High Sustainable Companies	4 (2018) 37 (2008-2018)		
Volume of Sustainable and Responsible Investments (SRI)	USD 2,18 trillion (2018)		

Source: United Nations Global Compact. Global 100. Corporate Knights. GSG-NAB. OECD. JICA Annual Reports.

The framework has shown that private sector engagement in Japan counts with a balanced participation of companies in the promotion of the sustainable agenda at the international level. Moreover, there is a strong partnership between the government and Japanese firms. On the perspective of the private sector, the research has shown that companies are embarking on the sustainable agenda through different forms of engagement (Hypothesis n.1). In the modality of **Corporate Awareness for Development**, there is a significant number of companies that became members of the governance forums like the Global Compact, the Japanese National Advisory Board of the Global Steering Group for Impact Investment, and the Task Force on Climate-related Financial Disclosures - TCFD Consortium. Most are global market leaders in their segments. In addition, there are Japanese companies figuring in all editions of the Global 100 Index that lists the most sustainable companies in the world with 43% of the top 100 most valuable Japanese companies. These facts corroborate with the hypothesis that an increasing number of Japanese companies and financial institutions are adopting sustainable practices on a voluntary basis. The interviews carried out with companies has corroborated with this view. These companies are implementing decarbonization policies and counts with initiatives that vary in accordance with their regional operation, as was the case of Toyota Corporation.

Despite not being among the top sustainable corporations nor taking part in the Global Compact, Japan's financial sector is promoting an expansion of ESG credit lines. In this context, Japan has witnessed the highest growth in the volume of sustainable and responsible investments in the world, according to the Global Sustainable Investment Review. Nevertheless, there is still room to improve transparency standards as well as ESG criteria and indicators. The critique pointed out that Japan's financial system provides credit to coal-fired power plants in developing and emerging countries (Schumacher, et al. 2020) is another issue to be tackled.

From the standpoint of the **Corporate Partnership for Development**, the gathered information has confirmed the existence of a strategic partnership between the government and the private sector. This partnership has historical roots in Japan's economic development. And it became explicit when Japan's aid agenda became part of the recovery plan implemented by Prime Minister Shinzo Abe since 2013. The research

has also demonstrated the strong governmental commitment to take an active part in the implementation of the 2030 Agenda. The establishment of the SDG Promotion Headquarters headed by the Prime Minister and composed by all ministers to monitor its implementation reinforces this view. Among the top donors in the world, Japan has spent USD 14,2 billion in ODA in 2018. This figure is far higher than the total volume of funding leveraged by governments from the private sector to promote development initiatives of USD 110, 9 million in the same year (Hypothesis n.2). When considering that part of these resources was awarded to Japanese companies (USD 3,9 billion) through tied contracts – despite not being recommended by DAC-OECD practices –, the volume to promote private sector engagement was significant.

This strategic alliance is translated in the use of bilateral ODA to support Japan's commercial and economic interests at the global level. In this context, the mapping exercise has shown the government effort to create different mechanisms to foster private sector engagement that comprises support for Japanese multinationals and to SMEs. This support included new regulations and frameworks to expand ESG investments. Finally, the strategic partnership can be further confirmed when one verifies the similarity between the destination of foreign direct investment by Japanese companies and the allocation of Japan's aid to developing countries. The partnership established between Toyota, JICA, SENAI and the Government of Angola to create a skills academy in Luanda has reinforced this view. Therefore, it is possible to assume that both government and the private sector have had mutual interest to collaborate (hypothesis n.4). From the government's perspective, an economic recovery plan driven on public spending has created the means to encourage private sector engagement. From the company's standpoint, there was a business rationale to establish partnerships with governments to reduce risk in investment operations.

These figures attest the view that Japan's private sector is a relevant actor in the promotion of the sustainable agenda. On the other hand, Japanese corporate foundations have not acquired the same status given the volume of resources and their limited scope of activity. So, Japan's contribution to the sustainable Agenda will increasingly depend on the voluntary forms of engagements from companies and financial institutions given the growth of SRI vis-à-vis the growth of ODA (hypothesis n.3). The challenge resides on linking the application of these sustainable responsible investments and other

resources from companies to the targets of the SDGs. In this sense, Japan has an advantage over other traditional donors by counting with a strategic alliance between the government and the private sector. This collaboration can be of use in the design of mechanisms and policies that can further leverage new private resources in line with the sustainable agenda. Moreover, Japan can bring innovation and technology to tackle global challenges. For the OECD, Japan could draw more on its own experience to drive innovation, transfer avant-garde technology and skills, partnering with the local private sector and, thus, play a leading role in the promotion of the SDGs (OECD 2020). This view does not evaluate if the use of ODA to boost the internationalization of Japanese companies is right or wrong. But it acknowledges that the implementation of 2030 Agenda became a strategic priority and opportunity for Japan to project and ensure a high level of competitivity in the future.

5. Final Remarks: A Compared Analysis of the Private Sector Engagement Experiences of Germany and Japan

5.1. Introduction

As seen in the previous chapters, Germany and Japan have been active players in the promotion of the sustainable agenda at international level. However, both countries have been facing budget constraints to meet their global commitments since the financial crisis of 2008. Despite increasing their budget to development aid, Germany and Japan have not been able to meet the target of 0.7% ODA/GNI spending agreed in the context of the 2030 Agenda. Moreover, their developing agencies have passed through structural reforms that led to a reposition of their respective mandates in accordance with new governmental priorities of each county. In this context, both countries have highlighted the role of the private sector to take part in this global effort.

Germany and Japan count with a highly competitive private sector integrated to global supply chains that compete in similar markets. Japan is ranked in the 1st position, followed by Germany (2nd highest ECI) in the Atlas of Economic Complexity that measures the complexity and diversity of exports of countries (Hausmann, et al. 2013). Both countries figure among the top 30 countries in the Doing Business Report of 2020 (Germany 22nd and Japan 29th respectively) that measure the local environment to foster private sector development (World Bank 2020). Likewise, their financial system is also very well-established having suffered limited losses after the Lehman Brothers collapse in 2008. In this scene, German and Japanese companies and financial institutions have been increasingly pursuing corporate strategies aligned with the ESG standards. In the case of the financial sector, the volume of resources allocated to sustainable and responsible investments have grown steadily. In Germany, these funds have totaled USD 1,68 trillion; while in Japan it reached the volume of USD 2,18 trillion (EUROSIF 2018) (GSG-NAB Japan; SIIF 2020).

From the governmental perspective, the development cooperation models of the two countries have passed through structural reforms. In the case of Germany, the new governance structure that emerged in 2011 has strengthened the role of the Federal Ministry for Economic Cooperation and Development (BMZ) as the main governmental organization responsible for defining Germany's development cooperation policy. To implement this agenda, two development institutions - GIZ and KfW - have complementary missions. While GIZ coordinates development cooperation programs, KfW is a state-owned development bank that works with development finance through its subsidiary organization called DEG - *Deutsche Investitions und Entwicklungsgesellschaft*. Japan, on its turn, has development policies that prioritize partnerships with Japanese firms. Such alliance has historical roots in Japan's economic development. The Ministry of Foreign Affairs - MOFA is responsible for defining the development cooperation policies while the new Japan International Cooperation Agency - JICA, result of a merger between former JICA and the Japanese Bank for International Cooperation – JBIC, is the implementing organization.

In this context, both countries count with similar forms of private sector engagement. However, the mobilization of companies has taken place through different approaches. These differences contemplate the voluntary forms of engagement as well as the way governments sponsor partnerships with the private sector. Therefore, this chapter has the objective to compare these two models of private sector engagement, based on the framework designed in Chapter 2 that were used to evaluate the respective German and Japanese experiences.

5.2. Corporate Awareness for Development

5.2.1. Responsible Participant

As seen in the previous chapters, Germany and Japan count with a highly competitive private sector integrated to global supply chains. Both countries have similar positions in the global indexes that measure competitivity. According to the Atlas of Economic Complexity, Japan is rank in the 1st position, followed by Germany (2nd highest ECI)

(Hausmann, et al. 2013). In addition, both countries figure among the top 30 countries in the Doing Business Report of 2020 (Germany 22nd and Japan 29th respectively) that measure the local environment to foster private sector development (World Bank 2020). Their financial system is also very solid and has been following the global trend to introduce ESG standards in their portfolio. In terms of the voluntary forms of private sector engagement, both countries have been following the ESG global trend. There are a significant number of German and Japanese companies that are participating in the UN Global Compact, the main global platform to promote awareness. In the case of Germany, it was possible to verify that major corporations were engaged at the global as well as in the local chapter of the UN Global Compact.

Besides the Global Compact, Germany counts with thematic platforms that were structured by development cooperation institutions. The Strategic Partnership Technology in Africa (SPTA) was a network connecting German development cooperation and around 200 European companies with the aim to develop public-private cooperation projects in the topics of digitalization and innovation in Africa. Moreover, the Business Alliance on Energy is coordinated by BMZ to mobilize companies and associations to foster the growth of the green hydrogen value chain. In Japan, companies are taking part in similar multistakeholder platforms that were created by the Japanese government, such as the Japanese National Advisory Board of the Global Steering Group for Impact Investment (GSG-NAG Japan) and the Task Force on Climate-related Financial Disclosures - TCFD Consortium. The GESG-NAG Japan promotes awareness about the **impact investment market**. The TCFD Consortium provides guidance on climate-related financial issues such as governance, strategy, risk management, and metrics. In addition, the main industrial association – Keidanren has launched in 2020 an initiative to foster among its members called "The New Growth Strategy" that advocates the need to shift their conventional strategies towards sustainable capitalism (Keidanren 2021). However, this initiative cannot be characterized as a multistakeholder forum since it was not possible to verify the existence of a steering group and monitoring mechanisms. Therefore, the main local multistakeholder forums identified in Germany and Japan were usually structured or counted with support from the respective governments on thematic issues.

5.2.2. *Corporate Reformer*

In terms of corporate sustainable practices, major multinationals from Germany and Japan are listed as participants in the United Nations Global Compact. As previously described, this category of engagement denotes a formal commitment in adopting sustainable development practices and the possibility to take part in global initiatives carried out by the Global Compact. Companies also need to report the prioritized SDGs in their annual progress reports. In this context, a significant number of German firms are registered as participants (440 companies) in comparison to the Japanese (50 companies).[74] Japanese companies also prioritize their participation in other multistakeholder forums at the national level such as the Task Force on Climate-related Financial Disclosures - TCFD Consortium that counts with 398 companies.).[75] Moreover, the Global Compact has established international guidelines in terms of reports, compliance that were based on European standards that differ from oriental practices (JSIF 2020).

Since the financial crisis of 2008, there are an increasing number of German and Japanese companies that figure among the most sustainable corporations in the world. As proposed in Chapter 2 - using as reference the work of Zollo, Cennamo and Neumann (2013) -, **High Sustainable Companies** are the ones that have adopted sustainable practices as a key part of their business strategies. According to the 100 Global Index of 2018, published by Corporate Knights, 37 Japanese firms have been included in this list of the top sustainable companies 100 (4 in 2018).[76] Germany, on the other hand, counts with 15 corporations ranked in the top 100 during the period 2008-2018 (6 in 2018). Despite the difference between the two countries, it is important to highlight that the process to become a highly sustainable company is complex and it takes time. It may not be part of the business rationale of most companies. That is, corporation could opt to

[74] The total number of German and Japanese companies registered as active members (participants and signatory) in 2021 (the data of German companies were obtained in June while the Japanese in August). See: https://www.unglobalcompact.org/participation
[75] Idem.
[76] See https://www.corporateknights.com/rankings/global-100-rankings/

maintain their strategic positioning while looking to reduce their carbon emissions to follow local regulations, for example. Or they could prefer to follow ESG practices as part of their corporate sustainable practices without changing their business model. Nevertheless, it is important to highlight that both Germany and Japan count with a significant number of sustainable companies in the Top 100 index published by Corporate Knights. And a significant part of them also figured among the most valuable companies in their respective countries (100% out of the 15 corporations in Germany, 43% out of the 37 corporations in Japan).

When one examines the interviews carried out with German and Japanese companies respectively, it is possible to verify that the private sector of both countries faces similar encounters (Interviewer B 2022) (Interviewer C 2022) (Interviewer F 2022) (Interviewer H 2022). The task of implementing ESG standards in their supply chain was seen as the main challenge. In addition, most of these companies are planning to become carbon neutral organizations soon. In the example of Toyota Corporation, their sustainable strategy varies in accordance with their local operation (skills development was the priority in Angola). Finally, all companies examined are aligning their strategy to the SDGs which indicate a commitment with the notion of share value.

In the case of the financial institutions, the ESG trend became a hot topic for banks and investment funds throughout the world. In Germany and Japan, the growth of sustainable and responsible investments (SRI) market has been exponential. In Germany, the volume of SRI has totaled **USD 1,94 trillion**,[77] representing a 213% increase during the period 2013-2017. Japan, on its turn, has been responsible for the largest increase in the volume of sustainable assets in the world, according to the Global Sustainable Investment Review of 2018. The volume of managed assets grew 308% during the period 2016-2018, totaling **USD 2,180 trillion** in 2018 (equivalent to 18% of all assets managed in Japan). Although the last data available for Germany is from 2017, both countries show similar amounts of SRI. In the case of Japan, a key push came from the activities of the Japanese National Advisory Board of the Global Steering Group for Impact Investment (GSG-NAG Japan). As seen in Chapter 4, the Abe administration has created new policies and guidelines such as the Stewardship Code and the Corporate Governance Code; a

[77] Eurosif

Guidance for Collaborative Value; Green Bond Guidelines, among others. This is a distinction from the German case where most of the policies are being discussed at the European Union or at the international level.

However, there are still many challenges to sustain the growth of sustainable investments. Among them, there is need to clarify the green finance taxonomy to avoid greenwashing. In Germany, a set of new regulations are under discussion at the European Union to clear out the distinction between investments in climate-friendly projects or the offering of climate-friendly financial products to their customers (EUROSIF 2018). In Japan, this concern incorporates the need to better define and classify ESG investments as a whole (JSIF 2020). In addition, another key issue considers the provision to investors of reliable tools to measure a financial product's carbon footprint in terms of standards and disclosure requirements. In this issue, there is a need to better qualify assets that have a reduced carbon impact from those that could be classified as 'positive carbon impact benchmarks' that contribute to a decrease of CO_2 emissions. This will help to direct more financial resources to the global effort of decarbonization.

Another challenge considers the need to improve the disclosure of how institutional investors integrate climate change and green aspects in their investment decisions. This topic also encompasses the way financial institutions release information and how they integrate environmental, social and governance standards into their investment and advisory process. In the case of Japanese banks, publishing mandatory and non-mandatory disclosure of non-financial information is an open topic for discussion. One of the arguments is that the existing ESG report standards follows the Western standards that differ from Oriental practices (JSIF 2020). For example, the Global Reporting Initiative – GRI became the main global international reference[78] to support the business community to communicate and disclosure ESG reports. GRI follows criteria and indicators that are common to western standards – including references from the UN Global Compact that might look abnormal for the Japanese culture. Finally, it is important to acknowledge that the SDGs became part of the agenda of financial institutions of Germany and Japan. As seen in Chapter 3 and 4, financial institutions are using the SDGs

[78] In 2017, 63% of the largest 100 companies and 75% of the Global Fortune 250 have reported applying the GRI reporting framework (KPMG 2017). For more information, see: https://www.globalreporting.org/

as part of their management systems or in the screening process of selecting projects. Despite this fact, it was not possible to verify a common standard in terms of understanding which SDGs were being prioritized of **volume of funds** or which related indicators were incorporated in the bank's corporate agenda. This information could provide an indication about the overall contribution from the financial institutions of the two countries to the fulfillment of the 2030 Agenda.

When the data of the perspective of Corporate Awareness from Germany and Japan is consolidated (**Table 25**), the gathered information shows very similar figures in the sub-categories of Responsible Participant and Corporate Reformer. These results are truly in line with the similar rankings that attest the highly competitive private sector of each country. That is, both countries count with a relevant number of companies listed as signatory and participant members of the Global Compact Network. Their respective private sector also takes part in local multistakeholder forums in accordance with their corporate interest. And both countries count with a similar volume of sustainable responsible investments – SRI – although the last available data differ in one year from country to country –, as well as with a relevant number of companies listed in the top 100 most sustainable companies of the world.

Table 25 – Compared Overview of Corporate Awareness for Development in Germany and Japan (2018)

Corporate Awareness for Development		
Responsible Participant		
Indicator	**Germany**	**Japan**
Global Multistakeholder Forum		
Number of Companies listed as signatory members in the Global Compact Network	509	326
Local Multistakeholder Forum		
Number of Companies members of the Japanese National Advisory Board of the Global Steering Group for Impact Investment (GSG-NAG Japan)	-	24
Number of Companies members of the Task Force on Climate-related Financial Disclosures - TCFD Consortium	-	398
Number of Companies registered in the German Chapter of the Global Compact Network	304	-
Corporate Reformer		
Number of Companies listed as Participants in the United Nations Global Compact Network	440	50
Number of High Sustainable Companies	6 (2018) 15(2008-2018)	4 (2018) 37 (2008-2018)
Volume of Sustainable and Responsible Investments (SRI)	USD 1,94 trillion (2017)	USD 2,18 trillion (2018)

Source: United Nations Global Compact. Global 100. Corporate Knights. OECD. DevelopPPP.DE, GIZ Annual Report 2018. GSG-NAB. JICA Annual Reports.

5.3. Corporate Partnership for Development

5.3.1. Resource Provider

Despite the similar results seen in the perspective of Corporate Awareness for Development, private sector engagement - PSE in Germany and Japan follows different approaches at the global level. In this context, one should consider the distinct macroeconomic scenario faced by the two countries in the years that followed the financial crisis of 2008. Also, the historical roots of the public-private partnerships developed in the post-Second War period has helped to shape the distinct mechanisms of PSE. Moreover, it is important to weight up the relevance of the 2030 Agenda in the formulation of public policies, especially those related to development cooperation.

As seen in the previous chapters, the development cooperation framework of both Germany and Japan institutions have gone through structural reforms in their management and financing models since 2008. In Germany, the new structure appoints to the Federal Ministry for Economic Cooperation and Development - BMZ the coordination of Germany's development cooperation strategies. The implementation of BMZ's policies is delegated to the new German Agency for International Cooperation - GIZ and to the *Kreditanstalt für Wiederaufbau* - KfW. The new GIZ – result of a merge of the German Agency for Technical Cooperation - GTZ, the German Development Service - DED and the German Agency for International Training and Development - InWent –, coordinates development cooperation initiatives worldwide. KfW, on its turn, is a state-owned development bank. In Japan, the operations of ODA loans previously managed by the former Japan Bank for International Cooperation - JBIC were integrated into Japan International Cooperation Agency - JICA's new mandate under the jurisdiction of the Ministry of Foreign Affairs – MOFA. Created in 2008, the new JICA is responsible for managing the bulk of Japan's grant aid, including technical cooperation, grant aid, and concessional loans.

In both cases, there was an effort to unify the development cooperation under one roof. In Germany, an interesting characteristic was the need to allocate a BMZ representative to oversee GIZ's activities in countries where they have relevant volume of projects. Japan model of development cooperation, on its turn, has a traditional and

centralized managerial process. The decision-making process is centralized in Tokyo, with almost no delegation of financial or programming authority to the field. This makes decision making a longer process.

In terms of development policies, there are distinct priorities between Germany and Japan that affect the framework of private sector engagement. Despite the alignment with the 2030 Agenda, BMZ has outlined its own strategy to tackle the following global challenges:

- Demographic development
- Resource scarcity
- Climate change
- Digital technology and interdependence; and
- Displacement and migration (BMZ 2018).

To support this policy, BMZ points out the need to support private investment. The beneficiary countries were also reduced to 50 in comparison to over 120 in the late 1990s (United Nations 2014). Holistic strategies across all fields were also prioritized instead of single-focus programs (BMZ 2018). Moreover, BMZ has given high priority to its agenda with Africa with the "Marshall Plan with Africa," launched in 2017 under Germany's presidency of the G20. This came as a response to the growing presence of China in Africa and to promote Germany's economic interest as an exporting country (Molt 2014).

Japan, on its turn, has outlined its development cooperation strategy in the context of the measures introduced by Prime Minister Shinzo Abe to stimulate recovery of the Japanese economy since 2013. The initiative called Japan Revitalization Strategy: Japan is Back[79] emphasized three pillars to foster economic growth: Plan for the Revitalization of Japanese Industry; Strategic Market Creation Plan; and Strategy of Global Outreach. In the case of the Strategy of Global Outreach, there are specific guidelines to promote public-private partnerships in developing countries using ODA, as well as measures to encourage Japanese companies to participate in infrastructure projects abroad. To support this view, Japan's Development Charter defined as one its top three priorities the implementation of infrastructure projects such as transportation, energy, and natural

[79] See https://japan.kantei.go.jp/96_abe/documents/2013/1200485_7321.html

resource development that could count with Japanese expertise. (Government of Japan 2015). Moreover, Japan has aligned all its priorities to the 2030 Agenda and have created the SDG Promotion Headquarters headed by the Prime Minister and its ministers to monitor its implementation. Therefore, it is important to highlight a major difference in PSE approach: while Germany's development cooperation policies delimit a supportive of role for the private sector, Japan explicitly describes the importance to partner with firms in its overall economic recovery strategy.

In terms of volume of resources, the development institutions of Germany have mobilized together **USD 448 million** from the private sector in 2018 through credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies (OECD 2020a). Most of the support to German companies came from KfW through credit lines and through direct investment in companies. Japan, on its turn, has mobilized **USD 110,9 million** from the private sector in 2018 through credit lines, syndicated loans, direct investment in companies. In the same of way of Germany, most of the support came through credit lines and direct investment in companies.

Besides these financial mechanisms, both countries count with specific instruments to support companies. In Germany, BMZ assists firms through PPP projects. In this context, both share costs and risks. As previously described, the main mechanism to promote private sector engagement is the **DeveloPPP.de** that was created by BMZ over 20 years ago in areas where business opportunities and development policy initiatives overlap. BMZ offers financial and technical support to companies through GIZ and DEG in developing countries. From 1999 to 2018, DeveloPPP.de coordinated more than 2,000 development projects in 100 countries, with a total mobilized investment of public and private resources worth USD 1,386 billion[80]. This amount is equivalent to an average of total investment of **USD 73 million per year.**

In contrast, Japan has a variety of instruments to support Japanese companies in their effort to promote sustainable initiatives at the international level. The main mechanism is related to project finance. As an example, the **Private Sector Investment Finance (PSIF)** offers loans and equity to Japanese companies in developing countries. The

[80] See https://www.developpp.de/en/our-programme-funding-for-development-partnerships-with-business/facts-and-figures-about-the-developppde-programme/

sectors prioritized are infrastructure development, poverty reduction, and measures against climate change. In these PPP arrangements, JICA mobilized ODA programs that offers capacity building and training to reduce risks associated with the proposed project finance scheme. One of highlights of JICA's project finance model is the need for companies to align their respective corporate strategy with the SDGs or with Environmental Social Governance – ESG practices, etc. In addition, the project proposal should indicate impacts related to the SDGs, climate change or quality infrastructure.

JICA also offers technical and grant support for companies to prepare business plans prior to their investment decision. This mechanism is operated through call for proposals open for Japanese companies – usually SMEs – and it contemplates three support schemes that are offered accordingly to the business phase (SMEs Partnership Promotion Survey, SDGs Business Model Formulation Survey with the Private Sector, SDGs Business Verification Survey with the Private Sector) (JICA 2019). In addition, JICA also finances the Preparatory Survey for Private-Sector Investment Finance that could lead to a PPP project that could count with a concessional loan or with the support of the Private Sector Investment Finance - PSIF. Besides these mechanisms offered by JICA, The Japan Bank for International Cooperation (JBIC) offers non-ODA loans, equity and guarantees in PPPs initiatives in themes such as energy and mineral resources that are strategically important for Japan.

Finally, the relevance of corporate philanthropic foundations in both countries is limited when compared to the ones in the United States and United Kingdom. In terms of volume, German Private Philanthropic Foundations and NGOs have allocated an average amount of **USD 1,5 billion** per year with activities primarily executed within Germany (OECD 2018b). In contrast, the amount of Japanese grants given by private philanthropic foundations and NGOs totaled **USD 552 millions** in 2018 (OECD 2018b). None of these foundations have figured among the top global foundations (OECD 2018b). As seen, German and Japanese corporate philanthropic foundations were usually financed through their parent companies or direct donations (Lew e Wojcik 2009). A common characteristic was the fact that both private philanthropic foundations coordinate their own initiatives and projects rather than distributing grants to other non-profits institutions.

5.3.2. Executor

It is in the role of executor that is possible to verify the most noticeable differences between the models of private sector engagement of each country. In Germany, GIZ has spent USD 821 million on service contracts. Japan, on its turn, has spent USD 3,9 billion on contracts. In addition to the difference in volume, most of Japan's service contracts opened by JICA are awarded to Japanese companies in all recipient countries (69% of all aid contracts) (OECD 2020). For the OECD, Japan's reporting process lacks transparency. In the case of Germany, GIZ follows must DAC OECD guidelines that recommend the practice of open calls for proposals. This procedure can often lead to the award of international or local suppliers in the recipient countries. The objective is to stimulate private sector development in the recipient countries. However, it can lead to a discussion about the use of Germany's taxpayers to finance companies that are not European and sometimes competitors in different segments.

In sum, the compared results of the perspective of Corporate Partnership for Development are presented below (Table 26). Germany has surpassed Japan in all the amounts allocated to promote private sector engagement except for the role of Executor. Despite counting with a diverse list of mechanisms to promote PSE, Japan mobilized less than ¼ of Germany's volume of allocated by development institutions through credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies. This is also true when we look to the resources spent by private corporate foundations in each country.

Table 26 – Compared Overview of Private Sector Engagement in Germany and Japan in the Development Agenda (2018)

Corporate Partnership for Development		
Resource Provider		
Indicator	**Germany**	**Japan**
Volume mobilized by development institutions through credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies	USD 448 million	USD 110,9 million
Volume spent per year by Private Philanthropic Foundations and NGOs	USD 1,4 billion	USD 522 million
Volume mobilized by public and private companies in the DevelopPPP.DE Program	USD 73 million (average)	-
Executor		
Estimated Volume of tied contracts awarded to Japanese Companies	-	USD 3,9 billion
Volume spent by GIZ on service contracts	USD 821 million	

Source: United Nations Global Compact. Global 100. Corporate Knights. OECD. DevelopPPP.DE, GIZ Annual Report 2018. GSG-NAB. JICA Annual Reports.

5.4. Final Conclusions

German and Japanese companies and financial institutions have been increasing their commitment in the promotion of the sustainable agenda. The use of the proposed framework designed in Chapter 2 has helped to provide a consolidated overview of the diverse forms of private sector engagement. It also validates the first hypothesis of this dissertation that acknowledged the existence of different forms of PSE in both countries. Another contribution lies in the suggested list of common indicators to measure PSE on a comparable way. However, the framework alone does not provide a complete overview of the diverse forms of PSE that might exist in each country (such as the participation of companies in other sustainable initiatives, forums, etc.). It also does not offer a trend analysis of each indicator to explain how PSE has evolved over time. Future research is needed to develop a methodology to do that. Nevertheless, the framework offers a quantifiable representation of PSE in a certain period that should be complemented by future studies on the proposed modalities with new quantitative and qualitative approaches. Given the above, the framework with the compared overview of private sector engagement in Germany and Japan in the development agenda is presented in sequence.

Table 27 – Compared Overview of Private Sector Engagement in Germany and Japan in the Development Agenda (2018)

Corporate Awareness for Development			Corporate Partnership for Development		
Responsible Participant			**Resource Provider**		
Indicator	**Germany**	**Japan**	**Indicator**	**Germany**	**Japan**
Global Multistakeholder Forums			Volume mobilized by development institutions through credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies	USD 448 million	USD 110,9 million
Number of Companies listed as signatory members in the Global Compact Network	509	326			
Local Multistakeholder Forums					
Number of Companies members of the Japanese National Advisory Board of the Global Steering Group for Impact Investment (GSG-NAG Japan)	-	24	Volume spent per year by Private Philanthropic Foundations and NGOs	USD 1,4 billion	USD 522 million
Number of Companies members of the Task Force on Climate-related Financial Disclosures - TCFD Consortium	-	398	Volume mobilized by public and private companies in the DevelopPPP.DE Program	USD 73 million (average)	-
Number of Companies registered in the German Chapter of the Global Compact Network	304	-			
Corporate Reformer			**Executor**		
Number of Companies listed as Participants in the United Nations Global Compact Network	440	50	Estimated Volume of tied contracts awarded to Japanese Companies	-	USD 3,9 billion
Number of High Sustainable Companies	6 (2018) 15(2008-2018)	4 (2018) 37 (2008-2018)	Volume spent by GIZ on service contracts	USD 821 million	
Volume of Sustainable and Responsible Investments (SRI)	USD 1,94 trillion (2017)	USD 2,18 trillion (2018)			

Source: United Nations Global Compact. Global 100. Corporate Knights. OECD. DevelopPPP.DE, GIZ Annual Report 2018. GSG-NAB. JICA Annual Reports.

Table 27 has demonstrated that PSE in Germany and Japan respectively has occurred through different forms, with similar results in many of the proposed indicators (Hypothesis n.1). When one examines the perspective of **Corporate Awareness for Development,** firms of both countries have been taking part in diverse ways of PSE that range from the participation in multi-stakeholder forums to the adoption of corporate strategies based on sustainable practices. When one compares the data, the results are similar. Moreover, many German and Japanese companies have figured among the top sustainable companies since 2008. The most noticeable difference is related to the number of companies that are members of the Global Compact in the role of participant that indicates a deeper engagement with the 2030 Agenda. There are 440 German companies listed as participants in comparison to 50 Japanese firms. Financial institutions have also taken part in the promotion of the sustainable agenda creating new credit and funding mechanisms based on ESG principles. In this context, the volume of sustainable and responsible investments - SRI allocated by the financial institutions of both countries have been increasing steadily in contrast to the evolution of ODA. The sum of SRI funds allocated by both countries has totaled USD 4,1 trillion. And it validates the view that the financing of the 2030 Agenda will depend on voluntary forms of private sector engagement that could be directed to the sustainable agenda (hypothesis 3). However, it was not possible to verify which SDGs were prioritized by these funds. This fact demands future studies since it will depend on the establishment of ESG standards at the global level, including common indicators by financial institutions.

In the perspective of **Corporate Partnership for Development**, both countries count with policies and mechanisms to foster PSE at the international level. However, the volume of resources leveraged by governments from the private sector is far behind ODA spending (Hypothesis n.2). Moreover, there are fundamental differences in the approach carried out by each country's government to foster PSE. In the case of Germany, there are funding mechanisms that contemplate credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies. Moreover, it counts with a traditional mechanism of PSE (DevelopPPP.de) that offers grants to German companies in line with its development cooperation strategies. When one examines the role of **executor**, the German model of development cooperation recommends open calls for proposals in its procurement processes for all service contracts.

Japan, on its turn, has revised its development cooperation agenda to tie aid to commercial interests as part of its economic recovery strategy, despite OECD's recommendations that go against such policy. In view of this, JICA has created new mechanisms in its role of **resource provider** to foster PSE. Besides special credit lines, syndicated loans, shares in collective investment vehicles (CIVs), guarantees and direct investment in companies, JICA also offers non-reimbursable resources to companies through a series of mechanisms that were presented in the previous chapter. In addition, Japan allocates a significant portion of Japan's bilateral ODA to award service contracts that benefits Japanese companies in countries where JICA operates.

This governmental policy to explicitly link ODA to the promotion of the internationalization of Japanese companies is the main difference when one compares PSE policies of Germany and Japan. And it explains the expressive volume of resources earmarked by Japan in the modality of **executor** that is greater than the total volume of resources allocated in the modality of **resource provider**. However, the total volume of funding leveraged by both governments from the private sector to promote development initiatives is not significant to offset official spending during the period 2008-2018 (hypothesis n.3). Finally, it is important to acknowledge that private philanthropic foundations in both countries are not relevant players in the role of resource providers in comparison to similar organizations in the United States.

In regard to the motivations and interests to engage in the 2030 Agenda, the study has shown that an increasing number of companies are taking part in multistakeholder forums. However, partnering with the government is not an easy task. Despite the existence of policies and mechanisms, companies have difficulties to access these resources and the process is usually complex. So the view that development institutions and the private sector have mutual interests to collaborate was confirmed in Japan but not in Germany when one compares the total volume of resources leveraged to promote private sector engagement versus the total amount of ODA (hypothesis n.4). In the case of Japan, this hypothesis can be evidenced through the significant amount of ODA awarded to Japanese companies in service contracts. So, PSE will improve when development institutions simplify their communication with companies and increase the resources to leverage additional funding from companies.

When one compares the total amount of resources spent by both countries in the perspectives **Corporate Awareness for Development** and **Corporate Partnership for Development**, it is possible to affirm that the contribution from the private sector to finance the Agenda 2030 at the international level is much greater through the voluntary forms of private sector engagement. Given the evolution of ODA, the financing of the Agenda 2030 will depend on the increase of sustainable and responsible investments - SRI and its linkage to the accomplishment of the SDGs. The challenge consists in avoiding greenwashing through the establishment of international standards and regulations to be followed by financial institutions. Discussions carried out by the International Finance Corporation and the OECD are going in this direction. Also, there is need to establish impact analysis of these investments that goes beyond a financial payback evaluation. In this context, the indicators that comprise all the SDGs could be a starting point. Surely, these recommendations can surely increase the cost of SRI, making them less attractive. However, the benefits are greater in terms of transparency for consumers and for financial institutions in their process of screening.

Presently, the international community is facing new challenges to meet the goals established in the 2030 Agenda. The difficulty encountered by many developing countries to acquire vaccines during the pandemia has shown how distant we are from establishing a spirit of worldwide cooperation. In addition, the invasion of Ukraine by Russia puts into question the future of globalization and the spirit of cooperation. The recent annoucement from traditional donors such as Germany to increase military spending will put further constraints on the prospects of the aid agenda. In this scene, questions might rise if the 2030 Agenda will remain valid due to the rise to new geopolitical disputes. On the other hand, Europe's energy dependence on Russia are creating a greater mobilization to accelerate a global transition to new alternatives of clean energy where the private sector will play a key role.

In view of these global concerns, Germany and Japan are key actors in the reshaping process of the international order. As industrial powerhouses, the private sectors of each country can bring innovation and knowhow to enlight pathways to be followed towards a better future. In this scene, the contribution of the private sector to influence the establishment of a new world order will be greater through more corporate awareness and

active partnership in the context of the sustainable agenda. As more companies adopt corporate strategies based on sustainability, a virtuous circle of innovation can take place leading to a better and safer global society. This journey should be supported by new funding mechanisms that will facilitate and bring private investment to tackle global challenges. At the end, a New Economy might rise based on the improvement of the living standards and the containment of threats such as global warning.

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ANNEX I - SDG 17 - Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development Finance

17.1. Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection

17.1.1 Total government revenue as a proportion of GDP, by source

17.1.2 Proportion of domestic budget funded by domestic taxes

17.2. Developed countries to implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA/GNI) to developing countries and 0.15 to 0.20 per cent of ODA/GNI to least developed countries; ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to least developed countries

17.2.1 Net official development assistance, total and to least developed countries, as a proportion of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee donors' gross national income (GNI)

17.3 Mobilize additional financial resources for developing countries from multiple sources

17.3.1. Foreign direct investment, official development assistance and South-South cooperation as a proportion of gross national income

17.3.2. Volume of remittances (in United States dollars) as a proportion of total GDP

17.4 Assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress

17.4.1 Debt service as a proportion of exports of goods and services

17.5 Adopt and implement investment promotion regimes for least developed countries

17.5.1 Number of countries that adopt and implement investment promotion regimes for developing countries, including the least developed countries

17.6 Enhance North-South, South-South and triangular regional and international cooperation on and access to science, technology and innovation and enhance knowledge sharing on mutually agreed terms, including through improved coordination among existing mechanisms, in particular at the United Nations level, and through a global technology facilitation mechanism

17.6.1 Fixed Internet broadband subscriptions per 100 inhabitants, by speed

17.7 Promote the development, transfer, dissemination and diffusion of environmentally sound technologies to developing countries on favorable terms, including on concessional and preferential terms, as mutually agreed

17.7.1 Total amount of funding for developing countries to promote the development, transfer, dissemination and diffusion of environmentally sound technologies

17.8 Fully operationalize the technology bank and science, technology and innovation capacity-building mechanism for least developed countries by 2017 and enhance the use of enabling technology, in particular information and communications technology

17.8.1 Proportion of individuals using the Internet Capacity-building

17.9 Enhance international support for implementing effective and targeted capacity-building in developing countries to support national plans to implement all the Sustainable Development Goals, including through North-South, South-South and triangular cooperation

17.9.1 Dollar value of financial and technical assistance (including through North-South, South-South and triangular cooperation) committed to developing countries Trade

17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda

17.10.1 Worldwide weighted tariff-average

17.11 Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020

17.11.1 Developing countries' and least developed countries' share of global exports

17.12 Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access

17.12.1 Weighted average tariffs faced by developing countries, least developed countries and small island developing States Systemic issues Policy and institutional coherence

17.13 Enhance global macroeconomic stability, including through policy coordination and policy coherence

17.13.1 Macroeconomic Dashboard

17.14 Enhance policy coherence for sustainable development

17.14.1 Number of countries with mechanisms in place to enhance policy coherence of sustainable development

17.15 Respect each country's policy space and leadership to establish and implement policies for poverty eradication and sustainable development

17.15.1 Extent of use of country-owned results frameworks and planning tools by providers of development cooperation Multi-stakeholder partnerships

17.16 Enhance the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in all countries, in particular developing countries

17.16.1 Number of countries reporting progress in multi-stakeholder development effectiveness monitoring frameworks that support the achievement of the Sustainable Development Goals

17.17 Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships

17.17.1 Amount in United States dollars committed to public-private partnerships for infrastructure Data, monitoring and accountability

17.18 By 2020, enhance capacity-building support to developing countries, including for least developed countries and small island developing States, to increase significantly the availability of high-quality, timely and reliable data disaggregated by income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts

17.18.1 Statistical capacity indicator for Sustainable Development Goal monitoring

17.18.2 Number of countries that have national statistical legislation that complies with the Fundamental Principles of Official Statistics

17.18.3 Number of countries with a national statistical plan that is fully funded and under implementation, by source of funding

17.19 By 2030, build on existing initiatives to develop measurements of progress on sustainable development that complement gross domestic product, and support statistical capacity-building in developing countries

17.19.1 Dollar value of all resources made available to strengthen statistical capacity in developing countries

17.19.2 Proportion of countries that (a) have conducted at least one population and housing census in the last 10 years; and (b) have achieved 100 per cent birth registration and 80 per cent death registration.

ANNEX II – Questionnaire Summary

Code	Organization	Area	Date	Format	Main insights
Interviewer A	Câmara Brasil-Alema	Responsible for Coordinating DevelopPP	22/05/2020	virtual	Dificulty to promote DevelopPPP.De due to the volume of work; Procurement process sometimes benefits companies that are not German;
Interviewer B	Toyota Angola	Local Representative	07/04/2022	virtual	Toyota provides a social and educational support in Angola with a emphasis on skills development. The Toyota Academy is an example of a corporates sustainable initiative carried out by Toyota in a developing countries, developed in collaboration with the government, JICA and SENAI. There are no indications to introduce a environmental agenda in the short term.
Interviewer C	Siemens	Institutional, Sustainability & Cities Relati	06/04/2022	virtual	Strategy organized around key ESG components, They have structured a ESG radar to identify potential risks with new clients. They take part in new initiatives such as Global Compact, Charter of Trust, World Business Council for Sustainable Development. They have goals to increase women's participation in high ranking positions. The biggest challenge is to ensure the adoption of ESG standards for all its supply chain.
Interviewer D	JICA	Head of JICA Angola	11/03/2022	virtual	The Academia Toyota is a innovative and unique form of public-private partnership. Toyota finances the project, the local public institution is the beneficiary, JICA provides technical assistance/carried out surveys and mobilizes a private Brazilian institution SENAI to promote skills development of the local population. ODA loans counts with special interest rates that are usually subsidized by the government in middle income countries (STEP special terms of economic partnerships) that leads to the acquisition of Japanese technology.
Interviewer E	GIZ	Responsible for DeveloPPP.de	19/04/2022	virtual	The company should be a privately owned, profit-oriented and registered in the EU, a member country of the European Free Trade Association (EFTA) or a country on the OECD-DAC list. In addition, the project must contribute to local sustainable development as defined by the United Nations Sustainable Development Goals (SDGs) and go beyond a mere investment in your core business. Challenges: make the Program better known by companies, increase the number of people involved, work with local organizations. All projects should link their initiative to a SDG
Interviewer F	Volkswagen Foundai	Responsible for social inictiatives	22/04/2022	virtual	Main goal is to promote 100% decarbonization of its plants and products until 2050 with 50% reduction until 2030. 1st car maker to sign the Treaty of Paris Agreement. In Brazil, focus on increasing the use of electric cars and the use of ethanol since the total emissions are lower than energy. In regard to the ESGs, Volkswagen has adopted very strict procedu scandars related to new governance standards following the Dieselgate scandal. The group was suspended from Global Compact until 2021. the Volkswagen foundation follows SDGs and promotes local community development in topics related to urban and social mobility. These initiatives are aligned to SDGs 4, 11, 8, 10 and 17. Finally, Volkswagen group faces challenges to prepare its supply chain to new governance standards such as the new Due Dilligence law in Germany.
Interviewer G	KfW	Senior Consultant	04/05/2022	virtual	Due to the nature of the bank, KfW already mobilizes capital directly from the private sector. The Bank is starting to create special credit lines with more attention to the SDGs like green bonds. The taxonomy is still complex to ensure a proper monitoring process of initiatives carried out with private clients. It works with GIZ in risky operations in topics related to climate change and sanitation. The model of work usually combines capacity building carried out by GIZ that is followed by a financial operation coordinated by KfW.
Interviewer H	Bosch	Resposible for sustainable initiatives	15/06/2022	virtual	Bosch has been adopting corporate sustainable practices as part of its business. It has been implementing ESG strategies in its whole value chain. There are corporate strategies related to the launch of new sustainable products, as well as initiatives to reduce the consumption of enegy and water. There are key challenges translated in ESG KPIs that that include diversity/equity standards. The SDGs are key input in their strategy. Their reports are aligned with the SDGs. Bosch has taken part in many initiatives coordinated by the UN and by the German-Chamber of Commerce and Industry - AHK. In the past, they have participated in skills development initiative as well as in transportation of covid vaccines initiative with the support from DevelopPPP.De. They have the policy to use their own resources corporate projects. The main challenge is to take their ESG strategy and standards for the whole value chain at the global level.
Interviewer I	Landesbank Baden-Württemberg	Responsible for operations in Brazil	20/10/2022	virtual	Landesbank Baden-Württemberg has developed specific policies for the most ESG-relevant sectors. This includes guidelines for the energy sector, agriculture and forestry, mining, arms, pornography and gambling. In regard to the screening process, review processes include a uniform review of borrowers by front office based on the 10 principles of the UN Global Compact as a framework for socially and ecologically responsible corporate governance. In the case of uncertainty or topics for which there are not yet any binding rules or review criteria, an opinion can be requested from group sustainability. LBBW maintains an ongoing dialogue with its stakeholders. This includes regular dialogues with NGOs, in particular with WWF and multiple climate cooperation's. LBBW is involved in several memberships. Main challenges in incorporating sustainability lie in the extent, validity and implementation of structured data.