INTER-AGENCY WORKING GROUP ON THE PRIVATE INVESTMENT AND JOB CREATION PILLAR OF THE G20 MULTI-YEAR ACTION PLAN ON DEVELOPMENT

"Promoting responsible investment for sustainable development and job creation"

Final report to the High-Level Development Working Group on the work of the Private Investment and Job Creation Pillar

Mexico Summit – June 2012

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Foreword

The G20 Development Working Group was established at the G20 Summit in Toronto in June 2010 with a mandate "to elaborate, consistent with the G20's focus on measures to promote economic growth and resilience, a development agenda and multi-year action plans to be adopted at the Seoul Summit." In response to this mandate, the Development Working Group developed and unveiled the Multi-Year Action Plan on Development (MYAP) at the G20 Summit in Seoul in 2011.

The MYAP consists of 9 distinct pillars. These include infrastructure, human resource development, trade, private investment and job creation, food security, growth with resilience, financial inclusion, domestic resource mobilization, and knowledge sharing. The Development Working Group was mandated to complete work on the MYAP's Private Investment and Job Creation pillar in time for the G20 Summit in Los Cabos, Mexico, in June 2012.The present document presents the final report and policy recommendations for the private investment and job creation pillar.

This report was prepared by the Inter-Agency Working Group (IAWG) that was formed to support the G20 High-level Development Working Group with respect to the Private Investment and Job Creation Pillar of the MYAP on Development. The IAWG comprises representatives of UNCTAD (Coordinator), UNDP, ILO, OECD, the World Bank and IFC, as well as the co-facilitators of the Private Investment and Job Creation Pillar, Germany and Saudi Arabia, and other invited organizations, including UNIDO and DCED.

Introduction

Domestic and foreign private investment is a key source of employment, wealth creation and innovation. As such, private investment can contribute to sustainable development and poverty reduction in developing countries. For private investment to play this role, governments need to put in place supportive policy frameworks. The objective of the Private Investment and Job Creation pillar of the G20 Multi-Year Action Plan on Development is to identify the key elements of such frameworks and to provide governments with practical policy tools for putting these in place.

The Private Investment and Job Creation pillar of the MYAP contains four distinct action items. These are reproduced here:

- We will identify, enhance as needed, and promote the best existing standards (developmental, social and environmental) for responsible investment in value chains and voluntary investor compliance with these standards.
- We request UNCTAD, UNDP, ILO, OECD and the World Bank to review and, consistent with best practice of responsible investment, develop key quantifiable economic and financial indicators for measuring and maximizing economic value-added and job creation arising from private sector investment in value chains. Based on these indicators, these international organizations should make recommendations to assist developing countries to attract and negotiate the most value-adding investment to their economies.
- We request the World Bank and relevant agencies, in association with the G20, to establish a G20 Challenge on Innovation to provide a platform for innovative solutions to be brought to scale and to showcase entrepreneurship aimed at solving social challenges (e.g. innovative services on business strategies focusing on youth unemployment).

  Based on the outcome, we will recommend how to engage the private sector to find innovative business solutions that meet the needs of the poor in a sustainable way.
- The G20, MDBs, UNCTAD, UNDP, ILP and OECD will, based on the outcomes of this and other work, assist developing countries, in particular LICs, to develop action plans with the view to strengthen financial markets to boost small and medium enterprises (SMEs), improve the business investment climate, maximize the value-added of private investment and support the regulatory framework for foreign and domestic investment. Existing international investment arrangements between G20 countries and LICs will be strengthened to promote investment in LICs.

In responding to these action items, the Inter-Agency Working Group (IAWG) prepared background reports that bring together the collective policy experience of the world's leading intergovernmental organizations working on investment and development. From these reports, 11 key policy recommendations for creating a supportive environment for domestic and foreign private investment were distilled.

The key policy recommendations start with broad framework considerations and work towards more focused policy considerations. The key recommendations are grouped into the following four distinct policy stages:

- Improving the business climate and the regulatory framework for foreign and domestic investment;
- Assisting developing countries to attract the most value-adding investment to their economies;
- Promoting responsible investment in value-chains; and
- Stimulating investment in local enterprise development.

The structure of this report is as follows. Section I presents the key policy recommendations. Section II provides annotations that briefly explain each recommendation. Section III provides links to the background documents that were prepared as deliverables by the IAWG for the Development Working Group on the individual action items of the pillar, as well as to further resources for policymakers and references to key policy tools available from each of the organizations in the IAWG.

I. Key Policy Recommendations

This section presents the key policy recommendations that have emerged from the background reports (listed in section III) prepared by the IAWG on the separate action items of the Private Investment and Job Creation pillar of the MYAP. The recommendations are associated with the various elements of the pillar, and organized logically from policies on the general investment climate, to policies aimed at attracting investment that generates high value added and creates decent jobs, to policies aimed at ensuring that such investment is responsible, to detailed policies to integrate investment in local enterprise development efforts.

Policies for improving the business climate and the regulatory framework for foreign and domestic investment. (Action Item 4)

Policy recommendation 1. We encourage developing countries to make full use of policy tools and instruments designed to help governments put in place sound and healthy regulatory and legal environments for private investment, such as UNCTAD's Investment Policy Framework for Sustainable Development, the OECD's Policy Framework for Investment, and the World Bank's Doing Business Indicators.

Policy recommendation 2. We encourage all countries to consider policy options to strengthen the sustainable development dimension of international investment arrangements, in particular by concretizing home-country measures for the promotion of responsible investment in low-income countries.

Policies to assist developing countries to attract investment to their economies that generates the most development value added and creates decent jobs. (Action Item 2)

Policy recommendation 3. We encourage governments to engage in efforts to increase the jobs content of investment and growth, in terms of both quantity and quality, including through ILO employment targeting methodologies, to meet the immediate and long term sustainable development challenges of the persisting jobs deficit aggravated by the crisis.

Policy recommendation 4. Specifically, we encourage governments to make use of the indicator framework developed by the IAWG and endorsed by the G20 HLDWG with a view to attracting private investment that generates more value added and creates more and decent jobs, and in order to maximize the development impact of government programs aimed at encouraging such investment in particular value chains.

Policy recommendation 5. We encourage international organizations and G20 governments to continue their capacity building efforts in the area of investment policy, and to integrate the methodologies and insights generated in the work under this pillar in their technical assistance work on investment, with a view to helping developing countries attract more value adding investment with high jobs content both in quantitative and qualitative terms, in addition to helping them improve the general investment climate.

Policies for promoting responsible investment in value chains. (Action Item 1)

Policy recommendation 6. We encourage all countries to promote the best existing standards for responsible investment in value chains as expressed in the United Nations Guiding Principles on Business and Human Rights, the ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the OECD Guidelines for Multinational Enterprises.

Policy recommendation 7. We encourage Governments actively to promote adoption of and compliance with voluntary standards for responsible investment, while ensuring that such standards do not impede private investment or cross-border business.

Policy recommendation 8. We encourage the intergovernmental organizations to continue their cooperation and collaboration in support of more responsible investment that supports the economic, social, and environmental objectives of developing countries.

Policies to stimulate investment in local enterprise development, including by boosting access to finance for SMEs, promoting entrepreneurship and supporting innovative business solutions that meet the needs of the poor in a sustainable way. (Action Items 3 and 4)

Policy recommendation 9. We encourage developing countries to make full use of existing policy tools and programs designed to help governments put in place sound SME and entrepreneurship development policies, such as UNCTAD's Entrepreneurship Policy Framework, the OECD/UNIDO Effective Policies for Small Businesses Guide, and the ILO's initiatives and tools to support SMEs and promote entrepreneurship.

Policy recommendation 10. We encourage all countries to promote and facilitate investment in inclusive and sustainable businesses, by removing regulatory hurdles to such investment, and by actively supporting investment with inclusive and sustainable development impact objectives.

Policy recommendation 11. We encourage all countries in particular to consider measures to promote and facilitate Green Investment (investment supporting green growth objectives and that creates green jobs), and to ensure that measures aimed at improving the environmental impact of investment do not constitute a barrier to cross-border business.

II. Annotations to the Policy Recommendations

This section provides short annotations explaining each of the recommendation listed in the previous section. The annotations are, principally, short extracts of the Background Reports listed in section III, highlighting the key findings.

A. Improving the business climate and the regulatory framework for foreign and domestic investment (Action Item 4)

1. A sound regulatory environment for investment

We encourage developing countries to make full use of policy tools and instruments designed to help governments put in place sound and healthy regulatory and legal environments for private investment, such as UNCTAD's Investment Policy Framework for Sustainable Development, the OECD's Policy Framework for Investment, and the World Bank's Doing Business Indicators.

Private sector investment, including domestic and foreign direct private investment, when operated in a responsible manner, can be a key driver of economic development, job creation and inclusive growth. Attracting and generating private sector investment requires that the general framework conditions, such as a sound legal and regulatory framework for domestic and foreign investment and efficient associated procedures, as well as a policy climate conducive to doing business, be in place. All policy recommendations that will be discussed in the subsequent sections, from attracting investment for job creation and sustainable development, to focusing investment attraction efforts on specific value-chain segments, to promoting responsible investment, to developing local enterprise in order to maximize the development impact of investment, can be successful only if the general framework conditions of a sound policy environment for investment have been put in place.

That policy environment for investment is subject to constant change. At the national level, governments continue to adopt investment policy measures (at a rate of around 150 annually over the past decade according to UNCTAD's monitoring of such measures), not to speak of countless measures taken every year that influence the overall business environment for investors. At the international level, more than two new investment agreements have been concluded every week for the past few years. At the level of "soft law", the universe of codes and standards that govern the behavior of corporate investors also continues to expand.

Over the last two decades, as more and more governments have come to realize the crucial role of private investment, including FDI, in fuelling economic growth and development, great strides have been made to improve both national and international investment policies. Very significant efforts have been made by governments in developing countries in particular, often aided by the international development community through policy frameworks, model treaties and technical assistance (such as the Investment Policy Reviews carried out by UNCTAD and OECD). A lot of experience has been gained and documented that now helps policymakers identify measures that work well, or less well, under what circumstances and in what context.

The organizations participating in the IAWG under the PIJC pillar have produced policy guidelines and frameworks to capture their experience and know-how, to provide guidance to policymakers on investment policy and the business climate, and to serve as a basis for capacity building work. Section III contains references to these documents, in particular UNCTAD's Investment Policy Framework for Sustainable Development, the OECD's Policy Framework for Investment, and the World Bank's Doing Business Reports.

2. Sustainable-development-friendly IIAs

We encourage all countries to consider policy options to strengthen the sustainable development dimension of international investment arrangements, in particular by concretizing home-country measures for the promotion of responsible investment in low-income countries.

International investment instruments are an integral part of investment policymaking that supports investment promotion objectives but that can also constrain investment and development policymaking. As a promotion tool, IIAs complement national rules and regulations by offering additional assurances to foreign investors concerning the protection of their investments and the stability, transparency and predictability of the national policy framework. As to the constraints, these could take many forms: they could limit options for developing countries in the formulation of development strategies if they go beyond a certain legal threshold; or they might hinder policymaking in general, including for sustainable development objectives, where investors could perceive new measures as unfavorable to their interests and resort to IIA-defined dispute settlement procedures outside the normal domestic legal process. However, sustainable development is nevertheless possible in the context of IIAs if policy expectations are communicated in a clear and transparent way to investors.

When considering the pros and cons of engaging in international investment agreements, policymakers should have a clear understanding of what IIAs can and cannot achieve.

- IIAs can, by adding an international dimension to investment protection and by fostering stability, predictability and transparency, reinforce investor confidence and thus promote investment. From an investor's perspective, IIAs essentially act as an insurance policy, especially important for investments in countries with unfavorable country-risk ratings.
- IIAs can promote investment in other ways beyond granting investor protection. Some IIAs include commitments on the part of home countries to promote outward investment or to engage in collaborative initiatives for this purpose (although this is currently a small minority of treaties).
- IIAs can help to build and advertise a more attractive investment climate. By establishing international commitments, they can foster good governance and facilitate or support domestic reforms.
- On the other hand, IIAs alone cannot turn a bad domestic investment climate into a good one and they cannot guarantee the inflow of foreign investment. There is no mono-causal link between the conclusion of an IIA and FDI inflows; IIAs play a complementary role among many determinants that drive

firms' investment decisions. Most importantly, IIAs cannot be a substitute for domestic policies and a sound national regulatory framework for investment.

Addressing sustainable development challenges through the detailed design of provisions in investment agreements could imply four areas of evolution in treaty-making practice. Such change could be promoted either by including new elements and clauses into IIAs, or by taking a fresh approach to existing, traditional elements. The first three areas relate to the general development-friendliness of IIAs, the fourth specifically to the aspect of investment promotion by home countries.

1. Balancing State commitments with investor obligations and promoting responsible investment.
2. Ensuring an appropriate balance between protection commitments and regulatory space for development.
3. Shielding host countries from unjustified liabilities and high procedural costs of investor-State arbitration.
4. Incorporating concrete commitments for developed home countries to promote and facilitate investment for sustainable development. Options to improve the investment promotion aspect of treaties include *concrete facilitation mechanisms* (information sharing, investor forums), *outward investment promotion schemes* (insurance and guarantees*), technical assistance and capacity building* initiatives targeted at responsible investment, supported by appropriate *institutional arrangements* for long-term cooperation.

UNCTAD’s Investment Policy Framework for Sustainable Development (see section III) contains specific policy options for treaty negotiators on each area of evolution. G20 countries should consider these options in their engagement on IIAs with developing countries, and especially with LICs.

B. Assisting developing countries to attract the most value adding investment to their economies (Action Item 2)

3. The jobs content of investment

We encourage governments to engage in efforts to increase the jobs content of investment and growth, in terms of both quantity and quality, including through ILO employment targeting methodologies, to meet the immediate and long term sustainable development challenges of the persisting jobs deficit aggravated by the crisis.

The challenge of productive employment creation is today arguably more daunting than ever, in both developing and developed countries. Faltering growth and structural weaknesses in many of the largest economies have undermined the prospects for a sustained and rapid global economic recovery. To make matters worse, the past few decades have been characterised by a secular trend of decreasing employment content of growth and increasing inequality. Overall, economic growth per se has become less and less efficient as a vehicle for generating productive employment and incomes from labour at the same time as the gap between the rich and the poor has widened.

Inclusive job-rich growth has never been the natural outcome of growth per se. It is rather the interplay of market forces and the role of the State in channelling those forces, and the outcome of policy initiatives affecting the supply and demand side of the labour market as well as the mechanisms matching job offers and requests. The same logic applies to investment. The indicator method developed by the IAWG for the G20 Development Working Group is based on the logic that targeting investment attraction efforts on specific value chains and value chain segments can yield better development value-added and job creation outcomes – provided the general framework conditions are in place (recommendation 1).

The indicator methodology is the subject of recommendation 4. This recommendation highlights policy options to improve the jobs content of investment and growth policies in general, beyond investment targeting policies. In particular, the ILO provides support to developing countries to build analytical capacity to evaluate the primacy of productive employment as the central vehicle for pro-poor growth in a sound and integrated manner, rather than piecemeal way. The generation of this analytical capacity will increase the quality of the policymaking process by governments and social partners on how best to enhance the productive employment content in the context of their own national development planning and strategies for poverty reduction.

The ILO provides a user-friendly methodology for employment diagnostics that can be used to underpin national employment policies and development strategies. Employment targets are introduced as key features in national development strategies.

The most important role of employment diagnostics is as an instrument for the broad-based charting and understanding of the country specific 'landscape of employment and economic development'; for a first diagnosis of where the main constraints, challenges and opportunities for enhancing inclusive job-rich growth are to be found. Through a well-structured process of deduction and elimination it aims to identify the issues that require priority attention in order to enhance productive employment and to reach established employment targets. A related important role is as an aid to narrowing down the focus for any further in-depth analysis (e.g. through the investment-impact indicator approach, recommendation 4) and providing a context specific basis for subsequent thematic analysis. It precedes, provides the basis for and needs to be complemented by, forward looking analyses and development policies aimed at guiding structural change – including through the targeted attraction of investment – onto a path of inclusive and sustainable job-rich growth.

4. Indicators for investment that adds value and creates jobs

We encourage governments to make use of the indicator framework developed by the IAWG and endorsed by the G20 HLDWG with a view to attracting private investment that generates more value added and creates more jobs, and in order to maximize the development impact of government programs aimed at encouraging such investment in particular value chains.

Provided a sound general policy framework for investment is in place (recommendation 1), developing-country governments, working in collaboration with the private sector itself and with development partners, can maximize economic value-added and job creation from private sector investment by establishing priorities and focusing scarce resources on specific industries, value chains or segments of value chains – where applicable informed also by employment targets (recommendation 3). The indicator framework developed by the Inter-Agency Working Group and endorsed by the G20 High-Level Development Working Group aims to inform this process. The detailed methodology for the framework is included in section III of this report.

In applying this indicator framework, governments need to take into consideration the various externalities (both positive and negative) that often accompany private sector investment. These cannot be easily quantified but nonetheless can strongly influence the ultimate development impact of private investment.

This indicator framework (see table 1 below and section III) has been developed as a flexible policy tool – building on a range of instruments already available to countries such as UNCTAD's Investment Policy Reviews, the OECD's Policy Framework for Investment reports, the World Bank's Doing Business Indicators, FIAS' regulatory reform and investment generation services, UNIDO's work on value chains for development – that developing countries can customize and put to use to promote their specific development goals and aspirations. The indicator framework can also serve as the basis for efforts by international organisations and donors, in their co-operation with each other and with their partners in developing countries.

The indicators can measure the economic value added, job creation and sustainable development impact of investment in two closely related ways:

- Assessing the contribution of existing investment to development (as such, the indicators can also be used to monitor and evaluate investments);
- Estimating the potential contribution to development of future investments in particular areas, to inform the process of attracting and negotiating the most value-adding investments

Table 1. Summary of Investment-Impact Indicators

Area	Indicators
Economic Value Added	1. Total value added
	2. Value of capital formation
	3. Total and net export generation
	4. Number of formal business entities
	5. Total fiscal revenues
Job creation	6. Employment (number)
	7. Wages
	8. Typologies of employee skill levels
Sustainable development	9. Labour impact indicators
	10. Social impact indicators
	11. Environmental impact indicators
	12. Development impact indicators

The indicators are not intended as a one-size-fits-all framework. Different indicators will have greater relevance for different countries depending upon the development context and the objectives being pursued. For example, at very early stages of development, pure GDP contribution and job creation may be more relevant; at more advanced stages, quality of employment and technology contributions may gain relevance. There may be many other potential indicators, some of which will be more relevant in certain contexts. Many of the development, social and environmental implications and impacts of private investment cannot be measured easily through simple quantitative indicators; this limitation to the indicator approach needs to be taken into consideration and mechanical application of the indicators for policy formulation should be avoided.

Piloting of the indicator framework through country case studies (in the Dominican Republic, Mongolia, Bangladesh, Laos, Cambodia and Mozambique) along selected value chains (see country pilot reports in section III) has confirmed that governments can use the framework practically, with a view to attracting more jobs and maximising value added in targeted value chains/value chain segments. The pilot studies show that the framework is best used flexibly to gain the most from its application. That is because not all governments have access to the same resources and tools.

Linked to this issue, in some countries the information available from local statistical sources is not fully adequate. In conducting the pilot studies, these deficiencies were addressed by finding a number of solutions, e.g.:

- Establishing proxies for some indicators (including making use of existing data to establish alternative measures).
- Generating the relevant data, e.g. by fieldwork (the methodology for which can then be taken on by local agencies for future use).
- Making use of comparators, e.g. analyses of other countries in the same value chains.
- Benchmarking more generally against other countries.

This learning entailed in the process of establishing valid and reliable indicators is more generally applicable, for instance to other countries in similar circumstances.

In addition to demonstrating that the indicators framework is applicable across a wide variety of developing countries – from LICs to middle-income economies, from resource poor to resource rich countries – and value chains (e.g. agribusiness, garments, service outsourcing and tourism), the pilots were also valuable because:

- They showed the absolute value of a systematic approach to targeting investment. In a number of countries the indicator framework was the first use of an economy-wide systematic process in this respect. Some countries had previously applied similar analyses, but these varied across value chains (and were not always systematic), thereby producing less rigorous or reliable results.
- Partly because of the above situation, a clear and careful application of the indicators framework can yield new insights which can bolster and nuance industrial and investment plans. The indicator approach can also yield new insights for other strategic policymaking processes, such as on Human Resource Development, as shown in the joint pilot study with the HRD pillar of the MYAP in Bangladesh.
- Finally, the piloting confirmed that insights gleaned from applying the indicators approach can be readily transformed into recommendations, as well

as achievable action plans, essentially because of the way the tool has been framed. In particular, the approach lends itself to identifying the specific pre-requisites necessary for implementing successful investment targeting; and thereby framing the policies to put in place.

For the international community, including the G20, there are a number of further considerations. Having developed with these indicators a policy tool to assist developing countries to attract and negotiate value-adding investment to their economies, more work can be done to strengthen the tool and its application. This implies capacity building work to increase the absorptive capacity of low-income countries and to promote the use of the indicator framework and associated policy tools. This could take the form of, e.g.:

- technical assistance (e.g. to support private sector and market development in general, and in particular supporting the process of building competitiveness, enterprise development and enhance productive capacity in targeted sectors or value chains);
- investment policy reviews;
- exchanges of best policy practices;
- fostering of linkages between foreign investors and domestic enterprises;
- advisory services on streamlining of investment facilitation;
- advisory services on improvement of governance in investment promotion.

These capacity building efforts are the subject of recommendation 5.

5. Capacity building on investment policy

We encourage international organizations and G20 governments to continue their capacity building efforts in the area of investment policy, and to integrate the methodologies and insights generated in the work under this pillar in their technical assistance work on investment, with a view to helping developing countries attract more value adding investment with a high jobs content both in quantitative and qualitative terms, in addition to helping them improve the general investment climate.

There is growing demand from developing countries for advice on investment policy. Investment Policy Reviews (IPRs), as carried out by UNCTAD and OECD aim to provide an independent and objective evaluation of the policy, regulatory and institutional environment for investment – with a focus on FDI – and to propose customized recommendations to governments to attract and benefit from increased flows of FDI.

IPR activities are generally coordinated with the work of other development partners (including other UN agencies such as the UNDP and UNIDO, the World Bank, national and regional development banks, local development institutions and NGOs) in order to create synergies.

Substantively, key areas of recommendations common to nearly all IPRs include: (i) Defining the strategic role of investment (and in particular FDI) in countries' development strategies; (ii) Reforming investment laws and regulations; (iii)

Designing policies and measures for attracting and benefiting from FDI; and (iv) Addressing institutional issues related to FDI promotion and facilitation.

A number of case-specific areas for recommendations or themes have included privatizations, the promotion of investment in target industries, promotion and facilitation of infrastructure investment, private sector development initiatives and business linkages, skill building and technology transfer, and regional cooperation initiatives.

Both UNCTAD and OECD aim to further strengthen their IPR approach with the inclusion of sections on specific priority industries, containing a quantitative assessment of the potential for investment in those industries and the potential development impact of investment through the indicators of value added and employment generation, developed for the G20 Development Working Group, with a view to helping governments attract and negotiate higher value added types of investment with a high jobs content both in quantitative and qualitative terms.

As a first step, UNCTAD has conducted a capacity building workshop in Singapore, with the participation of high-level officials from countries involved in the indicator pilot studies. The workshop was well received, for introducing policymakers to the logic of the framework and the intricacies of its application, as well as cross-learning possibilities between countries. Similar workshops can be seen as a useful basis for kick-starting a technical assistance programme. However, these need to be followed by longer programmes, fully tailored and dedicated for individual countries and the relevant value chains.

C. Promoting responsible investment in value chains (Action Item 1)

6. Best existing standards for responsible investment

We encourage all countries to promote the best existing standards for responsible investment in value chains as expressed in the United Nations Guiding Principles on Business and Human Rights, the ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the OECD Guidelines for Multinational Enterprises.

In the G20's Multi-Year Action Plan for Development, the IAWG was asked to examine *existing standards* of sustainable business conduct, commonly known as 'corporate social responsibility' (CSR) standards. It was asked to examine these standards and their applicability to *investment in value chains*, which clarifies the concept of business conduct specifically to include the integrated international production networks of firms. This implies that particular attention be paid to the development, social and environmental impacts of the cross-border involvement of firms, both with a view to addressing concerns related to those impacts, and because transnational corporations are a major conduit for the spread of social, environmental and governance standards.

In response to this request, the IAWG provided a detailed report for the Cannes Summit in November 2011, included in section III of this report. The report on "Promoting standards for responsible investment in value chains" took stock of existing standards at several levels: i) intergovernmental organization (IO) standards derived from universal principles as recognized in international declarations and agreements; ii) multi-stakeholder initiative (MSI) standards; iii) industry association codes; and iv) individual company codes.

The report examined a number of challenges with respect to standards, including:

- Differences, overlaps and inconsistencies between standards;
- Relationship between voluntary CSR standards and national legislation;
- Reporting issues;
- Market penetration; and
- Possible trade and investment barriers.

Many of these issues and challenges refer specifically to *voluntary* standards (the subject of recommendation 7). The report concludes that the standards developed by intergovernmental organizations – both normative instruments such as the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and the OECD's Guidelines for Multinational Enterprises, and international initiatives such as the UN's Global Compact, as well as the United Nations Guiding Principles on Business and Human Rights (finalized after the submission of the Cannes Report) – have the broadest consensus base and merit support from G20 members to promote implementation and compliance.

7. Voluntary standards

We encourage Governments actively to promote adoption of and compliance with voluntary standards for responsible investment, while ensuring that such standards do not impede private investment or cross-border business.

With respect to voluntary standards, the report on "Promoting standards for responsible investment in value chains", endorsed by the G20 DWG in September 2011, suggested a number of good practices in standard setting and implementation. In the area of standards setting it emphasized the key principles of *inclusiveness* and *specificity of guidance.* In the area of compliance, it stressed the need for *capacity building,* for solid *compliance promotion mechanisms,* and for *interoperability between standards.*

The report suggests that governments can complement existing public policy instruments by integrating CSR standards into the architecture of investment and enterprise governance, in order to strengthen promotion of CSR standards, and improve investor and enterprise compliance with these standards, as a means towards the overarching goals of promoting sustainable development and corporate compliance with national laws and international agreements. To support continuous development and best practices, governments need to ensure the existence of a coherent policy and institutional framework that permits and encourages socially and environmentally responsible behaviour. They also need to guard against unintended consequences, which are more likely in the realm of CSR, where very little quantitative research exists on the impacts of potentially costly methods of implementation or on the potential of standards to act as barriers to trade or investment.

The report suggests a number of specific policy approaches:

- Governments can facilitate and promote standard development in industries or for issues where specific standards do not exist.
- Governments can actively promote adoption and compliance with existing standards, through:
  - Government purchasing criteria
  - Stock exchange listing rules
  - Capacity building
  - Regulatory initiatives
  - Investment and trade promotion

The report also contained suggestions for the promotion of existing standards in the international policy arena, including strengthening the compliance promotion mechanisms of the standards of existing international organization or through the incorporation of the key principles of commonly accepted standards in international investment agreements (see also recommendation 2).

8. International cooperation on responsible investment

We encourage the intergovernmental organizations to continue their cooperation and collaboration in support of more responsible investment that supports the economic, social, and environmental objectives of developing countries.

An international push for corporate responsibility is gaining momentum. It is based on a broadly shared view that corporate responsibility is no longer only a matter of voluntary goodwill but, at the very least, a duty not to cause harm and to actively contribute to the economic, environmental and social progress of host economies.

2011 saw the successful update of the OECD Guidelines and the unanimous endorsement by the UN Human Rights Council of the Guiding Principles for Business and Human Rights developed by the Special Representative of the Secretary General. The International Finance Corporation updated its Sustainability Framework. The ISO 26000 standard on corporate social responsibility was adopted.

These developments represent an unprecedented moment of international convergence: convergence in the baseline standards for how businesses should understand and address the social risks of their operations; and, convergence in the understanding of how governments should support and promote such responsible business practices.

The result is a move towards much clearer and more predictable standards that empower enterprises with the necessary processes to meet their social responsibilities and empower stakeholders to hold them to account against reasonable expectations. The cooperative effort between the numerous international organizations active in this area that is making this convergence possible should continue.

D. Stimulating investment in local enterprise development (Action Items 3 and 4)

Policies to stimulate investment in local enterprise development, including by boosting access to finance for SMEs, promoting entrepreneurship and supporting innovative business solutions that meet the needs of the poor in a sustainable way.

9. SME and Entrepreneurship policies

We encourage developing countries to make full use of existing policy tools and programs designed to help governments put in place sound SME and entrepreneurship development policies, such as UNCTAD's Entrepreneurship Policy Framework, the OECD/UNIDO Effective Policies for Small Businesses Guide, and the ILO's initiatives and tools to support SMEs and promote entrepreneurship.

Entrepreneurship is a vital component of economic growth and development. The creation of new business entities not only generates value added, fiscal revenues, employment and innovation, but is an essential ingredient for the development of a vibrant small- and medium-sized business sector – the core of most competitive economies. It has the potential to contribute to specific sustainable development objectives, such as the employment of women, young people or disadvantaged groups. Growth-oriented entrepreneurs can also contribute to structural transformation and building new industries, including the development of eco-friendly economic activities. Entrepreneurship development and the development of a strong domestic enterprise base is also fundamental for the benefits of foreign direct investment – including value added and job creation – to fully materialize through local linkages.

Many countries do not have a dedicated 'national entrepreneurship strategy'. The promotion and facilitation of new enterprise is often – implicitly or explicitly – part of an overall private sector or enterprise development strategy that encompasses broader objectives related to the creation of productive capacity, including regulatory reform, infrastructure development, human resource and skills development, or small and medium size enterprises (SME) policies.

Policymakers have at their disposal a large body of existing research and policy guidance (including from the international organizations collaborating in the IAWG) to help them devise such broader national policies and to create a general business environment conducive to enterprise development. There is a need for policy guidance that focuses specifically on policies aimed at promoting the emergence of new entrepreneurs and facilitating new business start-ups in developing countries.

There is a lot of evidence that the promotion of micro and small enterprises in the informal economy with low capital stock and high entrepreneurial potential offers good prospects for employment and income generation (e.g. research project "Unlocking potential: Tackling economic, institutional and social constraints of informal entrepreneurship in Sub-Saharan Africa" funded by the Austrian, German, Norwegian, Korean and Swiss Government through the World Bank's Multi-Donor Trust Fund: "Labor Markets, Job Creation, and Economic Growth"). It is important to take into consideration the specific situation of actors in the informal economy when designing and implementing sound SME and entrepreneurship development policies.

Entrepreneurship policy cannot, of course, be treated entirely separately from broader economic development policies. Coordination and coherence are essential in order to achieve a positive impact, to benefit from the synergies of these policies, and to maximize the economic and social growth they can provide. This requires a "whole of government" approach with strong commitment at top ministerial level and coordination across ministries, in partnership with the private sector and other civil society stakeholders, including academia, NGOs, and community organizations. In an effective entrepreneurial ecosystem, multiple stakeholders contribute to facilitating entrepreneurship. It is a system of mutually beneficial and self sustaining relationships involving institutions, people and processes that work together with the goal of creating entrepreneurial and innovative ventures. It includes business (large and small firms as well as entrepreneurs), policy-makers (at the international, national, regional and local levels), educational institutions (primary, secondary and higher education), social networks and other civil society actors.

A valuable tool for policymakers aiming to build effective entrepreneurship development policies and institutions is UNCTAD's Entrepreneurship Policy Framework (EPF) (see section III). This framework recognizes that in designing entrepreneurship policy 'one size does not fit all'. It highlights the key policy areas to take into account and suggests policy objectives and options in the form of recommended actions in each area. Although the national economic and social context and the specific development challenges faced by a country will largely determine the overall approach to entrepreneurship development, the EPF highlights six priority areas for policy focus that have a direct impact on entrepreneurial activity. These are: (1) formulating national entrepreneurship strategy; (2) optimizing the regulatory environment; (3) enhancing entrepreneurship education and skills; (4) facilitating technology exchange and innovation; (5) improving access to finance; and (6) promoting awareness and networking.

10. Inclusive and sustainable business

We encourage all countries to promote and facilitate investment in inclusive and sustainable businesses, by removing regulatory hurdles to such investment, and by actively supporting investment with inclusive and sustainable development impact objectives.

The "G20 Challenge on Inclusive Business Innovation" sought to recognize businesses with innovative, scalable or replicable and commercially viable ways of working with low-income people in developing countries. The winners of the challenge demonstrate the potential contribution of the private sector to development through inclusive business. By integrating the base of the pyramid through the value chain, inclusive business models help turn underserved populations into dynamic market players and provide them with access to basic goods, services and livelihood opportunities.

Inclusive business models are increasingly becoming an area of interest and strategic focus for development finance institutions, donors and governments because they provide innovative business solutions that meet the needs of the poor in a sustainable way.

The policy note on the business environment for inclusive business models, prepared by IFC under action item 3 of the PIJC pillar (see section III), includes a number of recommendations on how governments, development (finance) institutions and donors can support inclusive business models, with a particular focus on specific policy measures to enable a more conducive business environment for inclusive business:

- Government support to inclusive business models should be directed towards public goods and investments in infrastructure is needed. In some instances more active support is needed but this support should be targeted and minimize potential market distortions.
- Governments can improve the general business environment (see recommendation 1) through regulatory reform, reducing red tape for domestic businesses, actively engaging in public-private dialogue. Part of improving the general business environment may involve rethinking policies that are well intended but may unintentionally stifle the innovation that is often required in inclusive business models.
- Governments can review sector-specific hurdles to inclusive business models and learn from the experience of other countries that have introduced incentives to support inclusive business models.
- In countries where businesses lack market information on the base of the pyramid (hereafter "BOP"), governments can collect and disseminate reliable data and statistics. Governments can set research priorities to provide data and insights on market needs which can lead to more companies entering base of the pyramid or expand the opportunities for companies that are already working in these markets.
- Special attention may be warranted to measures which may increase access to finance throughout the value chain, because from G20 Challenge applicants suggest this is a priority area.

Development finance institutions, international organizations and donors can support inclusive business models and the policy environment for these models in a number of ways:

- By using their global or regional knowledge to facilitate knowledge transfer and share ‘good practices’ on inclusive business models and how they have reached scale.
- By assisting partner governments on creating and implementing a policy framework that is conducive to inclusive business- based on reviewing policy measures in other countries which may be adapted to different country contexts.
- By serving as conveners to coordinate and bring relevant private, public and appropriate non-governmental partners together to foster value chain development for inclusive business models
- By providing capacity building to ensure inclusive business models are commercially viable, environmentally and socially sustainable and replicable. Donors can provide capacity building through technical assistance or grant funding, including matching grants.
- By financially supporting pilot initiatives in companies with an inclusive business model, donors can extend their support to companies that are commercially viable and that show a potential to reach the BOP in a sustainable way.
- By financing commercially viable companies with an inclusive business model, as they reach scale, through loans or equity from development finance institutions.

11. Green investment promotion

We encourage all countries in particular to consider measures to promote and facilitate Green Investment (investment supporting inclusive green growth objectives and that creates green jobs), and to ensure that measures aimed at improving the environmental impact of investment do not constitute a barrier to cross-border business.

Inclusive green growth – environmentally sustainable economic growth and development – is a key priority for the global economy. As private investment is one of the principal engines of economic growth and development, its role in stimulating green growth is indispensable.

Green investment, in a narrow sense, is investment in activities specifically aimed at improving the environmental footprint of an economy or of an economic activity, e.g. in renewable energy, environmentally friendly waste management, or sustainable forestry. In a broader sense, green investment includes investment in technologies, processes or products that in their use or operation generate a more benign environmental impact than would be the case under 'business-as-usual' circumstances.

Promoting green investment, from a *national* policy perspective, requires specific strategies, policies, and initiatives beyond those aimed at attracting investment in general. In developing countries, in particular, it requires mainstreaming foreign investment policies into green development strategies – to provide much needed capital and technology inputs. It requires the creation of an enabling policy framework and targeted investment promotion methods. It benefits from initiatives to build on green business opportunities. And it means building an effective interface for green technology dissemination, promoting domestic investment, creating linkages with local businesses, and boosting absorptive capacities. From an *international* perspective, policies to promote green investment could include targeted green investment promotion measures of home countries or supported by the international community, and policy initiatives such as harmonization of (e.g. emissions) disclosure.

The G20 Development Working Group could set itself an ambitious objective to promote green investment in LICs, through a two-pronged approach:

- Development of a structured approach to help LICs formulate strategies for Green Investment Promotion for Sustainable and Inclusive Development. Conceptualization could largely be based on the existing stock of research, good-practice experience, and policy recommendations on Green Investment and Green Jobs of the agencies involved in the work on private investment and job creation.
- A package of Technical Assistance to developing countries, and in particular LICs, focused on the design and successful implementation of strategies, policies and initiatives to promote Green Investment and create Green Jobs. Delivery would be a long-term commitment for consideration in the G20 DWG.

III. Annex: Background Reports and Resources

This section provides links to the reports upon which the policy recommendations in the previous section are based (the deliverable of individual action items of the pillar), as well as references to existing work of the agencies involved in the IAWG to which specific reference is made in the recommendations.

Background Reports (deliverables of individual action items of the PIJC pillar)

1) Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains.

2) Country Pilot Studies on Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains.

- Dominican Republic
- Bangladesh
- Mongolia
- Cambodia
- Laos
- Mozambique

3) Promoting standards for responsible investment in value chains.

The above Background Reports can be found on www.unctad.org/DIAE/G20.

4) Policy Note on the Business Environment for Inclusive Business Models.

This Background Report can be found on www.ifc.org/inclusivebusiness.

Further Resources

Key tools for policymakers referred to in the Recommendations include:

1) UNCTAD's Investment Policy Framework for Sustainable Development (www.unctad.org/IPFSD).

2) UNCTAD's Entrepreneurship Policy Framework (www.unctad.org/EPF).

3) The OECD's Policy Framework for Investment (www.oecd.org/PFI).

4) The OECD Guidelines for Multinational Enterprises (www.oecd.org/Guidelines).

5) The World Bank Doing Business Indicators (www.worldbank.org/DB). (The ILO notes reservations against the use of the Employing Workers Index, a component of the Doing Business Indicators. For references about the debate on this index: www.ilo.org.)

6) ILO Employment Targeting methods (www.ilo.org/empelm/areas/employment-targeting).

7) The OECD/UNIDO Effective Policies for Small Businesses Guide (www.unido.org).