A Framework for Constructive Capital: Investment, Integrity, Impact

Oxford Analytica Foundation Contributors

Project Manager:

Catherine L. Young
Director, Oxford Analytica Foundation

Lead Author:

Dr. Isabella D. Bunn
Senior Advisor, Oxford Analytica Foundation
Member, Oxford Analytica International Advisory Council
Research Fellow in Governance and Global Ethics, University of Oxford

Expert Contributors:

Prof. Don De Amicis
Professor of Law, Georgetown University Law Center
Co-Director, Center on Transnational Business and the Law
Former Vice President and General Counsel, Overseas Private Investment Corporation

Bennett Freeman
Principal, Bennett Freeman Associates; Associate Fellow, Chatham House
Former Senior Vice-President for Sustainability Research and Policy, Calvert Investments
Former Deputy Assistant Secretary for Democracy, Human Rights and Labor, US Department of State

Hung Tran
Senior Fellow, Atlantic Council GeoEconomic Center
Former Executive Managing Director, Institute of International Finance
Former Deputy Director, Monetary and Capital Markets Department, International Monetary Fund

Margaret Wachenfeld
Managing Director, Themis Research
Senior Research Fellow, Institute for Human Rights and Business
Former Senior Advisor to UNICEF and the International Finance Corporation

Center for International Private Enterprise Contributors

Kim Eric Bettcher
Director, Policy and Program Learning

Frank Brown
Director, Anti-Corruption & Governance Center

Eric Hontz
Director, Center for Accountable Investment

Anna Kompanek
Director, Global Programs

Ritika Singh
Program Officer, Global Programs

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Part Three: Bridging the Governance Gaps – Investment, Integrity, and Impact

The Framework for Constructive Capital must continually respond to the dynamic interconnections between investment, integrity, and impact.

The Introduction described both the negative impacts of Corrosive Capital and the positive impacts of Constructive Capital. This contrast brings into focus the question of governance gaps. Institutional issues may involve inadequate procurement procedures, lack of transparency and oversight, failures in regulatory enforcement, and deficiencies in judicial processes. How can investment become less corrosive and more constructive? How are multi-level integrity mechanisms implemented and enforced? How might innovative approaches to impact assessment in the public and private sectors help inform policies and enhance outcomes?

I. Investment: Private Capital Flows to Developing Countries

A. Overview

Since the 1980s, capital flows to emerging market and developing countries (EMDCs) have been primarily driven by the private sector, rather than being reliant on the official sector as they had in the past.56 As a result, private capital flows have become the key channel to invest savings from developed countries to emerging and frontier markets. The motivation behind this phenomenon is straightforward. Industrialized countries tend to be capital intensive and their marginal return on capital, on balance, is lower than that in capital-deficient countries. Investors from developed countries can therefore expect to reap better returns on their investments in emerging economies, while helping these countries grow. Indeed, many studies have shown that foreign capital flows can help close the saving-investment gap in EMDCs, supporting their development efforts.57 Moreover, there is significant potential for increased capital flows from developed to developing countries.

Behind these positive trends, however, different types of private capital flows have exerted different effects in the recipient countries, some positive but some negative. Capital flows can broadly be divided into foreign direct investment (FDI) or foreign portfolio investment (FPI). FDI involves an investor or group of investors from one or more countries buying a share of an enterprise in another country, or buying the enterprise outright, in order to establish a significant degree of influence over the enterprise for a prolonged period. FPI involves an investor or a group of investors buying into the financial assets of another country. This may be through buying shares in stock-market listed firms with the expectation that they rise in value, lending to private firms, or buying bonds issued by the government or private firms in exchange for a fixed return in future.

Some forms of capital flows can be constructive, helping to industrialize the recipient countries, develop their business practices, and advance their overall governance and economic institutions. FDI tends to be “stickier” than FPI, as it often represents a long-term investment in a country’s key sectors or enterprises. If appropriately designed, it will create jobs and develop supporting services in the local area. Other forms of capital flows can be corrosive, having weakened the necessary institutions for effective government. FPI is easier to withdraw and can sometimes increase indebtedness without bolstering local firms and communities. Various academic studies have found a positive relationship between FDI and economic development in EMDCs, as well as a negative relationship between FPI and economic development. It is important to gain a deeper understanding of the impact of transborder capital flows in order to consider appropriate public policy responses.
B. Corrosive Capital

Corrosive capital is often characterized by volatility and lack of transparency. Moreover, the problem of elite capture – whereby the investment narrowly benefits the upper echelons of a country’s population – may exacerbate economic and social inequalities.

FPI behaves in a pro-cyclical and volatile manner. In the upswing phase, portfolio capital pours into EMDCs, to be followed by a sudden stop that also precipitates capital outflows. Domestic authorities have found it difficult to deal with this “boom and bust” pattern of portfolio capital flows. In the inflow phase, cutting interest rates to reduce the attractiveness of capital inflows can further stimulate the economic upswing. This may increase the risk of asset price-bubbles forming, and then potentially deflating very suddenly if a country’s circumstances deteriorate. In the outflow phase, raising interest rates to encourage investors to maintain their investments can exacerbate an economic downturn. Thus, some research points to a negative relationship between FPI and economic growth.58

The lack of transparency in some types of capital inflows presents another intractable problem. There is a legitimate reason to preserve confidentiality in financial transactions among private actors. However, when the borrowers are sovereign countries, or their official bodies, the lack of disclosure and transparency can create an environment that facilitates malfeasance. At its worst, undisclosed foreign borrowing can abet corruption by local officials. It can lead to ill-conceived and wasteful investment projects which increase the country’s indebtedness but not its capacity to repay the debt. Without adequate disclosure and transparency, a country’s debt can build up. Within international financial markets, if anxieties mount regarding the ability of a country to repay its debts, investors will expect a higher return. Such pressure may lead to a rise in market interest rates, posing a risk of a collapse in investor confidence. This may even create a debt crisis within the country, placing burdens on growth prospects and on future generations.

The current concern about the lack of transparency in foreign lending to EMDCs is largely due to practices by China and other authoritarian states. In the past two decades or so, China has significantly increased its financing to EMDCs, estimated to total $1.5 trillion to 150 countries around the globe.59 Much of the financing – but not all – has been channelled through the Belt and Road Initiative (BRI) launched in 2013.60 Despite China’s being the world’s largest creditor to EMDCs, there is insufficient transparency regarding its various lending entities, as well as the amounts of the loans, their intended purposes, and the terms and conditions.61 The lack of transparency has given rise to concerns about the potential for misuse of the loans by local officials, including for wasteful investments which leave the country highly indebted without the new productive capacity to service the debt.62 Countries that have been unable to pay the debt (including Sri Lanka, Djibouti, and others63) were obliged to turn ownership or control of their ports to Chinese state-owned creditors. Moreover, debt restructuring procedures remain complicated and many low-income countries are wary of the resulting reputational damage. Finally, the lack of distinction between official lending, for instance by China’s Export-Import Bank (which participates in the Paris Club of official bilateral lenders) and state-owned lenders like China Development Bank (which considers itself as part of the private sector) can be problematic. For example, this has impacted official debt suspension procedures for low-income countries that were intended to alleviate pandemic-related financial pressures.64

C. Constructive Capital

Capital flows can be corrosive or constructive depending on their institutional and normative frameworks – both with respect to where they originate and to where they are directed. Two examples of Constructive Capital are set forth here, one regarding FDI and a second regarding investment in infrastructure.
The first example relates to stable long-term capital flows as typified by market-driven and transparent FDI. FDI flows are comparable in volume to portfolio flows but are much more stable. Notably, they largely avoid the boom-and-bust cycles. FDI investors typically commit their capital for the long term, helping to transfer production, management, and marketing skills to the recipient companies to make them profitable. In the process, FDI helps to develop the corporate sector of the recipient countries, including the legal and regulatory environment for companies. One such example is the role of FDI in helping to shape the democratic and market transition of Central and Eastern Europe after the collapse of the Soviet Union. Many studies have confirmed the positive relationship between FDI flows and economic development in EMDCs. The second example pertains to infrastructure investment in EMDCs, which can enhance economic growth and other conditions conducive to Constructive Capital. However, there are serious shortfalls in such funding. If unaddressed, these may exacerbate the risk of Corrosive Capital. The OECD provides estimates of the annual infrastructure investment needs of developing countries. The billions of dollars of actual investment from the public sector, complemented by that from the private sector, still leave an infrastructure investment gap of about 50 percent per year. Going forward, public funding for infrastructure investment is unlikely to increase significantly – especially given post-COVID budgetary constraints, exacerbated by growing demands for domestic social and healthcare expenditures. Likewise, due to capacity and exposure issues on infrastructure projects, private sector investment is likely to remain insufficient. Such a situation may increase the pressure on EMDCs to turn to sources of capital that could prove to be corrosive, thereby undermining the Cornerstones of Constructive Capital.

D. Policy Measures to Encourage Constructive Capital

Defensive policies, trying to stop the worst outcome, might not stem the risk of Corrosive Capital. Offensive policies, trying to promote the best outcome, may create a better overall environment for investment. The discouragement of Corrosive Capital is primarily about government policy, with private sector input where applicable. In contrast, the encouragement of Constructive Capital comes predominantly from the private sector through professional management and building trust among businesses. This includes the important role of independent chambers of commerce and business associations.

Bearing in mind the public/private sector distinction, there are certain policy measures that governments can undertake to simultaneously discourage Corrosive Capital and encourage Constructive Capital. These are included here by way of illustration, rather than recommendation. Such efforts are indicative of ways to bridge the governance gaps, notably through enhanced procedures, transparency, and accountability. They also suggest potential competitive advantages in attracting cross-border investment.

First and foremost are measures to promote disclosures and transparency in international financial transactions, especially bank and company lending to EMDCs. Only a few of the Low-Income Countries (LICs) meet World Bank requirements for debt reporting and evaluation. Only one-third of the developing countries eligible for concessional lending from the International Development Association (IDA) provide reports on private sector external debt statistics. More generally, most EMDCs fall short in ensuring that institutions adequately separate borrowing decisions from political pressures, as specified in the World Bank requirements for debt administration, legal framework, and auditing practices.

In particular, the governments of all countries, but especially of EMDCs, should be required to disclose all their debt to the IMF in their regular Article IV consultations, and certainly when countries negotiate with the IMF for assistance programs. In addition, governments should be encouraged to properly disclose financing arrangements to their own citizens. Enhanced transparency can help national legislatures, civil
society organizations and the wider public to engage with governments on questions of financial management. Such monitoring may help reduce corruption and the misspending of public funds, while also strengthening the rule of law and good governance.

A second policy response is to recalibrate regulations to encourage long-term investment rather than ultra-short-term transactions. Indeed, fiscal regulations in many countries already tax long-term capital gains at lower rates than short-term capital gains. However, prudential regulations for financial institutions such as banks, life insurance companies and pension funds have a bias against long-term holding of assets which are subject to higher capital charges compared with shorter-term ones. This regulatory approach should be adjusted to encourage long-term investment, but in a way that does not compromise institutional issues regarding disclosure standards, risk management and valuation of long-term assets.

A third policy response relates to the development of legal, regulatory, and institutional frameworks that support business activities as well as effective economic policy implementation in developing countries. This approach reinforces CIPE’s key objectives in emerging markets, and also offers a significant opportunity for government leadership in promoting Constructive Capital. For example, demonstrated competency in maintaining a strong rule of law environment for businesses is a key asset in the competition to attract FDI flows – the most stable and beneficial form of capital to developing countries. Such an effort must be grounded in inclusive policymaking and involve public-private dialogue with the local business community. Overall, such a strategy could help promote the modernization and efficiency of the economy.

Finally, efforts should be made to improve public-private partnership (PPP) schemes and broader investment programs to make them more useful to a range of international investors. In seeking to leverage participation in infrastructure projects in developing countries, diligence is required with respect to role of state-owned enterprises. The World Bank has identified three steps that countries, especially EMDCs, can take to create the conditions for successful PPPs. First, making a clear political commitment to promote and support a PPP effort to mobilize private sector investment in infrastructure. Second, improving and clarifying processes to expedite the preparation and execution of PPP projects. Third, forming dedicated PPP project teams to interact with private sector companies in negotiating, planning, and managing PPP contracts and projects. By advancing in these three areas, EMDCs can gain a competitive advantage in attracting international private investors to their PPP projects and enhance the conditions for Constructive Capital.

II. Integrity: Anti-Corruption Norms, Institutions, and Accountability Mechanisms

A. Overview

Within a consideration of Constructive Capital, integrity depends upon an ecosystem that minimizes corruption. This will improve business efficiency and spur economic and investment opportunities by (1) reducing the legal risks and costs to business, both in the host country and the business’ home country, (2) allowing business to compete and operate in a market without the burdens and costs of acting corruptly, and (3) permitting business to compete fairly in public procurements of goods, services, and infrastructure projects.

This Section briefly describes the normative and institutional frameworks, as well as the accountability mechanisms, which are essential to creating an anti-corruption ecosystem. This involves both the public and private sectors. Such frameworks operate at international, national, and sub-national levels, and consider both the demand-side and the supply-side of corruption. Of particular relevance to businesses are national anti-corruption laws with extraterritorial reach. Here, it should be noted that the concept of
Corrosive Capital does not extend to illicit financial flows related to money-laundering, drug trafficking or terrorist financing as such. However, corruption can be enabled by systems that facilitate illicit financial flows.

The Framework for Constructive Capital can help address the problem of corruption in several ways. Corruption in a host country presents a risk to the safety of an investment. All capital investment decisions require an assessment of risk and return, both by the capital provider and the host country. While investors have a range of risk tolerances, most will need a reasonable level of confidence that their investment will be able to generate returns and be protected. The Cornerstones of Constructive Capital – including positive peace, rule of law, and accountable institutions – can bolster that confidence. Indeed, the consequences of corruption can significantly undermine all six Cornerstones. Effective integrity strategies are designed to continually identify and remedy a range of governance gaps. Moreover, they increasingly rely on multi-stakeholder approaches to implementation, as well as impact assessments.

B. Anti-Corruption Norms and Institutional Frameworks

Numerous normative and institutional frameworks support anti-corruption measures at the international and national levels. At the international level, the norm against corruption and bribery is reflected in multilateral conventions, along with the policies, guidelines, standards, and tools developed by international and intergovernmental organizations. Key conventions that are legally binding on states that have ratified them include: the UN Convention against Corruption (UNCAC); the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions; the African Union Convention on Preventing and Combatting Corruption; the Inter-American Convention Against Corruption; and various instruments of the Council of Europe.

The core international and intergovernmental organizations in the anti-corruption space include the G20 countries; the United Nations along with units such as the UN Office on Drugs and Crime (UNODC); specialized organizations including the World Bank and International Finance Corporation; the International Monetary Fund; the OECD; and the Financial Action Task Force. These organizations operate within a vast network of other institutional actors that includes national and subnational governments; other international governmental institutions and standard-setting bodies; and non-governmental organizations (NGOs). The process also benefits from organizations with expertise in analysis related to corruption and governance, such as think tanks and business associations.

At the national level, states continue to develop and implement National Action Plans in accordance with their UNCAC commitments in five broad areas: prevention, criminalization and law enforcement, international cooperation, asset recovery, and technical assistance and information exchange. Stakeholders include state institutions (executive, legislative and judiciary) at the national and subnational levels, civil society organizations, businesses, labor unions, and a wide range of other groups. These stakeholders can serve as important allies and partners in the development of anti-corruption strategies and can reduce the vulnerability of given reform efforts to changes in political leadership. As Constructive Capital pertains to cross-border capital flows, the legal system where the investment originates is also an important accountability mechanism because of its impact on the supply side of corruption.

As noted, businesses have a stake in this process – including through national laws on bribery and corruption. These can have extraterritorial jurisdiction, extending their reach to conduct that takes place abroad. Examples include the US Foreign Corrupt Practices Act of 1977 and the UK Bribery Act of 2010. Both the US and the UK, along with forty-two other states, are parties to the OECD Anti-bribery Convention. They have agreed to legally binding commitments which criminalize bribery of foreign public officials in
international business transactions. Thus, the institutional processes of the OECD can help shape private sector implementation efforts.

C. Anti-Corruption Accountability Mechanisms

Accountability is of critical importance in addressing corruption and creating environments conducive to Constructive Capital. It involves three key elements: defining responsibility; answerability (the obligation of actors to provide information and explain their actions); and enforcement (sanctions and disciplinary actions, including legal and regulatory sanctions). Multiple accountability relationships exist in national systems, with citizens, legislatures, finance and other ministries, regulatory agencies, judiciaries, civil society organizations, and the private sector connected to each other in networks of control, oversight, cooperation, and reporting. Transparency is crucial to ensuring accountability, and this requires access to information and the opening-up of government processes, proceedings, documents, and data to public scrutiny. With transparency, there can be public oversight and monitoring by civil society and the media.

Many business enterprises have responded to anti-corruption laws by strengthening compliance programs and risk management strategies. This includes developing written policies and standards of conduct, providing training, enhancing internal monitoring and auditing, and establishing rigorous disciplinary procedures. In addition, companies have put in place whistleblowing and other complaint mechanisms to facilitate the reporting of offenses. Such compliance programs extend to subsidiaries operating internationally. They can also involve comprehensive due diligence processes throughout all aspects of company operations, commercial relationships, and supply chains.

Of course, government enforcement action based on suspected corrupt practices can result in substantial fines and reputational damage. For companies, this is part of enterprise risk management. But businesses also understand the wider harms of corruption, as well as the commercial benefits of an ecosystem that minimizes corruption. Through collaborative action, they engage with various business associations and multi-stakeholder initiatives to strengthen a culture of integrity. Examples include the Extractive Industries Transparency Initiative and the World Economic Forum’s Agenda for Business Integrity. This also underscores the importance of the Cornerstone on a Values-Driven Private Sector.

Finally, resources such as corruption and governance indices are well-known and widely used globally. They typically contain scores that represent quantified values assigned to qualitative characteristics, for instance in the Corruption Risk Forecast launched by CIPE and the European Research Centre for Anti-Corruption and State-Building in 2022. Indices can be viewed as an accountability mechanism because they demonstrate the deficiencies in the policies, laws and enforcement culture of states. These are often used in civil society campaigns advocating for anti-corruption reform, by national government authorities responsible for reducing corruption, and by international organizations and donor governments seeking to universalize the anti-corruption norm. They can also be helpful in business risk assessment and decision-making. Again, such indices can serve as another tool in bridging the governance gaps.

III. Impact: Connections with Investment and Integrity

A. Overview

The connections between investment, integrity and impact heighten awareness of what is at stake in advancing Constructive Capital. The concept of impact is a powerful one, helping to define how certain actions influence the attainment of desired outcomes. This section provides insights from the private sector, noting the nature of positive and negative impacts in social and environmental matters. It also offers insights
from development and finance institutions, with attention to performance standards. This suggests how impact assessment can inform potential models for action on Constructive Capital. First, questions of impact are re-shaping many aspects of responsible business practices – notably through the ESG imperative. Second, expectations about the governance and long-term contributions of cross-border investments are shifting. For example, the OECD has developed FDI Qualities Indicators. Overall, impact-led approaches are driving significant change across sectors. The field of economics is reassessing the nature of externalities. At the same time, technological innovations are transforming the metrics, measurement, management, and reporting of impacts. The Framework for Constructive Capital is positioned to take advantage of such developments.

B. Insights on Impact from the Private Sector

Within the private sector, environmental and social impacts are generally considered in terms of their negative and positive aspects. Although a mix of impacts arises in practice, they tend to be conceptualized separately – relying on different normative frameworks and management tools. More holistic approaches are beginning to emerge, as discussed below, and corporate governance is playing an increasingly significant role.

1. Addressing Negative Impacts

The impetus to manage negative impacts above and beyond mere compliance with national law comes from a recognition of institutional weaknesses – often found in emerging markets but at times in mature markets as well. There is therefore a need to fill such governance gaps. The drive to do so through private sector action, in alignment with widely accepted global norms, is a hallmark of the responsible business conduct approach. For example, companies and banks that finance them have a long history of managing negative environmental impacts. This is a matter of both compliance and of risk management, involving sophisticated systems of impact assessment, analysis, monitoring, and adjustment. Multinational companies, operating under various levels of regulation, often adopt their own standards to manage environmental impacts consistently across all jurisdictions.

The management of social impacts poses a distinct set of challenges, especially as it entails a disparate set of issues with little apparent connection – working conditions, labor rights, human capital, diversity and inclusion, interactions with communities affected by projects. The adoption of the UN Guiding Principles on Business and Human Rights (UNGPs) and the revision of the OECD Guidelines on Multinational Enterprises brought welcome clarity to addressing social issues. Within an international human rights framework, these initiatives also built on existing business procedures. Of special note are the developments surrounding human rights due diligence. Companies are called upon to systematically identify, assess, and then manage their negative impacts on human rights, including within their supply chains and wider business relationships. Several European governments and the European Union are drawing on the UNGPs and OECD Guidelines in adopting legislation on mandatory due diligence.

2. Addressing Positive Impacts

Alongside the attention to managing the private sector’s potential negative impacts, there is an important shift to amplify positive impacts. This goes beyond the traditional measures of jobs created, taxes paid, or contributions to national GDP to include indicators such as productivity, innovation and gender equality. Such change has been prompted, at least in part, by the adoption of the UN Sustainable Development Agenda. The SDGs set out global goals, while complementary analysis highlighted how far the world is from meeting those goals. This opened a conceptual and practical path for the private sector to help fill
those gaps, and to expand the discourse about positive contributions. One innovative example is found in the Kampala Principles on Effective Private Sector Engagement in Development Cooperation.\textsuperscript{87} Such dialogues might now include the role of business in supplying water and sanitation, or expanding educational opportunities, or building sustainable transport infrastructure, or reducing food waste. The 17 SDGs, along with their 169 targets, give the private sector both a set of concrete objectives and a sense of legitimacy for action. Nonetheless, measuring the extent of positive impact continues to pose challenges.\textsuperscript{88}

This raises the question of how to increase the flow of private capital to help address the world’s social and environmental challenges. Regulatory provisions related to fiduciary duty place certain constraints on investor decision-making. To examine their application, the Principles of Responsible Investment (PRI) undertook a multi-year study on \textit{Fiduciary Duty in the 21\textsuperscript{st} Century}.\textsuperscript{89} Investors have a fiduciary duty to integrate financially material factors, including risks associated with environmental, social, and corporate governance factors. But what are the implications for sustainability impact? A further PRI project, \textit{A Legal Framework for Impact}, was completed in 2021.\textsuperscript{90} The extensive report, which draws on expertise across many jurisdictions, addresses sustainability impact in investor decision-making.

3. A More Holistic Approach to Impact

There are many conceptual and practical challenges associated with impact. However, it is worth noting two initiatives that draw together both positive and negative impacts, as well as both environmental and social factors.

First, the UN Environmental Program Finance Initiative (UNEP-FI) has developed a set of “Principles for Positive Impact Finance.”\textsuperscript{91} Positive Impact Business & Finance is defined as “that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental, and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated.” The inclusive definition suggests this initiative may have potential application to the concept of Constructive Capital. It is relevant to all sectors of the economy, and to all types of financing. Moreover, the initiative posits that “a common understanding of impact across the investment chain is needed to enable finance and its public and private stakeholders to analyze, manage and deliver impact across the economy.” A second important development comes from the European Union, which has launched a major initiative on sustainable finance.\textsuperscript{92} The “Taxonomy Regulation” offers a classification method to help investors, companies, issuers, and project promoters navigate the transition to a low-carbon, resilient, and resource-efficient economy.\textsuperscript{93} Across a wide range of industries, the Taxonomy sets performance thresholds for economic activities that must be met in order to be considered “sustainable.” The core of the Taxonomy affirms an integrated impact approach. Projects will not qualify as “sustainable” unless they demonstrate that, in addition to having positive environmental impacts, they do no significant harm to other environmental objectives. Moreover, they must also meet minimum social safeguards, demonstrating alignment with the UNGPs and the OECD Guidelines.

C. Insights on Impact from Development and Finance Institutions

Strategies for strengthening Constructive Capital and mitigating Corrosive Capital can draw important lessons from the impact-related work of various institutions of global economic governance. These pertain to flows of FDI as well as to private investment in local capital markets. In keeping with the objectives of this \textit{Framework}, such insights can contribute to a thriving private sector and promote higher expectations of responsible business conduct. More broadly, the mandates of development and finance institutions can serve to reinforce the principles reflected in the \textit{Cornerstones of Constructive Capital}. Four examples of impact-related initiatives are provided here.
First, publicly funded development finance institutions – such as the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) – have significant experience with the administration of ESG performance standards. For many years, clients have needed to meet such performance standards to secure financing. The standards require clients to manage their environmental and social risks and impacts, thereby also limiting the bank’s risk exposure. Private sector banks have increasingly recognized the benefits of having a systematic and common approach to environmental and social risk management. They have adopted the IFC Performance Standards in the form of the Equator Principles, first launched in 2003 and most recently updated in 2020.

Second, the field of impact assessment is also tied to the growing demand for companies to report on non-financial performance. The IFC and EBRD, for instance, work with stock exchanges and regulators to strengthen local capital markets, helping businesses to secure long-term financing. Such markets encourage “the kind of entrepreneurial risk-taking that fosters innovation and accelerates job creation and economic growth.” Local capital markets can also shield economies against destabilizing fluctuations in international financial markets, a corrosive risk identified above in Section I on investment. The IFC recognizes the shift taking place in drivers of corporate value and, drawing on its global experience and partnerships, has developed a comprehensive Toolkit for Disclosure and Transparency. The guidance is relevant to the Framework for Constructive Capital, emphasizing the importance of accurate and verified information to investor decision-making. The Toolkit aims to help match responsible companies in emerging markets with institutional investors. The title of this resource captures this trend toward impact: Beyond the Balance Sheet.

Third, progress on the Sustainable Development Agenda is an important theme within this Framework. An essential foundation for the implementation of the SDGs is the UN workstream on Financing for Development (FfD). It aims to provide an integrated approach for aligning financing flows and policies with economic, social, and environmental priorities. The FfD effort has mobilized public and private financial actors across the world and now intersects with the movement toward green finance and sustainable investment. The Framework for Constructive Capital may offer impetus to examine capital flows in relation to governance systems. Impact-focused multi-stakeholder collaborations in finance, investment management, banking, and capital markets offer new engagement opportunities. Moreover, the topic of FfD is a focal point of high-level global gatherings in every region.

Finally, an important new global collaboration, the Impact Management Platform, was launched in London in November 2021. It builds on the former Impact Management Project, a forum which operated from 2016 to 2021. With a focus on managing sustainability impacts, it brings together key institutions of global economic governance, including UNGC, OECD, IFC, UNDP, and UNEP-FI. Through the Platform, partnering organizations aspire to clarify the meaning and practice of impact management; work towards interoperability and fill gaps as needed; and have coordinated dialogue, as appropriate, with policymakers.

While the site is primarily aimed at impact professionals in the public and private sectors, its use by policymakers, regulators, academics, and non-profit organizations is also addressed. Moreover, it aims to be relevant to a wide range of businesses (from multinationals to small and medium-sized local enterprises) as well as investors (from IFIs to mainstream financial institutions). A core set of actions reflects an emerging consensus on how organizations can manage sustainability impacts in a way that is integrated with financial performance. The resources include a growing list of organizations, standards, frameworks and toolkits.
Overall, insights from both the private sector and global development institutions can forge connections between investment, integrity, and impact. These are relevant to the flows of both FDI and FPI. Such an approach can help bridge governance gaps and bolster Constructive Capital. The following part of the report considers supportive trends in responsible business and investment. Impact will again be a key feature, notably in view of due diligence expectations and the rise of ESG investment.

**FDI inflows (USDtn)**

*FDI inflows fell markedly in 2020 as pandemic disruptions exacerbated the fatigue that FDI had already been showing having fallen from 5% of world GDP in 2007 to 1.7% in 2019*

Data: UNCTAD Global Investment Trends Monitor
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FDI inflows by region, 2021 (USDtn)

FDI inflows picked up markedly towards the end of 2020 and in the first half of 2021, but this was led by investment in developed markets.

Developed economies

Developing economies

Global private investment in SDG sectors in developing economies (USDtn)

FDI into power and renewable energy in developing economies picked up during the pandemic but investment into telecoms, education and food declined.

Data: UNCTAD Global Investment Trends Monitor
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