CFO ACTION ON CORPORATE INVESTMENT AND FINANCE FOR SUSTAINABLE DEVELOPMENT

Position Paper UN Global Compact

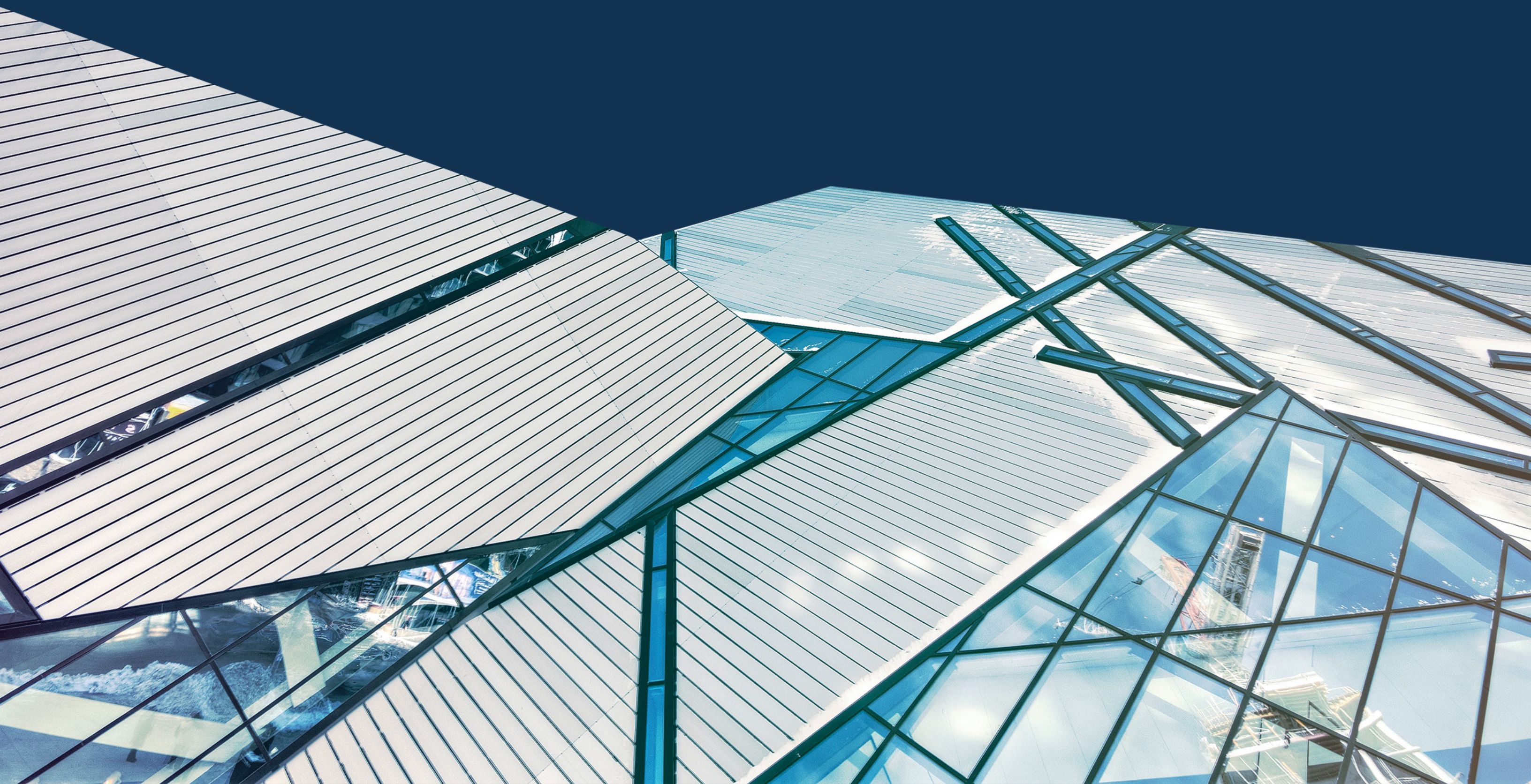


TABLE OF CONTENTS

FOREWORD

As the midway point for the Sustainable Development Goals nears, the UN Global Compact proposes to rapidly mainstream what forward-thinking companies and investors have already demonstrated to be profitable and urgently necessary: invest in the SDGs. We call on our 18,000+ UN Global Compact participants to follow through on their sustainability pledges by taking concrete steps to fund their sustainability objectives and targets.

Tackling the existential threat of climate change, food insecurity, disease, water scarcity and other global crises takes wise leadership. It means continuing to make sustainable development gains a priority even when new challenges arise. It means doubling down by not just committing to the 2030 Agenda but mobilizing capital for sweeping change.

Sourcing institutional capital to finance the sustainability transition is critical, but it is not enough. What is needed is a scalable model to invest in private sector solutions, which is both measurable and transparent. This is the challenge facing the investment community as we seek to deliver impact at scale—whether as institutional investors, development finance institutions or impact investors.

This is where we come in. The Global Compact is creating a model for how the money in global capital markets—estimated close to US$300 trillion—can flow through to all facets of the economy to support the sustainability transition.

Investment by companies that actively support the SDGs act as a conduit between global capital markets and critical SDG solutions on the ground. This includes investment in the sustainability transition of developed economies through clean energy, electrification, and circular economies. It also includes FDI and financial intermediation to enable a flow of capital towards sustainable development in less developed economies.

With more than half of the capital markets invested in corporate equity, bonds, loans and other instruments, companies represent the main investment opportunity for global institutional investors to finance SDG solutions at scale.

Our model leverages corporate governance for transparency and accountability. Corporate investments aligned with the SDGs can provide credibility to private sector contributions to the SDGs—an essential accountability tool in addition to high-quality, back-looking reporting on targets and KPIs. Innovation in corporate finance also increases companies' accountability for their SDG aspirations, with mechanisms to link performance with the cost of capital.

With annual investments estimated at more than US$17 trillion, companies are a key pillar of the economic and financial model of the sustainability transition.

"Investing in the SDGs is both sensible and feasible: it is a win-win for the world, as the social and economic rates of return on sustainable development in developing countries is very high," UN Secretary-General António Guterres said. But to make this happen, it is critical to manage this in a timely way while exercising urgent political will to take concerted and coordinated steps.

At the Global Compact, we are heeding this call, working with finance chiefs around the world to invest in the sustainability transition.

Sanda Ojiambo
CEO and Executive Director of the United Nations Global Compact

EXECUTIVE SUMMARY

Since the creation of the UN Global Compact more than two decades ago, we have made remarkable progress, starting with 44 companies in 2000 and now active in most of the UN Member States, with more than 20,000 organizations committed to set our world on the right trajectory. The growing CFO Coalition for the SDGs of the Global Compact, a task force setting norms and standards for sustainable investment and finance, is leading the way.

Our efforts to realize the 2030 Agenda for Sustainable Development have met challenges, including COVID-19, apathy, resistance and, at times, hostility toward SDGs and ESG governance. The basic truth is that eradicating starvation, providing education for all, combating climate change and ensuring that millions of people can have clean water are necessary for our survival and for human development.

Global challenges remind us that we don't live and work in a vacuum. Instead, we need to take urgent action to ensure that corporations are working collaboratively and responsibly through a global lens. The Global Compact and its partners have come up with tangible solutions that enable companies to remain competitive and profitable while realizing their sustainability objectives and targets.

This year, the Global Compact is launching a set of calls to action to all participating companies as part of a critical stock take on the SDGs and the Paris Agreement, focusing on five areas that will serve as key levers to drive progress across all 17 SDGs: (1) Living Wage, (2) Climate Action, (3) Gender Equality, (4) Water Stewardship and (5) SDG Investments and Finance.

This paper provides guidance to CFOs on the urgency of dedicating investments and resources to realize the SDGs.

More organizations must adopt a principles-based approach to sustainable development by aligning their operations with the Ten Principles of the UN Global Compact, which establish a baseline of doing no harm and of business integrity. The CFO Coalition is actively demonstrating how their companies can balance this commitment to sustainable development while achieving their own goals of maximizing shareholder value.

In this paper, we present the comprehensive program of the Global Compact to accelerate SDG-aligned corporate investment and finance, anchored in our global call to action to align investment and finance to the SDGs and following the example of the CFO Coalition. We explain the role of corporate investment and finance in sustainable development, looking at the massive investments needed to transition entire industrial sectors to a net-zero and circular economy. We also look at the role of companies in financing and promoting an orderly and just sustainability transition in less developed countries.

Next, we set forth our blueprint for corporate SDG investment and finance, a rigorous framework tested by leading companies and investors that serves as a gold standard for the integration of sustainable development into corporate investment and financing activities. We also introduce a roadmap to leverage the potential of corporate finance to bring discipline to impact investing through performance-based finance to attract broad capital markets to SDG investments.

Lastly, we extend our call to action to engage the whole investment value chain and work together to create a mainstream financial market for SDG investments.

INTRODUCTION

With more than $17 trillion in annual long-term investments—and trillions more invested in R&D, talent, and marketing—companies and CFOs are protagonists in the sustainability transition of many sectors of the economy. The UN Global Compact, as the largest corporate sustainability initiative, has a broad-reaching plan to leverage the role of companies in financing sustainability and setting the course for large-scale change that will lift humanity. What was a new frontier years ago is now a defined path for several dozen companies that are leading our CFO Coalition for the SDGs. The time is right for the remaining Global Compact CFOs to take the baton and run.

Companies' direct investments in markets, technologies, and infrastructure are essential for realizing the Sustainable Development Goals (SDGs). In least developed countries (LDCs) and less developed markets that are too small or illiquid to attract portfolio investors, foreign and domestic direct corporate investments are critical for advancing the wellbeing of both people and the planet. Furthermore, companies (including banks and other financial institutions) that raise capital on global financial markets can provide essential investments for SDG solutions in emerging markets.

As the UN takes stock of progress on its development agenda and the setback of the COVID-19 pandemic, it is clear that companies must be centrally positioned in the ecosystem of sustainable finance and financing for development. It is also important to take a fresh look at the potential of public-private partnerships to further unlock corporate investments and finance for sustainable development and to put in place policies and action that drive systems-level change aligned with Finance for Development (FfD) architecture.

As we approach 20,000 companies across more than 160 countries, the Global Compact is tackling two interrelated challenges of private-sector contribution to sustainable development: credibility and scale.

Companies in the CFO Coalition have undergone transformation, shifting their activities and investments to become shining examples of reliable SDG advocates. It has been rewarding to work and learn from these companies as we achieved this, and today we stand ready to assist thousands of more companies to convert their commitment to the SDGs into action.

Through the Global Compact's program of activities, its local networks, and the Blueprint for Implementation of the CFO Principles, we provide CFOs with a toolkit to achieve sustainability goals without negative impact to productivity or profits.

Armed with this knowledge, CFOs can design a framework that best meets their unique approach to adopt an SDG-supportive model while creating a sustainable trajectory for their company and stakeholders for decades to come.

[2]Source: UN Global Compact analysis of World Bank data on gross domestic fixed investment by the private sector.

A GLOBAL MOVEMENT TO ACCELERATE CORPORATE INVESTMENTS AND FINANCE FOR THE SDGS

With over 18,000 participants in 160 countries, the Global Compact is developing a comprehensive program to tackle challenges related to credibility and scale in private-sector contribution and investments for the SDGs. Our CFO Coalition for the SDGs and CFO principles for Integrated SDG Investments and Finance serve as a launching pad and an ever-evolving guide that will result in increasing adoption.

While we are encouraged by corporate pledges and commitments to the SDGs, if they do not lead to action, they are just words. We need unprecedented mobilization and internal transformation from company leaders. Meanwhile, investors seek transparency that sustainable development goals are being met, while Governments and regulators are increasingly imposing policies that support the SDGs. The private sector must demonstrate how it is contributing to the SDGs with measurable, credible, and ambitious targets and matching investments.

GLOBAL COMPACT CALL TO ACTION ON CORPORATE INVESTMENT AND FINANCE

Considering the critical stocktaking currently underway on the SDGs and the Paris Agreement, the Global Compact is launching a set of "calls to action" to challenge companies to raise ambitions and accelerate progress toward the Global Goals. These calls encourage every Global Compact company to set ambitious targets in five key areas: decent work, climate action, gender equality, water, and finance.

In the area of finance, the Global Compact calls on all its companies to align corporate investment and finance with the SDGs by 2030, committing to two specific targets:

1. Align corporate investment – to the fullest extent possible – with SDG policies and strategies, and set targets, track and report on the amount and proportion of such SDG investments; and
2. Establish a corporate financing strategy that is linked to SDG investments and performance, and report on the amount and proportion of such SDG finance.

Our vision is to engage the global CFO community and the whole investment value chain to align trillions of dollars in annual corporate investments with the SDGs and create a broad and credible market for SDG investments and capital flows. This includes the following goals we have set for ourselves, working with all Global Compact companies:

- Increase corporate financing for technologies, sectors, and geographies that are critical for the SDGs.
- Incentivize companies to compete for capital through innovative and effective private-sector solutions for the SDGs.
- Translate ambitious SDG commitments into corporate investments to transform or adapt business models, enable longer-term corporate strategies, and maximize corporate impact on sustainable development.
- Elevate the measurement of SDG impact from process-based to performance-based methodologies and support financial institutions and investors looking to shape real-world outcomes in line with the SDGs.
- Define consistent and comparable metrics for assessing companies' integrated SDG strategies and investments and ultimately measuring their contributions to the SDGs and related targets and indicators.

The CFO Coalition for the SDGs

Our global call to action on finance builds upon the pioneering work of the CFO Coalition for the SDGs—and its proven success—and the recognition that the time is now for all Global Compact companies to turn their SDG commitments into investments and help close the SDG financing gap.

The CFO Coalition was launched to harness the potential of corporate finance and empower the sustainability transition for thousands of companies in the Global Compact, encompassing all industries and regions of the world, with a focus on less developed countries. The goals of the Coalition are:

- Foster a global community of CFO committed to the SDGs
- Leverage CFO commitments to direct trillions of corporate investments towards the SDGs and create a mainstream market for SDG finance

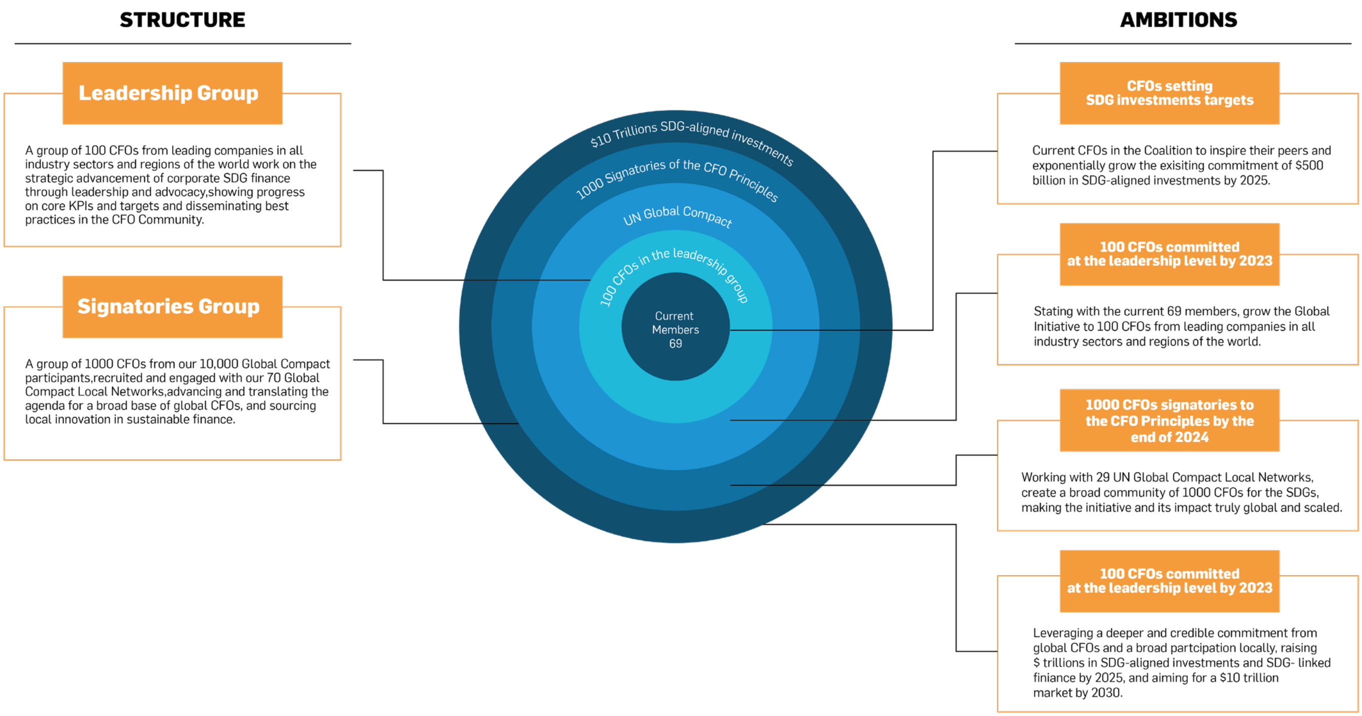
This involves developing a common language, collective ambitions, and detailed guidance and resources for CFOs everywhere to integrate and accelerate corporate investments toward the SDGs. The CFO Principles on Integrated SDG Investments and Finance constitute a baseline common language among CFOs operating in different industries and geographies. At the same time, common KPIs and definitions enable CFOs to set targets and measure progress in the implementation of the Principles.[3]

At the core of the Coalition is an Advanced Group of CFOs and other corporate officers who collaborate with peers, investors, financial institutions, and UN agencies to integrate best practices into corporate finance and create a market to mainstream SDG investments (see the CFO Coalition Advanced Group Membership in annex).

This group of companies is leading by example and provides a blueprint and a platform for thousands of other Global Compact companies to respond to our call to action and commit to align corporate investments and finance to the SDGs the next seven years.

[3]CFO Principles KPIs and Definitions for Progress Measurement and Target Setting. See https://www.unglobalcompact.org/library/5929

CFO Coalition for the SDGs (cfocoalition.org)



In the CFO Coalition alone, leading CFOs have committed to more than US$500 billion in SDG investments during the 2020-2025 period and to link close to 50 per cent of all debt financing to sustainability performance, with plans to issue hundreds of billions of dollars in new sustainable finance instruments.

The goal is to replicate this success with a large swath of Global Compact companies, including nearly 5,000 large companies, and unleash a global movement for SDG investments and finance. If successful, this could mobilize trillions of investment dollars annually in support of the Sustainable Development Goals—in areas such as sustainable infrastructure, renewable energy, water, health, food and agriculture and decent work. It would also create a pipeline of investment opportunities to support the growing market for SDG financing, which global investors estimate could reach tens of trillions of dollars in the next few years.

THE ROLE OF COMPANIES IN SUSTAINABLE FINANCE

Globally, companies spend more than $17 trillion annually in CAPEX, long-term capital investment in tangible assets to maintain and expand their businesses and carry out their strategies. The total amount of corporate investments is even larger when taking a broad view and including long-term expenditures for research and development, talent acquisition and development, and intellectual property around brands and marketing.

Under the stewardship of CFOs, direct corporate investments can create a productive workforce, physical assets, technical and procedural innovation, and essential products and services. When deliberately aligned with sustainability strategies and goals—and applying holistic impact analysis—corporate investments can deliver substantial benefits for both the economy and society in accordance with the SDGs. This process requires deliberate action at the level of strategic and business development units.

Traditionally, corporate investments have been understood and measured as long-term capital investments in tangible assets. Today, however, intangible assets comprise more than 80% of the value of companies. These other types of corporate investment include the expenditures on people, marketing, and research and development to support innovation. They are particularly relevant for sustainability-related investments, especially for those relating to social aspects of the SDGs. Thus, the total potential of corporate investments to contribute to the SDGs is many times larger than the $17 trillion in annual CAPEX.

Looking at a broader definition of corporate investment (see box below) and based on an initial sample from the CFO Coalition for the SDGs, we estimate that as much as 50% of all corporate investments could be aligned with the SDGs. While accurate measurement of this contribution will require progress in accounting methodologies to assess holistic impact at the corporate level, we are confident that a scale effort to direct more corporate investments toward the SDGs could add tens of trillions of dollars in annual financing for sustainable development.

A Broad Definition of Corporate Investments for the SDGs

Excerpt from Blueprint for implementation of the CFO Principles, CFO Coalition for the SDGs

Corporate SDG investments should cover a wide range of industries and support sustainable-development targets for a set of topics, ranging from employee diversity and human rights to carbon neutrality, and recycled materials in products.

Therefore, SDG investments should include not only capital expenditures but also operational costs such as research and development (R&D), marketing, human resources, and other internal investments to implement sustainable business (e.g., supply chain). They should also include external investments like M&A and foreign direct investment (FDI).

This broad approach is **consistent with the concept of multiple capitals**: Accounting for integrated investment should include investments not only in physical or financial assets but also in people (human capital), community development (social capital), protection of the environment (natural capital), and innovation (intellectual capital).

[4] Estimate based on World Banks data, including 2021 Global GDP of $96.1 trillion and Gross Capital Formation of $22.26 trillion in 2020 (including public and private), and a range 15-25% of GDP for Private Sector only (no global data).

[5] According to Ocean Tomo LLC, intangibles now comprise 90% of the value of S&P 500 companies.

SECTORAL INVESTMENTS FOR THE SUSTAINABILITY TRANSITION

Consensus is growing in the business, development and finance community about what investments are needed to make the transition to a more sustainable economy. This is evidenced in a developing body of strategic and financial research on investments and technologies needed for climate mitigation, biodiversity protection, waste reduction and other environmental objectives. Better understanding of the investments needed to transition to a sustainable economy is also the main driver for the development of green and sustainable taxonomies worldwide.

While investments from both the public and the private sector are necessary, CAPEX and other corporate outlays represent a major part of the investments needed for sustainability transition of key economic sectors. For example, corporate investments are required to deliver the array of innovative technologies and processes needed for transition to a net-zero and circular economy. There is a growing understanding from the International Energy Agency and the development community that large-scale private sector investment in renewables is essential for achieving energy security and curbing climate change. Transition to a net-zero economy will require involvement of nearly all economic sectors from energy production to transportation, industrial processes and energy consumption.

Analysis from prominent research institutions (below) shows the type, magnitude and timing of corporate investments needed for the transition to net zero and other environmental goals ("Green CAPEX"). The research shows that for the net-zero energy transition alone, annual investments of about \$3 trillion to \$5 trillion will be needed between now and 2050, with significant outlays in many industry sectors. Most of the investments will come from the private sector.

Annual spending on physical assets for energy and land-use systems[1] in a Net Zero 2050 scenario,[2] average 2021-50, \$ trillion

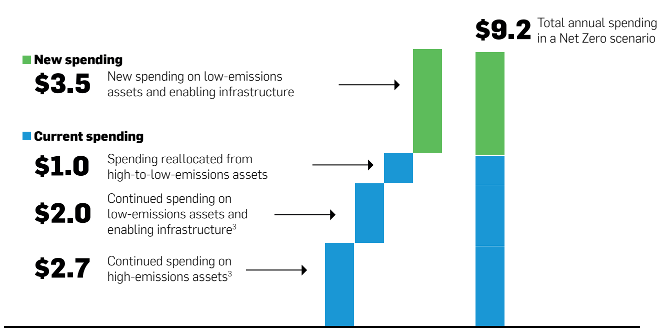
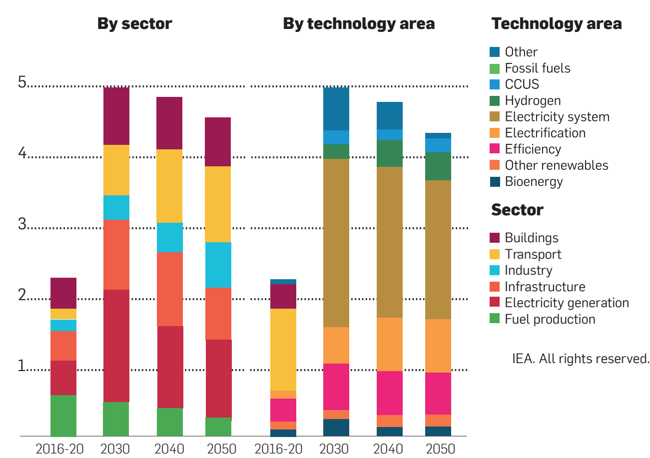


Figure 2.22 **Annual average capital investment in the NZE**



Capital investment in energy rises from 2.5% of GDP in recent years to 4.5% by 2030; the majority is spent on electricity with generation, networks and electric end-user equipment

Exhibit 1: The Net Zero, Infrastructure and Clean Water mosiac
Critical technologies/focus areas and annual investment in the 2020s to achieve Net Zero, Infrastructure and Clean Water needs

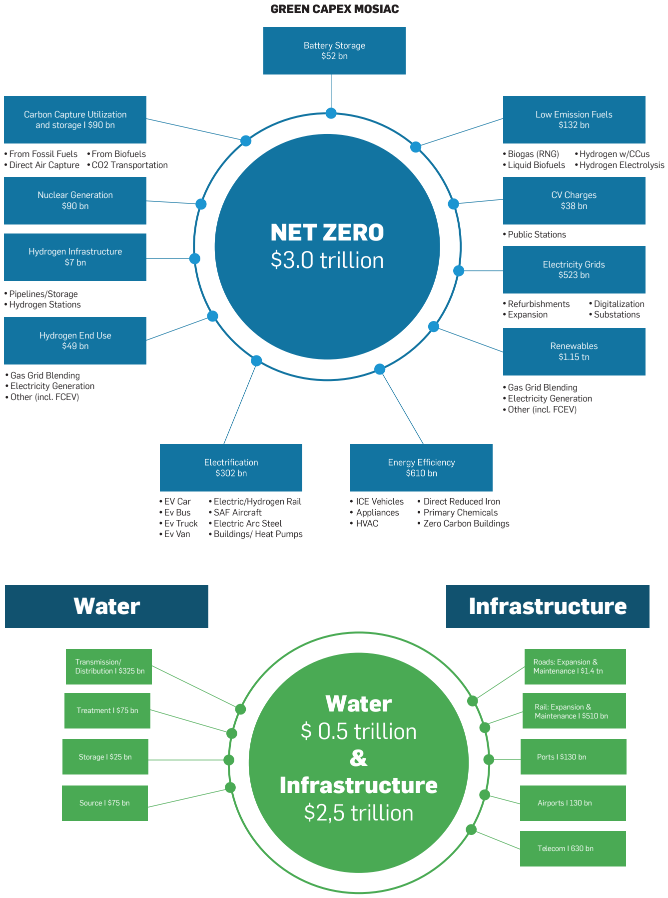


Exhibit 2: Green Capex for Net Zero, Infrastructure and Clean Water has historically represented around 15% of total capex
Green Capex toward Net Zero, Infrastructure and Clean Water vs.2016-19 annual global capital investment

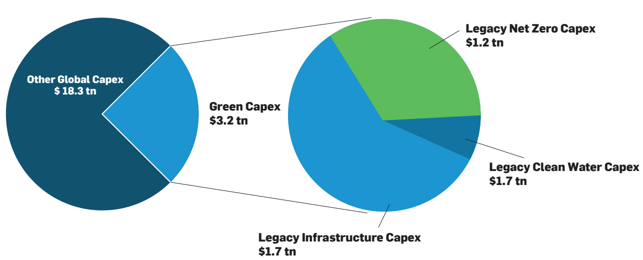
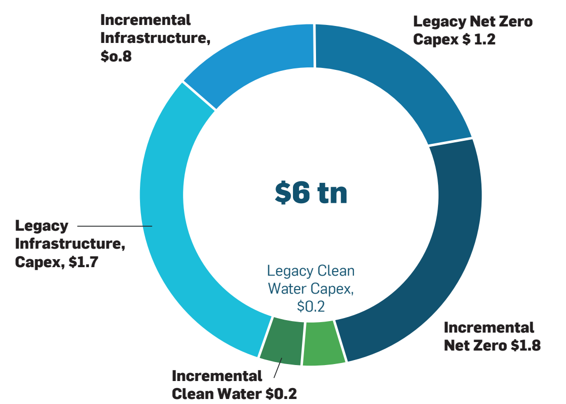
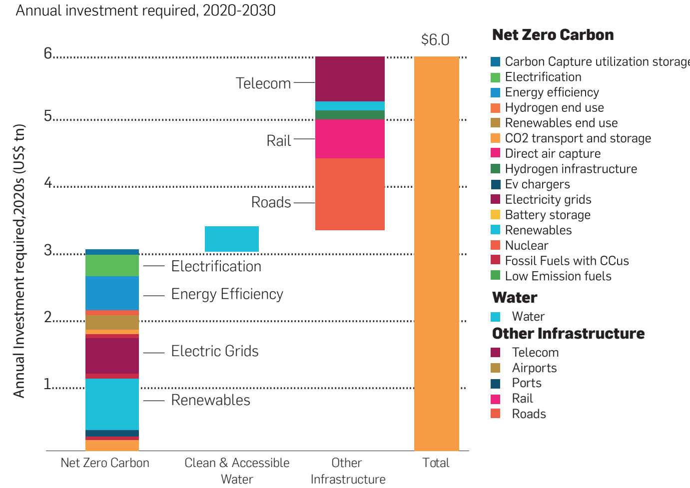


Exhibit 3: An incremental $2.8 trillion of Green Capex is needed per year in the 2020s to support Net Zero, Infrastructure and Clean Water pathways
Green Capex in the Net Zero scenario



Source: World Bank, IEA,McKinsey,OECD, GOLDMAN Sachs Global Investment Research

Exhibit 4: Around $6 trillion of Green Capex annually is needed globally to mee Net Zero, Infrastructure and Clean Water goals
Annual investment required, 2020-2030



Source: IEA, OECD, McKinsey & Company, GOLDMAN Sachs Global Investment Research

The UN Secretary-General's Rescue Plan for People and Planet calls for a significant increase in financing for sustainable development—to the tune of an additional $500 billion per year—to be delivered through a combination of concessional and non-concessional finance in a mutually reinforcing way.

[6] Progress towards the Sustainable Development Goals: Towards a Rescue Plan for People and Planet. Report of the Secretary-General (Special Edition) Advance Unedited Version, May 2023

Enabling Wholistic, Orderly and Just Transition

Companies can contribute to an orderly and just transition of whole industry sectors and ultimately of the worldwide economy. This can—and should—start right away.

Companies are legal entities, with a license to operate from society, and as such they have a responsibility to manage their impact on all relevant sustainability issues across their entire portfolio of assets and activities. They cannot isolate their contribution through a specific investment or a stand-alone asset, as is sometimes contemplated by green, social or sustainability taxonomies and bond standards.

This has important implications for an orderly and just transition to a sustainable economy, as we must ensure that the sustainability transition for climate and other environmental purposes does not create significant hardship in other sustainable development priorities.

As the economy transitions to more sustainable pathways, a company's assets and activities can become obsolete or stranded. When this occurs, companies must provide for fair treatment of workers and minimize any negative impact of the sustainability transition on communities. Companies also must take care to continue providing access to essential products and services such as energy, food, water and transportation while the world undertakes a fundamental transformation of technologies, sourcing, production processes and consumption to make our economy sustainable.

The potential of companies to contribute to a holistic, orderly and just transition was highlighted in the latest report of the G20 Sustainable Finance Working Group. According to the report, a framework for transition finance could help companies "mitigate the potential negative effects of a disorderly transition, such as climate-related transition risks, restricted access to affordable and reliable energy, unemployment, and potential broader social impacts."

Developing a Framework for Transition Finance

Excerpt from the 2022 G20 Sustainable Finance Report

Despite the rapid growth of green and sustainable finance markets in the past years, efforts to support climate-aligned financing have mostly focused on "pure green" and near "pure green" activities, while support to the broader range of investments needed for the whole-of-economy climate transition, including transition activities and investments undertaken by GHG-intensive sectors and firms, has been limited, with some sectors finding it increasingly difficult to access bank loans and capital markets. An effective framework for transition finance can support this whole-of-economy transition and can improve the ability of sectors or firms to gain access to financing to support their transition to net-zero emissions. This, in turn could help them mitigate the potential negative effects of a disorderly transition, such as climate-related transition risks, restricted access to affordable and reliable energy, unemployment, and potential broader social impacts. An effective framework can also reduce the risks from "green and SDG washing."

Financial Intermediation in Less Developed Countries

Companies and banks that raise capital in financial markets can provide a critical source of SDG financing and investments. They are an untapped source of financial intermediation between global capital markets and smaller, less liquid investment opportunities in emerging markets and LDCs.

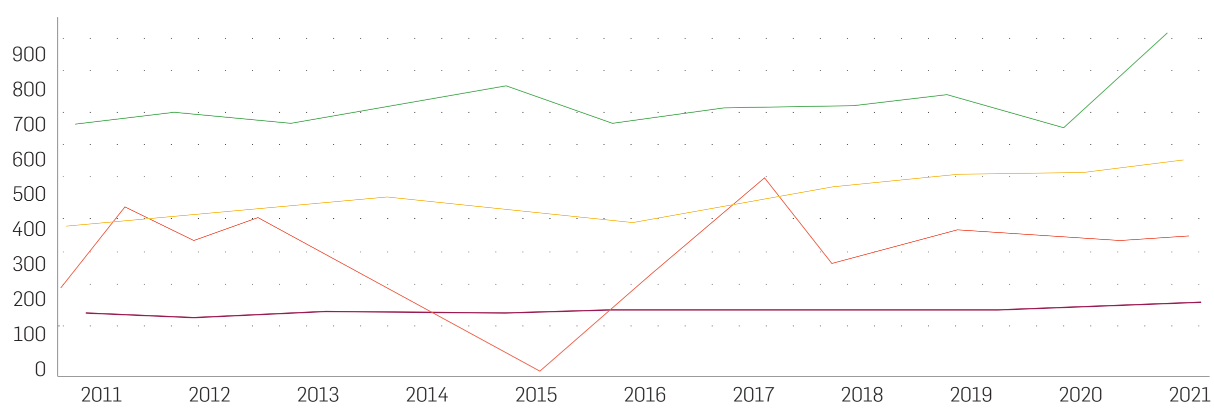
This can take the form of FDI, wherein foreign companies with access to global capital markets make direct investments in local companies in emerging markets. Financial intermediation also includes more traditional practices of banks and other financial institutions, such as providing financial services to companies and individuals and creating innovative financial structures to increase the scale of SDG financing.

FOREIGN DIRECT INVESTMENTS

Foreign companies (including banks) that make direct investments in emerging markets are often multinational companies with access to deep global capital markets. They can raise capital through equity and bonds and use these funds to make direct investments in other countries. In emerging and frontier markets, where the interplay of basic economic development needs and lack of basic social infrastructure deters other types of foreign capital investment, FDI can provide a source of finance for some of the most difficult sustainable development issues.

According to the United Nations Conference on Trade and Development, FDI constituted the most significant external source of financing for developing economies between 2011 and 2021, reaching $837 billion, followed by remittances, portfolio investments and official development assistance. To the extent that it is made with consideration of economic, social and environmental impacts—especially at the local level—FDI can provide a pathway between portfolio investors and SDG investments that are otherwise too small, risky or illiquid.

Figure 1.8. **Developing economies: sources of external finance,2011-2021**
(Billions of Dollars)



Source: UNCTAD,FDI?MNE database(https://unctad.org/fdistatistics) (for FDI inflows), OECD (for ODA flows) and World Bank (for remittances).

In the context of emerging and frontier markets and the SDGs, FDI can provide a range of macroeconomic and microeconomic benefits:

- Creation of new economic sectors
- Access to new markets
- Job creation
- Technology transfer
- Enhanced productivity levels
- Improved management and governance
- Reallocation of capital towards productive sectors

FDI does not, however, automatically contribute to sustainable development. Economic research shows that FDI can genuinely aid development financing when it brings in real resources and does not contribute to contraction in domestic output and employment. In addition, FDI should be aligned with the host country's needs and priorities as reflected in its sustainable development plans, including its Voluntary National Review and Nationally Determined Contribution.[7]

The Role of Banks for Financial Intermediation and Inclusion

Banks and financial institutions play a unique role of financial intermediation for sustainable development, as the financial system helps to determine how money is allocated, for what and for whom. They also contribute to financial inclusion, providing loans and access to finance for important SDG activities, especially in the context of low-income and underbanked customers in developing countries.[8]

FINANCIAL INTERMEDIATION

Private banks and financial institutions provide a critical link between global capital markets and local SDG investment opportunities. Their capital furnishes deeper access to finance in private markets, transferring risk and transforming the duration of financial liabilities.

Banks and insurance companies raise financing from depositors and on global or local equity, bond and repository markets. In turn, they use these funds to provide loans and other financial services in support of SDG-relevant activities.

At the local level, financial intermediation can bring about a transfer of ownership of local business and financial assets and maximize the impact of global investments on local economic and social development.

Building local capital markets has several other benefits. These include limiting reliance on foreign debt and lowering risks associated with changes in currency and interest rates, as domestic finance is mostly done in local currency.

The Importance of Financial Sector Development for Growth and Poverty Reduction.

Source: DFID

According to the UK development agency DFID, "[a] large body of evidence now exists which shows that financial sector development can make an important contribution to economic growth and poverty reduction. This is especially likely to be true in developing countries, whose financial sectors are likely to be particularly underdeveloped, and without it economic development may be constrained, even if other necessary conditions are met. By increasing the savings rate and the availability of savings for investment, facilitating and encouraging inflows of foreign capital, and optimising the allocation of capital between competing uses, financial sector development can boost long-run growth through its impact on capital accumulation and on the rate of technological progress."

As with FDI, intermediation by banks and other financial institutions presents an opportunity to maximize the downstream impact of investments. The bargaining power of financial intermediaries can provide leverage to ensure a focus on key geographies, populations and activities for the SDGs. This bargaining power can also compel strong covenants for sustainable practices.

[7]As part of their implementation of the 2030 Agenda for Sustainable Development, countries develop a series of national, regional and local strategies and programs that are documented in their Voluntary National Reviews (VNRs) and Nationally Determined Contributions (NDCs). These are translated into national development plans.

[8]This has important implications for an orderly and just transition to a sustainable economy, as we must ensure that the sustainability transition for climate and other environmental purposes does not create significant hardship in other sustainable development priorities.

Sustainable Finance and Financial Inclusion

While banks and financial institutions play an important role of financial intermediation in the capital markets, they are also operating companies with employees and community relations, providing essential products and services to society, such as food, health care, energy and communication.

Sustainable finance and financial inclusion are two mechanisms to ensure that our financial system is widely accessible and promotes sustainability and economic growth.

According to UNCDF, "integrating financial inclusion into long-term sustainable finance frameworks becomes imperative for financial institutions to address the needs of underserved populations. Financial inclusion can be used to solve a variety of social issues in least developed countries and low-income households."

An analytical framework for the integration of Financial Inclusion and Sustainable Finance

Source: UNCDF

Financial inclusion is a critical enabler in enhancing the quality of life of households and individuals, as well as raising the productive capacity of Small Medium Micro Enterprises (SMMEs), hence reducing poverty and inequality, particularly for low-income households. The goal of financial inclusion is to allow access to real economic services that people require in order to obtain and sustain opportunities and to improve livelihoods. Financially inclusive products can also address social economic pressures that in turn can impact society's social fabric. Poverty, unemployment and gender inequality, as well as a lack of service delivery, crime and social unrest, are some of the socioeconomic challenges that the SDGs strive to address in order to leave no one behind.

A ROADMAP FOR CORPORATE SDG INVESTMENT AND FINANCE

The Global Compact has pioneered concepts and frameworks for integrating the SDGs into corporate investments and financing and created a roadmap for how its companies can contribute to scaling investments and financing for the SDGs. This includes promoting the role of CFOs, leveraging capital markets, FDI and blended finance to scale SDG investments and raising the credibility of SDG ambitions and targets through corporate investment and finance. At the core of our approach are our CFO Principles for Integrated Corporate SDG Investments and Finance.

CFO Principles for Integrated Corporate SDG Investments and Finance

The CFO Principles for Integrated SDG Investments and Finance[9] were introduced to guide companies in developing a unique approach to integrating SDG practices within their organization. Focused on the role of Chief Financial Officers and corporate finance departments, the CFO Principles guide companies to set targets, strategies and investments to realize the SDGs through board oversight, internal and external audits, public reporting and other governance procedures.

The CFO Principles supplement the Ten Principles of the Global Compact to support companies in the transition to sustainable development and to leverage corporate investments and finance toward realization of the SDGs. The principles are articulated around four leadership practices:

- SDG impact thesis and measurement
- Integrated SDG strategy and investments
- Integrated corporate SDG finance
- Integrated SDG communication and reporting

[9](https://www.unglobalcompact.org/library/5788

CFO Principles for Integrated SDG Investments and Finance

This is complemented by a Blueprint for Implementation of the CFO Principles[10], a dynamic and online platform with tools, guidance and examples developed by the CFO Coalition based on collective experience in implementing the principles and understanding of underlying concepts.

Applicable to a broad range of industry sectors, this model for integrated SDG investment and finance supports alignment of corporate activities and investments with the SDGs. It accounts for all corporate contributions to the SDGs, whether or not they are tied to a specific asset or investment. It also creates a path toward issuing a range of finance instruments to support corporate-level SDG contributions. These include loans, use-of-proceeds bonds, general-purpose bonds and equity.

[10] https://www.cfocoalition.org/blueprint/guidance.

Benefits of the Integrated Model for SDG Finance

Source: Corporate Finance | A Roadmap to Mainstream SDG Investments, UNGC

OUR INTEGRATED MODEL BRINGS SEVERAL IMPORTANT BENEFITS:

■ Promoting Unique Impact Theses.

It allows companies to develop unique theories of impact that describe how they contribute to the SDGs based on their specific capability, footprint, and operating context. The model expands the scope of activities that can be financed through SDG finance, beyond a taxonomy of eligible assets. It empowers companies to promote their impact strategy to capital markets, alongside their investment thesis, and compete for impact capital with the most effective solutions for the SDGs.

■ A model for sustainability transition.

The goal is also to develop a model where investors can identify companies dedicated to the SDGs and to provide accountability on how funds raised through traditional corporate finance tools are used for SDG-related activities. In doing so, we address the needs of companies that contribute to the SDGs at the corporate level but cannot always isolate their contribution through a specific investment or a stand-alone asset, as contemplated by the green, social and sustainability bond market. This includes companies that are primarily focused on SDG solutions and those that are partially focused on SDG solutions through one or several of their main activities. It also includes companies adopting sustainable business models or transitioning from stranded assets due to sustainability trends.

■ Leveraging Corporate Governance.

The model leverages existing corporate governance mechanisms in place at most publicly listed companies to provide investors assurance that financing and investments are used toward impactful activities. In this model, companies define and implement their unique SDG impact theory as part of their primary strategy. Compliance with the impact theory is then monitored through corporate governance procedures, including board oversight, internal and external audits, and public reporting.

■ Linking all corporate finance to the SDGs.

The model enables companies to use a variety of financial instruments to support their SDG strategy, including use-of-proceed bonds, general-purpose bonds, and equity. It helps expand the scale and diversity of corporate SDG bonds while developing a market for SDG-themed equity investments.

Advancing the Role of Chief Financial Officers

The role of the Chief Financial Officer is critical in financing the transition of companies and aligning corporate investments with sustainability strategies. CFOs are responsible for ensuring credible reporting on financial and sustainability performance in relation to both specific investments and the overall organization. They can leverage corporate governance and control mechanisms to strengthen the monitoring and reporting of sustainability performance.

This enables a new phase in impact measurement: tracking capital and intangible investments that support SDG ambitions and monitoring performance on material sustainability impacts, risks and opportunities. It also facilitates raising capital linked with sustainability performance.

Because company-issued financial products such as equity, bonds and loans represent a major portion of capital market investments, CFOs can support the fast-growing market for sustainability-linked bonds and loans. They can strengthen the links between sustainability performance, financial performance and the cost of capital. This provides a solution to the ongoing challenges to the credibility of corporate sustainability and sustainable finance. It also contributes to the creation of a scalable financial market for SDG investments, providing investors with a pipeline of investment with measurable outcomes.

The importance of leveraging corporate governance mechanisms to increase the credibility of sustainability strategies was highlighted in the 2022 Sustainable Finance Report of the G20 Sustainable Finance Working Group. According to Principle 11 for Developing a Framework for Transition Finance, companies should "[d]isclose corporate governance arrangements that ensure such transition activities or plans will be implemented properly, including with respect to risk management systems and due diligence processes."

Leveraging Capital Markets for SDG Investments

Corporate investments represent the most scalable option for investors to maximize the impact of their portfolios. Most of the capital markets are composed of securities issued by corporations as equity or bonds. In the private loan market, corporations represent a major portion of borrowers.

As we work with companies and CFOs across the globe to integrate sustainability, we see an opportunity to create a market for mainstream SDG investments that features enough scale, liquidity and diversification to attract large institutional investors. This requires a paradigm shift wherein companies compete for capital based not only on their investment thesis but also on their impact thesis that details how their corporate strategies and investments contribute to the SDGs.

Mainstreaming SDG investments also requires that financial markets fulfill their role of market clearing and efficient allocation of capital to identify and price the most effective private-sector solutions for sustainable development. Given their size, liquidity and transparency, the corporate bond and equity markets benefit from the self-disciplining effect of large and efficient capital markets. Applying the efficient market hypothesis to sustainable investments, we envision that a critical mass of independent market participants could contribute to the identification and pricing of those private-sector SDG solutions with the highest SDG impact per unit of risk-adjusted return.

The introduction of innovative financial instruments with formal links between sustainability and financial performance and the cost of capital is a major step in the evolution of financial markets towards sustainability. Global Compact companies and their CFOs have been actively involved in the creation of a fast-growing market for sustainability-linked bonds and loans to complement green and social bonds and loans based on use of proceeds. Sustainability-linked bonds were introduced in 2019 by a group of companies working with the Global Compact on financial innovation for the SDGs.[11]

THE WORLD'S FIRST SDG-LINKED GENERAL-PURPOSE CORPORATE BONDS

In 2019, ENEL S.p.A., through its Dutch holding company Enel Finance International N.V., issued two separate SDG-linked general-purpose corporate bonds to institutional investors based in the US, Europe and other international markets, raising more than US$4 billion. Proceeds from the bonds have been used to finance overall sustainability strategies to transition towards renewable electricity generation capacity, energy efficiency and carbon neutrality, thereby improving access to energy and creating the infrastructure for electric mobility. This strategy includes FDI in key markets in Latin America and Africa, where ENEL provides critical access to clean and affordable energy.

The bonds were issued at a discounted interest rate comparable with those issued without sustainability characteristics. The terms reflect ENEL's commitment to timely progress in the implementation of its strategy, as evidenced by independently verified clear indicators:

- Increase renewable generation capacity to 55 per cent of consolidated installed capacity by December 31, 2021
- Reduce carbon dioxide emissions to below 125 g/kWh by 2030

The bonds also include a step-up mechanism. Interest rates will increase by 25bps if the company fails to meet its targets.

Importantly, sustainability-linked bonds and loans are general-purpose instruments that reflect the entity-wide contribution of companies to sustainability, beyond the impact of a specific green investment targeted by use-of-proceeds-based instruments. The link to sustainability is established through KPIs and targets bridging the cost of capital to the sustainability performance of the company overall. In doing so, these new instruments demonstrate to investors the issuer's SDG strategy and impact. They also provide an opportunity to finance the strategic transformation of entire companies in sectors deeply affected by sustainability trends. This goes beyond pure green and social assets and activities to support a more complete, orderly and just transition.

The market for sustainability-linked bonds is rapidly growing and is projected to become the largest market in sustainable finance. This reflects a strong desire for companies in every sector and at various transition stages to finance their sustainability strategies.

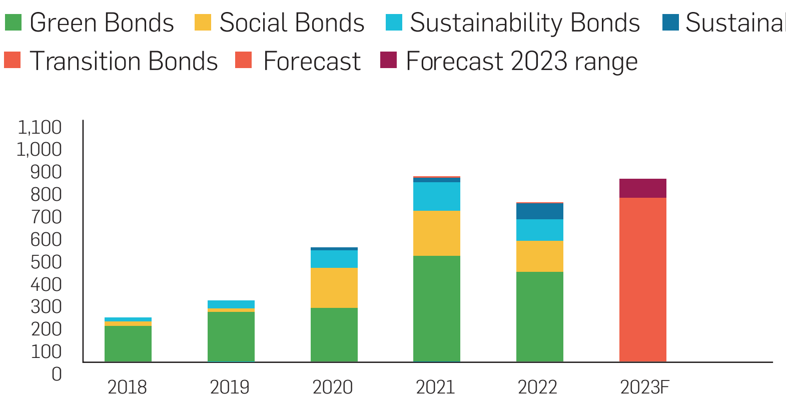
[11] This work was undertaken as part of the UN Global Compact Action Platform on Financial Innovation for the SDGs, a precursor to the CFO Taskforce for the SDGs and now the CFO Coalition for the SDGs.

Trends in Sustainability Bonds

Sustainable bond issuance is predicted to reach $1 trillion in 2023, representing 14 to 16 percent of all global bond issuance. Companies and financial institutions make up most of the market. Sustainability-linked bonds (SLBs) represent a fast-growing segment, with an eight-fold increase to $92 billion in 2021 and predictions for a trillion-dollar market in the next few years.

Global GSSSB issuance forecast to reach $900 billion to $1 trillion in 2023

Annual GSSSB issuance by instrument type (US$B)



Excludes structured finance issuance,
F=S&P Global Ratings forecast: GSSSB=green,social,sustainability and suatainability-linked bonds.
Sources:Environmental Finance Bond Database; S&P Global Ratings.

The power of linking financial products to sustainability transition plans and performance was highlighted in the High-Level Principles on Transition Finance issued by the G20 Sustainable Finance Working Group. Disclosure of KPIs and targets related to material aspects of the fundraiser's business can be a strong motivator for a company to meet sustainability aspirations when combined with meaningful incentives.

High-Level Principles on Transition Finance – G20 SFWG 2022 Report

- Principle 13. Disclose the use of proceeds raised from transition finance instruments (for use of proceeds instruments) or the performance of KPIs/SPTs that are material to the fundraisers' businesses (for general corporate purpose instruments such as sustainability-linked loans or bonds).
- Principle 16. Transition finance instruments could incorporate built-in incentives/penalties, of sufficient magnitude, to encourage strong performance against GHG emission reduction targets and other climate- or sustainability-related performance targets (SPTs).

Promoting Sustainable Foreign Direct Investments

As stated earlier, although foreign direct investment is generally regarded as having great potential to promote economic development, FDI does not automatically contribute to the SDGs. The Global Compact provides a framework for sustainable FDI that leverages the benefits of corporate intermediation, considers the development of local markets, aligns with countries' development plans and focuses on priority sectors and regions.

LEVERAGING CORPORATE INTERMEDIATION

The intermediation process of FDI is an opportunity to maximize the impact of downstream investments by integrating considerations of SDG impact into the strategy and governance mechanisms of the parent company and its subsidiary, including:

- The internal investment process of the parent company
- Governance of the parent and subsidiary
- Capital market transactions of the parent company
- Reporting by the parent and subsidiary

CONSIDERATIONS FOR LONG-TERM DEVELOPMENT OF LOCAL MARKETS

The benefits of FDI depend on the host country's level of economic development and whether the investment is complementary to or competitive with local tangible and financial resources. As discussed above, FDI aids development financing when it brings in real resources and does not contribute to contraction in domestic output and employment. Specifically, the following factors affect the development impact of FDI:

- Changes in the allocation of local resources, including employment and finance
- Development of local capital markets
- Local resources and assets

ALIGNMENT WITH A HOST COUNTRY'S SUSTAINABLE DEVELOPMENT PLANS

Foreign direct investment in the SDGs should focus on the unique needs and challenges of each country. As part of the 2030 Agenda for Sustainable Development, many countries have developed national plans that provide baseline indicators of their implementation of the SDGs and highlight gaps that can be filled by private-sector solutions and private capital. These plans, documented in countries' Voluntary National Reviews (VNRs) and Nationally Determined Contributions (NDCs), provide a sense of how Governments prioritize among the SDGs based on the unique situation in their country.

Excerpt from the Addis Ababa Action Agenda on Financing for Development

Private international capital flows, particularly foreign direct investment, along with a stable international financial system, are vital complements to national development efforts. Nonetheless, we note that there are investment gaps in key sectors for sustainable development. Foreign direct investment is concentrated in a few sectors in many developing countries and often bypasses countries most in need and international capital flows are often short-term oriented.

Introducing Blended Corporate Finance

There is a strong appetite among private investors to finance sustainability transition plans for companies; however, technology needed for this sometimes requires long-term investment in addition to potential regulatory barriers, which leads to elevated financial risk. Similarly, SDG investments are most needed in less developed countries, where access to finance is limited and investment risks are high due to political and social uncertainty. In this context, there is a role for blended finance, a form of public-private partnership that supports SDG investments that cannot be financed on a purely commercial basis and therefore require some form of public support in the form of guarantees, concessional capital or other mechanisms.

Blended corporate finance - also called subsidized corporate finance - is when a public entity or development institution provides a company or bank with guarantees or other financial benefits to support business solutions. In the context of sustainable development, this involves the use of public money to support corporate operations in difficult but important markets or to support companies proposing promising solutions where private finance is not available.

The four main ways that companies can benefit from blended finance for their SDG investments are:

- **Fund-level blended finance.** The combination of concessionary funding (public or philanthropic) with full-return private capital for investments in companies' regular equity or bonds.
- **Company-level blended transactions**. Public or philanthropic investors provide credit enhancement through guarantees and insurance or make subsidized or concessional loans (below market terms).
- **Project-level blended finance.** Use of concessionary finance to support large infrastructure or energy projects that contribute to the SDGs, where corporate acts as a project sponsor, a partner or an off taker.
- **Outcome-based blended finance.** Public or philanthropic entities invest in corporate bonds or loans with commitments to SDG impact, either in the use of proceeds or in the achievement of material sustainability targets.

[13] https://www.cfocoalition.org/blueprints/p3-3-lab-2-realizing-the-potential-of-blended-corporate-finance

Raising the Credibility of Corporate SDG Ambitions and Targets

The rising urgency of meeting sustainability goals is pressuring companies to set ambitious targets. At the global policy level, there is a growing consensus on the contribution investments needed from the private sector for the sustainability transition. This has been translated by industry research into specific impact levels, targets and types of investment needed for every sector of the economy. Investors are putting pressure on companies to align portfolios with the SDGs through corporate investments and performance that further the global agenda and meet the parameters set by industry research and regulation imposed by Governments.

To respond to these demands, and under the Global Compact leadership, companies are increasingly making commitments and setting targets on major sustainability agendas (e.g., the Science-Based Target initiative or SBTi). These efforts can lack credibility, however, with questions arising around greenwashing and unfulfilled ambitions.

In this context, corporate finance plays a critical function within companies to establish credible targets and channel investments for the sustainability transition. Because CFOs are stepping up to manage core aspects of sustainability transitions, they are key agents in bridging the credibility gap with their stakeholders. They also can make compelling arguments that defuse the latest anti-ESG and anti-SDG activity and support the vital mission of the United Nations.

CFOs can leverage corporate strategy to set ambitious targets on SDG KPIs and monitor and report on performance. Corporate investments can serve a promissory role with regard to the credibility of commitments and leading indicators of performance. Finally, CFOs can structure financial instruments to establish contractual commitments to SDG targets and investments, with financial rewards and penalties based on performance.

This is consistent with the UN Secretary-General's call to hold businesses accountable to their sustainability and climate commitments as well as adjust governance models, incentive structures and operating practices.

Progress towards the Sustainable Development Goals: Towards a Rescue Plan for People and Planet

Report of the Secretary-General (Special Edition) Advance Unedited Version, May 2023

The Private sector is a critical driver of productivity, employment, and growth. Business leaders are increasingly acknowledging the necessity and urgency of taking sustainability factors into account to achieve long-term success. Businesses are making sustainability and climate related commitments daily. They must be held accountable for those commitments, and they must deliver.

Corporate governance models, incentive structures and operating practices must be adjusted to align with the objectives of sustainable development. Policies and regulations must facilitate long-term decision-making, include the pricing of externalities and the phasing out of harmful subsidies and we must see an improvement in the transparency and credibility of sustainability labels and ratings, ensuring all efforts are made to eliminate rampant green-washing and SDG- washing.

[14] Green, social and sustainability (use-of-proceeds) bonds and loans.
[15] Sustainability-linked bonds and loans.
[16] Progress towards the Sustainable Development Goals: Towards a Rescue Plan for People and Planet. Report of the Secretary-General (Special Edition) Advance Unedited Version, May 2023.

How CFOs Can Raise the Credibility of Companies' SDG Ambitions

CORPORATE SDG INVESTMENTS AND FINANCE

HOW CFOS CAN RAISE THE CREDIBILITY OF COMPANIES' SDG AMBITIONS

THE CHALLENGE

Rising urgency of the sustainability agenda is pressuring companies to set SDG ambitions and targets

GLOBAL POLICY LEVEL

Growing consensus on level of ambitious needed for sustainability transition

INDUSTRY RESEARCH

Translates global agenda in sector-level ambitions and investments required

INVESTORS

Seek to align portfolios with SDGs through corporate investments and performance

To respond to these demands, companies are increasingly making commitments and setting targets on major sustainability agenda (e.g., Climate and SBTi)

However, these efforts can lack credibility with questions around greenwashing and unfulfilled ambitions and the need to better understand industries' transition path toward sustainability

THE SOLUTION

Rising urgency of the sustainability agenda is pressuring companies to set SDG ambitions and targets

STRATEGY & GOVERNANCE

- Set Ambitious Targets on material SDG KPIs
- Monitor and report on performance

CORPORATE INVESTMENTS

- Proxy for credibility of commitments
- Forward-looking indicator of future performance

FINANCIAL INSTRUMENTS

- Contractual commitment to targets and investments
- Performance rewarded financially

With its CFO platform, the Global Compact promotes a dialogue with policymakers, the research community and investors to maximize the credibility of companies' sustainability transition plans and track their performance

A GLOBAL PARTNERSHIP FOR SDG INVESTMENTS

As we ramp up our program to engage Global Compact companies and their CFOs, we are also engaging with the entire value chain around impact investment to maximize corporate investments and impact. Our goal is to work collectively on critical levers for scaling SDG finance and create a broad, liquid and efficient market for SDG investments and capital flows.

This process includes:

- Developing a wide range of solutions to finance business contributions to the SDGs, including both capital markets and banking products, while building on existing sustainable finance solutions and frameworks.
- Contributing to the identification and pricing of the most effective business solutions to the SDGs, including finding methods to price positive and negative externalities and integrate sustainability in traditional investment analysis and metrics (ROI, P/E ratio).
- Leveraging transparency and accountability mechanisms in capital markets to maximize the credibility of SDG-linked corporate finance.
- Ensuring that sustainable finance frameworks—including taxonomies, standards and verification methodologies—promote a balance between (i) ensuring credibility and comparability and (ii) encouraging private-sector experimentation and innovation.

In building a global partnership for corporate SDG investments and finance, we work closely with key initiatives that promote sustainability practices for investors, banks, stock exchanges and other key actors in the financial markets. We also collaborate with organizations and initiatives focused on financing for development, including development agencies and financial institutions both inside and outside the United Nations.

Investors	■ Global Investors for Sustainable Development (GISD) ■ Principles for Responsible Investment (PRI)
Banks	■ UNEP Finance Initiative (UNEP FI) ■ Sustainable Banking and Finance Network (SBFN)
Stock Exchange	■ UN Sustainable Stock Exchange Initiative (UN SSE)
Development Finance	■ International Finance Corporation (IFC) ■ Inter-American Development Bank (IADB) ■ African Development Bank (AfDB) ■ Asia Development Bank (ADB) ■ UN Capital Development Fund (UNCDF) ■ Swedish International Development Agency (SIDA) ■ UK Department for International Development (DFID)
Local actors	■ UN Resident Coordinators ■ UN Global Compact Local Networks (UNGCLN)

As the Global Compact embarks on this journey, we are inviting the rest of the investment value chain to work with us in a global partnership to promote SDG investments.

Together, we are:

- Shaping a common narrative of the private sector's role in financing for development, addressing different but complementary parts of the investment value chain (e.g., banks as intermediaries versus companies). Creating complementary standards and initiatives.
- Hosting forums for closer interaction between companies and financial institutions, including joint global, regional and local events bringing together CEOs, CFOs, Chief Investment Officers (CIOs) and Chief Risk Officers (CROs).
- Engaging with rating agencies to integrate sustainability in financial ratings for financial products and companies.
- Working with the blended finance community to map guarantees and other public-private support mechanisms for companies investing in developing economies.
- Promoting investments in developing economies and advocating for a larger percentage of portfolio investments in emerging markets.
- Broadening access to finance in less developed economies, including finance for adaptation, by leveraging FDI, financial intermediation and financial inclusion, working at the regional level with our Global Compact Local Networks and UN Resident Coordinators.

- Establishing sector-specific corporate targets and investments as a new pillar of credibility for private-sector contribution to the SDGs. Leveraging existing frameworks and partners, including SBTi, IFC's Anticipated Impact Management and Monitoring (AIMM), GISD's Sector-specific SDG Metrics, DFIs' Harmonized Indicators for Private Sector Operations (HIPSO), SASB's Sustainability Accounting Standards and UNEPFI's Positive Impact Principles.
- Collaborating with issue specialists at the Global Compact and the UN system to ensure that companies' policies, strategies, investments and governance are completely aligned to ensure the optimal level of impact.
- Developing and promoting transitional bonds for climate and sustainability, with use of proceeds and targets geared toward just and orderly transition and exploring governmental or multilateral support and incentives for such bonds.
- Developing a wide range of solutions to finance business contributions to the SDGs, including both capital markets and banking products, while building on existing sustainable finance solutions and frameworks.

CONCLUSION

To achieve the critical targets set forth in the 2030 Agenda for Sustainable Development, it is imperative that CFOs align corporate investments with the sustainability goals and link debt financing to SDG investments and performance. Their absence is a key barrier, but this can be overcome by taking action now.

“It’s time to sound the alarm,” Guterres said in the recently published Rescue Plan for People and Planet. “At the mid-way point on our way to 2030, the SDGs are in deep trouble. A preliminary assessment of the roughly 140 targets with data show only about 12% are on track; close to half, though showing progress, are moderately or severely off track and some 30% have either seen no movement or regressed below the 2015 baseline.”

The Global Compact recognizes this pivotal moment in history as an opportunity to work with all our companies and mobilize SDG finance at scale. As part of our Call to Action on Finance and building on the advances of the CFO Coalition, Global Compact companies must now take deliberate steps to convert SDG commitments to measurable action through allocation of resources and financial investments.

We call on companies to sign the CFO Principles for Integrated SDG Investments and Finance and to use the resources provided by the Coalition for the SDGs. We offer capacity building globally and locally to assist companies in their efforts, through our own programs and events and in partnership with our Local Networks.

Companies joining our Call to Action on Finance commit to align their investments with SDG policies and strategies. Companies will establish a corporate financing plan that is linked to SDG investments and performance, then track and report on the amount and proportion of such finance.

Companies must play their part in righting the historic injustices at the core of the international financial system and immediately transition their investments to support sustainable development.

As the Secretary-General said: “We can do better, and in moments of severe challenge, humanity has always come through. Now is another of those moments.”

CFOs can, and must, lead this charge.

Annex: CFO Coalition Advanced Group

Companies and Investors

THE CFOs Coalition in Numbers

69
Members

27
Industries

$1.5T
Collective Market Cap (US$Trillion)

05
Regions

~$500B
SDG-aligned Investments 2021-2025(US$ billion)