The sustainable development goals (SDGs) will require significant financing. Governments across the world are increasingly looking at ways of working with the private sector in order to meet financing needs and they will need to find ways of maximising the contribution of these actors. This depends on ensuring that activities undertaken conform to high standards of sustainable development, including ensuring social and environmental justice.

This discussion document provides initial ideas for how to do this by proposing a set of principles to assist governments to apply best practice, international standards and learning more systematically to help ensure best outcomes for sustainable development.

It draws on existing practice, such as standards and safeguards, and information from interviews with donors. It is rooted in accepted global standards and legally binding principles, such as the UN’s sustainable development principles, development effectiveness principles as well as the human rights obligations of both the state and the private sector as reflected in the UN Guiding Principles on Business and Human Rights. The document goes beyond mitigating risks to ensure a positive and responsible contribution to sustainable development, while maintaining a clear call for effective safeguards.

This is not the final answer, but the start of a path towards it. It is intended as an input to the UN Financing for Development Conference (FFD) in Addis Ababa in July 2015. Here a systematic and consistent approach can be agreed.

The proposal is for all governments to apply the following sustainable development principles to all projects where public finance is used in conjunction with private finance. The principles will be used both in the process of project and programme design and development as well as in any monitoring and accountability mechanisms. These high-level principles should be used with explicit reference to and in adherence with the best practice rules and safeguards mentioned above, and not as a substitute for them.

The diagram below shows the broad principles that we consider the most relevant.

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**A Sustainable Development Traffic Light**

- **Inclusive and sustainable economic development**
  - Build thriving domestic markets
  - Create decent jobs for all
  - Control pollution
  - Mitigate and adapt to climate change
  - Do not destroy natural resources
  - Pay a fair share of tax
  - Avoid land grabs
  - Develop inclusive communities
  - Close the gender gap

- **Poverty alleviation and social development**
  - Build thriving domestic markets
  - Create decent jobs for all
  - Control pollution
  - Mitigate and adapt to climate change
  - Do not destroy natural resources
  - Pay a fair share of tax
  - Avoid land grabs
  - Develop inclusive communities
  - Close the gender gap

- **Equitable environmental sustainability**
  - Build thriving domestic markets
  - Create decent jobs for all
  - Control pollution
  - Mitigate and adapt to climate change
  - Do not destroy natural resources
  - Pay a fair share of tax
  - Avoid land grabs
  - Develop inclusive communities
  - Close the gender gap

- **Show additionality and value for money**

- **Ensure good corporate governance**
  - Ensure transparency, accountability and participation
  - Share risk and minimise debt
  - Build on development effectiveness principles and SDGs
Donors and other development actors have always worked with the private sector but the importance and nature of that collaboration is rapidly changing. Whereas discussions around the Millennium Development Goals (MDGs) concentrated on mobilising public finance, the focus of the SDGs and FFD debates has been much broader – on getting the best mix of public and private finance, on domestic resource mobilisation and on transformative structural changes in areas such as tax, debt and trade.

There are many ways that this money is leveraged by donor institutions, but it has often been through Development Finance Institutions (DFIs) – government-controlled institutions that invest in private sector projects in developing countries. They can be multilateral or bilateral. The World Bank Group’s IFC has played a dominant role in setting standards, but bilateral institutions like the UK’s CDC and multilateral facilities like Private Infrastructure Development Group (PIDG) are also key. This paper focuses on the full range of donor institutions that mobilise private capital, with particular emphasis on DFIs as the biggest players.

Donor governments have obligations under international law, which are relevant to their engagement with the private sector, as reflected for human rights in the UN Guiding Principles. The majority of institutions and facilities are signatories to voluntary codes of conduct, like the Equator Principles, the UN Principles for Responsible Investment (UNPRI), or other responsible financing frameworks. These commitments are often complemented by institutional codes of conduct, due diligence and other internal policies. For example, the IFC’s Performance Standards are often used by other institutions and facilities.

However, the implementation of these standards is challenging. Various donors we interviewed recognised that this is a new area and that their thinking around impact and accountability is still emerging. An analysis of 10 international development agencies which focussed on relationship with multinational corporations shows that agencies are at various stages of developing their initiatives and that commitments are difficult to quantify due to lack of, or differences in, reporting.

International public finance, whether Official Development Assistance (ODA) or concessional or non-concessional loans, remains absolutely key for sustainable development. It is therefore essential to ensure that where public finance is used to mobilise additional resources through the private sector – known as “leveraging” – it also has the maximum contribution towards sustainable development results.

Although “leveraging” is not a term used in a consistent way, it is defined by the World Bank as: “the ability of a public financial commitment to mobilise some larger multiple of private capital for investment in a specific project or undertaking.” That is, it involves a small amount of public money or a guarantee being put on the table to encourage the investment of a larger sum of private money.

2. IFC (2008). The figures show a growth from around USD 4 billion to 40 billion per year from 1990 to 2010.
Main sustainable development challenges in using public money to leverage private finance

Using public money to leverage private finance presents many challenges. Most of them are due to the conflict between the different expectations and incentives driving the public and the private sectors, the way the financial institutions and facilities are governed, the lack of common standards and the systems needed to implement them. Furthermore, using ODA in this way means there is less money available for the things only ODA can support, i.e. programmes and projects targeted to fight poverty directly through essential services.\(^7\)

**Challenges of delivering sustainable development results** – donors face challenges demonstrating effects on poverty reduction in developing countries, including impacts on reducing inequality, on women’s rights and on marginalised groups. This is partially due to the nature of investing in the private sector, where social outputs are not the primary objective of the private sector partner, and are difficult to measure. A 2014 review by the Bank’s Independent Evaluation Group looking at 128 World Bank-financed Public-Private partnerships (PPPs) found that the main measure of ‘success’ is profitability – other factors are rarely considered.\(^8\) Where donors do focus on development impacts, they tend to target a narrow set of outcomes such as a broad measure of job creation, rather than systematically identifying opportunities for positive impacts. They sometimes have strong safeguards to mitigate harm, but these are often poorly implemented and enforced, as the recent CAO audit of IFC financial sector investments has powerfully shown. Additionally, there is the challenge to ensure that all new developments are part of a low carbon development pathway.

**Challenges of participation, accountability and redress** – while most institutions and facilities leveraging private sector investment are at least partly owned by donor governments, there is limited formal consultation and rare parliamentary scrutiny. Dialogue with affected communities and Civil Society Organisations (CSO), both in donor and beneficiary countries, is insufficient, in particular in seeking consent and in the establishment of grievance mechanisms to resolve and remedy disputes.\(^9\) Consultations with business associations or firms in the developing countries involved are also rare. While the IFC and other multilateral institutions have already put in place independent grievance and redress mechanisms, European bilateral institutions and facilities rarely have such mechanisms, or are in the process of developing them.\(^10\) At the same time, Project Preparation Facilities (PPFs) are compressing the time for project preparation, expediting land acquisition, and standardising bidding, procurement and other processes.\(^11\) In some instances, this reduces the possibilities to properly identify and involve stakeholders in development initiatives, opening the possibility of negative human rights impacts.\(^12\)

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**Mongolian herders file complaint with EBRD about Mongolian iron ore company**\(^9\)

In January 2012, the European Bank for Reconstruction and Development (EBRD) approved a debt financing of up to USD 30 million and equity financing of up to USD 25 million to the Mongolian private mining company Altan Khuder LLC for the development of its Tayan Nuur iron ore mine in western Mongolia. The project was intended to support sustainable development of the Mongolian mining sector and help set corporate and industry standards including transparency, environmental and social management practices.

Herders from the Gobi Altai Mountains in western Mongolia filed a complaint with the EBRD in December 2014 claiming that roads to service the mine had caused pollution, loss of livelihoods and displacement of herders in the Gobi Altai mountain region. Customary mobile grazing rights had also been undermined. Complaints made directly to the company were met with intimidation and legal action.

The herders claimed that the EBRD’s social and environmental standards had been breached and requested a full assessment of the mine’s impacts, swift completion of the paved road with adequate overpasses, restoration of degraded and polluted land, compensation for the loss of animals and the implementation of a comprehensive livelihood restoration programme in consultation with all stakeholders involved. The complaint is currently being reviewed.

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11. Ibid
Rural communities in the Bagamoyo district of Tanzania are opposing a sugar cane plantation project planned by EcoEnergy, a Swedish company that has secured a lease of over 20,000 hectares of land for the next 99 years. In the first phases of the project, approximately 1,300 people – mainly farmers – will lose some or all of their land and/or their homes. There will be further displacements in subsequent phases and ActionAid estimates that hundreds of people could be affected.

EcoEnergy’s plan to develop a sugar cane plantation is a flagship project of the New Alliance for Food Security and Nutrition, the G8’s African agriculture initiative. It receives direct support from the African Development Bank (AfDB), the International Fund for Agriculture Development and the Swedish International Development Agency. The project is thus proceeding according to the Operational Safeguards of the AfDB and the Performance Standards of the IFC.

These standards, while stressing that involuntary resettlement should be avoided, do not require securing FPIC of all project-affected people, but only of indigenous people. In this project, as affected communities are not indigenous people, they have not been offered the choice of whether to be resettled or not; they have only been offered a choice of whether to receive compensation in cash or land for being resettled. These are two different things.

**Challenge of transparency** – development agencies have a poor track record with respect to transparency of contracts, finance, and project impacts, especially when dealing with financial intermediaries, such as banks and private equity funds, and their clients. This is partly due to the desire to protect commercial confidentiality. For example, the IFC’s Access to Information Policy has been criticised for being far weaker than those of the public lending arms of the World Bank Group. The European Investment Bank has recently adopted a more restrictive transparency policy, allowing the EIB to establish a new presumption of confidentiality to keep secret internal investigations into irregularities such as corruption and maladministration.

**Challenge to link to national development priorities** – the way that DFIs operate makes it difficult for them to align their activities with the priorities of governments, local businesses and poor communities in partner countries. DFIs are usually driven by developed country priorities, with little or weak representation by recipient countries, as becomes evident when analysing the governance structure of existing DFIs or the EU’s Platform for Blending in External Cooperation. The sectoral focus of bilateral DFIs tends to be driven by home government priorities and business sector expertise, rather than prioritising the sectors with most potential for growth in a specific developing country context. Nine out of 23 donor policies explicitly reference supporting the donor-country or their own businesses abroad. The creation of a diversified local private sector in developing countries, while central to many national development strategies, does not seem to be a priority.

**Challenge to demonstrate additionality** – DFIs frequently quote “leverage ratios” that are based on the assumption that all of their financing is new and additional, and that co-financiers would not have made any investments without the DFIs’ involvement. A study by UKAN of 19 available evaluations of “leveraged” projects using ODA found that there is very little evidence of either financial or development additionality. It also found that there were few evaluations carried out of such projects, and that there was no common or robust approach to measuring additionality. A report by the European Court of Auditors on EU blending activities claimed that “the need for a grant to enable the loan to be contracted was demonstrated for only half of the projects examined”.

**Challenges of selected financing mechanisms for infrastructure projects** – the need to facilitate private sector involvement is one of the main drivers behind the “leveraging” agenda. PPPs have been the selected financing mechanism to structure much-needed infrastructure projects. However, infrastructure PPPs have a poor track record of serving poor customers and the financial track record of PPPs is mixed at best. There is significant evidence to show that costs can be high for governments, as can risks and debt arising from contractual obligations and contingent liabilities.

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17. The ITUC study found that 9 out of 23 donor policies explicitly reference supporting domestic businesses abroad and facilitating their investments and trade in developing countries.
20. For example, Di Bella et al. (2013) point out that “limited public information exists on the specific criteria used by development cooperation actors to assess the additionality of engagements with the private sector”. The Inter-American Development Bank (2014) finds that “the assessment of additionality was mostly based on qualitative descriptions, often lacking objective supporting evidence”.
Clear principles have been developed for the use of ODA. However, as shown above, the same level of attention in terms of contribution to sustainable development has not been paid to other types of public finance, namely where it is used to leverage private sector involvement.

Agreeing and implementing sustainable development principles for public-backed private finance is needed to:

- Target all development finance towards sustainable development outcomes
- Make the most of the role of the private sector to promote social, economic and environmental development objectives
- Minimise risks for people and the environment
- Ensure transparent and accountable processes for the use of all public money
- Ensure that all development finance builds on development effectiveness principles, including country ownership, untying, and strengthening national government systems.
- Contribute to low-emission development pathways and increase resilience of local communities

Application of principles

Each donor has different ways of monitoring and evaluating development projects. The proposed principles offer a benchmark against which their monitoring frameworks can be assessed – they draw attention to the key issues that any framework should address, at a minimum. They highlight that projects must not only do no harm but also do good and have the maximum positive impact possible, in line with key social, economic and environmental elements of the proposed sustainable development goals. The principles fall into two main categories:

- Partnership and project principles – which deal mainly with how decisions are made with respect to project development and implementation
- Sustainable development principles – which focus on the impacts that the projects aim to have

Partnership and project principles:

There are some principles that should govern which private sector partners are chosen and the processes and procedures common to all projects. Many donors have already made a good start on implementing these more operational principles.

- Build on development effectiveness principles and SDGs – in order to be most effective, national governments, citizens and local businesses should set the agenda. Developing country governments should be represented on an equal footing where decisions of projects and strategies are made, particularly within donor institutions. Global agreements, and in particular the proposed SDGs should set the overall objective and direction of travel. All financing should be guided by development effectiveness principles such as untying aid and the use of country systems.

- Show additionality and value for money – governments need to be transparent on the terms of finance, with clarity on expected financial and/or development additionality as well as assessment of costs of different options.

- Share risk and minimise debt – governments need to be sure that leveraging does not create excessive risks or
debts that could jeopardize future development and that there is a fair allocation of risk to all parties. Any liability created should be offset by revenues generated throughout the life of the project.

- **Ensure transparency, accountability and participation** – projects should be designed, implemented and monitored in a participatory and inclusive way with full transparency and meaningful participation and consultation, including free, prior and informed consent for all affected communities. All bidding and procurement processes should be transparent. All project documents should be in the public domain, including expected impacts and rate of return. Affected communities, NGOs and other parties should have access to complaints mechanisms that are transparent, fair and effective.

- **Ensure good corporate governance** – public funds should only be channelled through private sector partners who are committed to upholding human rights principles and standards, as well as sustainable development principles and standards, across their entire operations.

**Sustainable development principles:**

While donors are often good at looking at the operational elements of a project involving the private sector, they are much less advanced in monitoring the potential development impacts of a project, beyond the immediate outputs. It is important to look at maximising benefits that a project could bring, as well as ensuring that interventions do no harm.

**Poverty alleviation and social development** – whilst some social aspects of development are covered by current instruments and standards, these are quite disparate. Significant improvements to systematically addressing impacts on all dimensions of poverty and vulnerability are needed. For example, there should be standards in place to close the gender gap and to secure access of women and vulnerable communities to – and control over – land. Projects should avoid land grabs and ought to help develop inclusive communities, e.g., through infrastructure provision that enhances the access to essential services for poor communities. It is also important to address differential access of men and women to property, assets, credit, employment, and education; and to alleviate women’s unpaid care burden.

**Equitable environmental sustainability** – environmental sustainability is a key pillar of sustainable development. Safeguards to prevent and mitigate environmental harm are somewhat represented in current approaches. However, much more could be done to promote a positive contribution of the private sector to environmental sustainability, where access to systems, measures and technologies is inclusive. For instance, mechanisms for pollution control, waste management and for mitigating and adapting to climate change should be transferred to vulnerable or poorer communities. In addition, projects should have the obligation not to destroy natural resources and to promote their sustainable management and the restoration of degraded ecosystems. Projects should also keep greenhouse gas emissions in line with low-carbon development pathways, promote sustainable access to energy and actively contribute to increasing the resilience of communities.

**Inclusive and sustainable economic development** – a more robust approach to assessing the quality of economic development is necessary to ensure that economic development is sustainable and reaches the majority of the population. The focus should be on building thriving domestic markets, supporting local business and ensuring that marginalised groups such as women, children, indigenous groups, or people with disabilities have access to decent jobs and sustainable livelihoods. In particular, donors need to think about whether the intervention is contributing to economic diversification, fostering strong linkages between foreign investment and local businesses. All businesses should pay a fair share of tax.

**Next steps**

These initial proposals will be developed further and a final version presented in Addis Ababa in July. We welcome comments and suggestions from governments, business, international institutions and civil society groups.

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For more information please contact:

Graham Gordon, CAFOD, ggordon@cafod.org.uk; Hilary Jaune, Oxfam International, Hilary.Jaune@oxfaminternational.org; Ruth Kelly, ActionAid UK, Ruth.Kelly@actionaid.org; Maria Jose Romero, EURODAD, mromero@eurodad.org; Dominic White, WWF, DWhite@wwf.org.uk; Mareen Buschmann, BOND, MBuschmann@bond.org.uk

April 2015
### Partnership and project development principles for public private finance

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<thead>
<tr>
<th>Principles</th>
<th>Explanation</th>
<th>Key relevant instruments</th>
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<tbody>
<tr>
<td>Build on development effectiveness principles and SDGs</td>
<td>Link all projects to national development strategies and to SDG targets. Apply development effectiveness principles to all projects where public money has been used, e.g. through untying aid, use of country systems for the design and implementation of projects, and ensuring donor coordination. Developing countries must participate in decision-making on projects in donor institutions.</td>
<td>OECD Principles on Aid Effectiveness, Development Cooperation Forum (DCF) 2014, SDGs, UNFCCC Green Climate Fund, World Bank Country Partnership Frameworks</td>
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<tr>
<td>Show additionality and value for money</td>
<td>Avoid investing public money where other sources of finance might already be available without the involvement of donor agencies. Develop a coherent approach for measuring additionality and applying it to all projects as early as possible.</td>
<td>EC Principles on Blending</td>
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<td>Share risk and minimise debt</td>
<td>Ensure that leveraging does not create excessive risks or debts by ensuring fair sharing of risk and rewards. Ensure that over the course of the payment of the public liabilities created by the project, it generates the public revenue to repay these liabilities in full.</td>
<td>OECD Principles for Private Sector Participation in Infrastructure, UNCTAD Investment Report 2014</td>
</tr>
<tr>
<td>Ensure transparency, accountability and participation.</td>
<td>Implement standards on community consultation before project approval (FPIC) and in project design, implementation and monitoring. Publish spending of all projects under International Aid Transparency Initiative (IATI); project data, including contracts, terms and conditions, and financial information should be made available under open data standards. Ensure that affected communities, NGOs and other parties have access to complaints mechanisms that are fair, transparent and effective.</td>
<td>IATI, OECD Aid Effectiveness Principles, UNSG Synthesis Report, Public Participation in Decision-making and Access to Justice in Environmental Matters, China EXIM, ADB SPS, BNDES, UNVGGTs</td>
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<tr>
<td>Ensure good corporate governance</td>
<td>ODA should only be channeled through private sector partners that: - are committed to upholding human rights and sustainable development principles and standards across their operations; - have clear monitoring and accountability mechanisms; - observe local and national laws and international standards, including on anti-corruption; - have sustainable exit strategies to ensure long-term benefits.</td>
<td>UN Anti-Corruption Convention, OECD Guidelines on MNEs, UN Guiding Principles on Business and Human Rights, UNPRI, UNGA General Resolution (2013)</td>
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### Sustainable development principles for public private finance

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<tr>
<th>Principles</th>
<th>A sustainable development traffic light</th>
<th>Key relevant instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty alleviation and social development</td>
<td><strong>Do no harm</strong></td>
<td>ADB SPS, AfDB ISS, UN Declaration on the Rights of Indigenous People, Convention Concerning the Protection of the World Cultural and Natural Heritage, ICESCR, ILO Convention 169, IFC Performance Standard 7, SDGs, UNSG Synthesis Report, UN Convention on the Rights of Persons with Disabilities</td>
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<tr>
<td><strong>Do no harm</strong></td>
<td>Protect health and safety of groups affected by the intervention. Avoid discrimination, reducing access to essential services and increasing marginalisation of vulnerable groups. Preserve and prevent negative impacts on heritage including tangible objects, natural sites and traditional knowledge.</td>
<td>Improve quality of livelihoods of poorest groups, indigenous peoples, people with disabilities and women. Provide essential infrastructure to poor communities. Improve access to essential services, including health, education, energy and financial services. Assist communities to use their cultural heritage for economic development, consistent with their wishes, customs and traditions.</td>
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<tr>
<td><strong>Maximise positive benefits</strong></td>
<td>Provide inclusive communities. Avoid discrimination, reducing access to essential services and increasing marginalisation of vulnerable groups. Preserve and prevent negative impacts on heritage including tangible objects, natural sites and traditional knowledge.</td>
<td>Identify and prevent any negative impact on groups marginalised based on gender or sexual orientation, including changes in livelihood, likelihood of violence, access to assets and labour discrimination. Proactively address women’s empowerment and gender inequalities, including men’s and women’s differential access to assets, property, education, credit and other resources and services; alleviate women’s unpaid care burden.</td>
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<tr>
<td>Close the gender gap</td>
<td>Identify and prevent any negative impact on groups marginalised based on gender or sexual orientation, including changes in livelihood, likelihood of violence, access to assets and labour discrimination.</td>
<td>IDB Gender Equality Policy and Implementation Guidelines, UN Women’s Empowerment Principles, ADB Policy on Gender and Development, AfDB ISS, BUSAN, VGGTs, CEDAW</td>
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</tbody>
</table>
| Avoid land grabs | Avoid adverse social and economic impacts from land acquisition or change of use  
Avoid expropriation and dispossession of local communities from land unless absolutely necessary and avoid forced evictions  
Improve or restore livelihoods and standards of living of displaced persons | Ensure secure and equitable access to land for marginalised groups  
Promote land use practices and technology that improve land and soil quality  
Promote sustainable land use  
Ensure free, prior and informed consent in decisions over land use | UNCF Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security, VGGTs, UN Basic Principles and Guidelines on development based evictions and displacement |
|---|---|---|---|
| Equitable environmental sustainability | Do not destroy natural resources | Manage and consume resources sustainably including energy, water, material inputs and living natural resources throughout supply chain  
Protect biodiversity, endangered species and natural habitats | Develop, promote and transfer technologies to support sustainable management of resources  
Promote conservation, restoration and sustainable management of ecosystems and livelihoods  
Ensure access and benefit sharing of genetic resources  
Ensure sustainable energy access | CBD, IFC PS6, SDG draft goal 15, ADB SPS, AfDB ISS, Rio Principles, IFC PS3 and 6, 10 YFP on SCP, SDG 12, China EXIM, VGGTs, SE4All |
| Control pollution | Avoid release of pollutants, generation of hazardous and non-hazardous waste  
Reuse and responsibly dispose of waste | Promote pollution control, recycling and waste disposal technologies, accessible to poor communities as users/providers | China EXIM, ADB SPS, AfDB ISS |
| Mitigate and adapt to climate change | Reduce indirect and direct GHG emissions.  
Avoid new projects with high CO2 emissions such as coal-fired power stations  
Ensure projects do not threaten land rights and food security or increase vulnerability of communities or ecosystems | Promote technologies and techniques that reduce GHG emissions and promote a low carbon development path  
Strengthen resilience and provide adaptation solutions for vulnerable groups affected by climate change  
Prioritise investments in renewable energy | IDB, ADB, UNSG Synthesis Report, China EXIM, ADB SPS, AfDB ISS, SE4All |
| Inclusive and sustainable economic development | Create decent jobs | Observe labour standards including within supply chains and among contractors  
Avoid discriminating against marginalised groups based on gender, ethnicity, disability, social/cultural grouping, sexual orientation or income | Create decent jobs accessible to poor and vulnerable groups including women and indigenous people  
Promote livelihood diversification, particularly in rural areas  
Train and promote local staff to technical and management positions | Labour safeguards, ILO conventions, SDG draft goals 1, CDC project selection matrix, ADB Social Protection Strategy, AfDB ISS, BNDES |
| Pay a fair share of tax | Comply with letter and spirit of local taxation rules  
Do not structure company to take advantage of offshore financial centres  
Refrain from seeking tax exemptions and engaging in aggressive tax planning, which deprives poor countries of tax revenue | Publish financial information on a country-by-country or project-by-project basis  
Publish details of beneficial ownership and company structures  
Encourage supplier and contractors to adopt good tax practice  
Actively target benefits to vulnerable groups and distributional effects to the poorest groups | UNSG Synthesis Report, AfDB ISS. |
| Build thriving domestic markets | Avoid increasing economic, social or cultural marginalisation of vulnerable groups.  
Avoid generating excessive debt and risk that could jeopardize future development | Promote technology transfer, linkages between FDI and local firms, helping local firms move into higher value-added activities.  
- Provide services, e.g. financial services, that assist development of local SMEs | SDG8, OECD MNE Guidelines, ICESCR |