

SDG FINANCING – CATALYTIC INVESTMENTS

Annual Progress Summary – Preparatory Funding 2020

The Sustainable Development Goals (SDGs) were set with the ambition to create a just, equitable and sustainable future by 2030. They were designed not only for Government action, but also to work together with businesses and the financial sector at scale in building resilient and sustainable societies. The UN is committed to co-create new social impact driven markets and asset classes to untap new market opportunities, estimated to be some US\$12 trillion, aligned with the achievement of the SDGs.

SDG Invest – the operationalization of the 2nd Component of the Joint SDG Fund (the Fund) Call on Catalytic Investments – tested new ways of working, developing bold proposals that will assist in mobilizing much needed resources for the SDGs in 2020. SDG Invest is the UN platform that hosts and supports these innovative proposals. As a proof of concept window, the Fund invested less than US\$4 million to operationalize blended financing concepts, which aimed to mobilize \$ billions. In the spirit of the UN reform, the Fund also invested in proposals that strengthened the capacities of the UN system and national partners. The Fund's pipeline of investments aims to achieve coherence of action and financial leverage at scale for the SDGs.





#SDGfinancing

2020 HIGHLIGHTS

\$41 million

4 UNCT proposals awarded for SDG catalytic investment

12 proposals

UNCT proposals graduated to phase 2 for further development / structuring

28 countries

Innovative blended proposals supported 28 developing countries

59 designs

Financing vehicles / instruments designed

334 partners

Engagement with 334 partners in the design phase

89 interests

Letters of commitment / interest for external partners received

19 UN Agencies

Collaboration with and capacities built in 19 participating UN agencies



BACKGROUND

As a result of the SDG Financing Call for proposals -Component 2- UN Country Teams (UNCTs) submitted 155 proposals out of which 28 were shortlisted via a rigorous process led by the Fund and its technical partner Convergence. From August to November 2020, UNCTs collaborated with the Fund and Convergence to transform these concepts into fleshed out financial solutions. Within four months, and with a preparatory grant of up to US\$200,000, substantial progress was achieved. Over 300 local and international partners supported the exercise and offered pro-bono work or co-funding. The Fund received a final report from each of the 28 UNCTs detailing the progress achieved during the preparatory phase along with lessons learned and recommendations on the way forward. These results and reflections are summarized in this document along with completed surveys from the members of Investor Advisory Groups (IAGs).

PRELIMINARY RESULTS

SDG Invest, active for five months in 2020, achieved the following results:

The Fund’s results under this component will be measured against the number of financing solutions operationalized, the volume of capital leveraged, the level of the market creation and demonstration effects achieved, and ultimately actual contributions to SDG acceleration.



1. Design of innovative financing solutions



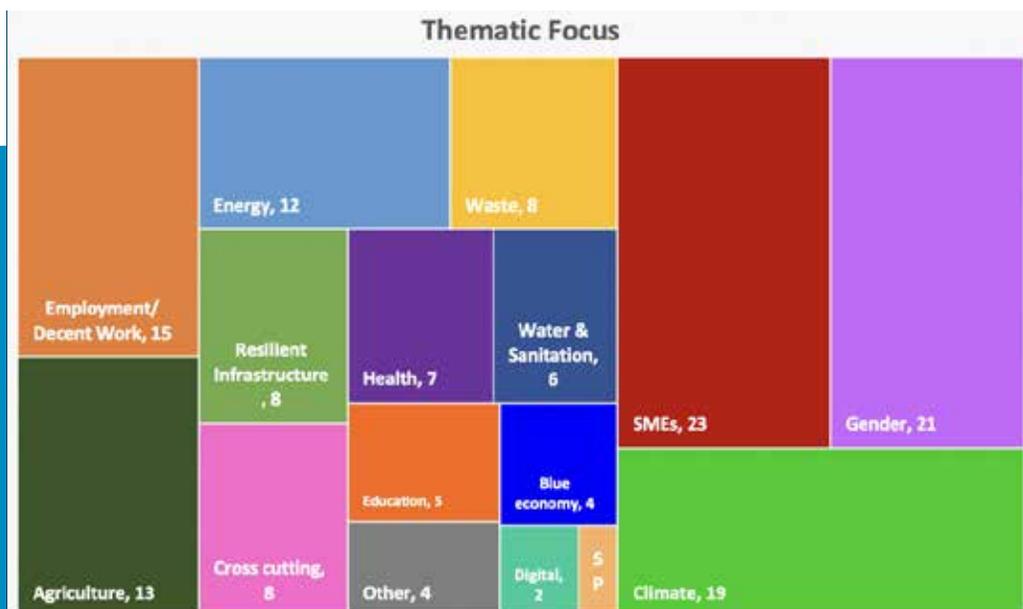
2. Completion of feasibility studies and assessments



3. Partnerships, investors mapping and matching



4. Capacity development of UN and national partners



1. DESIGN OF INNOVATIVE FINANCING SOLUTIONS

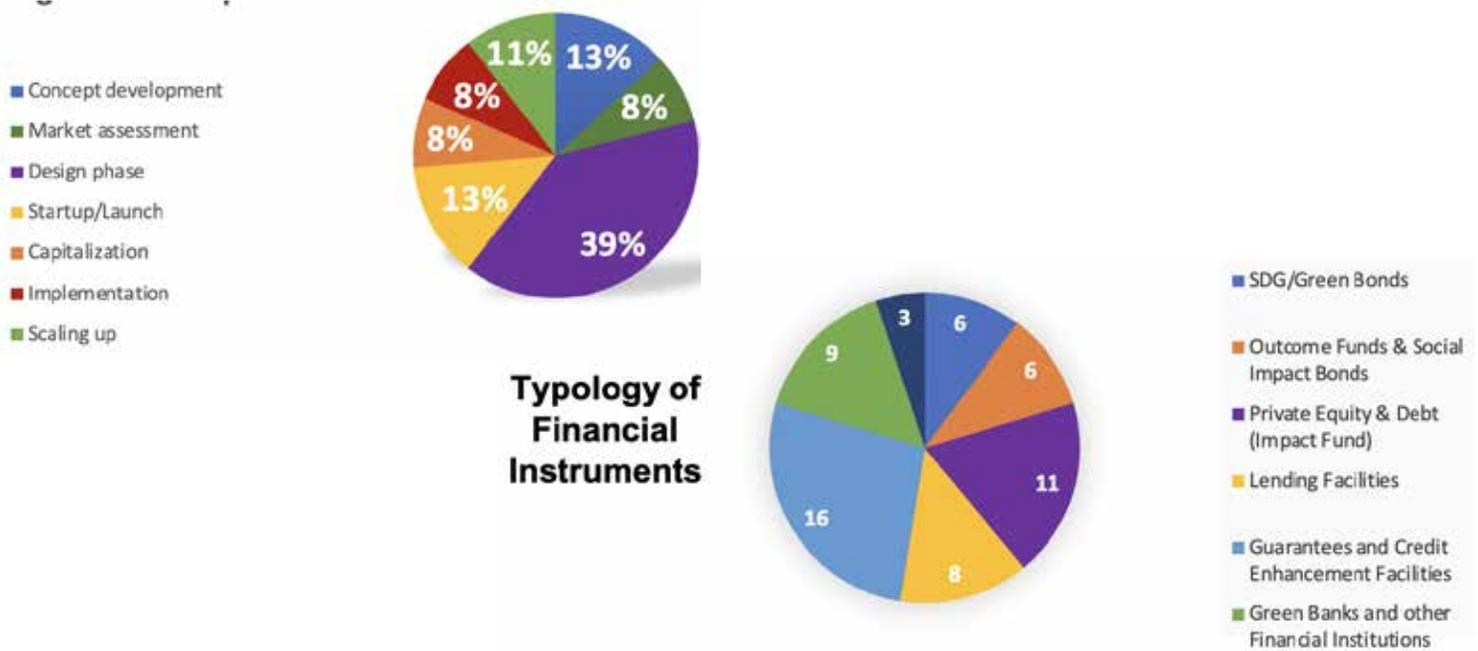
The 28 UNCTs all made significant progress toward the design of financial instruments/vehicles. These financial solutions were innovative either in their geographical application or in the social impact areas covered. In many instances they were the “first transaction of their kind” in the countries. A comparative analysis of the Fund’s portfolio with a database of blended finance transactions managed by Convergence highlight the ability of the Joint Fund to source blended finance transactions from typically under-represented sectors and countries, that have experienced severe challenges in mobilizing catalytic investments through conventional financing mechanisms. In terms of instruments, 94% of the designed instruments used concessional capital and 88% also combined these instruments with technical assistance facilities. One quarter of proposals plan to leverage results-based financing.

Each proposal had a unique combination of thematic focus, tailored to the country and developmental context. The proposals mostly targeted support to **Small and Medium Enterprises (SMEs - 82%)**, followed by **gender (75%)** and **climate (68%)**. Notably, **25% of the proposal focused on health** in direct response to the COVID-19 pandemic.

Examples include **Suriname’s** proposal focused on building a sustainable pineapple value chain; **Cambodia, Ghana, and Libya**, developed instruments related to water, sanitation, and waste; and **Rwanda** designed instruments to enhance rural health access UNCTs designed 59 financial vehicles / instruments along with 27 complementary technical assistance facilities. In January 2021, 32% of UNCTs reported at least one financial mechanism within their proposal ready for roll out. Remaining UNCTs are completing the design, assessment, or concept development of the instruments. As shown in the figure most instruments/vehicles are in the design phase, indicating that proposed interventions are still in their early stage, which significant variance stages of development.

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Stages of Development - Financial Instruments



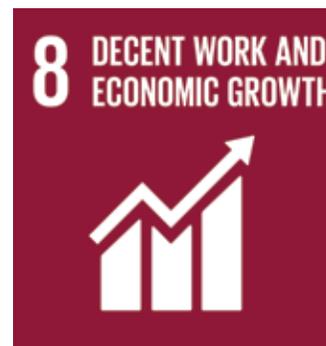
Guarantees, impact funds, green banks or other financial institutions and lending facilities are the most common financial instruments proposed by the UNCTs, often in combination. Examples include [Fiji](#), where the transactions aim to expand access to concessional lending and access to guarantees. In [Uruguay](#), the programme will roll out a lending facility and, in [Indonesia](#), the programme will launch a SDG-aligned lending scheme. [Iraq](#) and [Egypt](#) proposed a guaranteed scheme for SMEs in the agriculture, water, and energy sectors. [North Macedonia](#) will create a Green Financing Facility, which will partner with at least 7 of the country's 14 banks to provide financing to SMEs, households, and startups for renewable energy and energy efficiency.

Outcome funds and social impact bonds are tied with green bonds as the fifth most common instrument, with 6 UNCTs planning this type of intervention. [Ghana](#) included a performance-based grant for the WASH sector. Kenya, Rwanda, and Zambia proposed Social Impact Bonds for adolescent health, rural health access and shifting agriculture production out of tobacco.

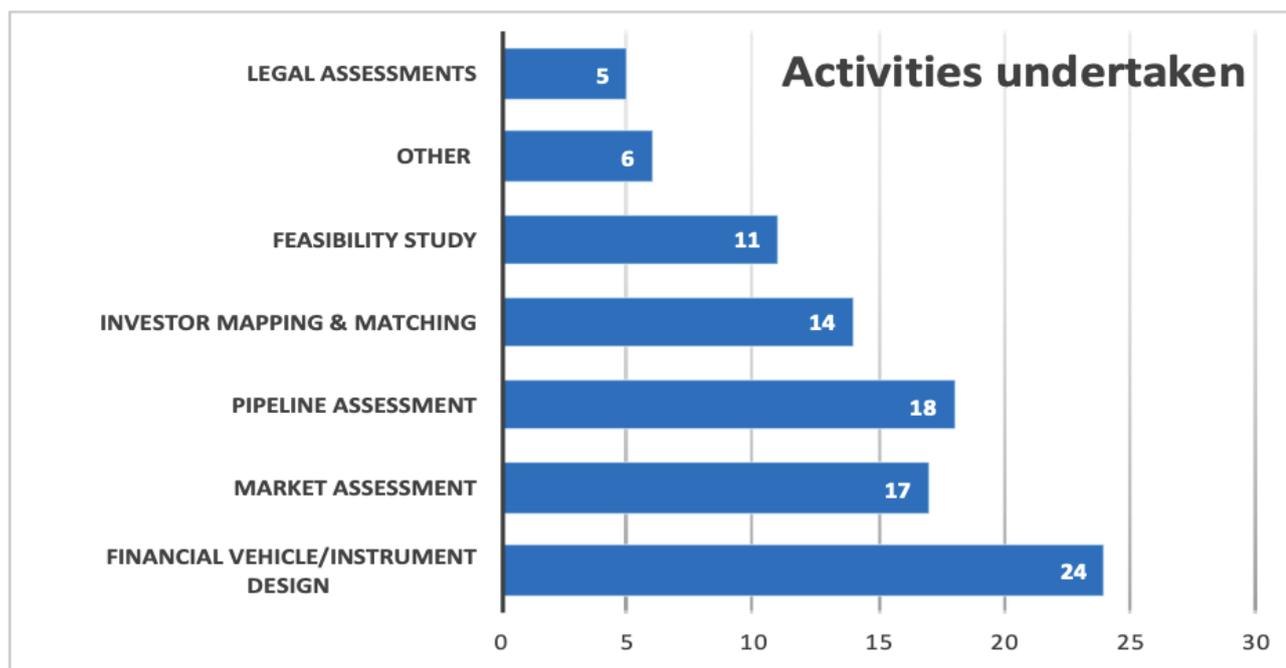
[Indonesia](#) proposed an ambitious schedule of thematic bonds, including pioneering issuances by sub-national entities with an estimated capitalization of over US\$4 billion. [Sri Lanka](#) studied the concept of a US\$1 billion SDG-linked sovereign bond. [Kazakhstan](#) designed a green bond to be issued by the publicly-owned Damu corporation to fund energy efficiency projects.

Proposals also included interventions providing direct or indirect support to national financial institutions. [Madagascar](#) proposed a Sovereign Fund to invest in key resilient infrastructure projects. The fund is expected to contribute to the intervention's leverage potential and is expected to leverage an additional US\$10 million from the Government of Madagascar alone.

Most UNCTs designed technical assistance facilities to operate alongside their financial vehicles. [Barbados](#) designed a technical assistance facility to provide financial and technical literacy to businesses that impact marine life and the blue economy. This facility is designed to provide US\$4.9 million in technical assistance, to complement the US\$5 million in performance grants and guarantees designed through the project's other two interventions



2. COMPLETING THE PRE-INVESTMENT PHASE: FEASIBILITY STUDIES AND ASSESSMENTS



Feasibility studies and assessments informed the financial design of the 59 financial instruments. UNCTs performed 95 activities including design trials and feasibility assessments, investment pipeline assessments, market reviews or legal assessments, and investors' mapping during the design phase.

Preparatory work for financial instruments/vehicles, with 86% of UNCTs reporting, was the most common reported type of activity. This included creating the design and structure for the financial instruments designed by the 28 UNCTs. Pipeline assessments ranked second (64%). The UNCTs in [Jamaica](#), for example, identified 25 potential investees as the emerging pipeline for the country's first impact fund. [Fiji](#) and [Barbados](#) both presented business opportunities in the management of marine protected areas.

Market assessments were the third most common activity (61%) followed by investor

mapping and matching (50%). [Bolivia](#) completed several market assessments to determine the best configuration of their intervention, including the country's digital financial services and sectors most impacted by COVID-19. [Jordan](#) built on their partnership with Social Value International and UN Global Compact Jordan from their Component I programme to begin identifying potential investors and partners. Ultimately, the team reported that they received a provisional commitment from the Innovative Startups & SMEs Fund (ISSF) of US\$1 million.

Feasibility studies were the fourth most common type of work. The UNCT in [Zambia](#) built upon a 2019 feasibility study for the tobacco bond and conducted a new feasibility study on interventions to support farmers. [Sri Lanka](#) initiated a study on the country's financing architecture to inform the design of the proposed sovereign bond.

3. PARTNERSHIPS, INVESTORS MAPPING

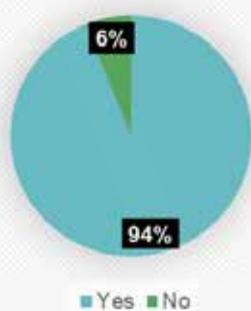


Results would not have been achieved without the major contributions of dedicated partners and future-investors: close to 500 partners were engaged at the global and local levels by the Secretariat and UNCTs. The UNCTs estimated that the financial instruments/vehicles could leverage up to US\$6.2 billion in catalytic investments from partners including international financial institutions and private investors. The engagement with partners goes well beyond financial contributions to include participation in co-creation of blended finance transactions.

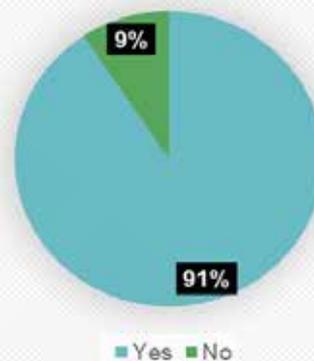
The Fun partnered with 6 UN agencies (FAO, ILO, UNDP, UNEP, UNFPA, WFP) and the Secretariat of Global Fund for Coral Reefs

to mobilize more than 80 investors to support the UNCTs. They convened in thematic “Investor Advisory Groups” to provide advice and comments on the proposed financial mechanisms. The members were grouped by five priority thematic areas under the leadership of one or more UN agencies: Blue Economy, Climate Action & Natural Ecosystems, Resilient Infrastructure, Agriculture & Food Security, and People & Health. Each group discussed each proposed programme at least twice: first, in an informal presentation given by the Fund’s Secretariat, and second, during a 45 minute “Deep Dive” session, where UNCTs presented their proposed financial solutions to the group members for their feedback. In a few cases, where time allowed, investors had one on one follow up interactions with the teams.

Investors Likely to Continue Engagement with SDG Invest in 2021



Investors Likely to Recommend SDG Invest to their Colleagues

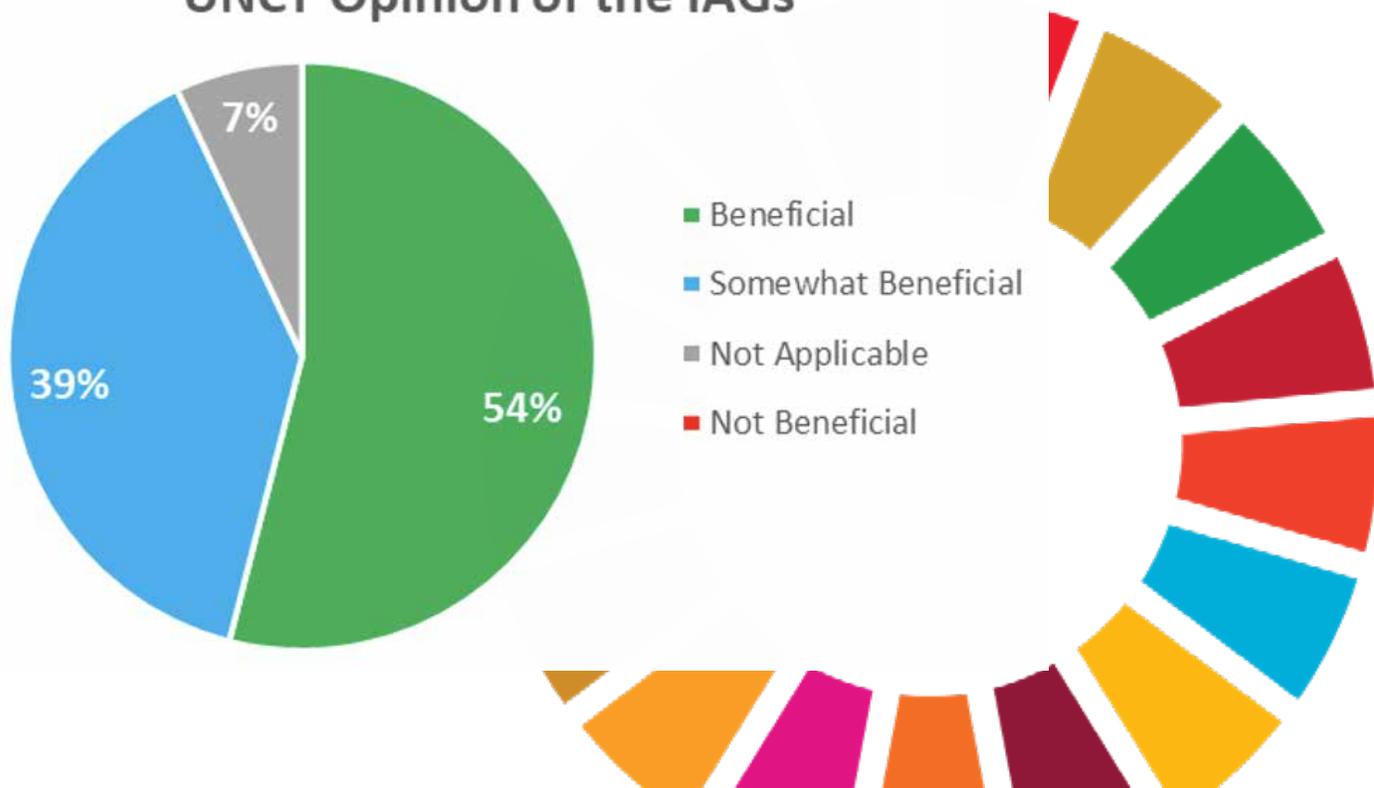


The Secretariat surveyed investors and UNCTs about the quality of engagement. All UNCTs and 80% of investors responded. The Fund met with all UN co-chairs of the thematic groups to validate and reflect on the findings.

The feedback was positive on both sides. Most UN teams found the IAG interactions helpful: 93% found the interaction beneficial or somewhat beneficial, while the remaining 7% had not been able to participate. Most investors (94%) noted that they would like to continue working with the Fund, 91% recommended the collaboration to their peers. UN co-chairs found the experience educational and innovative within the UN system.

Moreover, UNCTs identified 476 potential partners, and reportedly engaged directly with 334 partners. UNCTs obtained 89 signed letters of commitment. In several cases, partners took a central role in co-developing the intervention. In Angola, IFC worked closely with the UNCT to create a business model for the two proposed impact funds. In Kenya, the Children’s Investment Fund Foundation provided access to experts to ensure that the project’s Development Impact Bond was properly developed and helped to reach new investors. In Barbados, Mirova signed a letter of intent to invest in the fund, while Blue Finance helped the team establish a short-term pipeline. In Mexico, the team was able to interact with Nestle, which is anticipated to provide technology transfers and other support to small farmers who are beneficiaries of the project.

UNCT Opinion of the IAGs





“ UN & INVESTORS

“[ENGAGEMENT WITH INVESTORS] WAS STIMULATING, AND WE APPRECIATED THE OPPORTUNITY TO SHARE THE OUTLINE OF OUR PROPOSAL, AND TO RECEIVE FEEDBACK.”

- UNCT CAMBODIA

“THE DEEP DIVE SESSION WAS VERY USEFUL; THE INITIAL FEEDBACK RECEIVED BEFORE THE SESSION HELPED IN REFOCUSING IN ORDER TO MAKE A STRONG POINT BEFORE THE INVESTORS. FURTHERMORE, THE FEEDBACK RECEIVED ALSO GAVE US AN INDICATION ON THE VIABILITY AND THE INTEREST OF THE INVESTORS IN OUR PROPOSAL.”

- UNCT ZIMBABWE

“THE [INVESTOR ADVISORY GROUP] SESSION WAS EXTREMELY USEFUL AND WE RECEIVED A LOT OF FEEDBACK THAT HELPED US RE-ASSESS AND STRENGTHEN THE PROPOSAL.”

- UNCT SURINAME

“GREAT POTENTIAL FOR THIS ENGAGEMENT TO CREATE IMPACTFUL INVESTMENT OPPORTUNITIES THAT WOULD BENEFIT ISSUERS, INVESTORS AND THE PLANET.”

-STEPHEN M. LIBERATORE, CFA, NUVEEN

“WE DO NOT TYPICALLY SEE THE PROJECT PROPOSALS THAT ARE SO CLOSE TO THE GROUND. IN THE FUTURE WE WANT TO FOLLOW AND LEARN MORE ABOUT THE PROJECTS THAT GET JOINT SDG FUND FUNDING”

-LUCIE BERNATKOVA, ALLIANZ INVESTMENT MANAGEMENT

“THE PRIVATE SECTOR CAN IMPROVE THE SUSTAINABILITY OF THE IMPACTS IN THE LONGER TERM. FOR THIS, WE NEED COLLABORATION WITH THE LEADERS IN DEVELOPMENT”

- MARIE-LAURE BOURAT, SOCIETE GENERALE



4. CAPACITY DEVELOPMENT OF UN AND NATIONAL PARTNERS

The Joint SDG Fund, in partnership with Convergence, provided technical assistance to UNCTs. Light mentoring and coaching were offered to UNCTs as they embarked in developing and structuring innovative finance solutions. This included, review of documents, discussion of critical challenges and success factors, advice on the design and appropriateness of financial instruments, investor matching, and identification of appropriate expertise and consultants. This light support was combined with the funding managed by the UNCT to hire support on the ground. The Fund also directly interacted with experts from the Headquarters of the UN agencies in organizing advisory support and managing the investors' advisory groups.

The response from the UN agencies was positive. For example, the UNCT in Bolivia found that the technical assistance gave its team the ability “to better focus and land the proposal and identify the main strategic allies of the Bolivian financial market.” The UNCT in Moldova noted that the engagement with the Fund Secretariat and Convergence helped their team “to refocus certain aspects of the design of its proposal on activities that are much more in line with SDG Fund and investors' expectations,” giving them the capacity to create a logical proposal, which appealed to the private sector. Zimbabwe's team told the Secretariat that the technical assistance gave them the tools “to deepen the articulation of critical aspects of [their] proposal.”



Country Highlights

Fiji

Fiji’s programme will use blended finance to combat coral reef degradation, which has been identified as a critical issue in the country. During the preparatory phase, the UNCT in Fiji reported that it designed its financial instruments, completed a pipeline assessment, and completed investor mapping and matching. The team designed a total of 3 financial mechanisms and engaged directly with 6 partners. The programme estimates that it will secure US \$50 million in financial leverage in the investment cycle.



Malawi

Malawi’s programme will create a Malawi specific window of blended finance facility that will help eliminate poverty, reduce hunger, and increase employment across the country. The team noted that they were able to design financial instruments and complete pipeline assessments and legal assessments during the preparatory phase. The team designed 3 financial mechanisms and engaged directly with 4 key partners. This programme is expected to obtain US \$28million in financial leverage.



Indonesia

Indonesia’s programme will create a new generation of financial products to combat climate change at scale by transitioning the country toward low impact energy, protecting the environment, and empowering the creation of women led small businesses and a new generation of impact-driven enterprises. The team in Indonesia including thematic bonds, impact funds and SDG-linked loans, and a TA facility during the design phase. The programme aims to secure an estimated US \$4.55billion in financial leverage.



Uruguay

Uruguay’s programme will provide funding for Uruguay’s second energy funding transition, which will shift the country’s transportation and industry sectors to renewable energy therefore, reducing Uruguay’s impact on the climate. The team in Uruguay reported completing financial instrument design, market assessments, feasibility studies, a pipeline assessment, and investor mapping and matching. The team designed 1 financial instrument, 1 TA facility and engaged directly with 14 potential partners. The programme in Uruguay estimates it will secure US \$68.1 million in financial leverage.





CHALLENGES AND LESSONS LEARNED

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Co-creating large scale and sustainable blended finance mechanisms in emerging and frontier markets is a complex task. Moreover, most countries had planned for an easing of COVID-19 restrictions in the last quarter of 2020 to allow closer interactions with stakeholders and the targeted communities. In most cases, COVID restrictions were not lifted and 75% of country teams reporting challenges in implementation associated with the pandemic.

For some UNCTs, the preparatory funding and the four-month period were not enough to prepare a joint programme of this size and ambition. Uruguay noted that this was the first time their team had engaged closely with the private sector and they found the engagement challenging on certain aspects. The preparatory phase was instrumental to allow meaningful relationships to be built. Sudan noted challenges in the interactions with partners because the COVID-19 restrictions prevented in person meetings, but the team was ultimately able to schedule virtual meetings and was able to secure US\$7 million in commitments from commercial banks. Ghana struggled to identify strategies to reach a sufficient leverage ratio for the proposed mechanisms. Other UNCTs reported difficulties in the

procurement process. Even though all teams highlighted that the formulation process was valuable to facilitate UN collaboration, 18% indicated to have encountered barriers in terms of UN coordination.

UNCTs noted that while the interactions with investors were helpful, additional direct one on one interactions would be beneficial to meaningfully incorporate the advice and feedback received. Similarly, investors noted that closer interactions, advanced background material, and more time would have improved the quality of the engagement. Investors and UNCTs alike also noted that they would prefer the groups and the terms of their interactions to be more tailored to needs. Several investors, for example, noted that while they enjoyed the interaction, they did not get to interact with proposals in their institution's regional focus, making it much more difficult to build longer term relationships with the country teams and with the proposals.

Several lessons learned were drawn based on the design phase work and interactions. A technical paper prepared by Convergence analyzed the design-phase work along with constructive recommendations. With the feedback received, the Fund has reinforced its process and improved the design of this unique UN platform, which will be launched as "SDG Invest 2.0", which is currently under development. the groups and the terms of their interactions to be more tailored to needs. Several investors, for example, noted that while they enjoyed the interaction, they did not get to interact with proposals in their institution's regional focus, making it much more difficult to build longer term relationships with the country teams and with the proposals. Several lessons learned were drawn based on the design phase work and interactions. A technical paper prepared by Convergence analyzed the design-phase work along with constructive recommendations. With the feedback received, the Fund has reinforced its process and improved the design of this unique UN platform, which will be launched as "SDG Invest 2.0", which is currently under development.



Sustainable Development Goals

- 1 No Poverty
- 2 Zero Hunger
- 3 Good Health and Wellbeing
- 4 Quality Education
- 5 Gender Equality
- 6 Clean Water And Sanitation
- 7 Affordable and Clean Energy
- 8 Decent Work And Economic Growth
- 9 Industry, Innovation and Infrastructure
- 10 Reduced Inequalities
- 11 Sustainable Cities And Communities
- 12 Responsible Consumption and Production
- 13 Climate Action
- 14 Life Below Water
- 15 Life on Land
- 16 Peace, Justice and Strong Institutions
- 17 Partnerships for the Goals

The Joint SDG Fund receives support from the

 European Union and governments of:

-  Denmark
-  Germany
-  Ireland
-  Luxembourg
-  Monaco
-  the Netherlands
-  Norway
-  Portugal
-  Spain
-  Sweden
-  Switzerland

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