# LOCAL INSIGHTS, GLOBAL AMBITION

## UNLOCKING SDG FINANCING: GOOD PRACTICES FROM EARLY ADOPTERS

UNITED NATIONS DEVELOPMENT OPERATIONS COORDINATION OFFICE

Dag Hammarskjöld Foundation

# THE 2030 AGENDA AND FINANCING NEEDS

Between USD $3.3-4.5 trillion per year needs to be mobilized if we hope to achieve the 2030 Agenda for Sustainable Development. At today's level of public and private investments in SDG-related sectors, developing countries face an average annual funding gap of USD 2.5 trillion.[1] Although Official Development Assistance (ODA) remains an important financing mechanism, especially in least developed countries, only USD 146.6 billion in ODA was secured in 2017,[2] which is not nearly enough to achieve the ambitious goals laid out in the 2030 Agenda.

This does not mean that ODA is irrelevant. Rather, it must be used more strategically—as an instrument to secure other sources of finance: public and private, domestic and international. The shift from "funding" to "funding and financing" places new demands on international development partners, including large foundations, non-governmental organizations (NGOs) and the United Nations (UN). Governments, the UN, public and private sector entities, and civil society need to apply context-relevant models of innovative financing that can accelerate the SDGs and ensure that no one is left behind.

## PERSPECTIVE SHIFT: FROM FUNDING TO FINANCING

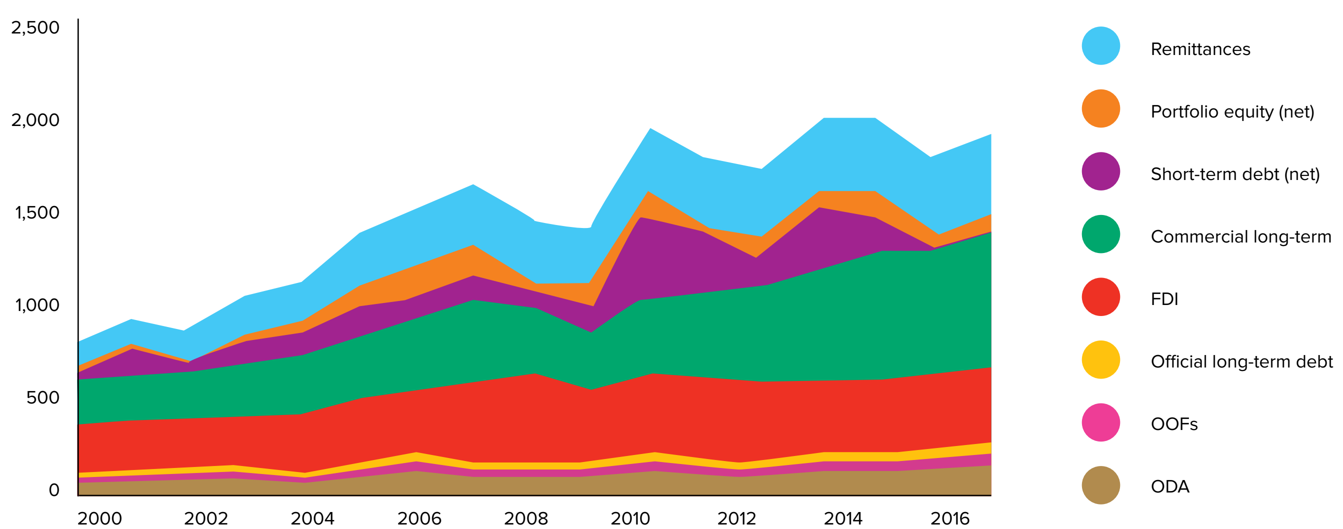
The Secretary-General's June 2017 report about repositioning the United Nations Development System (UNDS) to deliver on the 2030 Agenda[4] emphasizes the financing needs for the SDGs and calls for a comprehensive overhaul of the UNDS approach to financing. While governments attract various investors and mobilize different types of finance a new generation of United Nations Country Teams (UNCTs) need to become better equipped to support governments in overcoming critical challenges to financing the SDGs.

The 2017 UNDAF guidance note[5] elaborates the shift from a "funding" to "funding and financing"[6] approach where UNCTs should support the (re)structuring of different financial flows to achieve a common result. To maximize the chances of achieving the SDGs, all financing flows must be aligned towards attaining the SDGs.

**The UNDS needs to support governments by 1) ensuring that limited ODA resources are used to attract additional resources and 2) bringing in and mobilizing investments for national priorities.**

1 UNCTAD World Investment Report, 2014.
2 ODA estimates, OECD.
3 Source: Development Initiatives, based on various sources. For methodology and sources see: http://data.devinit.org/methodology.
4 See: https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/qcpr/sg-report-on-unds-qcpr-june-2017.pdf.
5 See: https://undg.org/document/2017-undaf-guidance/.
6 See: https://undg.org/wp-content/uploads/2017/06/Funding-to-Financing-Companion-Pieces.pdf.

**FIGURE 1. RESOURCE INFLOWS FOR ALL DEVELOPING COUNTRIES, 2000 - 2016[3]**



# PURPOSE OF THIS STUDY

This report summarizes the findings from a United Nations Development Operations Coordination Office (UN DOCO) and Dag Hammarskjöld Foundation joint study on progress and challenges in countries where the UN has secured and used innovative financing. Experiences from **Kenya, Indonesia** and **Armenia** were examined, countries where UNCTs are "early adopters" in helping governments and national partners unlock broader, non-traditional financing for development. Also included in the study is **Colombia**, an example of a country with ambitious plans but at an earlier stage of implementing the "funding and financing" shift.

In examining progress of these early adopters, the study focuses on opportunities for the UN in the financing field so other UNCTs following similar paths can learn from and build on these experiences. In addition, the four country case studies briefly highlight challenges encountered in adopting new financing approaches, so they can, where possible, be addressed corporately.

## COUNTRY CASE STUDY METHODOLOGY

In August 2017, UN DOCO conducted a survey to understand what innovations in financing were taking place at the country level and identify promising practices from across the UNDS. The survey cast a wide net across the spectrum of development finance at the country level and looked at two aspects:

- **TAPPING INTO NEW TYPES OF FINANCING:** Initiatives that draw on new resources, be it public, private or at the intersection of the public and private sectors.
- **USING RESOURCES IN NEW WAYS:** Initiatives that use existing resources in new ways to increase impact by spending money more effectively and efficiently.

Eighty-five responses were received from twelve United Nations organizations and Resident Coordinator Offices (RCOs) in all regions. The high response rate indicated that innovative financing is an important topic for many UN country offices.

Armenia, Indonesia and Kenya[7] were selected as good practice countries and an independent consultant visited all three in early 2018, interviewing professionals from the UN, government, private sector, and other development organizations. Findings were presented at a validation workshop in Uppsala, Sweden in April 2018[8] where UN practitioners and external financing experts (those who already employ new financing approaches) met to share their experiences in unlocking innovative financing for the SDGs. The section below presents consolidated findings from Armenia, Kenya, Indonesia and Colombia. To get more insight on the processes at the country level, the individual country reports are accessible at the UN DOCO or Dag Hammarskjöld Foundation websites.

# UNCT EARLY ADOPTERS: ACCELERATING SDG PROGRESS THROUGH NEW MODES OF FINANCING

## ARMENIA: IMPACT INVESTING[9]

A middle-income country, Armenia is piloting innovative ways of financing the SDGs. Two main sources are tech and the venture capital ecosystem linked to it, and investments from a large, wealthy diaspora. Dubbed "the Silicon Valley of the former Soviet Union," Armenia has morphed into a thriving tech start-up hub, which has attracted global recognition. Financing initiatives in Armenia have followed two major trends since 2015: the emergence of social enterprises and a shift from traditional philanthropic activities towards venture philanthropy and impact investing.

The UN in Armenia has taken advantage of the shift by setting up a Country Platform for SDG Implementation. The platform is aligned with national reform and SDG efforts, providing a collaborative space for the UN, development partners and civil society to strengthen relationships or develop new ones with International Financial Institutions (IFIs), donors and philanthropists. Additionally, an SDG Innovation Team was established within the UNCT, comprised of specialists with a background in finance and the private sector.

### A CLOSER LOOK

**The Kolba Social Innovation Lab**, launched by UNDP in 2013,[10] addresses social challenges by gathering ideas from citizens

7 Individual case studies can be downloaded from https://www.daghammarskjold.se/
8 See: https://www.daghammarskjold.se/oh-the-things-you-can-find-if-you-dont-stay-behind/
9 The Armenia Country Case Study is available online at https://www.daghammarskjold.se/
10 See: kolba.am/en/.

and providing a space where institutions can respond to, and support, these ideas. Since its launch, the Kolba Lab received 580 ideas and incubated 40 start-ups within the Government, public and private sectors. The success of the Kolba Lab led to the creation of **the ImpactAim Venture Accelerator.** The UNCT found that new start-ups and social enterprises needed more support following the incubation phase if they were to grow and access new markets, increase visibility to investors and secure capital. As a result, the ImpactAim Venture Accelerator,[11] established in December 2017 by the UNCT in partnership with ImpactHub Yerevan and the Catalyst Foundation,[12] provides tailored mentorship and a specially designed curriculum for ventures to strengthen their market presence, scale impact and increase their investment absorption capacity.

> **"How do we achieve a smarter, leaner system for tackling development issues while making it relevant and attractive for the government, development partners and the private sector?"**
>
> – The UN Resident Coordinator in Armenia

### LEVELLING UP: THE FUTURE OF DEVELOPMENT FINANCING IN ARMENIA

As for next steps, the UNCT in Armenia plans to launch various new initiatives to help secure scalable private finance flows for the SDGs. The country team will set up a Venture Impact Fund, launch social investment bonds (Impact Bonds, Diaspora Bonds, Green Finance), and introduce a financing facility worth USD 10 million to invest in Armenian companies that have direct social and environmental impact, and positive financial returns.

## INDONESIA: ISLAMIC FINANCING[13]

The largest economy in Southeast Asia, Indonesia has achieved impressive economic growth since the financial crisis of the late 1990s. A diverse archipelago of more than 300 ethnic groups, Indonesia is home to the world's largest Muslim population and 10th largest economy in terms of purchasing power parity. To make continued progress, the country needs to ensure economic growth is more inclusive and 'green' so it can effectively support the acceleration of the SDGs.

Indonesia's current medium-term development plan runs from 2015 to 2019 and focuses on infrastructure development and social assistance programmes related to education and healthcare.[14] These plans are being implemented in an evolving financing landscape where there is little international financing and ODA has been steadily decreasing. Domestic private investment has been the dominant form of financing in the country.

### A CLOSER LOOK

The UNCT in Indonesia has implemented a range of activities and experimented with new forms of finance to support SDG achievement—this includes blended finance instruments, Islamic financing for the SDGs, crowdfunding campaigns for environmental projects, launching the first sovereign wealth fund, and setting up an Innovative Financing Lab.

The UNCT has turned to **crowdfunding campaigns** as a new mode of financing that can accelerate SDG progress.[15] In 2016 and 2017, UNDP implemented two successful crowdfunding campaigns for livelihood and environmental initiatives that are now being scaled up into an SDG crowd funding platform.[16]

Furthermore, the growing **social entrepreneurship system** in Indonesia has the potential to positively disrupt numerous sectors. Noting this potential, the UN in Indonesia is helping young social enterprises access funds by collaborating with ANGIN:[17] the first and largest Indonesian angel investor network with more than 70 investors, including 30 women. A similar initiative the UNCT is supporting is **Connector.Id**, an online matchmaking fund that connects possible investors with entrepreneurs from around the country.

### LEVELLING UP: THE FUTURE OF DEVELOPMENT FINANCING IN INDONESIA

Because of its potential, the country team is embracing **Islamic financing** for SDG achievement. If successful, it will be the largest source of financing for achieving the country's development goals. To build momentum the UNCT hired staff with the right background and experience and selected institutional partners that can leverage systemic change: central and provincial governments, local banks, and partners like ANGIN.

In April 2017, UNDP aligned and channelled *zakat* charitable funds collected and managed by *Baznas*, the national agency responsible for collecting and distributing zakat. Commitments

11 See: http://impactaim.com.
12 See: https://www.catalyst.am/.
13 The Indonesia Country Case Study is available online at https://www.daghammarskjold.se/
14 Indonesian Ministry of National Development Planning (BAPPENAS) https://www.bappenas.go.id/id/data-dan-informasi-utama/dokumen-perencanaan-dan-pelaksanaan/dokumen-rencana-pembangunan-nasional/rpjp-2005-2025/rpjmn-2015-2019/.
15 See: https://goo.gl/gnEeKg.
16 See: https://kitabisa.com/savesumatrantiger.
17 See: http://angin.id/.

supported a micro-hydro energy project in rural Sumatra and improved access to water, renewable energy and livelihoods in remote parts of Indonesia. Other religious funds, such as *Waqf* (Islamic assets or cash endowments), have been tapped: UNDP and the national *Waqf* board of Indonesia recently joined forces to develop a digital *Waqf* platform through blockchain technology. The platform will be used to fundraise for the SDGs and sustainable, long-term *Waqf* modes of financing.

The UN also collaborated with the Ministry of Finance to integrate the 2030 Agenda into the national budget process. With a focus on climate change, UN support resulted in the launch of a public financial information management system that tracks climate related allocations and expenditures. Technical assistance also led to the first government-issued green *Sukuk* bond[18] (February 2018) where proceeds will be allocated to climate or environment-related projects.[19]

## KENYA: PRIMARY HEALTH CARE FINANCING[20]

Every year, one million people in Kenya fall into poverty and stay there because of a fractured health system.[21] Universal Health Care (UHC) has the potential to transform the lives of millions of Kenyans and was prioritized in the national "Big 4 Action Plan" announced in January 2018.[22] The UHC covers the full spectrum of essential, quality health services from health promotion to prevention, treatment, rehabilitation and palliative care. The ambition is to cover 51.6 million Kenyans (projected population) by 2022.

But to achieve UHC, resources need to be mobilized through new partnerships with the private sector, philanthropic organizations and civil society, and opportunities for blended financing (including venture philanthropy and impact investing) need to be harnessed. The UNCT, in the meanwhile, is providing support by focusing on the United Nations Development Assistance Framework (UNDAF) health-related areas of water, sanitation and hygiene (WASH), multi-sectoral HIV and AIDS responses, and social protection.[23]

> **"It is important to align shared value partnerships that lead to enlightened self-interest incentives for everyone."**
> – UN Resident Coordinator in Kenya

### A CLOSER LOOK

**The Private Sector Health Partnership Kenya (PSHP),**[24] launched in September 2015, is a joint venture between Safaricom, Huawei, Philips, MSD, Unilever and GSK. PSHP complements on-going efforts to improve maternal health in the six counties[25] that account for 50% of all maternal deaths. PSHP commitments from private partners total USD 3 million. As a result of this initiative, a number of public-private partnership initiatives have taken off, inspiring partners to develop models that offer the best of both public and private sector with the potential for scaling-up health care delivery for vulnerable and poor populations in low-resource settings.

Similarly, the **SDG Philanthropy Platform in Kenya**,[26] launched in November 2014 and run by a talented team with experience from the private sector, maps and supports coordination in the philanthropy sector and outlines pathways for individuals to work with the UNCT, using the UNDAF to engage in mainstream development dialogues. Following multiple data training workshops, the creation of a joint working group, new collaborations in the Early Childhood Development and Technical and Vocational Training sectors in Kenya, platform members are taking the lead in driving cross-sectoral opportunities in Early Childhood Development and nutrition across the UHC and "Big-4 Agenda."

### LEVELLING UP: THE FUTURE OF DEVELOPMENT FINANCING IN KENYA

The UNCT's primary comparative advantage in Kenya is its close and trusted relationship with government agencies at all levels of society. Building on momentum achieved through PSHP and the SDG Philanthropy Platform, the government and UNCT launched the SDG Partnership Platform in April 2017 to work across multiple SDG clusters. Since April 2017, initial funding and technical in-kind support has been mobilized for platform operations.

What's more, the UN and its partners launched MPTF and parallel funding mechanisms in 2017 to provide ongoing support. Through these, and similar, public and private sector channels the platform mobilized USD 1.5 million in blended financing and is securing another USD 3 million in in-kind support.

18 Sukuk is a name for financial certificates that are "sharia compliant" bonds. The first green bond was launched by Poland in 2016 and raised €750m in five-year paper.
19 UNDP (2018), 'Indonesia Tackles Climate Change through the Issuance of Green Sukuk (Islamic Bond)', https://goo.gl/SJ7ZA7.
20 The Kenya Country Case Study is available online at https://www.daghammarskjold.se/
21 Thomson Reuters Foundation, February 2018, http://news.trust.org/item/20180209112650-s1njv/.
22 Kenya's President, Uhuru Kenyatta in "Daily Nation," 23 January 2018, https://goo.gl/UDJCHF. The other three pillars include food security, affordable housing and manufacturing. By 2022, the government hopes to raise the share of manufacturing sector from 9% to 15% of GDP, expand food production and supply, provide universal health coverage for all Kenyans, and build 500,000 affordable houses.
23 UNDAF (2014-2018) for Kenya https://goo.gl/kuZRL7.
24 See: www.pshpkenya.org.
25 Migori, Mandera, Marsabit, Wajir, Isiolo, and Lamu.
26 See: https://www.sdgphilanthropy.org/Kenya.

### FINANCIAL FACILITY

Match quality projects with potential investors, through a plaform that provides visibility to projects that directly contribute toward the achievement of SDGs in marginalised regions, in strategic sectors, such infrastructure, renewable energy, and agriculture.

Unlock private investments by derisking, through innovative financial instruments, that blend ODA, public and private funds.

### CAPACITY DEVELOPMENT FACILITY

Support local authorities to develop sustainable and financially feasible projects portfolio.

Provide technical assistance to local private sector partners (ex. Chamber of commerce, association of SME etc) to strengthen local business fabric and value chains.

### BUSINESS ENVIRONMENT FACILITY

Enhance policy dialogue between public and private sectors, to identify constrains to investments and SDG accelerators.

Support structural reforms that improve inclusive business environment and foster conditions for investments at the national and local level.

Establish a high-level forum to facilitate knowledge-sharing on new models and best practices accelerating private sector investments in key sectors.

## COLOMBIA: INNOVATIVE FINANCING TO SUSTAIN PEACE

The peace agreement between the government and Revolutionary Armed Forces of Colombia (FARC-EP) in 2016 was a significant step for Colombia to overcome decades of armed conflict and violence. Sustaining peace, however, will require addressing development gaps in the country, which includes targeting the most remote regions and marginalized populations.

Over the past five years Colombia has received a high percentage of ODA, but these resources are limited and will only be available for a short period. This means there is an urgent need to unlock new financing pathways for SDG implementation—with a focus on implementing the recently signed peace agreement. The government and UNCT have identified several challenges to financing in the most remote and fragile parts of Colombia; risks related to financing certain types of businesses (e.g. agriculture) in remote locations or finding the right investors for small and medium enterprises and start-ups. Other bottlenecks include a lack of local expertise for formulating comprehensive investment plans to attract private investment or develop public-private partnerships, complex and changing legal contexts, or a reduction in public investment due to slow economic growth.

### LEVELLING UP: THE FUTURE OF DEVELOPMENT FINANCING IN COLOMBIA

To overcome limitations, the UNCT, government and development partners are launching an initiative that combines **innovative financing with capacity development and business environment facilities**. The initiative is expected to mobilize public and private investments that improve economic and social development in hard-to-access regions, as well as empower local authorities to attract investments for infrastructure, renewable energy, and health sectors through project portfolio plans and public and private partnerships. Other outcomes will include improving the overall business development environment, reducing barriers to investment, reviewing legal contexts and focusing on shared priorities between the public and private sectors.


СТАЛОГО РОЗВИТКУ
11 СТАЛИЙ РОЗВИТОК МІСТ ТА СПІЛЬНОТ

# WHAT'S STOPPING US? COMMON CHALLENGES

Development financing has entered a new era and the UN has to embrace the change, particularly since the cost of solving the world's most critical problems will run into the trillions. If the UN aims to support governments in effectively harnessing the potential of innovative financing, it is important to analyse some of the challenges UNCTs are facing as they explore and adopt new methods of financing. Some challenges can be addressed at country level while others require corporate attention.

The most common encountered across country case studies fall into the following categories:

- CLARIFYING AND SHARPENING THE ROLE OF THE UN
- IMPROVING INTERNAL AND EXTERNAL CAPACITIES, SKILLS AND COHERENCE
- REINFORCING SYSTEM ARCHITECTURE TO OVERCOME LEGAL AND ADMINISTRATIVE OBSTACLES
- KNOWLEDGE MANAGEMENT
- MANAGING RISK AND MEASURING IMPACT

## CLARIFYING AND SHARPENING THE ROLE OF THE UN

**Unclear financing vision.** The UN needs a clearer corporate financing vision (across country, regional, and headquarter levels) if it is to successfully en gage strategically with partners for increased impact. The experience in Armenia shows that the UN is one of many development partners in a rapidly changing context where more players are getting involved (diaspora, private foreign and national investors, international philanthropic organizations).

UNCTs need to react quickly to opportunities and needs, creating a niche in the social innovation and impact sectors. This involves showcasing its ability to 'add value' in a sector that is viewed as highly technical and often reserved for those with decades of experience. Furthermore, some UN organizations only focus on the macro level, engaging mainly with policy makers, while others are involved in policy making and implementation. If the UN role and level of intervention in financing are not clarified the UN runs the risk of only being seen as an implementing partner and losing the opportunity to broaden its role. Strategic communication, by default, plays a major role in the design and planning phases and should be factored in from the outset.

**Insufficient project pipeline.** If UN products and services are not high-quality or substantial (e.g. change is more symbolic than real or project management is poor) they will not succeed. It is critical to develop an approach that includes transformative and truly scalable initiatives that move beyond fragmented pilot projects. In Indonesia, this is partly addressed through UNDP and ANGIN's work towards setting up the first blended finance fund (SDG Impact Fund Negara) by December 2018, targeting 120 early-stage social enterprises across the agricultural value chain.

**Donors are unfamiliar with the role of the UN in new financing.** All countries face this challenge, especially with regards to securing seed funding to scale up financing initiatives. Some donors are reluctant to work with the UNCT because they are not used to seeing the UN working in the finance or business sector or the UN does not present a strong business case for their new role.

## IMPROVING INTERNAL AND EXTERNAL CAPACITIES, SKILLS AND COHERENCE

**Limited in-house capacity.** Generally speaking, the UN has inadequate in-house skills and sometimes lacks confidence when it comes to understanding and speaking the language of investors in the private sector. This may result in internal resistance to exploring or adopting new financing modalities. More importantly, it results in UN organizations that struggle to design relevant proposals with a clear business case, attract private sector interest, and pitch ideas to private sector partners and/or investors. UNCTs in Armenia and Kenya have overcome this limitation by partnering with those who have complementary expertise. In all pilot countries, the leadership and commitment of the Resident Coordinator and participating Heads of Agencies have been instrumental in developing and implementing initiatives.

However, if initiatives are to thrive, support from experienced staff/experts is required. While UNCTs in Armenia, Indonesia and Kenya have access to qualified national staff they believe that contracting local companies and expertise, where possible, helps create local value and develop local capacities and buy-in. The SDG Partnership Platform Secretariat in Kenya is funded primarily by the private sector and philanthropic organizations.

## REINFORCING SYSTEM ARCHITECTURE TO OVERCOME LEGAL AND ADMINISTRATIVE OBSTACLES

**Current rules and regulations lack flexibility, are not tailored to new financing, and do not provide room for trial and error.** UN staff in all three countries noted that current administrative and procurement system requirements are burdensome and not flexible or fast enough to allow for working with the private sector in an efficient way. Current rules and regulations may restrict direct support to any private sector for-profit entity (including start-ups and SMEs) unless they are explicitly categorized as a beneficiary of a project co-signed by the government.

Inflexible rules and regulations, coupled with pressing demands to show results, make it challenging for some UN organizations to test pilot initiatives or take risks when moving from funding to financing models or engaging with the private sector. More flexibility is needed within the UNDS so the UNCT can balance the demand for concrete results with a practice that allows for experimentation through trial and error. The UN has to be able to design and test financial tools and products to efficiently engage private sector partners in SDG financing.

**The UN doesn't have enough 'skin in the game'.** To identify bankable initiatives a UNCT needs to have enough resources and seed money available so it can contribute to the joint initiatives it hopes to establish. Domestic and UN legal and administrative restrictions often slow down processes, which may stem from the fact that UN operational and financial frameworks were largely set up to invest ODA resources and are not in sync with the contemporary financing reality. In addition, to engage the broader UN system in a country—as opposed to having one UN agency 'drive' the initiative—more UN organizations have to buy into the process.

### KNOWLEDGE MANAGEMENT

**Insufficient and fragmented knowledge sharing.** Limited knowledge sharing across UN organizations is a constant challenge. In Armenia, there is no single online "home" to house links and information on various financing or SDG initiatives, which is why the UNCT in Armenia launched the SDG Innovation Lab webpage to close information gaps. Knowledge management challenges have to be addressed at the country level and by the UN Sustainable Development Group (UNSDG) at headquarters level.

**Limited system-wide guidance and tools.** Impact fund investors demand rigorous measurement, monitoring and reporting of social and environmental portfolios and funds. But while monitoring and evaluation is an area of expertise for the UN, the need for periodic impact assessments creates additional costs. The UN can overcome this by designing, or agreeing to use, a common framework for impact measurement that works for public and private partners alike. Furthermore, UNCTs receive limited guidance on how to work in the field of innovative financing. Lack of system-wide guidance across the UN system is a major impediment for UNCTs keen to work in the financing field.

**The UN needs more robust and tailored data and evidence.** UNCTs in all pilot countries prioritized data collection and management, which includes monitoring and evaluating progress towards attaining national SDG targets. Despite this, most struggled to meet the data demands of private sector partners, where it was requested that data relevant to individual business practices be collected, analysed and disseminated in a way that is easily understood by business leadership and technical analysts.

### MANAGING RISKS AND MEASURING IMPACT

**Reputational risk due to perceived 'market distortion'.** UNCTs in all three countries shared concerns about being seen to subsidize or undercut the market because the UN adopted innovative financing initiatives. Reputational risks affect the view of the UN as a "neutral broker," which is one of the UN's primary competitive advantages.

**Balancing quick wins vs. due diligence.** Establishing lasting partnerships with the private sector and philanthropic organizations takes time and it is challenging to strike the right balance between making quick progress and getting results. Partners need to be chosen carefully and due diligence should be performed to avoid ethical issues and conflicts of interest.

**Managing expectations.** Related to the previous point, it is imperative to clarify the expectations social enterprises and private companies have about the UN. Many new partners are attracted by the UN global network, its local knowledge and expertise, and access to markets and governments. However, the majority of UN organizations at the country level do not have enough 'new-finance' resources or expertise to successfully engage with private sector partners. What's more, the UN needs to manage internal and external expectations regarding what can and cannot be achieved due to corporate rules and regulations.

## MAKING MONEY MOVE: OPPORTUNITIES FOR FINANCING THE SDGs

The United Nations has a crucial role to play in redirecting capital towards the SDGs—experience from early adopters has shown what possibilities exist—but it can only be achieved if meaningful and strategic partnerships are developed outside the organization and the UN adopts new avenues of financing. The opportunities for, and added value of, the UN lie in bringing together partners, training and recruiting experts and strong leadership, scaling up technical capacities and advisory roles, measuring impact, boosting data collection and analysis, sharing knowledge, as well as other operational comparative advantages.

Although there are countless ways to pivot and progress, one of the most important involves attitude: daring to be a brave and adopt a "just do it" approach, while at the same time being clear-eyed and practical. Some of the reforms highlighted in this report require time to be instituted, but since change tends to be incremental in the UN one clear suggestion to other UNCTs is to **not wait for everything to be in place before embarking on new initiatives or adopting new models of financing.**

## IMPACT INVESTING

**Impact investing refers to investments made to companies, organizations, and funds with the aim of generating a measurable, beneficial social or environmental impact alongside a financial return.**

Below are a few of the recommendations raised in the validation workshop for this pilot exercise.

### CAPITALIZE ON FINANCING OPPORTUNITIES

The SDGs are more than just an aspirational framework for governments—they are a roadmap for business opportunities for securing trillions in financing. The corporate and financing worlds are slowly but surely turning their focus to sustainable development and exploring how they fit into the sector. In addition to increasing public-private partnerships, there are various other financial opportunities waiting to be "unlocked" and explored.

Recent studies[27] show a growing number of blended finance sources have helped progress development aims. Official development finance interventions mobilized USD 36.4 billion from the private sector between 2012 and 2014 in the form of **guarantees, syndicated loans and shares in collective investment vehicles** (development-related investment funds).[28] **Socially responsible investing** has exceeded USD 6 trillion per year, growing more than 76% since 2012 and meeting or exceeding market returns.[29] Impact investors and development finance institutions have led the way in creating a **new impact investing asset class** that is projected to grow from USD 51 billion in 2014 to USD 400 billion in 2025, a growth of 20% each year.[30]

Ultimately, the type of financial approaches used and supported by the United Nations will depend on national and regional contexts. One option that UNCTs in Armenia, Indonesia and Kenya have explored is to mobilize capital for development through **impact investing**. In Armenia, the UNCT is helping the government create conditions for investing private capital in new start-ups or companies where funds generate positive social and environmental impact alongside financial return.

UNCTs can also **attract early investors** and secure funds that are used for larger investments in sectors identified by governments. Examples from Kenya show that successfully attracting initial funds is contingent on getting potential investors excited about an idea and possible outcomes rather than simply asking for money.

Another important component in convincing private companies to work with country teams is to let them know they will be able to "do their jobs" without getting caught up in UN prescriptive or restrictive operational modalities. Allowing different stakeholders to play their value-added roles is critical. For example, private companies tend to have well established logistics and transportation networks in place and are known to deliver goods and products to even the most remote areas.

> **"If you can find a bottle of Coke in the most remote village [it means] we know how to get it there."**
> – Private sector representative in Kenya

Embracing the **latest tech innovations** can turn unattractive investment areas into "bankable propositions" as the PSHP experience in Kenya shows. Tech solutions like e-health and m-health, mobile diagnosis kits, or drones drive collaborative efforts between the UNCT in Kenya and the six international companies that are part of PSHP. In addition, **blended finance engineering and risk lowering tools** can mitigate risks of investing in less attractive areas, as seen in Indonesia. The ANGIN and UNDP partnership resulted in investment and support to social enterprises working in the agricultural sector in remote areas. The success stories of Krakakoa[31] (a chocolate company) and Vasham[32] (smallholder farmer support) are breaking new ground for others that can also use a blended finance model.

### SEEK NEW PARTNERSHIP OPPORTUNITIES

Strong partnerships are an essential prerequisite for achieving the SDGs. The UN has an opportunity to build better and smarter partnerships with the financial and private sectors for channelling funds to where they are needed most. However, for this to happen the UN needs to embrace a **win-win-win** approach. Often, the UN is well-placed to help achieve outcomes linked to the national SDG agenda, acting as bridge between the government and private sector to stimulate growth and social entrepreneurship by scaling up mechanisms for SDG implementation. In practical terms, partnerships need to

27 Discussed in detail in "Financing the UN Development System. Pathways to Reposition for Agenda 2030" (September 2017), Dag Hammarskjöld Foundation in collaboration with the MPTF Office, http://www.daghammarskjold.se/wp-content/uploads/2017/09/Financing-Report-2017_Interactive.pdf.
28 OECD working paper, Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans and shares in collective investment vehicles' (2016).
29 USSIF, 'The Impact of Sustainable and Responsible Investment' (2016).
30 USSIF, 'Report on US Sustainable, Responsible and Impact Investing Trends 2014' (2014).
31 See: https://www.krakakoa.com/.
32 See: www.vasham.co.id/.

be meaningful for the UN (from a development standpoint) and ultimately create better lives for people, as well as beneficial for private sector companies.

The UNCT in Indonesia explored new types of finance tools with authorities that manage religious funds, including **Islamic financing**, which has enormous potential. The partnership between UNDP Indonesia and Baznas is ground-breaking because it is the first time a zakat organization has committed to supporting the SDGs anywhere in the world. Agreements like these open the door for collaborations with other UN organizations in Indonesia on new modalities, like **Sovereign Wealth Funds**.

Similarly, Kenya built domestic partnerships to raise awareness at regional and international levels. A regional hub and emerging powerhouse in East Africa, Kenya is home to a booming entrepreneurial sector since many international companies and organizations based in Nairobi. The UNCT has taken the opportunity to engage with large corporations to increase the scope of country initiatives, expand private sector networks (e.g. the SDG Partnership Platform and Kenya Healthcare Federation partnership), and raise their profile outside of Kenya. The universal health care initiative, launched via the SDG Partnership Platform, was presented at the World Economic Forum and the African Diaspora Investment Symposium in Silicon Valley in January 2018.[33]

**Connector.Id** (Indonesia) contributes to the SDGs by fostering entrepreneurship (SDG 8) and providing small and medium sized companies with access to financial services (SDG 9). The platform is run by a team from ANGIN while UNDP provides guidance and increases the visibility and usability of the platform via its country-wide networks.

**PSHP** (Kenya) has built a strong platform to engage with public and private stakeholders, generating political support for the initiative and "growing" expertise. The leadership role of the UNCT resulted in engaging over 100 high-level decision makers and influencers from the government, private sector and philanthropy in advocacy and policy dialogues for mobilizing resources for the SDGs.

**The Kolba Lab** (Armenia) organized an innovation challenge for civil servants, which resulted in staff from the Ministry of Justice and Office of the Prime Minister working together to prototype a tool that applies machine learning to the government's open data resources that provide free legal advice to citizens. The Lab also launched the country's first two Public Sector Innovation campaigns.

### MAKE FINANCING PART OF YOUR CORE STRATEGY

Experience in Indonesia shows that crowdfunding and Islamic financing are not just new funding methods, they are powerful outreach and advocacy mechanisms that engage communities and create new business models and technologies for tackling social problems. For new approaches like these to work, innovative financing has to be integrated into central UN strategies and operations in-country (Armenia and Kenya have placed innovative financing at the core of the UNDAF). In some instances, the UNCT will require support from headquarters to fundraise and secure operating costs for initiatives while others will rely on a waiver so UN organizations can operate outside standard practice.

### IMPROVE INTERNAL AND EXTERNAL CAPACITIES, SKILLS AND COHERENCE

**Identify what capacities and skills are needed** and ensure they are in place from the outset. In Indonesia, the UNDP Office set up a separate unit to work on Islamic financing, and one member of this new unit used to work for the head office of Baznas. When recruiting, the UNCT in Indonesia tries to balance the experience and skill of individuals with the complementary nature of their perspectives (e.g. tech, policy, business, development, financing, economics, etc.) and their social influence and skills.

Also critical is **establishing, nurturing and retaining the right capacities**. UNCTs need to be able to create, build and maintain a strong platform to engage with public and private stakeholders, harness political support, and secure expertise and innovations. The UN in Armenia hired a full time Impact Advisor and invested in long-term global partnerships with the Stanford Change Labs, INSEAD Social Impact Initiative, and Columbia University SIPA. Making a conscious choice of when to strengthen and train current UN personnel vs. hiring external experts is important since improving existing capacities can result in retaining expertise and knowledge within the UN system.

### REINFORCE SYSTEM ARCHITECTURE TO OVERCOME LEGAL AND ADMINISTRATIVE OBSTACLES

The following issues need to be addressed by the UN internally and at a corporate level to enable much needed progress in financing: how to make available sufficient resources and seed money and shift the UN towards a corporate culture that values innovation and experimentation through risk-taking and trial

33 The African Diaspora Investment Symposium (http://www.africansbuildingafrica.com) is an annual event that brings together entrepreneurs, tech experts, educators, innovators, and public and social leaders from across the globe to build bridges among Africans, members of the diaspora, and friends of Africa. The third edition "Building Africa's Future: Magnifying What is Within" focused on policies, innovative business models, and technologies shaping the continent and also featured a session on "African Women in Tech" (https://africanwomenintech.com/).

and error. This calls for **reforms and the adjustment of several legal and administrative provisions and processes** so UNCTs can react faster and with more credibility, especially when engaging with the private sector. New financial engagement formats currently under consideration by UNDP HQ for approval include **income contingent payment clauses,** making Impact Accelerators around the world more sustainable, and **performance-based payment agreements** that lay the groundwork for social (development) impact bonds projects.

### STRONG KNOWLEDGE AND BRAND MANAGEMENT

> "The UN brand has high credibility and high reputation in the country. We want to be associated with it."
>
> – Private sector representative in Kenya

The UN's strong **brand management** and its ability to work with multiple government institutions are important comparative advantages—especially since these relationships, and the legitimacy they bring, are important. In Indonesia, the UNCT was chosen by authorities to manage Islamic financing because of its "great reputation and neutral position." This is worth nothing since the primary challenge of using religious funds in Indonesia was the trust deficit between existing collection institutions and people donating money. The UNCT, in its role as broker, connected individual donors with beneficiaries to increase donations and ensure funds were used to generate higher social return—all while increasing visibility and accountability.

Equally important is addressing gaps in knowledge and expertise across the UNDS and within UNCTs by **modifying the use of existing tools** (e.g. knowledge sharing groups on public platforms like Yammer, Twitter or Facebook). This may be done by creating a network of early, and more advanced, innovators so UN colleagues and external experts can share knowledge and expertise.

In tandem with updating and modifying tools, also important is **prioritizing data collection and management** for monitoring and evaluating progress and finding ways to support data and artificial intelligence applications that help reach SDG targets. **Goal Tracker** is a digital platform developed by the Dag Hammarskjöld Foundation and Data Act Lab[34] so countries and citizens can visually track the implementation of the SDGs, in real time. The platform can be tailored to any country, translating complex data on development priorities into accessible information. Colombia is one of the first countries to use this platform.[35]

### MANAGING RISK AND MEASURING IMPACT

Approaches to de-risking vary from country to country. The Armenian economy, for example, is too small to attract international private equity or debt funds. As a response, the UNCT has explored regional solutions, such as funds focused on the Caucasus/Black Sea region or in building Armenia into a regional hub. Such approaches could allow for risk diversification between different economies and expand the investment pipeline to other countries (such as Georgia) that offer larger investment opportunities.

To lower perceptions that the UN is undercutting the market or being less neutral, UNCTs can consider working in sectors where there is market failure and bringing resources to areas where there are none. A good example is the "missing middle," enterprises too big to qualify for micro-financing and too small to qualify for bank loans. Another possibility is to provide proof of concept for initiatives, which often incentivises the private sector to adopt SDG aligned investments. If national legislation makes it difficult to set up initiatives (e.g. impact funds in Indonesia) UNCTs can explore how pilot projects can assist governments in modifying regulatory hurdles or enable SDG aligned investments through effective policy changes.

> "Not all money is good money."
>
> – Andrea Armeni, Co-Founder and Executive Director, Transform Finance

Attracting more capital is not the only goal, it has to be the right kind of capital.

34 See: www.daghammarskjold.se and http://dataactlab.com.
35 See: https://ods.gov.co.

# WHAT'S NEXT

The findings highlighted in this report and the three detailed country studies will be taken forward with the objective of assisting UNCTs in making progress in the field of financing. Several of the mechanisms are highlighted below.

### UNSDG RESULTS GROUP ON STRATEGIC FINANCING

The UNSDG[36] Results Group on Strategic Financing is one of the four results groups formed in 2018.[37] These groups were established to address critical issues relating to the 2030 Agenda and provide technical support to the work of UNCTs.[38]

The Results Group on Strategic Financing provides effective and coherent support to the UNDS and UNCTs as they transition from a "funding" to a "funding and financing" approach. As demonstrated by the experiences of teams in Kenya, Indonesia and Armenia, this involves developing the capacity to mobilize different sources of public, private, domestic and international finances to achieve collective, transformative, and sustainable development results.

The best practices highlighted in this report will feed into the broader workings of the Results Group to ensure the UNDS learns from the experiences of its "early adopters," and corporately make progress in adopting new approaches to unlock SDG financing.

### THE "FUNDING AND FINANCING" COMMUNITY OF PRACTICE

The Yammer group on "funding and financing"[39] brings together practitioners from inside and outside the UNDS to share good practices, challenges and lessons learned as they adopt innovative financing approaches. The best practice collection "Unlocking SDG Financing: Findings from Early Adopters" will be circulated within this community of practice to keep the dialogue on the role of the UN in the financing field going and to share available tools and networks among practitioners. The platform is a place where group members can share practical recommendations on how to unlock untraditional modes of financing for development initiatives at the country level.

### JOINT SDG FUND

The Joint SDG Fund is a new funding mechanism adopted by the UNDS in 2018 to support member states in accelerating progress towards the 2030 Agenda. The intent is that some of the best practices from the country studies will constitute the pipeline of initiatives that the Joint SDG Fund will be able to support. In fact, the Joint SDG Fund will facilitate SDG financing with public and private sector partners by unblocking policy-related bottlenecks, de-risking investments by testing project feasibility, and connecting partners to investments that can be taken to scale.

36 The UNSDG acts as a high-level forum for joint policy formation and decision-making, and is composed of the executive heads of UNSDG member entities.

37 General Assembly resolution A/RES/72/279 on the repositioning of the United Nations development system.

38 In addition to Strategic Financing the other areas are 1) SDG Implementation, 2) Business Innovation, and 3) Strategic Partnerships.

39 See: https://www.yammer.com/one-un/#/threads/inGroup?type=in_group&feedId=9867960.

UNITED NATIONS
SUSTAINABLE
DEVELOPMENT
GROUP

The United Nations Sustainable Development Group (UNSDG) unites the 31 UN funds, programmes, specialized agencies, departments, and offices that play a role in development. Since 2008, the UNSDG has been one of the three pillars of the UN System Chief Executives Board for Coordination, the highest-level coordination forum of the United Nations system.

At the regional level, six Regional UNSDG Teams play a critical role in driving UNSDG priorities by supporting UN Country Teams with strategic priority setting, analysis and advice.

At the country level, 131 UN Country Teams serving 165 countries and territories work together to increase the synergies and joint impact of the UN system.

The Development Operations Coordination Office (DOCO) is the secretariat of the UNSDG, bringing together the UN development system to promote change and innovation to deliver together on sustainable development.

The Dag Hammarskjöld Foundation is a non-governmental organization established in the memory of the second Secretary-General of the United Nations. The Foundation spurs dialogue and action on global development and multilateral cooperation. The vision of the Foundation is a peaceful and just world where the fundamental values of the United Nations are universally upheld. Building on Dag Hammarskjöld's legacy, our mission is to advance dialogue and policy for sustainable development and peace. www.daghammarskjold.se

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