Finance United:
Impact Investors, Financial Service Providers, and the SDGs

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Session Notes

Name of session	**UN Joint SDG Fund case study**
Time	2:30 pm – 3:30 pm
Moderator	**Priscilla Boiardi**, Policy Analyst, Private Finance for Sustainable Development, OECD
Speakers	**Lisa Kurbiel**, Head of the Joint SDG Fund Secretariat, UN Joint SDG Fund **Youri Siegel**, Global Market Sustainable Structuring, BNP Paribas **Belissa Rojas**, IMM Lead, UNDP SDG Impact Team

NOTES FROM THE PRESENTATIONS AND DISCUSSION:

1. Overview of the UN Joint SDG Fund and how it implements the IS-FSD

In 2018, the General Assembly of the United Nations (UN) admitted that efficiency, effectiveness and cohesion of the work of the UN on the ground needed to be improved. To this end, a funding mechanism to accelerate the SDGs, align with government priorities and make investments possible needed to be streamlined into UN team countries around the world. The Joint SDG Fund was then created by a UN Resolution as the funding mechanism designed to incentivize the transformative policy shifts and stimulate the strategic investments required to achieve the 17 SDGs by 2030.

The Fund does this by crowding-in the expertise of 27 members of the UN development system and triggering strategic partnerships with private and public sector to foster sustainable development. Over the last three years the Fund has been capitalized in $250 million to specifically de-risk and catalyze seed funding for SDG investments as well as for enabling the environment that will allow those investments to happen. The Fund's work includes first loss investments in emerging markets through innovative blended finance instruments. Primarily the Fund uses public finance grants and concessional capital from donor governments, with the United Nations convening power and de-risking policy, to mobilize additional investments towards the SDGs. The goal is to leverage every dollar invested in the Fund by member states to become 3 to 5 in the future.

Although the UN is relatively new in the impact investing space the Joint SDG Fund is ready to offer first loss investments while guaranteeing impact measurement and management by the UN in partnership with the governments in the developing countries. The Fund's initial catalytic investment portfolio, of USD 114 million, focuses on 4 impact areas: social impact, food systems, blue economy, and energy/climate action. This portfolio of 10 investments spans from impact funds for coral reefs in Fiji to development impact bonds for adolescent girls in Kenya. In the energy and climate space the Fund supports also for example Uruguay transition the transport sector to solar. The Fund aims to rapidly capitalize these first 10 catalytic investments to after replicate the successes.

2. Piloting the IS-FSD

The Fund aligns with the UNDP-OECD Impact Standards for Financing Sustainable Development (IS-FSD) and ensures that its supported projects also embed the standards. The OECD-UNDP Impact Standards was adopted to serve as a harmonized framework that connects the Fund's different stakeholders – both public and private – through a common language and shared approach for incorporating sustainability and impact management with the aim to contribute to the SDGs. In order to ensure that SDG impact and sustainability are embedded throughout the entire investment chain, the Fund is also strongly encouraging its country level partners, including private sector partners and financial vehicles that it financially supports to adopt the SDG Impact Standards for Enterprises, Bond Issuers, and Private Equity Funds.

The following are examples of the ways in which the Fund is implementing the IS-FSD:

- Standard 1: Impact Strategy
    - Explicit SDG-oriented mandate, strategy, policy and tools
    - Strong alignment with national development priorities
    - Financial and development additionality
    - Flexibility to align with local contexts, priorities and needs which allows investments in under-represented countries and sectors. An example of a sector that the Fund invests in with high impact value and that traditionally does not attract the market's attention is tourism.
    - Challenge in ensuring impact-focus in partnering entities, especially those outside the UN.
- Standard 2: Impact Management Approach
    - Strong systems for impact management complying with international/local laws upholding the global goals.
    - Comprehensive and adaptive M&E system and policies from decision-making all the way down to the collection of impact data.
    - Clear processes to continuously engage with a wide range of stakeholders. In North Macedonia the different stakeholders involved in the programme are local banks that hold the loans for SMEs, households that were previously financially excluded, project partners like EBRD,

senior government leadership and the UN agencies that implement the activities on the ground.
  - Challenge in ensuring capacities and resources of country teams to collect reliable data, monitor, and manage impact
- Standard 3: Transparency:
  - Public systems and policies in place to report and publicly disclose results, impact and financial information via MPTFO gateway, UN Evaluation Group Library and and Fund websites.
  - Challenge in disclosing individual transaction and operational level data as well as ensuring quality and timeliness of information especially at the investment level.
- Standard 4: Governance
  - A pooled fund that invests in country-based financial vehicles and deals based on a multi-layered governance system.
  - The Fund leverages the expertise and resources of its diverse stakeholder group.
  - Strong impact-oriented governance with internal / external audits, inputs from advisory groups and stakeholders with a focus on SDG impact. The Fund is led by the UN's Deputy Secretary General who is joined by the donors to provide strategic guidance. The next layer of governance is the Operational Steering Committee composed by 5 UN entities.
  - Mandate allocation of 7-9% of programme resources for M&E, reporting and communications.
  - Challenge in ensuring private sector participation in governance and variance in their capacities /commitment.

3. Findings from implementing the IS-FSD

The IS-FSD allowed the Fund to guarantee that its work is aligned to global measurement standards. Through the mapping exercise, the Joint SDG Fund derives the following key findings on areas of strengths as well as improvement :

- The SDGs serve as the Joint SDG Fund's North Star to ensure the Fund's strategic commitment across all its investments. The SDGs provide the overarching framing for the Fund from its strategy, management, transparency, and governance to its partnership arrangements. Centred around the SDGs, the Fund is able to go beyond a passive ESG approach in its investments to actively promote sustainable development as products of its catalytic investments. Impact results of the Fund in three years include for example 147 million people accessing new or extended social protection services with the adequate fiscal space also being provided by the governments. Suriname is an example of a programme supported by the Fund that seeks to contribute to multiple SDGs generating positive social, economic and environmental impact.
- The Fund operates as a 'Fund of Funds' based on a multi-layered governance and partnership structure. The Fund is able to leverage the expertise, resources,

and tools of its diverse stakeholders groups including the UN Resident Coordinators, the technical UN implementation entities, government, DFIs/IFIs and private sector partners to design and implement complex investments centred around the SDGs.
However, this multi-layered governance and management system could also serve as a challenge in coordinating the different policies/standards and guaranteeing agile decision-making against fast-changing developmental contexts.
- The Fund commits to leave no on behind and last mile markets investing in Global South countries especially LDCs, SIDS, fragile states, building on its flexible impact management system and partnership network. However, there are challenges in ensuring the quality and timeliness of data collected and quality of reporting from its investment partners and their clients.

At the core, The Fund is about embedding impact in the way it invests. It is repurposing the private sector so it generates impact and profit at the same time.

4. Applying the standards at the investee level – the case of Uruguay

One example of a project supported by the Fund is the Renewable Energy Innovation Fund (REIF) in Uruguay that is combatting climate change in the country. While 97% of electricity in Uruguay comes from renewable sources but 36% of consumption still comes from fossil fuels. REIF's goal is to accelerate the second energy transition in the country by promoting investments in the following technologies in the transport and industry sectors:
- Electromobility
- Energy storage and smart grids
- Power to X[1]
- Waste management

With the support of the Joint SDG Fund, subsidies from the government and technical assistance REIF aims to mobilize USD 61 million from the private sector. The REIF was designed with impact considerations at its core and theory of change applying the SDG Impact Standards for Funds developed by UNDP. The standards support the REIF in taking impact into account throughout the entire decision-making process and increasing the probability of the fund to achieve an envisioned impact. More precisely, the REIF decided to utilize the standards for the following reasons:
- Market signal of impact integrity.
- Technically a robust approach for a 360 degree/holistic view of how to embed impact into the financial structure from the moment of its inception strategy, through implementation and disclosure, and in its governance. Implementation includes impact measurement and management.
- The standards are practical management standards that make it easy to explain to traditional actors how to transition towards sustainable finance products.

[1] This is the name of the technology.

The REIF's impact strategy ensures that each investment is connect to the SDGs and specific impact targets. In regard to the management approach the REIF utilizes a set of tools and methodologies pre and post the approval of the deal to ensure its impact contribution throughout the entire investment cycle. Examples include taxonomy, ABC, impact ESG disclosure. The challenges in filling the IMM expert position with local expertise show the need for building capacity at the country level. To demonstrate leadership in the impact fund market and support the generation of knowledge on the subject, the REIF is also committed to maintaining impact data and public learning for society and investors throughout a Management Annual Report of the REIF. In regard to governance an impact specialist is part of the investment committee of the REIF to evaluate and monitor the suggested impact targets of each potential deal.

What's next? The REIF is being set up to be fully operational soon. In the long-term, the goal is to scale the REIF model up to target other SDGs and retail impact.

5. Perspective from the private sector – BNP Paribas

BNP Paribas has been involved in the blended finance space for many years and recognizes the importance to scale up such initiatives through partnerships. Although this area of work is still growing there has been a change in appetite of investors, especially in Europe, in regard to sustainable preferences. BNP Paribas is keen to continue exploring different instruments that can also widen the bank's investor spectrum. BNP Paribas' impact comes specially through its loan portfolio that supports microfinance with a strong focus on women-led businesses as well as financial inclusion.

ESG investing started with climate investing as a global issue and an easier area to measure impact. However, for a few years now there has been a change in the trend moving to other areas as well like biodiversity and social investing. There is significant demand from both the insurance and retain investors for such opportunities.

The partnership with the UN system can help BNP Paribas in addressing two main challenges: scaling up funding and scaling up distribution. The UN's value-add is seen specially in its ability to identify/source the needs around the globe while ensuring a robust impact measurement.

6. Question from audience: Impact x Profit

BNP Paribas: Overall, if you invest in a sustainable business, then you have a sustainable long-term return. However, the return also depends on how loan is structured. There is inherent country risk unless you have the right mitigation for such risk. It is necessary to structure the loan to ensure mobilization of resources from the private sector and adequate contribution from DFIs to mitigate the possible risk.

Joint SDG Fund: What the Fund seeks to do is crowd in capital from investors that are already mandated to take higher level risk to be able to make such impactful opportunities attractive to investors who need a double digital return. Development does pay a dividend and it is worth the collective effort to continue to attract blending opportunities.

UNDP-SDG Impact: Expectations of investors in terms of market return has been changing in order to achieve positive impact. Managing a diversified portfolio also means that not all investments will have the same level of return.

7. Calls for action

Joint SDG Fund: If member states can continue that funding compact to the UN, the UN is ready to attract private capital to represent those who are furthest from the opportunities. The needs of the development world have grown and so have the costs. There has to be a different way to do business in order to reach the SDGs and blended finance is proving itself a way to do that.

UNDP- SDG Impact: Standards are needed in the decision-making process at donor level, fund level, and investee level. The IS-FSD are helping to make a real shift in mindset for a sustainable private sector.

BNP Paribas: there is still a gap between mainstreaming finance and scaling up impact investing which needs to be addressed through closer dialogues.