



2019 Joint Meeting of the Executive Boards of UNDP/UNFPA/UNOPS, UNICEF, UN-Women and WFP

Background topic 3

Implementation of UNDS reform, and innovative financing for the SDGs

This background paper will serve to inform the session on the above-mentioned topic at the Joint Meeting of the Executive Boards of UNDP/UNFPA/UNOPS, UNICEF, UN-Women and WFP on 31 May 2019.

I. INTRODUCTION

1. This paper explores recent evolutions and shifts in the financing for development landscape, including the increased prominence of innovative financing modalities, which aim to meet SDG (Sustainable Development Goals) financing needs. It then examines the implication of a dynamic financing landscape for United Nations development system reform to improve the United Nations' offer to countries as they try to finance the SDGs.
2. Financing needs for the SDGs are estimated to be in the trillions of US dollars. Estimates as to the annual cost of eradicating extreme poverty in all countries are about US\$ 66 billion annually. Estimates of annual investment requirements in infrastructure in all countries (water and sanitation, agriculture, telecommunications, energy, transport, buildings, industry and forestry) amount to between US\$ 5 and 7 trillion. The United Nations Conference on Trade and Development (UNCTAD) estimates that the annual financing gap for developing countries is about US\$ 2.5 trillion.¹
3. SDG financing gaps remain high across all developing countries. The 2019 report of the United Nations Inter-Agency Task Force (IATF) on Financing for Development, which monitors annual progress towards the Addis Ababa Action Agenda recently delivered a blunt assessment on the state of financing for sustainable development. It reports that while domestic resource mobilization and private investment have gained strength in some countries and interest in sustainable investing is growing, official development assistance (ODA) is also flatlining, debt risks are rising, especially in low-income countries, and the transition to a sustainable economy is not happening at the required scale.² Illicit financial flows also remain a problem.
4. The United Nations development system (UNDS) is repositioning to ensure it is best placed to help governments to achieve the SDGs in a rapidly evolving financing for development and innovative financing landscape. Efforts to increase the coherence of the UNDS aim to improve the quality and relevance of the United Nations' offer on innovative financing of the SDGs and financing for development more broadly. Under the principle of collective ownership, our six agencies remain fully committed to a repositioned

¹ UNCTAD, World Investment Report (2014): <http://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=194>

² See United Nations Inter-Agency Task Force on Financing for Development:
<https://developmentfinance.un.org/press-release-financing-sustainable-development-report-2019>

UNDS, optimally equipped to support countries to achieve the 2030 Agenda for Sustainable Development. We are unwavering in working together to drive UNDS reforms forward, under the primary objective of delivering more and better collective development results for the people we serve and leaving no one behind.

II. INNOVATIVE FINANCE FOR THE SDGS: KEY ISSUES AND CHALLENGES

5. Innovative finance has emerged as a key area of interest for policymakers, and in particular the role it can play in closing SDG financing gaps.³ Many initiatives have emerged over the years, including the international solidarity levy on airline tickets, established in 2005 and implemented by nine countries worldwide. It has raised US\$ 1.9 billion to date.⁴ The International Finance Facility for Immunisation is another, also launched in 2005.⁵ It has raised US\$ 6 billion in international capital markets to date, secured by future aid flows.⁶

6. While these initiatives have mobilized important capital for health-related expenditures in some of the world's poorest countries, they remain relatively small in scale and it is not clear there is the potential – either technical feasibility or political will – to take them to scale. The same challenges apply to other longstanding innovative finance ideas, which could arguably mobilize considerably more resources for development but have not significantly advanced, such as financial or currency transactions taxes or levies on international aviation or maritime bunker fuel.⁷ Moreover, it is not always clear that revenues mobilized through such means would always, and exclusively, be allocated to the SDGs in developing countries.

7. More recent examples of innovative finance models which have gained traction include blended finance models (where concessional resources from official finance providers are used in different ways to leverage non-concessional finance from the private sector). Green bonds and SDG-themed bonds have also emerged, and social and development impact bonds (a payment-for-results model) is another financing approach which is attracting increasing attention. Interest in gender-lens investing, the practice of investing for financial return while also considering the benefits to women, is also growing. Debt-for-climate swaps have also re-emerged as a tool to reduce debt and increase investments in conservation with more recent models also leveraging impact investment. Crowd financing platforms, enabled by new technologies, have also emerged.

8. These trends are accompanied by an increasing interest in 'sustainable and responsible investing', i.e. those investors that wish to take environmental, social and governance (ESG) issues into account in their investment decisions. Impact investment – investments that proactively seek a social or environmental dividend in addition to a financial return – is smaller but also growing, estimated at over US\$ 228 billion in impact investing assets in 2018.⁸ These trends look set to continue.

³ The Report of the Secretary General on Innovative Mechanisms of Financing for Development, A/66/334 examines definitions. https://www.un.org/ga/search/view_doc.asp?symbol=A/66/334&Lang=E

⁴ See Unitaid: <https://unitaid.org/about-us/#en>

⁵ See: <https://www.iffim.org/>

⁶ See: <https://www.iffim.org/bonds/previous-issuances/>

⁷ See: <https://www.imf.org/external/np/g20/pdf/110411a.pdf>

⁸ Global Impact Investing Network (GIIN), Annual Impact Investor Survey 2018.

9. While these trends are to be broadly welcomed, it is not clear they can take us ‘from billions to trillions’ in financing for the SDGs. In addition, some of these innovative finance approaches, such as blended finance or impact investment have tended to not go beyond the developed and large emerging markets.⁹ A commonly cited complaint is that the ‘capital is there’ yet there is a lack of ‘investment-ready’ or ‘bankable’ projects in developing countries in which to invest.

Innovative financing: current United Nations initiatives

10. What do these evolutions in the financing for development landscape mean for the ways in which United Nations agencies engage in this area and for United Nations reform? The UNDS is already supporting the financing for sustainable development agenda in several ways, at both country level and through advocacy, analytical work and the building of new partnerships.

11. At the country level, many United Nations agencies are involved in supporting the financing for development agenda in different ways, including through innovative finance schemes. The United Nations Development Programme (UNDP) is working with the World Health Organization (WHO) and the Food and Agriculture Organization of the United Nations (FAO) to develop a [tobacco control social impact bond](#) to support tobacco farmers to transition to alternative farm and non-farm livelihoods. UNDP has also set up [SDG Impact Finance](#) and [SDG Impact](#), both of which aim to leverage impact investment in developing countries in different ways.

12. In 2018, the United Nations Capital Development Fund (UNCDF) disbursed US\$ 6.7 million in performance-based grants to blended finance investments in areas of financial inclusion and local development. The investments unlocked US\$ 23.2 million in public and private finance through the partners’ own equity investments and additional commitments from third-party investors, including domestic banks, local governments and development partners. UNCDF also engaged with UNDP and other United Nations entities to explore ways through which its financing tools and investment expertise can be made available to them in support of a wider range of SDGs.

13. The United Nations Office for Project Services (UNOPS) is currently exploring a range of impact investment opportunities, with a focus on three areas of sustainable infrastructure: renewable energy, affordable housing and health infrastructure. Examples of this are agreements with Kenya and Ghana signed in 2018 to structure deals with investors to develop 100,000 housing units worth close to US\$ 5 billion in each country.

14. WFP helped the African Union (AU) to create a sovereign disaster insurance pool, the African Risk Capacity (ARC) agency in 2012. ARC works to help AU Member States improve their capacities to better plan, prepare and respond to weather-related disasters. In 2014, the ARC agency launched ARC Ltd, which serves as a mutual insurance facility providing risk transfer services to AU Member States through risk pooling and access to reinsurance markets. Through 2018, ARC Ltd has disbursed over US\$ 36 million as pay-outs to disaster-affected AU countries.

15. Forecast-based Financing is an innovative mechanism whereby early actions at community and government level are pre-planned based on credible forecasts, and are funded and implemented before a climate shock. WFP is implementing Forecast-based Financing in ten countries prone to recurrent climate-related shocks. These actions minimize losses and damage caused by climate hazards, and reduce the need for humanitarian assistance in their aftermath. A 2018 return on investment study in Nepal on

⁹ United Nations, Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2019* (New York: United Nations, 2019), available at: <https://developmentfinance.un.org/fsdr2019>, pp. 85, 87, Figure 9.

implementing the approach, found that US\$ 22 million can be saved when responding to an emergency of an average size (175,000 affected people).

16. The Government of Tajikistan has committed to developing a comprehensive national SDG programme for children through 2030. The United Nations Children's Fund (UNICEF) Tajikistan is the lead agency supporting the Government through a three-phased approach: a) developing a single, national programme framework inclusive of SDG targets and indicators; b) undertaking a comprehensive costing exercise for the programme through 2030; and c) agreeing a financing plan with counterparts and development partners to ensure implementation of the programme is fiscally viable.

17. The United Nations' New Joint Fund for the 2030 Agenda will have a window to support the development and implementation of innovative finance schemes, providing an important opportunity for United Nations agencies to collaborate in delivering innovative finance projects at the country level.

18. At the international level, the UNDS is spearheading and supporting a range of initiatives and partnerships on financing the 2030 Agenda. These include the [United Nations Environment Programme Finance Initiative](#), a partnership between UNEP and the finance sector to bring about systemic change to the finance sector in support of sustainable development. The United Nations system carries out a wide range of analytical and normative work on sustainable financing, including through the *Financing for Sustainable Development Report* of the Inter-agency Task Force on Financing for Development (IATF). Other major initiatives include the Global Partnership for Effective Development Co-operation (GPEDC), the Platform for Collaboration on Tax, a joint initiative of the International Monetary Fund (IMF), World Bank, the Organisation for Economic Co-operation and Development (OECD) and the United Nations, and new United Nations–International Financial Institutions (IFI) strategic partnership frameworks. Since the adoption of landmark agreements on sustainable development, climate change, and financing for development in 2015, the World Bank and the United Nations have taken decisive steps towards enhanced cooperation. This was manifested in the signing in May 2018 of the United Nations–World Bank Group Strategic Partnership Framework.

19. To boost international efforts on financing for development, the United Nations Secretary-General launched his three-year [Strategy for Financing the 2030 Agenda for Sustainable Development](#), centred around three objectives: i) align financial and economic policies with the 2030 Agenda; ii) enhance financing strategies and investments at regional and country levels; iii) seize the potential of financial innovation, new technologies and digitalization. Within this context, the Secretary-General has also established a new multi-stakeholder [Task Force on Digital Financing of the SDGs](#). The Secretary-General also announced the establishment of a CEO Alliance of Global Investors for Sustainable Development to increase long-term private investments in the SDGs.

20. Despite these opportunities, United Nations efforts on financing for development can be more joined-up, especially at the country level. When initiatives are fragmented across United Nations agencies, opportunities to play a more pivotal role in this space are missed. Challenges can be grouped into three broad categories:

- i) **Capacities:** bar a few notable exceptions, financial literacy at all levels of the UNDS remains weak, and there are few trained 'finance' or investment professionals who can speak the language of finance, and support the design and structuring of innovative financing models;
- ii) **Policies and regulations:** policies and procedures of many United Nations agencies need to be adapted for them to actively engage in innovative financing schemes, e.g. result-based financing mechanisms, guarantees, etc.;

- iii) **Institutional coordination and structures:** channels for sharing information and knowledge on this topic across agencies can be strengthened together with incentives for cross-agency collaboration.

United Nations development system reform, and innovative financing

21. The overall goal of UNDS reform is to better position the United Nations to support implementation of the 2030 Agenda, to 'leave no one behind'. Related aims include:

- i) Better supporting countries in mobilizing financing and the other means of implementation of the SDGs.
- ii) Ensuring adequate and predictable funding for the UNDS to support its work.

22. These aims are distinct, but complementary. To provide adequate support the United Nations must receive enough high-quality funding and must spend this efficiently and strategically. The requirements for sustainable development recognized in the 2030 Agenda require the United Nations to shift from funding individual projects to financing transformative change.

23. Much of the collective implementation of UNDS reform is undertaken jointly by the United Nations Sustainable Development Group (UNSDG). Our entities are very closely engaged in these ongoing system-wide processes. Meanwhile, there are also elements of the reform which impact us individually as agencies, and which may require specific adjustments and actions, in consultation with respective Executive Boards.

24. As part of its revitalization, the UNSDG created four high-level results groups, including the Strategic Financing Results Group (SFRG), currently chaired at Under-Secretary-General (USG) level by the United Nations Population Fund (UNFPA) and the United Nations Conference on Trade and Development (UNCTAD). The purpose of the SFRG is to support the UNSDG in the transition from funding to financing and to facilitate quality integrated technical support to countries. Moving from funding to financing calls for a diversification of sources of financing, mobilizing the private sector, philanthropy, emerging providers of development cooperation, scaling innovative financing and changing incentives in financial markets.

25. To this end, the SFRG has formed two task teams:

- The Strategic Financing Think Tank Task Team, currently co-chaired by UNCTAD and the United Nations Department of Economic and Social Affairs (UN-DESA), focuses on strengthening the UNSDG's normative support for United Nations country teams (UNCTs) in helping countries, the United Nations and other partners leverage financing for sustainable development efforts through a more joined-up approach. In addition, the task team helps position the UNDS funding discussion by assessing tools and options on how the United Nations system can support countries in implementing underserved SDGs. This support is contextualized to address the various needs of countries such as least developed countries (LDCs), middle-income countries (MICs), small island developing states (SIDS) in vulnerable and fragile settings and countries working along the humanitarian-development nexus.
- The Country SDG Financing Task Team, currently co-chaired by UNFPA and UNAIDS, focuses on building capacity of UNCTs to provide integrated support to countries in financing the 2030 Agenda. It draws on system-wide normative expertise and partnerships, including relevant inter-governmental processes and analytical products to improve on mechanisms to pool existing

capacities on SDG financing more efficiently and systematically across the UNDS. The Task Team also supports the implementation of the UNDS Funding Compact and helps build the evidence for investing in the UNDS as a critical component to SDG achievement.

26. In addition, the Secretary-General has established a High-Level Task Force on Financing for Gender Equality, co-chaired by UN-Women and the Executive Office of the Secretary-General, to look into strategies to increase investments for gender equality and women's empowerment and the accurate tracking of resources within the United Nations system in this area. The Task Force will develop a set of recommendations to be implemented by the United Nations system, including on opportunities to leverage innovative financing in support of gender equality outcomes.

27. The redesigned United Nations Sustainable Development Cooperation Framework (UNSDCF) guidance, places great emphasis on financing and its implementation will require new tools and approaches to allow United Nations country teams to fulfil that expectation. Members of the Country-Focused Task Team were involved in drafting the sections pertaining to financing, and they will also be tasked with designing new companion guidance for the UNDAF, along with tools and capacity development.

28. On private sector engagement the United Nations Strategic Results Group (UNSRG) on Partnerships, co-chaired by UNICEF and the International Labour Organization (ILO), have agreed common guidance on due diligence. This action will help the UNDS to better work with the private sector. A common platform to implement the due diligence will be hosted by the Global Compact.

29. One challenge is ensuring that the Strategic Financing Results Group becomes a robust action-oriented platform with which the UNSDG can continually sharpen its offer of support to the Member States.

30. Member States have clearly signalled the value of pooled funding, and have increasingly allocated resources through pooled funding mechanisms, including to the United Nations to help facilitate financing for development. Yet pooled funds must often operate at scale to achieve a comparative advantage, including as SDG financing vehicles. The Funding Compact and its commitment to double the share of non-core contributions to development related inter-agency pooled funds and single agency thematic funds, as well as the commitment to broaden the contributor base to pooled funding mechanisms are important elements in positioning pooled funds within the SDG financing context

31. It is essential that broader efforts to reposition the UNDS succeed. The Secretary-General has reported to the United Nations Economic and Social Council (ECOSOC) on the implementation of General Assembly resolution 71/243 on the Quadrennial Comprehensive Policy Review of operational activities for development of the United Nations system, setting out how the United Nations system including our six agencies have responded to General Assembly resolutions 71/243 and 72/279 with renewed vigour, and taken bold, though at times difficult steps, to realize Member States' vision.¹⁰

32. Complementing this collective reporting, in response to decisions by their respective Executive Boards,¹¹ UNICEF, UNDP, UNFPA, UNOPS, and UN-Women have provided their Executive Boards with "harmonized agency-specific information" on their respective implementation of

¹⁰ A/74/73-E/2019/4

¹¹ UNDP/UNFPA/UNOPS Executive Board decision 2019/4, UNICEF Executive Board Decision 2019/8 and UN-Women Executive Board decision 2019/1.

General Assembly resolution 72/279. These papers provide tailored yet harmonized updates on efforts including:

- a. Supporting the new Resident Coordinator (RC) system
- b. Strengthening system-wide analysis, planning and reporting
- c. Strengthening joint implementation/support to the SDGs
- d. Efficiencies through shared business operations and premises
- e. Review of agency assets at country and regional level
- f. The Funding Compact

33. We are systematically tracking contributions to UNDS reform. For example, UNDP, UNICEF, UNFPA and UN-Women introduced a common set of SDG indicators in their Integrated Results and Resources Frameworks (IRRFs) to monitor collaborative contributions to the SDGs through the implementation of the Common Chapter. Relevant QCPR indicators were also incorporated in the IRRF to monitor how agencies work together to achieve organizational effectiveness and efficiency.

34. This assorted reporting addresses key shared themes.

35. A repositioned Resident Coordinator System with a fully empowered RC is an essential ingredient of a UNDS repositioned to deliver on the 2030 Agenda at country level. Without effective coordination, delivery by entities of the UNDS will be less strategic.

36. Of central importance to the new RC system will be the UNSDG's Management and Accountability Framework (MAF). Our agencies are committed to implementing this framework. We are proactively guiding our country offices, and will listen to their feedback and insights on lessons learned.

37. Our agencies are already rolling out the one percent levy as an important means by which Member States can provide funding to a repositioned Resident Coordinator system. We will monitor associated implications of the levy on our programming resources, and any associated transactional and administrative costs.

38. Our agencies fully support a more fit-for-purpose UNDS at regional level that can provide integrated, tailored and SDG-focused support to countries. We are committed to provide optimal and efficient support to countries, ensuring value for money and that our regional efforts are country-facing, providing policy, programme and operational support to our country offices to enable them to offer SDG solutions to the countries we serve.

39. Finally, as individual agencies we continue to make strenuous efforts to make efficiencies, redeploying gains for development activities, including coordination. Our efforts have helped us achieve objectives including doubling our contributions to the UNSDG system-wide cost-sharing agreement in support of the RC system, covering respective transition costs of RC de-linking, and investing additional resources into SDG-focused programming, among other objectives. Collectively, as part of reform efforts, the Business Innovations Group (BIG), co-chaired by the Office of the United Nations High Commissioner for Refugees (UNHCR) and WFP, has made considerable progress on the enablers towards more efficiency gains. For example, 14 United Nations entities have already signed the high-level principle of Mutual Recognition, representing over 90 percent of the total United Nations agency spend. This statement on Mutual Recognition – where agencies recognize each other's policies and processes to enable common services – will clear a significant obstacle to common back offices and global service centres. Challenges remain. Some proposed changes will take time to realize, some efficiencies will only be gained on a one-off basis, and upfront investments are also required to deliver on the ambitious targets.

Challenges

- Broader challenges facing financing for development: The sheer scale of the poverty eradication financing challenge, estimated at about US\$ 66 billion p/a, and with infrastructure investment requirements of between US\$ 5 and 7 trillion p/a, and a funding gap in developing countries of US\$ 2.5 trillion. Flatlining official development assistance (ODA), increasing debt risks, especially in low-income countries (LICs), insufficient speed of transition to sustainable economies, and illicit financial flows.
- Relatively small scale of successful innovative financing initiatives and limited technical feasibility.
- Challenges in ensuring all funds raised by some innovative financing mechanisms are transferred to developing countries.
- Tendency of approaches including blended finance and impact investment to sometimes by-pass low-income countries.
- Lack of a pipeline of bankable projects, of a meaningful size which attract investors.
- Fragmentation of United Nations initiatives and the challenge of ensuring that United Nations efforts on financing for development are more joined-up.
- Lack of expertise in finance and investment within the UNDS.
- Restrictive policies and regulations in many United Nations agencies, impacting involvement in innovative partnerships – including varying due diligence mechanisms.
- Weak information sharing and incentives for collaboration between United Nations agencies.
- Ensuring that the new high-level Strategic Financing Results Group becomes and remains a vibrant mechanism that enables the UNSDG to act.
- Taking pooled funding to scale where beneficial and strategic, partly by achieving related Funding Compact spending targets.

Recommendations

- Collect best practices in innovative financing through a mapping exercise of all innovative financing work done by members of the UNSDG, with the aim to generate system-wide lessons learned and find synergies and joined-up opportunities, including for scaling up.
- Look for opportunities to partner with the private sector to devise innovative ways to finance the SDGs, including through the United Nations Office for Partnerships as a gateway – and not gatekeeper – for the private sector.¹²
- Implement the common UNDS due diligence approach, as well as, advance by the SRG for Partnerships with the reform agenda established in the Joint Inspection Unit (JIU) report.
- Explore the possibility of using the SDG joint fund for joint United Nations funds and programmes development of both innovative finance mechanisms, as well as a joint pipeline development of bankable projects.

Questions

- In what practical ways can UNDS reform help to build a stronger ‘offer’ from the United Nations in the innovative finance arena?
- In what ways can innovative finance really contribute to closing the SDG-financing gap? Where should our central focus and United Nations agencies be in this space? Where should we step aside?
- How can lessons-learned and successes in innovative finance be more broadly shared across United Nations organizations, especially at the country level, and how can incentives be put in place for more joint working?

¹² A/74/73-E/2019/4, p.30, para. 149.