

ALTERNATIVE FINANCE / FEATURE

EXPERIMENTS, INVESTMENTS & NEXT STEPS

To reach the Sustainable Development Goals by 2030, national and local governments need new sources of capital that augment their traditional tax revenues and international funding sources. The UN Conference on Trade and Development estimates a gap of US\$2.5 trillion in funding to support the SDG agenda.

We need a new generation of financing mechanisms to achieve the SDGs. As the engine of growth in most developing and developed countries, the private sector contributes to reducing poverty, indirectly by creating income and wealth, and directly by generating employment and providing affordable goods and services. A recent report by the Business and Sustainable Development Commission estimates that achieving the SDGs opens up \$12 trillion of market opportunities in just four economic systems, and will create 380 million new jobs by 2030. The total economic benefit from implementing the SDGs could be twice or thrice as big, assuming that the benefits are captured across the whole economy and accompanied by much higher labour and resource productivity. At the same time, achieving the single goal of gender equity could add US\$12 trillion to US\$28 trillion to global GDP, based on recent estimates.

UNDP has helped countries across the globe identify and test efforts to use alternative financing methods for targeted development outcomes. These new funding mechanisms include social and development impact bonds, crowdfunding, pay-for-success systems, forecast-based financing and equity-based investments of social good projects, among other financial tools and approaches.



WHAT IS ALTERNATIVE FINANCE?

Alternative finance refers to any non-traditional tool used to raise capital from private or public sources. For example, pay-for-success financing was developed to address systemic issues that led to poor and ineffective services for the most vulnerable and marginalized communities. Many governments struggled to support or encourage innovation in the social arena, and contracts between government and delivery organizations often stifled agility and effectiveness. Pay-for-success financing bridges this divide by making payments conditional on the achievement of predetermined socio-economic outcomes rather than specific outputs. This frees government and social sector organizations to experiment with new innovative programmes, so long as they achieve the intended social outcomes.

There is an upward trend of these newer sources of funding for development. For example, the European alternative finance market grew by 144% in 2015, the global impact investment market is projected to grow more than US\$3 trillion in the coming years, and crowdfunding investments reached US\$37 billion in 2015. To put it into perspective, this amount was equal to a third of total ODA totalling US\$131 billion in the same year.



IMPACT BONDS AT UNDP

Social Impact Bonds (SIBs) are one financial tool that provides upfront funding for pay-for-success agreements. Private investors—commercial and philanthropic—provide the upfront capital needed to fund service delivery, and the government repays organizations if specific pre-agreed outcomes are achieved. Development Impact Bonds are a similar tool, where donors or stakeholders, rather than national governments, reimburse investors when specific socio-economic outcomes are achieved. More than 60 impact bonds have been launched around the world, tackling problems from health to education to employment.

At UNDP, we are carrying out feasibility studies for the world's first 'blue' social impact bond in Grenada to fund coral and mangrove restoration; social impact bonds in Zambia and Tanzania to reduce tobacco cultivation and provide incentives to diversify into other crops and livelihoods; and a rhino impact bond to bolster conservation of this endangered species. Under these initiatives, impact investors and philanthropists provide upfront capital for targeted interventions in each of these areas, and are reimbursed by donors once those results are achieved.

In 2017, together with the Finnish Innovation Fund (SITRA), UNDP is designing a Youth Employment Bond in Serbia. The unemployment rate among young people aged 15 to 24 in Serbia is 47.5%, significantly above the general unemployment rate of 18.2% for the working population aged 15 to 64. The business rationale is that only a third of the currently unemployed youth are covered by active labour market measures and there is scope for introducing more measures, packaged in an innovative way, through private-public partnership, to expand and accelerate youth employment.

Moving forward, UNDP is working with partners on further advancing the impact bond experiments, looking into equity-based crowdfunding and expanding the engagement on impact investment.



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CROWDFUNDING AT UNDP

Crowdfunding taps into a large pool of individuals—primarily online via social media and crowdfunding platforms—and leverages their networks for greater financial support and advocacy initiatives with a social impact. For example, in response to the 2016 earthquake in Ecuador, UNDP partnered with Small Grants Programme, CRISFE and Designers with Heart to launch the 'Reactive Sustainable Communities' campaign to raise funds for communities impacted by the earthquake: 830 families and 49 affected communities, through the recovery of sustainable enterprises in the tourist, agricultural and food sectors. The campaign was launched through GreenCrowds, a crowdfunding platform in which donations are received on behalf of communities, to revive their livelihoods.

Led by UNDP's Alternative Finance Lab, we established a Global Crowdfunding Academy to provide support to UNDP offices and partners to design and launch campaigns. Over US\$600,000 has been raised by more than 13 initiatives across a range of sectors: health, energy and entrepreneurship. For example, UNDP Kyrgyzstan raised funds for a more inclusive and energy efficient rural retirement home; Indonesia attracted resources for renewable energy in rural areas; Moldova mobilized funds for healthy food in public schools; Yemen raised funds for community projects unique to the conflict context of the country; Bangladesh ran a youth employment campaign; and Lebanon raised US\$116,000 for traffic management around public schools.

These donation-based campaigns owe their success to the partners engaged by UNDP Country Offices. For example, the Tajik campaign attracted the country's diaspora in Australia not only to donate funds but also explore investing in a similar project in the eastern region. Celebrity chef Jamie Oliver supported the fresh fruit campaign for public schools in Moldova. Bangladesh's cricket team captain Mashrafe endorsed the campaign for building employment skills for youth. The Balkan rock star Rambo Amadeus got behind a campaign to build solar power sail boats on the Adriatic, and Yahoo! promoted our efforts to invest in refugee-driven pop-up restaurants. The Croatian Ministry of Construction prepared a pilot project for refurbishment of over 30 schools (and an energy agency designed a dedicated platform) to replicate our success with building the first energy-independent school in the country.

Through the newly established Alternative Finance Lab at UNDP, set up with start-up capital from the Ministry of Finance of Slovakia, we are asking: What do our clients need to access new sources of funding? What is the cost-benefit of these new instruments given their experimental nature and the fact that they are often ahead of existing legislation in most countries where we work? Many of the mechanisms are preventative in nature and require a shift to costing future liabilities.



NEXT STEPS

In tackling these questions, in 2017 we look forward to learning from a series of experiments from new financial mechanisms

- Designing a proof of concept for remittance transfers over blockchain in Serbia, together with Aid.Tech, that would be cheaper and target the use of remittances towards specific needs like paying energy or phone bills and purchasing food.
- Designing an Outcome Buying facility in Belarus, with support of the European Commission, where impact bonds will be one of many instruments to include a mix of grants, impact investment, and others. The results of SIBs globally have been mixed at best, but the team believes there is much to be gained from calculating future liabilities, attracting new sources of funding and structuring payouts to be contingent on the achievement of the results (as opposed to fulfilling activities).
- Designing forecast-based financing mechanisms for the Vrbas basin in Bosnia and Herzegovina, together with the Red Cross-Red Crescent Climate Centre. The aim is to minimize risk and secure funds before a disaster has received sufficient media support and to test the feasibility of attracting new sources of funding (including insurance companies) for community resilience.
- Reshaping crowdfunding, by putting more emphasis on equity crowdfunding (such as investment in a renewable energy community project) and peer-to-peer lending (such as investment in SME furniture design in Tajikistan). This can perhaps redirect vast diaspora funds to local entrepreneurial projects in communities across developing countries. UNDP will have a chance to experiment with this approach together with the UNFCC, as we jointly design a system by which crowdfunding can be utilized for renewable energy programmes.

Alternative finance is a new and growing portfolio for UNDP. We are scanning the playing field to identify:

- gaps and engagement opportunities to support social finance and social enterprise in our role as conveners and connectors in the impact investment market;
- catalysts of improved impact investment ecosystems as policy advisors and quality assurors to investors;
- curators of a pipeline of initiatives to become investment ready; and
- mobilizers of impact capital for the SDGs.