THE PRESIDENT
OF THE
GENERAL ASSEMBLY

19 July 2018

Excellency,

I am pleased to enclose herewith the summary of the high-level event, entitled "Financing for SDGs--Breaking the Bottlenecks of Investment, from Policy to Impact", held on 11 June 2018.

This event brought together a wide range of distinguished representatives of Member States, private sector, UN entities and other international organizations. This summary contains the key findings, recommendations and examples of best practices emanating from the event.

As I said in the meeting, my team is now working with partners to create a "toolbox" – a compendium containing major recommendations and best practices of financing for SDGs. I hope this toolbox will serve as useful reference for Member States, other financial actors and stakeholders to scale up sustainable, responsible and quality investment to power the SDGs and climate actions. I would therefore welcome your valuable recommendations and ideas in this regard. I believe that your inputs will be greatly valued, and contribute to our common efforts to meet the SDGs. My senior advisor, Mr. Yi Zhang (yiz@un.org) will be the focal point of this follow up action.

Please accept the assurances of my highest consideration.

M. Lajčák

Miroslav Lajčák

All Permanent Representatives and
Permanent Observers to the United Nations
New York

FINANCING FOR SDGs

Breaking the Bottlenecks of Investment from Policy to Impact

June 11, 2018 • ECOSOC Chamber, United Nations

Summary Report

Introduction

On 11 June 2018, H.E. Mr. Miroslav Lajčák, President of the 72nd General Assembly of the United Nations, convened a high-level event, entitled "Financing for SDGs--Breaking the Bottlenecks of Investment, from Policy to Impact".

This event was held in close collaboration with UNCTAD, UN-DESA, Group of Friends of SDG Finance, World Bank Group, OECD, International Chamber of Commerce, the UN Global Compact and Professor Jeffrey Sachs.

The event brought together representatives from Member States, the private sector, UN entities and other international organizations.

The objective of this event was to take stock of various initiatives and best practices in removing the barriers of investment chains so as to scale up private financial resources to support the SDGs, and explore what the United Nations could do to better to align itself with the rapidly-changing world of international finance in support of the 2030 Agenda.

The event started with opening remarks by H.E. Mr. Miroslav Lajčák, President of the General Assembly of the United Nations, H.E. Ms. Amina Mohammed, Deputy Secretary-General of the United Nations, and Dr. Mukhisa Kituyi, Secretary General of the United Nations Conference on Trade and Development, followed by testimonials from the private sector and four break-down panel discussions.

Opening

The President of the General Assembly of the United Nations stressed that time is running out for finding SDG financing solutions, and that urgent and bold actions are required. The private sector is needed to bridge the enormous financing gap for the achievement of the SDGs, but it does not hold all the answers. Equally important is public financing and, in the development context, the need for all countries to live up to their ODA commitments, and for the global south to strengthen south-south and triangular cooperation. The UN can play a facilitating role in charting the course forward, fostering development discourse and assisting in the uptake of best practices. The ideas and examples of best practices emanating from the event will provide input to the Secretary-General's high-level meeting on financing the 2030 Agenda (in September 2018).

The Deputy Secretary-General of the United Nations stressed that finding solutions for the financing bottleneck of the SDGs is a UN priority. This hinges on addressing five key issues: the lack of a long-term vision (on the part of the private sector), the lack of an enabling environment (on the part of countries), the lack of investable projects, the lack of innovative financing mechanisms and the lack of clarity in terms of definitions and standards. The UN has a role to play in addressing all these bottlenecks, and the reform of its development pillar demonstrates that it is fit and ready for purpose.

The Secretary General of UNCTAD stressed that the negative foreign direct investment (FDI) trend and the correspondent slow-down in global value chains, as reported in the World Investment Report 2018, are worrisome considering that FDI remains the largest external source of finance for developing economies, making up 39% of their total incoming finance. UNCTAD's six pack of transformative action presents public-sector action that can help transform the investment environment and orient private investors towards a pro-SDG approach. However, many of these actions require active private sector participation to galvanize action, mobilize funds and ensure this translates into impact on the ground.

Introductory presentations: Testimonials from the private sector

Five key messages emanated from the testimonials from the private sector:

- ***There is no shortage of capital to finance the SDGs. However, mobilizing it requires a systematic change in the way equity markets are organized.*** Aligning capital markets with the SDGs can be facilitated by the UN, which has been shaping the debate through initiatives such as the SSE, PRI and the Global Compact. What is needed is to resolve regulatory issues that prevent SDG impact (both nationally and internationally), educate the broader public about responsible investment (e.g. through a reform national curricula) and build-on and strengthen various existing initiatives (through, e.g., turning the PRI into an International Standards Organization (ISO) certified standards), including through practical and hands-on solutions (e.g. developing a smart-phone application that measures SDG impact).

- ***Bridging the financing gap requires developing an SDG financing architecture and creating an SDG bond market, initially through green bonds, but extending it to blue or social bonds*** (e.g. to support affordable housing). Mainstreaming sustainability into the finance sector requires risk mitigation frameworks, and adequate and appropriate transparency and disclosure rules. Multilateral development banks (MDBs) can provide important support for the development of new financial instruments (e.g. the International Finance Corporation's help in the issuance of India's first green bond).

- ***Another challenge to mobilizing private SDG financing is the lack of impact measurement tools and data*** (which, for example, prevents ranking of companies by SDG performance). This requires the development of core standards (e.g. for measuring equity performance by carbon intensity) and the tools to help bridge the knowledge gap for investment in the SDGs.

- ***Although the private sector's contribution to SDG financing can be substantial (including finance, expertise and know-how), it is not a substitute but rather complimentary to public financing***. The Bill and Melinda Gates Foundation's engagement to ending malaria in Central America is an example of how successful private initiative with public support (nationally and internationally) can be.

- ***The ability to attain the SDGs, including SDG finance, will be profoundly affected by modern technology, including artificial intelligence*** (AI) (e.g. in energy, health care, etc.). Although in its infancy, AI will fundamentally change the way the private and public sector interact, including in pursuit of the SDGs. However, harnessing the potential of AI and new technologies in general requires overcoming the current misalignment between short-term profit-orientation and long-term vision. There is a need for a new incentive structure that puts ethical issues and the social good at the heart, and new governance systems and institutional arrangements that support this (e.g., how to deal with data privacy, the use of AI in weaponry). The UN is best placed to play a catalytic role in this regard, e.g. in the development of a "digital rights" dimension in the human rights catalogue.

Panel One -- Build fertile soil for business: providing concerted leadership

Key challenges towards providing concerted leadership to build the fertile soil for business to get engaged in financing the SDGs include the need to mitigate real and perceived risk, engaging all relevant stakeholders, to find scalable financial solutions that can live up to the challenges of development finance, and to foster an international regulatory environment that is conducive and hospital to innovative forms of financing.

MDBs can provide solutions for **de-risking investments**, but it is also important to engage with, and develop domestic capital markets. Unleashing the power of profit and making sustainability integral to financial markets requires **capacity-building**, particularly as far as scaling-up projects is concerned.

However, there is no room for paternalistic approaches to development finance. Rather there is a need for tailor-made solutions considering the specificities of countries and sectors. It is also not a question of domestic vs. foreign or public vs private financing, but rather a question of **getting all hands-on deck**. Public financing should not end up subsidizing private investment and foreign investment should not curtail the adequate participation of the domestic private sector in poor countries.

Other laudable projects and initiatives include the G7's Charlevoix Commitment on Innovative Financing for Development; the Dutch Water Finance Facility and its pilot project in Kenya; Canada's G7 follow-up project on women empowerment; Denmark's SDG Investment Fund and its Partnering for Green Growth Initiative; the African Development Fellowship Programme (developed with Meridiam); and various initiatives by the global social entrepreneurship community (such as for coral reefs re-engineering by Oceans Unite).

Panel Two -- Let the investment grow: filling in the gap of trillions

Addressing the investment gap for attaining the SDGs, especially in developing countries, requires overcoming three gaps: the lack of common definitions, guidelines and standards for measuring impact; the shortage of bankable projects; and the difficulty in risk assessment and de-risking.

A key requirement is **developing basic principles, guidelines and standards** for establishing due diligence backstopping of sustainability action plans. These need to be monitored and evaluated, to allow for scalability and replicability. Equally important is the identification of the sectors with greatest needs, developing investable projects on the ground and ensuring that these are attractive to investors.

Partnerships are the backbone in this regard, involving all key players and bringing official development assistance (ODA) into play. Examples include the European Union's (EU) Juncker plan (which is replicable outside the EU), the Economic Resilience Fund, the Bloomberg Global Majors Network for city infrastructure funds, the Climate Awareness Bond, and the Dubai Green Fund.

A big boost for sustainable development financing can be derived from the (carefully managed) **privatization of State-owned assets**, **reducing the cost of remittances**, **encouraging diaspora investment**, **cash-less financial inclusion** and adequately addressing the **gender dimension** through ensuring gender equality and closing the gender pay gap.

However, private sector financing of the SDGs also has its limits in the profit maximizing rational of private sector activities, as ultimately the **SDGs** are public goods that **cannot become bankable projects**. Especially poor countries cannot find the financing to boost their budgets to undertake the public good works required for attaining the SDGs. Without ODA, they face a human and political disaster. With ODA numbers shrinking and considering that there is more private wealth than ever before, **private development assistance** needs to step up to the plate. For example, the "Move humanity" initiative will be financed by engaging the world's billionaires to donate 1% of their wealth annually, resulting in an estimated $95 billion. Two billionaires have already subscribed to the fund (the Aliku Dongate Foundation, and the Bill Gross Foundation).

Besides solving the financing issues, there is a need to **stop profit-driven bad practices** (such as deforestation, child labour, etc) and to close tax havens and offshore centres that blur responsibility and accountability. Sustainable development is not possible without justice. Limited liability cannot translate into the right to destroy the world.

Panel 3 -- Remove the hurdles of irrigation: channelling investment to the ground

The challenges towards channelling investment towards SDG sectors, especially in developing countries, include a continued high perception of risks and institutional weaknesses, their scarce domestic resource base, coupled with export-price volatility and external shocks, and persistent market failures.

Key to overcoming these challenges is building trust and contributing to de–risking investments. **MDBs** can engage in this by combining traditional funding instruments with innovative forms of finance (e.g. blended finance instruments), thereby playing a catalytic role in overcoming private sector risk perceptions. Although the upward trend in blended finance is an encouraging sign, it is still minuscule considering the overall scale of global financial transactions. Using ODA funds in blended finance instruments can be facilitated by guiding principles such as the OECD DAC Blended Finance Principles.

Countries need to create an **enabling regulatory environment** and make smarter use of taxes and incentives. Tax and transfer systems need to shift towards the SDGs. They also need to make the business case for the opportunities that the SDGs represent. For this, they need to break down risks into components and address these through regulation and standardization. For example, institutional investment in infrastructure still remains relatively limited, since efforts on developing infrastructure as an asset class have bear little fruit so far.

Most funds are still attracted towards operating assets in highly regulated markets with predictable flows. Re-directing these funds to new markets and the places where they are most needed requires partnerships involving all players, including international actors, especially in difficult markets. **Blended finance instruments** that mitigate risk and raise the credit quality by involving public sector guarantees, including from multilateral institutions such as Multilateral Investment Guarantee Agency (MIGA) or the MDBs, are cases in point.

However, the emphasis in such public-private sector collaboration should be on risk-sharing rather than on risk-transfer. The challenge is to establish the required transparency in risk sharing arrangements, and to develop “risk appetite” in the financial sector. Also needed is a **change in the incentive structure** throughout the financing chain and the economic

Private sector engagement in SDG financing is not only an issue of overcoming the funding gap through various de-risking strategies but also an issue of **overcoming an efficiency gap**. It requires investable projects of considerable size and creating scalability in this regard depends on profitability. Although the sustainability and profitability of companies is ultimately linked to the prosperity of people, governments and countries, aligning core company objectives with the SDGs requires operationalization at all stages of the funding process. There is an acute need for education on the ground to understand the working of capital markets.

At the same time, the push for private sector involvement needs to be coupled with a push for more public investment, especially for poor countries where the SDGs are only achievable through continued reliance on ODA. Analogues to social policies in developed market economies that redistribute national wealth through taxation to provide public goods such as health care, social welfare and other means of public care for the disadvantaged parts of the population, without this notion of global solidarity the attainment of the SDGs in poor countries will be impossible. However, ODA numbers are declining and fiscal difficulties in many advanced countries remain.

Panel 4 -- Securing the fruits: maximizing investment impact

Maximizing the benefits of private sector investment on the ground, while minimizing the potential negative effects, mainly hinges on finding a balance between liberalization and regulation; catering for private profits whilst ensuring the accessibility and affordability of public goods; pushing for public investment while encouraging private investment; and finding global solutions while not leaving anyone behind, especially the least developed countries (LDCs) and structurally weak and vulnerable economies.

It is important in this context to **set SDG priorities** and targets in national and sub-national development plans and to tackle the multidimensional nature of some of the issues that need to be addressed (such as the social dimensions (housing, schooling, health) of extreme poverty). A subsequent issue is the need to align incentives and tax instruments to these priorities based on a thorough cost-benefit analysis (such as in Colombia’s tax on plastic bags or on carbon emissions, the proceeds of which were being used for environmental protection and conversation work and the development of non-conventional renewable energy products). Similarly, important is the need to get it right in terms of **PPP legislation** and the required institutional backup.

Maximizing benefits also has a **regional dimension**, especially in the South-South context. Tackling cross-border and cross-boundary issues, ranging from regional indexing for performance analysis and the contextualization of SDG needs to developing financing templates for key sectors, including to channel international support, is important in this regard.

Breaking regulatory barriers for (impact) investors is another means to maximize impact, as B4P’s engagement with the Central Bank of Bangladesh (to enable investment in micro financing schemes through permitting hard-currency refunding) or with Gulf States (to overcome cash-depositing rules) illustrate. Special economic zones can be used to experiment with pro-poor-investment regulations, turning them into **SDG dedicated zones** with demonstration effects that could emanate throughout the whole economy and the wider region.

The primary responsibility of equity investors is the safeguarding of funds and returns, e.g. to secure pensions and private savings. Operationalizing SDG values needs to take this accountability issue into account. At the same time, SDG issues themselves bear on risk assessment, as e.g. the poverty risk emanating from rising sea levels demonstrates. Hence, **risk assessment and risk partnering** over the whole range of the risk-return spectrum is of critical importance, even for so-called "angel investors".

Information-sharing and fostering dialogues with all stakeholders are key ingredients to ensure impact maximization. Development of cross-cutting strategies and national action plans need to ensure that no one is left behind; investors need to be kept abreast of where their funds are going and what the risks involved are; and standards and measurements need to support impact tracking and information sharing. The data gap needs to be overcome while addressing the cost of the data burden for poor countries and small firms.

Maximizing development impact is inherent to the many forms of **impact investment** (such as crowd funding, diaspora funding and venture philanthropy, etc.), as analysed and catalogued in Armenia's global narrative on development (derived from the Impact Investment Summit in Armenia held in 2017).

Follow up

- President of the General Assembly will circulate a summary report of this event to the Member States.
- The summary report will also be shared with the Office of the Secretary-General of the United Nations for their reference to prepare the Secretary-General's major financing event in September 2018.
- President of the General Assembly would convey the key findings of this meeting to various events dedicated to financing for development.
- The Office of the President of the General Assembly will endeavor to work with partners to develop a "toolbox" -- a pack of recommended solutions and best practices, to be made available to Member States on a dedicated website managed by UNCTAD to be launched at its World Investment Forum in October 2018. That site will also cross-reference the various service providers in the international community.