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Sustainable Investments in Infrastructure and Innovation ('S3i')

Information note on the role of UNOPS in blended and impact financing for the SDGs

I. Introduction

1. As was recognized in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (A/RES/69/313), increased financial resources are needed to support the implementation of the Sustainable Development Goals (SDGs) by 2030.¹ The global implementation capacity of UNOPS, and its technical expertise in infrastructure, procurement and project management, can provide operational support to address the SDG financing gap.
2. The Secretary-General's 'Our Common Agenda' report provides a framework and an opportunity for the international community to take collective actions that can bring value to the people most in need. This will require stronger collaboration between the United Nations system, governments, financial institutions, the private sector, and other key stakeholders. Filling the financing gaps will require a concerted, innovative approach across the ecosystem. 'Our Common Agenda' calls for more innovation, inclusion and foresight in financing global public goods that can sustain us all.
3. In its decision 2022/24, the Executive Board requested a thorough midterm review of the strategic plan, 2022-2025, to be presented at its annual session 2023. The Board asked UNOPS to clarify its role in financing, which will be incorporated into the restated strategic plan, 2022-2025. In accordance with Board decisions 2022/13 and 2022/24, UNOPS will refrain from investing its own financial reserves directly into investable projects, and will not engage in any form of direct impact investment. This note provides a potential framework for UNOPS support to the SDG financing and innovation agenda, for further consultation with Member States and key stakeholders.

¹https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_69_313.pdf

4. The world is not on a trajectory to achieve net zero emissions by 2050. It is estimated that \$4 trillion in climate investments may be required annually by 2030 to support the world's transition to net zero by 2050,² which is far beyond public resources. The largest gap in financing to achieve the SDGs is for infrastructure investment needs, estimated at \$70 trillion through 2030. Meanwhile, total financial assets held by banks, institutional investors and asset managers are valued at more than \$378.9 trillion (International Development Finance Club, 2020).³ The following challenges remain in directing financing to programme countries:
 - (a) Capital and pipeline mismatch: Lack of projects ready to be funded due to mismatch of investors' and lenders' criteria for viability and risk profile;
 - (b) Risks of deploying capital to developing countries: Unfavourable and uncertain enabling environments: political instability, foreign exchange rate volatility, regulatory limitations, limited corporate governance, and corruption; lack of liquidity and high cost of capital; difficulty of exiting;
 - (c) Lack of standardized frameworks for sustainability assessments and data to support analysis;
 - (d) Need for technology and innovation to improve energy efficiency, storage, supply, and transmission, and to decarbonize key infrastructure; and
 - (e) Lack of local capacity at governmental institutions in project design, tendering, planning and implementation.

II. Providing support for SDG financing and innovation

5. As an implementation arm of the United Nations system, UNOPS has market intelligence and expertise from delivering over \$3.4 billion in projects in more than 80 countries, especially in infrastructure and project management. UNOPS can assist partners in implementing the SDG financing and innovation agenda by means of:
 - (a) *Project preparation through capacity-building, project planning, development, and tender:* Developing countries lack the "bankable" pipeline of projects that are essential in gaining access to various public- and private-sector funding sources. Given this demand, UNOPS can:
 - (i) Help build capacities in governments to create the proper environment to attract SDG financing: For example, through its Sustainable Infrastructure Financing Tool ('SIFT'), UNOPS has worked with the governments of Ghana and St. Lucia to assess their longer-term infrastructure needs, providing solution-oriented road maps that connect financing to project pipelines.
 - (ii) Help prepare, tender and implement bankable projects. UNOPS has managed programmes and projects directly supporting several SDGs. Building on those existing projects, UNOPS can continue to support governments in developing bankable projects to attract financing and scale up. For example, UNOPS has prepared and tendered projects in a transparent way to attract investments in infrastructure, such as for the Government Civic Centre in Honduras. Building on relevant experiences, UNOPS can also support the Global South in developing projects and accessing the carbon market in the future.

² https://unfccc.int/sites/default/files/resource/cop27_auv_2_cover%20decision.pdf

³ <https://www.oecd.org/dev/OECD-UNDP-Scoping-Note-Closing-SDG-Financing-Gap-COVID-19-era.pdf>

- (b) *Working with broad-based partnerships to advance project finance and blended finance, facilitating projects and matching them with financing.* Blended finance⁴ was recognized in the Addis Ababa Action Agenda as a tool for attracting private-sector resources to achieve the SDGs (A/RES/69/313).^{5,6} UNOPS has the potential to collaborate with multilateral development banks, Development Finance Institutions, United Nations entities and the private sector, on innovating and deploying financial de-risking instruments to change the risk/return profile of impactful projects. This can include guarantees, insurance and concessional finance tailored for developing countries to increase the scale and efficiency of existing large grant-funded projects. For example, UNOPS has used grant financing in Myanmar to hedge currency risks and provide first-loss guarantees in partnerships with private-sector actors.

Through well-established United Nations initiatives such as the SDG Joint Fund, the Global Investors for Sustainable Development (GISD) Alliance,⁷ and the United Nations-convened Net-Zero Asset Owner Alliance (NZAOA),⁸ UNOPS can help with the implementation of policies and services developed by like-minded institutions; work with governments and support the identification of projects that have potential for sovereign, project or blended finance arrangements; analyse and assess bankability; and help developing countries to identify and access potential financing partners.

UNOPS can leverage the expertise and network of the global programmes it hosts – for example, Cities Alliance and the Sanitation and Hygiene Fund – to advance financing for SDGs such as SDG 6, Clean Water and Sanitation, and SDG 11, Sustainable Cities and Communities; jointly facilitate innovative partnerships with the wider network to reduce risks; increase the scale of blended finance; and share lessons learned across the portfolios.

- (c) *Working with other agencies and partners to support governments and financial institutions to design, monitor and report on SDG Impact throughout the project cycle and to adapt to the local context.* The measurement, assessment and reporting of SDG impact is a key challenge in developing countries, where capacity in data collection and management needs to be strengthened. UNOPS can support governments and financial institutions in piloting the implementation of SDG impact standards by collaborating with other United Nations entities and leading institutions, and by producing practical knowledge such as tool kits and approaches to measuring emissions in the infrastructure sector. UNOPS is working with partners to pilot an impact assessment tool that uses satellite imagery to measure the financial benefit delivered by its humanitarian mine action projects over time, and the specific contributions made to the SDGs. UNOPS can also help facilitate the transition from focusing on environmental, social and governance risk management to driving

⁴ “Concessional public finance with non-concessional private finance and expertise from the public and private sector, special-purpose vehicles, non-recourse project financing, risk mitigation instruments and pooled funding structures” https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_69_313.pdf

⁵ Ibid.

⁶ New actors are needed to bring innovative financial solutions such as blended finance to accelerate progress towards the SDGs. Blended finance needs to be tailored to the national context of each country to help to lower the risk/return profile of investments, scale up investments, and attract commercial private financing. <https://www.oecd.org/publications/making-blended-finance-work-for-the-sustainable-development-goals-9789264288768-en.htm>

⁷ The GISD Alliance works to develop and implement solutions for long-term investment for sustainable development. <https://www.gisdalliance.org/>

⁸ NZAOA is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C. <https://www.unepfi.org/net-zero-alliance/>

positive SDG impact with other United Nations entities.

- (d) *Accelerating innovative solutions and technologies in key infrastructure sectors by matching demands with solutions.* Enhancing the share and deployment of renewable energy technology will require breakthrough innovations in power integration, power flexibility and energy storage, as well as cross-border energy transmission. In small island developing States and least developed countries, UNOPS can work with public and private sectors, research labs and its country offices to identify needs and match demands with innovative solutions – distributed energy solutions, in particular; promote decarbonization knowledge and technology in key infrastructures; and scale up tested solutions together with United Nations entities, the private sector and governments. For example, through the previous UNOPS innovation challenges, solutions such as carbon emissions reduction through artificial intelligence were identified during the construction planning phase, and pilot opportunities are being explored with UNOPS country offices.

III. Next steps

6. UNOPS will seek to partner with like-minded public- and private-sector entities in key infrastructure sectors to link project needs with SDG financing opportunities, and will seek to complement other United Nations entities in strategy design and implementation. UNOPS will seek input and guidance from the Executive Board, and will consult with United Nations entities and other key stakeholders to refine its strategy.
7. By carrying out an inclusive external and internal consultation process, UNOPS aims to establish compatible implementation processes and strengthen risk management approaches, benchmarking against leading institutions. UNOPS can evaluate the policies, processes and decision-making criteria that are best suited for accelerating SDG financing and innovation. The Helsinki office will transition into a fully integrated corporate unit, serve as a central UNOPS resource to help regional and country offices; support developing countries in advancing SDG finance and innovation priorities; coordinate with other United Nations entities for joint initiatives; and provide complementary services.
8. Trillions of dollars will be needed to achieve the SDGs in developing countries, and the lack of bankable projects is a major hurdle. As an operational agency focused on project implementation, UNOPS can and should help developing countries to create bankable projects that can access financing effectively. UNOPS will not use its own funds to invest, but will support governments and partners in building pipelines, accessing financing and innovative solutions, and reporting on SDG impact through its global network of country offices. Accelerating financing and innovation for the SDGs remains a top priority in expanding countries' implementation capacity of the Addis Ababa Action Agenda. To support the SDG financing agenda and Secretary General's Common Agenda, UNOPS will further develop its strategy and capacity, which will be incorporated into the restated strategic plan, 2022-2025.