

PIPELINE BUILDER

Concept Note

This document provides an overview of the Pipeline Builder, being incubated within the SDG Lab. This initiative is currently in a conceptual stage but will soon enter a pilot phase to test assumptions, determine its future working model including where it will be hosted and managed, and assess the potential to scale this initiative in future.

THE PROBLEM

THE “MISSING MIDDLE” OF SDG INVESTMENT

The 2030 Agenda for Sustainable Development is a universal roadmap for a more prosperous, equitable and sustainable future. The Agenda – and its 17 Sustainable Development Goals (SDGs) – have mobilized an unprecedented cross-section of society. This has equally reached the finance industry. New financial tools such as Green Bonds and blended finance (etc.) are increasingly used by mainstream financial players to link investments to the SDGs. Large projects and listed companies with a sustainability dimension are benefitting from this trend and receiving funding. At the SME level, however, the situation is different. A 2017 report by the IFC and the SME Finance Forum found that, in developing countries, 65 million enterprises or 40 percent of formal micro, small and medium enterprises (MSME) have an unmet finance need of US\$5.2 trillion a year. SMEs are the backbone of most emerging/developing economies and are where most entrepreneurs are developing new sustainable business models and innovations. While this segment of the economy is growing, entrepreneurs encounter a fragmented and inefficient market for capital.

A wide range of investors are increasingly interested in these smaller, more direct SDG investments, but many are struggling to navigate this new frontier of finance. As a result, large capital flows for sustainable development priorities remain restricted.

Entrepreneur Challenges

- inconsistent access to capital
- high transaction costs
- time-consuming process
- general lack of know-how of fund-raising and structuring

Investor Challenges

- insufficient local market knowledge and context
- lack of access to project pipeline
- significant due diligence costs
- high cost of impact monitoring and measurement

THE SOLUTION

An opportunity exists to connect the two sides of this growing marketplace in a pioneering way. Countries around the world have used the SDGs to define their development priorities, policy and plans. These country-level SDG strategies represent a detailed “to do list” for all stakeholders, and, for the finance community, provide insight into where investment is needed and most impactful.

The Pipeline Builder is an integrated solution that utilizes development expertise and financial industry acumen to address the missing middle of SDG investment and to broker deals for SMEs that will make a difference for the SDGs at the country-level. The initiative utilizes three key elements to provide a comprehensive solution to both entrepreneurs and investors:

- 1. SDG ROADMAPS** – country SDG strategies clearly define the priorities of governments and people for sustainable development in a given country. They can be mapped to key sectors and translated into investment opportunities. The Pipeline Builder uses these roadmaps to guide prospecting for SDG investments.
- 2. PIPELINE BUILDING** – guided by the SDG Roadmaps, the Pipeline Builder leverages existing local and international networks to identify and screen a vast range of SMEs working in the SDG space. This includes through governments, the United Nations, accelerators, trade associations, universities, impact entrepreneurial networks, competitions, etc.
- 3. BROKERING** – utilizing deep development impact expertise, boutique brokering services are provided for deal origination and structuring. The Pipeline Builder provides financial advisory work, ensures the smooth flow of capital, and improves allocation efficiency for investors. In addition, it facilitates access to capital for entrepreneurs so that they can focus more on building their businesses and less on constant fundraising.

“Gaps in intermediation still remain. [F]ew investment banks are focused on impact deals to facilitate the needed functions of capital raising and structuring for investees and, for investors, to aggregate deals to achieve the scale larger investors require.”

- Global Impact Investing Network (GIIN) 2018 Roadmap for the Future of Impact Investing

Advisory Arm	Transactional/Financing Arm
<ul style="list-style-type: none"> • Builds SDG Roadmaps for investment based on national development priorities • Screens and validates investment opportunities, initial due diligence • Conducts market intelligence reports • Supports in identifying impact metrics • Assists business owners and project sponsors in defining finance needs • Works with UN agencies on the ground to amplify investment-readiness criteria 	<ul style="list-style-type: none"> • Aggregates small scale investments • Conducts market soundings to validate investor appetite • Runs investments roadshows • Raises finance for investment ready projects • Structures or simply introduces as per client needs

The Pipeline Builder will benefit all stakeholders:

GOVERNMENTS

- An opportunity to attract investments into high-priority SDG sectors
- Access to skills & expertise to enhance bankability of impact enterprises in their countries
- Access to transaction support and a verified pool of investors in Switzerland and elsewhere

UN AND OTHER DEVELOPMENT ORGS

- A service that will accelerate delivery of SDG priorities, build competence and offer opportunities to exit public financing
- An opportunity not to 'engage' but to 'work' with private investors on specific transactions – but supported by professional advisors
- Streamlined access to the Geneva investor community

ADVISORS & FUND MANAGERS

- Opportunities to be contracted to deliver services
- Full-time advisory roles and opportunities to act as investment advisor
- Visibility and insight into cutting edge SDG compatible transactions

INVESTORS

- Qualified pipeline and lower (not zero) DD cost
- Access novel and high-growth sectors at higher than normal ticket size & opportunity to "pick and choose" a portfolio of investments
- Access to professionally prepared enterprises whose business model was screened for viability
- Support to validate appropriate impact metrics

ENTREPRENEURS

- Competence in investment-readiness that matches investor expectation
- Access to impact investment to realize their growth goals
- International visibility and increased reputation translating into successful business opportunities

THE PILOT

To further refine the Pipeline Builder model and build external implementation capability, a 12-month hands-on pilot will be carried out in 2-3 countries in 2020. The objectives of the pilot phase are as follows:

- Refine the concept with further market research, build advisory and transactional teams
- Build out necessary sourcing and investor networks / partnerships
- Test assumptions including processes, resources, network roles and timelines
- Close one transaction
- Prepare a roadmap for Pipeline Builder scale-up & secure further resources

The Pipeline Builder was conceptualized in the context of a Geneva-based collaboration between a diverse group of finance and development actors convened by the SDG Lab, International Institute for Sustainable Development (IISD), and Sustainable Finance Geneva (SFG). The SDG Lab at the UN Geneva is incubating the project through its pilot phase; the project is managed by SME and development finance expert, The Ground_Up Project; and received generous financial support from the Swiss Agency for Development Cooperation (SDC).

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