

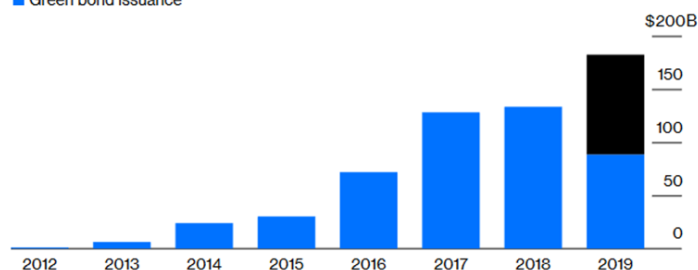
## Concept Note – Pipeline Builder

In traditional financial markets, a wide range of actors have begun using new financial tools such as Green Bonds, blended finance, etc., to link investments directly to the SDGs. Large and listed projects and companies are receiving financing and progress is being made. Within the Swiss market, this liquid side of ESG/impact investments enjoys institutional support and market infrastructure. Swiss Sustainable Finance's (SSF) 2018 market study highlights the accelerating growth of the market, with a 82% increase to reach CHF 390.6 billion. Globally, we see the same trend led primarily by the EU and then the US and Asian markets.

### Shooting Higher

Global green-bond sales are on pace to set a record after stagnating last year

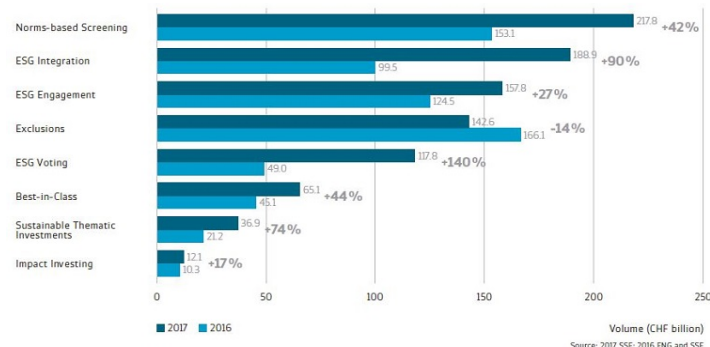
■ Green bond issuance



Source: Bloomberg

Note: Black area in 2019 is projected issuance through year-end

### DEVELOPMENT OF SI APPROACHES (IN CHF BILLION) (n=57)



Volume (CHF billion)  
Source: 2017 SSF, 2016 FNG and SSF

At the **SME level**, the situation is different and well documented. A 2017 report by IFC and the SME Finance Forum<sup>1</sup>, found that 65 million enterprises, or 40 percent of formal micro, small and medium enterprises (MSME) in developing countries, 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 which are more clearly linked to the SDGs. We believe that a wide range of investors are interested in these more direct, SDG investments.

While this ecosystem is well organized and growing, entrepreneurs encounter a fragmented and inefficient market for capital. Entrepreneurs face inconsistent access to capital, high transaction costs, a time-consuming process and general lack of know-how of fundraising and structuring. All this prevents larger capital flows for climate innovation and the SDGs. Investors are looking to align their investments with the SDGs as demand for action on climate change continue to grow. The next generation of wealth owners will accelerate demand. This mismatch is holding back the further development of the Swiss impact investment market.

An **opportunity exists** to connect these two sides of this growing marketplace in an innovative way. Countries around the world have used the SDG framework to integrate with their policy development. These country level SDG Strategies essentially represent a detailed "to do list" for each country in terms of the investment needed to reach their SDG goals and where investment would be most helpful in the country.

### What is Missing?

The Global Impact Investing Network's (GIIN) [Roadmap of the Future of Impact Investment](#) paints a detailed picture of the current successes and the missing pieces of the impact investing market. Today in the Swiss market, no brokering service is dedicated to SME focused on the SDGs. The two most best-known firms, [Clearly So](#) (UK) and [Big Path Capital](#) (US), come to Switzerland but have no local offices. Both firms have long track records and have successfully raised hundreds of millions in direct impact investments. They have proven that a transaction driven model can thrive, increasing investment flow to the most challenging part of the sector and provide competitive market returns for their investors. The Global Steering Group for Impact Investment (GSG), a London based group, has also written about the need for intermediation.

*"Gaps in intermediation still remain .... few 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."*

- GIIN's 2018 Roadmap - Future of Impact statement

<sup>1</sup> IFC and the SME Finance Forum, 2017 <https://www.smafinanceforum.org/data-sites/msme-finance-gap>

The demand for deal-flow generation linked to the SDGs emerged from a convening hosted by the UN SDG Lab, IISD, SFG, Canton of Geneva and 20 other entities in the summer of 2018. The Ground\_Up Project was contracted to conduct a research into what could be done to build a deal-generating mechanism that enables and accelerates existing market forces and thus formulated the idea of the Pipeline Builder (PB). The PB is developed by The Ground\_Up Project, incubated by the UN SDG Lab in Geneva.

The PB aims to use country SDG roadmaps in an innovative, pragmatic way by combining three elements:

1. the output/results of SDG roadmaps
2. the vast resources of the UN network and those of local and international business networks
3. a brokering business model

#### HOW WILL IT WORK



1) **SDG Roadmaps** – country SDG strategies represent detailed “to do lists” or roadmaps for a country in terms of priorities and the investment needed to reach their SDG goals. The PB will use these roadmaps to guide their search for SDG investments.

2) **Network** – UN networks provide highest-level governmental access and insight into national SDG roadmaps as well as deep knowledge of the SDGs, while local and international business networks (including accelerators, trade associations, universities, impact entrepreneurial networks etc) provide access to a vast range of SMEs working in the SDG space.

#### 3) Broker model

<b>What?</b>	The need for classic boutique investment banking services for impact investments — capital raising, deal origination, structuring and syndication <b>Current players:</b> Big Path Capital (US), ClearlySo (UK), Enclude (UK), Intellectap (India) & IIX (Singapore)
<b>Why?</b>	Investment banks play critical roles in <b>capital markets</b> : <ul style="list-style-type: none"> <li>• ensure the smooth flow of capital</li> <li>• Improve allocative efficiency</li> <li>• offer businesses different types of capital matched to their different stages of growth</li> <li>• create exits for investors with functioning secondary markets</li> <li>• help entrepreneur focus on business building and not constant fundraising</li> </ul>
<b>Who?</b>	<b>Swiss based pilot project</b> incubated by the SDG Lab with the skillset, mindset and resources to execute

#### Pilot Project

Incubated by the UN SDG Lab in Geneva, with generous support from the Swiss Development Cooperation, a 12-month PB pilot will be carried out during 2020. The objectives of the pilot phase are 5-fold:

1. Refine & build advisory and transactional team
2. Build out necessary sourcing and investor networks / partnerships
3. Test assumptions including processes, resources, network roles and timelines
4. Close one transaction
5. Prepare a roadmap for Pipeline Builder scale-up & secure further resources