Circular Economy

SDG Accelerator Fund to be piloted on Circular Economy

Brief Description

The circular economy is a new way of creating value, prosperity and productivity. Implicit in nearly all of the Sustainable Development Goals (SDGs) is the potential to integrate Circular Economy thinking to all industrial development efforts throughout global and domestic value chains that are populated by manufacturing SMEs in developed and developing countries as well as in transition economies. SMEs represent the engine of inclusive and sustainable industrialization with their flexible business models that are more resilient to market fluctuations and shocks than large scale businesses. Their employment creation capacity ensures inclusiveness and mobilizing their grassroots innovation potential is what is needed to trigger and maintain green industrialization.

One major challenge to this vision is the financing gap, particularly access to medium and long term investment financing for implementation of sustainability measures. However, the large number of SMEs in need of relatively smaller amounts of medium and longer term green investment financing are underrepresented in global investment portfolios due to the larger costs of processing and monitoring per unit of investment and therefore miss out on the opportunity to integrate their businesses into the Circular Economy framework. An immediate solution to this is to create circular economy investment funds with the explicit purpose of representing this large market share in order to integrate their contributions to the circular economy and ensure both inclusive and sustainable industrial development, as well as UNIDO’s mission aligned with SDG-9. This reality calls for an SDG Accelerator Fund that achieves exactly that.

As a part of the overall initiative to set up new financing mechanisms to scale-up the impact towards the achievement of SDGs and circular economy, UNIDO is seeking to play a facilitating role between private financiers and like-minded development partners to close this financing gap and scale up circular SME development.

UNIDO’s environmental services strengthen market worthy SME’s financially viable circularity investment proposals that need to be codified in terms of their SDG impacts. As such, it is necessary to verify that proposed SME investments do indeed contribute to SDGs by assessing their impact in terms of circularity. While investors are well-versed in assessing key business performance indicators and their associated credit risks, impact investment products even for large scale industries are new and non-existent for SMEs. UNIDO’s deep knowledge of SMEs and particularly of financially viable resource productivity increasing SME investments is a tremendous asset that could be leveraged vis-à-vis investors to remove financial market barriers that SMEs face, including with the deployment of emerging technologies such as distributed ledgers for verifying impacts.

This project provides a launching pad for SMEs, particularly those supported by UNIDO, to unleash their potential to transform the financing market conditions and ensure a consistent and high-throughput flow of visible and measured SDG impact.
# Section Description

## Project Purpose

The purpose of this project is to set up the proposed funding framework to facilitate institutional investment in SMEs for circular transformations while cost-consciously verifying impacts achieved, where UNIDO acts as the verification service provider.

It is expected to create the following finance innovations:

1. An SDG Accelerator Fund—facilitated by UNIDO’s investment community partners
2. Mechanisms and procedures that deploy blockchain technologies for cost-effective measurement and verification of impact achieved with sustainability investments, that will also be linked to the Organization’s IRPF—UNIDO, blockchain and investment community partners
3. An SME Grant facility for capacity building in implementing circular business practices at the level of SMEs, accompanying UNIDO TC activities—operated by UNIDO

## Rationale

Towards the ultimate aim of achieving the SDGs, SMEs play a pivotal part in markets. Leading SMEs have the capacity to react quickly to market changes and transform both themselves and the markets they operate in. This is what makes SMEs particularly apt to achieve important goals for circular economy transformations. Thanks to their intrinsic flexibility they can implement the necessary changes towards a truly sustainable and environmentally friendly industry that is also inclusive. Private finance plays an increasingly important role in mobilizing additional resources to help achieve the SDGs and to transform the industrial sector in a virtuous circular economy cycle. However, SMEs are regarded by financial institutions, especially banks, as risky investments because of the difficulty in assessing and rating their credit risk and as an expensive group of customers due to their sheer population and smaller size per SME customer. This makes access to finance challenging for SMEs, thereby creating a financing gap between SMEs with bankable circular/resource productivity improving investment proposals and the impact investors.

The overall purpose of this project is dramatically alter UNIDO’s role in streamlining financial opportunities to the advantage of SMEs that directly contribute towards transitioning towards a circular economy, while enhancing partnerships of UNIDO with the private financial sector. An added benefit will be the deployment of transparent, incorruptible and cost-effective distributed ledger technologies for SDG and circular economy impact assessment and reporting.

This preparatory assistance project is the first stage towards this purpose where (a) UNIDO’s financial sector and impact investment and technology partners in this endeavour will be identified to define together with them a mutually agreed framework, mechanisms and finance innovation in UNIDO will be developed; (b) a project for pilot deployment will jointly be promoted to development partners as
well as the investor community.

| Baseline Scenario | Without a SDG Accelerator Fund in place, the unprecedentedly large financing gap critical for achieving the SDGs will not be addressed. Taking into consideration the investment maturity period needed for financing, this SDG Accelerator Fund needs to be put into operation latest by 2020 so as to allow 10-year investments to achieve discernable results on the 2030 Agenda. Any delays of setting up this financing scheme will deprive SMEs of critical access to impact financing; hence the innovative solutions for achieving the SDGs will not be harnessed nor scaled up.

SDG achievement measurement is currently a costly and resource intensive exercise; application of new technologies and tools could be key to removing these challenges and facilitate deeper engagement of the private financial sector in achieving SDGs. |
|---|---|
| Main Target Groups | The ultimate target group/beneficiaries are SMEs which are willing and able to, particularly from a market viability perspective, invest in circularity measures. By targeting SMEs and facilitating their access to vital private funds, business expansion and associated employment potential under the circular economy framework will also benefit the wider society.

The primary target group/counterparts will be financial and technology partners that UNIDO will work together with to develop an impact investing framework, the SDG Accelerator Fund for SMEs and related impact investing screening, monitoring, recording and reporting mechanisms and tools. UNIDO will work with potential development partners in the creation of an SME Grant facility that will complement the SDG Accelerator Fund. |
| UNIDO’s Comparative Advantage | UNIDO’s, particularly of the Department of Environment’s foremost comparative advantage is its hands-on experience and knowledge of SMEs and the resource productivity improving measures they could invest in on the way to transformation/transitionaling to circularity. This capability has been built by UNIDO since Rio 1992 through its resource efficient cleaner production related work in over 50 countries globally as well as its contributions to its 168 Member States in compliance with multilateral environmental agreements, including on climate change, all of which are within the realm and core of circular economy transformations.

This expertise is reinforced by robust and extensive networks that UNIDO has built of SME stakeholders including government officials, industrial associations, technical and support institutions in its Member States.

With its technical and hands-on experience and convening power, UNIDO is well positioned to mobilize private financing for SMEs that are set to create impact toward the achievement of SDGs. |
Synergy

The transition to a circular economy cannot happen alone. Synergies that foster mutual benefit and incentives are a prerequisite for ensuring a swift and inclusive transformation. This project can forging synergies between two key stakeholders: partnering organizations and SMEs.

UNIDO’s experience in managing technical assistance projects with SMEs makes it highly equipped to bridge the gap between SMEs and institutional players. The latter may be defined as brokers who play an active role in leveraging private finance. This appropriately defines what each party is offering one another, but additionally pinpoints the need for synergistic collaboration in order to deliver the success of this project. Brokers require a deep understanding of the SMEs and their demand for investments to achieve impact, a UNIDO comparative advantage. On the other hand, UNIDO requires the network effects of brokers to adequately bridge the financial gap between large institutional investors and SMEs. The end result will offer a completely new financial service that benefits all stakeholders involved.

UNIDO has the required knowledge to set up a reliable measurement framework that aligns the SDG reporting requirements with the brokers’ needs and committed outcomes. This offers an enabling environment fortified by the synergy between UNIDO and its partners to ensure cost-effective, reliable, and scaled-up outcomes. SMEs in less developed countries lack the social capital to reach these brokers directly, as well as the know-how that UNIDO’s capacity building can directly help establish through its expertise in technical assistance and SME project management.

The SDG Accelerator Fund will be further strengthened with an SME Grant Facility that will accompany UNIDO TC activities and build capacity in SMEs as they invest in sustainability measures/circularity at their business.

**Stakeholders**

Development partners, private financial institutions and brokers interested in impact/green investments at global and national levels; SMEs in various countries, UNIDO’s Member States.

**Legal**

NA

**Risks**

**Monitoring, Reporting & Evaluation**

**Sustainability Strategy**

The primary overarching goal of the project is to advance the implementation of circular business practices by SMEs towards the achievement of the SDGs. The sustainability aspect is key to this project and it represents both its premise and its goal. By targeting the underutilized potential of SMEs in advancing inclusive and sustainable industrial development by involving private funds through a cost...
effective means of verifying the impact of sustainability investments, the project will put in motion a virtuous cycle that simultaneously benefits SMEs, hosting countries’ economies, social standards and sustainable development.

The SMEs play a crucial role in the achievement of the SDGs: with the intent to bridge the financing gap of SMEs by linking these to impact investors, the project will demonstrate to private investors the return and outcomes that can be generated with such investment and align private financed investments towards the SDG objectives.

SDG aligned results measurement is currently a costly, resource intensive and assessment based exercise; application of new and more transparent tracking methods could be key to more cost-efficient measurement. The project will set-up and test such methods that could be then used in many projects of UNIDO.

The successful setting of this cost-efficient and more transparent mechanism greatly increases the overall sustainability of the very project, making it more enticing to investors and leading SMEs.

The pilot project will assess a replicable/expandable fund facility for SMEs within UNIDO. There is reason to believe that such a system, once put in place, thanks to the innovative part of the tracking technology, will serve as a well-structured blueprint that will enable the quick development and scalability of the process. Such a mechanism will therefore represent a replicable and cost-efficient tool that will be able to speed up and streamline investment in circular economy oriented SMEs to achieve SDGs.

**Funding Strategy**

This project requests RB funds to set up the core design and go through due diligence for finalizing the basic design of the funding framework.

Development partners will be identified to enter into a funding agreement with UNIDO, for the SME Grant facility as well as the preparation and implementation of the pilot SDG Accelerator Fund. This can either be the standard UNIDO Model Trust Fund Agreement or a custom agreement with format and provisions jointly agreed by UNIDO and an individual donor.

**Counterpart Inputs**

Counterparts at this stage are the partnering organisation that have already shown commitment to collaborate with UNIDO to identify and incorporate the necessary metric parameters in order to construct and test the sophisticated software for impact measurement and verification. Their inputs may be classified into three categories as explained below:

1. SDG outcome KPI metrics
   - The circular economy framework is powered by SDG outcomes that are defined, measured, and verified. In effect, the measurement of
committed business performance is integral to the successful transition to a circular economy on a larger scale, highlighting the importance of measuring and verifying committed SDG outcome for SME projects that become involved in this financial scheme. Expert organizations specialising in the measurement of such commitments have already expressed their desire to collaborate and partner with UNIDO and offer their inputs. These inputs will be in the form of codified outcome KPIs that will become embedded in the block chain technologies used.

2. Configuration of financial product recommendations for SMEs
   - Each SME exists within a context unique to itself and therefore requires financial recommendations catering to its needs. By partnering with an expert organization that is well-versed in the configuration of financial products that are most suitable for certain contexts, UNIDO may integrate this valuable information into the construction of its framework, the modalities and mechanisms as well as block chain technologies used.

3. The construction and maintenance of a cost-effective verification system
   - A partner with expertise in block chain technologies will collaborate with UNIDO to construct a private-permission block chain to be used in verification of impact investing in a cost-effective and high-throughput manner.

### Prior Obligations & Prerequisites

<table>
<thead>
<tr>
<th>UNIDO Inputs</th>
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<tr>
<td>This is a joint proposal by the Department of Environment and the Department of Finance of UNIDO.</td>
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</tbody>
</table>

The Department of Environment will take the lead in Output 1:
UNIDO’s first and foremost input is its knowledge and experience in promoting circular economy business practices, backed by over 50 years of striving toward a truly sustainable industry and in SDGs. Many of UNIDO’s projects are already addressing numerous building blocks of a circular economy and business practices, ranging from resource efficient cleaner production to full sectoral upgrading through compliance with multilateral environmental agreements at enterprise levels globally. This expertise is fundamental to achieve the overarching goal of increasing sustainability in the industrial sector and achieving the SDGs within the context of circular economy.

The Department of Finance will be responsible for Output 2:
To explore and assess finance innovation to upscale technical cooperation the following activities will be undertaken:
- Grant facility:

Having researched other UN agencies policies on Grants and Financial Instruments
there is a clear need to introduce mechanisms to further support and UNIDO’s technical assistance. Therefore, a UNIDO policy on Grants Facility including new Financial Instruments will be formulated.

- Assessment of blockchain and SDG token
  A technical assessment for the introduction of an SDG Token and blockchain will be undertaken by experts in consultation with potential partners.

**Beneficiary Input**

**Gender Mainstreaming Strategy**

UNIDO recognizes that gender equality and the empowerment of women have a significant positive impact on sustained economic growth and inclusive industrial development, which are key drivers of poverty alleviation and social progress. The project aims to demonstrate good practices in mainstreaming gender aspects in its operation wherever possible, and avoid negative impacts on people, due to their gender. Guiding principle of the project will be to ensure that both women and men are provided equal opportunities to access, participate in and benefit from the project. In practical terms:

- Efforts will be made to promote equal participation of women and men in the project activities.
- Efforts will be made to ensure the framework and mechanisms developed will empower women-led and owned SMEs with viable projects in the Circular Economy field.
- All decision-making processes will consider gender dimensions through, but not limited to, efforts to achieve gender balance/representation in such processes.

**Project duration:** 1 year

**Proposed budget:**

<table>
<thead>
<tr>
<th>Output 1 (EUR)</th>
<th>Amount (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget line</td>
<td></td>
</tr>
<tr>
<td>1100 - International Consultants</td>
<td>20,000</td>
</tr>
<tr>
<td>1600 - Travel</td>
<td>5,000</td>
</tr>
<tr>
<td>2100 - Contractual Services</td>
<td>30,000</td>
</tr>
<tr>
<td>3500 - Meetings</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>60,000</strong></td>
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<thead>
<tr>
<th>Output 2 (EUR)</th>
<th>Amount (EUR)</th>
</tr>
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<tbody>
<tr>
<td>Budget line</td>
<td></td>
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<tr>
<td>1100 - International Consultants</td>
<td>20,000</td>
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<tr>
<td>2100 - Contractual Services</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>30,000</strong></td>
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</table>

**Grand total**                                      **90,000**
**Project Log-Frame:**

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Indicators and Targets</th>
<th>Means of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Contribution to acceleration of SME investments for circular economy transformation within the 2030 agenda</td>
<td>• A pilot USD 40 – 50 million Circular Economy Accelerator Fund is facilitated</td>
<td>• Pledges by investors</td>
<td>• SMEs are interested in private impact finance</td>
</tr>
<tr>
<td>Outcome</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>An innovative programme for scaling up SDG impact in a cost-effective manner is prepared</td>
<td>• At least one development partner confirms interest in investing in development of this new UNIDO service</td>
<td>• UNIDO has signed MoUs/Letters of Intent with private financial institutions for the establishment of a Accelerator Fund</td>
<td>•</td>
</tr>
<tr>
<td>Output</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. A pilot SDG Accelerator Fund is established (Department of Environment)</td>
<td>1. # USD financial pledges</td>
<td>• Signed declarations of understanding</td>
<td>• Financial Fund is needed</td>
</tr>
<tr>
<td>2. Innovative financial instruments are developed for UNIDO’s TC (Department of Finance)</td>
<td>2. Detailed mechanism of innovative financial instruments available</td>
<td>• Draft policy on Grants Facility including and Financial Instruments</td>
<td>• EB endorsement for issuance Grants Facility and financial instruments</td>
</tr>
<tr>
<td>Key activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• <strong>Activity 1.1</strong>: Identify and agree with suitable partners the framework and operational modalities for the pilot Fund</td>
<td>1.1 # of partnerships; framework and operational modalities completed</td>
<td>• Published call for expression of interests</td>
<td>• Partners are willing to cooperate</td>
</tr>
<tr>
<td>• <strong>Activity 1.2</strong>: Identify, agree and secure finance to pilot the Fund and complete pilot project implementation documentation</td>
<td>1.2 Amount of secured financing for the pilot implementation and approved pilot implementation</td>
<td>• Copies of meeting minutes</td>
<td></td>
</tr>
<tr>
<td>• <strong>Activity 2.1</strong>: Identify and establish finance innovation technologies and mechanisms</td>
<td>2.1 Finance innovation technologies and mechanism approved</td>
<td>• Pilot project documentation</td>
<td></td>
</tr>
<tr>
<td>• <strong>Activity 2.2</strong>: Prepare finance innovation procedures to a level of readiness for pilot deployment</td>
<td>2.2 Finance innovation procedures for pilot approved</td>
<td>• Procedural documentation</td>
<td></td>
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</table>