

# INNOVATIVE FINANCE

## UNLOCKING THE POWER OF PHILANTHROPY FOR IMPACT AT SCALE

### BACKGROUND

As we enter the Decade of Action, sustainable development in the 21st century needs investment, not just pledges and giving—given the scale of the social, environmental, health, urban, and economic challenges that we face today. There is a need for innovative financing mechanisms and financial solutions that create scalable and effective ways of channeling funds from private sources, financial markets, philanthropists, foundations, companies, and other sources to help solve pressing global development and humanitarian challenges.

These financing solutions can take a variety of forms across sectors and geographies, from bonds, insurance-linked securities, and impact investments to advanced market commitments. Over several years, philanthropy has championed the development of such innovative finance solutions that have been successful in enabling, accelerating, and harnessing private capital markets for public good.

UN-Habitat recognises the urgent need to close the financing gap, estimated at USD\$5.6 trillion, to achieve the Sustainable Development Goals.<sup>1</sup> Crucially, 65% of the Sustainable Development Goals are linked to urban development.<sup>2</sup> Cities will have to accommodate 2.5 billion more inhabitants by 2050, when it is estimated that 68% of the world's population will live in cities.<sup>3</sup> 90% of this urban growth will occur in developing countries in Asia, Africa, the Middle East and Latin America.

At a meeting of foundations on 20 October 2020, there was overwhelming support to establish a Foundation and Philanthropy Platform to structure the engagement of foundations to jointly develop solutions to advance achievement of the urban dimensions of the SDGs. During the meeting, it was agreed to create a working stream on Innovative Finance for Urban development and another on entrepreneurship. This document will outline the objectives, outputs and propose a roadmap for first work stream in innovative finance for sustainable urban development.

### OBJECTIVES

- To secure [investment for sustainable urban development](#) initiatives through innovative financing
- To stimulate [investment by private, public, and philanthropic actors](#)
- To support [sustainable urban development](#) in new and more efficient and scalable ways
- To solve [social, economic, and environmental problems](#) globally.

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<sup>1</sup> UN-Habitat, 2020. *The Sustainable Investment Gap & How to Close It: Cities, Infrastructure and SDG Investment Gap*.  
<https://unhabitat.org/the-sustainable-investment-gap-and-how-to-close-it-cities-infrastructure-and-sdg-investment-gap>.

<sup>2</sup> UN-Habitat, 2020. *Financing Sustainable Urbanization: Counting the Costs and Closing the Gap*.  
<https://unhabitat.org/financing-sustainable-urbanization-counting-the-costs-and-closing-the-gap>

<sup>3</sup> United Nations Department of Economic and Social Affairs (UNDESA), 2018.  
<https://www.un.org/development/desa/en/news/population/2018-revision-of-world-urbanization-prospects.html>.

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### PROPOSED AREAS FOR PROGRAMME OF WORK

UN-Habitat recognises the need for value-based partnerships with foundations and investors that are committed to closing this financing gap to promote sustainable urban development and is looking for foundations who share this same vision to:

1. Explore [financing mechanisms for sustainable urban development](#) these may include:
  - Green bonds, results-based financing incl. social impact bonds
  - infrastructure equity and other long-term illiquid investments
  - mutual funds
  - institutional investments such as pension funds
  - Blended financing
2. Jointly develop bankable sustainable investment opportunities in cities, including intermediate cities, that do not have easy access to international financing on development areas of common interest e.g. urban infrastructure, affordable housing, and [child-friendly cities](#).
3. Find investment partners that are [ready to co-invest](#) in line with their priorities.
4. [Test innovative financing solutions](#) and approaches in jointly agreed cities and countries on common themes of interest.

### UN-HABITAT'S VALUE-ADD TO THE CO-CREATION OF SOLUTIONS

1. UN focal point and leading authority on [urban knowledge](#) including trends, data, statistics.
2. The only UN Agency working directly with [local governments](#) and [communities](#) in addition to [national governments](#), essential partners in advancing urban development agenda.
3. Extensive [field experience](#) and presence in over 60 countries provides testing ground for solutions developed with foundations provides opportunities to participate in blended finance initiatives to leverage [impact on the ground](#), and tested measures to [mitigate financial, operational, and other risks](#).
4. Convening role with national government, local governments, communities, professional networks, academia and other urban stakeholders to promote coordinated action to advance of the urban dimensions of the SDGs; able to [convene wide range of urban partners](#) who are committed to support jointly developed initiatives.
5. UN-Habitat's [SDG Cities flagship programme](#), launched at the World Urban Forum in February 2020, provides a good framework for testing innovative financing approaches. It provides [city assessment and measurement tools](#) to establish baselines and identify priority initiatives on governance, regulatory frameworks, municipal financing, land management, infrastructure,

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housing, public services, land management, economic opportunities, and other dimensions of city prosperity. These tools help to assess the investment readiness of cities, monitor progress in a structured way, and identify priority actions that would maximise return on investment. The programme, which has attracted interest from cities and investors alike, focuses on accelerating achievement of urban SDG in 1,000 cities by 2030.

6. The [City Investment Facility](#), also launched by UN-Habitat at the World Urban Forum, to match investors with cities, is aimed at unlocking capital investment for urban impact projects, and is ready to provide inputs and co-create innovative financing solutions with partners of the innovative finance workstream.

#### Initial composition of the innovative finance workstream of the Foundations and Philanthropy Platform

No	Organization	Representative	Email address
1.	Botnar	Stefan Germann – CEO Susanna Hausman-Muela (Chief Program Officer – programs advice) Sushant Sharma (Chief Investment Officer - investment advice) Antoine Veyrassat (Senior Portfolio Manager - investment advice)	<a href="mailto:sgermann@fondationbotnar.org">sgermann@fondationbotnar.org</a> <a href="mailto:shausmann@fondationbotnar.org">shausmann@fondationbotnar.org</a> <a href="mailto:aveyrassat@fondationbotnar.org">aveyrassat@fondationbotnar.org</a> <a href="mailto:ssharma@fondationbotnar.org">ssharma@fondationbotnar.org</a>
2.	Yayasan Khazanah	Shahira Ahmed Bazari – Managing Director	<a href="mailto:shahira@hasanah.org.my">shahira@hasanah.org.my</a>
3.	European Foundation Center	To be confirmed	
4.	European Venture Philanthropy Association	To be confirmed	
5.	Reall Ltd	To be confirmed	
6.	UN-Habitat	Christine Knudsen (Director, External Relations, Strategy, Knowledge and Innovation); Eduardo Moreno (city assessment and monitoring tools); Dyfed Aubrey (SDG Cities Programme); Neil Khor (City Investment Platform; Sharmaarke Abdullahi (Donor Relations and Strategic Resource Partnerships); Jane Nyakairu (External Relations)	
7.	Other resources	Asset manager	
8.	Others to be invited		

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### DRAFT PROGRAMME OF WORK FOR DISCUSSION

No	Date	Activity	Output
1.	21 Jan 2021	Refine programme of work	Programme of work
2.	March 2021	Define in viable financing instruments.	Menu of financing instruments for different types of investment opportunities
3.	April 2021	Map out potential investors	List of matching potential investors and outline of investment opportunities
4.	May 2021	Outreach to potential investors	Mostly likely investment partners identified
5.	July 2021	Investment opportunities refined with investment partners	Initial negotiations on agreed initiatives
6.	August 2021	Launch of initially agreed initiatives, (may be pilot phase)	Programmes under implementation with specific goals, desired outcomes, and budgets