

UNLOCKING SDG FINANCING: FINDINGS FROM EARLY ADOPTERS

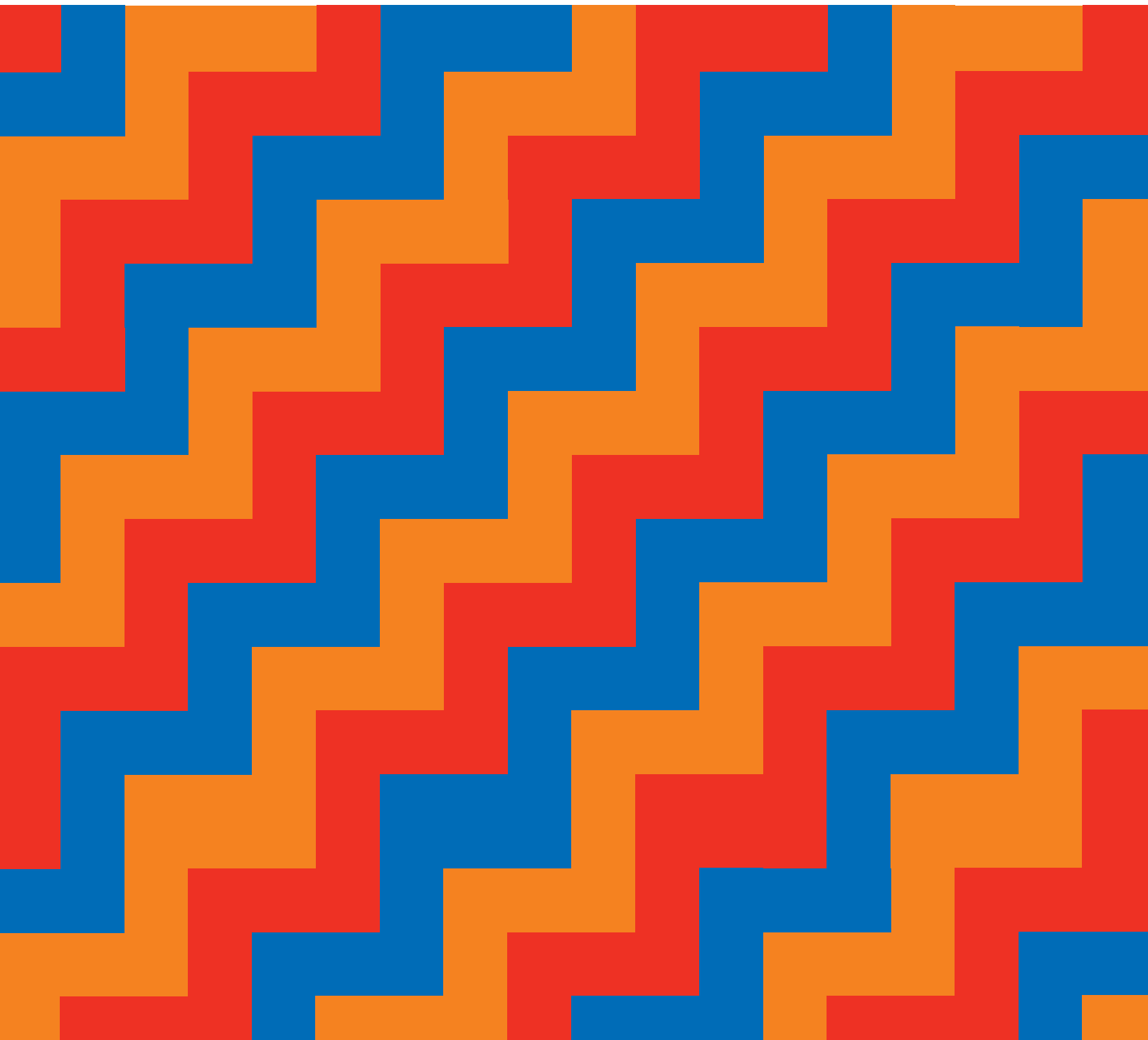
ARMENIA:
THE WORLD'S FIRST JOINT
NATIONAL SDG INNOVATION LAB



UNITED NATIONS
DEVELOPMENT
OPERATIONS
COORDINATION
OFFICE



Dag Hammarskjöld
Foundation





**TABLE 1:
ARMENIA – THE BASICS (2016)**



Population	2,924,816
GDP (current US\$) (billion)	10.572
GDP growth rate (annual %)	0.2
GDP/capita (current US\$)	3,614.69
Human Development Index (HDI)	0.743 (ranked 84th)
Poverty headcount ratio at national poverty lines (% of population)	29.4
Gender Development Index (GDI)	0.993

Source: World Development Indicators and Human Development Reports

GENERAL STUDY BACKGROUND

The Sustainable Development Goals (SDGs) and the Addis Ababa Action Agenda on Financing for Development call on all countries to advance the welfare of societies, economies and the environment. Science, technology and innovation were identified as the primary means of implementing the 2030 Agenda. But while donor and philanthropic funds account for billions of dollars in support, the cost of solving the world's most critical problems runs into the trillions— with an estimated \$2.5 trillion US dollar annual funding gap to achieve the SDGs in developing countries. To close the gap it is imperative to develop and implement innovations that can attract national resources and private capital that can be used to achieve development objectives.

Innovative financing refers to a range of non-traditional mechanisms to raise additional funds. In addition to debt and equity investment, innovative vehicles include diaspora funding platforms, crowd funding, blended finance, peer-to-peer lending, social impact investing, insurance products, credit for rural small and medium enterprises (SMEs), and more.

This country report is part of a series of case studies and a joint comprehensive report based on findings from the case studies.

The aim is to identify, document, analyse and share best practices from United Nations Country Teams (UNCTs) that are already making progress on new financing approaches and unlocking SDG financing. The expectation is that other countries hoping to follow the path of early adopters will be able to do so, building on best practices and avoiding potential pitfalls. In these reports challenges and bottlenecks in adopting new approaches are outlined so that, where possible, they can be addressed corporately.

¹ The other two countries are Indonesia and Kenya. These three countries were selected after an internal process administered by the United Nations Development Operations Coordination Office (UN DOCO). An independent consultant visited the three countries early 2018, meeting with and interviewing a large number of United Nations staff, government officials, private sector partners, and other development stakeholders.

COUNTRY CONTEXT AND RATIONALE FOR FINANCING APPROACHES

Armenia is a middle-income country that has actively piloted innovative ways of financing the SDGs—predominantly with support from the UN and other partners. Its successful track record in incubating innovative solutions to development problems, plus its widespread entrepreneurial culture and wealthy diaspora, makes Armenia an interesting case study.

In 2014, the government adopted the Armenia Prospective Development Strategy for 2014-2025.² This strategy is centred on four priorities: growth of employment; development of

human capital; improvement of social protection system, and institutional modernization of the public administration and governance. Financing issues are also central to the outcomes of the UN Mainstreaming, Acceleration and Policy Support (MAPS) mission that took place in July 2017 and serves as a basis for an SDG Acceleration Roadmap that UNCT Armenia is now finalizing.

The two main sources of innovative financing for delivering the SDGs in Armenia are the tech industry and venture capital linked to it, as well as the country's large and wealthy diaspora who are eager to invest in the country.

The Armenian tech industry is growing at an annual rate of 20%, greatly exceeding the country's economic growth.³ Annual revenues from some 400 tech companies totalled \$475 million US dollars in 2016 (about 5% of the GDP). The Ministry of Economy forecasts that the sector's annual turnover will pass the \$1 billion US dollar mark by 2019.⁴ It is estimated this industry will be the dominant sector driving new wealth for the economy. Dubbed the "Silicon Valley of the former Soviet Union," Armenia has morphed into a thriving tech start-up hub, attracting global

**TABLE 2:
RESOURCE INFLOWS IN ARMENIA (USD MILLIONS)**

year	ODA	remittances	FDI	long term debt (official sources)	long term debt (commercial sources)	short term debt
2000	291,3	178,4	212,5	0	0	0
2001	297,4	190,2	140,8	17,1	0	0
2002	410	270,6	228,4	0	0	378,9
2003	324	334,2	244,6	0	0	366,4
2004	318,4	750,5	426,6	0	76,1	0
2005	226,8	1300	420	0	168,8	0
2006	269,1	1500	582,9	0	102,9	0
2007	377	1600	658	0	536,2	191
2008	325,6	1600	785,3	0	509,1	0
2009	525,3	1400	732,1	480,6	295	0
2010	358,6	1500	486,7	0	1400	116,4
2011	402,7	1600	574,1	0	1100	217,9
2012	312	1700	446,6	0	1200	0
2013	298,7	1900	337	0	2300	273,1
2014	282,3	1800	356	38,4	1600	0
2015	409,1	1500	180,5	38,4	1600	0

Source: Development Initiatives calculations based on various sources

recognition. The government encourages expansion via an “open door” policy that is designed to encourage foreign business owners and investors with legal regulations that protect foreign capital.

The Armenian diaspora⁵ has been one of the biggest contributors to the country’s socioeconomic development efforts. In addition to facilitating aid flows from multilateral and bilateral aid agencies via effective lobbying, the Armenian diaspora channels vast amounts of money via private donations and transfers. In 2015 alone, Armenia received remittances that were four times the total Official Development Assistance inflows (\$1.5 billion US dollars vs. \$409 million US dollar).⁶

As one of the important international development partners in Armenia, the UNCT is well placed to help deliver results on the national SDG agenda. The UN has the comparative advantage to act as a bridge between the government and private sector to stimulate growth through creating an enabling environment for social entrepreneurship, acting as a scaling up mechanism for the SDGs at the local level, supporting impact-oriented business start-ups (especially in the tech sector) and supporting innovative partnerships to encourage private financing. This case study highlights several initiatives that Armenia, with the support of the UN and other development partners, has put in place in the last three years and some of the challenges all stakeholders will face.

SDG FINANCING INITIATIVES IN ARMENIA

The Government of Armenia and development partners are pursuing innovative financing solutions to mobilize capital for development objectives. One solution is impact investing, where the government creates conditions for private capital to invest in companies and funds that generate positive social and environmental returns alongside a financial ones. Impact investment approaches in Armenia have followed two major trends since 2015: the emergence of social enterprises and a shift from traditional philanthropic activities towards venture philanthropy and impact investments.

2 The Armenia National Development Strategy 2030 is currently being developed, while a shorter term programme has just been formulated by a new government that was formed in May 2018.
3 Growth is estimated to average 3.7% in 2018, driven by private consumption and investment. Economist Intelligence Unit, Country Report, Armenia (2018).
4 See <https://massispost.com/2015/05/d-link-facility-launched-in-armenia/>.
5 Estimated at 8 million people.
6 OECD (n.d.) ‘Data Lab. Aid Statistics by Donor, Recipient and Sector’, see <http://www.oecd.org/dac/stats/aid-at-a-glance.htm#recipients>.
7 AGBU (n.d.) ‘Our Mission’: <https://agbu.org/about/>.
8 See <https://tumo.org/en/>.
9 AGBU (2016) ‘2014-2015 Biennial Report’: <https://agbu.org/about/biennial-reports/>.

BOX 1: THE ARMENIAN DIASPORA – ACTIVISTS AND FOUNDATIONS

The Armenian diaspora supports the country’s economic development through donations to private foundations. A large number of development activists and foundations are based in the United States of America and Europe. Examples include the Armenian General Benevolent Union (AGBU), the Armenian Relief Society, the Lincy Foundation, Aznavour pour l’Armenie, and Charitable Foundation Initiatives for Development of Armenia (IDeA).

Established in New York in 1906, the AGBU is one of the world’s largest non-profit organizations devoted to upholding Armenian heritage. The organization has an annual budget of over \$46 million US dollars and an all-encompassing thematic portfolio that includes projects in education, vocational training, medical access, agricultural development, cultural heritage, humanitarian relief, and aid to orphans and vulnerable groups.⁷

In the early 1990s, AGBU became one of the founding organizations of the American University of Armenia. More recently, the organization entered into partnership with the Yerevan-based TUMO Centre for Creative Technologies⁸ and supported the establishment of TUMO Centres in Gyumri and Stepanakert. The AGBU Humanitarian Emergency Relief Fund has supported Armenians affected by the conflicts in Syria, Iraq and Nagorno-Karabakh and raised more than \$1.64 million US dollars.⁹

Entrepreneurs and philanthropists from the Russian-based Armenian diaspora, Ruben Vardanyan and Veronika Zonabend, created the IDeA Foundation to promote social entrepreneurship and ensure the sustainability of long-term, non-profit projects that achieve tangible socioeconomic development. IDeA is a private, non-profit foundation that engages local communities and international stakeholders for positive socioeconomic impact for Armenia and that strengthen its relevance as a global nation. One of the biggest philanthropists in Armenia, IDeA works on projects that focus on cultural and historical heritage, as well as initiatives that generate social impact (major investments in tourism infrastructure) and purely commercial ventures.

BOX 2: IMPACT HUB¹² – A GLOBAL NETWORK OF CHANGE MAKERS

From Amsterdam to Johannesburg and Singapore to San Francisco, ImpactHub is a growing member-based network of change makers. Part innovation lab, business incubator, and community centre, ImpactHub offers their members a unique mix of resources, inspiration, and collaboration opportunities to boost impact. There are currently 80 Impact Hubs operating in five regions around the world and comprised of more than 15,000 members.

ImpactHub Yerevan is part of this global network and provides members with a social innovation space and mission to support social impact projects and enterprises in Armenia. Members of the Yerevan Impact Hub are social entrepreneurs, innovators, creatives, advisors, investors, students, executives, and change makers from diverse industries including the non-profit sector, business, academia, and professional and creative services.

The hub in Yerevan also acts as a bridge for the seven million ethnic Armenians who live outside Armenia. The network supports engagement by assisting new organizations or enterprises, supporting existing organizations or business, skills sharing and mentorship support, or financial support and investments.

Although these trends are relatively new they are growing as organizations become more vocal and visible. The Association of Social Enterprises of Armenia¹⁰ and the Network of Social Enterprises and Employers were established in 2015. Launched in 2016, ImpactHub Yerevan¹¹ has become a respected network within the social enterprise community for the public, government and external investors.

The UN in Armenia builds on these achievements and takes social impact initiatives further. In March 2017, the UN held the first ever global Impact Investment for Development Summit in Yerevan, bringing together international development partners and impact investors from over 30 countries. In summer 2017, the UNCT took steps to design and set up a Country Platform for SDG Implementation. The platform is designed to run alongside the government's reform and SDG nationalization efforts, providing a collaborative space for UN organizations, other development partners and civil society, and to strengthen links and collaboration with international finance institutions (IFIs), donors and philanthropists. The Platform supports SDG implementation and tests the platform model outlined in the UNDP Strategic Plan for 2018-2021.¹³ In practice, the platform hosts

several linked and evolving initiatives, which are summarized below.

THE KOLBA SOCIAL INNOVATION LAB

In 2013, the United Nations launched the Kolba Social Innovation Lab,¹⁴ the organization's first social innovation lab, which has scaled up in several countries (led by the UNDP Regional Bureau for Europe and the Commonwealth of Independent States innovation team). With financing from the European Union (until March 2018), the Lab is run by the UNDP (hosting, staffing, reporting) and addresses social challenges by gathering citizen ideas and providing a space where institutions can respond to, and support, burgeoning ideas.

Since its launch, the Kolba Lab has received 580 ideas and incubated 40 start-ups within the government, public and private sectors. In the public sector, Kolba organized an innovation challenge for civil servants. As a result, a team comprised of staff from the Ministry of Justice and the Office of the Prime Minister piloted a tool that applies machine learning to the government's open data resources in order to provide free legal advice to citizens.

The EU-funded Lab also hosted the country's first two Public Sector Innovation weeks and in the private sector, fourteen start-ups worked towards generating social impact. Some of the resident start-ups include Smart City, an e-management system on local governance in Yerevan; Matcheli, an online mapping platform that provides user-generated information on Armenia's disabled access spaces, and Yamaka, an application that supports the learning processes of children with Autism Spectrum Disorder. While not all of the start-ups follow a traditional for-profit company model, three have become social enterprises and are now fully operational and sustainable.

THE NATIONAL SDG INNOVATION LAB

Kolba Lab efforts highlighted the need to ensure that public and private partners streamline development efforts in a coherent way rather than engaging in isolated initiatives. With this in mind, the government and UNCT launched the world's first joint National SDG Innovation Lab, in November 2017.¹⁵ Open to all development and public and private partners in the country or abroad, the Lab is a virtual and physical space hosted in the Centre for Strategic Initiatives¹⁶ and supported by UNDP (that, alongside the government, provides staff and co-finances Lab operations). As the Lab is in process of putting together an action plan, not all initiatives have been finalized.

10 See: <http://www.eu4business.eu/medias/association-social-enterprises-armenia>.

11 See: <https://yerevan.impacthub.net/>.

12 See: www.impacthub.net.

13 See: <http://strategicplan.undp.org/>.

14 See: kolba.am/en/.

15 See: www.sdginnovationlab.am.

“We are frontrunners in innovation. We recognize the value of engaging innovators in the development process and creating spaces for experimentation and sharing of ideas—allowing success to flourish.”

– Mr. Bradley Busetto, former UN Resident Coordinator and UNDP Resident Representative in Armenia.

That said, the Lab intends to provide public and private sector contributors with a space for experimentation, collaboration, analytics and human resource development to unlock Armenia’s development potential. The role of the Lab is to test and promote new approaches, methodologies and possibly new types of institutions to provide ‘out of the box’ solutions that bring about transformative change. To do this the Lab draws on expertise from around the world, including UN innovation facilities and tools.

The Lab will attempt to improve tax collection methods, boost the quality of the education system, and accelerate the adoption of energy efficient and renewable energy. In addition, it will create the first SDG Barometer, using big and crowdsourced data to report on the SDGs and make data easy to understand. The Lab has already partnered with the Stanford Change Labs, UN Global Pulse, the Behavioural Insights Team and AGBU, and new partnerships are in the making.

THE IMPACTAIM VENTURE ACCELERATOR

The feedback received from the impact investment community as well as Kolba Lab’s experience also showed that more efforts are needed to support social enterprises following their incubation phase—to help them grow, access new markets, increase their visibility to investors and ability to absorb more capital. To address these challenges, the ImpactAim Venture Accelerator¹⁷ was launched in December 2017. Established by the UN, and with initial implementation support from ImpactHub Yerevan and the Catalyst Foundation¹⁸ ImpactAim is designed to drive the scaling up of local and international impact ventures. Through tailored mentorship programmes and a specially designed curriculum, new initiatives will be able to strengthen their market presence, scale up, and increase their investment absorption capacity. Through ImpactAim ventures will be introduced to a

network of venture capital and angel investors that can provide access to funding opportunities.

During the first round (running through June 2018), ImpactAim received 96 applications from 25 countries. Seven ventures were selected¹⁹ to follow an acceleration track that combines study sessions and tailored mentorship. Selected social enterprises focus on innovation of public and social services, tech for education, connectivity for rural areas and empowering vulnerable groups.

REACHING THE NEXT LEVEL: FUTURE AMBITIONS

In the next phase UNCT Armenia will build on existing initiatives and plans to launch a range of new pilots that will leverage scalable private finance flows for SDGs, such as the Impact Fund Armenia and social impact bonds.

The intention is to attract early investors and use initial funds to move towards larger investments in sectors identified by the government, including agriculture (where farm consolidation and industrialization would increase productivity and generate job opportunities for subsistence farmers); climate smart energy solutions (in particular small hydro and solar, and energy efficiency in municipalities and corporates); govtech (e-healthcare and e-education initiatives that improve public service delivery), and the diversification of economic activities to fight urban poverty.

IMPACT FUND ARMENIA

With the launch of the ImpactAim accelerator in December 2017, the UN in Armenia created a broader *Impact Investment Catalysing Facility* to support the expansion of impact ventures. The facility is comprised of two elements: impact venture incubation and acceleration and partnership with fund managers to attract investor financing in impact ventures. The next step is to create a \$10 million US dollar fund for investing in Armenian companies that strive to make direct social and environmental

16 Initiated by the Prime Minister’s Office, the Center for Strategic Initiatives was created to advance the reform agenda in Armenia by facilitating dialogue between policy-makers, private and public stakeholders, and international partners.

17 See: <http://impactaim.com>.

18 See: <https://www.catalyst.am/>.

19 WiCastr Limited, Dasaran Educational Program, Sylex e-Health, ARMACAD, the Union of Information Technology Enterprises (Armath Laboratories), Technology Management Centre of Yerevan City (Smart Kindergartens), RAFA Solutions, Innovation & Technological Community, Rue de Paradis 588.

impact and positive financial returns, albeit not necessarily at full commercial levels. The UN will support the launch and operations of the fund with subsidies that partially cover set-up and fund-raising costs, SDG/impact measurement costs, and technical assistance in deal origination and execution. The UN will also provide access to its project pipeline and investor contacts (development finance institutions and those in the Armenian diaspora), and will possibly contribute to de-risking investments (e.g. by offering credit guarantees).

UNDP's role is to remove barriers through technical assistance, convening power and subsidies. Support will be made available to a competitively selected fund that complies with the following principles:

- Exclusively target investments with direct social and environmental impact.
- Broaden investment scope to companies and sectors that may not allow for full commercial returns.
- Implement rigorous impact measurement, monitoring and reporting.

Subsidies are necessary in light of the small size of the Impact Fund and its management fees (usually 2% of assets under management). A preliminary review of impact investment opportunities suggests a likely investment of \$800,000 to 1,000,000 US dollars to reach the \$10 million US dollar target (with 10-20 portfolio companies).

SOCIAL IMPACT BONDS

The UNCT in Armenia is developing Social Impact Bonds to respond to SDG bottlenecks such as farmer education and productivity growth (UNDP-FAO), improving quality of teaching of STEM subjects (science, technology, engineering, and mathematics) in high school (UNICEF-UNDP-ILO), and improving road safety using behaviour change techniques (WHO-UNDP-UNICEF). Concept notes have been prepared for the first two ideas and are being discussed with the Government of Armenia.

THE 'INTERNAL KITCHEN': HOW IT WAS DONE

It all started with an ambitious idea, spearheaded by the United Nations Resident Coordinator:

How do we achieve a smarter, leaner system for tackling development issues while making it relevant and attractive for the government, development partners and the private sector?

Impact investment for development was the main idea retained following several rounds of consultations with government officials, donors, social enterprises and private sector companies. The UN in Armenia actively supported SME development²⁰ and responsible investments (via the Global Compact Initiative) since the early 2000s. As of 2013, UNDP has promoted social innovation and entrepreneurship via the Kolba Innovation Lab. The SDG Platform was established to bring initiatives like the aforementioned together.

One of the first steps of the Resident Coordinator was to put together a team that shared this vision and had the capacities to deliver. The "SDG Innovation Team" is comprised of specialists that have solid experience in finance, the private sector, and academia, as well as skill in interacting with relevant regulatory and government entities.²¹ As a new approach, it took time and effort to convince new recruits to join the UNCT (moving from the world of the private sector and corporate finance to international development). However, the advantage of bringing private sector specialists on board became immediately apparent because the skill-sets and experience opened the door to a network of private companies based in Armenia and abroad. It increased the credibility of the initiative and the reputation of the UNCT that is now known as an organization that "means business."

Another important factor was having on board a group of dedicated and like-minded partners in the government who were eager to turn the idea of the SDG Innovation Lab into a reality. The SDG Lab and similar initiatives benefit from strong support and ownership at the highest levels of government in Armenia. The "SDG Innovation Team" is working directly with "SDG Champions" at the Deputy Minister level, which results in a working relationship that is based on results rather than formalities.

The role of the Resident Coordinator Office (RCO) has been central to the success of the SDG Innovation Lab and, more importantly, to its ability to deliver concrete actions and quick-win results. The RCO steers coordination within the UNCT and cooperation with government counterparts. In particular, the RCO and the "SDG Innovation Team" have made it a priority

to bring together different UN organizations. For example, the ImpactAim Accelerator will work alongside UNHCR and UNICEF to set up a dedicated incubation programme for refugees so they can learn tech skills, find employment with private companies, or create their own start-ups.

Another planned joint initiative involves WFP and UNIDO and aims at achieving the ‘zero hunger’ goal through a social entrepreneurship programme run in partnership with ImpactAim, the Entrepreneurs for Social Change programme of UNIDO (out of Vienna), and the WFP innovation accelerator in Munich. Progress would not be possible without the commitment of individual champions within the UNCT.

CHALLENGES

Challenges can be grouped in two categories: structural and systemic challenges involving legal practices in Armenia, and challenges inherent to the United Nations system.

STRUCTURAL AND SYSTEMIC CHALLENGES

Long term political commitment and budgeting. Innovative financing mechanisms in Armenia are in the early stage and designing such initiatives takes time (on average one year passes from the idea stage to full concept). They require long-term planning and testing, and it takes time to get evidence-based buy-in and political and budgetary commitment. Currently, public finance management in the country does not rely on performance-based budgeting although budgeting is an annual exercise. This means the drive for immediate and reportable development results, while important, needs to be looked at in a balanced manner since solutions on the ground take time to materialize.

Innovative financing initiatives should be reviewed in terms of their ability to efficiently and effectively deliver development results in the short and longer-terms. Such interventions frequently require long time frames for tangible impacts.

Lack of clear metrics for impact measurement. While all public, development or private partners have internally agreed methodologies for evaluating and monitoring results the challenge is that it rarely gauges development impact. Furthermore, ‘impact’ tends to mean different things to different parties and it is often confused with achieving set targets or implementing activities as planned. Some organizations might focus on progress indicators (e.g. numbers of participants in a training or number of laws revised or publications produced) but few organizations focus on impact as a way of measuring change that has occurred as a result of an intervention. Those that do usually limit their assessments to the period immediately after the end of a project or

intervention. It is seldom that organizations plan impact assessments several years after the completion of an intervention.

CHALLENGES FOR THE UN

Knowledge sharing across agencies, between headquarters (HQ) and the UNCT, and among UN organizations in the country remains limited. At the country level, not a single website provides links or information that brings together all individual websites, blogs and Facebook pages of stakeholders in Armenia. The UNCT in Armenia hopes that the launch of the SDG Innovation Lab online space will help facilitate better information flow.

United Nations country offices have limited human resources to speak and understand the language of investors and the private sector. This leads to problems in designing relevant proposals that have a clear business case and can attract private sector interest to pitching ideas to private sector partners and/or investors. There is little in-house training and the UNCT runs the risk of losing credibility since retraining staff does not always result in the required capacity compared to hiring people with actual experience in the sector. This is why the UN in Armenia has hired a full time Impact Advisor and invested in long-term partnerships with the Stanford ChangeLabs, INSEAD Social Impact Initiative, and Columbia University SIPA.

Current administrative and procurement system requirements are burdensome, inflexible, and not fast enough to enable working with the private sector in an efficient way. For example, UN organizations may participate in equity or act as direct co-investors, but the rules for receiving contributions are still stringent. Moreover, current rules and regulations theoretically restrict direct support to any private sector for-profit entity (including start-ups and SMEs) unless they are explicitly selected as beneficiaries to a project co-signed by the government.

Another example refers to the length of, or rules surrounding, procurement procedures, which are usually not understood or accepted by private companies. There are several new financial engagement formats under consideration by UNDP HQ for

20 See: <https://www.smednc.am>.

21 The “SDG Team” includes a broad group of professionals led by the Lab Director who is an adviser to the Center for Strategic Initiatives and the Prime Minister of Armenia. Other roles in the Lab include an Innovation Specialist, Data Analyst, Strategic Consultant on SDG Acceleration, and a Social Media Manager. A Research and Communications Expert serves as a liaison between the Lab, the Resident Coordinator’s office and the UNDP Kolba Lab and Impact Venture Accelerator, and coordinates the capacity building component of the Lab. In addition, in partnership with UNDP, an interdisciplinary group of five Masters students from the Columbia School of International and Public Affairs provide research services and recommendations for the strategic development of the behavioral experimentation and data analytics services focused on sustainable forestry and agriculture.

22 In collaboration with techfugees.com designed to bring tech engineers, designers, entrepreneurs and startups together with NGOs and other agencies to address the challenges of refugee migration.

23 See: <https://e4sc.org>.

24 See: <http://innovation.wfp.org>.

approval that can address some of immediate needs including income contingent payment clauses instrumental for rendering the operations of Impact Accelerators around the world, and performance based payment agreements that lay down frameworks for social (development) impact bonds projects.

There is a need to clarify the expectations social enterprises and private companies have for the UN. New partners have high, and sometimes unreasonable, expectations on UN organizations. Although they are attracted by UN global networks and local knowledge/expertise of the markets where they would like to expand (especially emerging markets in sub-Saharan Africa and South-East Asia where social impact products are in demand) they learn that UN organizations at the country level might not have the resources or expertise to provide market information for business purposes (compared to private firms specializing in market entries). The risk is that after an initial wave of enthusiasm, specific expectations are not be met and disappointment/disengagement ensues.

MAIN TAKEAWAYS

The UN needs to engage strategically at a high level and with a long-term view and commitment. UN organizations are one of many development partners in Armenia, which is changing quickly. This means the UNCT needs to get on the offensive and carve out a niche in the social innovation and impact sector. To do so it needs to showcase its ability to add value in a highly technical sector typically reserved for ‘big players’ with decades of experience. In this respect, the value of the UNCT lies in its access and working relationships with the government across sectors. As one private sector expert put it, “The UN brand has a lot of credibility and high reputation in the country. We want to be associated with it.”

Committing the UN in these areas has to be done with a long-term vision in mind. Commitments need to be reflected at all operational levels: from hiring practices to rules and procedures. Strategic, tailored and persistent communication by the UN will play a major role and should be factored in from the outset.

Prioritize scaling up your products. “To open up a shop is easy, the hard part is keeping it open.” If what the UN provides does not have content it will not succeed. It is critical to build up a strong project pipeline with concrete plans and actions.

Government and public support for innovative sources of finance will determine their relative success or failure. Popular support will hinge, to a great extent, on an initiative’s abilities to generate results. The interest of the private sector depends on how much profit initiatives bring in. This may create challenges for programmes, however, which take a longer-term view.

It will be important to consider the ways innovative sources of finance can complement and/or be blended with other forms of finance—domestic and external, official and private—to ensure that short and long-term objectives are met. This requires alignment with nationally-devised development change strategies.

If international investors prefer big markets find partners among the neighbours. The Armenian economy is too small to attract large international private equity and debt funds. The UNCT needs to explore regional solutions, like regional funds focused on the Caucasus/Black Sea region. In the case of Armenia the UNCT is exploring the country’s position as a potential regional hub (membership in the Eurasian Economic Union [EAEU]). As of Spring 2018, Armenia was the only EAEU country with a Comprehensive and Enhanced Partnership Agreement and Generalized System of Preferences (GSP) and regime with the European Union. Additionally, Armenia benefits from a shared border and a Free Economic Zone with Iran and has a GSP regime with the United States of America, Canada, Switzerland, Norway and Japan. This approach resolves scale issues, allows for a degree of risk diversification between different economies, and expands investment pipelines to other countries (e.g. Georgia) that offer larger investment opportunities. One example is the Green for Growth Fund in Southeast Europe that provides refinancing to local financial institutions for on-lending to enterprises and private households, finances energy efficiency projects, and directly invests in small- to medium-scale renewable energy projects.

Focus on the ‘missing middle’. The banking sector in Armenia is fragmented and competitive. Companies with real estate to pledge have easy access to finance while a growing number of SMEs are too big to qualify for micro-financing and too small to secure a bank loan (e.g. commonly seen in the retail and wholesale processed manufacturing and transport sectors). The UNCT can facilitate the process by helping “missing middle,” higher-risk companies (with no or limited tangible assets to pledge or poor cash flows) grow.

Invest in the right expertise and partnerships. As Armenia has done with the “SDG Team,” establishing, nurturing and retaining the right capacities are critical. This includes fostering open and strong partnerships with governmental and local partners, as well as within the UNCT. All are important for creating successful and sustainable initiatives.

25 See: <http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/>.

26 See: <http://www.ggf.lu>.

27 See: http://www.eu4business.eu/files/medias/country_report_armenia.pdf.





UNITED NATIONS
SUSTAINABLE
DEVELOPMENT
GROUP



The United Nations Sustainable Development Group (UNSDG) unites the 31 UN funds, programmes, specialized agencies, departments, and offices that play a role in development. Since 2008, the UNSDG has been one of the three pillars of the UN System Chief Executives Board for Coordination, the highest-level coordination forum of the United Nations system.

At the regional level, six Regional UNSDG Teams play a critical role in driving UNSDG priorities by supporting UN Country Teams with strategic priority setting, analysis and advice.

At the country level, 131 UN Country Teams serving 165 countries and territories work together to increase the synergies and joint impact of the UN system.

The Development Operations Coordination Office (DOCO) is the secretariat of the UNSDG, bringing together the UN development system to promote change and innovation to deliver together on sustainable development.

The Dag Hammarskjöld Foundation is a non-governmental organization established in the memory of the second Secretary-General of the United Nations. The Foundation spurs dialogue and action on global development and multilateral cooperation. The vision of the Foundation is a peaceful and just world where the fundamental values of the United Nations are universally upheld. Building on Dag Hammarskjöld's legacy, our mission is to advance dialogue and policy for sustainable development and peace.
www.daghammarskjold.se