

## Fact Sheet

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**Title of the proposed Joint Programme** Unlocking Sustainable and Structural Investments for an Inclusive and green Development of Madagascar Joint Programme

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**UNCT** Madagascar

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**Date** Tue, 03/31/2020 - 12:00

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**RCO focal point** Ms. Charlotte Faty Ndiaye

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### Lead UN entity and contact person

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### Participating UN entities and contact persons

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UN entity	Name	Email
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United Nations Capital Development Fund (UNCDF)	Judith Karl, Executive Secretary	Judith.karl@uncdf.org

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### Relevant UNDAF Outcome/s and Output/s

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Outcome 1: Vulnerable populations in the areas of intervention, access to income and employment opportunities, improve their resilience and contribute to an inclusive and equitable growth for sustainable development.

- Outcome 3: Populations in the intervention areas, particularly vulnerable groups, access and use perennial and quality basic social services

**Relevant objective/s from national strategic document/s**

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- Plan Emergence Madagascar:
- The commitment on Energy for All in the General Policy of the State (PGE in French): "Energy and water for all constitute one of the foundations of the vision of making Madagascar an emerging country. Our goal is to double energy production within 5 years and reduce the energy price."
- New Energy Policy (NEP)
- National Determined Contribution (NDC)
- Industrial policy

**SDG targets on which the progress will be accelerated (includes targets from a range of SDGs and development pillars)**

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<b>Goal 1: End Poverty</b>	1.1
	1.2
	1.4
	1.a

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**Goal 2: Zero Hunger**

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**Goal 3: Good Health and Well-Being**

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**Goal 4: Quality Education**

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<b>Goal 5: Gender Equality</b>	5.5
	5.a

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**Goal 6: Clean Water and Sanitation**

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<b>Goal 7: Affordable and Clean Energy</b>	7.1
	7.2
	7.a
	7.b

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<b>Goal 8: Decent Work and Economic Growth</b>	8.1
	8.10

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<b>Goal 9: Industry, Innovation and Infrastructure</b>	9.2
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9.3

9.a

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**Goal 10: Reduced Inequalities** 10.b

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**Goal 11: Sustainable Cities and Communities**

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**Goal 12: Responsible Production and Consumption** 12.a

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**Goal 13: Climate Action**

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**Goal 14: Life Below Water**

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**Goal 15: Life On Land**

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**Goal 16: Peace, Justice and Strong Institutions**

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**Goal 17: Partnerships for the Goals** 17.3  
17.5  
17.6  
17.17

## **Self-Assessment**

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**The proposal reflects the integrated nature of the SDGs** Yes

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**The proposal is based on an inter-agency approach (two or more UN entities involved), with RC coordinating Joint Programme preparation and implementation** Yes

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**The proposed results are part of the UNDAF and aligned with national SDG priorities** Yes

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**The proposed Joint Programme will be led by government and include key national stakeholders** Yes

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**The proposal is based on country level consultations, as explained in the Concept note, and endorsed by the government (the letter of endorsement)** Yes

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**The proposal is based on the standard template for Concept Notes, it is complete,**

and it includes:

Yes

- **Theory of Change demonstrating contribution to SDG acceleration and transformation to implement the 2030 Agenda and awareness of relevant financial policy efforts at regional or national level,**
- **Results-oriented partnerships, including a strategy to engage and partner with IFIs/MDBs,**
- **“Quick wins” and substantive outcome-level results, and**
- **Initial risk assessment and mitigation measures.**

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**The proposal is expected to leverage resources for the SDGs at scale**

Yes

## **Proposal for Joint Programme**

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### **1. Summary of the Joint Programme**

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The main objective of this JP is to set up a strategic financial mechanism integrating financing, structuring, designing of innovative investment projects to unlock the high investment potential of Madagascar.

Madagascar is a paradoxical country with 77% of the Malagasy population living in poverty in 2018 and a lack of key development infrastructures, notably access to energy, water and roads, while the country is rich in natural resources, including minerals (gold, nickel, cobalt minerals, emerald, ilmenite, coal, iron, bauxite, etc.), oil, gas and 25 million hectares of arable land. This paradox shows the critical need for financial resources to increase investment in many areas. Indeed, the government of Madagascar lacks a relevant vehicle to make strategic investments for the country and the ability to unlock potential investments in many sectors, including the renewable energy sector where more than 1 billion euros of sustainable energy investment project are in the pipeline without financial involvement of the State.

This JP is designed to support the government of Madagascar to set up a financial mechanism to raise funds for the strategic investment that the country should undertake. The solution proposed by this JP consists in supporting (1) the creation of the sovereign fund of Madagascar, (2) to set up a seed fund designed both for strategic investments and investment in sustainable energy, and (3) to set up an Energy-Lab for sustainable energy. These three lines of actions with specific support for structuring projects, innovative investment programs of SMEs / SMLs on projects related, including on energy, and for promising innovative initiatives on energy access will allow Madagascar to have effective tools to finance the country's priorities, including the SDGs. This project will unlock several investment projects by giving the State the capacity to engage in different types of public-private partnerships to accelerate the economic transformation of the country.

The renewable energy sector will be prioritized because of its strategic role in economic transformation. The Energy Lab will support innovative solutions to facilitate access to energy, and innovative investment programs will find access to appropriate financing tools from the seed fund. The sovereign wealth fund and the National Fund for Sustainable Energy (FNED) will serve as an exit strategy for the JP receiving the investment portfolio developed with the JP.

The project is currently at the inception stage with a positive preliminary mission on the creation of the sovereign fund.

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## 2. Thesis and theory of change of the Joint Programme

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The expected long-term impact of the JP is to transform the financial system of Madagascar into an integrated system responding to the needs of the public and private sectors and guaranteeing the availability of stable financial resources for the financing of the country's development and the achievement of the SDGs.

The main objective of this JP is to set up a strategic financial mechanism integrating financing, structuring, designing of innovative investment projects with high leverage to unlock the investment potential of Madagascar.

If the government of Madagascar has a strategic financial vehicle to carry out strategic investments making it possible to unlock the enormous potential of structuring investments, the country will be able to develop the infrastructures necessary for its economic transformation. The establishment of a seed fund will accelerate the design and structuring of strategic investment projects in which the sovereign fund could invest and support the take-off of investment projects in sustainable energy. The creation of an Energy-Lab for sustainable energy will guarantee that promising innovative initiatives on sustainable energy will have access to effective tools for their financing.

The combination of the three main instruments developed in this proposal will help build sustainable solutions to the problem of lack of public investment in key infrastructure needs.

This JP will be essential to the achievement of several SDGs (1, 7, 8, 9, 12 and 17).

The existence of a financial system integrating strategic investment instruments will strengthen the role of the State as a financial partner in complementarity with the private sector. Public capital will be invested in partnership with national or foreign investments, in strategic and structuring projects that are secure, profitable and create jobs. The private sector will have access to a secure source of financing for its investment, which will increase the national investment capacity and therefore the performance of the national economy and contribute to the achievement of SDG 8 on a sustained, inclusive and sustainable economic growth. The sovereign wealth fund will free up public and private capital and channel its flow around structuring investments through co-financing, risk reduction, joint ventures (SG 17).

The development of a start-up financing instrument will enable innovative SMEs and SMIs, including in the energy sector (SDG 7) to find financial resources and support for the maturity of their project.

The Theory of Change is based on four main assumptions:

- a. Considering the wealth of Madagascar in natural resources, a sovereign fund is the best financial vehicle to ensure a sustainable and intergenerationally equitable use of the resources that can be drawn from it and to maximize economic and social impacts of public investment while integrating private sectors and investors in the development agenda financing;
- b. Public-private partnerships are more successful when the state has resources to invest and can better influence negotiations and agreements
- c. A national owned funding mechanism focusing on high impact and vital projects such as renewable energy can accelerate economic transformation.
- d. An Energy-Lab is key to have viable projects on sustainable energy.

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## 3. What are the expected results of the proposed Joint Programme?

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The long-term objective of the JP is the transformation of Madagascar's financial system into a system which optimizes the financial flows of the country with a State that has strategic levers for financing its development objectives, including the SDGs.

The program is structured around two outcomes:

- Outcome 1: Madagascar has an integrated financial system responding to the needs of the public and private sectors and guaranteeing the availability of stable financial resources for the financing of its development and the achievement of the SDGs.

Output 1.1. A sovereign fund which has adequate human and financial resources is created and structured with its scope of action delimited, its financing mechanism and sources defined and the first cohort of projects to be funded identified.

Output 1.2. Investors and incubators have access to financial services tailored to their needs through the seed fund and the sovereign fund established.

Output 1.3. The capacity of stakeholders (banks, financial institutions, central bank, MEF, etc.) and policy makers are strengthened to allow institutional, regulatory and fiscal adjustment of the financial system.

- Outcome 2: Renewable energy capacity is increased through structuring investment programs and projects on renewable energy sector accompanied by well-performing and effective financial instruments.

Output 2.1. Innovative investment projects of SMEs / SMIs on renewable energy are accompanied through capital investment, joint venture or any appropriate financial instruments available in the sovereign fund and the seed fund, resulting in the increase of national production capacity and renewable energy uptake.

Output 2.2. Energy lab is created to support innovative and high impact start-up projects on renewable energy that are empowered and receive financial support.

Output 2.3. The capacity of stakeholders and policy makers are strengthened to enable an institutional, regulatory and fiscal environment favorable to the development of a sustainable energy sector.

This JP is consistent with the UNDAF, Outcome 1 “Vulnerable populations in the areas of intervention, access to income and employment opportunities, improve their resilience and contribute to an inclusive and equitable growth for sustainable development” and Outcome 3 “Populations in the intervention areas, particularly vulnerable groups, access and use perennial and quality basic social services”, and aligned with prioritized SDGs 1, 5, 7, 8, 9, 11, 12, 13, and 17.

At the end of the JP, the sovereign fund will be autonomous and catalyzes the investment from other partners on strategic investments. The National Sustainable Energy Fund will take over the funding of energy projects.

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#### **4. Describe the innovative nature of the Joint Programme**

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The JP marks a break from the traditional way of financing development in Madagascar by mobilizing the country's assets first and channeling the available resources on high impact programs/projects to trigger economic growth. While private sector has often been put aside, the instrument developed in this JP recognizes their central place in development financing. Moreover, it is the first time ever a Sovereign Fund will be implemented in Madagascar. The solution proposed by this JP operates a shift in the state's role, that is already an innovation from a regulator one to investor. The JP will enlarge the financial tools available for blending finance giving to the state a new asset for investing with the private sector. This will be a key innovation for the country's financing system.

Another innovation linked to this JP is related to the mechanisms envisaged for the financing of the sovereign fund. This funding will be based on the country's rich natural resource endowments to provide the country with a fund that will ensure future generations benefit from the exploitation of Madagascar's natural wealth.

The Energy Lab envisaged in this JP will be an innovative tool to accelerate the development of start-ups with early stage renewable energy projects that will focus resources, technologies, capacities, innovations in a unique manner to boost the development of innovative technology to produce clean energy in Madagascar.

This JP has a convening role for private and public investors to unlock and upscale the country's investment capacity and results from the collaboration of three UN Agencies, delivering as one: UNDP, UNIDO, and UNCDF. The mechanism and instruments developed by this JP is timely, the Government of Madagascar is looking for new way of financing its agenda. These factors enhance the national ownership of the current program.

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## **5. Expected added value of the UN and the Joint SDG Fund**

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The Malagasy State has chosen to set up a Sovereign Fund as the main instrument for the realization of its vision of making Madagascar an emerging country. A real political commitment is confirmed through its inclusion in the 2020 Finance Law. The UN is well positioned to support the government in strategic change as its main partner for strategic development strategies and in achieving the SDGs.

UNDP is accompanying the presidency to reshape its organization and the alignment of the governmental framework with the vision of the President for the development of Madagascar. In this context, the government has already requested UNDP support for the creation of the Sovereign Fund.

UNDP has already organized a South-South cooperation mission to Senegal to allow the team of the presidency to learn about the Senegalese experience of setting up its sovereign fund (FONSIS). UNDP is currently supporting the drafting of the law for the creation of the sovereign wealth fund. This shows the ability of the UN to provide the country with varied and high-level expertise through its networks of knowledge and experience around the world. Also, UNCDF, UNIDO and UNDP experiences on financial inclusion, financing mechanism and industrial development will be a key added value to perform UN support to this strategic initiative of Madagascar. UNCDF has teamed-up with FONSIS in Senegal to set up a capital investment fund leveraging blending finance to foster women economic empowerment (WE! Fund).

Concerning the energy sector, several UN agencies are accumulating precious experiences on renewable energy. In Madagascar, UNDP and UNIDO are already supporting the implementation of solar plants and strengthening the renewable energy policy framework. The objective of the SDG fund call focusing on catalytic investment fits perfectly with this JP focusing on operationalizing a sovereign fund, a seed fund and an Energy Lab.

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## **6. Leadership and implementation of the Joint Programme**

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The RCO will ensure the coherence of the results of this JP with those of the UNSDCF. The RC will lead the political engagement and strategic dialogues with the government. Internal coordinating bodies of the UNCT will be used to facilitate exchanges and collaboration within the UN.

UNDP will lead technical engagement with the Presidency Team for the Sovereign Fund and the Ministry of Economy and Finance

bringing together the support of other UN agencies as part of the technical support of the JP. It will also make available high-level expertise to support the JP, and the country's resource mobilization processes.

UNCDF will use its investment mandate to attract other investors (IFIs/DFIs and private sector) and will also provide technical support at the local level for the digitization of the required services, sourcing and financial structuring of pro-SDG projects.

UNIDO will lead the technical support on renewable energy building on its expertise on sustainable energy, productive use approach and SMEs structuring.

The private sector will carry all the investment projects that will be supported.

National counterparts through the Ministry of Economy and Finance will ensure that the operationalization of the sovereign fund is compatible with the principles of public finance management and will also ensure its consistency with the national development plan.

The Ministry of Energy will ensure consistency with national policy on energy and alignment with National Sustainable Energy Fund to catalyze and leverage additional investment. The Ministry of Environment will ensure the integration of environmental standards in the implementation of investments and the monitoring of the project's impacts (mitigation and adaptation) to achieve the related SDGs.

Ministry of Industry will support large scale projects and productive use promotion.

Other development partners will be indirectly involved in the JP, the World Bank, EU, AfDB, AFD, KfW, IFC and IMF.

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## 7. Expected period of implementation

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This joint project will be implemented over 4 years (2021-2024).

1st year: designing and adoption of legal text for the creation and structuring of the sovereign fund; designing and creation of the seed fund; and setting up of the renewable energy incubator. This will need mobilizing expertise, capacity development and organization framing. Key studies will be also initiated during the first year on the fund's perimeters, sustainable funding, areas of interventions, financial tools, etc.

2nd year: Finalizing feasibility studies and starting up the support processes for the seed fund and the sovereign fund with development of tools for project selection, accompanying and support. Capacity building for the fund's management, staffs and experts

3rd year: Financing and implementation of structuring projects prioritized in the sovereign fund as well as the seed fund and innovative projects from the incubator.

4th year: Linking the FNED and the Sovereign Fund to the seed fund as part of the exit strategy, and support for financial sustainability and scaling up to other sectors

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## 8. Cost, co-funding, and co-financing of Joint Programme

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The table below summarize the cost details of this JP. The total budget cost is USD 9,200,000 of which USD 7,300,000 is requested from the SDG Fund (79%) and 1,900,000 USD will be funded by the PUNOs (UNDP: 1,700,000; UNIDO: 100,000; UNCDF: 100,000).

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## 9. Risk assessment

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Contextual Risks:



Risk: Creation of a sovereign fund had never been experienced in Madagascar and is highly related to political commitment and leadership.

Mitigation: Following a request from the government UNDP has already started to support the GoM for the creation of the sovereign Fund.

Risk: Climate change could negatively impact sustainable energy projects supported by seed funding.

Mitigation: Feasibility studies will consider climate change and projects supported will contribute to CC mitigation and adaptation.

Programmatic Risks:

Risk: The chosen technology might not be adapted to the context of Madagascar.

Mitigation: Technology risk will be mitigated through involvement of technical experts, centers of research and UN expertise and by facilitation of South-to-South partnerships (SACREEE, ICSHP, INSHP etc.).

Institutional Risks:

Risk: The institutions in charge of setting up the sovereign fund could encounter difficulties to coordinate effectively and it creates confusion on the scope of coverage.

Mitigation: In order to facilitate the creation and operation of the sovereign fund, strengthening the management capacity of the team carrying the fund creation is part of the project results.

Risk: The Legal Framework is not aligned with JP activities.

Mitigation: The first year of the JP is mainly dedicated to aligning the legal framework to the willingness to create a sovereign fund.

Fiduciary Risks:

Risk: The setting up of a sovereign fund will take some time and will not be ready to finance projects on the ground.

Mitigation: The seed fund is developed in parallel and independently to the creation of the sovereign fund to kick start early the financing of innovative projects including in renewable energy. Exit strategy will be to link the seed fund to the sovereign fund.

Risk: The financial sector and investment requirements of the project are not realized.

Mitigation: International and local private investors are already involved in sustainable energy. The project is expected to provide an incremental 25%, with the other 75% coming from the private sector or financial partners through grant, equity and/or loans. Many potential financial partners had already been identified (PFAN, SUNREF, Solidis, AfDB).

In order to avoid any reputational risks to the UN, projects financed through the seed funding will be made aware and complying with safeguarding UN and follow UNCDF principles. The obligation to respect these principles will be part of eligibility criteria for funding. All projects supported will have environmental and social assessment (including gender) and SDG orientation / reporting.

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## **10. Convening the private sector and engaging IFIs/DFIs**

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By setting up a sovereign fund this JP will mark the Government's leadership and willingness (with financial contribution) to move forward its commitment on investing in sustainable development, with focus on sustainable energy sector. Also, the JP will bring

together and boost investments from IFIs and DFIs whose actions had not really been coordinated so far. Collaboration with existing national DFIs (FIARO, Sonapar, Solidis, FNED etc.) as well as IFIs (AFD, IFC, PFAN, AfDB, KfW, UE etc.) will be highly encouraged and promoted.

Indeed, having national and transparent financial instruments will allow some IFIs/DFIs, until now interested but hesitant to invest in Madagascar, to enter and finance projects (e.g. AFD, PFAN, AfDB). Others might increase and scale up their investment.

In addition, all projects financed by JP through seed funding (structuring projects and investments programs) will be private led. The establishment of a catalytic and transparent financial instrument will also encourage foreign private sector to enter the sustainable energy market in Madagascar and foster “North-South” and “South-South” collaborations.

The project is expected to provide an incremental up to 25%, with the other 75% coming from other IFIs-DFIs (through grant, loans, and guarantee) or private sector (through equity and/or loans).

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## **11. Leverage and catalytic function**

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If operational and successful, the sovereign fund will play a tremendous catalyzing role and will leverage substantial additional capital at scale. It is assumed that if the sovereign fund and the FNED are operational at least 50.000.000 USD of co-financing will be leveraged before the end of the project. Similar experiences had been settled in Senegal. After 3 years of existence, the sovereign fund had leverage more than 200.000.000 USD. As revolving fund, the sovereign fund will generate yearly additional capital capacities and ensure financial sustainability.

All projects selected through JP will be private led including through the energy lab. The SDG project is expected to provide an incremental up to 25%, with the other 75% coming from the private sector or financial partners (IFIs/DFIs) through grant, equity and/or loans.

Both small scale and structuring projects related to sustainable energy had already been identified in Madagascar (isolated and grid connected renewable energy power plants, ethanol production as cooking fuel, cook stoves, industrial energy efficiency programs etc.) but had not started yet mainly due to lack of financial closure and finalized studies.

The Sovereign fund will really strengthen the financial capacity of the GoM to invest in projects at the long run by catalyzing several short-term investments.

As soon as the sovereign fund is operational and experienced first financing process for sustainable energy sector, it could be replicated to other strategic sectors (pharmaceutical, agribusiness, Health etc.) across the country.

The JP will enable the strengthening of the financial sector, and increasing lending for infrastructure, agribusiness and small and medium enterprises in the country

The energy lab will first support and facilitate the technology and the structuring of projects with selective criteria and will be impact oriented. The UN expertise in sustainable energy projects, south-south collaboration especially with regional centers for sustainable energy (SACREEE) will be used to ensure the efficacy of the support provided by the JP.

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## **12. Technical support and seed funding**

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Technical experts from UNDP, UNIDO and UNCDF will be mobilized to carry out preliminary studies for the preparation of the Joint Programme project document. These experts:

- will carry out a diagnosis of the local public finance and sustainable energy sector in Madagascar in all its aspects in order to highlight the existing situation, gaps, needs, opportunities, risks, threats, etc...
- propose priority targets and SMART indicators on which the JP interventions will be focused in order to avoid the dispersion of efforts and financial resources as well as the scattering of activities.
- highlight the strategies of the Joint Programme, refines its theory of changes, financing allocation, implementation, monitoring and evaluation.

An MoU is being agreed between UNDP-Madagascar and FONSI (the Senegalese sovereign fund) in a south-south cooperation basis for the accompanying of the creation of Madagascar's sovereign fund. A series of mission will be undertaken by the FONSI experts to Madagascar to support the process of the creation of the sovereign fund.

A team of 4 consultants is expected to be mobilize as well as two feasibility studies:

- One international consultant and one national consultant on finance, public funding and business development;
- One international consultant and one national consultant on sustainable energy;
- Two technical feasibility studies on sustainable energy provision to Industrial Zone prepared through consultancy office.

Therefore, the budget required to be transferred to the lead agency (UNDP) for the preparation work is USD 200.000 It will cover the fees and travel and mission expenses of international and/or national experts to/in Madagascar, and the costs incurred in organizing and carrying out the various technical consultations including feasibility studies.

## Signatures

Signed Signature Form

[COMPONENT 2 SDG FUND MADAGASCAR PROPOSAL NUMBER 2.pdf](#) 607.79 KB

## Government Endorsement

Letter of Endorsement

[MEF-DCSR2\\_1.pdf](#) 1.16 MB