Joint SDG Fund – Component 2 – SDG Financing

Template for the Joint Programme Final Progress Report (preparatory funding)

***Purpose**: to provide the UN Joint SDG Fund's donors with evidence that preparatory funding provides good value for money - so that we can continue allocate resources to your programming.*

***Instructions**: be succinct and to the point; emphasize only results and issues that you want to bring to the attention of the Fund; do not go over the max number of pages.*

***Deadline**: January 31st, 2021*

Cover page

Reporting period: June 30 – December 30, 2020

Country: **Uruguay**
Joint Programme (JP) title: Innovative Finance for Clean Tech Solutions in Uruguay´s Renewable Energy Sector: The Renewable Energy Innovation Fund (REIF)

Short title: The Renewable Energy Innovation Fund (REIF)

List of PUNOs: **UNIDO, UNDP, UM-Women**

RC (name): Mireia Villar Forner,

Representative of Lead PUNO (name and agency): Manuel Albaladejo, UNIDO
Government JP Focal Point (name and ministry/agency): Guillermo Ferrer, from the Ministry of Industry, Energy and Mining

RCO JP Focal Point (name)**:** Mireia Villar Forner **E-mail**: mireia.villar.forner@one.un.org
Lead Agency JP Focal Point (name)**:** Manuel Albaladejo E-mail: M.Albaladejo@unido.org

Budget (Joint SDG Fund contribution): **USD 165,000 => USD 154.205,61 (net amount available after deduction of indirect support costs of 7%)**

Budget Expenditures: **USD 128.344,95**

Delivery Rate: **83% (= USD 128.344,95/USD 154.205,61)**

Short Description of the Joint Programme (1 paragraph for each section)

This description will be used to update your country page in our online platform (please scan the website before answering) https://sdginvest.jointsdgfund.org/proposals

Financial leverage (estimated target in US$):

Private co-financing is mainly the co-financing expected from local financial institutions as a result of the JP's strategy of working with local banks:

- Average co-financing ratio at project level is assumed at 30% REIF / 70% co-lenders.
- Based on this ratio, REIF's initial capital of USD 7M, and the reinvestment of reflows to REIF during its investment period, projected private co-financing leveraged is $29.4M. REIF's USD 7M capital and the USD 29.4M leveraged imply a **REIF-level private co-finance ratio of 1:4**.
- Estimated government support is based on assumption of an average investment tax credit of 50% across the projected REIF investment portfolio of USD 42M.

Challenge:

Explain the key challenge(s) the JP aims to tackle with reference to both development and financing challenges and how they interconnect.

This JP seeks to decarbonize the industry and transport sectors; secure universal access to renewable sources; and increase the innovation and competitiveness of the energy sector through decreased energy costs and increased participation of women in the clean energy economy. Beyond Uruguay, this program will have a strong demonstration effect on innovative financing for developing countries. The JP proposes an innovative financial mechanism i.e. the Renewable Energy Innovation Fund (REIF) - and supporting actions to leverage public-private financing. Uruguay´s Renewable Energy Innovation Fund (REIF) will provide financing for a range of new and emerging renewable energy technologies, ventures and activities aligned with its funding scope.

Innovation (financial instrument/mechanism/approach):

Summarize the financial mechanism(s) proposed and why the approach is different from conventional and/or alternative approaches and how it is fit for purpose to address the challenge described above.

The Renewable Energy Innovation Fund (REIF) is an innovative, risk-tolerant fund that will pursue a blended finance approach to help companies to actively participate in country second renewable energy transition. In doing so the REIF will support participating financial entities implement tools that will allow them to mainstream impact-informed financing practices and enhance their capacity to finance sustainable investments. Supported projects will provide critical demonstration value in terms of i) technology performance and ii) financial products that can properly support them. The technical Assistance facility would support companies to access to the REIF, validate 2ET technologies and innovative business models, considering the differentiated impact on women-led/owned businesses and challenges they face to access capital.

SDG Impact:

Please describe the development impact the JP aims to achieve. Do not list the SDGs.

The Joint Program's (JP) main expected impacts are in the following areas:

- Environmental sustainability, by helping deploy low carbon technologies and smart grids to capitalize on Uruguay's renewable energy surplus and decarbonize the industry and transport sectors.
- Enhanced private sector competitiveness, as the efficiency of the power system improves and energy costs decline.
- Social/gender inclusiveness, through increasing access to energy by vulnerable groups due to new or improved connections, and having a greater participation of women in the renewable energy economy and related financial ecosystem.
- Enhanced financial sector capabilities for SDG investment, through the implementation on impact investment framework and sustainable finance roundtable.

Partners:

Please list key partners involved in implementation as well as secured investors. Do not mention more than 4-5 partners. Do not mention generic stakeholders (e.g. Government, private sector), but only specific institutions/partners.

Ministry of Industry Energy and Mining: Leads the JP and act as the main Government counterpart for it, defines and leads the implementation of the National Energy Policy.

UTE: as the state-owned and only power utility in the country, is a fundamental enabler, given the implementation capabilities it provides, and its 2ET-relevant investment plans. Will have a key role in establishing the market conditions, economic incentives and develop infrastructure and technology systems allowing energy surplus usage, the charging grid for electromobility, and last mile electrification

Local Commercial Banks: BBVA, BROU, ITAU, HSBC, SANTANDER: Private co-financing is mainly the co-financing expected from local financial institutions as a result of the JP's strategy of working with local banks, based on the following assumptions: Local financial institutions, who have increasing mandates and KPIs to support SDG investments, will seek: i) de-risking support from REIF to overcome credit barriers and offer clients terms adequate to the technical and financial profile of 2ET technologies; and ii) support to implement an impact framework to enhance their capacity for identification and proper management of SDG investments.

Final Progress Report (MAX 3 PAGES)

1.1. Progress achieved

Provide brief description of the project’s developments, results and achievements during the preparatory phase including 1) financial vehicle design; 2) market assessment; 3) feasibility study; 4) pipeline assessment; 5) legal assessment; 6) investor mapping and matching; 7) others. Please list the names of strategic documents developed (if any).

The following preparatory work has been completed:

- **Investment vehicle design.** Its business model, legal form, governance structure and staffing requirements have been determined. With the participation of the most relevant commercial banks operating in the country as well as the complete involvement of the Ministry of Industry and Energy and UTE.
- **Impact framework.** A Gap Analysis against SDG Impact Standards, and a Certification Process will take place during the inception phase of the JP. Implementation of it will require trainings of participating banks, which will occur upon legal establishment of the REIF.
- **Demand assessment.** A detailed market analysis of 2ET technologies was completed to inform the design and validate relevant pipelines for the REIF. Specific Annex provides detailed descriptions of them and demand estimates for the short and mid-term, which validate pipeline expectations. In aggregate, such demand is projected to reach over USD 100M for 2021-2024 and almost USD 300 M for 2025-2030, respectively, excluding large-scale green hydrogen projects in both cases
- **Gender and communication plans.** Comprehensive plans have been prepared.

The most innovative features agreed during the preparatory phase are as follows:

i) The link between the achievement of the SDGs with the specific theme of Uruguay´s 2ET showcasing how to pursue the 2030 Development Agenda in a country that has already transitioned to a green power matrix. This is innovative as it will set Uruguay aside as one of the few countries to have completed two energy transitions in two decades.
ii) The REIF would be the first dedicated blended finance instrument in Uruguay capable of providing concessional, risk-tolerant financing solutions to help overcome investment and financing challenges resulting from the set of barriers described in previous sections.
iii) The REIF will be the first financial trust fund (*fideicomiso*) in Uruguay to finance projects with a SDG-focused impact logic as its main and exclusive objective. It will also be the only one able to provide results-based incentives against contractually-defined (i.e. in the loan agreements) gender equality milestones.
iv) The Impact Framework the program will offer to local financial institutions is the first of its kind in Uruguay, and will provide a powerful tool to help such institutions deliver on their growing mandates towards financing of sustainable projects.
v) The Sustainable Finance Roundtable will create in Uruguay a space for the local financial community (including regulators) to share knowledge, debate and develop approaches to promote a shift towards SDG-aligned financing.
vi) The projects to be financed by REIF (either with investment resources or technical assistance) will be, in some cases, among the first of their kind in terms of the technologies supported. Such innovation will allow for testing, learning, regulatory adaptation/enhancement and subsequent replication in and beyond Uruguay.

1.2. Challenges faced

Did the UNCT face any major challenges in the preparatory phase? Briefly explain the challenges, their impacts, and how you overcame those.

The development of this JP has implied, for the UN System in Uruguay, the work and coordination with a new set (group) of partners at country level: The Financial Sector.

Commercial Banks sustainable portfolio targets and policies, open new avenues and collaboration schemes to work together in the country towards sustainable development. Second Energy transition could become the starting milestone for this purpose.

Without having the preparatory funding (which was predominantly used to contract financial experts), it would have been much more difficult to get closer to the financial sector and vice-versa (the banks wouldn't have been aware of the technical assistance capacity available in the market): i.e. the prep funding was catalytic in itself and has longer-term impact since relationships have been made.

1.3 Partnerships leveraged

Did you leverage new partnerships during the preparatory phase (e.g. government, private investors, IFIs, bilateral/multilateral banks, etc.)?

☒ Yes
☐ No

Provide in bullet points the main highlights on strategic partnerships and with whom.

Stakeholder	Role of stakeholder in structure	Level of engagement to date
MIEM	Lead the JP and act as the main Government counterpart for it	Very high; leading role
UTE	UTE has a key role in establishing the market conditions, economic incentives and develop infrastructure and technology systems allowing energy surplus usage, the charging grid and rural electrification.	Very high; provided sector analysis and inputs for proposal, and confirmed planned investments in support infrastructure.
IRENA	Support Uruguay on S-S cooperation matters; disseminate this experience in the working group of countries with high-share of Renewables in Energy Systems.	Committed to support implementation of the program in the areas of S-S cooperation and knowledge transfer
IDB LAB/ IDB Group	Will seek to provide pipeline and co-financing for last mile projects and business models with high innovation features.	Significant; contributed to discussing structure, opportunities for collaboration and synergies in the implementation of the program.
BROU, HSBC, BBVA, Itau	Originators, Co-financiers	Clear intention to participate
INACOOP	Lead provider	Clear intention to participate
INMUJERES, FLACSO,	Provided input to gender assessment, as part of consultations	Clear intention to collaborate.

CIEDUR, OMEU		
Coalition for Green Capital	Provided input on investment structure as part of consultations	Clear intention to participate in the inception phase

1.4. Co-funding mobilized[1]

Did you secure additional funding or in kind support for the proposal during the preparatory phase?

☒ Yes
☐ No

If yes, please include amounts committed during the prep-phase.

Source of funding	Yes	No	Type? ($ or in kind support)	Name of organization	Amount (USD)	Comments
Government	☒	☐	*$*	*Government of Uruguay*	*21,000,000*	Government of Uruguay (REIF investment-related support - estimated)
Donors/IFIs	☐	☐				
Private sector	☒	☐	*$*	*Commercial Banks*	*29,400,000*	Private Financial Institutions, co-lenders of the REIF
UN/PUNOs	☒	☐	*$*	*UNDP*	*1,000,000*	Co-funding committed – PNUD/GEF MOVES Project
Other partners	☒	☐	*$*	*UTE*	*17,000,000*	Co-financing – UTE (investment support in other JP areas - estimated)

1.5. Budget changes (if relevant)

If there were changes in the actual budget from the one shared as part of the Fund Transfer Request, please briefly justify these changes.

Please, explain briefly:

[1] Anticipated private co-financing from local banks will occur on a project by project basis as each of them is originated. This expectation is based on discussions held with local banks during preparation and their endorsement letters confirming their interest in REIF's support. Government support values have been calculated based on current investment promotion regimes, as applicable for these technologies, and will materialize as REIF projects are originated (we are only considering the value of GoU support to REIF-funded projects; this is conservative as additional support will be provided to other 2ET projects not funded by REIF).

There were no major changes between actual budget and budget made at Fund transfer request stage. As outlined in the table below, we ended-up contracting more companies and less individual consultants than initially anticipated and didn’t spent any of the tech services.

	Released Budget (a)	Obligation (c)	Payments (d)	Expenditure (c+d)	Funds Available (a-b-c-d)
	USD	USD	USD	USD	USD
Staff & Intern Consultants	73,008.85	23,480.00	16,730.00	40,210.00	32,798.85
Tech Services	8,187.91				8,187.91
Contractual Services	73,008.85	35,677.65	52,457.30	88,134.95	-15,126.10
Other Direct Costs			0.00	0.00	0.00
Total	154,205.61	59,157.65	69,187.30	128,344.95	25,860.66