

Joint SDG Fund – Component 2 – SDG Financing

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

Cover page

Reporting period: June 30 – December 31, 2020

Country: Zambia

Joint Programme (JP) title: Tobacco Control Social Impact Bond (T-SIB) to support the Zambian Government in fulfilling WHO FCTC treaty obligations: Supporting tobacco farmers transition to viable and sustainable alternative livelihoods.

Short title: Zambia Tobacco Control Social Impact Bond (T-SIB)

List of PUNOs: FAO, ILO, UNDP, WFP, WHO

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Representative of Lead PUNO: Lionel Laurens, UNDP

Government JP Focal Point (name and ministry/agency): Chola J. Chabala, Permanent Secretary Development Planning and Administration, Ministry of National Development Planning, cjchabala@gmail.com

RCO JP Focal Point (name): Paul Chitengi, RCO **E-mail:** paul.chitengi@un.org

Lead Agency JP Focal Point (name): Jan Willem van den Broek, UNDP **E-mail:** jan.vandenbroek@undp.org

Budget (Joint SDG Fund contribution): 50,000 USD

Budget Expenditures: 24,380 USD

Delivery Rate $\frac{\text{Expenditures PUNO}}{\text{Total transferred funds Jan 2020 to December 2020}}$: 48,76 %

Short Description of the Joint Programme

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\$): USD 5,400,000

Challenge:

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

Tobacco kills 7 million people per year. Tobacco cultivation is highly resource-intensive, pollutes waterways, strips soils of nutrients to a much greater extent and faster than other crops, and is often the leading factor of deforestation in tobacco-growing countries due to the large amount of wood required to dry tobacco (WHO). Tobacco is particularly labour intensive, farmers must harvest it over months, build ovens and bundle and dry the leaves. Taking into account cost of inputs and loan interest, tobacco farmers typically do not make a profit; and an even modest valuation of labour-time reveals they lose money (American Cancer Society). However, farmers often become trapped in a cycle of paying off industry-provided loans and interest, and continuing to grow tobacco, lacking viable cash crop alternatives, or the capital required to switch. Because it is much more labour intensive than other crops, one-third of tobacco farming families are forced to employ their children who miss or drop out of school. Women often work more in the field than men, but are paid less while also fulfilling the role of child bearer and family caretaker. Handling the green leaves, farmers fall sick to nicotine poisoning accompanied by severe symptoms. Tobacco cultivation exacerbates malnutrition and hunger; Zambia ranks 115th out of 119 countries on the Global Hunger Index and has one of the highest rates of child malnutrition in the world (40% of children under five are stunted).

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 Tobacco-Social Impact Bond (T-SIB) is a results-based financing mechanism (a *development impact bond*) designed to crowd-in private impact investment by delivering investors social and capital returns. It aims to support tobacco farmers in Zambia who wish to transition to economically viable and environmentally sustainable alternative livelihoods.

The T-SIB initiative is innovative in that it:

- employs an innovative financial instrument to diversify financing for the SDGs, shift focus on results, and reduce risk associated with programme delivery;
- experiments with a unique combination of complementary intervention tackling issues that are insufficiently addressed for disadvantaged beneficiaries;

- gives incentives to deliver those services in the most efficient and cost-effective way, and to put in place the performance management systems necessary to measure, track and improve outcomes;
- constitutes the world's first DIB applied to tobacco control would provide partners with an opportunity to learn and apply similar financial approaches to other development goals;
- unblocks and catalyzes financing in Zambia with the potential to scale globally;
- partners with Tobacco-Free Portfolios which leads the global movement by banks, companies, and funds to divest from tobacco;
- is underpinned by a thorough FS in Zambia indicating high feasibility in terms of service provider capacity, farmer needs, stakeholder buy-in, RoI, and risk-management;
- advances several SDGs simultaneously with a high potential to scale globally;
- builds on the commitments by 182 countries to implement the WHO FCTC, and meet their obligations under the Treaty to assist farmers transition and protect the environment.

Other financing approaches either do not have the scale for successful large-scale/comprehensive livelihood interventions in this area. Micro-financing is not feasible at the desired scale, and loans or grants to the government do not allow for contracting a range of service providers for the complex interventions required, nor do they entail a governance structure that allows for continuous learning and adaptability.

SDG Impact:

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

Results from the T-SIB feasibility study in 2019 indicate that a 4-year TSIB initiative in Zambia would result in:

- 7,360 farmers transitioned away from tobacco growing (50 percent reduction in number of small-holder farmers in tobacco production);
- 70 percent increase in household resources for farmers;
- 17,000 ha of forests protected, and
- US\$12.6 mil in total financial benefits through increased household resources and protection of forests;
- resulting in max 11% return on investment for impact investors.

Secondary benefits that could be monetized, include:

- increased food and nutrition security due to diversified crop production;
- reduced rates of green tobacco sickness because farmers are no longer handling tobacco leaves;
- reduced child labour as alternative crops are much less labour intensive;
- environmental benefits through water protection, reduced waste generation and chemical use.

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.

The UN Agencies involved will contribute their comparative advantages in different areas, leveraging ongoing programming in Zambia.

UNDP: project coordinator/intermediary to oversee bond structuring, recruit investors, serve as the management unit & secretariat and procure & contract services. UNDP will contribute expertise in innovative financing and good governance as well from ongoing tobacco control and climate-related projects (e.g. GCF and FCTC 2030 projects). Will lead global advocacy efforts to expand the T-SIB.

ILO: work with host communities to reduce decent work deficits, including child-labour, while developing alternative livelihoods thanks to experience from their Alliance 8.7 and Pathfinder Countries.

WFP: connect smallholder farmers to agriculture and financial markets, building on ongoing projects in Zambia. WFP will conduct detailed value chain analysis to inform selection of alternative markets and viable value chains in targeted districts.

FAO: will assist beneficiary farmers on climate smart agriculture and improved forest-based livelihoods, including business development, diversification and environmental sustainability, similar to support provided under ongoing large FAO projects in Zambia.

WHO: will measure the improvements in health and nutrition status of beneficiary farmer communities, and lead national level advocacy and technical assistance to policy makers, legislators, and government sectors to strengthen implementation of the WHO FCTC, including countering tobacco industry interference and strengthening policy coherence.

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).

UNDP, the Secretariat of the WHO FCTC, the American Cancer Society and FAO conducted a feasibility study (FS) for the T-SIB in 2019. The study assessed impact bond feasibility criteria (i.e. meaningful and measurable outcomes that are verifiable and realistic within the bond's time-frame; evidence from previous successful projects in alternative livelihood programmes;¹ appropriate legal and political conditions; investment readiness) as well as the feasibility of different approaches and interventions for farmers (e.g. geographical and ecological considerations for alternative crops; number and locations of target tobacco farmers; potential for non-farm livelihoods and for non-tobacco crop markets; existing supply & value chains and required infrastructure; service provider capacity; potential outcome metrics and an operational + financial model; farmer needs and wishes).

Results indicate that a 4-year T-SIB in Zambia is feasible, would result in substantial benefits with high enough returns to attract investors, and has a high potential to scale across Zambia, regionally, and globally.² The T-SIB FS was conducted as part of the FCTC 2030 project in Zambia, resulting from multisectoral engagement of the Investment Case for Tobacco Control in Zambia.³ The FS included information obtained through interviews with government ministries, service providers and farmer communities. Findings were presented during a handover event including all aforementioned stakeholders, donors, parliamentarians, UN-agencies and media. The T-SIB therefore enjoys broad Government, service provider and farmer buy-in.

The T-SIB requires additional investment from outcome payers of US \$6-8 million. UNDP has had conversations to date with NORAD, BMGF, the Finnish Cancer Society, Rockefeller, Botnar, SADC, Canada Global Impact Challenges, and are expecting several follow up conversations. Several donors have indicated preliminary interest are currently sharing the concept with their country and regional colleagues (e.g. WB). Others need to see the preliminary basic financial terms and structure of the bond before being able to commit (e.g. DFC, ex-OPIC). The Finnish Cancer Society has agreed to showcase the T-SIB to its members in Finland during the December investment meeting and in addition to the Nordic Cancer Union in early 2021 to attract other Nordic partners.

¹ For instance, a UNDP-led initiative promoted alternative livelihoods for tobacco farmers in Tanzania. The project saw a decrease in the amount of tobacco 'cultivated and more than doubled the amount of horticultural crops (e.g. tomatoes) produced in one production season of six months. This translated to increased net incomes for farmers. Similar successes have been observed in other major tobacco growing countries. For other examples of alternative livelihoods programs in Bangladesh, Brazil and Kenya, see: https://www.unfairtobacco.org/wp-content/uploads/2017/07/alternativenbrosch_gesamt_2012_05_27.pdf

² Other countries that meet the feasibility criteria include: *India, Indonesia, Pakistan, Malawi, Zambia, Madagascar, Malawi, Mozambique, Bangladesh, Zimbabwe, Tanzania, Laos, Philippines, Viet Nam, Myanmar, and Uganda.*

³ Executive summary of the investment case available under: <https://www.who.int/fctc/implementation/fctc2030/investment-case-zambia-who-fctc-2030.pdf>

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.

In general, the time provided by the SDG Fund to identify and involve an Investor and/or Outcome Funders in the process of designing the final financial instrument for the TSIB has been too short.

Investors

According to BNP Paribas experience in structuring and investing in impact contracts, most investors want to be looped into the project as early as possible because, this allows them to better understand the project, and the complexity of the tool, the risk/ return profile, to participate in discussions and negotiations and then to better defend it internally. In addition, their investment processes can be long and require several exchanges and requests for modifications, so it seems very important to us to involve potential investors from the initiation of the structuring and not to wait until everything is tied up and succeeded to offer a finished package. Unlike other financial products where this mode of approach to investors is standard, for impact contracts, the more advanced the structuring, the more difficult it is to convince investors to come to the end of the race.

Outcome Funders

Outcome Funders are usually looped in during the impact measurement methodology stage because they will influence the choice of indicators according to their appetite for impact, the themes they wish to carry and develop and the levels of risk they wish to take in the Impact Bond. It is important that the final payers approached are in line with the philosophy and the main lines of the project. Moreover, it will be necessary to have discussed upstream with the SDG Fund and UNDP on the leeway that we wish to leave for negotiation, if necessary, to the various stakeholders. Other outcome Funders will not commit as long as we don't have the SDG Fund decision.

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.

BNP Paribas has secured a dedicated envelope to invest in Impact Bonds that it structures or co-structures and is assisting in identifying investors and outcome funders among its client base, its network (BNP has a global partnership with Sir Ronald Cohen's GSG, with EVPA (European Venture Philanthropy Association), and with the GIIN (Global Impact Investing Network)). BNP has discussed and received non-binding and preliminary expressions of interest from the BMW foundation, Aqua for All, DFC (ex-OPIC), FIIND Impact (a Dutch independent investment consultancy) and Social Finance Netherlands.

The **Education Outcome Fund** has issued a letter of support to 1) explore with UNDP and BNP Paribas possible sources of outcomes funding and investment funding for the programme, drawing on EOF's network of bilateral and multilateral donors, foundations and impact investors and to 2) provide a fiduciary platform to contract and manage the funding, through their UNICEF trust fund.

1.4. Co-funding mobilized

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	<input type="checkbox"/>	<input type="checkbox"/>				
Donors/IFIs	<input type="checkbox"/>	<input type="checkbox"/>				
Private sector	<input type="checkbox"/>	<input type="checkbox"/>				
UN/PUNOs	<input type="checkbox"/>	<input type="checkbox"/>				
Other partners	<input type="checkbox"/>	<input type="checkbox"/>				

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: