Fact Sheet

Title of the proposed Joint Programme	Sri Lanka SDG Programmatic Bond (SPB)
UNCT	Sri Lanka
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Relevant UNDAF Outcome/s and Output/s

Outcome 3: By 2022, people in Sri Lanka, especially the vulnerable and marginalised groups of children, youth, women, elderly and disabled, benefit equitably from dynamic and responsive social protection systems.

Relevant objective/s from national strategic document/s

Alignment with Government of Sri Lanka National Policy Framework ‘Vistas of Prosperity and Splendour’

- Key Policy Goals:

• Productive Citizenry and a vibrant Human resource o Increase annual investment of health care

• People Centric Economic Development:

o Get rid of the debt-trap; promoting domestic investments, reducing import expenditures and raising export incomes.

o Reducing budget deficit; eliminate unnecessary government expenditures while financing for essential expenditures and prioritizing state investments.

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

Goal 1: End Poverty	
Goal 2: Zero Hunger	2.1 2.2
Goal 3: Good Health and Well-Being	
Goal 4: Quality Education	
Goal 5: Gender Equality	
Goal 6: Clean Water and Sanitation	
Goal 7: Affordable and Clean Energy	
Goal 8: Decent Work and Economic Growth	8.2 8.3 8.5
Goal 9: Industry, Innovation and Infrastructure	
Goal 10: Reduced Inequalities	10.1
Goal 11: Sustainable Cities and Communities	
Goal 12: Responsible Production and Consumption	
Goal 13: Climate Action	
Goal 14: Life Below Water	
Goal 15: Life On Land	

Goal 16: Peace, Justice and Strong Institutions	
Goal 17: Partnerships for the Goals	17.3 17.4 17.15

Self-Assessment

The proposal reflects the integrated nature of the SDGs	Yes
The proposal is based on an inter-agency approach (two or more UN entities involved), with RC coordinating Joint Programme preparation and implementation	Yes
The proposed results are part of the UNDAF and aligned with national SDG priorities	Yes
The proposed Joint Programme will be led by government and include key national stakeholders	Yes
The proposal is based on country level consultations, as explained in the Concept note, and endorsed by the government (the letter of endorsement)	Yes
The proposal is based on the standard template for Concept Notes, it is complete, and it includes: • **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.**	Yes
The proposal is expected to leverage resources for the SDGs at scale	Yes

Proposal for Joint Programme

1. Summary of the Joint Programme

Despite graduating to Upper Middle-Income status, Sri Lanka remains the 9th most malnourished country in the world for children (UNICEF 2016). Acute fiscal pressures stemming from a significant debt burden has limited spending on pressing social issues such as malnutrition. This Joint Programme provides a solution through an innovative and catalytic instrument known as the SDG Programmatic Bond (SPB) that helps government to generate resources for high impact nutrition related intervention without aggravating the debt burden whilst also paving the way for favourable debt dynamics.
The Joint Programme solves three distinct policy challenges:

1. Through the SPB, provide additional fiscal space to invest in responsible and targeted social investments (such as in malnutrition).

2. Provides the necessary capital for quality upgrading of Sri Lanka's domestic production of Ready to Use Therapeutic Food (RUTF).

3. Provides the necessary capital to increase domestic manufacturing of fortified rice for micronutrient supplementation.

These challenges will be addressed through three separate results pathways:

i. Contribute to the restructuring of the GoSL's stock of public debt by leveraging sources of SDG Investments (largely private).

ii. Create a more stable supply of RUTF at consistent prices.

iii. Expand the use of fortified rice as an effective form of micronutrient supplementation in the social safety net system and private sector supply chains.

The SPB will take the form of a debt swap coupled with a program of action to solve malnutrition issue The gist of the SPB instrument is follows: (i) the government issues a special sovereign bond (the SPB) that would carry a lower interest rate compared to the market; (ii) the proceeds would pay down country's existing high cost debt with resultant interest savings coupled with government spending optimisation generating resources for the social project (iii) the program would be underpinned by a Medium-Term Budget Plan (MTBP) and if the intended outcomes are not achieved the government will pay back the bond at a rate commensurate with the market. Impact evaluation will be carried out by an independent third party.

The SPB in Sri Lanka is at an advanced stage of concept design stemming from extensive deliberations with technical counterparts in government, internally within UNDS as well as agencies such as the IMF. Key malnutrition targeted intervention of this nature will also address Sri Lanka susceptibility to global pandemics such as COVID-19.

2. Thesis and theory of change of the Joint Programme

IF the UNDS is able to offer collaborative support to assist the government to issue a special sovereign bond (SPB), and pilot nutritional interventions to demonstrate its multiplier effects across other SDGs (2,8,10, 17) to build the resilience of future generations to withstand impact of health epidemics like COVID-19, THEN, the country will be in a better position to mobilize both public and private financing for the bond at an interest rate lower than market; amount commensurate with the cost of development solution and the bond tenor aligned with the time frame for implementation. This will enable Sri Lanka to swap high cost debt with low cost debt, and together with government optimising spending would generate resources for financing for SDGs with particular focus on malnutrition. This joint support is pivotal BECAUSE of Sri Lanka’s high debt burden and related servicing costs limiting the fiscal space to spend on pressing social needs such as malnutrition.

With a debt ratio of 90%, and debt servicing costs of 5.5% of GDP (comprising the highest expenditure category for government) achieving the SDGs will be extremely challenging. Insufficient public expenditure in social sectors has coincided with poorer socioeconomic outcomes in Sri Lanka, notably stalled progress in reducing malnutrition, making the population more susceptible to global pandemics like COVID19.

Sri Lanka has made remarkable success in reducing maternal and child mortality and morbidity, but nutrition related indicators have remained static. The prevalence of stunting, wasting and underweight among children of age 6-59 months are 15.1%, 17.3% and 20.5%, respectively (DHS, 2016) placing Sri Lanka among the 10 worst low and middle-income countries in the world for wasting. The main causes of undernutrition are poor dietary food intake, inadequate care and feeding practices and diseases.

Poor nutritional status of children under five damages their health, growth and development during childhood, harms their performance in school, and limits their cognitive abilities, health and work productivity in later life.

The life-long impact of malnutrition will detract Sri Lanka’s growth in human capacity thereby slowing progress in other areas/SDGs. Improving management and increasing treatment coverage of children with Severe Acute Malnourishment (SAM) & Moderate Acute Malnourishment (MAM) and overcoming micronutrient deficiencies, are feasible but have been delayed as they have neither been prioritised nor resourced. This proposal provides an opportunity to change this. Local production of RUTF will increase the uninterrupted treatment and coverage of children with SAM generating savings in healthcare costs for the families involved and for government, while rice fortification can address population-wide micronutrient deficiency, improve cognitive development and increase the learning ability of school children.

A targeted financing intervention towards addressing malnutrition will improve the country’s nutrition outcomes on multiple fronts; throughout the life-cycle by reducing persistent micronutrient deficiencies through wide-scale physical and economic access to fortified rice, and further among children under five by increasing SAM coverage to 100% (given increased availability of the product) leading to particularly substantial health outcomes for children.

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

The JP will contribute to the UNDAF Outcomes 3 stated below:

By 2022, people in Sri Lanka especially the vulnerable and marginalized groups of children, youth, women, migrants, elderly and disabled benefit equitably from dynamic and responsive social protection systems

SHORT TERM RESULTS

Solution Pathway 1: Policy dialogue to get overall government buy-in for the SPB; Design of the SPB in collaboration with government and UNDP partners; Completion of road shows in selected SDG investor markets and mobilization of bond proceeds; debt restructuring (paying down of high cost debt).

Solution Pathway 2: Enhanced capacity of the Triposha factory to establish local production of RUTF which is a key component of treating Severe Acute Malnutrition (SAM) among children under 5 years; upgrade the Triposha formula currently used for the treatment of Moderate Acute Malnutrition(MAM); generating data and evidence on feasibility, cost-effectiveness and impact of locally produced RUTF as a treatment of SAM.

Solution Pathway 3: Quality standards of fortified foods; Fortified rice is physically and economically available in commercial markets and are utilized in Sri Lanka’s national safety net initiatives to improve nutritional outcomes.

LONG TERM RESULTS

Result from Pathway 1: Improvement in the government’s fiscal position debt status and international country’s credit rating.

Result from Pathway 2: Sustained and uninterrupted production of therapeutic food which will reduce the numbers of malnourished children.

Result from Pathway 3: Sustainable production and distribution of fortified rice in Sri Lanka that disaggregated by social safety net programmes (coverage) and commercial market.

The anticipated results of the joint program are closely aligned with the government policy framework ‘Vistas of Prosperity and Splendour’ (VoP) which underscores the importance of the country to move out of the debt trap and look at better health and nutrition outcomes particularly targeted on adolescent children, pregnant women and infants.

Gender inequities that affect the health of women leave both them and their children vulnerable to poor diet and poorer health which is accentuated in a COVID-19 context where an already undernourished population is exposed to a deadly virus. This JP will contribute to efforts to break the intergenerational cycle of undernutrition in Sri Lanka as it specifically targets vulnerable groups; women of reproductive age and school aged children and children under 5.

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4. Describe the innovative nature of the Joint Programme

The SDG Programmatic Bond (SPB) is an innovative development financing instrument that could be used by any country faced with twin issues of high public debt and high SDG financing costs.

The SPB demonstrates innovation from a financial standpoint in that it is a new financial instrument that is not currently used in the financial markets or in the impact investment niche. It combines elements of a debt swap and social/development impact bond but also integrates a programming component that delivers on a key social outcome (in this case on health and nutrition addressing the issue of malnourishment).

If successful, the SPB could also demonstrate innovation in terms of its use within the UN system, in accordance with UN reform principles. It has considerable appeal in countries such as Sri Lanka faced with its unique set of challenges – that could also resonate well with several other countries – that provides effective solution across a number of dimensions. The concept builds on existing instruments of Social Impact Bonds (SIB) and Development Impact Bonds (DIB) but with improved design to strengthen the impact. Under SIB/DIB investors risk the chance of not receiving return, if the outcomes are not met. Whereas under the SPB, investors are guaranteed a return with the government risking penalty if outcomes are not delivered. Thus, the scheme would be more attractive to investors compared to conventional SIB/DIB. There are also strong safeguards built into the system to enhance chance of impact delivery –such as penalty clause on interest rate and the binding of the government to the Medium-Term Budget Plan which is passed by the parliament. Further, successful delivery on impact would ensure repeat access to this market segment.

For the government of Sri Lanka, the SPG SPB demonstrates innovation in terms of attracting new participants and investors in that it will open access to a new investor segment (i.e. SDG/Impact investor) hitherto not tapped.

The SPB has not been implemented in Sri Lanka or elsewhere. The structuring requires strong buy-in of the government. The scheme however has strong traction with the technical counterparts in government which will serve as a platform for getting overall government support.

The innovative financial instrument helps leverage private investments that help free up government resources for responsible SDG related investments. The focus on improving access to fortified food will result in a productive labour force by combatting malnourishment in Sri Lanka.

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

Through the JP initiative, the UNDS will be helping the government in laying the platform for SPB implementation in Sri Lanka. The support will draw on the Joint SDG Fund support window supporting catalytic SDG financing instrument development and implementation.

Furthermore, while the SPB will be spearheaded by the government, UNDS could extend substantial support for in setting up the architecture and supporting institutional framework for implementation. The instrument was conceptualised through the UNDS and PUNO’s could extend substantial support could be extended in its implementation.

Specific value addition by the PUNO’s relate to:

UNDP value add: UNDP will assist the government to place the bond in the SDG/Impact investor market with which it has close connection and partnership, but the government has little exposure or experience. UNDP would extend technical assistance to set up both core components of the governance framework – i.e. the high-level SPB office and the SPB secretariat and facilitate the staffing of these structures and building their capacity managing the SPB.

UNICEF value add: UNICEF will provide support for the feasibility assessments for the establishment of local production of Ready to use Therapeutic Foods (RUTF) as well as in the advocacy activities to improve quality and coverage od of SAM/ MAM treatment.

WFP value add: will support the development of a regulatory mechanism and standards for fortified rice and advocate to the private sector on its commercialization. WFP has been working with governments in Asia, Latin America and Africa to introduce and scale up rice fortification to fight micronutrient deficiencies and in Sri Lanka supporting GoSL on rice fortification through the Technical Advisory Group appointed by the Government.

There is a dearth of institutional support mechanisms for the development of catalytic instruments such as the SPB. The initiative therefore would benefit considerably from the JSF.

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6. Leadership and implementation of the Joint Programme

The responsibility and the accountability for the conception, strategic planning and the oversight of the programme through the Joint SDG Fund will be vested on the Resident Coordinator. The participation of a minimum of two UNCT member agencies will enable the access to the fund. UNDP will be the convening agency, along with UNICEF and WFP as other participating agencies (PUNO's). The agencies are responsible and accountable to the Resident Coordinator for the results and the resources provided through the fund. At the country level, the Resident Coordinator ensures the alignment of the resources that have been received from the fund with the national development priorities. Full accountability in terms of programmatic and financial for the resources received through the Joint Fund are vested on UNDP, UNICEF and WFP, the participating UN Organizations in this case.

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7. Expected period of implementation

The duration for implementation of the JP is expected to be 4 years.

Key milestones in relation to the SPB would be:

1. Government concurrence to issue a SPB in the global capital markets targeting the impact investor market. This will involve the testing of market appetite, early indications of likely bond rating from rating agencies other regulatory clearances
2. Development of an effective solution to address the malnutrition problem in Sri Lanka, costing and timeframe establishment. This will relate to the solutions pathways 2 and 3, costing of the needed interventions and time frame. There would also need to be risk assessment and necessary risk mitigation/early warning systems established to ensure the effective delivery of the solution.
3. Establishment of program of action to implement the solution, preparation of the MTBP and approval by the parliament.
4. Mobilizing investor commitments and paying down of high-cost external debt.

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

Estimated budget to support this project is USD 10,000,000

UNDP Activities, Budget Descriptions and Costs:

1. Outreach and Awareness:

i. Workshops and seminars for dissemination activities as well as staff time. Cost: $538,000

ii. Roadshow costs in identified locations. Cost: $3,362,500

2. Specialist Consultant:

i. Fee for a specialist consultant to put together the investor mapping and strategy. Cost: $538,000

3. Legal Fees:

i. Inwards missions from experts/specialists from other countries who could advise/support. Cost: $941,500

Total: $5,380,000

PUNO Activities, Budget Description and Costs:

WFP

1. Technical Assistance:

i. Project management. Cost: $440,000

ii. Monitoring and Evaluation. Cost: $120,000

iii. a) Development and introduction of quality assurance system for quality control fortified rice within national social safety net programs

b) Advocacy for enabling environment for fortified rice in commercial market

c) Behavior change at community level

d) Provide fortified kernels for the rice (import with transition to production in country.

Cost: $560,000

2. Capital Goods (Hardware):

i. Provide infrastructure facilities to improve the production capacity and quality of fortified rice. Cost: $450,000

Total: $1,570,000

UNICEF

1. Feasibility assessment of establishing the local production of RUTF and Rice Fortification

i. New machinery and high hygienic standard building, production processes, HR. Cost: $ 50,000

2. Establishing a small production line of locally made RUTF and trials.

i. Acceptability/efficiency to compare with BP100 currently in use. Cost: $500,000

3. Effectiveness study include cost-effectiveness

i. As compared to BP100 currently in use and adapted to SL protocol which limits the prescription of RUTF to pediatricians only. Cost: $500,000

4. Feasibility to scale up production and establish a full-scale production line. Cost: $1,500,000

5. Technical Support. Cost: $500,000

Total: $3,050,000

UNDP, UNICEF and WFP, will make a total annual in-kind contribution of $100,000 ($400,000 over four years by the three agencies combined), as well as mobilize additional resources to co-finance the initiative. Partnerships with Triposha Factories, commercial producers of RUTF will leverage financial and in-kind contributions.

For the first component of the project – the SDG programmatic bond, UNDP will support the Government to attract private sector impact investors to the country. The size of the bond will be informed by the costing of the solution and the duration of the bond will be informed by the time for implementation of the solution.

The project will by helping the government retire expensive debt will increase the fiscal space thus leveraging government resources for SDG-related investments.

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9. Risk assessment

Risk Description 1: Implementation capacity of the government: Delivery of project results and adherence to periodic milestones crucially hinges on the implementation capacity of the government and in particular the relevant line Ministry or the agency.
Mitigation plan: Assessments will be undertaken to target capacity building efforts as well as other structural and institutional strengthening measures (as part of the programmatic component). For example, upgrading and establishing the new line to produce RUTF locally will require new equipment, training and research on both formula for RUTF and the effectiveness of local production in terms of cost and impact.

Risk Description 2: Lack of Investor Interest: country risk factors, coupled with lower interest rates (compared to conventional sovereign bonds) as well as lack of confidence in the government's ability to deliver on impact may result in poor investor appetite.
Mitigation plan: The SPB is designed in a manner that provides investors the guarantee of return as opposed to other conventional impact bonds. Credit risk would be mitigated by the fact that government has never defaulted on a credit obligation. Additionally, the SPB targets impact investors who would value the impact dimension.

Risk Description 3: Pre-payment penalties or inadequate debt restructuring: Paying debt earlier than required incurs a pre-payment penalty that could offset any potential savings on interest costs. Inadequate debt service savings could limit the fiscal savings expected from the debt swap.
Mitigation plan: The government of Sri Lanka will need to identify those debts that incur little or no pre-payment penalties and also has the highest interest differential (between the rate on SPB and the debt retired) to realise the debt service savings. UNDS together with other development partners could support government in this process.

Risk Description 4: Local production of RUTF is more expensive than import RUTF.

Mitigation plan: Use easy to find available local ingredients for the local production of RUTF.

Risk Description 5: General population hesitant to accept fortified rice resulting in lack of uptake of fortified consumables by commercial entities.
Mitigation plan: Multiple-channel social and behaviour change communication strategies (SBCC) will be carried out.

Risk Description 6: Negative media report on fortified rice.
Mitigation plan: In addition to broader SBCC initiatives, media outlets will be thoroughly sensitized on rice fortification and WFP and government will be ready to counter and negative press. Further, extensive acceptability trials have already taken place to help mitigate this risk.

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10. Convening the private sector and engaging IFIs/DFIs

Given the government Sri Lanka past track record in terms of debt service (no defaults in history) there has been strong demand for government bonds in the international markets. However, this instrument (the SPB) will be placed with the sustainable investment arms of the DFI/IFI's and private sector entities focussing on sustainable investment. The JP will leverage on UNDP's SDG Innovative Finance facility on bringing together public and private sector to invest for SDGs. As part of the road shows, concerted efforts will be made to pitch the SPB into the target community and to obtain their buy-in to the instrument that promises significant transformational change to Sri Lanka.

The SPB will have significant benefits to Sri Lanka private sector derived from improved sovereign credit ratings). As such, the Sri Lanka private sector would be a vital proponent for the scheme. In particular, the country's impact investor community with considerable global network could play a catalytic role in identifying and mobilising the global sustainable investment community towards the SPB. Globally there are impact investors like Wharton Impact Investing Partners or the Bill and Melinda Gates Foundation that focus amongst others on improving access to food for improving nutritional outcomes.

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11. Leverage and catalytic function

Since the design of the concept several institutions and development partners have expressed interest in the scheme. UNDS is systematically pursuing on these in order to mobilise resources.

With the JP initiative and during the implementation several multilateral DFI could come into support –particularly on the programmatic aspects of the SPB: World Bank and the IMF for a long time have been carrying out Public Finance Management (PFM) support to the country and would be ideally placed to support efforts aimed at government spending optimisation (such as through technical assessments and capacity development measures) which in effect will mobilise considerable resources for the implementation of the SPB. Several key multilateral DFI's operating in the country have spent considerable resources to ramp and support PFM and have pipeline projects that would continue to support along same lines.

Furthermore, DFI and bi-lateral development partner support could be mobilised to set up the overall governance arrangement underlying the SPB – namely the SPB programme office (that will provide overall high-level oversight for the scheme) and the SPB secretariat which will perform vital coordination, research and analytical functions supporting implementation.

12. Technical support and seed funding

The development of the joint proposal would benefit considerably from inputs/support from the Financial Sector Hub (FSH) and the Bangkok Regional Hub (BRH). Given the innovative nature of the instrument, FSH and BRH investment into the instrument and particularly helping in the setting up of the implementing platform would be highly appreciated by the client government. As such the JP partners would greatly benefit from seed funding from the JSF under component 2 that would help with the structuring investor mapping/profiling and carrying out selected road shows for investment mobilisation.

Furthermore, the scheme has considerable replicable potential – particularly in country's faced with the same twin challenges of high debt and considerable SDG financing challenges. FSH/BRH would stand ready to support these countries following from experience and learning from Sri Lanka.

Signatures

Signed Signature Form

Sri Lanka SDG Programmatic Bond C2 Signature Page.pdf 1.07 MB

Government Endorsement

Letter of Endorsement

RC Letter to Joint SDG Fund - 30 Mar 2020.pdf 108.52 KB