Democratizing Finance for the Sustainable Development Goals

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When the Sustainable Development Goals (SDGs) were adopted in 2015 they opened an enormous challenge: the estimated cost for achieving them is $5-7 trillion per year. In response to this predicament, the United Nations called on a powerful private sector tool to step up to ensure that the full 17 goals can be implemented: That tool was capital market finance. Due to the sheer size of the capital markets—estimated to hold more than $200 trillion—they offer the fiscal ability to make these goals a reality in a way that public and philanthropic budgets simply cannot match. The question since 2015, however, has not been whether the capital markets will step in, but rather how can they be engaged? What mechanisms are required to align incentives to catalyze investment at scale that promotes gender equality? What kind of capital is needed to achieve zero hunger? And which categories of investors are best placed to provide it?

The answers to these questions require commitment and creativity on the part of all stakeholders. Specifically, they require a willingness on the part of the development community to design investment structures that are robust, inclusive, and familiar to the capital markets. The development community is responding with a vast array of new financial products, but we can push further. New approaches are being developed every day to connect a number of different institutional and retail investors through familiar channels like our public exchanges. Yes, that is correct—the answer lies with individual investors like you and me.

From development finance institutions to retail investors

Over the past two decades, SIFEM has deployed around $800 million while earning strong financial returns and supporting more than 450,000 jobs. Equally important, SIFEM's investments have supported numerous new fund managers in emerging economies, which are now starting to raise their second, third, or even fourth funds.

The impact extends far beyond job creation and maturing investment community—SIFEM mandates sustainability into all of its investments and supported businesses. For example, all investments agree to their Responsible Investment Policy, which includes provisions like evaluating and mitigating environmental risks. Additionally, when measuring jobs, SIFEM requires that all of its portfolio companies comply with the International Labour Organization's CStandards, which inform the definition of decent work used in SDG 8.

Given the work of SIFEM and other development finance pioneers, there is an established and growing class of fund managers poised to bridge the gap on SDG 8. But the jump from hundreds of millions of dollars in DFI funds to billions and even trillions requires connecting with capital markets and, in this case, the often overlooked individual investors. There is an exciting opportunity to scale up a mature and impactful market segment through retail investors. Private individual investors control one of the largest pots of investable capital in the world—more than $40 trillion. Equally as important, they have shown an interest and willingness to align that capital with social impact, like SDG 8. We can see evidence of this willingness in products like the Trilinc Global Impact Fund. The fund, which has a small and medium business investment focus (similar to SIFEM), has to-date raised hundreds of millions of dollars largely by targeting retail investors.

Creating fit for purpose investment vehicles: publicly listed investment trusts

The predominant structure for investing in impact remains the private equity. This is especially true in developing countries where funders invest in impactful businesses as equity partners and work with the businesses to unlock value and impact over the medium- to long-term. While necessary to achieve meaningful on-the-ground impact, this structure results in high minimum investment sizes and low liquidity for the investor—effectively locking out all but the wealthiest individual investors. Despite the interest and willingness of individual investors to invest for impact, this structural hurdle persists in restricting the flow, at scale, of capital held by individual investors to social impact.

When building on the work of groups like Trilinc Global, it is crucial that the development community seeks to expand the suite of offerings that individual investors can use. In practice, this means designing investment structures that are acceptable to the gatekeepers at private banks, wealth managers, and retail investment platforms. Without their buy-in, individual clients and customers will continue to be denied access to impact investing opportunities.

Private individual investors control one of the largest pots of investable capital in the world—more than $40 trillion.

This is why The Rockefeller Foundation, through its Zero Gap portfolio, is supporting Eighteen East Capital to design a model for a publicly listed vehicle that would, through an investment mandate similar to SIFEM, invest in line with the SDGs. By being built as a publicly listed and traded entity that is acceptable to private banks and wealth managers, and therefore able to attract a diversified investor base, such an investment trust can generate the market transactions necessary to overcome the barriers of high minimum ticket and low liquidity, while also providing benefits like diversification and transparency. Further, publicly listed entities fit well into the distribution channels retail investors and their advisors already use.

As part of the project, The Rockefeller Foundation and Eighteen East Capital will share the core template for designing and launching listed investment trusts focused on creating social impact. Our hope is others will join us by using this template to launch funds and help close the funding gap needed for achieving the SDGs. At The Rockefeller Foundation, we are committed to answering the challenge of the SDGs by assessing the funding needs and determining what role private capital can play in implementing these ambitious global objectives.