Unlocking Public and Private Finance for the Poor

Call to Action: Dedicated Financing Facility for LDCs - The BRIDGE Facility

UNCDF side event during the Second Intergovernmental Preparatory Committee for the Fifth UN Conference on Least Developed Countries (LDC5)

July 28, 2021 13:15-14:45

I. Session Description

Context and Background

Least Developed Countries (LDCs) typically face significant financing gaps in their efforts to achieve the Sustainable Development Goals (SDGs). According to UNCDF's publication Blended Finance in the Least Developed Countries, between 2012 and 2018, only 6 per cent of private finance mobilized by official development finance went to the LDCs, and even that 6 per cent was highly concentrated in a small number of sectors, countries, and transactions.

Financing shortfalls are especially large for small and medium enterprises (SMEs) seeking relatively small amounts of growth capital. According to the International Finance Corporation (IFC), the unmet credit need for formal SMEs in the developing world is about $4.5 trillion. The issue is even more acute in LDCs, here the percentage of firms identifying access to finance as a major constraint is higher than in the rest of the developing world.

When it comes to supporting local infrastructure, continuing population growth and urbanization mean that by 2050, two-thirds of the global population will live in urban areas. Responsibility for meeting the enormous demand for infrastructure and services has increasingly shifted from national to sub-national governments. Yet, local governments outside major cities often lack the capacities, financial resources, management systems, and pipeline of bankable projects to fulfil this responsibility.

The Addis Ababa Action Agenda and the 2030 Agenda both identify the need for multiple sources of finance to work together effectively and in new combinations. Yet, the international financial architecture is not designed to directly support small ticket size, higher risk transactions that – nevertheless – will be the key to achieving transformative impact at the local level.

Against this context, it is critical that the LDC5 Conference delivers concrete solutions that make finance work better for the LDCs and to leave no one behind. Among such solutions could be the establishment of a dedicated and sufficiently large blended finance de-risking facility for LDCs that is focused on providing catalytic capital to growth SMEs, small investment projects and other strategic investments with transformative SDG potential, in order to unlock further commercial and semi-commercial investments.

The draft outcome document of LDC5 states:

"We stress that the innovative sources of financing, including blended finance, should be additional, substantial, predictable, with preferential rates especially tailored to LDCs and disbursed in a manner that respects the priorities and special needs of LDCs and does not unduly burden them. This should include expanding ODA allocations to include flexible financing that can be used as first loss, concessional, or de-risking capital to attract additional resources from the private sector to SDG-aligned investments that can scale to address the needs of LDCs. We decide to establish a dedicated financing mechanism that delivers catalytic investment capital for MSMEs and small investment projects in LDCs and graduated countries to mobilize sustainable private investments that advance the SDGs and act as a crisis facility."

UNCDF plays an important role in the financing for development architecture in the LDCs. UNCDF's capital mandate allows it to play a distinct role in the UN Development System (UNDS) and to work as a hybrid development and finance institution. Unique in the UNDS, UNCDF can issue grants, loans, and guarantees directly to the private sector in any productive sector of the economy.

UNCDF's approach to investment is to leverage its concessional resources to crowd-in more commercial finance and increase the capital flows going into SDG positive investments in the LDCs. By deploying catalytic capital bundled with technical assistance (TA) into selected SMEs and projects, UNCDF creates powerful demonstration effects that pave the way for additional follow-on investments by larger financial institutions and have the potential to drive market transformation for the "missing middle".

UNCDF has internal capacity to manage an ecosystem of investments in LDCs through its LDC Investment Platform (LDC IP), a team of investment professionals with significant transactional expertise and private impact investing backgrounds. The platform rests on UNCDF's risk management and investment policies, due diligence processes, and investment monitoring systems.

UNCDF has developed an "Investment Continuum" framework, where it uses its programmatic work and "boots on the ground" to source the deals; TA and concessional funding from its own balance-sheet (the "BRIDGE Facility") to make them "investable"; investments from the BUILD Fund and International Municipal Infrastructure Fund (IMIF), third party managed blended finance vehicles, to avoid an "investment disconnect" and provide larger ticket sizes on a semi-commercial basis; and pre- and post-investment advisory support from the Technical Assistance facilities to further improve their bankability and ensure their creditworthiness.

If properly resourced, UNCDF's BRIDGE Facility can serve as a dedicated financing mechanism, which can include flexible financing that can be used to attract additional resources from the private sector to SDG-aligned investments that can scale to address the needs of the LDCs, including for graduating LDCs.

The panelists will discuss the use of catalytic concessional capital to mobilize sustainable private finance for LDCs to achieve the next Programme of Action. This includes the need for a blended financing facility like the BRIDGE Facility, the potential capital providers who could be involved, and the instrument mix that will be necessary to crowd in other investors. The session will also serve as a call to action to mobilize resources to fully capitalize the BRIDGE Facility to serve the LDCs and help to achieve the LDC5 Programme of Action.

II. Run of Show

Time	*Topic*
5 minutes	**Welcome:** Esther Pan Sloane, UNCDF
5-10 minutes	**Opening Remarks:** USG OHRLLS Courtenay Rattray
5-10 minutes	**Opening Remarks:** Ambassador Perks Ligoya, Malawi
5 minutes	**Opening Remarks:** Preeti Sinha, Executive Secretary UNCDF
20 minutes	**Presentation of investment continuum, BRIDGE Facility, examples of investments**
40 minutes	**Moderated Panel Discussion** • Christopher Onajin, Swedish International Development Cooperation Agency (Sida) • *Mdingase Tewete, CEO Kombeza Foods (TBC)* • Brian Tahinduka, Standard Bank South Africa • Jean De Dieu Ndacyayisenga, UN Women Rwanda
if time allows	**Moderated Q&A** The moderator opens the floor for questions from the audience, collects 2/3 questions and proposes speakers to respond.
5 minutes	**Closing Remarks:** Ambassador Lang Yabou, The Gambia
1 minute	**Wrap up and conclusion** The moderator wraps up the session and thanks the speakers and audience for their participation in the session.