DRAFT Concept Note

Expert Group Meeting on 24 April 2018 on

Blended Finance in the Least Developed Countries

Introduction

The investment gap for delivering the Sustainable Development Goals in developing countries is estimated at some $2.5 trillion per year. Following the adoption of the Addis Ababa Action Agenda and the 2030 Agenda, there is a growing focus on how to ensure that development cooperation – especially Official Development Assistance (ODA) – accelerates economic growth and sustainable development and helps mobilize additional resources for development.

Blended finance in particular is receiving increasing attention for its potential to attract private or commercial capital to meet the SDG financing gaps. Many development actors are looking to use more public and philanthropic concessional funding in order to catalyze additional private and commercial investments into development projects that support SDG achievement. This in turn has raised concerns that blended finance providers should target their activities more effectively to a range of development issues and geographies.

Currently, blended finance is mainly directed to middle income countries and targets a few sectors. According to the OECD, of the US$81 billion in private resources mobilized by public development finance between 2012-15, only 7% was in least developed countries (LDCs), with the lion's share (77%) being mobilized in middle income countries, and the rest targeting global or regional efforts.

If blended finance becomes an increasingly important modality of development cooperation and, building on current trends continues to focus on middle income countries, providers will need to take steps to ensure that LDCs and other vulnerable countries do not see a fall in their overall share of development finance. After all, many LDCs are already facing difficulties in mobilizing additional external resources for development.

At the same time, countries most in need and investment areas critical to leaving no one behind should not be sidelined. There is therefore a pressing need to explore how to deploy more effectively blending in challenging contexts, including LDCs. Indeed, the evidence on the effectiveness of blended finance is still quite limited in general, and even more so in LDCs. There are questions that therefore warrant further examination, including: Where and in which sectors, and under what conditions, can blended finance work in LDCs? What different instruments and mechanisms can be used to attract private and commercial finance and steer it towards SDG-aligned investments? Which sectors or SDG targets may be conducive to blending? What role can blended finance play in mobilizing investments for smaller-sized (“missing middle”) projects?

In addition, the use of blended finance must be carefully calibrated to minimize negative side effects. This includes, for example, ensuring that the use of limited concessional public resources aligns with national development priorities, and that blended finance supports the development of local financial markets, capacities, enabling environments, and pipelines of suitable projects. It also includes ensuring that blended transactions are competitive and transparent; are effective in supporting private sector development; and do not crowd out private capital.

Examining blended finance in LDCs: The UNCDF-led publication

This all calls for exploring how to more effectively deploy blending in such contexts as LDCs, and for filling data and evidence gaps. Starting in 2018, UNCDF will prepare a series of knowledge products on blended finance in the LDCs, with a specific focus on the application of this type of finance at the local level and for so-called "missing middle" projects.

UNCDF's knowledge products aim to a) contribute to the policy debate on blended finance by developing empirical evidence and original research on how blended finance is being and can be used in LDCs, and b) create a community of practice that can help shape the actions of governments, investors, and practitioners with regard to applying blended finance in LDCs.

The first knowledge product – "Blended Finance in the Least Developed Countries" – will be launched in September 2018, and is being prepared in collaboration with OECD, Southern Voice, Convergence and the UN Foundation. It will provide an overview of how blended finance is currently being deployed in LDCs. This report will be followed by additional knowledge products on specific topics and themes related to UNCDF's core areas of competence – e.g. clean energy or municipal finance.

Expert group meeting objectives

At this meeting, the initial findings of the planned report will be presented. In order to benefit from a wide range of perspectives, participants will include a combination of multilateral and bilateral development agencies, DFIs, think tanks, financial sector representatives, and investors, as well as experts and officials from LDCs.

The objectives of the meeting are to:

1. Obtain feedback, advice and guidance from the experts attending the meeting that will help shape the direction and content of the UNCDF-led report on blended finance in LDCs;

2. Provide a forum for all participants to share experiences, examples and insights on blended finance in LDCs; and

3. To facilitate discussions among different stakeholders that are both practical and visionary to help shape future work and actions on blended finance in LDCs.

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