Unlocking Public and Private Finance for the Poor

BLENDED FINANCE in the LEAST DEVELOPED COUNTRIES

in collaboration with

BETTER POLICIES FOR BETTER LIVES

2015 On Post-MDG International Development Goals

Why blended finance?

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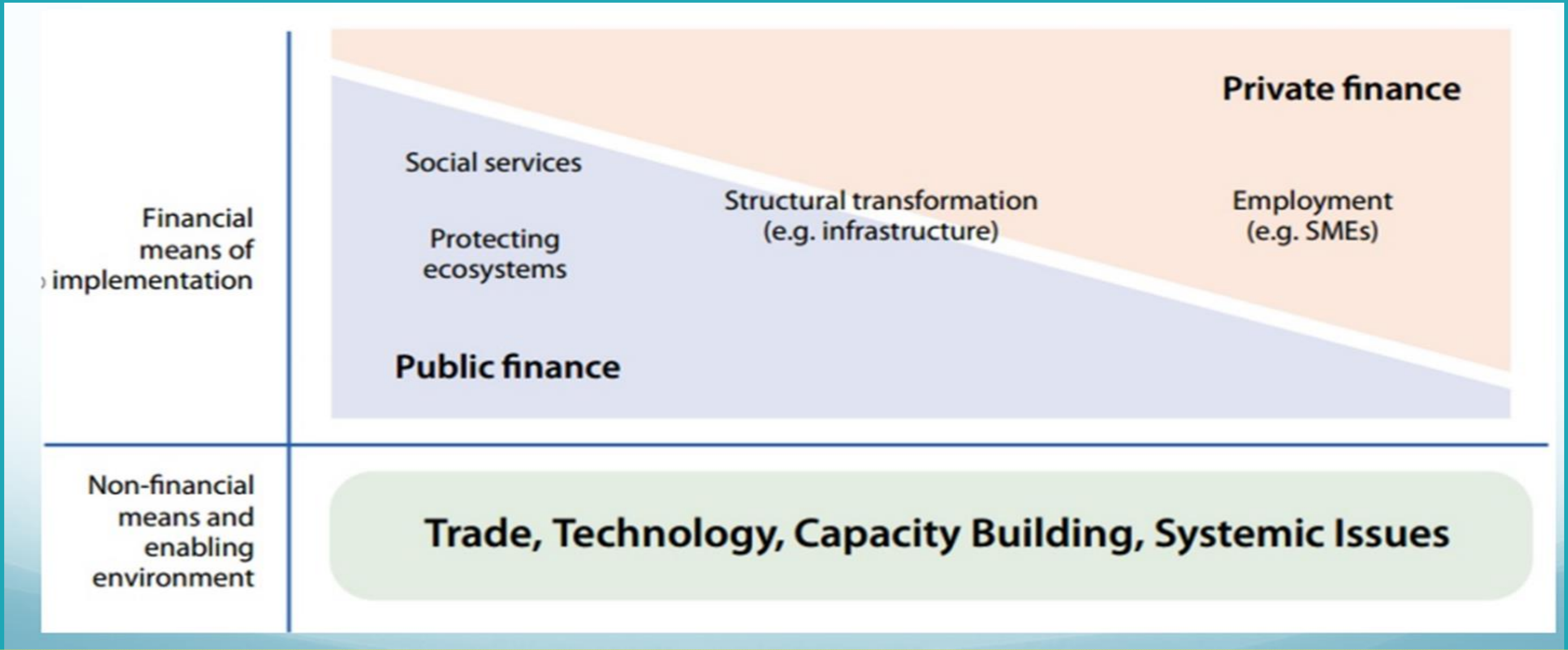
- SDG finance gap in LDCs – ODA essential; limited private investment

- Increase resources for development by sharing risks/lowering costs to adjust risk–return profiles for private investors

- Demonstration effects that support commercial replication over time, inform government-led policy improvements

- Public, private, and blending – which model works when?

Stylized continuum: Public and private finance



Barriers to private finance in LDCs

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- Objective challenges in attracting private capital to riskier, smaller and less-tested markets
- Barriers at two levels – enabling environment & project-specific
- Some concessional providers may shy away from such markets:
  - low risk appetite to preserve triple-A credit ratings;
  - a lack of awareness of investable projects;
  - mandates that favour commercial returns.

Blended finance and principles of effective development cooperation

- Sustainable development additionality
- Financial additionality and minimum concessionality
- Transparency and accountability
- Fair allocation of risks and rewards btw public and private sector
- ESG standards, local participation, empowerment of women
- Align with national priorities and respect national ownership

A variety of applications

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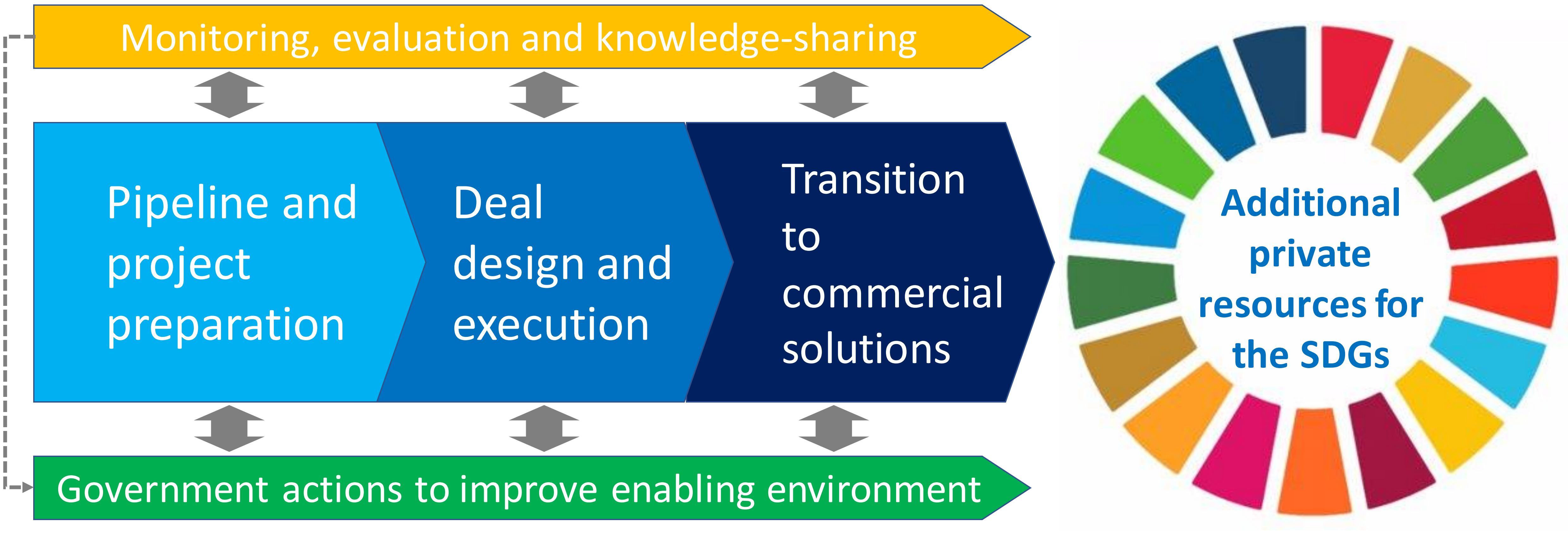
- Many blended finance projects tend to fall into two categories:
  - infrastructure projects
  - corporate investments (focus on missing middle)
- Large missing middle financing gap
- Different approaches: direct support vs. working through intermediaries

A lifecycle approach



Roles of concessional finance providers

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- Hands-on approaches required in LDCs
- Technical assistance from early stages of project development
- Multiple layers of concessionality often required
- Work on enabling environment in parallel with blended deal
- Attract different types of investors, including domestic

Where is blending happening?

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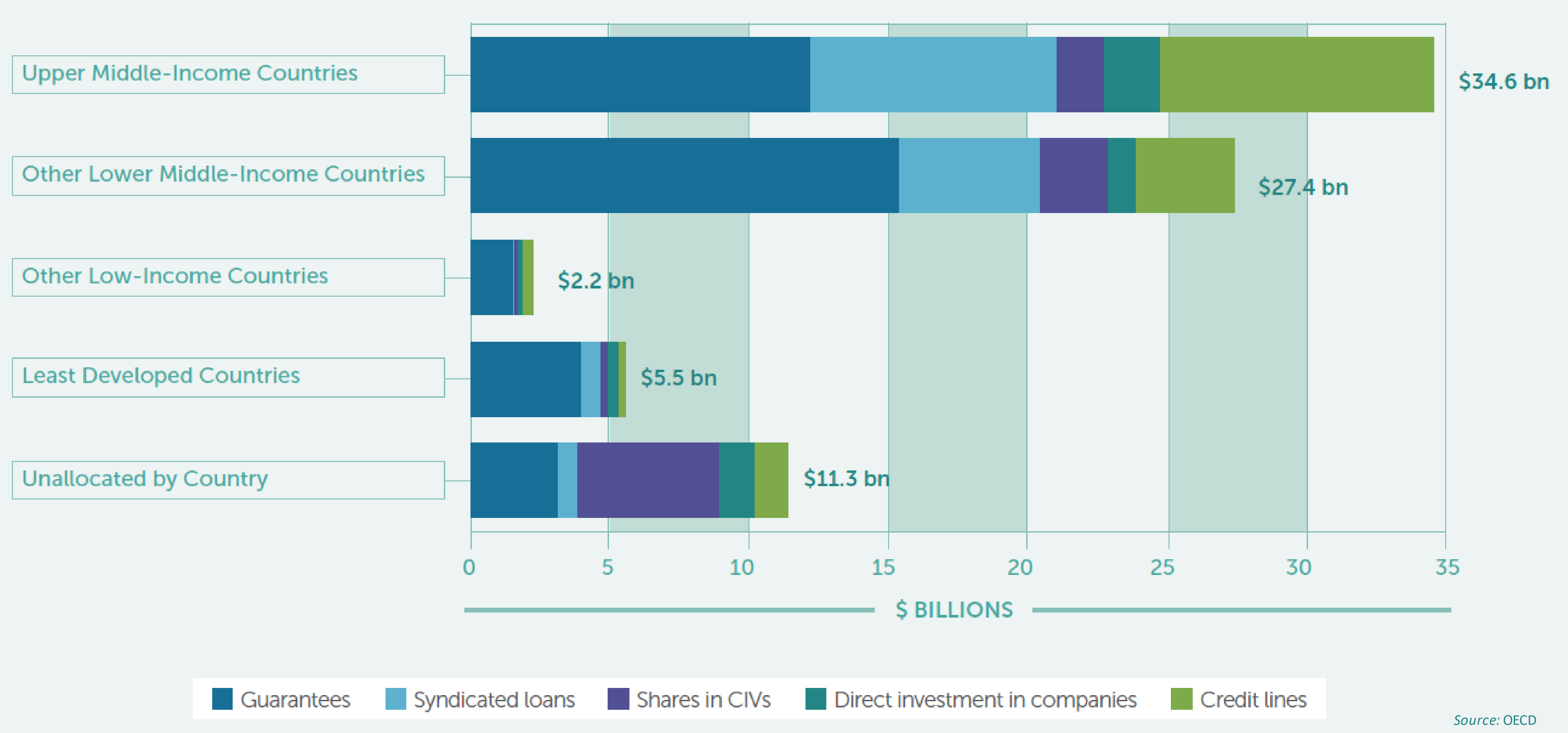

Source: OECD

Who are the main blenders?

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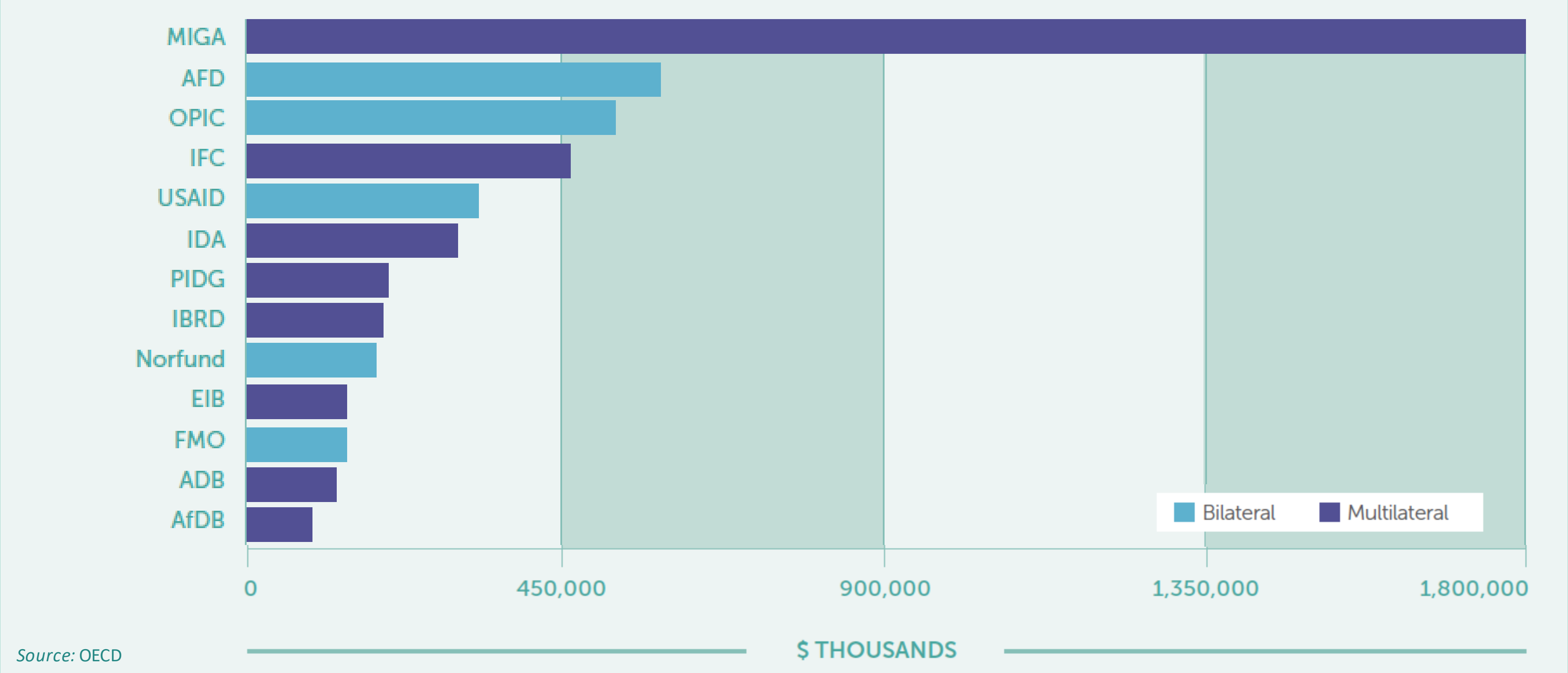
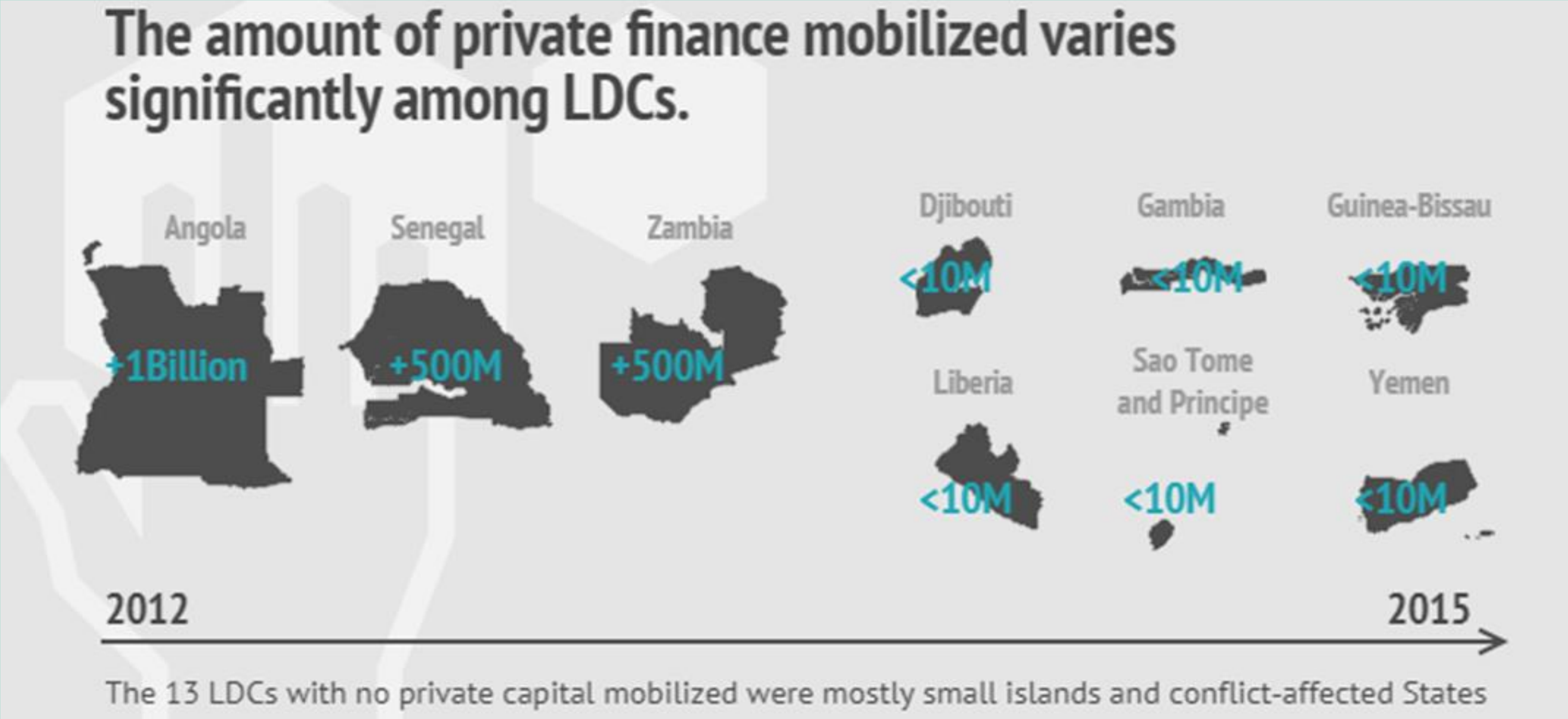
In LDCs, over 60% of the $ 5.5 billion private finance was mobilized from multilateral sources (2012-15)

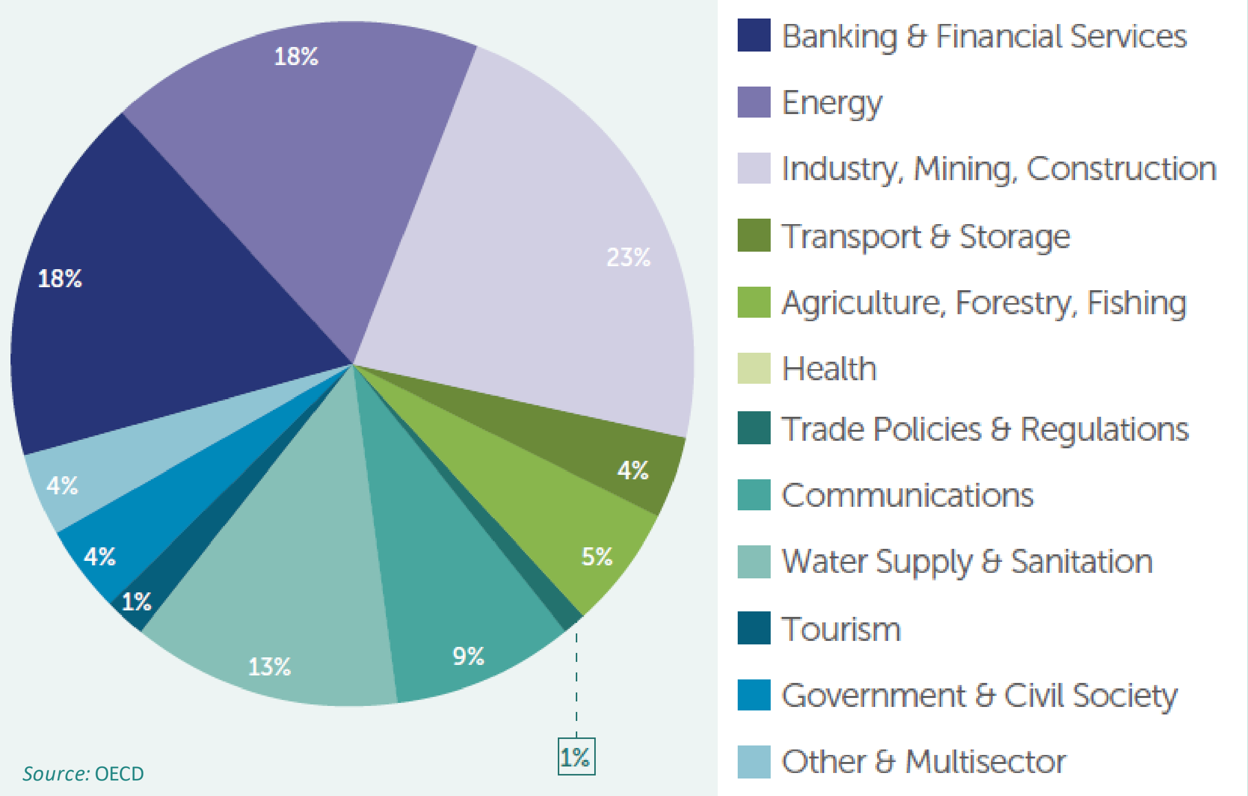


Which LDCs benefited?



Where does the blending go?

In LDCs, as in all developing countries, blended finance is focused on revenue-generating sectors



Source: OECD

Blending sources and ticket sizes

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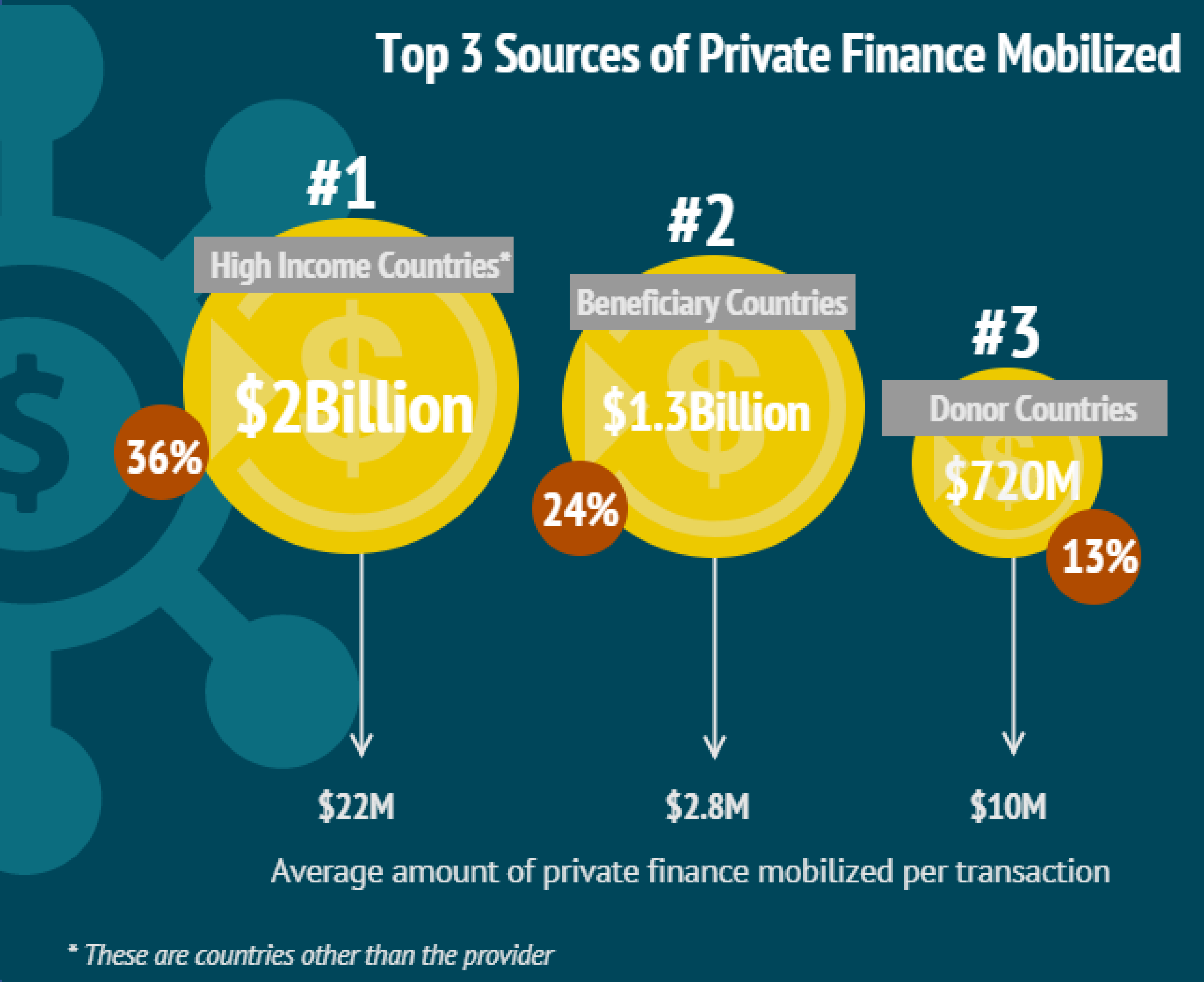
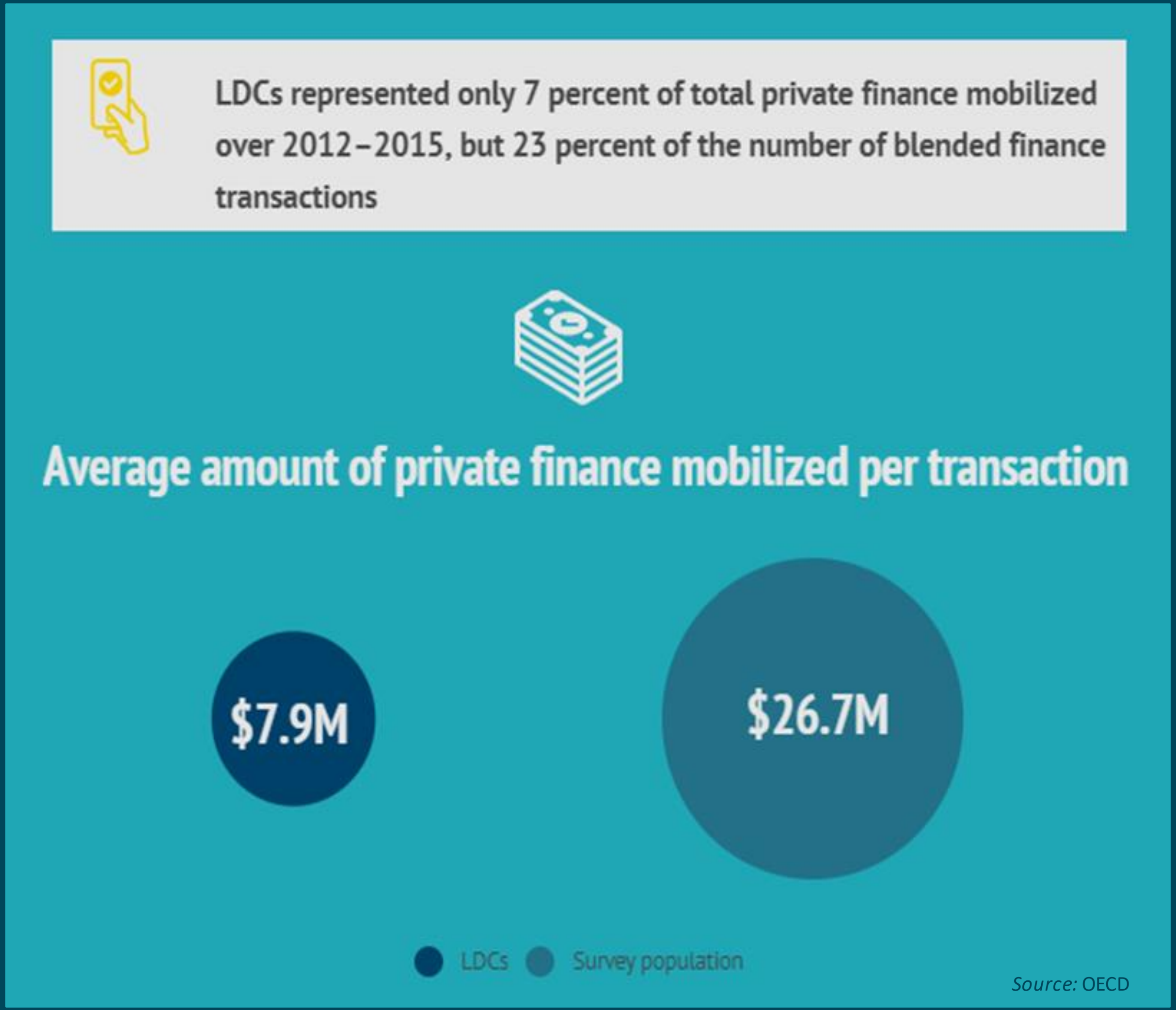
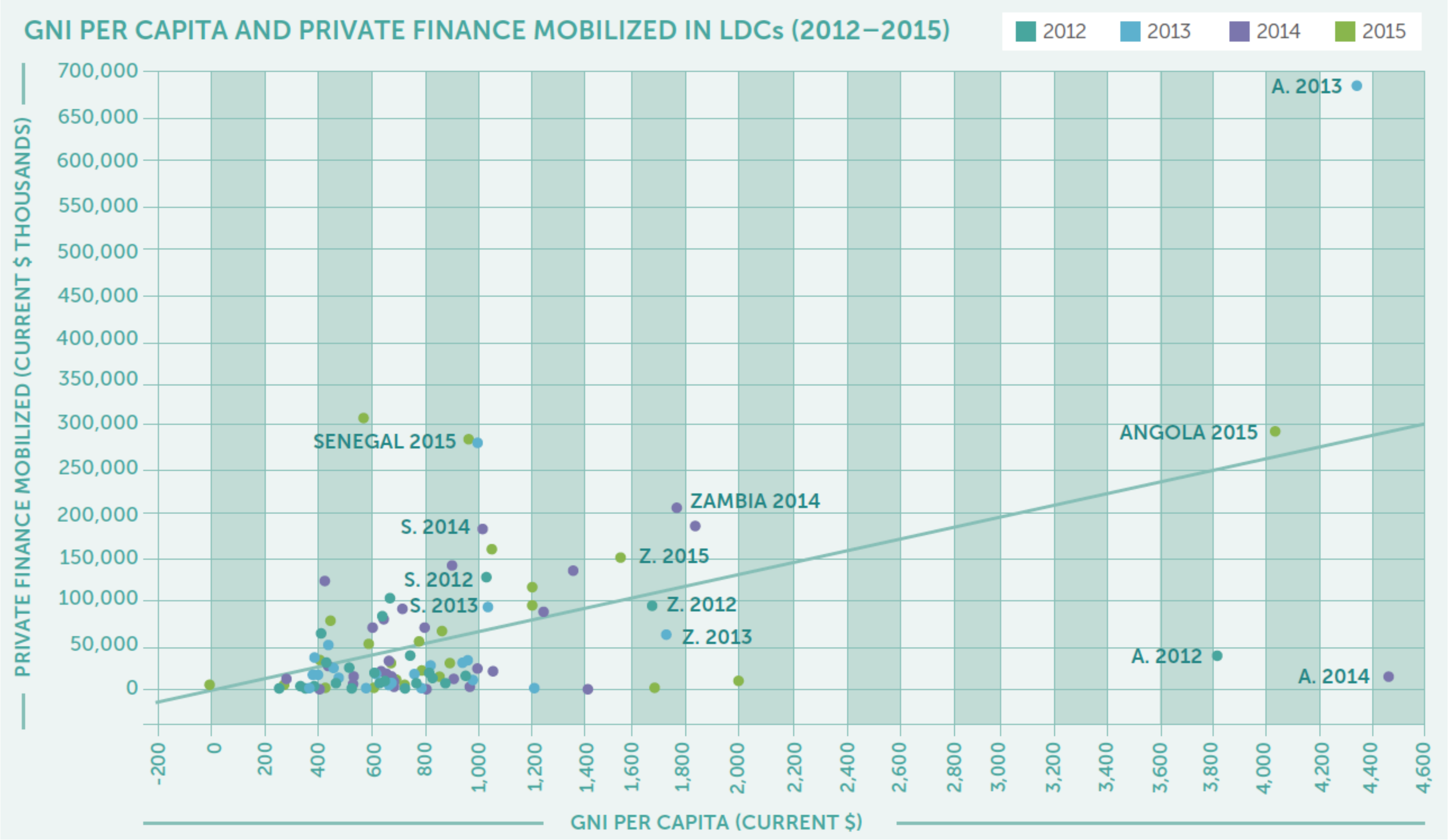




Is blending correlated to the LDC criteria?



Source: OECD and World Bank GNI per capita, Atlas method, current US$

7%: A lot or too little?

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	Ratio of aggregate private finance mobilized/aggregate GNI (2012–2015) (current US$)	Ratio of aggregate private finance mobilized/aggregate ODA (2012–2015) (current US$)	Aggregate ODA (2012–2015) (current US$ billion)
LDCs	0.159%	2.86%	192.43
Lower MICs	0.123%	15.76%	173.78
Upper MICs	0.043%	37.67%	91.98

Source: UNCDF calculations based on OECD survey data, OECD DAC statistics and World Bank national accounts data for GNI, Atlas method

Risks to be managed

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- Over-subsidization of private sector, crowding out of private sector, and market distortion
- Lack of clear SDG additionality
- Undermines ownership
- Indebtedness: contingent liabilities
- Impact on ODA and overall funding allocation/envelopes

Open questions

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- *Should blended finance be expanded to more sectors?*
- *Should blended finance focus on attracting domestic or foreign investors?*
- *Is blended finance better suited to countries with stronger enabling environments?*
- *Should providers of concessional finance set hard targets for mobilizing private finance?*

Action Agenda

- Encourage risk-taking and experimentation by concessional finance providers
- Bring LDCs to the decision-making table
- Deploy blended strategies to support sustainable outcomes
- Improve impact measurement and transparency
- Increase knowledge-sharing and evidence

Thank you!

The report can be found at

www.uncdf.org/bfldcs/home