THE BRIDGE FACILITY:
DEDICATED FINANCING FOR THE LDCs
There currently are key financing shortfalls to achieve the SDGs in LDCs

- Need for SDG positive investment in LDCs estimated at **US$240bn per year**, with only US$40bn deployed in 2014 (and only US$6bn from the private sector)*

- Between 2012 and 2018, **only 6% of private finance mobilized by ODA** through blending mechanisms went to LDCs**

Two key areas of intervention: SME finance and MUNICIPAL finance

### SME FINANCE

- Unmet credit needs for formal SMEs in developing countries = **US$4.5 trillion***
- Issue even more acute in LDCs, with access to finance as major constraint for 35% of SMEs

### MUNICIPAL FINANCE

- Urban development agenda recognizes role of cities in achieving the SDGs
- Lack of finance for revenue generating projects at municipal level
- Secondary cities face greater problems

---

* Source: UNCTAD 2018, “Achieving the Sustainable Development Goals in the Least Developed Countries”

** Source: UNCDF 2020, “Blended Finance in the Least Developed Countries”

*** Source: IFC 2017, “MSME finance gap”
There is a gap in the development finance architecture to properly address these financing shortfalls.
UNCDF has a mandate to invest in Loans and Guarantees using its own balance sheet

UN Resolution 2186 (XXI) from 1966:

“The Capital Fund shall extend both grants and loans.”

“Loans extended by the Capital Development Fund shall have long periods of amortization, low rates of interest, or be free of interest and generally be extended on terms comparing favourably with those of loans extended by other international lending institutions.”

UNCDF’s mandate is unique across all agencies of the UN Development System (UNDS)
UNCDF’s approach to investment is to leverage its concessional resources to unlock additional private capital

UNCDF two-pronged approach: On Balance Sheet vs. Off Balance Sheet

• **On Balance Sheet**: create demonstration effects

  **Characteristics:**
  - IN: Donated Capital (grants)
  - OUT: Grants, Concessional Loans and Guarantees (but no equity)
  - Ticket sizes between $50k and $500k
  - Higher risk appetite (subordinated transactions possible)
  - Aimed at attracting private capital, either through blending at transactional level or through sequential unlocking of follow-on finance

• **Off Balance Sheet**: scale-up what works

  **Characteristics:**
  - IN: Blended Capital (first-loss, mezzanine, senior)
  - OUT: Semi-commercial loans (and potentially equity)
  - Ticket sizes between $250k and $2.5m
  - Leverages prior UNCDF’s preparatory work (TA & Concessional Capital)
  - Provides "next investment step" for projects in need of larger tickets and able to provide better risk-adjusted returns

Third-party managed investments

**Characteristics:**
- Leverages prior UNCDF’s preparatory work (TA & Concessional Capital)
- Provides "next investment step" for projects in need of larger tickets and able to provide better risk-adjusted returns
The UNCDF BRIDGE Facility, a dedicated financing facility for the LDCs, can help fill the gap

- Grant Funding (Challenge funds)
- Development Finance (DFIs, MDBs)
- Impact finance (Impact investors)
- Commercial Finance (Commercial banks, PE funds)
The UNCDF BRIDGE Facility is part of an “investment continuum” for SMEs, FSPs and municipal projects in LDCs.
The UNCDF BRIDGE Facility and the investment continuum can also serve the rest of the UNDS.

Stage of project:

- **Start-up**
  - UNDS Grant
  - UNDS PROJECT SOURCING CAPABILITY (Challenge funds, Programmes)

- **Early stage**
  - UNCDF BRIDGE Facility
  - Financial Institution co-investment

- **Growth/Expansion stage**
  - UNCDF Loan/ Guarantee
  - UNDFS TECHNICAL ASSISTANCE CAPABILITY
  - BUILD Fund (SME fund)
  - IMIF Fund (Municipal Fund)
  - UNCDF Grant/Loan/Guarantee
  - BUILD Loan/ Equity
  - UNCDF direct investments (ON Balance Sheet)
  - Investments from third-party managed fund/vehicle (OFF Balance Sheet)

- **Mature stage**
  - Commercial Investments
  - (managed by domestic and international financial institutions, including DFIs, commercial banks, PE funds, impact investors, etc.)

The UNCDF BRIDGE Facility and the investment continuum can also serve the rest of the UNDS.
## UNCDF BRIDGE Facility - Key Features

A revolving investment facility hosted on UNCDF’s balance sheet

<table>
<thead>
<tr>
<th>Category</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility Size</td>
<td>Initial capitalization of <strong>$50 million</strong>, with possible future replenishments</td>
</tr>
<tr>
<td>Funding</td>
<td><strong>Grant funding</strong> from donors (member states, foundations, other philanthropy)</td>
</tr>
</tbody>
</table>
| Investment Instruments    | **Loans**: Concessional loans (senior “pari-passu” or subordinated), Mezzanine debt, etc.  
**Guarantees**: Loan guarantees (senior “pari-passu” or subordinated), Portfolio guarantees, Volume guarantees, Equity capital guarantees, etc. |
| Deal Size                 | Ideal is “missing middle” – between **USD $100,000 and $1,000,000** |
| Geographic Focus          | Any of 46 LDCs with priority for countries where UNCDF has personnel to lead transactions and where UNCDF has programmatic presence |
| Currency                  | Both hard and local currency, with preferences for local |
| Sector Focus              | Food security & nutrition, financial inclusion & digital innovation, green economy & renewable energy, local public infrastructure, blue economy, women’s & youth economic empowerment |
| Key Principles            | Adherence to UNCDF Strategic Framework, no risk of market distortion, contribution to market development, minimum concessionality, additionality |
| Eligibility Criteria      | Prospect is an **SME**, an **FSP**, a **Municipality**, a **PPP**, or **SPV**. Prospect is a formally registered legal entity and must have revenue generating activity. Prospect must be creditworthy and have sound financial management practices. |
Anchor donors’ support to the BRIDGE Facility has already been secured

WHAT?
BRIDGE Facility (ON Balance Sheet)

HOW?
Grant funding

WHO?
- Sida
- Norad
- KOICA
- FMO
- Entrepreneurial Development Bank
- REGIERUNG DES FürSTENTUMS LIECHTENSTEIN

FOR WHAT?
Revolving financial Instruments (Concessional Loans & Guarantees)
# Examples of recent transactions from the BRIDGE Facility

<table>
<thead>
<tr>
<th>Investee name</th>
<th>Sector/Thematic area</th>
<th>Country</th>
<th>Amount (USD)</th>
<th>Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pyae Mahar (PM)</td>
<td>Financial Inclusion (MFI)</td>
<td>Myanmar</td>
<td>221 678</td>
<td>Senior loan</td>
</tr>
<tr>
<td>Mwenge Sunflower Oil Mills Ltd (MSL)</td>
<td>Food Security (SME for the production of refined food oil)</td>
<td>Tanzania</td>
<td>246 126</td>
<td>Subordinated loan</td>
</tr>
<tr>
<td>Entrepreneurs Du Monde (EDM)</td>
<td>Financial Inclusion (MFI)</td>
<td>Myanmar</td>
<td>294 118</td>
<td>Senior loan</td>
</tr>
<tr>
<td>Thitsar Ooyin LLC (TO)</td>
<td>Financial Inclusion (MFI)</td>
<td>Myanmar</td>
<td>231 602</td>
<td>Senior loan</td>
</tr>
<tr>
<td>Unique Quality (UQ)</td>
<td>Financial Inclusion (MFI)</td>
<td>Myanmar</td>
<td>193 822</td>
<td>Senior loan</td>
</tr>
<tr>
<td>Beth EquiSolutions Company Ltd (BECL)</td>
<td>Food Security (SME for horticulture production)</td>
<td>Tanzania</td>
<td>93 350</td>
<td>Subordinated loan</td>
</tr>
<tr>
<td>All In Trade Ltd (AIT)</td>
<td>Green Economy (SME selling, installing and maintaining solar PV commercial systems)</td>
<td>Uganda</td>
<td>220 736</td>
<td>Senior loan</td>
</tr>
<tr>
<td>Aptech Africa Ltd (AAL)</td>
<td>Green Economy (SME selling, installing and maintaining solar pumps)</td>
<td>Uganda</td>
<td>250 921</td>
<td>Senior loan</td>
</tr>
<tr>
<td>Solar Today Ltd (STL)</td>
<td>Green Economy (SME selling, installing and maintaining Solar Home Systems)</td>
<td>Uganda</td>
<td>80 000 + 32 191</td>
<td>20% Guarantee + Pari Passu loan</td>
</tr>
<tr>
<td>Environmental Conservation and Livelihood Outreach Foundation (ECLOF)</td>
<td>Financial Inclusion (MFI)</td>
<td>Myanmar</td>
<td>159 744</td>
<td>Senior loan</td>
</tr>
<tr>
<td>Mema Holdings Ltd (MHL)</td>
<td>Food Security (SME for the production of maize flour)</td>
<td>Tanzania</td>
<td>252 905</td>
<td>Subordinated loan</td>
</tr>
<tr>
<td>Alaska Industries Ltd (AKTZ)</td>
<td>Food Security (SME for the production of processed rice, maize and eggs)</td>
<td>Tanzania</td>
<td>98 378</td>
<td>Subordinated loan</td>
</tr>
<tr>
<td>Pristine Foods Limited (PFL)</td>
<td>Food Security (SME for the production liquid egg products)</td>
<td>Uganda</td>
<td>226 900</td>
<td>50% Guarantee</td>
</tr>
<tr>
<td>Women’s Micro Banking Limited (WMBL)</td>
<td>Financial inclusion (MFI–branch expansion biometric identification model)</td>
<td>Papua New Guinea</td>
<td>254 836</td>
<td>Senior loan</td>
</tr>
</tbody>
</table>
Case study: APTECH (unlocking of additional finance)

Renewable Energy Company

Aptech (Uganda)

Renewable energy off-grid (PV systems and solar water pumps)

UNCDF support 2018-2021

Blended Finance in Action

1. UNCDF provided US$110k innovation grant (H1 2018)
2. UNCDF provided first loan ever (H2 2018)
   • 2-year unsecured senior loan for working capital
   • US$250k in UGX at 15% p.a. concessional interest rate
   • Loan fully repaid in February 2021
3. UNCDF support unlocked US$700k follow-on financing from Stanbic Bank, then increased to US$1.1m (short-term working capital facility, multiple instruments)
4. BUILD Fund considering new US$300k long-term loan for financing capital expenditures
**Case study: APTECH (unlocking of additional finance)**

**Renewable Energy Company**

Aptech (Uganda)

Renewable energy off-grid (PV systems and solar water pumps)

UNCDF support 2018-2021

**Blended Finance in Action**

1. UNCDF provided US$110k innovation grant (H1 2018)
2. UNCDF provided first loan ever (H2 2018)
   - 2-year unsecured senior loan for working capital
   - US$250k in UGX at 15% p.a. concessional interest rate
   - Loan fully repaid in February 2021
3. UNCDF support unlocked US$700k follow-on financing from Stanbic Bank, then increased to US$1.1m (short-term working capital facility, multiple instruments)
4. BUILD Fund considering new US$300k long-term loan for financing capital expenditures

**UNCDF support 2018-2021**

- US$ 1.4m
- US$ 360k
- 3.9x
Case study: Gambia Solar Power Plants (UNCDF-UNDP joint project implementation)

Renewable Energy Power Production

- Independent Power Producers (IPPs) (The Gambia)
- Renewable energy (10.5MW solar plants)
- UNCDF-UNDP support through NAMA facility from 2020-2025

Blended Finance in Action

1. The UNDP and UNCDF partnership supports the Solar Power project through a 10.6M EUR NAMA Facility grant. Project sourcing was led by UNDP and financial structuring was led by UNCDF.
2. The PPA Guarantee administered by UNCDF is the core foundation of the project as it de-risks IPPs’ investments into solar power plants and is expected to attract financing from external stakeholders.
3. National stakeholders to contribute 1.3M EUR
4. Private sector expected to contribute 9.8M EUR

322,019 tCO₂e of greenhouse gas emissions abated across a 26-year lifetime
144,500 people gaining improvements in quality of life (e.g. sustainable energy supply to grid connected households)
Case study: KOMBEZA FOODS (UNDP sourced transaction)

Dairy Processing Company

Kombeza Foods (Malawi)
Dairy processing (yogurt production)
UNDP Malawi Grant Award of $40,000 (2019)
UNCDF Concessional Loan of $200,000 (2021)

Blended Finance in Action

1. UNDP Malawi awarded a Grant of $40,000 to complete construction of a yogurt processing factory (including other basic infrastructure) in 2019
2. UNCDF follow-up concessional financing of $200,000 for capex investment (i.e. for procurement of processing and laboratory equipment including purchase of a refrigerated transportation vehicle) with 4-year loan tenor in 2021
3. UNCDF anticipates our concessional financing will unlock additional commercial capital from the private sector for future expansion of the company’s business activities

76.9% of employment in Malawi is in the agricultural sector
180+ dairy farmers are employed by Kombeza to process an average of 2,000 Ltr/day of milk
Case study: GREEN MOUNTAIN (UN Women sourced transaction)

Green Coffee Producer and Exporter

- Green Mountain Arabica Coffee (Rwanda)
- Agriculture sector (coffee)
- Proposed tenor - 4 years

Blended Finance in Action

- Total debt financing need = about $400,000
  - BRIDGE Facility intended financing = $200,000
  - International Impact Investors co-financing = $200,000

Intended Usage of Proceeds: To implement the project, GMAC will use the debt financing for:

1. Procurement of a coffee hulling chain machine that will enable the company process cherry coffee into parchment coffee and finally green coffee, ready for export.
2. Construct a new building for the dry process.
3. Build a wastewater treatment on the coffee washing station and upgrade wherever it is needed on the process chain.
4. Train coffee farmers on how best to adopt good agricultural practices
THANK YOU