

04

PART IV

An action agenda



AN ACTION AGENDA

Recognizing the complementary roles of public and private finance, UNCDF proposes five areas where action is needed from all stakeholders—private and commercial investors, civil society, development partners, LDC national and subnational governments, and think tanks. These five areas seek to improve the practice of blended finance and help ensure that its application can support LDCs to achieve the SDGs:



1. ENCOURAGE RISK-TAKING AND EXPERIMENTATION, AS APPROPRIATE

As part of broader efforts to get more private resources flowing to LDCs, providers of concessional finance should engage with their boards, donors and LDC governments to find innovative ways to take more risk and experiment with new solutions. With the aim of generating demonstration effects that can inform subsequent scale-up and replication, this could include the following in relation to blending:

- Determining, first, when blended approaches may be the right ones for leveraging private finance and for providing public services. In some cases, a project may simply not be ripe for blending, and pure public financing might be a better option. However, there may be other cases in which blended transactions are important to create demonstration effects that can narrow the gap between actual and perceived risks in LDCs.
- For those cases where blended finance is appropriate, establishing and/or sufficiently resourcing existing dedicated funds, facilities, entities or special purpose vehicles that will support blended projects in LDCs throughout their life cycle. At the same time, providers of concessional finance should be given the headroom and incentives to take risks while preserving their credit ratings and financial sustainability.
- In LDCs where providers are not physically represented, working with those providers which do have boots on the ground—including United Nations entities—to source, develop, structure, finance and/or scale up SDG-aligned projects, and engage local communities in decisions which affect them.
- Better coordinating provider and donor activities so that the right set of instruments can be designed, tailored to the specific deal context and applied at the right time both to develop investable projects and to attract private finance to them.



2. BRING LDCs TO THE DECISION-MAKING TABLE

Expand LDC involvement in blended finance policy discussions

To bring more voices and perspectives to the table, with a view to improving best practice, global policymaking discussions on blended finance should purposefully engage LDCs and other developing countries as active participants. The same applies to engaging providers of concessional capital from the South that may support blended transactions. It would be important to convene these discussions in universal forums, such as the Financing for Development and Development Cooperation Forums held at the United Nations.

Strengthen national capacities

To strengthen national capacities in LDCs, providers of concessional finance and donors should support national and local government officials and national development banks with targeted capacity-building and training to:

- identify and develop a pipeline of SDG-aligned projects;
- ensure robust metrics are in place for assessing and monitoring development and financial additionality;
- involve impacted communities in decisions;
- negotiate deal structures that share risks and rewards fairly;
- put robust mechanisms in place to ensure transparency and accountability; and
- apply rigorous ESG standards, promote local participation and support the empowerment of women.



3. DEPLOY BLENDED STRATEGIES TO SUPPORT SUSTAINABLE OUTCOMES

Leverage domestic investors and support local industry

Providers and other development partners in LDCs should, where appropriate:

- actively seek out suitable domestic investors—many of whom may be more willing to invest in local projects than external investors—and support blended transactions in local currencies; and
- ensure that linkages are built with local suppliers and entrepreneurs, so that blended transactions can help strengthen domestic industries.

Coordinate blended interventions with complementary approaches

- In line with the principle of national ownership, providers should proactively engage at a strategic level with LDC governments so that they can determine which financing model—public, private or blended—is best suited for which investment; and
- LDC governments, concessional providers and donors should coordinate closely at the country level to introduce new blended finance vehicles and to ensure that blended finance transactions are complementary to interventions by other development partners aimed at supporting long-term private-sector development and promoting a sound enabling environment.

Increase facilitation of currency hedging

While currency risks are not specific to blending, blended approaches can help mitigate one of the most frequent barriers to investment in LDCs—local currency volatility. Providers should, therefore, increase facilitation of currency hedging for projects in LDCs.



4. IMPROVE IMPACT MEASUREMENT AND TRANSPARENCY

Strengthen impact measurement of blended transactions

Strengthening SDG impact measurement means that providers should:

- ensure that *ex ante* SDG and ESG impact assessments are undertaken, along with analysis to minimize market distortions caused by their interventions; and
- conduct or support *ex post* evaluations and consider providing additional grant capital for such impact evaluations. These evaluations should be made publicly available and should focus not just on project-specific impacts but, to the extent possible, also on broader impacts on market development and enabling environments.

Improve transparency of blended operations

To improve transparency concerning the use of blended finance in LDCs and help coordination with other interventions, it is important that concessional providers:

- make publicly available information such as how much ODA is going into blended transactions, any non-commercially sensitive information on deals and portfolios, performance, eligibility criteria and impact metrics;

- create appropriate data standards that support better monitoring, measurement and cross-comparison of blended finance interventions; and
- work with LDC governments to run fair tendering processes to select the most competitive project sponsors.



5. INCREASE KNOWLEDGE-SHARING AND EVIDENCE TO INFORM BLENDED FINANCE BEST PRACTICE

Increase blended finance knowledge-sharing

Providers should work with all stakeholders to maximize the sharing and transfer of knowledge on blended finance in LDCs. This could mean:

- at the country level, creating regular policy dialogues to share lessons from blended finance successes and failures;
- at the global level, promoting and scaling up existing data efforts by making them available to a larger group of stakeholders, including the private sector;
- at the global level, actively supporting North–South and South–South exchanges on blended finance—including through Financing for Development and Development Cooperation Forums held at the United Nations, expert meetings, conferences and field visits; and
- within concessional providers, disseminating evidence and past experiences more effectively between different functional and geographical units.

Generate additional evidence

All stakeholders should continue generating additional evidence as to how blended finance can work in LDCs. Topics that deserve further research include:

- how blended finance should be applied across different countries and sectors and using different instruments;
- how to assess and measure development and financial additionality;
- how much blending is taking place thanks to concessional providers from the South;
- the impact of increased blending and mobilization ratios on development financing envelopes overall, and for LDCs in particular;
- how blended finance can help build capital markets in LDCs so that increased financing can be sourced domestically, and what role local entities can play in supporting this goal; and
- how to increase standardization in blended transactions and achieve scalability.