BLENDED FINANCE
in the LEAST DEVELOPED COUNTRIES
Why blended finance?

• 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?
Barriers to private finance in LDCs

• 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
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

- Monitoring, evaluation and knowledge-sharing
- Pipeline and project preparation
- Deal design and execution
- Transition to commercial solutions
- Government actions to improve enabling environment
- Additional private resources for the SDGs
Roles of concessional finance providers

• 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?

- **Upper Middle-Income Countries**
  - $34.6 bn
- **Other Lower Middle-Income Countries**
  - $27.4 bn
- **Other Low-Income Countries**
  - $2.2 bn
- **Least Developed Countries**
  - $5.5 bn
- **Unallocated by Country**
  - $11.3 bn

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

Who are the main blenders?

Source: OECD
Which LDCs benefited?

The amount of private finance mobilized varies significantly among LDCs.

Angola: +1 Billion
Senegal: +500M
Zambia: +500M
Djibouti: <10M
Gambia: <10M
Guinea-Bissau: <10M
Liberia: <10M
Sao Tome and Principe: <10M
Yemen: <10M

The 13 LDCs with no private capital mobilized were mostly small islands and conflict-affected States.
In LDCs, as in all developing countries, blended finance is focused on revenue-generating sectors.
Blending sources and ticket sizes

Top 3 Sources of Private Finance Mobilized

1. High Income Countries: $2 Billion (36%)
   - Average: $22M

2. Beneficiary Countries: $1.3 Billion (24%)
   - Average: $2.8M

3. Donor Countries: $720M (13%)
   - Average: $10M

LDCs represented only 7 percent of total private finance mobilized over 2012–2015, but 23 percent of the number of blended finance transactions.

Average amount of private finance mobilized per transaction

- LDCs: $7.9M
- Survey population: $26.7M

* These are countries other than the provider

Source: OECD
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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<tbody>
<tr>
<td><strong>LDCs</strong></td>
<td>0.159%</td>
<td>2.86%</td>
<td>192.43</td>
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<tr>
<td><strong>Lower MICs</strong></td>
<td>0.123%</td>
<td>15.76%</td>
<td>173.78</td>
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<tr>
<td><strong>Upper MICs</strong></td>
<td>0.043%</td>
<td>37.67%</td>
<td>91.98</td>
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*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

- 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

• 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