Blended Finance in the Least Developed Countries 2019
Blended Finance in the Least Developed Countries 2019
The Sustainable Development Goals (SDGs) are all about transformation – transformation driven by partnerships, risk-taking and innovation. Getting the finance piece of the SDGs right is essential. There is a lot of exciting progress being made, with new tools and instruments helping to mobilise resources for sustainable development. But we are still not moving fast enough if we are to get more finance aligned with our collective aspiration to leave no one behind.

Too little private finance gets invested in least developed countries (LDCs). As this report suggests, only 6% of private finance mobilised by official development finance benefits LDCs. With the recent downturn in official development assistance to LDCs, too little international public finance is being invested there as well. If current trends persist, development finance will entrench exclusions and inequalities between and within countries, rather than help overcome and transcend them.

That is why we need new ways of channelling more and better-quality public and private, domestic and international financial flows to the world’s most vulnerable countries, underserved communities, and projects in the “missing middle”. An underlying question of this report is therefore not whether we should pursue blended finance approaches, but how and when we can make them work better for LDCs and for those furthest behind.

Indeed, as this report highlights through a mixture of hard data and curated guest pieces, where they are appropriate and carefully deployed, blended finance approaches can be an important part of the financing solution for LDCs. They can help to catalyse much-needed additional resources for SDG-aligned projects that private investors would otherwise overlook.

But getting blended finance to work for LDCs requires important step changes. It requires that the development community is willing to experiment more and take more risks to work in challenging environments. It requires ensuring that blended transactions align with national priorities and respect national ownership, and form part of broader SDG financing strategies. It means we need to ensure that a growing use of blended finance does not lead to a decline in the overall share of development finance received by LDCs, where blending has proved to be more difficult. We also need to improve how we measure and report on the SDG impacts of blended operations, and we need more sharing of knowledge.

The research in this report can also help to build bridges between the development and private finance communities. Identifying how best we can achieve our shared objectives, including through blended transactions, is an essential prerequisite for achieving the vision enshrined in the 2030 Agenda.
The stakes are high. The time for action is now. We need to use all options at our disposal to close SDG
financing gaps. Our hope is that this report, the second such instalment looking at blended finance in LDCs,
prompts a lively debate on what more could or should be done when it comes to applying blended finance
effectively and efficiently in a broader range of countries.

Jorge Moreira da Silva,
Director,
OECD Development Co-operation
Directorate

Judith Karl,
Executive Secretary,
UN Capital Development Fund
(UNCDF)

H.E. Mr. Perks Ligoya,
Ambassador and Permanent
Representative of the Republic of
Malawi to the United Nations and Chair
of the Global Coordination Bureau of
the Least Developed Countries
Acknowledgements

This report was jointly prepared by the OECD Development Co-operation Directorate (DCD), which is headed by Director Jorge Moreira da Silva, and by the United Nations Capital Development Fund (UNCDF), which is under the leadership of Judith Karl, Executive Secretary. The two organisations are deeply appreciative of the quality of this collaboration, which started in 2017.

Irene Basile, Policy Analyst, OECD and Samuel Choritz, Policy Adviser, UNCDF were the managers and lead authors of the publication. Within the OECD, the work was performed under the supervision of Haje Schütte, Head of Financing for Sustainable Development Division, with operational oversight from Paul Horrocks, Head of Private Finance for Sustainable Development Unit. Patrick Dougherty played an integral role in the drafting and in-depth data analysis. Cécile Sangaré and Tomas Hos provided invaluable support for the latter task. Thanks also go to the UNCDF management team for their important guidance and inputs during the drafting process.

The OECD is deeply grateful to all of the respondents to the 2018 Survey on Private Finance Mobilised by Official Development Finance, who made this research possible. The quantitative analysis also benefited from the complementary information generously provided by Justice Johnston (Convergence).

The team would like to thank all those who contributed their experience and expertise in their guest pieces: Jean-Philippe de Schrevel (Bamboo Capital Partners); Izabella Toth (Cordaid) and Romy Miyashiro (Cordaid Investment Management BV); Bettina Prato (Smallholder and Agri-SME Finance and Investment Network, IFAD) and Dagmawi Habte Selassie (IFAD); Federica Dal Bono and Barbara Lee (World Bank Group); Priya Sharma (USAID); Andrea Ordóñez (Southern Voice); and Maniram Singh Mahat (Town Development Fund, Nepal). Thanks also go to Fabrizio Cometto (UNCDF) for providing Box 1.2 on the missing middle.

The research underpinning this report benefited from the roundtable discussion – “Can blended finance work to leave no one behind?” – organised by UNCDF in collaboration with Development Initiatives and the United Nations Foundation on 18 April 2019 at the United Nations Foundation offices at the Ford Foundation Center for Social Justice in New York. In addition, the report benefitted immensely from the comments and feedback from an expert group of peer reviewers: Cecilia Caio (Development Initiatives), Gonzalo Gutierrez (International Finance Corporation), Gail Hurley (UNDP), Justice Johnston (Convergence), Sandra Louiszoon (Ministry of Foreign Affairs, Netherlands), Shari Spiegel (UN-Department of Economic and Social Affairs) and Alvino Wildschutt-Prins (Development Bank of Southern Africa).
A special thanks to the communications team for their support on the publication, including Stacey Bradbury, Stephanie Coic and Henri-Bernard Solignac Lecomte (OECD) and Fernando Zarauz-Astorki (UNCDF). Fiona Hinchcliffe and Christophe Brilhault contributed with copy editing and graphic design. The authors also extend their gratitude to Elise Le Marec (OECD) and Krisanhty Supangkat and Maxime Allonce (UNCDF) for their administrative support.

Finally, the two organisations would like to extend their appreciation to the governments of Malawi and the Netherlands for partnering in the launch event held on 15 July 2019, during the High-Level Political Forum at the United Nations in New York City.
Table of contents

Foreword 3
Acknowledgements 5
Abbreviations and acronyms 9
Executive summary 10

1 What are the latest trends in blended finance for least developed countries? 15
  1.1 Introduction 16
  1.2 Methodology 18
  1.3 The proportion of private finance going to LDCs remains relatively small, but stable 19
  1.4 Blended finance approaches have expanded to additional least developed countries 22
  1.5 Deals vary across countries by number and size 25
  1.6 Blended finance and ODA seem linked, but ODA plays a unique role 26
  1.7 Guarantees are the most powerful leveraging mechanisms, but simple co-financing agreements are the most used 27
  1.8 Energy, banking and financial services mobilise the most private finance 29
  1.9 Bilateral providers are becoming more prominent in the LDC blended finance market 33
  1.10 In LDCs, investors from high-income countries are being more mobilised than domestic ones 35
  References 37
  Notes 38

2 Views from the field: Guest contributions 41
  2.1. Mobilising private finance for agricultural investments in developing countries 42
  2.2. Ensuring blended finance respects national ownership 44
  2.3. The potential of blended finance for global health 45
  2.4. Blended finance in Nepal’s cities: challenges and prospects 47
  2.5. Blended finance - Uniting the yin and the yang 49
  2.6. Investing to overcome fragility 51
  2.7. Bringing private investment to challenging environments: lessons from the World Bank Group’s Private Sector Window 53
  References 56
  Notes 57
3 Key questions and next steps for how blended finance can best support least developed countries

3.1. Making blended finance work for LDCs
3.2. Principles and a roadmap to guide blended finance in the least developed countries
3.3. How do the OECD Principles and Tri Hita Karana Roadmap apply to the least developed countries?
3.4. What’s next for UNCDF’s action agenda on blended finance for least developed countries?
3.5. Questions to shape the next steps

References
Notes

FIGURES
Figure 1.1 Private investment inflows in developing countries (2000-2016)
Figure 1.2. Private capital mobilised by official development finance (2012-2017)
Figure 1.3. Private finance mobilised in LDCs (2012-2017)
Figure 1.4. Cumulative blended finance targeting least developed countries (Convergence)
Figure 1.5. Top 10 least developed country recipients of private finance mobilised (2012-2017)
Figure 1.6. Average annual amount of private finance mobilised per least developed country (2012-2017)
Figure 1.7. Top least developed countries benefiting from concessional blended finance transactions (Convergence)
Figure 1.8. Total amounts mobilised and number of deals by LDC (2012-2017)
Figure 1.9. The type and size of concessional blended finance deals in least developed countries (Convergence)
Figure 1.10. Leverage mechanisms in least developed countries (2012–2017)
Figure 1.11. Private finance mobilised by sector in least developed countries (2012-2017)
Figure 1.12. Private finance mobilised by sector in least developed countries and other developing countries (2012-2017)
Figure 1.13. Private finance mobilised in LDCs by deal and sector (2012-2017)
Figure 1.14. Average amounts mobilised in least developed countries per deal by sector (2012-2017)
Figure 1.15. Average annual amount mobilised in least developed countries per provider (2012-2017)
Figure 1.16. Bilateral and multilateral channels for blending in least developed countries (2012-2017)
Figure 1.17. Sources of private finance mobilised in least developed countries (2012-2017)
Figure 1.18. Trend in sources of private finance mobilised in least developed countries (2012-2017)
Figure 3.1. The OECD Development Assistance Committee Blended Finance Principles
Figure 3.2. The Tri Hita Karana Roadmap for blended finance: Action areas and working groups

INFOGRAPHICS
Infographic 1. How is blended finance benefitting least developed countries?
Infographic 2. What’s next for blended finance in least developed countries?

TABLES
Table 1.1. Private finance mobilised in LDCs and other developing countries
Table 1.2. Number of deals and average mobilisation by country income group (2012-2017)
Table 1.3. Annual private finance mobilised per deal by leverage mechanism (2012-2017)
# Abbreviations and acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAAA</td>
<td>Addis Ababa Action Agenda</td>
</tr>
<tr>
<td>CIV</td>
<td>Collective investment vehicle</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
</tr>
<tr>
<td>DFI</td>
<td>Development finance institution</td>
</tr>
<tr>
<td>ESG</td>
<td>Environmental, social and governance</td>
</tr>
<tr>
<td>EUR</td>
<td>Euro</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IFI</td>
<td>International financial institution</td>
</tr>
<tr>
<td>LDC</td>
<td>Least developed country</td>
</tr>
<tr>
<td>MDB</td>
<td>Multilateral development bank</td>
</tr>
<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
</tr>
<tr>
<td>ODA</td>
<td>Official development assistance</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PPP</td>
<td>Public-private partnership</td>
</tr>
<tr>
<td>SDG</td>
<td>Sustainable development goal</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium-sized enterprise</td>
</tr>
<tr>
<td>SPV</td>
<td>Special purpose vehicles</td>
</tr>
<tr>
<td>UNCDF</td>
<td>United Nations Capital Development Fund</td>
</tr>
<tr>
<td>USD</td>
<td>United States dollar</td>
</tr>
</tbody>
</table>
Executive summary

The challenge

While turning the “billions into trillions” is essential to bridge the Sustainable Development Goals (SDGs) financing gaps, there is a need also to focus on the quality of resources mobilised and how they reach those being left behind. While international and domestic public finance remains essential to meet the SDGs, public resources alone will not be enough. The challenge is particularly acute in the least developed countries (LDCs), which have experienced a recent decline in official development assistance (ODA). LDCs also often find it difficult to attract private investment, including foreign direct investment. Increased public and private financial flows must therefore be made to work for the world’s most vulnerable countries, for underserved markets, and for smaller projects in the so-called “missing middle” – those small and medium-sized enterprises that are too big to access microfinance but too small or seen as being too risky to access commercial loans offered by mainstream financial institutions.

In these settings, blended finance offers potential opportunities to increase the resources available to LDCs and the missing middle. But such approaches are not without limitations or risks, and need to be deployed carefully. To improve how blended finance strategies can best work for LDCs, it is essential to understand not only the quantities of finance they mobilise and the regions and sectors they are benefitting, but also how these strategies are being applied, and, more broadly, how the financing for development architecture is evolving and supporting LDCs to meet the SDGs and ensure no one is left behind.

This report, the second in a collaboration between the United Nations Capital Development Fund (UNCDF) and the Organisation for Economic Co-operation and Development (OECD), outlines the latest trends in blended finance approaches in LDCs. It updates the previous 2018 report with the latest available data from the OECD, which now cover the six years from 2012 through 2017. It also features seven guest pieces by practitioners and experts working in the blended finance space, which showcase the opportunities and challenges of applying blended finance solutions in LDCs. The report concludes with a review of the next steps for the blended finance and development communities, and flags some emerging issues revealed in the report.

Recent trends

LDCs receive a small piece of the blended finance pie. Of all the private finance mobilised by official development finance interventions between 2012 and 2017, approximately USD 9.3 billion, or 6%, went to LDCs, whereas over 70% went to middle-income countries. Gaps in the data mean it is unclear whether this represents a fall relative to the 7% of private finance mobilised for LDCs observed for 2012-2015.

On average, blended finance deals in LDCs mobilise less private finance than those in other developing countries. Over 2012-2017, the average amount of private finance mobilised in LDCs was USD 6.1 million per deal, compared to USD 27 million in lower middle-income countries and over USD 60 million in upper middle-income countries.
Some LDCs benefit more than others. The top five recipients - Angola, Senegal, Myanmar, Bangladesh, and Zambia - together received approximately 44% of the total volume of private finance mobilised and almost 22.5% of all deals in the LDCs in 2012-2017.

Some LDCs receive no blended finance, but do receive official development assistance (ODA). Crucially, development partners will need to ensure that the increasing use of blended finance is not at the expense of support for LDCs and other vulnerable contexts where blending is more challenging. There is a weak but positive relationship between ODA received and private finance mobilised.

Credit and risk guarantees continue to mobilise the most private finance in absolute terms, at 63% of the total volume reported in 2012-2017. The average volume of private finance mobilised in LDCs is consistently lower for all leveraging mechanisms. Simple co-financing agreements are instead the most frequent leveraging mechanism, as they represent 56% by number of deals overall.

Energy, banking and financial services are the largest, and growing, sectors, representing 23% (USD 2.16 billion) and 19% (USD 1.8 billion) respectively over the six years analysed. Data for 2016-2017 indicate this share is growing. Education and healthcare are scarcely addressed.

Multilateral donors mobilised the largest amounts of private finance in LDCs: USD 5.2 billion or 56% of all private finance over 2012-2017. Yet, bilateral donors are increasingly important blended finance players in LDCs.

Most mobilised private capital reaching LDCs comes from high-income countries. While LDCs themselves remain a significant source of additional capital, their importance has diminished from 42% of finance mobilised in 2012 to 14% in 2017. However, the average volume of private finance mobilised from domestic investors in LDCs increased from USD 4.5 million in 2012 to USD 5.8 million in 2017.

The number and variety of players entering the blended finance space is increasing. While some donors are taking steps to increase their engagement in LDCs, the data suggest that many providers still tend to overlook these markets when it comes to blending. This in turn implies there is a need for further risk-taking and experimentation at both the balance sheet and project level to get more private finance invested in LDCs when appropriate. Blended transactions typically also require greater levels of concessional support than in other developing countries.

Making blended finance work for least developed countries

Blended approaches can help mobilise much-needed additional resources for the LDCs and they can create demonstration effects that narrow the gap between actual and perceived risks of investing in these markets. But such approaches need to be considered and deployed carefully. In signing the Addis Ababa Action Agenda, Member States have agreed on a set of overarching principles for blended finance and public-private partnerships (PPPs). The OECD principles on blended finance provide a policy framework to ensure the sustainability of blended finance, while initiatives such as the multi-stakeholder Tri Hita Karana Roadmap and the UNCDF action agenda on LDCs are also focused on improving the effectiveness and efficiency of blended operations. Specific lessons from this report include:

- Blended finance solutions should respect national ownership, be aligned with national priorities and applied as part of a broader national SDG financing strategy that takes into account domestic and international, public and private sources of finance.
- In crisis-affected contexts, where ODA plays an essential role, blended approaches must be particularly transparent and accountable, and avoid doing harm by widening disparities.
- Technical assistance plays an important role in blended finance transactions in LDCs, including by helping to put in place the right capacities and institutions to identify, analyse and structure blended
operations; and to strengthen investees’ operational efficiency and environmental, social and
governance (ESG) compliance.

- A local presence, be it an investor or a fund manager, can help build local capacity and understand
risks and opportunities attached to each investment.
- There is a need for further research and efforts to strengthen SDG impact monitoring and
measurement.

If blended finance continues to become an increasingly important modality of development co-operation,
then development partners will need to ensure that this does not come at the expense of support for LDCs
and other vulnerable countries – those where blending has been more challenging. It may be that there is
a need to accept that the mobilisation agenda in LDCs will be different – but that those blended finance
deals, where they are appropriate, are pursued because of their sustainable development additionality.
Ultimately, different financing models - public, private or blended - will be best suited for different SDG
investments in different contexts and governments should be in the driver’s seat in determining which
approach works best where.
Infographic 1. How is blended finance benefitting least developed countries?

Blended Finance in the Least Developed Countries 2019

The challenge: There has been a decline in official development assistance to LDCs, which also face challenges in attracting private investment. Where appropriate and carefully deployed, blended finance can play an important role in mobilising commercial finance and bridging investments gaps.

Recent trends: 2012 ➔ 2017

Total private finance mobilised for development*

- Upper MICs: 43.2%
- Lower MICs: 28.5%
- Other LDCs: 5.6%
- LDCs: 1.5%
- Unallocated by country: 23.7%

LDCs receive a small piece of the blended finance pie.
Of the USD 153.9 billion mobilised in private finance, approximately USD 8.3 billion went to LDCs.

A growing number of LDCs received private finance mobilised by official development finance at least once.
Yet, some benefit more than others: the top five countries account for 44% of the total volume.

Average annual amounts mobilised from the private sector for development

- ANGOLA, SENEGAL, ZAMBIA
- TIMOR-LESTE, LEITH, BRITAIN, EQUATORIAL GUINEA

- USD 100 min each
- USD 1 min each

Average amount mobilised per transaction

- Upper MICs: USD 61 min
- Lower MICs: USD 27.3 min
- LDCs: USD 6.1 min

On average, blended finance deals in LDCs mobilise less private finance than those in other developing countries.

Note: All data are from OECD statistics on amounts mobilised from the private sector by official development finance interventions as of 1 April 2019.

BLENDED FINANCE IN THE LEAST DEVELOPED COUNTRIES 2019 © OECD/UNCDF 2019
Infographic 2. What’s next for blended finance in least developed countries?

Guarantees are the most powerful leveraging mechanisms, but simple co-financing agreements are the most frequently used.

Channels for blending

Multilateral donors mobilised the largest amounts of private finance. Yet, bilateral donors are increasingly important blended finance players in LDCs.

Most mobilised private capital reaching LDCs comes from high-income countries.

Top sources of private finance mobilised

What’s next?

- Blended approaches can potentially help mobilize much-needed additional resources that help LDCs bridge SDG financing gaps – but this is not happening at scale. More needs to be done to build the evidence base, improve SDG impact measurement and transparency, and share lessons on the role of blended finance in LDCs.
- Blended finance solutions should be aligned with national priorities and applied as part of a broader national SDG financing strategy.
- In the Addis Ababa Action Agenda, Member States agreed on a set of overarching principles for blended finance and public-private partnerships. The OECD DAC Blended Finance Principles, the UNCDF Action Agenda and the Tri-Hilf Karana Roadmap represent further efforts to improve the effectiveness and efficiency of blended operations.

Note: All data are from OECD statistics on amounts mobilised from the private sector by official development finance interventions as of 1 April 2019
Blended Finance in the Least Developed Countries 2019

The world’s 47 least developed countries (LDCs) are among those most at risk of being left behind. While official development assistance and domestic public resources remain essential for their development prospects, they alone will not be sufficient to meet the Sustainable Development Goals. With the Addis Ababa Action Agenda, the international community acknowledged the need for significant additional public and private finance, and development partners are increasingly focusing on blended approaches.

What are the trends in blended finance for LDCs? What can it achieve and how? The OECD and UNCDF are working together to shed new light on these issues. Building on a 2018 publication, this edition presents the latest data available on private finance mobilised in developing countries by official development finance, extending the previous analysis to cover 2016 and 2017 as well as longer-term trends from 2012 to 2017. It discusses the most recent international policy trends shaping the blended finance market, and what these might mean for LDCs. Stakeholders and practitioners also share their views on the challenges and opportunities in designing and implementing blended finance operations in LDCs.

The work can also be found at https://www.uncdf.org/bfldcs/home.