UNCDF Inputs to HLPF 2023

Introduction

The [UNCDF Strategic Framework for the period 2022-2025] established that UNCDF would support primarily LDCs to achieve three linked strategic development outcomes:

i. Accelerate inclusive, diversified, green economic transformation;
ii. Catalyse additional private and public flows of capital; and,
iii. Strengthen market systems and financing mechanisms.

UNCDF does this by deploying a combination of financial instruments, financial advisory services and development expertise across five priority areas: The two well-established flagship areas of (a) inclusive digital economies and (b) local transformative finance, and in the emerging areas of (c) women's economic empowerment, (d) climate, energy and biodiversity finance, and (e) sustainable food systems finance.

UNCDF operates in last mile territories where few others are present, designing, testing and helping scale up financing solutions targeted at underserved households, micro, small- and medium-size enterprises (MSMEs) and local governments.

Furthermore, UNCDF provides financing instruments and expertise across the United Nations development system to structure and implement approaches that engage the private sector and leverage additional capital for investments in the SDGs.

SDG6: Ensure availability and sustainable management of water and sanitation for all

UNCDF in partnership with the Gambia River Basin Development Organization (OMVG) and the Government of Switzerland manage the **Blue Peace Financing Initiative** to support access to public and private capital to manage the river basin water resources shared by four countries. The Blue Peace Financing vision is to promote access to capital for non-sovereign entities by using water as an entry point for multi-stakeholder cooperation frameworks, which will lead to more sustainable economies and peaceful societies (a peace dividend). Hence, investing in Blue Peace helps transform water from a potential source of conflict into an instrument of cooperation and peace.

Blue Peace supports the implementation and financing of an integrated development master plan and investment plan for the river basin, which includes a pool of complementary bankable infrastructure projects, such as a hydro-power generation plant, a hydro-agricultural dam, and a drinking-water treatment station valued of up to $1 billion.

Through the issuance of a Blue Peace Bond, planned in 2023, OMVG will be able to mobilize financial resources for its investment plan, allowing implementation of the underlying projects. The underlying financing structure uses an approach similar to Green Bond financing to achieve better financing terms and market access, while considering risks and mitigation instruments and a credit enhancement mechanism.

SDG7: Ensure access to affordable, reliable, sustainable and modern energy for all

UNCDF promotes access to finance across the energy value chain from customer to enterprise by investing in early stage, innovative business ideas from small- and medium-enterprises (SMEs) that have the potential to make a step-change in improving the accessibility, affordability, and reliability of modern energy for people, especially those at the last-mile. In addition to catalytic investment, UNCDF provides technical assistance and advisory on enabling environment policy and market insights to support the development of energy markets in the least developed countries (LDCs).

- Since 2014, UNCDF has worked in 13 countries, supporting a portfolio of over 81 private sector companies (microfinance institutions, clean energy SMEs, financial intermediaries, and others) to provide over 2 million clean energy products that serve 9.5 million people and offset two million tonnes of CO2.

- In 2022, UNCDF's portfolio of clean energy companies sold over 86,000 clean energy products serving 420,000 people. In Uganda, the UNCDF-supported Renewable Energy Challenge Fund portfolio of companies sold over 23,000 cooking and solar units and improved the lives of more than 4.3 million people by saving them money, generating income, reducing indoor air pollution and reducing deforestation.

- In Burkina Faso, UNCDF launched the Renewable Energy Fund for Resilience in 2019 with funding from Luxembourg. This Fund promotes access for the Burkinabè population to green and sustainable energy solutions. The Fund's portfolio of 16 companies sold over 1,670 cooking and 1,200 solar units in 2022, including multi-function platforms, solar refrigeration and irrigation, solar kiosks for charging, clean cooking and solar home systems.

- In 2022 UNCDF also launched a strategic partnership with the Clean Cooking Alliance. The partnership will focus on scaling up innovative financing solutions for clean cooking and to tap into the growing carbon trading markets. This collaboration will build on ongoing work with Sustainable Energy for All and the Global Off-Grid Lighting Association to promote standardization of performance indicators and enhance investment deal flows.

- UNCDF serves as the Fund Manager for the CookFund in Tanzania, a key component of the Integrated Approach to Sustainable Cooking Solutions Program established by the Government of Tanzania in collaboration with the European Union. The CookFund provides financial and technical support for the accelerated rollout of clean cooking solutions, such as stoves and fuels, leading to improved environment, job creation, and business opportunities. In 2022, UNCDF approved $1.47 million in financial support for 16 small and medium-sized enterprises involved in the supply of clean cooking technologies. The first phase of the program will benefit over 14,000 end-users, primarily households in urban areas.

- In 2022 an agreement was reached with the OPEC fund to finance and support clean cooking solutions in Madagascar and Malawi.

SDG9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

UNCDF assists LDCs to address various dimensions covered by SDG 9, including:

a) development and financing of sustainable, resilient, accessible and affordable infrastructure (SDG targets 9.1 and 9.a),
b) support for increased access to finance for small and medium-size enterprises and industries (SDG target 9.3), and
c) support for increased access to digital and information and communications technologies (SDG target 9.c).

The Doha Programme of Action identifies structural transformation as one of six key areas of focus for sustainable development of LDCs. Advancing the 2030 Agenda in the LDCs will require to rapidly accelerate structural transformation towards more diversified, productive, green and job-rich economies that deliver affordable access to essential goods and services that improve people's lives.

a) SDG 9- Infrastructure development:

UNCDF focuses on financing and technical assistance to develop small-scale, climate resilient infrastructure at the local level in secondary cities and in rural towns and communities in LDCs. More attention and support is needed in this area, including channeling more climate finance to the local level for investments in adaptation and climate resilient infrastructure.

- In Somalia, UNCDF intensified support of local governments to build a solid infrastructure base for sustainable service delivery, improve local revenue generation and strengthen the national fiscal transfer mechanism. Through the Local Development Fund, UNCDF disbursed $5.2 million US dollars in performance-based grants for 81 infrastructure projects in 36 local governments across Somalia.

- To promote domestic capital market reform to mobilize domestic capital for infrastructure development, the Ministry of Finance and Planning in Tanzania requested UNCDF support to the city of Tanga Water Authority in preparing for the issuing of a subnational bond. Once issued, it will be the first local currency infrastructure bond, and with green bond status. The project is projected to benefit over 410,000 people by enhancing water extraction, treatment, and distribution capacities for the residents of Tanga and nearby townships.

- *The Local Climate Adaptive Living Facility (LoCAL),* managed by UNCDF, deploys intergovernmental fiscal transfers to establish a standardized and internationally recognized country-based mechanism for accessing and channelling climate finance to local governments and their communities for investments in climate resilient infrastructure. To date, LoCAL has supported 332 local government authorities and a combined population of 15.6 million people with small-scale infrastructure investments. In 2022, LoCAL delivered $21.2 million US dollars in participating countries. For example, in Mozambique, development of climate resilient infrastructure was supported in three provinces, including climate-proofed water, sanitation, education and health facilities built to provide reliable access to services for 665,000 people in climate disaster affected areas. In the Gambia, 34 adaptation investments were delivered in 32 wards, including solar-powered boreholes integrated horticulture gardens and climate-proofed road infrastructure.

- *The International Municipal Investment Fund* is a blended finance fund established by UNCDF and the United Cities and Local Governments in collaboration with the Global Fund for Cities Development, to support transformative local investments that build resilience and productivity. The Fund is managed by Meridiam. The equity approach of the fund mitigates against rising borrowing costs and LDC debt levels. Capitalization of the fund closed in 2022 at 150 million Euros, including commercial and first loss capital. UNCDF manages the technical assistance facility for this fund, developing a pipeline of bankable projects for consideration by the Fund.

- UNCDF co-led a global infrastructure assets management training course in partnership with United Nations Department for Economic and Social Affairs, based on the UNCDF – UNDESA publication *Managing Infrastructure Assets for Sustainable Development: A Handbook for Local and National Governments* . The goal is to maximize the value of public infrastructure investments and leverage them to finance sustainable development for generations to come. A greater focus is needed on building government capacity in the management of infrastructure assets. This also includes a need for greater domestic capacities, including in national and subnational governments, to identify and develop pipelines of bankable infrastructure projects that generate revenues and can attract commercial and blended finance.

b) SDG 9- Access to finance, including affordable credit, for MSMEs.

- A majority of economic activities and benefits in LDCs, including delivery of key goods and services and creation of jobs are delivered by micro, small and medium-sized enterprises (MSMEs) in LDCs. A dynamic and increasingly formalized MSME sector is also a critical tax base for growing domestic resource mobilization. As such, MSMEs are crucial for driving progress on the 2030 Agenda and structural economic transformation.

- However, MSMEs are often not able to access commercial finance, whether from local banks, international financial institutions, impact investors or capital markets. SMEs have been hit particularly hard by recent crises (COVID-19, conflict and climate change) with simultaneous shocks to both supply and demand. SMEs in LDCs face challenges with both accessibility and affordability of financing. The SME financing gap in sub-Saharan Africa is estimated at some $245 billion[1] with less than a third[2] of SMEs having a bank loan or line of credit.

- In the current high inflation, high interest rate environment, the cost of capital for SMEs in developing and least developed countries are many times higher than in developed economies, with interest rates in the double digits and often above 20%. This severely constrains the viability of SME investments, including in critical sectors such as clean energy services, digital solutions and agro-processing and prevents employment creation, growth and poverty reduction.

- Blended finance is a key approach to help fill the finance gap for SMEs and small and medium investment projects. Concessional debt and equity and use of guarantees, along with business support services, can allow SMEs to grow without bankrupting themselves and in the process gain confidence of private finance providers so they can attract future commercial funding without a blended approach. However, to date only 6% of all private finance mobilized by development finance and blended finance approaches has been for LDCs[3].

- UNCDF supports SME financing i) through grants, loans and guarantees that benefit SMEs directly and ii) through supporting externally managed funds and financing mechanisms targeting SMEs:

i) UNCDF has a unique mandate and capabilities in the UN system to be able to deploy loans and guarantees. UNCDF's catalytic concessional loans and guarantees are provided through the "BRIDGE Facility", which targets early-stage enterprises and projects that are not ready to access finance from other financial institutions. UNCDF financing helps them establish an investment track record to attract further commercial and blended finance. The BRIDGE Facility fills a gap in the international development finance architecture. In total, UNCDF has issued 28 loans, seven guarantees and three 'beneficiary units' with a combined value of $14.9 million US dollars.

  - In Burkina Faso, UNCDF supported a rice cooperative unable to obtain a bank loan due to lack of collateral. UNCDF provided short-term concessional financing plus a guarantee that allowed a local bank to provide $206,300 in financing. The financial support enabled the establishment of a new, large-capacity rice mill to market high-quality white rice on the local market.

  - In Papua New Guinea, UN Women and UNCDF established an innovative financing solution through a 25 per cent first loss loan portfolio guarantee of $225,000 US dollars in favour of the Women's Micro Bank Limited, aimed to mobilize $900,000 in financing for women entrepreneurs. Loan disbursements were directed to over 600 women vendors and entrepreneurs. The portfolio guarantee addresses the barriers to accessing financing for market vendor women, easing the financial burden for borrowers by reducing collateral requirement from 50 per cent to 15 per cent while also reducing applicable interest rates by up to 12 per cent.

[1] https://www.worldbank.org/en/topic/smefinance
[2] Blended Finance : A Stepping Stone to Creating Markets (worldbank.org)
[3] UNCDF – OECD, 2020 Blended finance in the LDCs

ii) UNCDF also establishes and supports externally managed funds and finance mechanisms.

- The global BUILD Fund, managed in partnership with Bamboo Capital Partners, supports SME development in LDCs. In 2022, this Fund achieved a first close capitalization of $49 million US dollars along with a $10 million guarantee for the Fund (by Swedish SIDA and US Development Finance Corporation). The Fund made one investment in 2022 in Green Mountain Arabica Coffee Limited, a women-owned coffee producer in Rwanda.

- UNCDF also supports country level SME financing mechanisms. For example, UNCDF supports the Credit Guarantee Corporation of Cambodia (CGCC) to assist MSMEs to recover from COVID-19 impacts and support start-ups in the agriculture, manufacturing, and service sectors. To address barriers to obtaining loans from domestic banks, CGCC established a credit guarantee system that provides preferential interest rates and reduced application costs for small businesses. The CGCC was established with a UNCDF catalytic grant of $250,000 and capitalized through a $200 million US dollar allocation from the public sector budget in 2022. To date, the Corporation issued 985 letters of guarantees, enabling $92.7 million in loans from domestic banks, with 35 per cent going to women-owned businesses.

3) SDG 9- Developing inclusive digital economies – increasing access to information and communications technology and internet access in LDCs

UNCDF equips people to use digital services in their daily lives by addressing market-system constraints, enabling environment, gender inequalities and engaging the private sector to develop innovative, affordable digital solutions that enable transition towards more inclusive, green and productive economies.

- UNCDF with partners developed the Inclusive Digital Economies Scorecard (IDES) to guide Member States on how to pursue and monitor digital economy transformation. Implemented in 31 countries across Africa, Asia and the Pacific, the scorecard identifies market constraints that hinder the development of an inclusive digital economy and helps governments and private partners set priorities. For example, the Ministry of Technology and Science in Zambia used the scorecard to set long-term priorities aligned with the national development plan on digital transformation and in drafting the first national digital economy strategy. In Uganda, it forms part of a comprehensive UNCDF approach to supporting Government and the private sector in expanding access to digital services and informing the mainstreaming of digitalization throughout the new national development plan.

- To boost private sector innovation, UNCDF works with fintech firms, financial service providers and other entrepreneurs to develop and pilot digital finance and other digital solutions to accelerate economic and sustainable development.

- With Visa and other partners in Bangladesh, UNCDF developed training modules for digital financial literacy for small and micro-businesses to connect with digital marketplaces. The project reached more than 200,000 businesses, 25 per cent of which are women-led.

- In partnership with the Bill and Melinda Gates Foundation, UNCDF in Myanmar is developing an industry-governed open-source payment platform. It was designed to expand financial inclusion by offering incentives for financial services providers, individuals and small businesses to use electronic payments. Over 30 financial service providers have joined. When the platform goes live in 2023, upwards of 2 million people (80 per cent women) will be able to make and receive faster, cheaper and safer digital payments.

- In Bangladesh, 2.3 million micro-merchants benefited from UNCDF-supported digital business innovations in digital payments, alternative credit scoring, micro-insurance, and rural e-commerce

- In Zambia, UNCDF launched the FinTech4U Accelerator Programme for businesses in the fintech and digital financial services industry, targeting underserved population segments. In Uganda, UNCDF supported an association of innovation hubs and business incubators to run an innovation challenge to support innovative digital business models.

- To support recovery from COVID-19 for small businesses in Nepal, UNCDF facilitated the onboarding of more than 4,000 MSMEs (65 per cent women-led) to e-commerce platforms and trained more than 2,600 MSMEs (77 per cent women-led) on digital and financial skills. In total, UNCDF support in Nepal benefitted more than 19,000 businesses in 2022.

SDG11: Make cities and human settlements inclusive, safe, resilient and sustainable

UNCDF serves as a sub-national financing hub to support national, regional and local governments, cities, and agencies of local transformation in designing, testing and scaling up inclusive mechanisms for sub-national finance, particularly towards urban, green and productive transitions. It focuses on advancing five elements of sub-national financing: intergovernmental fiscal transfers, own source revenue, domestic capital markets, city friendly investment funds, and guarantee instruments.

- In 2022, UNCDF released its flagship publication – Local Government Finance is Development Finance – which expands on how Policy reform in sub-national finance, through these five areas, can unlock significant flows of capital to the local level for LDC transformation and contribute to overcoming the development challenges they face. UNCDF is also the main contributor to data collection and analysis from LDCs in the Third Edition of the World Observatory on Subnational Government Finance and Investment, launched in 2022, which informs policy dialogues on local government finance.

- One UNCDF city-friendly investment is the green public lighting system in Chefchaouen, Morocco. This zero per cent loan rate investment is comprised of a $200,000 US dollar grant and $400,000 reimbursable financing agreement to support an innovative model that relies on electricity bill saving, generated through improvements to the public lighting system, for repaying the principal. The objective is to pilot a model that can be replicated in other cities through a revolving fund.

- In 2022, UNCDF in partnership with the United Nations Human Settlements Programme launched the **Cities Investment Facility** to help cities access sustainable financing and bridge the municipal infrastructure funding gap. This multistakeholder initiative will support local governments to mobilize and direct flows of capital into financeable and sustainable infrastructure projects in 250 cities by 2025.

- UNCDF supported the city of Kumasi, Ghana on ways of funding a comprehensive portfolio of investments through equity and debt. The purpose is to accelerate the environmentally sustainable transformation of Ghana's second city through rapid transit, alleviation of congestion, and local economic development hubs, including for the orange economy. Included is UNCDF support to structure a potential revenue bond and secure a partial guarantee, which is part of a joint sustainable cities offering with UN-Habitat.

- In 2022, UNCDF received a positive opinion from the European Commission to manage the €154 million euro Guarantee Facility for Sustainable Cities as part of the European Fund for Sustainable Development. The Facility will help resolve barriers to structural transformation in LDCs. UN-Habitat will join UNCDF on the facility Advisory Council.

- To address growing income inequalities in cities, UNCDF's **IncluCity** project aims to promote inclusive and gender responsive local economic development in cities. By promoting inclusive governance and public financing instruments, IncluCity expands municipal services and infrastructure adapted to the needs of vulnerable groups. In 2022, UNCDF established five water reservoirs with solar lighting in Mbale City in Uganda, thereby providing greater security for women and children and enhancing their resilience to climate change. In Senegal, UNCDF supported the municipality of Soumbédioune to renovate its local fish market. This improved working conditions and economic opportunities for female vendors.

SDG 17: Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

UNCDF's mission is to serve as the UN catalytic financing agency for the LDCs and it applies its financing capabilities and supports financing solutions across the SDGs. Progress and experiences related to UNCDF's financing solutions to *"mobilize additional resources from multiple sources"* (target 17.3) for the specific SDGs in focus at HLPF 2023, are reflected in the above sections. In addition, under SDG 17 UNCDF promotes the following relevant areas:

- **Remittances.** Under its migration and remittances programme, UNCDF applies a market development approach to enabling access to affordable remittance channels for migrants and their families. For example, UNCDF worked with the National Bank of Ethiopia to support the introduction of seven policy measures and 14 capacity development activities on data management systems, micro savings bonds, and remittance directives. This included UNCDF support for the policy directive on the establishment and operation of foreign currency saving accounts, which resulted in the mobilization of $48.1 million US dollars in 2022. The total domestic resources mobilized since the policy directive began in 2021 is $134.6 million. Foreign currency deposits were made in 46,887 accounts across 20 banks.

- With the Intergovernmental Authority on Development, UNCDF supported the harmonization of remittance policies across Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda towards safer, more transparent, accessible and affordable formal remittance channels.
- In response to COVID-19 in the Pacific, UNCDF supported the reduction and waiver of remittance costs in Fiji and Tonga, resulting in a near-tenfold increase per month in the number and value of remittance transactions

- **Blended finance:** In much of its work, UNCDF pursues a blended finance approach and has put in place a number of blended initiatives and mechanisms that seek to leverage strategic ODA and public capital in order to attract private sector resources for the SDGs, with a particular focus on the LDCs. UNCDF has produced three reports on Blended Finance in the Least Developed Countries, with the latest report issued in 2020/2021. Based on UNCDF experiences and research, the following are select observations and recommendations.

  - Focus blended finance on **approaches that can mobilize private finance at scale**, and that have the **highest sustainable development impact**. This would entail greater emphasis on standardization of blended finance vehicles to reduce complexity and transaction costs, which prevents many mainstream investors from placing capital in blended finance vehicles. For riskier and smaller LDC markets, adopting portfolio approaches, as opposed to a deal-by-deal practice, may allow for aggregation and risk pooling across projects, sectors, countries.
  - Deploy blended finance approaches that **help develop domestic financial sectors and capital markets** that can introduce domestic commercial SDG finance over time, e.g., by investing in domestic financial intermediation, and seek involvement of local investors such as sovereign wealth funds and pension funds
  - Base SDG and climate focused blended finance interventions on clearly defined **national and local priorities** to ensure scalable impact – e.g. focus blended finance interventions on SDG and climate and green growth priorities identified in the National Determined Contributions and Integrated National Financing Frameworks (INFFs).
  - Strengthen **technical assistance and project preparation facilities** to accelerate development of bankable SDG projects and businesses. The lack of viable sustainable investment opportunities in many frontier markets is a main constraint to attracting private capital.
  - Promote greater focus on **impact measurement, accountability, and transparency** of blended finance transactions – to increase learning, replication of successes and build confidence in order to attract more public and private investors to pursue blended finance approaches to advance the SDGs.

Key messages for inclusion into the Political Declaration of the September 2023 SDG Summit.

- Following on the Fifth UN Conference on the LDCs and the Doha Programme of Action, there needs to be a **continued momentum and focus on mobilizing support for the LDCs**. The SDGs will not be achieved if the LDCs are not able to significantly accelerate progress on the Goals.

- Achieving **structural economic transformation** towards more productive, diversified, green and inclusive economies, is central to SDG achievement in LDCs. **Financing for structural economic transformation needs to be scaled up**. Strengthened domestic capital markets and financial sectors, along with reforms to the development finance architecture will be needed to enable more concessional and private finance to be channeled in support of private sector development and structural economic transformation in LDCs (including especially for infrastructure development, SME financing and development and digital transformation).

- In the current high inflation, high interest environment, the **exorbitant cost of capital** in developing countries and LDCs is prohibiting much needed private finance to flow into SDG and climate investments, including structural green economic transformation.
  - For example, investments in green technologies such as renewable energy, often require high upfront investments and are perceived as risky. Compounded with sovereign risk premiums, the resulting high cost of capital makes it extremely difficult to mobilize private SDG finance for LDCs. The Climate Policy Initiative[4] estimates that for a solar project to be financially viable in a developed country (AAA or AA rating) requires a return between 7-9%, while the return required in an LDC like Tanzania (B rating) or Zambia (CCC- rating) requires a return of 24% and 38% respectively.

- One way to reduce cost of capital, complementing other approaches to improve the investment climate, is a greater focus on expanding and **making blended finance work better for LDCs**. This would include expanding allocations of ODA and other international public finance to be used as first loss (including guarantees), concessional, and other de-risking capital that can help lower cost of capital while attracting additional resources from the private sector to SDG-aligned investments. Support could also be scaled up for existing financing mechanisms that deliver catalytic investment capital for "missing middle" SMEs and small investment projects (prevalent in LDCs) that are considered too small and risky by development finance institutions, local banks and other providers of commercial and semi-commercial finance.

- **Support for local climate adaptation and climate resilient infrastructure in LDCs and SIDS** must be scaled up. These countries have contributed the least to climate change but are suffering the worst consequences. People in LDCs are 15 times more likely to die from climate related disasters[5] than people in developed countries. More support is needed for the full formulation, financing and implementation of national adaptation plans, including integrated and strategic adaptation action at the national and local levels, making use of existing initiatives such as the UNCDF Local Climate Adaptive Living Facility.

[4] Climate Policy Initiative, forthcoming publication.
[5] https://news.un.org/en/story/2022/11/1130277