

Africa Regional Review Meeting
Fifth UN Conference on LDCs
High-level Closing Session
Summary of February 24 Side Event on Impacts of COVID-19 on SMEs in LDCs
and the role of blended finance in supporting a resilient recovery

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Excellencies, Ambassadors, Permanent Representatives, and colleagues; thank you for inviting me to join you today.

On February 24, UNCDF hosted an event on the “Impacts of COVID-19 on SMEs in LDCs and the role of blended finance in supporting a resilient recovery” .

banks resist investing in SMEs as they prefer to put their capital into low risk loans, often for larger enterprises and projects, and into very low-risk T-bills.

Solutions

The panellists discussed a useful combination of tools to address these challenges:

- Use ODA strategically to catalyze additional resources, through demonstration effects and blended finance structures.
- Aggregate investments using fund structures, adopting a portfolio approach and bond issuance.
- Invest in people and organizations that know this space and have boots on the ground who can find investment opportunities and understand the world of SMEs.
- Use an investment continuum approach: find promising businesses that need capital to grow and use a combination of instruments, including grants, TA, catalytic risk capital, and blended finance depending on the maturity level of SMEs.
- Bundle the capital solution with capacity building and business development services. SMEs need assistance with skills such as accounting and uptake of digital tools.
- Support development of vibrant domestic capital markets and financial intermediaries. This can help reduce risks and facilitate access to credit for SMEs.

Concrete recommendations

The session lead to the proposal of several concrete solutions:

- Organize a global roadshow to introduce LDCs and investment opportunities to global capital markets. LDC Ministers can be champions in discussing how to turn the blended finance component into reality.
- Increase information and transparency about blended finance and SME finance. The more information available, the better able investors are to

needed. Increased transparency will also provide additional important information on impact.

- Walk the talk on blended finance – there is need for more patient risk tolerant capital. For example, donor ODA contributions can often not be used in a revolving manner – however, if donors were able to change their regulations so that grants can become revolving instruments, this can lead to multiplier effects and more efficient and better use of scarce ODA resources.
- Think holistically and focus on aggregation. In times of crisis we need to move quickly –look at what exist and put your money into these existing vehicles or initiatives that aim to scale blended finance for LDCs.
- Foster competition in the financial market to drive more capital to SMEs - remove capital constraints for international investors and support innovative investors outside of banks, including fintech companies and other innovative private sector enterprises.
- Support formalization of small businesses by making formalization less costly and complex and create incentives for formalization.
- UNCDF stands ready to be a champion for LDCs in turning these recommendations into reality. We look forward to working with you on the next steps.