Panel intervention by Mr. Jussi Ojala, Executive Representative, Private Sector Development, Finn Church Aid

"Best practices and policies for supporting sustainable business models and their related challenges in mobilising finance for sustainable transformation"

10 am to 1 pm - CET on 2 November

Thank you Chair, Excellencies, Ladies and gentlemen,

It is an honor to stand alongside such distinguished panelists. Finn Church Aid, the largest International Aid organization of Finland, and since some years an impact investor, is prioritizing the Financing for Development -agenda, and we value highly the invitation to the Working Group and to this panel.

I commend UNCTAD for its commitment to the 2030 Agenda for Sustainable Development, especially on development finance. UNCTAD's focus on the most vulnerable, the Least Developed Countries, is both essential and praiseworthy. This is also the perspective of my intervention.

I have been requested **to share examples how my organization is supporting financing of sustainable business models**. I am more than happy to do that but allow me to provide some wrapping around this, by drawing on the Expert Group's mandate to produce policy recommendations and to deliberate on issues, concerns and challenges raised in the Addis Ababa Action Agenda (AAAA).

The key concern and a key missed opportunity that we see in realizing the AAAAs vision, is that of the Missing Middle. We have support mechanisms for the microenterprises and for the large enterprises alike to grow and prosper. But the small- and medium sized enterprises, the engine of every national economy, continue to lack proper support mechanisms – and even proper focus. This is especially true in the Least Developed Countries, where the SMEs are too often considered as risk to be avoided, instead of opportunity for sustainable jobs and development. Similarly, entrepreneurs, many of them women, running the SMEs have not received an adequate level of support.

We believe that existing development finance mechanisms do not reach SMEs; that SME entrepreneurs can play positive role in their societies, way beyond the reach of their companies; that Norms and regulation are needed but they need to support innovative, growth-oriented, sustainable SMEs – not push them out of business.

More broadly, what we call, is the establishment of a dedicated "track" for the sustainable and growth-oriented SMEs as we build momentum to 4th International Conference on Financing for Development, and beyond. Allow me revert to this at the end of my intervention.

Chair, few words of who I am representing. Finn Church Aid works in 12 developing counties with a strong focus on LDCs and Africa. We have offices in Somalia, South Sudan, Central African Republic and Uganda and Kenya. FCA works through 3 themes, Right to Quality Education, Right to Livelihoods and Right to Peace. As a rights-based actor, we work closely with Governments, both in those countries where we operate and internationally. We are proudly in consultative status with UN ECOSOC. FCA works through 4 modalities: humanitarian aid, development cooperation, advocacy and investments. Today, I am focusing especially on our work and observations from investing to sustainable and growth-oriented SME's, through the subsidiary of FCA, the impact investor FCA Investments (FCAI).

FCAI received a loan of 16m€ from Government of Finland in 2018 to be invested in growth-oriented and sustainable SMEs. We currently do direct investments in Somalia, Uganda and Kenya ranging from 100k€ to 1m€. Investments are in the productive sectors, often agriculture. As a revolving fund, FCAI aims not in creating wealth to its owner FCA, but rather to contribute to achieving development impacts in the context it operates. FCAI provides patient capital, to avoid short-termism that sadly is a reality in LDCs and in the SME-space.

Chair, Allow me now to address how we at FCAI see the financing of sustainable business models.

While innovative and sustainability-related financing solutions such as blended finance, sustainability bonds, and ESG-investing are growing in volume, they bypass many LDCs to a substantial extent. It is fair to say that if sustainable finance is about creating a positive impact, countries with larger financing needs and greater impact potential need to be prioritized. This is not yet taking place.

We are looking for SMEs that are creating a sustainable environmental and social impact and that are committed to the principles of good governance. The company needs to be formally registered and compliant with the national laws and the operating permits. Paying their due taxes is a case in point. Our ESG approach aim to build a proper governance structure and sustainable business policies and practices. Measures are taken to strengthen compliance and ensure responsible business conduct at the SME level. ESG services typically include materiality assessments (based on the sector and the nature of the business), action plans, capacity building, timeframe setting, and guidance for the company when implementing the ESG action plan.

Our key finding is that while there are large gaps in ESG -compliance with SMEs in LDCs, there are plenty of entrepreneurs who are willing to commit to ESG and broader to sustainability. Entrepreneurs want to play their part as positive force in their societies and for their environment. A tannery, SME in Somalia, is more than happy do consider ways away from the chromium –based tanning, which all know to be harmful for nature and the people.

The task of a sustainability-driven investor, such as FCAI, is not to do work only with those companies that are perfectly sustainable to start with. Rather, we need to identify commitment towards genuinely sustainable business models and support these companies on their journey. ESG is not a box-ticking exercise but rather a process. The Somalian tannery would be thrilled to apply a market leading sustainable tanning methods, but development is often gradual. In Somalia, vegetable-based method of tanning is a step to right direction, and an important step towards environmental sustainability.

We need to be sensitive that imposing well-meaning standards as conditions, we might help some, but at the same time push many towards corrupted practices. Furthermore, fulfilling internationally agreed standards of ESG should not be considered as a gate, which needs to be passed ahead of investments. We have seen how such thinking leads to disincentives for investing to those companies that would benefit the most; and how as a consequence the worst-off contexts continue to be deprived of the support they deserve. Imagine that a European pension fund has used poor national performance in SDG's as exclusion criteria for its investments! The weakest are being left behind and those entrepreneurs that have the will for sustainability are not given the means. This all calls for a change in thinking and action,

It is against this backdrop that we at FCAI have come up with a solution that provides a competitive edge to those entrepreneurs who are committed to sustainability. And rather than working with selected few who already excel, we started with a model that can be scaled. The SME-sector needs to be a driver of structural transformation. The Missing Middle Opportunity Facility (www.mmof.com) offers shared services to SMEs in the domains of accounting, marketing and financial management. Committed entrepreneurs have skin in the game from inception, as the services are not free. Financial transparency is in-build feature of the model, which effectively screens away companies that are not willing to commit. In contrast to the existing mainstream Business Development Services, we omit sequencing of the needed services and the investment, but do them concurrently. While all the enterprises might have broadly similar needs as they grow and attract growth-capital, they all have different specific needs. These needs to be properly assessed. We have developed an assessment tool consisting of more than 140 metrics divided into 7 Thematic Elements starting from Impact potential and continuing to financial viability and so on. If companies do too well, they will not need our support. Our aim is that after 3-5 years those companies that MMOF has supported can "graduate" and partner with DFI's or private equity investors.

However, finding solutions to "financing sustainable business models" is unfortunately not enough. When my colleague Hani Almeghari and I were conducting research for the UN LDC5 held earlier this year in Doha, State of Qatar, we posed a question about main bottlenecks on SME-development in LDC's. While the absence of sustainable financing was identified as a key obstacle to growth, our conclusion was that the regulatory frameworks and their dysfunctionality was an even larger obstacle for the SMEs' growth. We concluded that everyone would be better off by adopting an ecosystem approach, where SME-sector development would be seen as part of a dynamic process involving external and internal barriers to SME-growth and factors that affect any entrepreneurial ecosystem including human capital, markets, culture, finance and policy. You can find link to this study in the materials of the Working Group.

Chair, delegates,

While FCA Group has gained much knowledge about the needs and solutions of how SME-ecosystems in LDCs could be developed, we are convinced that a vastly greater effort is both needed and possible. Let me now in closing turn to the 4th International Conference on Financing for Development, expected in 2025, and what we see as the missing "SME-track". I will give few general observations, and questions that do not have full answers, but we hope to be able to work further on these with partners.

First, nothing of us without us. We think that the SMEs in developing countries should be at the center of the process in all their diversity. There is no substitute for the knowledge and wisdom that entrepreneurs have gained from their contexts. But let us ensure that we get the voices that are driven by sustainability. We believe that committed entrepreneurs can also be agents of sustainable development in their countries who help to keep decision makers accountable as they have strong interest to see positive development – for example less corruption and better regulation.

Second, leading multinational enterprises need to be included in thinking cooperation, partnerships and solutions at the level of SMEs. A value-chain approach is a necessity, as is the thinking of export orientated SME's too. The role played by Microsoft during the Fifth UN Conference on Least Developed Countries is a case in point about the opportunity that is vested in the large companies and the global development processes. And Microsoft is not alone. Companies such as Accenture have proven their willingness to engage in SME-ecosystem development even in LDC-contexts. What the UN and its member states need to do, is to build on the promising examples from Doha and elsewhere.

Third, we need create the space between philanthropy and business. Development finance should not longer be a hostage for this dichotomy. FCA Investments is a case in point: we are a business but measure our profits by development impacts and SDGs. This means that we seldom quality for philanthropic funding as we are “too much business” and we seldom quality for business partnerships as we are “not enough business”. New thinking is needed at regulatory level; at country level and at the levels of businesses and philanthropies. As we succeed, the missing middle starts to be found.

Fourth, we need better responses and solutions how the SME-ecosystems can best support the inclusive and sustainable industrial development and the green transition in developing countries. In fact, we even need better questions. At FCA, we would welcome the mobilization and inclusion of the academic institutions and researchers to suggest pathways for sustainable development, leading to 2025 and beyond. The LDC Futures Forum, a cooperation between the OHRLLS, UNU-WIDER and Government of Finland, is one able platform to be considered.

Fifth, we need credible convening power that a sustainability driven SME-track can be established. We call for progressive Governments both from the developing and developed countries to step in. And we call for UN agencies, such as UNCTAD, UNIDO, ITC and UNDP for their leadership. And we call for businesses and NGO’s to seize this opportunity and contribute to the “track”.

It has been a privilege to express our thoughts as part of this Expert Group. At FCA we look forward to continuing discussions with the Group and international partners who see opportunities vested in the SME’s. We certainly do.

Thank you.