Mr. President, excellences, ladies and gentlemen,

The Least Developed Countries have seen rising investment, including foreign direct investment, but often this investment is not accompanied by the required local economic and social transformation that would steadily put the poorest countries on a swift graduation path.

Investments are often dominated by upper-class real estate projects in big cities, mega infrastructures, natural resource commodities for export markets or “enclave” production with few backward and forward linkages to the broader economy.

What we are not yet seeing is a truly transformative economic impact from these investments. This would entail investment in local public infrastructure and utilities, agro-food processing, manufacturing, and affordable housing — the sort of investment that industrialized and BRICS countries financed through central and local governments during their own transformations.

Most investors are not investing at the scale required in the Least Developed Countries to drive transformation due to lack of information about bankable projects and adversity to risk. <u>Secondary cities of Least Developed Countries are disproportionally affected by these investment patterns</u>. Foreign and domestic investments rarely reach these cities.

Development partners currently are not working on this issue at scale. In part that is because they have limited appetite for risk, including local currency risk, with the direct financing of projects, tending to prefer sovereign loans or guarantees to central governments.

There are many examples of real-estate crashes, commodity boom-and-bust cycles, and currency devaluations depleting the savings base of domestic capital markets. Transformative local investments can hedge against this vulnerability.

Indeed, local governments can play a major role in accelerating the transformation of the Least Developed Countries. They can promote catalytic investments, participate directly in the identification of potential public or private investments that can sustainably generate revenue while transforming local economies.

Local governments can also play a major role in bringing climate-resilient and pro-poor infrastructure projects and set much higher standards for impact investment. One example is the UNCDF's Local Climate Adaptive Living Facility (LoCAL), which sets a high benchmark for climate-resilient investments.

However, in many Least Developed Countries, local governments are not able to tap into capital markets to finance infrastructures, including sustainable long-term borrowing. Despite this, many cities have gone ahead with innovative ways of financing infrastructures. That is because development partners such as the U. N. Capital Development Fund supported commercial structures that can borrow without impacting the local governments' general budget, while retaining accountable governance.

To sum up, domestic capital markets are ideally placed to take advantage of increased cities' involvement in transformative investments. Local governments can be key reliable partners, and the infrastructure investments they sponsor can provide long-term, stable returns, if development partners support them through capacity building and risk-mitigating blended finance that leverage domestic markets. Hence, municipal finance will be increasingly critical for the effective implementation of the New Urban Agenda.

UNCDF is ready to play its part and partner with UN-Habitat and others to support municipal finance as a key implementer of the New Urban Agenda in the Least Developed Countries.

I thank you for your attention.