Toward a 3rd stage of blended finance for SDGs: From meta-plan to incomplete scaffold to committed, inclusive co-investment

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2. inancing a sustainable future for an unequal world: Is ‘blended finance’ fit for purpose?

- The ‘Millenial Development Goals’ (2000) and ‘Sustainable Development Goals’ (2015 Addis Abbaba Action Agenda,) were triumphs of global cooperation. The Paris Accord on climate goals in 2015 was another.
- UNCTAD has estimated that US$2.5T/year is needed to finance the SDGs – an estimate now at $4.3T/year. This amounts to 3-4% of global GDP.
- One method proposed is blended finance: ‘the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets’ (World Economic Forum 2015, p. 4). ‘Strategic use’ means **derisking** – public entities offer concessionary finance to compensate for risk or losses.
- Blended finance has been explored by UNCTAD and highlighted in COP sessions (notably, COP26 in Glasgow). Can it provide money at large enough scale, fast enough, to meet climate and SDG needs?
- It has gone through two ‘policy stages’ so far.

Blended finance 1: A three-tier global finance system

An Oct. 2018 G20 report, *Making the global financial system work for all,* set out an ambitious three-tier global architecture for blended finance:

At the top: the IMF's board would control the system.

- In the middle: the World Bank, other IFIs, and MDBs would shift from loan making to loan guarantees and underwriting.
- At the bottom: National governments make and securitize these loans.

The Overseas Development Institute (ODI) pointed out in 2018 that this would mean huge changes. Among other requirements, it would:

- shift the World Bank from loan provision to project development;
- require nations to be able to plan and implement climate-linked infrastructure projects at scale;
- depend on the creation of 'mega-funds' that could crowd in syndicates of institutional investors.

Blended finance 2: an incomplete scaffold, absent a clear SDG focus

- The high expectations for blended finance have not been met. The global plan (BF 1) was never implemented. We have the BF scaffold, but no clear SDG focus.
- The ODI has shown, little private-sector finance has been mobilized: for each US$1 of public investment generates US$0.75 of private finance in all developing countries; just $0.37 in low-income countries.
- An effort to get global Wall Street megabanks interested failed: BF was described as ‘too ‘niche’, too small, and too slow.’
- They state: “Expectations that blended finance can bridge the SDG financing gap are unrealistic: ‘billions to billions’ is more plausible than ‘billions to trillions’.”
- But ‘blended finance’ has indeed come to life at a smaller scale: and much of the spending is for infrastructure – often financial infrastructure. These projects are opaque, and are more focused on creating preconditions for meeting SDGs, than on meeting them. And they are very uneven across countries and global regions.

The uneven spatial distribution of blended finance is evident in this heat map.

We supplemented the data on blended finance (available through Convergence by analysing data on mobilized private financing for development from the OECD.

Purpose of funding by sector- 2012-2023

(% of USD billions mobilised)

The large share of financial-services funding over the 2012-23 period is evident here.

Total of mobilised finance for development by climate relevance (USD billions)

From 2012 to 2023, mobilized private finance has grown, but to modest levels – a fraction of the UNCTAD goal. Climate-related BF is down; much falls under 'undisclosed purposes'.

Most of the not disclosed are direct investment in companies- 32.31%

Leveraging mechanisms 2012-2023
(% of USD billions mobilised)

- Although capital has been mobilised through different mechanisms, the most usual type follows a less risky vehicle- guarantees (29.51%) or through direct investment in companies or projects (25.88%).

- Finance for development still requires the possibility of higher returns, or special knowledge which could be acquired through companies and projects.

Guarantees remain the largest form of mobilized private finance, but many forms of public-sector participation have been created.

Can we imagine a blended finance 3, scaled up to achieve the SDGs?

- SDGs vs COP goals: note first that blended finance has been mentioned consistently and very prominently at recent COP meetings (including COP30, where the TFFF (Tropical Forests Forever Fund) was formally launched. Net zero can be regarded as one component of SDGs: so the need is there, for the planet and the human communities that inhabit it.
- UNCTAD insists on the huge required scale of SDG financing. We are far short.
- Scaling up thus needs:
    - Committed participation by finance’s supply side – especially the mega-banks
    - Vibrant participation by the communities that the SDGs are aimed at enabling
    - A realistic assessment of nation-state capacities in a world of global imbalances
    - A re-realization that multilateralism is an ultimate reality in a world of crises – we cannot escape one another, so must embrace one another.

Bringing international global supply in: BIS capital requirements? A CRA for SDGs? Virtue signalling?

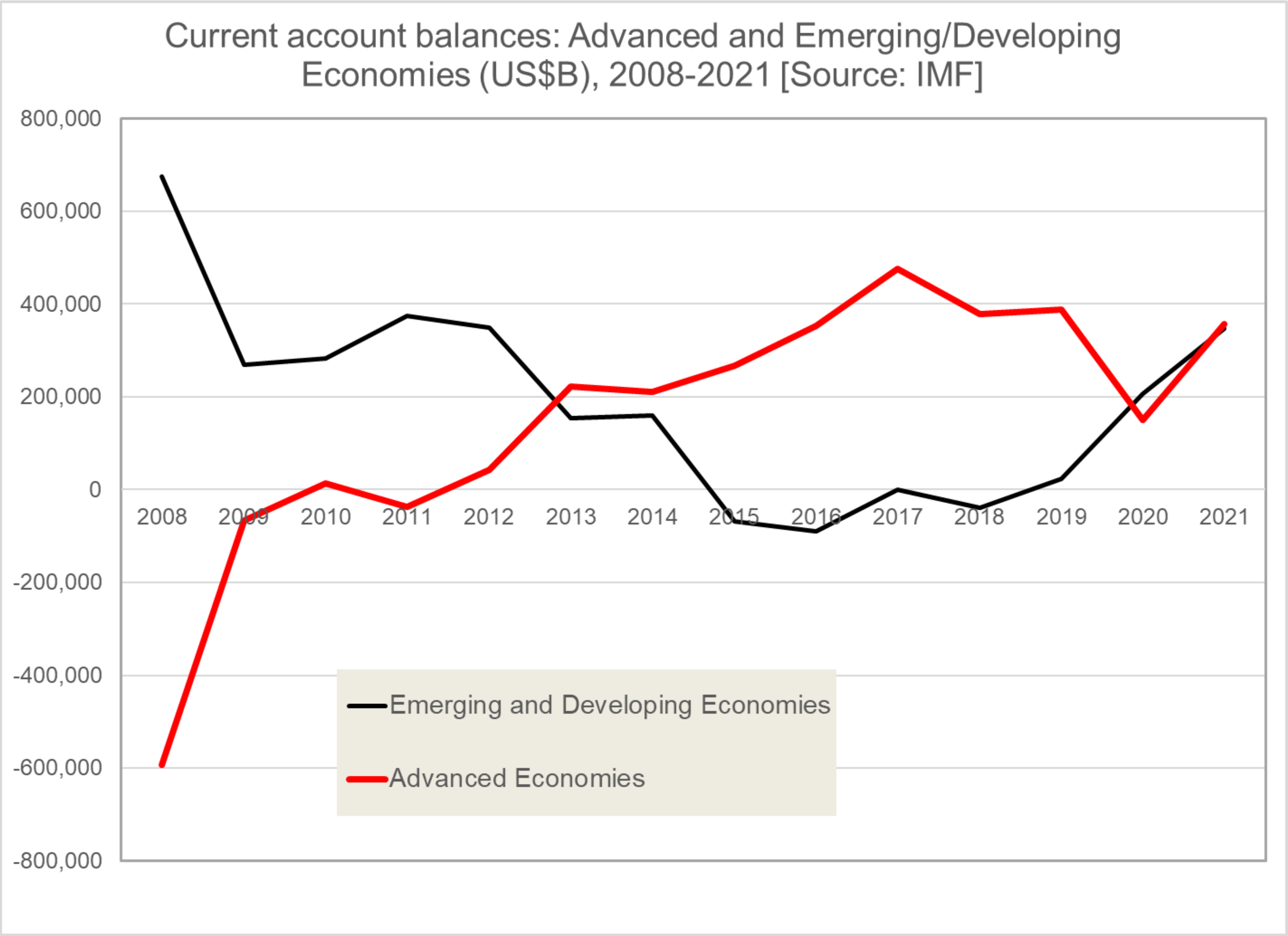
- One point made by the UNCTAD Secretariat is that scaling up blended finance means standardizing financing vehicles. This in turn requires more transparency, and an investment on the part of MFIs, IFIs, and public sectors in enabling a sharing of experience across countries.
- And the gigantic megabanks whose scale and capacity dwarfs that of all other banks must become committed partners. This could be done in various ways:
  - A new Basel IV Accord that requires globally systematically important banks (GSIBs) to commit a percentage of their assets to blending finance investment
  - A ‘Community Reinvestment Act’-type requirement that every chartered bank commit some portion of their assets – either directly or through specialist funds – to blended finance for SDGs
  - A ‘virtue signalling’ approach in which banks that reach certain SDG participation standards are allowed to use this to attract funds. This can be done by a ‘gold/silver/bronze’ scoring system.

Expanding the SDG demand side? Building a meso-economics of communities’ voice and of local/regional government capacity

- For achieving both SDGs and climate goals, which will disproportionately affect residents of lower-income areas, it is vital to recognize that much of what must be done lies in the hands of those communities – and of the local/regional governments that serve them.
- Capacitating communities’ choices, voices, and options means building their resources: investing in those communities, opening banks that serve them, these are options. Regional or national development banks can also play in.
- Local/regional governmental capacity also requires attention, because the absence of ‘policy space’ is not just a problem of fiscal stringency: it arises when public officials have no spare time/energy to think beyond the current crises they face.
- UNCTAD is well positioned to train and connect local borrowers with funders.

There is no alternative to multilateralism, and nation-states are in its cross-hairs

- It bears reminding that all spaces at all spatial scales have current and capital account balances. Spaces that import more than they export require financial inflows to offset their deficits; if these don’t come, they must spend down their wealth or lose population they can no longer support. Perverse cycles of unlivability and deprivation lead to loss of human life, suffering, climate disasters.
- This is always and everywhere a global problem: multilateralism is inescapable, just as are the workings of imbalances at the global (climate) boundary.
- Since the 2008 Great Financial Crisis and its aftermath (that is, austerity policies by global North governments), the global South has had a systematic trade deficit with the global North. The nation states of the global South bear the brunt of this pressure. Taken together, they cannot ‘trade their way to growth’ systematically. Their policy space is especially squeezed because of where they stand in the currency hierarchy. They are caught in a trap.


Current account balances: Advanced and Emerging/Developing Economies (US$B), 2008-2021 [Source: IMF]
800,000
600,000
400,000
200,000
0
-200,000
-400,000
-600,000
-800,000
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
Emerging and Developing Economies
Advanced Economies

Crises of day-to-day survival for some, ease of escape for others: a global pattern

- The disportionate wealth held in global financial firms can be traced to systematic current/capital account imbalances involving the US and its dollar's 'exorbitant privilege', and to past patterns of colonialism.
- These imbalances are at the root of others: who has the capacity and resources to finance sustainable societies and nature where they live; but who feels they deserve escape from responsibility for that, entitled by their riches (see Zucman and Pikett for more on this).
- Despite flights of the privileged, the number people locked into climate-challenged and lower-income places by circumstance are increasing. There is a need in these spaces for compensating flows of finance to tackle SDG and climate targets – whether in the form of loans, gifts, or aid. If this does not happen the result will be depopulation and outmigration, shifts with many further consequences.
- We must then understand that action now to meet the SDG financing goals is a matter of the utmost urgency for all who value the lives they've lived to this point, on this planet.