

Blended Finance

Environmental Finance in the Debt & Ecological Crises Brief #3

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Key Points:

Blended finance has become a dominant paradigm in development and environmental finance over the last 15 years. The main idea is that scarce public resources will never be sufficient to achieve critical social and environmental aims, so private, return seeking capital must be attracted to fill the gaps.

Many multilateral development banks and Global North countries' bilateral aid and development agencies have adopted blended financial structures as key parts of their toolkit; the World Bank has played a central role in this shift toward Development actors acting as heralds of capital.

The deployment of blended finance approaches ballooned alongside the surging growth in Global South debt that has become a humanitarian and ecological crisis.

Other briefs in this series have covered specific financial mechanisms that are meant to contend with some aspect of the debt and ecological crises. This brief takes a step back to look at one of the important concepts that animates and aligns with the use of mechanisms like green bonds, debt for environment swaps, and other financial mechanisms that will be discussed later in the series: blended finance, or the use of public funds to derisk or subsidize private investment in an effort to 'crowd in' capital to achieve public policy priorities.

The last decade has seen the spectacular growth of a new genre of Development Bank and consultancy report- the Gap report. Covering issues from [adaptation](#), to [renewable energy](#), to [biodiversity conservation](#), to [infrastructure](#) and more, these gap reports all try to quantify the shortfall between existing and needed finance to achieve specified outcomes or targets. The overarching message of all

this 'gap talk' is that investment is not keeping pace with huge and growing financing needs to address the ecological crisis. Gap talk can offer useful numbers to understand the magnitude of challenges for achieving just decarbonization, building more resilient cities, or ending the 6th extinction. But the ubiquitous takeaway, steeped in [capitalist-realism](#), is that there is not, and never will be, enough public financing from governments and International Financial Institutions (IFIs) to achieve any of these funding targets. Further, gap talk often obscures why this funding is needed in the first place, or the political economic mechanisms that are actually making the gaps grow, like [harmful subsidies for oil and destructive agricultural practices](#) or [predatory debt relationships](#) that restrict countries in the Global South from investing in climate-safe infrastructure or biodiversity safeguards.

This narrowing of imaginative horizons and leads to a logical, if dangerous, unsatisfying conclusion: what scarce public money exists is best used to 'leverage' private capital into targeted places and sectors by subsidizing private investment. These subsidies to private capital include a variety of tools to make investments in projects to achieve public policy priorities more attractive, but all of them ultimately aim to make investment either less risky or more profitable for private investors. Risk offtake agreements, first loss guarantees, credit enhancements, and structured loans that mix low-interest public loans with higher interest private loans all [fall under the umbrella](#) of 'blended finance'. This approach to development and environmental finance has become entrenched over the last 15 years alongside [the huge run-up in Global South debt](#) held by public and private creditors.

Unlike other paradigms of development practice and policy like [Structural Adjustment](#) or [Import Substitution Industrialization](#), blended finance did not emerge from [a particular political or conceptual literature](#). Instead, it is a set of practices developed 'in the wild' that gained traction early this century, then [was later formalized as a framework](#) by a group of IFIs starting with the '[Billions to Trillions](#)' campaign in 2015 that coincided with the launch of

This brief is part of an occasional series on financial mechanisms meant to address aspects of the debt and ecological crises. All entries in the series can be found at climateandcommunity.org/debt-and-ecological-crises

the [Sustainable Development Goals](#). This campaign signaled [a transition](#) from encouraging Global North countries to meet official development assistance targets for achieving the Millennium Development goals to the current focus on using public resources to ‘catalyze’ private investment. The approach subsequently became even more entrenched with the launch of the World Bank’s [Maximizing Finance for Development](#) paradigm and the UN’s [Blended Finance Task Force](#) in 2018. Financial tools that work as blended finance are ubiquitous now among development banks, bilateral aid agencies, and their NGO allies, but the World Bank has been a particularly enthusiastic adopter of the approach. Leveraging private finance by subsidizing investors was [the primary mission of former World Bank president Jim Yong Kim](#). Under Kim’s direction, bank staff criticized Kim and Bank operations of becoming ‘[a creature of Wall Street](#)’, accusing him of turning away from the Bank’s mission of alleviating poverty and remaking the Bank as a private equity fund. Criticism notwithstanding, Kim stuck with the blended finance approach throughout his tenure, as did the subsequent World Bank President and climate change skeptic [David Malpass](#). Ajay Banga, [a former CEO of Mastercard recently nominated to replace Malpass](#), seems unlikely to break with the new blended finance orthodoxy.

Beyond conceptual or ethical concerns, the real problem of blended finance rests with its outcomes. The economic success of different blended finance projects or portfolios are generally measured in terms of [the volume of public and private capital ‘mobilized’ as a multiplier of the initial public investment](#) put into derisking/subsidizing a project. But for all its talk about mobilizing private investment, the World Bank Group managed to leverage [just \\$0.25 of private investment](#) for every dollar of public money deployed for climate change objectives. Coupled with the time and cost of setting up these deals, and the fact that the vast majority of environmental finance [is distributed as loans](#), it is hard to see blended finance as an approach that can meaningfully contend with the structural dimensions of the debt and ecological crisis. This is especially true of ongoing Bank projects to enable more and more places [to access private borrowing](#) through the bond market.

Blended finance is not only an IFI approach. It has become increasingly entrenched with philanthropies

and NGOs, especially by [using donor resources to drive ‘impact investing’](#). One of the clearest examples of this are the seemingly endless, failing projects that NGOs like the Nature Conservancy undertake [to make biodiversity investable](#), often with additional financial sweeteners from arms of national aid agencies like USAID or DFID, and additional financing provided by the host government – which can add to debt levels or take funds away from everyday operations. Despite [the ongoing failure of many of these projects](#), new initiatives for conservation finance that hinge on leveraging private investment are launched annually, demonstrating the durability, if not feasibility, of the approach. That biodiversity has proven particularly challenging to achieve ‘investability’ or high private investment ratios is telling. Biodiversity is, quite often, not particularly profitable. There is no revenue stream waiting to be captured in the same way as a toll road, or even a wind turbine that can sell power to customers. That is a problem for blended finance approaches, because many of the most pressing ecological and development challenges are in the provision, protection, or repair of public goods like biodiversity, especially in countries that bear the least responsibility for the ecological crisis.

The turn to blended finances to achieve environmental and development objects signals a few critical lessons. First, the narrative justification for blended finance turns on framing development and ecological challenges as insurmountable for public institutions; as such, IFIs must reorient themselves to create new investment frontiers that return-seeking investors can descend upon to achieve public policy aims. Second, return seeking capital, contrary to the story that capitalists tell themselves and the rest of us, is fundamentally *risk averse*. Investors are looking for sure bets, and blended finance that hinges on the socialization of risk and the privatization of profit are telltale signs that investors are not looking for just any kind of profits, but specifically are harvesting rents from public subsidies. Finally, when considered in tandem with the growing share of IFI and bilateral environmental finance that is packaged as loans, often in combination with privately held debt, there is no way to blend or mobilize private finance to end the debt crisis- because the approach itself is a part of that crisis.