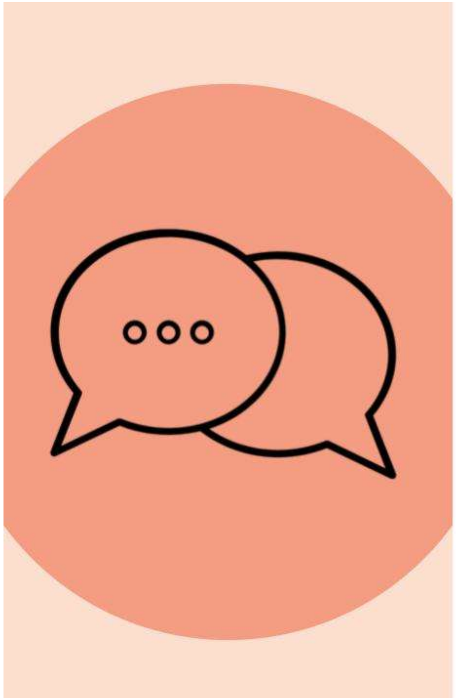

On The Use of Blended Finance

Excerpt from Susan Spronk

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Susan Spronk, Co-Founder of the Blended Finance Project, Highlights Some Cautions Around the Use of Blended Finance for Sustainable Development

Christina (0:00)

So finally welcome to Susan Spronk. Susan teaches at the School of International Development and Global Studies at Ottawa University. She is a co-founder of the Blended Finance project, a coalition of concerned civil society organizations, unions, and academics who wish to provide Canadians with a more complete picture of Blended Finance and Canadian Official Development Aid or ODA.

Maybe you can first explain briefly what a Blended Finance model is, and what are the strengths of a Blended Finance model, where is it headed and what should we be cautious about as we move forward with all of these funding models that we've been hearing about today.

Susan Spronk (0:46)

So I think part of what I'm going to say is really about this bigger picture about where Blended Finance fits in, in a larger scope and also to raise some cautions and concerns while recognizing that I think we've heard a lot from our other panelists about some of the exciting possibilities that also exist in certain sectors. And so I think one of the questions that we can ask is is this kind of tool appropriatefor all sectors, and I will suggest no.

And before starting I'd also like to reflect that I feel like Blended Finance and all the excitement around Blended Finance reminds me about the excitements of Microfinance, which in the 1990s of course also attracted a lot of attention, Nobel prize winning Grameen Bank, but then after 30 years of practice we've seen how yes microfinance is a very appropriate instrument at a certain scale, it can do a lot for people in low-income communities, but it's also morphed into something that traps people into debt, and so I think we're going to face some similar questions or I want to put those questions out now about where are we going to be. Because Canada is a bit of a late player in the game and I think Cam acknowledged this when Cam noted that Canada, as of about 2017, really started to talk about Blended Finance, created some new instruments to start to promote Blended Finance, including Fin Dev, which is based in Montreal and under the auspices of Export Development Canada, so it's not you know, formerly part of the ODA Package, but Canada has been participating in many of the Blended Finance initiatives at the global level.

So one of the questions I was asked to answer is who are the actors in Blended Finance? And yes, there are some NGOs involved, Canadian NGOs are also involved. The World Wildlife Fund is one, so is Children's Villages, some of the larger NGOs. But I think one of the questions that you mentioned already Christina is about what is this going to mean for the smaller NGOs, like is this the kind of instrument that other smaller organizations are going to be able to access?

So, the big players in Blended Finance are the large investment firms at the global level, transnational Corporations, such as BlackRock, Vanguard, State Streets, there are also some development finance institutions such as the Dutch Entrepreneurial Development Bank and certainly the World Bank has really been pushing this agenda through its Maximizing Finance for Development, the billions to trillions already mentioned. In terms of what Blended Finance is I think it's been defined a couple of times which is the use of public monies, so that's taxpayer money, in order to leverage this money by de-risking the investments of private actors.

So certainly there are strengths and there's no doubt, and here I'm going to draw from Oxfam's work. Oxfam has done a lot of work on the questions of blending and asking questions about what do we need in place to actually make sure that this investment or this mechanism for delivering ODA can actually deliver the results of leaving no one behind.

And they write in a paper called Faith is Not Enough, in 2019, that the private sector and private finance can in the right context and with the right regulatory framework make important contributions to sustainable development and the reduction of Inequalities, including gender inequality, by stimulating decent jobs and livelihoods, by catalyzing Innovation and by paying taxes that enable states to deliver essential public services.

So, I'm going to draw attention to some of the things that we think are currently lacking and I know we're learning in this process it's only been about five years that Canada has been formally labeling these instruments as such.

So I'll point to the track record of Blended Finance because this instrument has been used in Europe for over a decade now and it's been tracked in particular by the European Network on Debt and Development and they've published a number of papers raising critical questions about where are we going with this instrument and cautions and also making proposals for reforms that we need to see for this instrument to be able to actually deliver it on its promises.

So, on closer examination, the results of Blended Finance have been rather disappointing thus far and yes Blended Finance unfortunately is not an instrument that tends to be easy to use in low-income countries according to data from the OECD. From 2020 for example, I think it's around 77 percent went to the middle income countries, only about seven percent to the less developed countries.

So we can see that there is… because it's about making profit, there's a contradiction to overcome which is how do we make the poor bankable? And that's something that's very difficult to solve. Also most of the money in blending using these private sector instruments goes to banking and financial services, energy and industry and only two percent goes to water and sanitation which is something that I've spent my career thus far looking at. And it does beg the question about those fundamental services for social equality such as health and education and even agriculture, where we've seen push back from civil society on using these instruments in the last few years.

So, number two, private financing is more expensive than public financing Banks that provide the financing lend to the private sector at the highest interest rates because the companies may not be able to secure long-term returns on investments and then face considerable risk. The public sector pays lower interest rates on loans because the security of their tax revenue, renders them a lower risk investment, and in fact this is why many argue that the government is best suited to fund development initiatives.

One of the things I think is a big concern is that Blended Finance initiatives are complex and difficult to monitor, and some of the academic literature that's been emerging on Blended finance and also the gray literature by International organizations points to these holes in the international regulatory system right now, where at best what we have are voluntary principles and not principles that can be followed up in a court of law. So there's problems in terms of transparency and accountability.

Also, as I've already mentioned I think there are problems where public investments in health, education, water and sanitation, are urgently needed but it's difficult to provide those services for a profit especially in poor communities. And also, in a policy paper by someone named Polymyth, the fifth problem that I think we need to overcome or the cautions, is that it is difficult to use this tool to promote gender equality. I think there is a role for promoting women-led businesses, small and medium enterprises, but a review of recent Blended Finance initiatives suggests that 75 percent do not display any gender awareness at all, so again there's gaps in this sector right now in terms of pushing forward on some of these reforms that I think we need to see.

Then lastly, Blended Finance is supposed to create additionality, that is the whole idea is that when the private sector is doing these things, it'll create other space for the public budget to address other Issues, and that they'll create therefore additional benefits. Of course, there's no universally agreed upon definition of what those things mean. It's not supposed to crowd out private sector investors but there's a high risk of impact washing, that is that partners will claim to achieve a positive benefit even when there's none. Or where the impact would have been achieved in any case. And so I do think we have some questions to ask about where we're going here.

And I'll close with what I think the cautions are, what we need to do and I think there's two order of things. One is I do think we need measures to increase transparency and accountability of these initiatives, and one of the commonly referenced set of principles is the Kampala principles, which have been created by OECD, to look at how we can use these instruments well. And also secondly, and I think this always needs to be part of the conversation, is that I have other questions about, is this really an appropriate instrument if we're concerned about the poorest people in low-income countries, the least developed countries. So I think we need to also always keep on the agenda other alternatives including budget support, tax reform, and debt relief always need to be part of this conversation about development financing and alternatives.

Thanks.