

## What's Next?

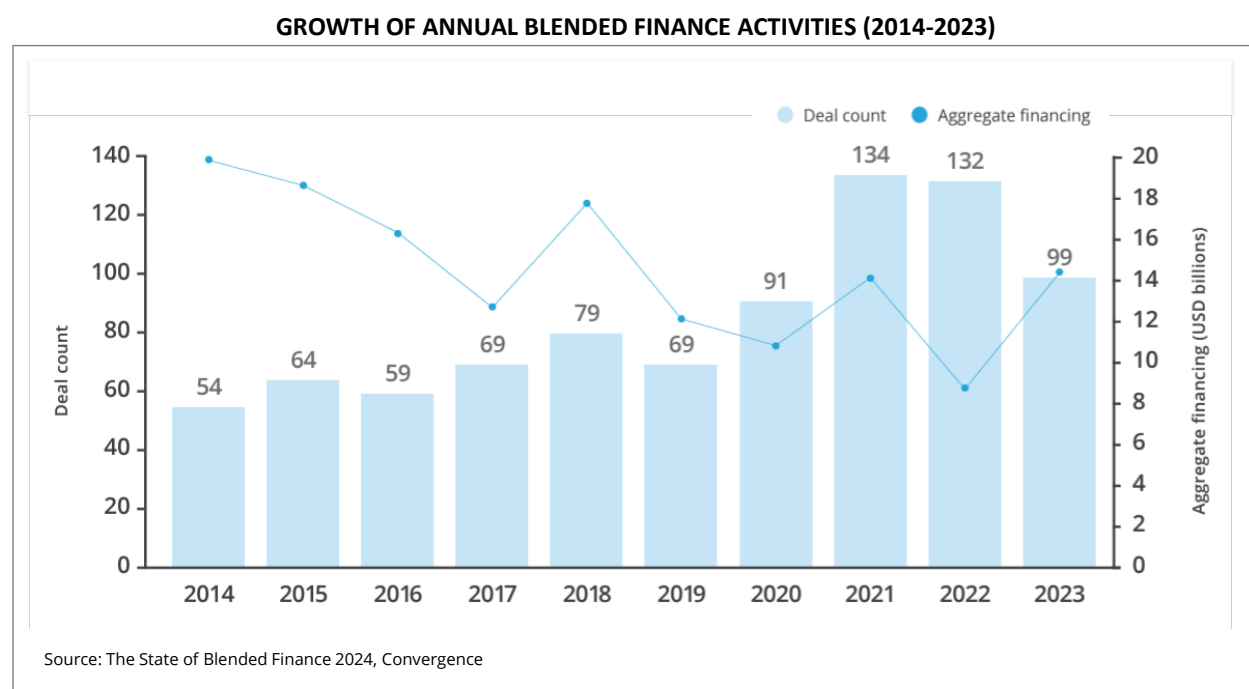
### *Reimagining Blended Finance*

It's time for an honest conversation about the elephant in the room.

We need to rethink – *reimagine* -- blended finance. We need a BF 2.0.

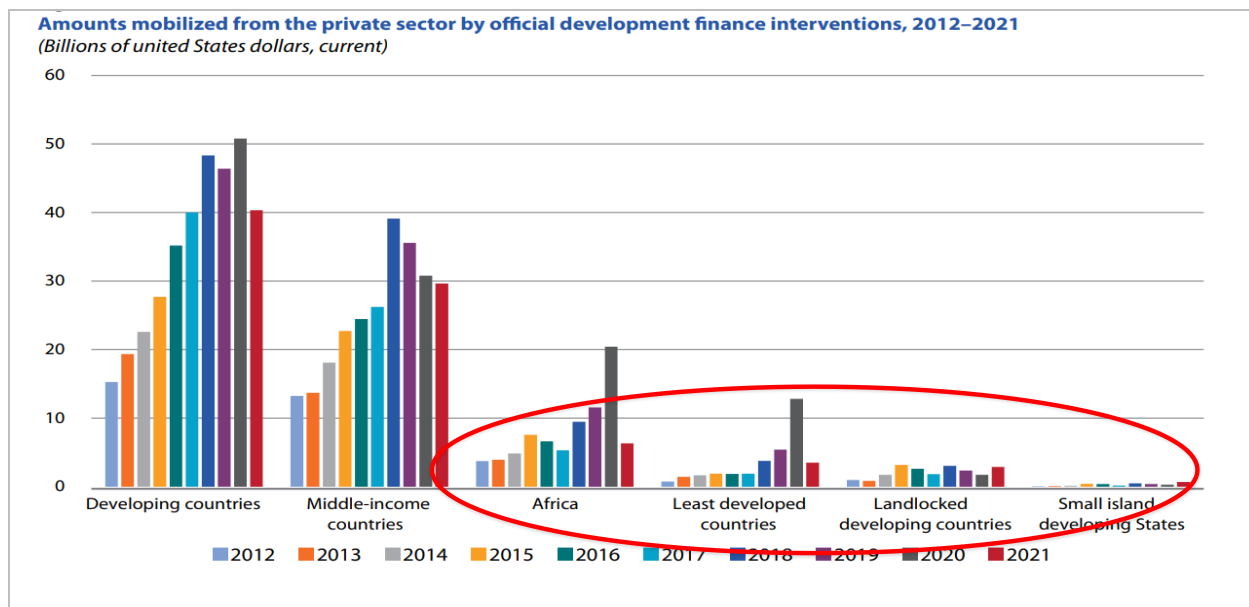
Why?

Blended finance, in its current form, is in a rut. According to Convergence's report *The State of Blended Finance 2024*, blended finance activity has largely plateaued over the past decade – topping out at some \$20 billion and 130 deals annually.



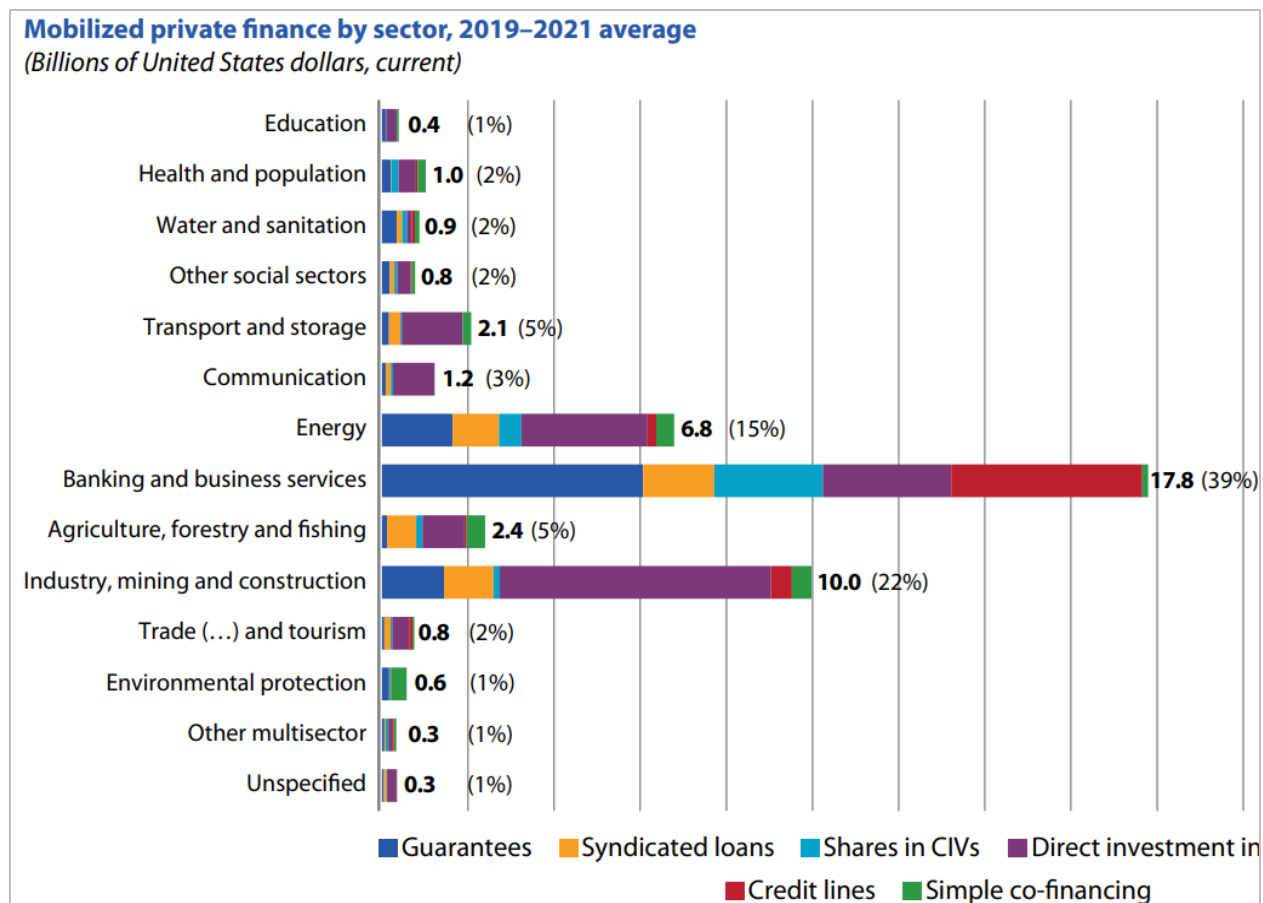
Of course, these deals are not unwelcome; indeed, any capital that helps move the funding needle for Sustainable Development Goals (SDGs) is laudable. But these amounts fall well short the trillions of dollars needed every year.

Moreover, emerging data suggests that blended finance activity is leaving the poorest and most vulnerable behind. Recent data from the United Nations indicates that private sector funding mobilized by official development finance interventions (such as from development agencies, development finance institutions, and multilateral development banks) is flowing mainly to middle-income countries. Meanwhile, some of the least developed countries, including landlocked developing countries and small island developing states, are receiving less than their fair share.



Source: United Nations 2023

Shifting from countries to sectors reveals other uncomfortable truths. Here we can see that mobilized private sector funding flows mainly to more commercially-oriented sectors like banking, energy, and mining – areas we might call “shiny objects”, as they tend to attract lots of attention and capital. Meanwhile, some of the most crucial sectors for poverty alleviation and building foundations for sustainable growth – such as education, health, and water/sanitation – receive much smaller amounts of funding.



Source: United Nations 2023

### Sister Can You Spare a Dime? (Actually 40 Trillion of them...)

Blended finance is, by nature, a numbers game. So, let's look at the numbers.

Most estimate a funding gap for SDGs of up to \$4 trillion dollars annually. Over 10 years that totals \$40 trillion. Blended finance is seen as a key pathway to get "from billions to trillions". But how realistic is this?

We can all agree \$40 trillion is a lot of money. But can we actually grasp just how much money that is?

Some perspective: \$40 trillion is the equivalent of 110 more World Banks, or 530 more Gates Foundations. Or – for those philosophically inclined – if you put \$1 million in a jar every hour since the time of Plato, you would still need another \$18 trillion.

Indeed, \$40 trillion is *a lot* of money.

Wait, I hear you say, what about big multilateral development banks (MDBs), like EBRD, ADB, and IADB? Combined they spend upwards of \$200 billion annually – surely their activities mobilize substantial private capital for development. Regrettably, no – the MDB Task Force reports that every dollar of MDB

financing crowds in only 60 cents of private capital, directly and indirectly; and if you exclude indirect mobilization, this ratio falls to 20 cents.

### **Some Perspective – and Some Questions**

Of course, blended finance was never intended to be the silver bullet to solve all SDG funding challenges. The United Nations' post-Addis global compact "*The 2030 Agenda for Sustainable Development*" underscores a range of measures, not least enhanced mobilization of developing-country domestic resources via improved enabling environments (i.e., labor rights, health standards, tax collection, etc.), equitable international trade, and coordinated debt relief.

Nevertheless, blended finance has a vital role in mobilizing capital at scale for SDGs. While it may be tempting to search for the *Next-Big-Thing*, blended finance is here to stay, and we must find ways of enlarging the tent; of doing more with less.

How do we get there? Sadly, the answer is still rather fuzzy. But by asking the right questions, we can gain clarity.

An overriding question is what's stalling current levels of blended finance activity? The answer is at once complex, and simple.

Blended finance combines public, private and not-for-profit entities to mobilize dollars, knowledge, and networks for SDGs, with the idea that 1+1+1 can, with proper structuring, equal 10. This premise is elegant in principle, but challenging in practice. Governments are slow – they rightly must be careful deploying taxpayer money in a fiduciarily responsible manner. Private sector is impatient – they rightly want to get on with investing for impact and earning returns. Not-for-profits are disparate – some have "aid" budgets larger than sovereign states, while others struggle to stay afloat. This is combination of capabilities and motivations not a recipe for blended success over the long term.

### **Whither Blended Finance?**

Moving forward in uncharted waters without a compass is never easy or comforting, but here we are. If we are honest, we know new thinking and new action is needed to move from BF 1.0 to BF 2.0. We need less talking and more listening. We need less high-brow policy and more grassroots innovation. We need more pull and less push.

The world is becoming a different place with new challenges and untold opportunities. Let's get ready – BF 2.0 is within our grasp.