

Scaling up blended finance to build back better

Idsert Boersma Director of partnerships for Impact (P4i) - FMO 2

September 1 2022



Reaching the Sustainable Development Goals (SDGs) has been delayed by Covid-19, leading to a rise in poverty and inequality. Additional effort is needed to adapt to climate change: funding will be required to build back better and make the economy greener, which will create decent jobs and enable citizens in emerging markets to participate. Using blended finance - with public funding opening the way for private impact finance - could be the key to reaching the SDGs.

Covid-19 has pushed back the clock on reaching the SDGs, shining a light on the stark inequality rampant across the globe. More than 100 million people have fallen back into poverty, countless small businesses have been severely disrupted, and many girls have been unenrolled from school. While all of this has been happening, the world has had to learn to cope with climate adaptation, since the world's economic recovery has pushed attainment of the 1.5-degree target off track - impacting those at the bottom of the pyramid the most. Pre-Covid-19, it was estimated that USD 2.5 trillion a year would be needed to reach the SDGs and the climate goals. With the pandemic, progress toward these goals has been slowing, and in some instances even reversing. In fact, the poverty rate is expected to increase for the first time in more than 20 years.

Yet there is potential for positive outcomes. This is the time for innovative solutions to building back better and greening the economy, by creating new types of partnerships that will enable citizens in emerging markets to participate in society by having more decent jobs. According to Idsert Boersma, blended finance - which involves combining public funds with private capital - could be an important part of the post-Covid-19 solution. According to Idsert Boersma, FMO's Director of Partnership for

Impact, “It is up to us to show that it can work; then the big money will start to move to emerging markets, which is absolutely necessary if we want to meet the Sustainable Development Goals (SDGs)!”

YOUR EXPLANATION OF BLENDED FINANCE AS “THE HIGHER RISK APPETITE OF GOVERNMENTS OPENING A PATHWAY FOR BIG [PRIVATE] MONEY” INVITES THE QUESTION: WHAT FORM WILL IMPLEMENTATION TAKE?

Idsert Boersma: It has to be done in a strategic way. The layers must be well designed, with an eye for the specific risks perceived by the private sector. There is a huge amount of money in the private sector, less in the public and philanthropic sectors. The purpose is to use some public funding to mobilize a lot of private funding. It will take a lot of time to get this right, and we should be very mindful of not wasting taxpayers’ money. Blended finance can only be used where it is really needed, and the governments’ input should only be temporary.

COULD YOU GIVE AN EXAMPLE OF A BLENDED FINANCE PROJECT THAT MEETS THESE CRITERIA?

Let us look at a climate adaptation project. How can we live and protect people’s livelihoods if their surroundings are changing due to climate change? Within DFCD, a fund in which FMO works together with two NGOs – SNV and WWF – as well as with Climate Finance Managers, a project in the Mekong Delta, home to 17 million people in Vietnam, is being developed. This is one of the world’s most productive ecosystems and at the same time one of the regions in the world most vulnerable to water and climate disasters. Erosion of the riverbed is aggravating saltwater intrusion – in some parts reaching up to 130 km inland – affecting soil fertility and poisoning crops.

To create a climate-resilient landscape, the Mekong Delta Integrated Rice and Aquaculture Project comprises mixed rice and shrimp aquaculture ponds. The ponds produce rice and freshwater shrimps in the rainy seasons and brackish-water shrimps in the dry seasons and periods of saltwater intrusion. The benefit of this is that the shrimps provide the nutrition for the rice to grow. The farmers’ income has doubled. This is a relatively small project (USD 150K), but if the positive effects continue, we will scale it up 100 times, with blended finance. It has a demonstrable effect, so others can follow, and then the impact becomes exponential.

HOW MUCH IMPACT COULD BLENDED FINANCE HAVE IF USED ON A BIG SCALE?

If we get it right, it offers big solutions. It could become a powerful tool in attaining the SDGs. But for now, it is still small. It is up to us to show that it works; then the ‘big money’ will start to move in New York and London. It requires skills that we have to develop together.

WHAT WILL IT TAKE TO REALISE BLENDED FINANCE’S POTENTIAL?

A few current trends could be suitable for blended finance and could help to accelerate it. There is the low-interest environment: people want to invest to make some money, while having an impact. This is an instance where the development finance sector is realizing that it has to act together with the private sector. The private sector does not know how to work with governments that well yet, even though there are ample opportunities to utilize each others’ strengths. The technologies used by new fintech and agritech businesses bring new opportunities to reach people who previously were difficult to reach. Investors are looking for opportunities; there is willingness to work together.

WHAT CAN DFIS DO TO UNLOCK THE FULL POTENTIAL OF POST-COVID-19 RECOVERY EFFORTS?

Both *entering into* and *exiting from* emerging market private equity investments is considered high-risk by most investors. A clear market failure exit as a well-functioning secondary equity market is absent for exiting investments, which deters investors from venturing into emerging markets

(especially in Africa). A blended finance innovation, establishing a secondary market equity platform — open for all DFIs and MDBs — would fit the European Commission Team Europe aim of ‘investing in young businesses in Africa’. Over time, it would also lead to private sector players joining in.

© 2022 - Private Sector & Development