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Unheeded risks in the turn towards blended biodiversity finance

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Introduction

Parties to the Convention on Biological Diversity (CBD) are currently negotiating a post-2020 Global Biodiversity Framework (GBF) that is meant to set out how governments implement their general obligations under this legally binding treaty through specific goals and targets for the next decade.

The First Draft of the GBF, released in July 2021, comprises four goals and 21 targets. Among these are those relating to resource mobilisation for the effective implementation of the GBF.

In the current Target 19, nestled among the many ideas on how to increase financial resources for biodiversity, is the phrase "leveraging private finance". The inclusion of this phrase is based on the claim that the public sector cannot provide all the finance needed, therefore there is a need to increase private sector financing.

"Leveraging private finance" is essentially about blended finance – the use of public, philanthropic or supranational funding to "leverage", "unlock" or "catalyse" private investments, often through direct grants, tax relief or debt-based instruments like loan guarantees.

The fundamental question is, to what extent should public funds be used to essentially de-risk private capital investment? This briefing paper unpacks the notion of blended finance for biodiversity, drawing out some key concerns with the approach and its inappropriateness for financing biodiversity. The evidence surrounding blended finance suggests that it is a false solution to ongoing conditions of debt and austerity in developing countries.

Shortcomings and potential adverse effects

Blended finance – the notion that development finance institutions, philanthropists and non-governmental organisations (NGOs) can offset private investors' risk-return requirements and thereby attract much-needed capital for development, while leveraging or scaling up financial returns and the scale of private investments – has recently gained traction in international debates concerning biodiversity finance. Blended finance has

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especially come to prominence after the introduction of the Sustainable Development Goals.[1] The idea behind blended finance is that savvy ways of deploying development finance through technical assistance, risk underwriting and monetary incentives for private investors will enable further resource mobilisation.[2] While it is difficult to *tout court* reject that some blended finance projects may lead to socially and environmentally beneficial projects, we also need to draw attention to some of the shortcomings, potential adverse effects and demonstrated evidence of the failings of blended finance.

First, while blended finance is sometimes highlighted as a novel approach, development finance institutions and NGOs have arguably been doing blended finance for years. Development finance institutions (such as the World Bank) have often been used to facilitate private investments and the link between development efforts – where development is defined either in narrow economic terms or in broader social and environmental terms – and private investment is therefore not new. The inclusion of, say, technical assistance in the concept of blended finance means that NGOs, philanthrocapitalists and development finance institutions have been applying green variants of blended finance on a large scale before the concept became widely popularised, at least since the introduction of the Clean Development Mechanism (CDM). While the rise of blended finance as discourse may indicate that some actors in development are acknowledging the difficulty of getting private investors to ethically and responsibly invest in nature and highlights the role of development actors in creating new markets, **the transformative potential of blended finance and its novelty should not be overstated**.[3]

Second, while there is little systematic research on blended finance for biodiversity, research on blended finance as such indicates that earlier claimed benefits of this approach have been overestimated. There is no agreed-upon and systematic way of accounting for blended finance's ability to "leverage" private investments, but some researchers have argued that – rather than using billions of development finance dollars to leverage trillions of private dollars – it is more realistic to talk about "billions to billions".[4] Even if we assume that blended finance is desirable (despite evidence so far indicating otherwise[5]), these blended deals usually do not take place in low-income countries.[6] And even if there is no clear understanding of the effects of blended finance for investments in biodiversity yet, it is important to take note of research that indicates that turning biodiversity into an investment opportunity is notoriously difficult, especially when employing the categories, metrics, taxonomies and accounting methods of the private finance sector.[7] This suggests that **it would take a lot of blending before biodiversity becomes an investment opportunity for investors**: that is, large amounts of public capital will be needed to leverage the desired private capital.

1 Karwowski, E. (2021). Commercial finance for development: a back door for financialisation. *Review of African Political Economy*.

2 OECD and World Economic Forum (2015). *Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders*. World Economic Forum.

3 Biodiversity Capital Research Collective (2021). *Beyond the Gap: Placing Biodiversity Finance in the Global Economy*. Third World Network and University of British Columbia, pp. 72-76.

4 Andersen, O.W. et al. (2019). Blended Finance Evaluation: Governance and Methodological Challenges. OECD Development Co-operation Working Papers No. 51.

5 For a discussion of the adverse effects of blended finance and public-private partnerships, see for example Hildyard, N. (2016). *Licensed Larceny: Infrastructure, Financial Extraction and the Global South*. Manchester University Press; Jomo, K.S., Chowdhury, A., Sharma, K. and Platz, D. (2016). Public-private partnerships and the 2030 Agenda for Sustainable Development: fit for purpose? (DESA Working Paper No. 148, ST/ESA/2016/DWP/148). United Nations Department of Economic and Social Affairs; and Van Waeyenberge, E. (2016). The private turn in development finance. Working paper No. 140. FESSUD.

6 Attridge, S. and Engen, L. (2019). *Blended finance in the poorest countries: The need for a better approach*. ODI.

7 Biodiversity Capital Research Collective (2021). *Beyond the Gap: Placing Biodiversity Finance in the Global Economy*. Third World Network and University of British Columbia, pp. 63-71; Dempsey, J. (2016). *Enterprising Nature: Economics, Markets and Finance in Global Biodiversity Politics*. Wiley-Blackwell; and Dempsey, J. and Suarez, D.C. (2016). Arrested development? The promises and paradoxes of "selling nature to save it." *Annals of the American Association of Geographers*, 106(3), 653-671.

Third, blended finance approaches tend to conceptualise development challenges as being due to insufficient capital. However, there is no guarantee that more private capital will bring development and sustainability. Some research highlights that blended deals can be costly for public actors. This is particularly the case with public-private partnerships (PPPs), which have become a central tool for the deployment of blended finance. Insofar as blended deals are made with public guarantees or blended finance is used for issuing debt, **there is a risk that blended financing deals can become a drain on existing and often scarce public resources**.[8]

Fourth, researchers have highlighted that blended finance can lead to a lack of transparency.[9] It is sometimes argued that blended finance will promote more socially responsible or sustainable investments, but **blended finance can imply lack of democratic oversight as investments are made in private entities**. Jomo and Chowdhury highlight how this can be a result of governments' efforts to take public debt and risks "off the books" or not accounting for these in public debt accounting, as government involvement with PPPs does not figure as a regular expenditure. [10]

Fifth, whereas financial investors receive public guarantees to make sure they get a return, discourses on blended finance do not put any emphasis on the need for guaranteeing good jobs for employees or guaranteeing environmentally beneficial outcomes. Although some blended finance projects may deliver good jobs, this would be the result of more or less accidental trickle-down development finance.[11] As Oscar Reyes has suggested, rather than creating blends for international finance, the same development money may be better spent supporting local small and medium-sized enterprises (SMEs) in developing countries through more direct budget support.[12] Furthermore, when the state outsources the production and distribution of public goods to private actors, "the fiscal burden of provision of basic goods and services remains with the state."[13] Biodiversity is no exception in this regard. A question that needs to be addressed is what happens if private actors fail on delivering public environmental goods. **There is a risk of private gains and social losses, as blended finance merely guarantees the incomes of investors and investment bankers, rather than peoples and nature.** Finally, harms to biodiversity can be created by the priority on investment returns, rather than on considerations for social rights, biodiversity protection and equity.[14]

Conclusion

Ultimately, blended finance for biodiversity relies on the premise that we are stuck in global austerity, rendering the public sector inadequate and constrained, and therefore the abundance of private capital must be attracted and facilitated. Blended finance furthermore relies on the assumptions that there is an abundance of private capital committed to sustainable development and that we need to meet private capital's return requirements.[15] The fundamental political question remains as to whether the public should subsidise and assume the risks of private investments. Rather, we should find other ways of mobilising public funds and make policies that disincentivise environmental degradation in the first place. This could involve improving

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8 Jomo, K.S., Chowdhury, A., Sharma, K.and Platz, D. (2016). Public-private partnerships and the 2030 Agenda for Sustainable Development: fit for purpose? (DESA Working Paper No. 148, ST/ESA/2016/DWP/148). United Nations Department of Economic and Social Affairs.

9 Mawdsley, E. (2018). "From billions to trillions": Financing the SDGs in a world "beyond aid". *Dialogues in Human Geography*, 8(2), 191-195.

10 Jomo, K.S. and Chowdhury, A. (2020). World Bank urges governments to guarantee private profits. TWN Info Service on Finance and Development. Retrieved from: https://www.twn.my/title2/ finance/2020/fi201105.htm

11 Biodiversity Capital Research Collective (2021). *Beyond the Gap: Placing Biodiversity Finance in the Global Economy*. Third World Network and University of British Columbia, p. 74.

12 Reyes, O. (2020). Change finance, not the climate. Transnational Institute and Institute for Policy Studies.

13 Van Waeyenberge, E. (2016). The private turn in development finance. Working paper No. 140. FESSUD, p. 39.

14 Biodiversity Capital Research Collective (2021). *Beyond the Gap: Placing Biodiversity Finance in the Global Economy*. Third World Network and University of British Columbia.

15 Van Waeyenberge, E. (2016). The private turn in development finance. Working paper No. 140. FESSUD.

taxation, re-regulating industries that damage biodiversity, changing banks' capital requirements and undoing the debt-austerity nexus that limits public funds for biodiversity. Some specific actions that could be taken would include addressing illicit financial outflows through international tax cooperation, establishing a multilateral mechanism for debt workouts, and putting an end to the fiscal-austerity-related conditions in International Monetary Fund (IMF) and World Bank financial assistance.[16]

For these reasons, the concepts of "blended finance" and "leveraging private finance" should find no place in the post-2020 GBF or in discussions on mobilising resources for biodiversity.

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16 For policy alternatives to blended biodiversity finance, see: Dempsey, J., Nelson, S., Christiansen, J., Irvine-Broque, A., Rojas-Marchini, F., Bigger, P., DiSilvestro, A., Schuldt, A. and Shapiro-Garza, E. (2021). Resource mobilization and the Convention on Biological Diversity: Moving beyond the gap. Third World Network.