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Creative cocktails or toxic brews? Blended finance and the regulatory framework for sustainable development

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Description / Abstract

Blended finance is the new catchphrase in international development cooperation. Referring broadly to financial instruments that combine public and philanthropic resources with private capital to support development and global public policy objectives, blended finance is deployed ostensibly to catalyse greater private capital flows to emerging and so-called 'frontier' markets through the public provision of financial incentives, such as subsidized loans, risk guarantees and co-financing, to private actors investing in developing countries. Proponents argue that blended finance is crucial to scaling up resources for sustainable development projects, including in agriculture, energy and climate change mitigation and adaptation, by mitigating risks, by lowering transaction costs and thereby increasing the commercial viability of such investments for private actors. This chapter examines the emergence of blended finance as mechanism for financing development and its implications for the international aid architecture and framework for international development cooperation. It argues that the growth of new public-private modalities of development financing, such as blended finance, is re-engineering the governance of international public finance at the global and domestic levels, involving a significant shift in the forms of public administration and governance in which crucial elements of public authority are being shared with a host of non-governmental and other-governmental actors. This increasing shift towards the so-called 'privatization of aid' necessarily entails a transformation in the modalities of public administration to accommodate these new forms of public goods provision and account for the new exercises of public authority by third party private actors. This, in turn, has implications for both the substantive outcomes of international development cooperation, such as food security, poverty reduction and environmental protection, and the governance and regulatory framework of international development cooperation that is crucial not only to the delivery of such outcomes, but to safeguarding the interests of stakeholders of sustainable development investments.

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