

CAN NATIONAL DEVELOPMENT BANKS AND BLENDED FINANCE LEAD US TO A SUSTAINABLE FUTURE? LIMITS AND POSSIBILITIES OF MARKET-LED AND STATE-LED FINANCE

Os bancos nacionais de desenvolvimento e o financiamento misto podem nos conduzir a um futuro sustentável? Limites e possibilidades do financiamento orientado pelo mercado e pelo Estado

Gary Dymski

Economist. PhD in Economics. Professor of Applied Economics. Department of Economics. University of Leeds. g.a.dymski@leeds.ac.uk

Lesslie Valencia Vera

Economist. PhD in Economics. University of Leeds. l.a.valenciavera@leeds.ac.uk

1 INTRODUCTION

In the millenium year of 2000, 189 nations convened in the United Nations' (UN's) New York headquarters and agreed on 8 Millenium Development Goals (MDGs) that would support the attainment of minimum living standards in developing economies and slow the pace of global warming. Well before 2015, the target year for measuring progress toward these MDGs, warning bells were being sounded (Clemens and Moss 2005); As Wendy Harcourt (2005) observed, the UN staff, the members of the international community participating in these meetings, and the nation-state members of the UN were simply expected to achieve these goals: the mandate was set out without an implementation scheme.

By the target year, with little progress made, both goals were reset. The UN agreed on the 2015 Addis Ababa Action Agenda, which committed its member nations to achieving a broader set of goals, now 17 in number, by 2030. Renamed the Sustainable Development Goals, this standard was made applicable to all member nations. The 2015 Paris Agreement, signed by nations participating in the UN Framework Convention on Climate Change (UNFCCC), established national sustainability targets and committed signatories to providing the needed resources or identifying sources of finance. There was, at the same time, global consensus that the rich nations, in part due to historical legacies of colonialism, should bear the larger financial burden in this quest.

One channel for financing sustainability projects had already been opened: green bonds. First sold in 2007, some \$40B were issued in 2015. Although the green bond market continued to expand – reaching a volume of \$500B by 2021 (Climate Aligned, 2025) – it fell far short of the funding required to support a comprehensive global response to global warming.¹ Further, analyses of green bonds showed other shortcomings vis-à-vis the climate crisis: they often offered no additionality and supported activities that, while 'green', would have no impact on global warming.

So two new directions for providing the needed financing emerged. First, the G20 launched a 2018 proposal that called on the IMF to coordinate a system of publicly-underwritten blended finance provided through private financial markets (G20 Eminent Persons Group on Global Financial Governance, 2018).² Meanwhile, other economists, critical of the shortcomings of both private global finance and the international financial institutions (IFIs), called for dedicating national development banks to these goals (eg, Griffith-Jones and Ocampo 2018).³

1 UNCTAD's *Trade and Investment Report 2019* estimated the requirement for financing *Agenda 2030*, which encompasses the SDGs (including climate action) at \$2.5 trillion per year (UNCTAD, 2019). In 2023, the Climate Policy Institute (2023) estimated the climate financing gap at \$6.2 trillion annually through 2030, and \$7.3 trillion annually through 2050.

2 The Brazilian proposal for a \$125 billion global forest fund, timed to coincide with the COP30 meeting in Belem, falls into the 'blended finance' category (Mundy, 2025).

3 It is important for our purposes to differentiate between public development banks, created and run (or for) individual nation states, and multilateral development banks (MDBs, such as the World Bank or BRICS Bank, whose creation is authorized by organizations created by multiple nation-states. This paper does not touch on the latter, except insofar as MNBs have been included in the designs for private-sector climate financing schemes.

This paper poses three questions about these contrasting proposals. The first is this: how can we explain the almost simultaneous emergence of such different financing approaches for reaching the same objectives? Section 2 answers this question by tracing these contrasting contemporary approaches to their historical origins in the Cold War era of the 1950s and 1960s. To keep discussion manageable, this look backward examines the specific case of the United States (US) and Latin America (especially Brazil).⁴ The US government's asymmetric policies toward Western Europe and toward Latin America in those years helps explain why 'advanced' and 'developing' economies adopted divergent methods of financing investment and growth. These differences have implications for how theoretical models of financial markets – and the interests they can and do serve – can be usefully deployed in efforts to secure the finance and investment needed for sustainable futures in both the US and Latin America.

Second 3 takes up our second question: since the 2015 Addis Ababa and Paris promises were necessitated by a global failure to meet the Millennial Sustainability Goals, can one or the other of the proposed post-2015 financing pathways succeed? Understanding what SDG financing approach might succeed now has to start by exploring why the global commitments made in year 2000 have fallen short after 2015. Two reasons for this are easily recognized: the absence of an agreed multilateral planning and commitment process; and the state of the global financial system after the Great Financial Crisis (GFC) that erupted in 2008. We point to a third, largely overlooked factor: both approaches, market-led and state-led, rely on nation-state governments having fiscal capacity – 'policy space' – available, at a time when they are being squeezed between prior domestic commitments and rising debt levels.

This brings us to our third question, posed in section 4: what adjustments are needed to open the possibility of public funding for transformative work on human capacities and the climate crisis? Note first the absence of an immediate fix at planetary scale. Politicians have reacted to sovereign debt growth, in part, by prioritizing national – if not nationalistic – agendas that constitute inhospitable terrains for globally-focused policy proposals. These circumstances will not be quickly undone. Ultimately, action and structural reform will be needed at global, local, *and* community levels; but we argue that the place to start is to enable bottom-up initiatives that restore well-being and the hope of prosperity for those left behind. Public banking rooted in local communities might provide one such vehicle: can we restore 'bottom up' democratic voice by funding 'bottom-up' mechanisms for sustainability and inclusion?

2 THE UNEASY COEXISTENCE OF US DOLLAR-LED 'CENTRE' WITH DEVELOPMENT BANKING IN THE LATIN AMERICAN 'PERIPHERY' BEFORE THE GLOBAL FINANCIAL CRISIS

Contemporary climate and SDG proponents in the global North (especially, in this essay, for the United States) heavily favor market-based approaches, while those associated with the global South (here, Brazil and Latin America) often privilege public options. This divide can be traced to two roots. The first is the US government's asymmetric approaches to its 'free world' leadership role in Western Europe and in Latin America in the early Cold-War years. The second is that Latin American plans for securing the finance and investment needed for 'catch-up' growth have had to contend, then and now, with this region's subordinate position in the global financial system. In most analyses undertaken by US analysts, even those favoring heterodox economic policies, the policy constraints operating on nations outside the top of the currency hierarchy are invisible.

4 While section 2 concentrates on the historical trajectory of US finance and politics from the 1950s forward to the subprime crisis as it has affected Latin American (and specifically Brazil), the review of contemporary policy proposals and possibilities in sections 3 and 4 widen the focus to encompass developments across the global landscape. The emphasis on the US's historical role can be justified by its centrality in determining the shape of the post-World War II global economy; the emphasis on Latin America enables us to highlight one key site of the post-colonial and imperialist centre-periphery dynamics that operate globally, but in a relatively succinct way.

The divergent histories and structural circumstances of these global North and South nations within the Americas matter profoundly now, as they did in the past, for what is proposed and what can be done. This means that the policy implications of the divergent theoretical reference points that inform mainstream and heterodox views necessarily differ across the Americas.

The US-led plan for the post-War global economy. As the second half of the 20th Century began, the United States emerged as the dominant global economic power in Western economies. It seized the opportunity to create a post-War global currency order based on its own currency. The end of World War II brought with it not just the defeat of the Axis powers, but a period of intense rivalry – the Cold War – between that conflict’s dominant powers, the US and the Soviet Union.

At the Bretton Woods conference in July 1944, a month after the D-Day invasion, the US began a 3-year process of putting in place the architecture for post-war global economic governance. The US delegation rejected John Maynard Keynes’ proposal of an international currency union (ICU) that would perform the functions of a global central bank and would be delinked from gold, which had anchored the UK-led gold standard fixed-rate currency system until its abandonment in 1931. The US then secured approval for its plan, which was built around four pillars. The first was a restoration of a gold-based currency system, only anchored by the US dollar, not the UK pound. The next two pillars replaced Keynes’ ‘global central bank’ concept with two IFIs of far more limited scope, the World Bank and International Monetary Fund. The former – a fund, controlled by member nations whose influence was determined by their subscription share – was charged with financing development in post-colonial economies; the latter’s brief was to provide emergency reserves to countries unable to meet their international obligations, in exchange for non-negotiable policy-modification guidance. The fourth pillar, an oversight system for global trade – the General Agreement on Trade and Tariffs (GATT) – won final approval only in 1947.

This governance architecture was neither global nor internally operationally coherent. Only 44 countries participated in the conference itself, 23 joined the GATT, and even fewer pegged their currencies to the dollar.⁵ One reason in this very partial take-up was that nations joining the Bretton Woods fixed-exchange rate regime were to commit to free cross-border capital movement. Marcus Fleming and Robert Mundell, among others, pointed out that nations pre-committing to both would forfeit the ability to operate an independent monetary policy (and thus to control their own macroeconomic policies).⁶

No country inside the exchange-rate mechanism could escape this logic, including the US itself, as Triffin (1960) famously observed. In 1963, the US imposed capital controls on US residents and banks – restricting their ability to invest or make loans abroad; the aim was to reduce capital outflows and strengthen the US balance of payments (Hewson and Sakakibara 1975). This policy measure, kept in place until January 1974, was a pragmatic step that sustained the dollar-gold standard as the centerpiece of US economic leadership of Western European and East Asian nations through the early 1970s. Before discussing how and why the US dollar remained the hub of the global financial system, we first elaborate US-Latin American developments in the 1960s.

Weaponizing the Monroe Doctrine. The 1963 US capital controls did not imply any turning away from market discipline as a defining precept of US economic policy. After all, the Cold War involved rivalry between capitalist (market-led) and socialist (state-controlled) approaches to organizing economic activity.

While stopping the global spread of communism always meant opposing socialism and supporting free markets, this US-led effort took different forms in different places. Europe and Japan, because they were on the front lines of the Cold War with the USSR, were provided with ample support for their state-coordinated (or even state-led) post-War rebuilding efforts (Steil 2019). Indeed, the US created Germany’s

⁵ With one exception (Argentina), all independent South American countries had delegations at Bretton Woods, as did all the existing Central American and Caribbean nation-states. However, only three African nations sent delegations: Egypt, Ethiopia, and Liberia. Only 14 nations pegged their exchange rates to the gold-backed dollar under the Bretton Woods system.

⁶ Boughton (2003) and Aizenman (2011) describe the theoretical rationale for, and history of, what is commonly called the ‘trilemma’ or ‘impossible trinity.’

massive national development bank, KfZ, in the immediate post-war years to accelerate efforts there.

The Castro-led revolution in Cuba showed that Latin America, while not that geo-political ‘front line,’ needed attention. There, the US weaponized the Monroe Doctrine.⁷ The ‘principle’ of non-interference by Europe in the affairs of the Americas was transformed – as the US grew more powerful – into US efforts to exert control over other nations’ development in the Americas. This approach was forcefully applied to nations in South America in the 1960s.

Latin American nations’ currencies were not stable against the dollar, so there was no need to assure their continued participation in the Bretton Woods fixed-exchange rate mechanism by placating their national governments. The priority was instead to keep them on-side in the capitalism/socialism competition, by whatever means necessary. The US did so by aggressively supporting market-led (including multinational corporation-led) resource extraction, along with the suppression of workers’ organizing. This was justified at the ideational level and backed up with dollars, military assistance, and clandestine interference.

The guiding vision was provided by W.W. Rostow’s 1960 volume, *The Stages of Economic Growth: A Non-Communist Manifesto*. It responds directly to the Marxian historical materialist account of capitalism as a transitional stage along a path to socialism and eventually communism.⁸ For Rostow, free liberalized markets and the private ownership of capital would permit nations to climb to the next level of development. Capitalism, not socialism, was the developmental road that would provide the widespread prosperity enabling the creation of stable democracies.⁹

This ‘manifesto,’ written by an advisor and speechwriter for President John F. Kennedy, provided the rationale for what DeWitt (2009) calls Kennedy’s ‘Janus-faced’ policy toward Latin America: on one hand, the promotion of economic development and democracy; on the other, a covert counter-insurgency programme. The vehicle for the former was the Alliance for Progress (AfP); for the latter, the Office for Public Safety, which was a portal for the CIA. The AfP was founded in 1961 to counter the influence of the Economic Commission on Latin America (CEPAL) (Wanderley and Barro 2020) and nudge the region toward non-alignment (Edwards 2009, Weis 2010). CEPAL, founded in 1948 and led from 1950 to 1963 by Executive Secretary Raoul Prebisch, adopted a structuralist, centre-periphery approach that called for a state-led, ‘big push’ approach to development. While this led to its being described as the ‘IMF of the Left’ (Fajardo 2018), its approach was far closer to the ideas of Karl Polanyi – emphasizing social as well as economic development – than to those of Karl Marx (Munck 2015).¹⁰

Considering developments in Cuba, Brazil attracted special attention from the US. As Dalaqua (2024) recounts, Brazil’s political discourse in the 1950s was characterized by ‘anticolonial developmentalism’. When President Kennedy took office in 1961, Brazil and its national development bank, BNDES (the Brazilian National Bank for Economic and Social Development) represented the cutting-edge of state-led development in Latin America.¹¹ BNDES, founded in 1952 by President Getulio Vargas, a champion of Brazil’s industrialization, provided the institutional foundation for the 3-year plan of Brazilian President João Goulart, who had also taken office in 1961. That plan, based on CEPAL’s structuralist model, was viewed as an active threat to Kennedy’s objective of steering Latin America away from the Cuban path (Pereira Loureiro 2017).

AfP resources were used to influence academic training, to provide resources to ‘non-state actors’

⁷ The Monroe Doctrine is the name given to a set of principles, articulated in President James Monroe’s annual speech to the US Congress in 1823, that have guided US foreign policy since then. These included: the US’s commitment to non-interference in the affairs of Europe; the US’s insistence that Europe does not interfere in (nor further colonize) the Americas; and – implicitly, but most importantly – the US’s right to guide – if necessary, by the overt or covert use of force – political developments throughout the Americas (Encyclopedia Britannica 2025).

⁸ Ish-Shalom (2004) explores the role of Rostow’s ideas on US policy, especially the AfP.

⁹ This approach, steeped in modernization theory (Wanderley and Barro 2020), justifies whatever interference in the internal affairs of nations is required to force them away from the socialist path, because stable democracy can only be achieved based on a thoroughly capitalist approach (DeWitt 2009).

¹⁰ Carvalho and de Campos (2024) note that Furtado’s thinking radicalized only after the 1964 coup.

¹¹ BNDES’ role in Brazil’s state-led development follows the ‘late development’ pattern described by Gerschenkron (1962) for Russia and Bulgaria – another apparent deviation from the free-market path.

sympathetic to the US position (Dennison 2021) and to bolster support for conservative political parties and governments – as well as opportunities for entry by US multi-national corporations – throughout Latin America. AfP interventions in the Northeast of Brazil, where Celso Furtado was especially active, worked to suppress workers movements and to bolster a conservative political bloc (Carvalho Oliveira 2023).¹²

From fixed exchange rates to deregulated finance in the Western economies. While this political interference was playing out, the Bretton Woods architecture itself was proving to be operationally inconsistent at both the nation-state and systemic levels.

Nations pegging their currencies to the dollar-gold standard were generally unable to sustain it.¹³ One requirement for any nation's rate to be sustainable was stability in tradeables patterns; another was a low level of capital mobility, mediated through its central bank. Over time, however, financial innovations and divergent export earnings led to increases in capital mobility, with more currencies and financial assets being held outside the boundaries of the countries that had issued and overseen them. US dollar-denominated assets were the most affected due to rising US trade deficits with European and East Asian countries. Depres, Kindleberger, and Salant (1966) argued that growing US deficits and this excess of dollars were a benefit to Europeans, who were thus provided with the means to participate in US financial markets, the deepest markets for liquidity in the world. This argument could not succeed, however, when these deficits were simultaneously calling into question the viability of the dollar-gold peg itself.

The problem was also systemic: Bretton Woods' fixed-exchange rate system relied on inconsistent operating principles. The institutional separation between the World Bank and the IMF implied that the drivers of growth were independent of policy decisions required to maintain (or restore) external macro balance. This separation implicitly built in the pre-Keynesian Classical economic principle that price adjustment through currency devaluation, along with required reductions in domestic aggregate demand, could restore external balance without causing socio-economic damage. But post-War economic recovery for in Western European countries depended on sustaining social welfare policies, and thus on Keynesian demand management. Thus, the post-war system contained a contradiction at its heart: any nation whose external accounts turned negative would have to devalue, putting its domestic policy arrangements at risk.

The US itself fell prey to this pressure, which fell most heavily on the dollar itself, as Triffin (1960) first realized. The US balance of payments trended downward and turned negative in the fourth quarter of 1968, due to the combined impact of the intensification of the Vietnam war and of other advanced nations' industrial modernization. These pressures were heightened by France's unease with the Bretton Woods arrangement; by 1966, 70% of France's reserves consisted of gold. In May 1968, the London Gold Pool, an arrangement between the US Federal Reserve and 7 Western European central banks for stabilizing the dollar price of gold in global markets, collapsed (Graetz and Briffault 2019). Dollar-gold convertibility was suspended in 1971, and the dollar-gold standard ended in 1973 (Garber 1993).

In the US, the remainder of the 1970s was characterized by stagflation, high inflation and recurrent recession, throwing the heavily regulated US banking sector into a deep crisis. Federal Reserve chair Paul Volcker, appointed in 1979, pushed interest rates into the stratosphere. This induced a deep recession that strangled inflation, crushed surging commodity prices, set a two-decade-long process of banking deregulation and consolidation into motion, triggered the 1982 Latin American debt crisis, and pushed the US's money-centre banks to the brink of insolvency. Designating eleven US megabanks as too-big-to-fail and orchestrating their rescue established the Federal Reserve as an international lender of last resort and set up the US as a global safe-haven for wealth-holders. Union-busting tactics under President Reagan established the global factory, deindustrialized blue-collar America, and threw the US current account into a deficit that both made the US the global consumer of last resort and induced a permanent inflow on capital account.

¹² The role of the US in the 1964 military coup remains unclear (Pereira 2018).

¹³ Between 1950 and 1973, the exchange rate of the US dollar with the French franc was changed 4 times; with the German deutschmark, 3 times, with the Japanese yen, twice; and with the UK pound sterling, Dutch guilder, and Spanish peseta, once.

The Neoliberal era that followed was based precisely on the free cross-border financial flows that undermined the gold-dollar fixed exchange rate regime; these were mirrored by trade flows that let Americans live beyond their means. These policy shifts were replicated in Western Europe, ‘buying time,’ as Streeck (2015) put it, for these nations’ residents. For some years, it seemed that the ‘Washington Consensus,’ a market-led approach to economic development describing a consensus among Latin American nations (Williamson 2004), had vanquished state-led approaches.¹⁴ Indeed, the two most prominent East Asian exemplars of state-led growth experienced profound problems in this period: Japan entered a decade-long period of stagnation in 1989, and South Korea fell prey to the 1997 East Asian financial crisis. Meanwhile, shadow bank empires outside of regulatory control, built on securitization and contingent-claims instruments, arose and fed a global shift toward financialization. Debt contracts were being made to those previously excluded from access to credit (notably subprime mortgages, in the US). Free-market approaches to finance and to trade had vanquished the state-led approach.¹⁵

3 WHY THE MILLENNIAL DEVELOPMENT GOALS WERE NOT ACHIEVED BY 2015, AND THE TWO POST-GFC PROPOSALS FOR FINDING THE NEEDED FINANCE

Let us briefly place the events in years 2000 and 2015, which framed our introductory section, into the context of the previous section’s discussion. First consider September 2000, when the eight UN Millennium Development Goals were agreed by 189 nations at the UN’s New York headquarters. This agreement was signed in the global city of a country whose geo-political supremacy had been achieved with the collapse of the Soviet Union a decade earlier. In the 1990s, the US had seen off an East Asian threat to its global economic leadership, led by Japan – admittedly at the cost of a decade of stagnation in Japan and of a severe 1997 East Asian financial crisis. But the final arrival of a US-led Neoliberal era of market-led economic growth driven by the twin engines of a globally dominant financial sector and low-cost offshore manufacturing seemed assured: a comprehensive US financial deregulation act was signed into law in November 1999, and November 2001 would see the initiation of a Doha Round of negotiations toward a free global trade framework to be overseen by the World Trade Organization.

But these twin engines would both soon fail. The Doha Round failed (and has yet to be completed). Agreement was not reached, due largely to two factors: the unwillingness of the US and Europe to reduce their agricultural subsidies; and these nations’ insistence on widening their nations’ ‘NAMA’ (non-agricultural market access) to developing markets, especially in the areas of financial and business services (Khor 2006). Negotiations have dragged on, with no resolution in sight.

Meanwhile, most financial economists and many bankers (for example, Sanford 1994) regarded the 1999 US financial deregulation, which completely removed restrictions on financial-institution form and activity, as bringing about the conditions needed for achieving real-world financial market efficiency. That many funds – especially those containing subprime mortgages – were opaque presented no barriers, as asset price perfectly captures risk/return characteristics in efficient markets (Fama 1976). Literally anything of economic and social value anywhere could be funded, due to the broadening of the ecosystem of credit supply and the emergence of ever more tools for redistributing risk via securitization and contingent contracts (derivatives).

In the event, these hopes and the premises on which they rested would be shattered. Warnings about the limits of this new financial world – for example, the finding that arbitrage – derisking – would fail if asset resale markets were not sufficiently deep and liquid (Shleifer and Vishny 1997) - existed. But these

¹⁴ Sebastian Edwards (2009, 2010) contributed a 2009 paper and then a 2010 book making two points relevant to our discussion. First, he argued that the Alliance for Progress led to a political awakening, which included resistance to the deeper incorporation of market forces in the region (by politicians and landowners, in particular). The role of the CIA in those years is not mentioned. He argues that it was resisted because it was too political; by contrast, Washington Consensus policies succeeded, in his view, because they focused on economics, not politics. These two works, of course, appeared just as the GFC rocked the foundations of that Consensus view.

¹⁵ In 1995, China’s GDP was one-tenth the size of the US’s GDP; while it was growing rapidly – its GDP was 18% that of the US in 2005 – its success was attributed to its having followed ‘the capitalist road’, not to its economy’s state-led foundational structure.

were largely ignored: too many of the players in the new lending eco-system were more interested in making fees than in assuring that default and refinancing risks were accurately reflected (Dymski 2010, 2013); and these players, around the world, had piled into subprime securities (Lewis 2010).

These deviations from market efficiency, while a surprise to most economists (Dymski 2011), had catastrophic consequences for global financial markets and for many countries' fiscal capacity (Tooze 2018). Instead of a brave new world in which anything that should be funded, would be funded, deregulated finance had provided one more episode of the long-running sequence *Manias, panics, and crashes* (Aliber and Kindleberger 2015). Nation-states with too-big-to-fail banks burned in this crisis were forced to use precious fiscal capacity to bail them out; the sovereign debt-to-income ratio of the UK doubled in one day in November 2008. Many Banks were forced to recapitalize, forcing a dramatic slowdown in their lending; GSIBs (globally systemically important banks designated by the Bank for International Settlements) were forced to drastically increase their capital/asset ratios.

It is important here to point out a further, overlooked macro-financial aspect of the subprime lending bubble. Most cross-border finance flows between the US, Europe, and East Asia. These flows are the mirror of current-account imbalances. Both categories of flow, goods and finance, reflect huge imbalances that have characterized virtually the entirety of the Neoliberal era. The US functions as a liquidity sink, pulling in capital inflows from the rest of the world to offset its huge trade deficit. The two sets of imbalances exert a gravitational pull. So it is no surprise that many of the monies released into the US were drawn into securitized instruments loaded with subprime debt. Since the need for SDG and climate-related investment is highest in nation-states that have low capacities to trade or to emit financial instruments that will be taken into overseas portfolios, this means that 'normal' flow-patterns in the global financial system will simply pass by those global places that most need it for SDG-related purposes.

We have, then, identified three factors that left the UN with unfulfilled MDG goals in 2015: first, the fact that fully liberating financial markets would not make them more efficient (and able to autonomously finance SDG goals on a merit basis); second, an unforeseen Great Financial Crisis that crippled lending of any kind; third, the fact that global financial flows track macro stock-flow imbalances. Meeting the Addis Ababa Agenda, which renewed the urgency of global need, would require an approach radically different than leaving it to autonomous market forces.

Financing the SDGs after 2015 via blended finance? This brings us to the two approaches proposed for financing the SDGs, including climate action, after Addis Ababa. Since 2017, official climate summits have championed a blended finance approach. Blended finance generally is defined as 'the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets' (World Economic Forum 2015, p. 4). While the 'crowding in' of private-sector investment in countries eligible for Overseas Development Assistance (ODA) has long been encouraged by the IFIs, the fact that so much of the expenditures needed to reach SDG goals, including climate-change mitigation and adaptation measures, exceeds the IFIs' available funds (not to mention ODA countries' domestic fiscal capacity) makes it a necessity. The G20 report cited above elaborated a blended-finance plan that calls for recipient nations, assisted by the IFIs (and other multilateral financial institutions), to both identify and derisk projects that would be funded by private-sector investors. The funding provided would be securitized, taking advantage of the global credit ecosystem that had spread subprime loans into portfolios world-wide before the GFC. The IMF, perceived by private markets as a 'safe pair of hands', would oversee and regulate the entire scheme.¹⁶

Judith Tyson of the Overseas Development Institute (ODI) pointed out that this plan (or similar ones) would require dramatic changes for both recipient nations and for IFIs. Nations seeking to receive financing through this channel would need both project-preparation facilities and systems for national infrastructure planning and execution. The IFIs would have to shift their lending focus to

¹⁶ This approach, then, elevates the IMF to the role of gatekeeper and overseer for countries seeking to fund SDG and/or climate action with overseas credit. This paternalistic stance conforms with Rostow's stages of growth framework, in which developing countries could use a guiding hand. It is worth noting that in 2016, prominent Neoclassical economist Timothy Kehoe and several co-authors (Costa *et al.* 2016) revived Rostow's framework, arguing for market-led approaches in a long-run analysis that doesn't mention the GFC.

funding – and providing support for – to ‘originate-to-distribute’ loans they would presumably bundle and sell into the market.

The high expectations for blended finance have not been met. A 2019 ODI study (Attridge and Engen 2019) found that little private-sector leveraging was being realized: for every US\$1 invested, only US\$0.75 of private finance had been mobilised in all developing countries, and only \$0.37 for low-income developing countries. They concluded: ‘Expectations that blended finance can bridge the SDG financing gap are unrealistic: “billions to billions” is more plausible than “billions to trillions”.’ The UN climate summits have consistently spotlighted blended finance as the preferred investment method, pointing potential funders to Convergence (<https://www.convergence.finance/>) as the global network tasked with organizing this market. Reports released at the climate summits and by Convergence itself clearly indicate that while blended finance does constitute an asset class in formation, albeit a small one (123 ‘deals’ are reported for 2024), the funding mobilized overall is a small fraction of the UNCTAD-calculated financing need.¹⁷

So blended finance – at least in its present form – has not been the breakthrough vehicle that successive UN climate summits have hoped for. To identify why, let’s first revisit the first two factors fingered above for the 2000-2015 gap. The first was the fact that global financial markets in the real world follow boom-bust patterns in which bubbles – investors jumping on trends and then (if they are adept) astutely jump off – and not ‘fundamentals’ drive decisions. Further, the impact of the GFC has been to reduce many banks’ capacity to lend. Growth in global lending generally has fallen off its pre-GFC and even pre-Covid pace. Blended finance has not become ‘hot’, much less a potential bubble – and monies that have flowed into it have been concentrated in higher-income countries, not developing countries.

Three more factors should be added. The first highlights the super-competitive, beat-the-rest ethic of contemporary global financial sectors.¹⁸ When representatives of ODI visited several Wall Street offices to explain and promote blended finance in 2018, their scheduled meetings were cut short; the bankers with whom they met complained that the contracts that would be brought to market were too specialized, too ‘niche’, not readily convertible into anything like homogeneous securities. The megabanks that will likely dominate these assets’ ecosystem want to make money, fast and in volume. If they do take on risk, they want to do it in a conventional way that leaves them blameless in the event of a crisis.¹⁹

The second is the fact that this market-led financing solution requires nation-states to be counterparties, either directly (as providers of guarantees) or indirectly (via their relationships with IFIs). Debt/GDP levels have been rising precipitously for virtually all countries, especially since the GFC. Further, the nations most likely to be counterparties in blended-finance transactions not only have rising debt/income levels, but they are not backstopped by central banks at the upper reaches of the global currency hierarchy.

The third factor is political pressure. This is due to the double coincidence of US banks being uniquely powerful in shaping the global financial system (Dymski 2010, 2013) and to the US President being a climate-denier (Donald J. Trump) who has become adept at using legal challenges threatening profit margins to bring even very large firms into line with his political agenda. The Net-Zero Banking Alliance, established in 2021 under the leadership of Mark Carney when he was a climate envoy at the United Nations, had attracted many megabank members, from inside and outside the US. But just before Trump’s second inauguration it suffered important reductions; and it ceased operations in October 2025. Clearly, creating, selling, and serving financial instruments aimed at the climate crisis

17 Convergence Blended Finance (2025) reports a cumulative total of 1350 deals and \$249B between 2014 and 2024. While the numbers reported are difficult to interpret, this sum for an 11-year period represent 10% of the *annual* target set by UNCTAD. Blended finance is not the only financing method being used to meet SDGs and climate goals, but these figures reinforce Attridge and Engen’s 2019 conclusion. In addition to the UNCTAD figure cited in footnote 1, see Climate Policy Initiative (2023, 2025) for estimates of global financing gaps related to climate action.

18 Cerpa Vielma *et al.* (2019) describe and analysed the implications of current patterns of management and competition in the global megabanks.

19 Nearly a century ago, Keynes (1931) put the problem this way: ‘A sound banker, alas, is not one who foresees danger and avoids it, but one who, when he is ruined, is ruined in a conventional way along with his fellows, so that no one can really blame him.’

is off the table.²⁰

Financing the SDGs after 2015 via national development banks (NDBs)? The other proposal that has been put forth post-2015 for financing SDGs and climate action is to utilize public funding channels. For example, Studart and Ramos, write this about BNDES in an important volume edited by Griffith-Jones and Ocampo (2018):

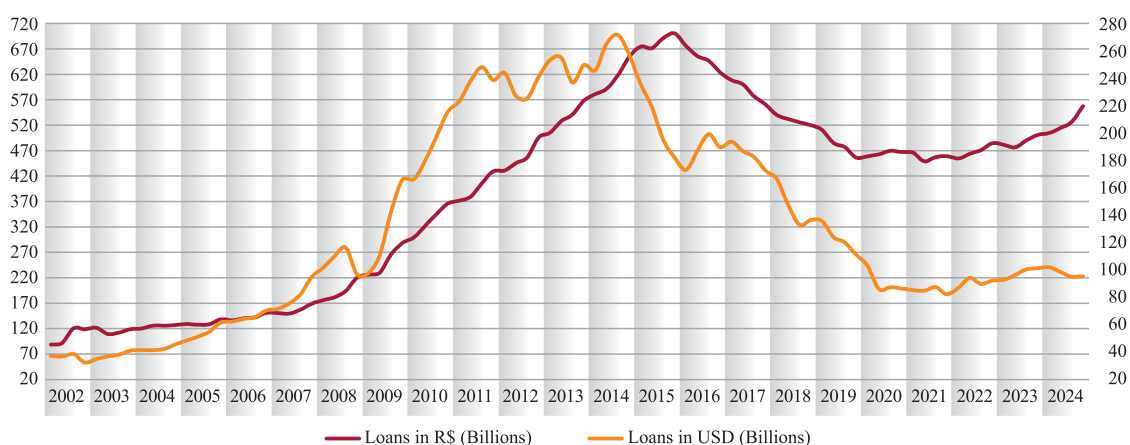
‘BNDES could, and should, play a critical role in developing a much-needed I&L investment financing architecture by fostering project development capacities, and financing, leveraging, and crowding-in private resource for the sector.’ (Studart and Ramos 2018: 86)

Mazzucato and Penna (2018: 255), in the same volume, observe that ‘the roles typically performed by NDBs go beyond that of the state as “market fixer” to assume that of market shaper and creator.’ Brei and Schclarek (2018) note that Latin American NDBs have been important in providing counter-cyclical lending to compensate for private-sector banks’ reduced capacity. The list of NDBs’ possible economic roles by these analysts and many others is impressive. We restrict our attention here to itemizing three foundational conditions that are necessary if NDBs are to successfully contribute to national development – including to achieving SDG and climate targets, our focus in this paper – over the longer horizon. The first requirement is the existence of effective government administration in guiding the country’s economic performance. In the conclusion of the 2018 volume mentioned above, Griffith-Jones, Ocampo, and Arias observe:

‘The context in which they [NDBs] operate is key to their success. Active countercyclical policies, low inflation, fairly low real interest rates, a well-functioning financial sector, and competitive exchange rates are crucial. They are also more effective if the country has a clear development strategy, linked to production sector strategies that foster innovative sectors (Griffith-Jones, Ocampo, and Arias 2018: 335).

These contextual requirements are not immutable, but can be shifted from without or from within. Aguiar de Medeiros (2021) notes that Brazil’s economic performance has been buffeted by Neoliberal policy reforms it enacted in the 1990s, and then restored in 2015. The year 2015 marks the replacement of deposed president Dilma Rousseff by a caretaker government, which in turn led to the four turbulent years of Jair Bolsonaro’s presidency. This period of economic turbulence has had a double impact on Brazil’s BNDES. Figure 1 shows that BNDES’ loans outstanding grew dramatically in domestic currency terms through the entirety of PT’s 2002-2014 years in government and has been restored after the return of PT government in 2022. However, a conversion of these loans outstanding amounts to US dollars shows the devastating impact of currency devaluation on the effective lending capacity of this legendary institution.

Figure 1 – BNDES Loans outstanding, 2002-2024, in Billions of Reais (LH Axis) and in Billions of US Dollars (RH Axis)



Fonte: BNDES annual reports.

²⁰ Mazzucato and Sá (2025) argue that blended finance can succeed because its flaws have been misanalyzed. They argue that the financing gap could be overcome if ‘mission-oriented investment pipelines’ are created; that public capacity will be sufficient if public wealth, not just revenue cash flows are used, and that de-risking can mobilize private capital at scale.

This loss of capacity and scale is deeply problematic given that much of the benefit from infrastructural and other investments can be captured only in the longer run. This brings us to the second requirement for effective NDB performance: sustaining adequate national fiscal capacity ('policy space'). The availability of NDBs to plug the lending gaps for domestic borrowers (or those overseas) in cyclical downturns, cited above, also points to the challenges of sustaining a long-term perspective (and loan portfolio) when short-term firm sustainability problems may undercut what Mazzucato would call a 'mission economy' focus.

The third requirement is more nebulous, but equally important: the need for countering and neutralizing the entrenched political resistance to the possibility of effective government action in meeting SDG and climate challenges. Large proportions of electorates across the world, as well as the political leaders and operatives that seek their votes, have been fed a steady diet of misinformation about public policies, and have experienced numerous cuts to public support for the foundational economy services on which their well-being depends. The consequences have been a hardening of political fault lines, the loss of the capacity for 'kitchen table conversations' about political issues, and a series of high-profile revenge elections. An increasing reliance on debt to compensate declining income streams is a problem that afflicts both nation-states and households; it compromises the policy space of the former precisely when the need for public support for the latter is highest. This sets up a situation in which the notion that state-led institutions might find solutions that markets will not become hard or impossible to defend.

Given that at least two of these three conditions are not met in most countries in the world, NDBs cannot be regarded as a magic bullet.²¹ It doesn't mean wiping NDBs off the policy whiteboard. The implication of this discussion is that efforts to build or rebuild space for effective NDBs capable of taking on significant challenges such as the SDGs and climate action must have two components: remaking the institutions themselves, and restoring the contextual conditions required for their effectiveness and longevity.

4 WHAT ADJUSTMENTS ARE NEEDED TO OPEN THE POSSIBILITY OF PUBLIC FUNDING FOR TRANSFORMATIVE WORK ON HUMAN CAPACITIES AND THE CLIMATE CRISIS?

History has shown a trend of polarization, with market-led policies prevailing in some instances and state-led policies in others; nonetheless, this polarization has obscured and divided the narrative, creating a 'them vs us' identity politics (Bhambra, 2017). Today, more than ever, we need to rethink the systemic and institutional boundaries in the public sector that have allowed for the failure of attaining developmental goals and their funding.

NDBs have a history of reducing risk and maintaining long-term development targets, particularly measured by macroeconomic variables such as GDP (Barboza et al., 2023). However, its conception employs a top-down approach, which implies a causal relationship from the center to the periphery (Sabatier, 1986), thereby ignoring some of the natural development in the peripheral regions.

Therefore, there needs to be a push to understand the limitations imposed by hierarchical structures in top-down approaches, particularly those encountered in regional development and projects (Hirt, 2013; Barboza et al, 2023). To achieve long-run funding for SDG and climate challenges, public or blended funding need to understand the limitations of centralization. The structure necessary for systems' well-functioning can dilute and simplify knowledge produced in the region. Consequently, part of the knowledge created in regions is sometimes lost, particularly the knowledge related to new productive ideas that could enhance human capabilities or create new productive sources specific to the community. Scott (1998, p. 311) defines this knowledge as *mētis*, which arises from the practice and networks created within the community, and can only be analyzed within it, as it is specific to that community.

21 There are limits to the use of multilateral development banks to tackle climate change and SDG targets as well, though these have not been discussed in this paper. At the same time, there are possibilities, as there are for NDBs. And the prescription is the same: improve the functioning of these institutions and improve the global or regional context in which they must operate.

Mētis could elucidate productive networks that emerge from the community, as well as innovative solutions or programs that can future-proof funding and leverage the resources and capabilities embedded in the community to create new, productive sources. Jointly, the increased visibility of networks built in the region can support inclusion and ease policy development. Regions can utilize the various learning environments, including NGOs, universities, unions, community-led initiatives, and sustainable development projects that are already in place.

Community development banks and community banks could help increase communication from the bottom by introducing flexibility to the NDBs processes. They can capture the mētis, networks, and facilitate productive development outside of the limitations imposed by centralized processes. Bottom-up approaches outside of development banks' infrastructure could also highlight productive networks already established in the regions, including sustainable practices that can be implemented elsewhere.

The inclusion of community voices through bottom-up approaches also increases the potential for political involvement among marginalized populations, as it provides them with spaces where they can influence policy and reframe development, leaving aside colonial discourses of 'them vs. us'. Bottom-up approaches could help re-democratize policy by including the local population in the debate and taking their local knowledge and expertise into consideration.

Although bottom-up approaches may lead to higher bureaucratization, as they involve increased supervision by central authorities, they can also democratize the developmental process, including populations that have been marginalized or overlooked in the private financial system. Nonetheless, policymakers and actors should be wary of the potential romanticization of community, as it can also replicate identity politics, create exclusion, mask exploitation, or reproduce inequalities (Joseph, 2002).

Bottom-up approaches could be mischaracterized and challenging to measure through casual inference, as their effects are endogenous and sometimes extend beyond measurement (Hanson et al., 2025), which may hinder their political appeal. The potential adjustment NDBs could follow is through the creation of new networks, processes, and the active inclusion of the community in policy creation.

Although, thus far, the only potential inclusion of community into NDBs has been suggested through community banks, the processes, institutions, and networks have yet to be examined and could be an interesting area for future research. NDBs have the opportunity to redefine funding and local investment through the community.

5 CONCLUSION: RECLAIMING SUSTAINABLE DEVELOPMENT FROM THE BOTTOM UP

In sum, in an era of authoritarian national leadership, fed by misinformation and social media, we are in for a long fight. The sovereign debt and democracy crises now confronting countries around the world, will require years to unwind. This unwinding will slow the capacity as well as the political willingness of upper-income nations to step up to take on their share of the burden of financing the SDGs. These circumstances will not be quickly undone. Hence, other pathways, including new forms of public banking rooted in local communities, must be explored.

Action is needed at both the global, local, and community levels – and to do this, room has to be made to restore 'democratic voice' that brings bottom-up perspectives into focus.

What is needed to permit productive finance focused on asset-based investment in needed (green) infrastructure and green new-deal localized circles of production-exchange-consumption is a complete change of global economic paradigm(s). This could come through two paths. One: nature's revenges invert market logic and bend market-focused finance to reconsider their obeisance to Trump's anti-scientific bent. Two: competition with a China-led Asian production-consumption complex (or both) leads to a comprehensive investment push and to a reorientation of financial institutions and markets toward meeting human/planetary needs. Both processes are in motion.

The collapse of ‘safe assets’ and of ‘safe haven’ investment hubs. There are challenges posed by climate change and growth of complex, spatially overlapping societies that now create risks beyond the capacity of market-based mechanisms. EG, insurance and re-insurance firms will not be able to generate affordable premia for structures at risk of becoming stranded assets with sea-level change. Global warming and desertification will threaten agricultural output making it impossible to sustainably feed the human population. Therefore, it is in humanity’s interest to take measures that can offset these threats to continued human well-being. This is a mission.

Now there is a need to reinvent ‘mission’: it’s not a space shot, watched on television by the happy owners of televisions in prosperous middle-income households. It’s a need to rebuild communities stripped of assets and sustainable employment opportunities.

You have to make the global mission, first, a local priority and activity. Bottom up, one by one, empowerment and a politics beyond revenge and resentment.

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