

underlying

The loop approach

Quantitative Easing (QE) to fulfil the SDG's goals

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loopo

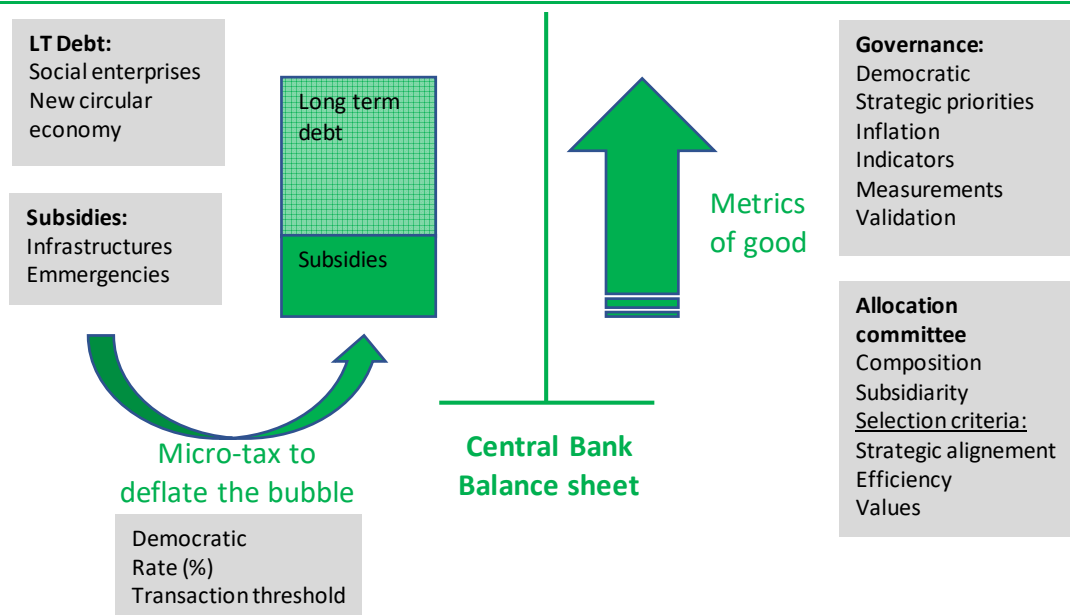
Introduction

There remains an estimated USD 50 trillion¹ funding gap required to address the SDGs. Despite growing support for impact investing and social finance, the remaining gap is simply out of sight.

Original and innovative approaches have been designed as the 1'800 project (<https://project1800.org>) which seeks to monetize negative externalities thru social bonds focusing more on outcomes than outputs. While the approach is indeed original, it remains complicated to setup and hard to explain to the various stakeholders.

With the **loop approach**, we replace simply social bonds by Central Bank Quantitative Easing. And to limit inflation, a micro-tax on electronic transaction is implemented in order to scoop back the excess of liquidity into the Central Bank's balance sheet.

General setup



¹ 50 trillions = 50'000'000'000'000

Challenges

Beside selling the idea to stakeholders and the population, several issues will have to be addressed.

Governance: the decision to activate QE, its intensity (volume), will have to be decided on a democratic basis.

Strategic priorities: the same applies for the definition of the strategic priorities.

Inflation: Central Bank's main mission is to control inflation, and this will remain as a major priority.

Indicators & measuring impact: a strong consensus will be needed to define and adopt specific indicators in order to measure the impact.

Allocation committee: clear guidance will be needed in order to direct and split the available QE.

Subsidiarity: while some projects and actions will play at national and international levels, other actions will take place locally.

Selection criteria: the final beneficiaries will be selected based on their alignment with the national strategy, their efficiency and the human values they promote.

QE portfolio & the debt/subsidy split: debt will be favored when supporting Social Enterprise as one of the objectives of the **loop approach** is to promote sustainable social enterprises that will progressively replace the traditional ones. As a result, such SEs will generate an income allowing them to repay their debt. On the opposite, subsidies will be allocated to finance infrastructures and emergencies.

Micro-tax: the purpose of the micro-tax is to deflate the bubble developed by the QE. Its amount (i.e. the rate) as well as its threshold (micro-tax is applied above X\$ amount of transaction) will also be determined democratically. More about the micro-tax: <https://marcchesney.com>

Benefits of the loop approach

Quantitative easing

- Injection of capital into the economy for specific social objectives, where priorities are determined in a fluid and transparent manner, is possible.
- Legal structures (ie. SPVs) can be used to align key actors so they start acting in concert.
- Specific metrics can aggregate beneficiary people and the value into the QE loop.
- Philanthropies may be leveraged with this scheme and become buyers of outcomes or first loss guarantors on top of intrinsic returns delivered by underlying portfolio companies.

Micro-tax

- The micro tax is a way of democratizing the trajectory or direction of effort.
- A far better and more distributed tax regime for *repatriation* of that capital injection to avoid the fall-out potentially associated with QE (i.e. inflation).
- Citizens may be able to select the broad areas of their preference so that in effect, their payment of micro tax is not blind or earmarked for *general funds*.

Conclusion

The challenge humanity faces with the global warming prescribes us to think out of the box and consider innovative approaches. Critics will argue that using QE on such a large scale will probably create inflation, but they forget that a currency remains trusted if the population trusts the political power emitting it.

With a strong democratic governance, this should remain. In addition, the micro-tax will help the Central Bank in reducing the volume of the outstanding QE. In other words, it's a way to involve the rest of the economy to contribute effectively to the financing of the SDGs.

Finally, at an international level, one may suggest that several Central Banks could pool their actions together in order to increase their leverage or support emerging countries that may not have the capacity to implement such an approach on their own.

The **loop approach** is a result of the T5 (Time-to-turn-the-tide) informal working group based in Geneva.