Finance in Common

UNDP

The role of Public Development Banks in scaling up Sustainable Finance

Foreword

As the world reels from the effects of multiple and ongoing shocks, actors from across the global public financial system are examining their roles in unlocking and optimizing financing for the Sustainable Development Goals (SDGs). With COVID-19, our challenges in addressing the financing gap for achieving the SDGs has widened to an estimated $4.2 trillion annually. Global financial assets stand at a value of $431 trillion[1] but this finance does not necessarily align with the SDGs or flow to the geographies that need it most for progress on the SDGs.

In this context, there is an urgent need for public development banks to reorient and leverage all financial flows in the direction of SDG achievement. As recognized by the G20, the world's 500 plus public development banks (PDBs) take critical roles to achieve the SDGs and the Paris Agreement goals.

These actors are critical players from the global financial architecture. They manage US$ 23 trillion of total assets, out of which more than 83% by PDBs from G20 countries. They also represent up to US$ 2.7 trillion of annual investments, a staggering 12% of the total amount invested in the world every year by all public and private sources combined.

The Finance in Common (FICS) movement is the global network of PDBs, operating as a global initiative where multilateral development banks (MDBs) can work with regional associations of development finance institutions (DFIs), as well as with the International Development Financing Club (IDFC) and individual institutions. FICS supports the emergence of a global financial framework for green and SDG aligned investments. By mobilizing all stakeholders, including through more systemic dialogue between policy makers, public/private finance and regulators, as well as local actors[2], FICS acts as a laboratory to revise and enrich the business models of PDBs, to ensure that operations respond to actual needs, leaving no one behind.

At the country level, PDBs also are supporting governments by aligning economic policies and financial systems with the SDGs, de-risking investments, and leveraging private financing especially in times of crises. What they do and how they invest matter for a better way forward for people and planet.

The United Nations Development Programme (UNDP) aims to enable significant shifts in public and private finance for sustainable development in ways that complement what development banks are doing best. Strengthening engagement with PDBs is part of UNDP's core mandate in supporting governments to leverage financing, expertise, and advocacy from a wider range of sources to achieve national priorities.

Through their respective work scaling sustainable financing at country level, UNDP and FICS members each have a unique understanding of how public and private financing actors are innovating and scaling reforms. PDBs play a vital part among local stakeholders and can deploy a wide range of powerful instruments in order to bridge market failures, mobilize domestic resources, redirect investments, support private sector mobilization and promote sustainability. Despite challenges, some bright spots can be seen.

1 Global Outlook on Financing for Sustainable Development, OECD 2021
2 Ongoing dialogue with NGFS, GFANZ and UNEP-FI

This is why we've joined forces to examine the vital role of public development banks in scaling sustainable financing in an affordable way, the good practices PDBs have already developed, and how national and international actors including MDBs, UN system and FICS, can enable and scale their work.

From this report, the findings show that the importance of aligning finance with the SDGs and the Paris Agreement is clear, but it is crucial that we ensure effective collaboration between PDBs either in advanced or developing economies, coordination with MDBs, and the commitment from the development community:

- PDBs could translate the low-carbon and pro-nature strategies of their states into concrete financing, thereby stepping into their role as "SDGs implementers", using their government's National Voluntary Contributions to align with national priorities.
- In turning SDG-aligned mandates into action, PDBs require aligned support from partners, including other PDBs, MDBs, UN and G20, to set up incentives, de-risking instruments, harmonized impact measurement standards, and better data equipped with strong capacity. Coordination between MDBs and PDBs in parallel with government ministries are crucial for identifying opportunities for co-financing and leveraging PDBs' knowledge of local markets.
- PDBs call for further political impetus and clarity in their performance frameworks to engage different pools of actors, notably the private sector. If PDBs were to commit to a similar ratio of an average of 20% as IDFC members have, they could extend more than US$500 billion of climate finance per year and mobilize much more private financing.

We are honored to present our joint research to the international fora to elevate the collective voice of PDBs in the international fora. In doing so, we invite all the development partners to engage with our joint research and lessons, while considering how we can accelerate our work together toward scaling sustainable financing.

Marcos Neto, Director,
Sustainable Finance Hub, UNDP

Adama Mariko,
Secretary General, Finance in Common

UNDP (2022).

Joint Report: The Role of Public Development Banks in Scaling Sustainable Financing.
New York: UNDP.

This report shows the public development banks (PDBs)' roles, challenges, and experiences in scaling sustainable finance based on the interview and survey in a given timeframe. It does not represent the views of the whole PDB community. The data are based on the public information or given information from the PDBs who participated in either interview or survey.

For inquiries, please reach out to the Financial Institutions Team at
bera.pg.fit@undp.org or to the Finance in Common Secretariat at financeincommon@afd.fr.

United Nations Development Programme
One United Nations Plaza. New York, NY 10017 USA

Designed by: Onurcan Acar

Acknowledgements

This report was produced by UNDP in collaboration with Finance in Common Secretariat in AFD. The overall partnership initiative was led by the UNDP Sustainable Finance Hub (Financial Institutions Team), namely Emily Davis (Partnership Specialist) under the guidance of Marcos Mancini (Senior Sustainable Finance Advisor). The research process was led by Jiseon (Sally) Park (Partnership Analyst) and conducted by William Price (CEO of D3P Global) with research assistance from Dr Thulaisi Sivapalan (D3P Global). The research would not have been possible without the leadership of Marcos Neto (Director, Sustainable Finance Hub) and Mariana Gonzalez (Team Leader, IFI Partnerships).

This initiative is a result of very fruitful collaboration with Finance in Common General Secretariat (SG FICS) within AFD. The effort was led by Arthur Pataud (Advisor), under the leadership of Adama Mariko (Secretary General, Finance in Common), together with Ornella d'Amico (Deputy to the Secretary General) and Jimena Iraheta (Program Officer). The research greatly benefited from the guidance and experiences of AFD colleagues, in particular Emmanuelle Matz (Sustainable development analysis and opinion unit), Béryl Bouteille (IDFC secretariat), Bastien Bedossa (Financial systems), Régis Marodon (Innovation, research and knowledge), as well as experts from the Communications and Strategy, Foresight and Official Relations teams.

This analysis would not have been possible without the essential contributions from the FICS regional networks of PDBs, in particular the Association of African Development Finance Institutions (AADFI); the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP); the Latin American Association of Development Financing Institutions (ALIDE); the Association of European Development Finance Institutions (EDFI) and the International Development Finance Club (IDFC), as well as the respective UNDP Country Offices. A very special thanks go to those who kindly spent time in interviews: Development Bank of Namibia (DBN), Development Bank of Rwanda (DBR), Development Bank of Southern Africa (DBSA), PT Sarana Multi Infrastruktur (PTSMI, Indonesia), Industrial Development Bank of Türkiye (TSKB), CDG Capital (Morocco), Banco de Inversión y Comercio Exterior (BICE, Argentina), Desenvolve (São Paulo, Brazil), Nacional Financiera (NAFIN, Mexico), Agence Française de Développement (AFD), and Cassa Depositi e Prestiti (CDP).

The team has greatly benefited from the constructive feedback from peer experts at Natixis and Institut du développement durable et des relations internationales (IDDRI) as well as peer reviewers within UNDP, AFD and externally.

The team also thanks Onurcan Acar for the report design, Lance Garmer for copy editing, and Olcay Tetik and Leilei Katof for communications support.

Table of Contents

Figures and Boxes

Glossary

ADB	Asian Development Bank
AFD	Agence Française de Développement, France
BDMG	Banco de Desenvolvimento de Minas Gerais, Brazil
BICE	Banco de Inversión y Comercio Exterior, Argentina
CAF	Development Bank of Latin America
CDG	CDG Capital, Morocco
CDP	Cassa Depositi e Prestiti, Italy
DBN	Development Bank of Namibia
DBR	Development Bank of Rwanda
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
DSP	Desenvolve SP, São Paulo, Brazil
ECLAC	Economic Commission for Latin America
FAO	Food and Agriculture Organization of the United Nations
FiCS	Finance in Common Coalition
GTT-LAC	Working Group on Sustainable Finance Taxonomies in Latin America and the Caribbean
IADB	Inter-American Development Bank
IDFC	International Development Finance Club
IMM	Impact Monitoring and Measurement
INSE	The Institute of New Structural Economics, China
IS-FSD	OECD-UNDP Impact Standards for Financing Sustainable Development
LAC	Latin America and the Caribbean
MDBs	Multilateral Development Banks
NAFIN	Nacional Financiera, Mexico
NDB	New Development Bank
PDB	Public Development Bank
PT-SMI	PT Sarana Multi Infrastruktur, Indonesia
SDGs	Sustainable Development Goals
TSKB	Industrial Development Bank of Türkiye
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
USD	US Dollars

1 Executive Summary

This report sets out recommendations for supporting the work of Public Development Banks (PDBs)[3] as they make progress toward aligning with the Sustainable Development Goals (SDGs). It is based on in-depth interviews with selected PDBs and relevant experts, in parallel with a survey administered to a broader group of PDBs – with an overall focus on national PDBs in developing countries. The work was developed by the United Nations Development Programme (UNDP) Sustainable Finance Hub in collaboration with the Finance in Common initiative (FiCS)[4].

The research looks at the role of PDBs in scaling financing in an affordable way, the good practices PDBs have already developed, what they are seeking to do in the future, and how national and international actors can enable and scale their work. The interviews and survey were useful complements since they identified some similar but also some varied issues in relation to challenges and successes and hence to recommendations. Aspects of these recommendations could be relevant for governments (national/sub-national level and G20/non-G20 members), PDBs themselves, MDBs, bank coalitions/networks, regulators, credit rating agencies, technical assistance providers and development partners. When collated together, they suggest a focus on four main areas.

The four main areas that the report and the recommendations cover are:

(see also Figure 1)

PDB mandate, strategy, and governance aligned to SDGs:
Support needed to enable PDBs to integrate SDGs throughout their organization's strategy and operations

Lending and guarantees, pricing and currency risk:
Challenges and risks PDBs face in scaling sustainable financing at the local level

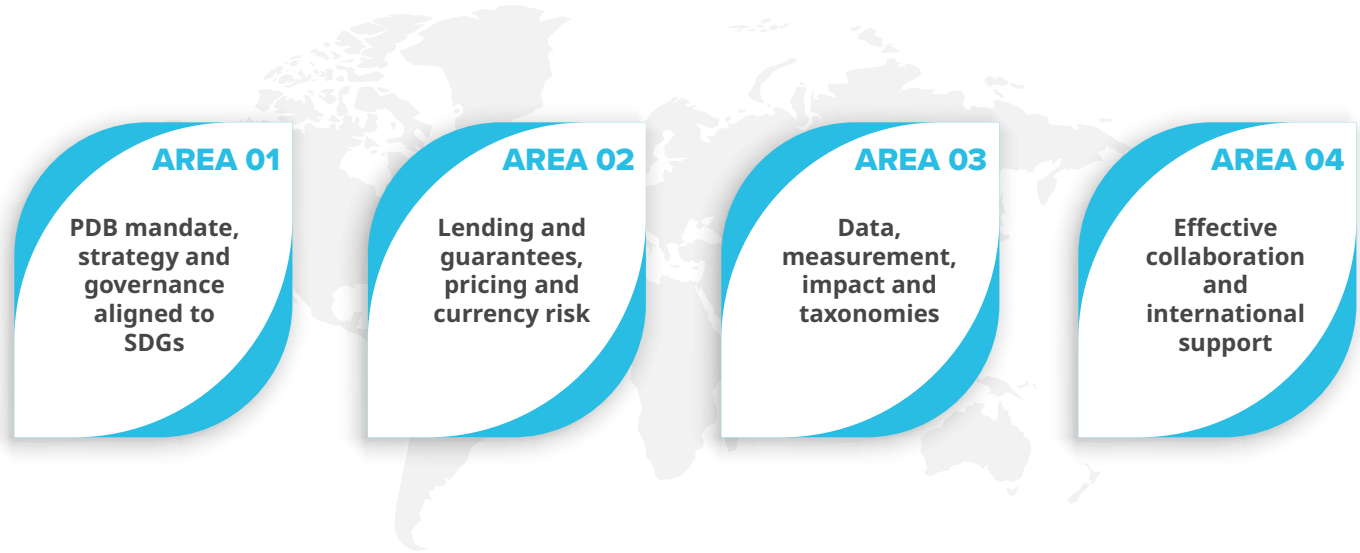
Data, measurement, impact and taxonomies:
On the need for harmonized taxonomies in measuring impact

Effective collaboration and international support:
PDBs' needs for collaboration with and support from the international and development community

3 PDBs are typically state-owned financial institutions with a mandate to deliver on public policy objectives that normally support the economic development of a country or region. This policy mandate distinguishes them from other kinds of state-owned financial institutions, such as state-owned commercial banks or insurance companies. PDBs focus on financial returns but profit is not the overall goal of their activities. National PDBs can operate sub-nationally, nationally-only, and nationally and regionally, or be regional or global institutions typically called Multilateral Development Banks (MDBs) - adapted from Eurodad, 2017.

4 The Finance in Common Coalition (FiCS) is a 'global gathering of all Public Development Banks (PDBs), which promotes coherence in their strategies and operations, by accelerating their convergence towards the SDGs through shared standards and best practices' (FiCS Report to the G20, July 2022).

Figure 1: Four main focus areas for PDB challenges and solutions



Recommendations to improve PDBs' mandates, strategies and governance aligned to SDGs

In general, the results of the interviews and survey demonstrated a common understanding and agreement regarding the importance of aligning with the SDGs and the Paris Agreement at a strategic and ambitious level, while signaling a range of important challenges, as well as good practices and opportunities including for future support from partners in the development community.

01 **Align PDBs' mandates and activities with the Paris Agreement and SDGs by providing them with right incentives,** shifting away from investments that are not compatible with a just and inclusive transition towards sustainable, low-carbon and resilient development trajectories. For example, climate finance now accounts for 20% of total commitments made by IDFC members on average. If PDBs were to commit to a similar ratio, they could extend more than USD $500 billion of climate finance per year and mobilize much more through the private sector[5].

02 **Pursue an integrated approach to net impact, combining negative screening with positive assessment of impact rather than having many separate processes towards achieving SDGs both at a strategic and project level.** The interdependence between the SDGs is still a particularly difficult issue for PDBs. Greater awareness plus new tools to manage potential trade-offs between equality, gender, poverty, unemployment, climate and environment are important. The huge challenges countries face, exacerbated by COVID, make it even more important to address potential trade-offs and ensure that a focus on vital issues like gender-based violence is not lost in big picture debates on the SDGs.

5 FICS (2022)

03 **Enhance alignment of strategies between the national/sub-national government and PDBs.** This can include increased dialogue between PDBs and national authorities through engagement with Integrated National Financing Frameworks, financing strategies and dialogue platforms, to enable and strengthen PDBs' specific inputs into national financing and strategy development. In addition, this can help Ministries of Finance, Environment and Development to shape well-aligned national strategies that take each perspective into account.

04 **Ensure sufficient training and support for PDB Board members,** particularly non-executives, who may change frequently due to political changes, but also for staff more generally, so that they can understand the drivers for change and support strategic reforms. PDBs asked for comprehensive training, capacity development measures, and clear support from the leadership is required alongside other key changes highlighted in the recommendations.

Recommendations to improve lending, guarantees, pricing and currency risk

05 **Enable PDBs by providing them lower-cost finance,** given that they are trying to support development objectives, but often through recipients that are heavily focused on short-term survival. At the moment, there is often no difference between the costs of 'normal' funding and sustainable loans, meaning there is not much incentive for recipients to take the sustainable loans if reporting or other requirements are more demanding. Since PDBs do not have individual customer deposits as a source of low-cost financing, they can be at a disadvantage compared to commercial banks. Furthermore, engagement with Credit Rating Agencies may be important so that they do not reduce a PDB rating as it aligns to SDGs, which would increase PDBs' cost of capital.

06 **Support for longer-term finance in addition to lowering the cost,** because the long-term investments and longer-term payoffs that can be associated with SDG alignment need to be matched by longer-term funding to help the business case. Too often the funding is too short-term.

07 **Support PDBs in dealing with currency risk when receiving support in US dollars or other international currencies but lend-on in local currency (LCU).** Most PDBs, and especially smaller national or sub-national PDBs in developing countries, cannot afford to hedge the currency risk when they receive support in US dollars from devel opment partners but have to lend to national recipients in local currency. It is vital

for the G20 and others to cover or reduce the costs of this currency risk given PDBs with projects in one country cannot diversify it.

08 **Enable access to affordable experts** to provide technical assistance to enhance PDB capacity and that of project partners, whether from domestic or international sources.

Recommendations to improve data, measurement, impact and taxonomies

09 **Develop clear definitions and taxonomies on common impact measurement standards** that link directly to the desired outcomes. These are pre-conditions to support SDG-aligned projects and prevent green washing and social investment washing. A strong push on a limited set of standards that can be implemented without great cost would make implementation of lending policy much simpler.

10 **Promote harmonized taxonomies in particular to make more progress on structuring asset classes** because climate and social investment finance can scale if financial actors can create transparent asset classes into which people can invest. The asset classes should be well-designed so that they do not negatively impact other SDG targets and transparently deliver positive impact.

11 **Support improved data and reporting for PDBs and clients,** through technical assistance and direct support to priority sectors to improve data and reporting, particularly on gender. This is also important because collecting additional data to track alignment with SDGs can raise costs.

Recommendations to promote effective collaboration and international support

12 **Focus on issues that will attract the private sector to the field, boost collaboration and potentially help evolve PDB business models where needed for the future.** One element is harmonized taxonomies (as above). In addition, bringing the private sector - including commercial banks, investment funds, the pension and insurance sector - and PDBs together more generally can help expand PDB impact, in addition to closer links to the government and public sector actions outlined above.

13 **Enhance commitment from the development community, including the G20,** to support the mobilization of PDB and private finance even more given limited government budgets badly affected by the pandemic. To achieve the SDGs by 2030, and address pandemic recovery and a just transition, will be too difficult from fiscal space alone. So, G20 and other international groups, including the MDBs, could continue to boost the profile and need for engagement with PDBs and coordinate amongst themselves to reduce overlap and ensure maximum impact.

14 **Ensure it is simpler to deploy funds provided by international partners and that consistent financing operates alongside the flexibility to fund new and innovative approaches.** For some funds, the accountability mechanisms are so cumbersome that it stops facilities from being used. In addition, some PDBs find that funding does not last long enough to achieve results, whilst others wanted more rapid transfers of resources to emerging priorities and innovative approaches.

15 **Apply more emphasis on subnational capacity and the ability to focus on local level.** Building on strong knowledge of local market stakeholders, PDBs and Subnational Development Banks can play a critical role to bridge the subnational financial gap. This local knowledge can relate to key gaps for intervention in different parts of a country and help external investors not duplicate existing initiatives or repeat past mistakes. It can also be to create the delivery partnerships that will ensure a project is successful, including engaging local stakeholders, and especially women and those who may not traditionally have a voice in the development process. Finally, there can be benefit for data project monitoring and evaluation.

2 Introduction

The United Nations Development Programme (UNDP) has worked with the Finance in Common initiative (FiCS) to highlight the experiences of public development banks (PDBs) in scaling sustainable financing. This report explores the key challenges for PDBs as they move toward alignment with the Sustainable Development Goals (SDGs); the role of PDBs in scaling financing in an affordable way, particularly in emerging economies, to deliver inclusive, equitable and sustainable growth; good practices PDBs have already developed; and what national and international actors can do to further enable and scale their work.

Well-run PDBs can serve as game-changers, not only thanks to their financing power, but also because they have a variety of levers for action. They can finance and foster low-emission and climate resilient investments by providing lower-cost and longer-term financing. They can be catalysts of external public and private finance and act as early investors to prove commercial viability. PDBs also engage in public policy dialogue to support the development of an enabling policy environment to attract private investment. This was one of the reasons the report of the Secretary General on the International Financial System and Development in 2022 specifically highlighted the role of the PDBs and made recommendations for how to enhance their role (UN 2022).

PDBs manage USD 23 trillion of total assets. They provide up to USD 2.7 trillion of annual investments, out of which more than 83% is from PDBs from G20 countries. This represents approximately 12% of total global investment and has grown 15% between 2019 and 2020 (FiCS 2022). As of 2022, there are more than 550 PDBs in the world, of which 90% are national development banks only and 10% have international activities. Hence, they are an important part of the national and global financial landscape and a crucial partner in sustainable finance.

FiCS is a unique global network, which brings together in a concrete and collaborative way key stakeholders from a wide range of countries across all regions[6]. The work of FiCS reinforces the coherence in PDBs strategies and operations in developing and emerging countries by accelerating convergence to shared standards and best practices. It disseminates knowledge and expertise on shared priorities and facilitates the identification of co-financing opportunities in countries or regions of common interest. Finally, FiCS supports the emergence of a global financial framework for green and SDG aligned investment.

In 2021, the G20 acknowledged FiCS by recognizing "the important role of PDBs towards the achievement of the SDGs and the Paris Agreement" and asking it to report its progress in 2022". As entrusted by the G20 Sustainable Finance Working Group (SFWG), UNDP helped define the G20 Sustainable Finance Roadmap, which frame current and future efforts by 29 major economies to accelerate financial, fiscal and economy policy choices in line with the SDGs. The roadmap outlining five key focus areas with multiple individual actions for each helped provide an overall framework in which to place the results set out in this paper.

6 The Secretariat for FiCS has its headquarters within the AFD in Paris.

3 Research Approach

This paper is the result of a series of in-depth interviews with 11 national PDBs[7] , alongside a survey completed by 28 PDBs (plus 7 MDBs as a reference) as members of the FiCS Coalition. It aims to supplement the growing body of knowledge on the importance of PDBs in financing the SDGs yet focus on national and sub-national PDBs in developing countries who often do not get central attention in policy discussions, and represent their challenges, progress, and experiences in scaling sustainable financing at the country, local level. With such an aim, potential PDB interviewees across different sizes, ages, and histories were selected to give a broad spread globally, and interviews were conducted among those who accepted the invitation within the research window. In parallel, interviews with non-PDBs were conducted to supplement the research[8].

The interviews were based on 8 questions with a general introduction to the nature and history of the organization followed by the core question set. It focused on reforms and challenges to meet the SDGs already overcome or in progress, remaining barriers with a specific request for case studies on how the PDBs had improved their contributions to the SDGs, and how the G20 and SFWG could support further advances.

The survey was designed to broaden and supplement the discussions both from the interviews and literature. It was shared with the members of the FiCS via its Secretariat and the regional PDB networks[9] during the month of August 2022 for anonymous and voluntary participation.

7 Development Bank of Namibia (DBN), Development Bank of Rwanda (DBR), Development Bank of Southern Africa (DBSA), Indonesia – PT Sarana Multi Infrastruktur (PTSMI), Industrial Development Bank of Türkiye (TSKB), Morocco – CDG Capital, Argentina - Banco de Inversión y Comercio Exterior (BICE), Brazil São Paulo – Desenvolve, Mexico – Nacional Financiera (NAFIN), France – Agence Française de Développement (AFD), Italy – Cassa Depositi e Prestiti (CDP)

8 Interviews with non-PDBs included Innovation, Research and Knowledge department of AFD, Natixis Corporate and Investment Banking and IDDRI Research.

9 Nine regional and international PDB networks are part of the FiCS Executive Committee: i) Association of African Development Finance Institutions (AADFI); ii) Association of Development Financing Institutions in Asia and the Pacific (ADFIAP); iii) Association of National Development Finance Institutions in Member Countries of the Islamic Development Banks (ADFIMI); iv) Latin American Association of Development Financing Institutions (ALIDE); v) European Association of Public Banks (EAPB); vi) Association of European Development Finance Institutions (EDFI); vii) European Long-Term Investors Association (ELTI); viii) D20-Long-Term Investors Club (D20-LTIC); ix) International Development Finance Club (IDFC)

Given the research focus on the national and subnational PDBs, their responses are mainly shown in the analysis section. MDBs' responses were taken as a reference, but when there were differences from national PDBs, these are set out in the text. Annex A and B have full set of the interview and survey questions respectively.

The paper is not intended to summarize the state of the broader literature or to compare the PDB views with that literature, but the research drew on this knowledge base to help design the interviews and the survey[10]. The paper also notes that PDBs at different stages on the reform journey, so despite responding on the same issue, one would be more comprehensive than another. However, the paper aims to highlight the issues raised rather than provide an exact benchmarking. Also, given the voluntary nature of the survey, there is some selection bias in the respondents, for example, there is a relatively high weighting of PDBs from Latin America compared to Middle East and North Africa (MENA). But given most interviewed PDBs representing fair global representation also filled out the survey including CDG Capital in Morocco and TSKB in Türkiye, there was partial coverage of the wider region.

10 The FiCS website hosts a wide range of publications from FiCS members and associated researchers at https://financeincommon.org/publications. FiCS also hosts an annual Summit with a linked Research Conference which showcases new work on PDBs. The major multilateral development banks (MDBs) also publish research on the role and experience of PDBs and MDBs. Finally, there are a wide range of research institutes, practitioners and universities conducting relevant research. See for example the special edition of the Review of Political Economy, Vol 34, 2022 Issue 2 for latest research and references, Griffith-Jones and Ocampo (2018), Euroadad (2017) or IDDRI (2020).

4 Summary of PDB cases: experiences and good practices

PDBs were asked to provide an example that could illustrate what their organization had done to help move towards achieving the SDGs. For many, it was difficult to identify only one, and there are many more interesting examples on their linked websites. More details are provided throughout the document, but in summary:

Development Bank of Namibia (DBN)

A project preparation platform to originate projects to improve the quantity and quality of projects and to increase the likelihood they will have a positive impact through a more proactive approach.

Development Bank of Rwanda (DBR)

Shift from no green-financing strategy in the country to aligning the Bank as a climate and green finance institution that links to national priorities. They now have policies and procedures to align with safeguards on the environment from international best practice and are seeking accreditation from the Green Financing Initiative.

Development Bank of Southern Africa (DBSA)

South Africa Climate Finance Facility (CFF) is a lending facility intended to increase climate related investment in Southern Africa by addressing market constraints with a catalytic role with a blended finance approach. The CFF will use its capital to fill market gaps and crowd-in private sector. It will also have gender-related benefits since women are disproportionately vulnerable to climate change impacts.

PT Sarana Multi Infrastruktur (PTSMI) Indonesia

They used a new credit enhancement to support a renewable energy client who wanted to issue bonds. PT-SMI arranged a standby facility to support payments if the project could not find sufficient cashflow which allowed the credit rating to rise from A- to AAA.

Industrial Development Bank of Türkiye (TSKB)

The way it maps SDG impact within sub-themes so that as TSKB sets the targets for SDG impact almost 90% of the lending book cover one or two of the SDGs. TSKB also quantifies lending targets for SDGs as part of the process.

CDG Capital Morocco

Development and financing of a desalination plant that provided drinking water for local population to provide a clear social payoff, but also protected the supply of water for farmers to support food production and economic livelihoods.

Banco de Inversión y Comercio Exterior (BICE) Argentina

Their new 'Green Line' financing and support facility which now forms a significant percentage of new investment and supports companies to invest in projects that will improve costs and energy efficiency.

Desenvolve SP (São Paulo) Brazil

Alignment of gender equality and lending to SMEs, with a financial line to support women-controlled SMEs. To be able to take the loan the female CEO had to enter the number of women and reach the threshold for the percentage of shareholders who were women. This was part of its broader focus on aligning lending with the SDGs.

Nacional Financiera (NAFIN)

The new NAFIN Sustainability Fund, supported in its creation as an innovative legal and financial instrument by the UNDP's BIOFIN initiative, working alongside the Ministry of Environment on a project supported by the World Bank Group, to enhance the way in which they can support investment in companies to boost environmental outcomes.

Agence Française de Développement (AFD) France

A project in Egypt with a holistic/systemic approach to the financial system where they support supervisory authorities such as the banking and financial markets supervisors to embed sustainable principles within the regulations – e.g., disclosure, stress testing, asset class development. By supporting public financial actors they can have a catalytic impact on the overall financial system .

Cassa Depositi e Prestiti (CDP) Italy

CDP, in its role as Italy's Development Finance Institution, signed a €100 million loan in August 2022 with the Africa Finance Corporation (AFC). AFC is one of the major multilateral development banks operating in the African continent, whose shareholders include over 30 states, as well as leading African financial institutions. This first collaboration between CDP and AFC targets investments in the fields of renewable energy, energy efficiency and sustainable infrastructure in Africa, contributing concretely to SDGs 7, 9, 13 and 17.

11 This focus on the potentially broader impact regulation was mirrored in UNDP's advisory support to China's National Association of Financial Market Institutional Investors, the self-regulatory organization of China OTC financial market. The work focused on guidance for Social Responsibility Bond and Sustainable Development Bonds. The guidance incorporates key components of the UNDP SDG Impact Standards, and the SDG Finance Taxonomy - for example, principles including Do No Significant Harm (DNSH), serving vulnerable groups, as well as considerations of using SDG targets as impact indicators.

5 Research analysis and key findings

This section provides a synthesis analyzing both responses from the interviews and survey aligned to the four main pillars of the recommendations, as listed in the Executive Summary. This is complemented by interviews with experts and previous literature. It also explains PDBs' case studies in more detail and introduces several partnership and support opportunities that could support such initiatives.

5.1 PDBs mandates, strategies and governance aligned to the SDGs

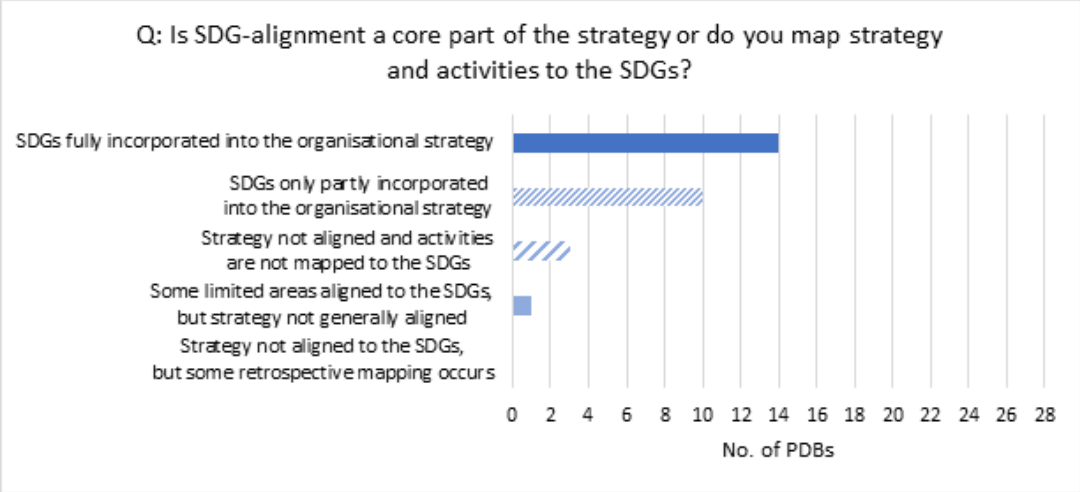
There was broadly a positive link between SDGs and the current work and mandate of the PDBs. For example, in relation to the survey question on whether the organizations mandate prioritized climate actions and the SDGs at all levels, 25 out of 28 or 89% said that it did **(Annex C,** Figure 2**),** however, there were more challenges when the questions dug below the surface.

First, most noted that some form of regulatory change to ensure greater alignment with not only climate and environment but also the social aspects of the SDGs would be useful. For some, such as CDG Capital in **Morocco,** the SDGs were in effect always a core part of their business model. Indeed, its mission is to be a corporate and investment bank at the service of the sustainable development of the national economy and its financial market. For others, significant reform and renewal was and is a core part of their aim to boost their impact on the SDGs, despite successes already. One example is BICE from **Argentina** which is starting a transition in name and through regulatory change to be the Development Bank of Argentina, to move beyond its original history as an investment and external credit bank. For CDP in **Italy,** being founded as Italy's National Promotional Institution meant it already had a public mandate to promote sustainable growth although on the domestic market. It only formally became a Development Finance Institution (DFI) with a development role outside of Italy in 2015[12].

12 CDP Becomes New Italian Development Finance Institution (DFI)

In the literature and other surveys, a key concern raised is that an organization can appear to have strategic alignment with the SDGs, but this can be very much a retrospective exercise to map its activities to the SDGs, rather than a fully alignment created as a core part of the strategy process. In some cases, this could be 'green-washing' or 'SDG-washing'. In other cases, it could be that there was a sincere attempt to start taking into account the SDGs but that, thus far, this had not permeated through the whole organization and reached the level of decision making on project approvals. For this reason, the survey asked a direct question on this issue. This is set out in Figure 3. This shows much more nuance about SDG alignment into strategy. 50% of PDBs said that the SDGs were fully incorporated into organizational strategy, and 36% said the SDGs were partially incorporated. 14% said there was limited or no mapping. This fits more closely the results from the interviews and other reports where some organizations had made significant progress, whereas others had started with a set of issues – often on the environmental side – but had not moved to full and broad alignment yet.

Figure 3: SDG alignment as a core part of the organizational strategy



PDBs were also asked to self-benchmark their progress over the past 5 years in four areas using the framework developed in the European Think Tanks Group report (2021): (i) lead internally and foster a sustainable development culture; (ii) develop a holistic strategy and long-term vision; (iii) mainstream SDG priorities within internal operations; and (iv) mobilize and catalyze transformational investment[13].

13 ETTG-study-Financing-the-2030-Agenda-An-SDG-alignment-framework-for-Public-Development-Banks.pdf

There were modest improvements in average performance, and reduction in the number of PDBs reporting very low scores against the four different elements (Annex C, Figure 16-19**).** This fits with a narrative that fewer organizations are still waiting to start the journey on SDG alignment, which helps to pull up the tail of the lower performers. That said, it is important to remember that the survey was voluntary and hence has selection-bias. But equally it is interesting that the self-assessment was so low in many cases 5 years ago (and still in some cases)[14].

There was most significant progress on 'developing a holistic strategy and long-term vision linked to the SDGs' whereas least progress was in the 'lead internally and foster a sustainable development culture', and the other two areas were in the middle. Focus on culture was less pronounced in the interviews and survey, hence not included in one of the main pillars of the recommendations, but it shows that there is a challenge of translating a strategic vision into the 'hearts and minds' of an organization.

In terms of SDG alignment, for the first time in 2021, the UNDP Financial Centres for Sustainability (FC4S) Network measured the level of involvement of each one of the SDGs, both at the financial centre and the country level planning and development processes, within its Assessment Programme[15]. Findings showed that **SDG 13 (climate action) leads with 83 percent of responding financial centres considering it,** followed by SDG 9 (industry, innovation and infrastructure) and SDG 8 (decent work and economic growth) with 76 percent each. Nevertheless, although almost half of the financial centres surveyed reported using all 17 SDGs while setting their strategies and plans, they infrequently measure and disclose progress against them, suggesting an initial level of consideration.

Despite significant progress, the Covid pandemic has emphasized for some PDBs even more the need to work on the trade-offs between the SDGs and have a robust way of taking investment and strategy decisions both in the short-term but also in the long-term for more a more durable transformation.

CASE 01

CASE: CDG Capital, Morocco

CDG Capital, Morocco The work of CDG Capital provides an interesting example on trade-offs between SDGs. They structured and financed a large new desalination plant within a PPP scheme, serving both needs of local population, by providing them with access to clean drinking water, as well as farmers, by helping them maintain and develop their business. Thus, the project played a strong social and economic development role, although, at this stage, the plant is powered by the grid which has a mixture of fossil fuels and renewable sources.

14 Note that a few responses are being checked for the 'Internally Leading and Fostering Culture' question as they appear to rate performance now lower than before. Some PDBs have confirmed it was an error and updated the responses which are included but checking is still in progress.

15 A growing number of financial centres have responded to the survey year after year, from 12 in its first edition (2018), to 20 in 2019, 24 in 2020 and 29 in 2021. This is a response rate of 75% of a growing network membership in 2021 (39 members as of end 2021, vs. 36 members when the survey was launched that year).

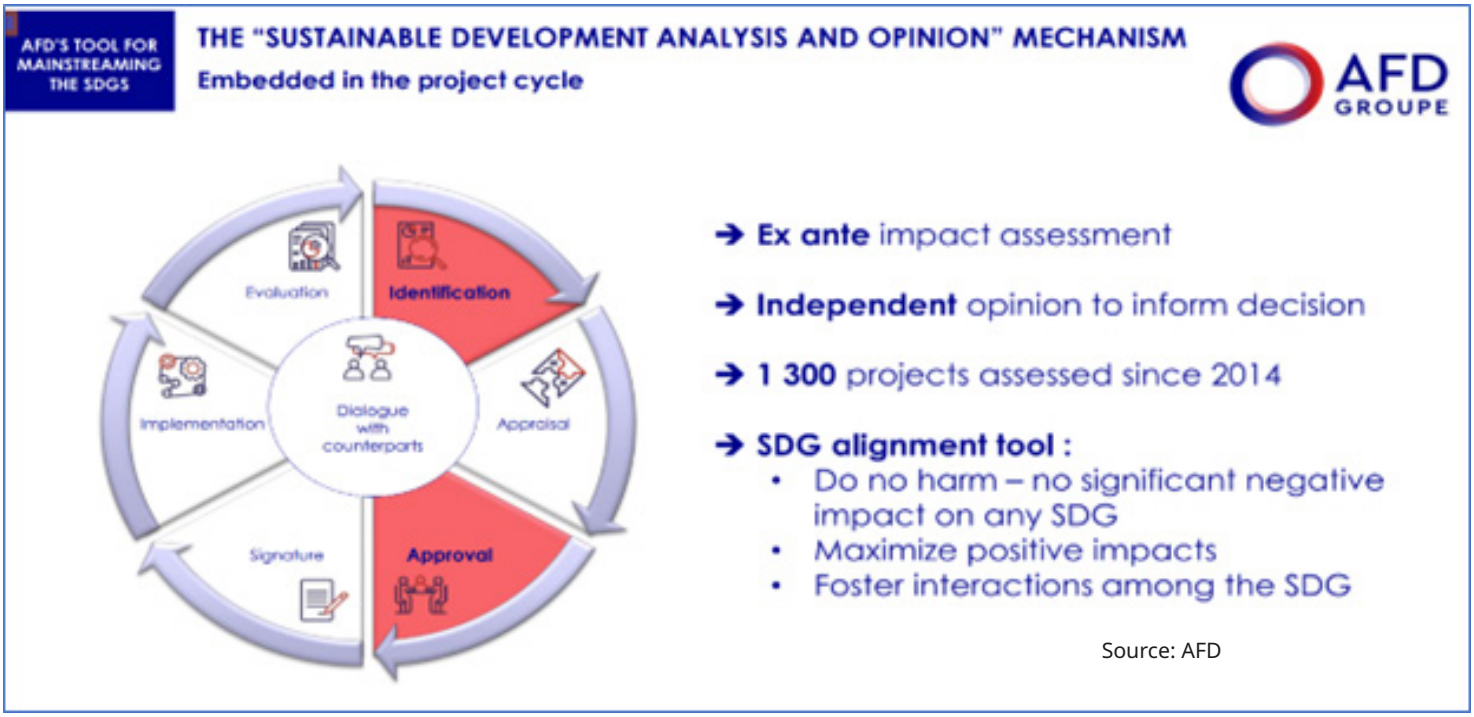
This is perhaps one of the toughest areas faced by PDBs, and one where the need for new tools and approaches is most needed. In this context, the work by AFD on its 'Sustainable Development Analysis and Opinion Mechanism' is particularly useful (AFD 2022). DBSA noted how important it was to ensure that there was an appropriate balance in the focus on social and poverty issues and environmental issues – as well as emphasizing that in many cases the trade-off may not exist in reality but be an issue of perception by the public, the media or politicians. But even in these cases, it was important to focus on proactive education and communication – from Board members to staff and to potential recipients.

CASE: AFD, France

CASE 02

The work of the AFD and the IDFC to develop toolkits to help alignment and measurement are an important part of embedding strategic change in PDBs. Figure 2 shows the process to support the use of the AFD's 'Sustainable Development Analysis and Opinion Mechanism' so that SDG alignment can be embedded in the project cycle.

Figure 4: AFD's SDG Alignment Tool and Process



Source: AFD

Furthermore, some, but not all PDBs, were developing closer alignment with the national development priorities of their countries. This was part of the reforms underway in Rwanda and an on-going process for the Development Bank of **South Africa.** NAFIN in **Mexico** explicitly link their activities to Mexico's 'Nationally Determined Contribution' under the Paris Agreement (NAFIN, 2021). This highlights that when a national government – including a G20 government – makes commitments towards the SDGs and implements this as part of its national plan there can be a dual pay-off from the knock-on effect on the activities of a PDB – particularly if governments make it simple for PDBs to understand the specific actions they can take.

The survey also suggests a mixed picture with 50% of PDBs showing close links to both the global SDGs and the national strategies from their respective governments including the 'Voluntary National Reviews' in which countries review their own progress against the SDGs[16]. 50% of PDBs suggested no link to these national articulations **(Annex C,** Figure 5**).** This could be because the PDB started work on alignment ahead of the respective national government, or that the national documents do not necessarily have the detail or clarity needed to help a PDB 'cascade' down its own objectives from the global to the national and then to itself as a specific institution. However, it does highlight the issue of the 'line of sight' from global to local that many of the PDBs highlighted as important – and an important rationale for why they should be supported by multilateral and external actors.

Improving strategic alignment for the PDBs with national priorities and the SDGs was a recurring theme of strategy development and planning undertaken in the past 5 or more years. For example, the Development Bank of **Rwanda** case study could be on their fundamental reforms in strategy (as well as personnel) in the past 3 years. Previously their activity was not really aligned to the Government's plans or to the international stakeholders in terms of the SDGs. Interestingly, the recent extensive reforms did not need any change in mandate – just the creation of a new, clearer and more aligned strategy which took the SDGs and national priorities and showed how they could be supported by specific activities by the bank. To match international areas of interest clearly it was important that the national government strategy was also linked to the SDGs. On the other hand, CDP **Italy** brought SDGs into its by-laws in 2021, embedding sustainability into daily responsibilities across the bank. CDG Capital in **Morocco** identified 12 of the 17 SDGs that are critical to their activities and the Executive Committee Board is now tasked with following up progress on the action plan. In **South Africa**'s DBSA, the new strategic model is known as the 'Integrated Sustainable Development Approach'. It provides the overall framework and will consolidate the effort into a coordinated net zero pathway – with multiple initiatives driving the transition agenda – now and in the future.

16 "Voluntary National Review (VNR) is a process through which countries assess and present national progress made in implementing the 2030 Agenda, including achieving its 17 Sustainable Development Goals and the pledge to leave no one behind. The purpose of VNRs is to present a snapshot of where the country stands in the implementation of the Sustainable Development Goals, with a view to help accelerate progress through experience sharing, peer-learning, identifying gaps and good practices, and mobilizing partnerships". https://www.ohchr.org/en/sdgs/voluntary-national-reviews

The relevance of other reviews and national policy documents was specifically asked also in relation to the Nationally Determined Contributions (NDC)[17] and the 'Long-term low green-house gas emissions development strategies' (LTS)[18]. These documents to be produced by national governments are both part of the Paris Climate Agreement (voluntary) commitments to set out how a country will meet the overall commitments and/or specific strategies in relation to emissions. From the survey results, these have so far not proved to be an important input for PDBs in updating and aligning their strategies to the SDGs **(Annex C,** Figure 6**)**. A significant majority – 61% - said that neither document was mentioned in the PDB strategy. To some extent this is to be expected, since many of the PDBs highlighted that it was already a very challenging task to try and deal with the 17 SDGs and the 169 targets contained within the Sustainable Development Goals. On the other hand, for a PDB seeking to show its relevance to its national government and secure resources, showing how it is aligned to such national strategies and can help the government achieve its international aims could be very useful.

17 The Paris Agreement requests countries to submit a Nationally Determined Contribution (NDC) to set out their commitments to reduce greenhouse gas emissions and strengthen resilience to climate change. They are voluntary but expected to articulate how a country will achieve its commitments. https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs/nationally-determined-contributions-ndcs

18 Quality Assurance Checklist: For Long-Term Low Greenhouse Gas Emission Development Strategies | United Nations Development Programme (undp.org)

Integrated National Financing Frameworks (INFFs) as a platform for PDBs to align their mandates, strategies, andgovernance with national development priorities

In the 2015 Addis Ababa Action Agenda, **UN member states called for the development of Integrated National Financing Frameworks to support nationally owned sustainable development strategies.** These INFFs are designed to address the gap between national aspirations for sustainable development and the policies, instruments and standards that are needed to realize the necessary public and private investments.

Eighty-six countries are now using the INFF approach to shape a more sustainable financing architecture at the country level. By providing a systematic analysis to better mobilize and align capital with the SDGs for both public and private sector, INFFs help countries identify and prioritize the changes to policies, regulations, instruments, and institutions within a financing strategy that can drive transformative SDG investment. Among these eighty-six countries, forty are expected to develop such a financing strategy in the coming year, and more than 250 financing reforms have already been prioritized for immediate action. These reforms are designed to unlock new capital and promote greater effectiveness and SDG impact in key areas of financing, through nationally-led, tailored financing solutions. **Mongolia,** for example, was the first country to officially endorse its INFF financing strategy, which aims to help the country meet the $15.7 billion cost of its medium-term development plan. Designed to increase financing sources, promote alignment and increase impact, the financing strategy sets out a range of reforms to public and private finance. Among these are both strategic and operational changes that the **Development Bank of Mongolia** has implemented to enhance the way that it manages its portfolio in relation to national sustainable development objectives.

IFIs including PDBs have a key role to play in strengthening SDG financing at the country level, and INFFs offer an important platform for deepening collaboration. As financing strategies are designed, IFIs including PDBs can feed in their perspectives and evidence on the major challenges, opportunities and solutions for mobilizing and aligning capital with the SDGs. They can provide technical inputs in costing, expenditure and accountability assessments, financial sector development assessments, and a range of other technical tools. They can also shape and champion the potential impact of reforms prioritized through INFF processes, demonstrating their benefits and supporting implementation across the wider financial system at the country level. This engagement is growing. IFIs, for example, are increasingly actively supporting INFF processes in a variety of ways in more than 50 countries. This includes engagement by the World Bank in more than 40 INFF processes, by the IMF in more than 25 and other MDBs such as the Asian Development Bank, Islamic Development Bank and African Development Bank in more than 30 INFFs.

BOX 1

Additionally, governance, or corporate governance is a key area of focus in all financial institutions, from the international standards on banking, insurance or pensions through to the standards for Social Security Institutions. Good governance is no less important for the PDBs. A recent report (Attridge and others, 2021) highlights that higher levels of political influence through political appointments are associated with weaker financial performance. On the one hand, political influence can help align Government development goals with a bank's financial lending – and this alignment is important. But there can be risks in relation to the long-term goals on sustainability if political appointees don't have this long-term view, meaning that sustainability priorities could change between political cycles and hence prevent real integration of sustainability in PDB operations. Weaker financial performance for these reasons could therefore be associated with a sub-optimal impact performance.

Some PDBs highlighted progress on governance – with improvements in the range or depth of expertise particularly in the executive management teams - or development of new Board structures and committees to embed new top-down direction to an SDG related change program. CDP in **Italy** extended the Board Risk Committee scope to include sustainability as part of its reform process. TSKB, **Türkiye** has a Sustainability Committee under its board of directors. Half of the board of directors are also members of the Sustainability Committee, including TSKB's CEO, to ensure the changes are driven by the leadership.

However, there is a continued need and challenge to boost human capital – sometime in the Boards, sometimes in PDB staff and sometimes in potential credit recipients. This was why many PDBs highlighted the importance of internal or external technical advisory support that they offered as part of their overall package. In some cases, this need for the right people with the right skills was exacerbated by rapid turnover of senior staff – which also had broader implications in terms of the ability to set and implement strategy.

Improving human capital to support strategic change came from hiring new people, but more often extensive training for existing staff. CDG Capital, **Morocco**, for example, has called on external expertise when needed but has also put in a lot of effort on training and uplifting skills. Most PDBs highlighted that to embed a new SDG linked process in the organization required a 'hearts and minds' approach as well as technical training for the staff working in the project preparation and credit allocation process – as well as changes to Board governance and project approval processes. But a number had already conducted SDG training for staff, both general and focused on specific roles.

Overall, key common feature was that all the PDBs are currently evolving and taking active steps to improve alignment with the SDGs. In other words, there was none that felt it was in a steady state where they had achieved all they wanted in relation to the SDGs. For some, like the Development Bank of **Rwanda**, this was part of a wholesale reform and fundamental reshaping of the whole organization in the past few years, after over 50 years

of operation. This involved a new Board, a new strategy and a change program to support the delivery of the new approach. For others, the changes were more evolutionary, forming part of successive strategy cycles and building in importance over time such as TSKB in **Türkiye**, or AFD in **France**. But for all the 11 interviewees, it was clear that the imperative of the SDGs was driving changes, even though at different speeds.

5.2. Lending, guarantees, pricing and currency risk

One common theme was progress on reaching back up the project value chain so that the PDBs were more proactive in developing a larger and higher quality pipeline of investible projects throughout their portfolio against the top challenge on the developing a comprehensive portfolio with an SDG rather than a pipeline of good individual projects (Figure 7).

Figure 7: Top 3 challenges to promote, develop, and implement changes to support SDGs

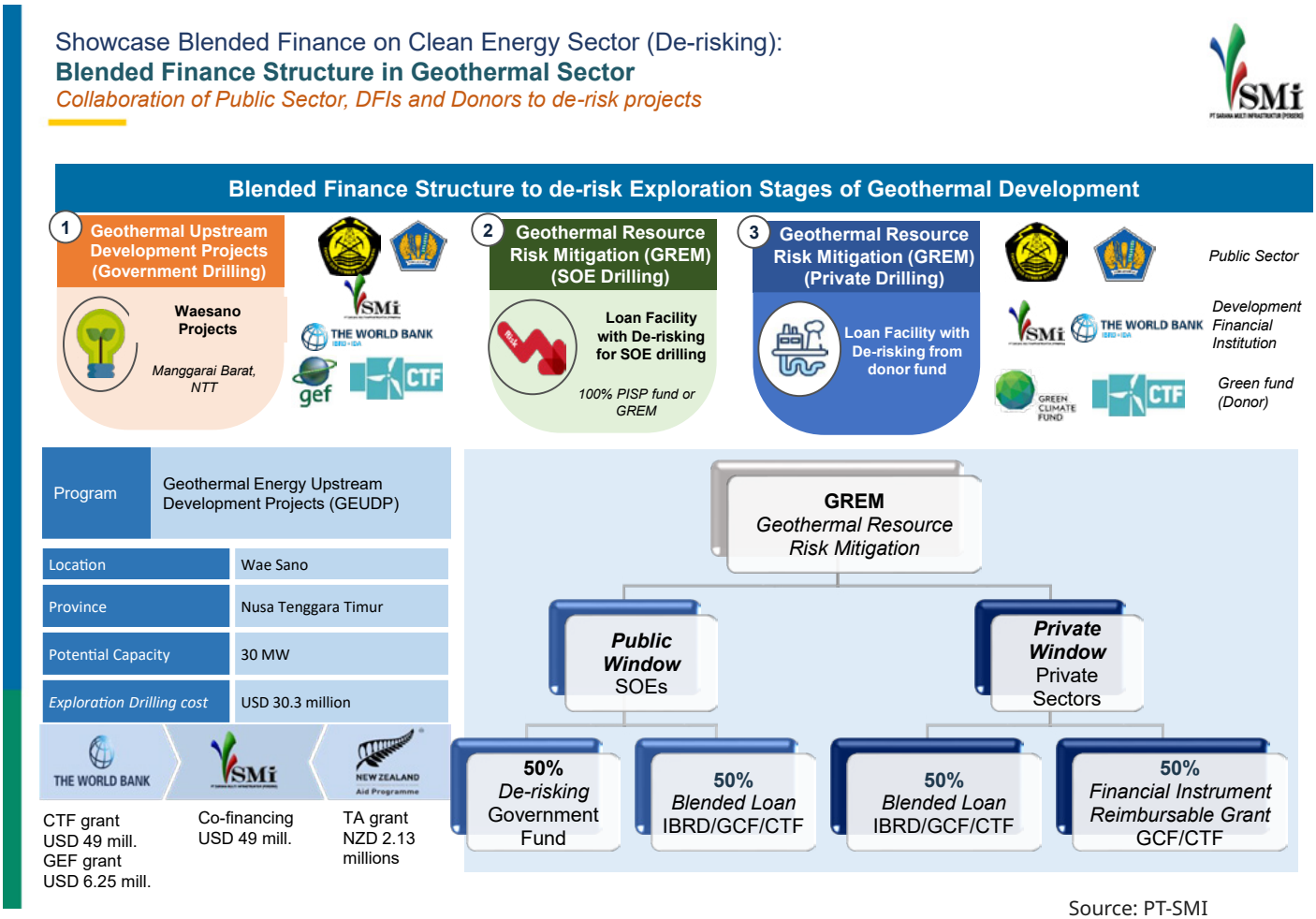
This was raised by many of the PDBs, including the Development Bank of **Namibia,** and PT-SMI in **Indonesia** who have increased their focus on feasibility studies and issues such as clear power purchase agreements to support renewable energy as a specific and technical area on which progress was needed to make projects simpler to finance and hence to improve that particular project pipeline. Credit enhancement in a renewable energy project in the Tamaris Hydro (electric) power project allowed the rating of the project bonds to increase from A- to AAA, a full 6 steps to the highest bond rating.

CASE: PT-SMI, Indonesia

CASE 03

PT-SMI, Indonesia The technical assistance aspects of project development support to improve project flow can also be enhanced by finance for project development costs, including the potentially risky exploration phase of project development. In relation to developing geothermal power, PT-SMI designed an instrument that can supply a 100% loan for exploration with 50% forgiveness if the company cannot find the right entry point for viable access to geo-thermal activity. This was a vital innovation because there is huge scope for the use of geothermal power in Indonesia, with obvious payoffs for the environment, as well as to reduce dependence on externally sourced power and the potential to create jobs locally. However, the process of finding a viable access point to the geothermal power that can be used at scale is complex and subject to significant risk. Hence the new facility helps to increase finance by enhancing the credit rating of bonds for the activity and will flow directly into meeting the SDGs. Figure 3 shows a schematic of the project, including the multinational cooperation alongside PT-SMI.

Figure 8: PT-SMI's Blended Finance Structure in the Geothermal Sector



Source: PT-SMI

For a number of the PDBs, the development and placement of green and sustainable bonds were identified as key milestones on their reform journey. For example, BDMG in **Brazil** conducted the first private placement of a sustainable bond in the US by a Brazilian development bank. TSKB in **Türkiye** highlighted that they were one of the first issuers of a green bond in collaboration with the World Bank among many others and the allocation of proceeds as well as the impact of bond utilization are reported[19].

CASE 04

CASE: DBSA, South Africa

The Development Bank of Southern Africa highlighted action in this area through its Climate Finance Facility (CFF). The CFF is the first time "green bank" model applied to an emerging market, which is established specifically to facilitate private investment into low-carbon, climate-resilient infrastructure in the four Rand (local currency)-based economies in the Southern Africa region, including South Africa, Namibia, Lesotho, and Eswatini. By using long-term subordinated debt and tenor extension as two main credit enhancement instruments, CFF prioritizes investment opportunities based on target country needs and priorities identified in NDCs under the Paris Agreement and to meet the SDGs. The CFF raised an initial $110 million, with DBSA and the Green Climate Fund (GCF) as two anchor funders.

A number of PDBs highlighted progress in building environmental, social, or full SDG screening criteria into the credit allocation process, so that SDG alignment is a core part of the process, not an 'ex-post' rationalization. For example, TSKB in **Türkiye** has very detailed credit evaluation criteria which integrates environmental aspects and climate risk evaluations. This is one way in which sustainability can be embedded into all businesses that are supported by the Bank. AFD and DBSA were other examples of PDBs integrating SDG-related scoring into project decisions, including as highlighted in DBSA's case study.

19 In related activity, in March 2021, UNDP supported China's New Development Bank (NDB) to issue RMB 5 billion (USD 747 million) SDG Bond in China to finance the country's sustainable COVID-19 recovery. This is the first time globally that a multilateral development bank has committed to adopt UNDP's SDG Finance Taxonomy and Impact Standards. The net proceeds from the bond will be used to finance sustainable activities or processes, and deliver products, services or outcomes that benefit stakeholders and/or contribute to solutions related to SDGs in NDB's member countries.

Case: Desenvolve SP, Brazil

CASE 05

Desenvolve São Paolo have a loan allocation program that has an explicit set of metrics that need to be met in order to quality in relation to SDG criteria, part of which has a focus on social issues including gender equality in business. Figure 9 shows an extract from their framework, which draws out the gender related metrics that are included in the social eligibility criteria. As shown in the extract from their Social eligibility criteria, one criteria relates to business that are majority owned by a women. A second relates to 'medium-sized companies owned by Afro-descendants' to target another area of significant inequality.

Figure 9: Gender-focused extract from Desenvolve SP Loan social eligibility criteria

Category	Eligibility criteria	Examples of credit facilities and financed items	SDGs	SDG Target
Education	Support to primary, secondary, and higher education, including: • Financing of public education facilities, such as day care centers and municipal schools; • Financing of private education institutions located in vulnerable municipalities. [32]	• Municipal Investment Support Facility (LIM) • Other credit facilities for P section CNAES – Education	4 EDUCAÇÃO DE QUALIDADE 10 REDUÇÃO DAS DESIGUALDADES	4.a (Build and upgrade education facilities) 10.2. (By 2030, empower and promote the social, economic, and political inclusion of all)
Financial inclusion of micro, small and medium-sized enterprises	**Loans or other financial support to MSMEs that meet any of the following criteria:** • **Micro entrepreneurs (MEI), micro and small companies with sales up to R$ 4.8 million, or** • **Medium-sized companies owned by women, meaning 50% + 1 of the shares are owned by a woman or women: or** • **Medium-sized companies owned by Afro-descendants, mening 50% + 1 of the shares are owned by a person or persons of African descent; or**	• Digital Credit – Giro Micro e Pequena • Vale do Futuro Program • *Vale do Ribeira* Facility (LVR) • LIT – Linha de Incentivo a Tecnologia	5 IGUALDADE DE GÊNERO 8 TRABALHO DECENTE E CRESCIMENTO ECONÔMICO	**5.5 (Ensure women's full and effective participation)** **5.a (Undertake reforms to give women equal rights to economic resources)** **8.2 (Achieve higher levels of economic productivity through diversification, technological upgrading, and innovation)**

Reflecting one of the key issues raised for action below, the need to try and improve the cost and duration of financing was repeatedly raised as a challenge for the coming years. This issue was raised by TSKB and BICE, among others. The likely future rising path for interest rates to offset inflationary pressures globally will make debates on the cost of finance of increasing important in the coming years and hence the role for concessional finance potentially more significant. The cost of finance has been debated for many years in relation to development lending, including the work of the PDBs. Often the degree of concessionality will depend on the level of GDP of a given country, and not according to the positive impact of the project on a metric such as the SDGs. This is not a simple area, but the key point from the PDBs was more the relative funding to commercial actors in their countries than the income-level based allocation of resources.

One aspect of the cost of financing, in addition to the interest rate and term, was the need to reduce transaction costs of accessing loans and de-risking mechanisms such as guarantee funds. The volume of money available has increased for some PDBs, but the complexity and delays in accessing it is an issue. This was particularly the case for the smaller PDBs. The project documentation can be extensive, the time between submission to decision can be very long and there can be many requests for extra information. **Linked to the cost of funding was how to deal with the currency risk when receiving external support in USD (or other currencies) but lending-on in local currency.** Given the very international and challenging nature of this problem, it is no surprise that it was a key issue identified for the G20 and others, rather than one on which there were clear plans that just had to be implemented. Continued innovation in the availability of instruments and guarantee facilities more generally was also identified as useful.

The need to continue to boost project pipelines further to have more projects that are bankable and can meet the criteria from development partners was raised by a number of PDBs. Support to develop and prepare projects have helped, but PDBs still find that a lot of potential partners e.g., in municipalities are not able to develop bankable plans – as raised for example by BICE in **Argentina.**

CASE 06

Case: Italy, CDP

CDP, in its role as Italy's Development Finance Institution, signed a € 100 million loan in August 2022 in favor of the Africa Finance Corporation (AFC). AFC is one of the major multilateral development banks operating in the African continent, whose shareholders include over 30 states, as well as leading African financial institutions. This first collaboration between CDP and AFC targets investments in the fields of renewable energy, energy efficiency and sustainable infrastructure in Africa, contributing to SDGs 7, 9, 13 and 17. In line with its new 2022-2024 Strategic Plan, CDP's initiatives promote inclusive growth of emerging markets and developing countries, further expanding the impact of Italy's international investments and contributing to European efforts to implement key projects in Africa.

The partnership with a leading African multilateral development bank allows CDP to leverage AFC's deep knowledge of the local context. This will help to finance projects that are on top of Africa's sustainable development and ecological transition agenda, thus maximizing the impact on SDGs. Partnerships among Development Finance Institutions builds bridges for development finance to effectively reach emerging economies and mobilize resources where and when they are most needed.

Case: NAFIN, Mexico

CASE 07

NAFIN is a good example of how work on green bonds can be extended as part of alignment with the SDGs to support the placement of Sustainability Bonds. After issuing the first green bond in Mexico in 2015 (for USD 500m), NAFIN issued a second green bond in 2016 and in 2017 issued the first social bond in Mexico for 4 billion Pesos (USD 200 m). NAFIN produced a comprehensive document to show the link from the SDGs and the Mexican government's national priorities through into the work of NAFIN as a PBD. The bond was also reviewed by an external party - Sustainalytics - who published a (positive) opinion on the bond (Sustainalytics, 2021).

5.3 Data, Measurement, Impact and Taxonomies

Nearly all of the PDBs highlighted the importance of developing data, monitoring and evaluation as part of aligning the operation of the financial institution with the SDG agenda yet progress on measuring and portfolio-level SDG alignment was less pronounced. This was considered to be difficult and essential. DBSA in **South Africa** had put a significant amount of attention into this area by increasing the collection of data directly and from recipients of support, and the resources to monitor and evaluate the new data. BICE in **Argentina** had started to pilot the use of explicit control groups to explore the real impact of interventions. Some PDBs had not historically even collected gender disaggregated data on the recipients or beneficiaries of investments which clearly prevents any chance of monitoring or evaluating gender impacts.

For all of the PDBs, greater transparency and reporting internally and externally have been an important part of recent changes. CDP in **Italy** have put the actions they have undertaken so far into an integrated report that was drafted in compliance with the Italian non-financial disclosure decree and external standards. These included the Global Reporting Initiative[20](GRI) of the International Integrated Reporting Council[21](IIRC), the Sustainability Accounting Standards Board[22](SASB) and the recommendations of the Task Force on Climate Related Financial Disclosures[23](TCFD). The number of different initiatives, even if each is bringing greater simplicity and clarity highlights the challenge for a smaller PDB and hence the need for support and assistance. BICE highlighted the lack of a common taxonomy across commercial banks, PDBs and other investors and no PDBs said that these issues were absent[24].

20 https://www.globalreporting.org/about-gri/

21 https://www.integratedreporting.org/the-iirc-2/council/

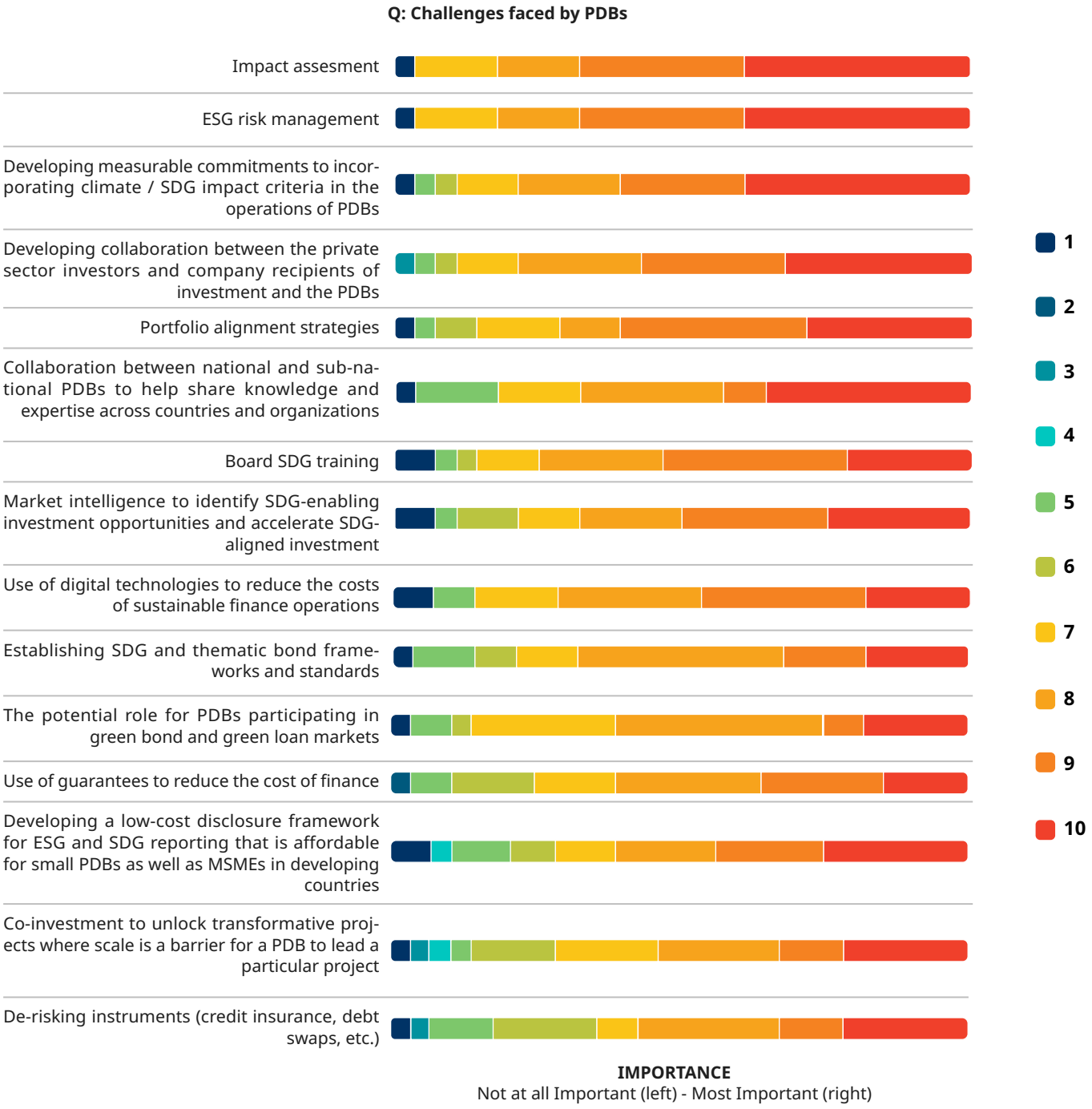
22 https://www.sasb.org/

23 https://www.fsb-tcfd.org/

24 In a related initiative, UNDP is partnering with the European Investment Fund (EIF) to develop its Impact Measurement and Management (IMM) to integrate SDG-aligned impact management into its investment portfolio, particularly in planned Guarantee Instruments under European Fund for Sustainable Development (ESFD). The model can be scaled to other MDBs, DFIs, and financial institutions at global and country levels.

However, measuring and monitoring the impact remains quite challenging as only just over half of the PDBs in the survey said that they measured and managed the impact of their activities against the SDGs **(Annex C,** Figure 10**).** This seems surprisingly low given the overall positive scores to PDBs' strategic alignment with the SDGs. Also, for the question where PDBs were asked to rate 16 different potential challenges from 1 (low) to 10 (high) importance, impact assessment and measurement shows relatively higher scores than strategy and governance[25] (Figure 11). It aligns with the broad narrative from all the research that the key issue for PDBs is not whether they are either willing to or can, but that "how" they do this in practical terms.

Figure 11: Rating from 1 – 10 of challenges faced by PDBs



25 The graph shows that all of the potential challenges are difficult for a significant proportion. None have less than 60% of the PDBs scoring them between 8-10. The middle category sees around 70% of the top three ratings and the most challenging category have over 80% of PDBs rating them an 8-10 in terms of difficulty.

Some of the PDBs have proactively integrated a gender lens into the project and credit allocation process, whilst for others this is still work in progress. In the DBSA in South Africa, there are environment, institutional, social and gender specialists who go out as part of the project appraisal teams. They do their own due diligence on the project. The investment committee will not allow submission of projects without the consideration of wider issues as needed. This is a key part of genuinely mainstreaming gender as required by SDG 5. CDP in **Italy** also include gender related targets for their own organization, as well as for the projects and partners with whom they invest.

When PDBs were asked if they track financing by whether it supported the mitigation of climate impact or adaptation to new approaches, they showed the lack of focus on the split in finance between these approaches. For example, a PDB could work with a fossil fuel power plant to reduce the level of pollution or invest in a renewable energy company. But limited percentage of the PDBs – 10 of the 28 PDBs or 36% - shows that PDBs could not produce materials that showed the flows cut by this metric **(Annex C,** Figure 12**).**

How to identify impacts and get the right data from the companies and financial intermediaries once they receive the funding was a recurring theme on which more action was needed in the future. Some PDBs had done a lot in this area, but few were content that they had all the data they needed, or that it was simple to ensure that the recipients of funding supplied the broader set of reporting data needed to show impact relative to the SDGs. This challenge in obtaining and using the data to measure and publish impact was partly seen in the answers to a question on producing figures on the wider benefits of projects, as nearly two-thirds of the sample produced such figures **(Annex C,** Figure 13**).**

Pressure from investors and customers has pushed greater data and disclosure from private sector banks and companies. PDB could also respond to pressure from their investors and shareholders – which are typically governments - as well as bond holders and investment partners. Strategically, a number of PDBs identified the need for KPIs for the overall portfolio as well as specific project to properly embed measurement of impact relative to the SDGs.

In relation to this, **a common framework to measure sustainability and have a clear benchmark would be seen as useful** because the PDBs saw too many frameworks and approaches. Hence this is an area on which G20 action would be useful. This would also help to reduce the complexity (and cost) of alignment, which was clearly a bigger issue for smaller national and sub-national PDBs.

Impact Standards for PDBs
to integrate SDG-aligned impact measurement and decision making into their portfolios

OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD) were developed to provide a framework for donors, development finance institutions such as PDBs and private sector partners to incorporate impacts relevant to the SDGs that are often ignored in measurement of investment projects. These include aspects such as the protection of human rights and local stakeholder consultation among many other issues. Adopting the IS-FSD approach leads to project measurement of financial returns as well as positive impact on sustainable development, and improves the transparency of development results.

The Standards were recognized by the Finance in Common (FiC) Joint Declaration (2020) and commitments from the public development banks (PDB) coalition. UNDP is supporting the resulting Finance in Common Coalition on Social Investment, and the workstream on Impact Monitoring and Measurement (IMM) for PDBs.

In particular, **UNDP SDG Impact Standards for enterprises, bond issuers and private equity funds** provide an organizing framework and internal management practice to help Development Finance Institutions and PDBs integrate sustainability and SDG-aligned impact in strategy, management, transparency, and governance which then impacts their portfolio and business partners. By aligning with the Standards, all development finance actors can show their intention to contribute positively to SDGs. The management standards are voluntary and consistent with existing high-level principles, filling gaps in current market approaches that undermine efforts to achieve sustainability and the SDGs.

BOX 2

CASE 08

Case: TSKB, Türkiye

The way in which the Industrial Development Bank of Türkiye maps SDG impact within sub-themes is a good example of how to drive SDG alignment through the organizations. TSKB sets the targets for SDG impact and has aligned the portfolio so far so that almost 90% of the lending book cover one or two of the SDGs. TSKB also quantifies lending targets for SDGs as part of the process. As Figure 14 shows, this has come in recent years after a multi-year process of internal reform and external collaboration in which a focus on measuring and impact targets have been a key feature. So, TSKB's examples aim to show a movement beyond simple mapping of activities to the SDGs and towards the deeper changes that are needed to align activities in a meaningful way to achieving the SDGs.

Figure 14: TSKB's Journey towards detailed SDG Alignment Measurement

Milestones of the Sustainability Journey

TSKB has placed sustainability at the heart of its business model since its establishment. In this direction, the Bank operates by focusing on combating and adapting to climate change.

1980
- Environmental factors were integrated into the loan evaluation processes for the first time

1990
- The first environmental loan was disbursed

2005
- EMS was established
- The Environmental and Social Risk Evaluation Tool (ERET) was designed

2006
- The Environmental Policy was announced

2007
- The first Turkish bank qualified to obtain an ISO 14001 Certificate
- The practice of assessing all investment projects under the ERET Model was introduced

2008
- Implementation of the Zero Carbon Banking Principles was initiated

2009
- The practice of using renewable energy resources to meet the Bank's electricity demand was implemented

2010
- The first GRI-approved Sustainability Report was published

2011
- Escarus, which operates in the field of sustainability consultancy, was established

2012
- The first Turkish bank to obtain an ISO 14064 Certificate
- The Environmental Policy and the Environmental Management System (EMS) were revised as the Sustainability Policy and the Sustainability Management System (SMS) respectively

2013
- The first CDP Climate Change Report was published

2014
- The Sustainability Committee was established
- Signatory to the IDFC Climate Action in Financial Institutions

2015
- Inclusion in the BIST Sustainability Index
- The Sustainability Policy was updated

2016
- The first Green/SRI Bond in Turkey and the CEEMEA Region was issued
- Climate Change Declaration
- The first Integrated Report in Turkish Financial Sector

2017
- The first subordinated sustainable bond in the world was issued
- The first Allocation and Impact Reporting for green/sustainability bond issuances in Turkey

2019
- Founding signatory for the UNEP FI Principles for Responsible Banking
- Director of IDFC Climate Facility Coordination Unit

2020
- The Green Swan Platform was established
- The Climate Risks Working Group was established
- Joined the TCFD Phase 2 Banking Pilot Program
- The SDG mapping study for the loan portfolio was completed
- Finance in Common Summit; Signatory to Sustainable and Resilient Global Recovery, Biodiversity and Gender Equality and Women's Empowerment Declarations
- Best Environmental, Social and Governance (ESG) Risk Score in Turkey
- The first loan based on the SDG loan model was extended in Turkey
- The first club loan indexed to the ESG Risk Rating in Turkey
- The first sustainable lease certificate in the world was issued
- The "ERET Model for Working Capital Loans" was developed

2021
- TSKB's 3rd issuance of sustainable bonds
- Became a TCFD Supporter and joined the TCFD Phase 3 Banking Pilot Program
- TSKB's Climate Change Mitigation and Adaptation Policy was announced

5.4 Effective Collaboration and International Support

A final important theme from the broader introductory discussions, was the importance of current and future collaborations and learning from shared experience – both intra-country and across countries/regions. The within country dialogue was important, for example the sub-national PDB Desenvolve SP (São Paolo) in Brazil, was benefiting from the experience (and transfer of key staff) from another innovative sub-national PDB in **Brazil,** the Development Bank of Minais Gerais (BDMG). Another part of the intra-country dialogue could be seen in the role that BICE in **Argentina** was playing in national discussions on improving the 'taxonomies' for investment, so that there is clearer agreement across all kinds of banks of what it means for example for an investment to be pro-gender equality. These specific examples are supplemented by the many examples that relate to the core purpose of a national PDB to show leadership and demonstration effects by investing in supposedly difficult or challenging or innovative projects that the private sector lenders can then follow[26].

PDBs have also played a proactive role in trying to develop the sustainability discussion across the financial sector in their own countries. BICE in **Argentina** is a leading member of the group of organisations developing sustainability definitions for local investors. As a member of the banking association of **Türkiye,** TSKB heads the sustainability working group, which includes commercial banks and public development banks, and regulation agency.

The cross-border sharing of expertise – and finance – was highlighted as another important part of the story towards developing a PDB and its impacts on the SDGs. This was highlighted by the sub-national development bank BDMG with a significant collaboration with the European Investment Bank (EIB), by Desenvolve SP with the Inter-American Development Bank, by NAFIN in Mexico and their collaboration with KfW and GIZ in Germany, or TSKB and its collaborations with the EBRD, the IBRD and the IFC. International collaboration or influence can also have an impact where PDBs seek accreditation with global standards – such as the Green Climate Fund – which is discussed in more detail below.

Improving access to finance not only from within the country, but also from regional and global development finance institutions, is an important area for progress so far for many PDBs as well as also requiring more work in the future. For example, the Development Bank of **Rwanda** highlighted that improving alignment between their priorities and the national development plan has helped improve access to domestic financing (which requires of course that the national development plan is aligned to the SDGs). The Development Bank of **Namibia** highlighted the benefits of their close collaboration with Germany's KfW and the African Development Bank in their 2021 Annual Report (DBN, 2021)[27].

26 There are also regional examples of this vital activity. The Working Group on Sustainable Finance Taxonomies in Latin America and the Caribbean (GTT-LAC) is developing common sustainable finance taxonomies for the LAC region. GTT-LAC is an initiative of LAC Ministers of Environment. It includes the United Nations Environment Program (UNEP), the Economic Commission for Latin America (ECLAC), the United Nations Development Program (UNDP), the World Bank Group, the Inter-American Bank of Development Bank (IADB), Development Bank of Latin America (CAF), and the Food and Agriculture Organization of the United Nations (FAO).

27 Collaboration can also be useful between multinational groups. For example, under its 'Business Call to Action', UNDP partners with ADB's private sector department to support ADB to identify and measure the impact of inclusive business models across sectors to support the 'Inclusive Business Finance Program' to scale ADB's financing activities in five countries in South Asia to help achieve the SDGs.

24 out of 28 PDBs also responded saying that restrictions were not necessarily the issue for collaboration in terms of any legal, governance, and economic barriers against joining international initiatives on the initiatives such as Equator Principles and the United Nations Principles for Responsible Banking. Only 4 of the 28 PDBs responded there were restrictions on collaboration **(Annex C,** Figure 15**).**

Case: BICE, Argentina

CASE 09

BICE has developed and started to implement a new 'Green Line' as part of its promotion of risk mitigation instruments and investment financing in renewable energy and energy efficiency. A critical role was played by the Inter-American Development Bank and the Green Climate Fund. This case is useful for the benefits of international collaboration, as well as the development of new facilities. Projects are for Small and Medium Sized business in Argentina and can support a range of activities. So far it has supported 5 renewable energy plants with USD 20 m in financing and 83 Energy efficiency projects with USD 40 m in financing.

The role of the PDB as a connector between international finance and national projects and companies was raised by a number of PDBs as an area in which they have made progress. Again, it was also raised by a number as an area on which they were planning to focus more in the future. For example, PT-SMI developed the blended finance platform of 'SDG **Indonesia** 1' to get more international funding to help improve project quality so that there is a better quality pipeline. The new facility Includes resources to review projects. They can act as a connector for both donors and the clients to reduce cost and complexity and improve impact for both. NAFIN in **Mexico** have developed 'fondos sostenible NAFIN – NAFIN Sustainable Finance' where they act as the trustee to receive and administer donations from international organization for projects in Mexico. This role of international finance was also emphasized by the Development Bank of Namibia, who have for example a specific green credit line with KfW in Germany to support projects in **Namibia.** They also place bonds on local market so that they have both domestic and international sources of finance.

A generic challenge raised by a number of PDBs was the need to build alignment domestically, and internationally, between government, regulators, PDBs and the private sector. There were many different initiatives and an increasing number of actions, but it was important to try and make sure that these efforts were directed in complementary ways. This was linked with the fact that some PDBs had to update their mandate, or parts of their internal regulations. This is happening in the context of FiCS through a dialogue with the D20 Long-Term Investors Club (which supports FiCS efforts to scale-up private sector's mobilization in sustainable finance),

as well as by promoting a whole-of-the-financial-system dialogue with some of the major global alliances and coalitions, such as the Network for Greening the Financial System (NGFS) and the Glasgow Financial Alliance for Net Zero (GFANZ). This links to the overall governance challenge of creating new aligned strategies that are implemented with the clear support of the Board and empowered and enabled organizations.

Gaining international accreditations has been important for a number of PDBs and should be supported. For example, among PDB interviewees, AFD in **France,** NAFIN in **Mexico**, CDP in **Italy**, CDG Capital in **Morocco**, DBSA in **South Africa**, and PTSMI in **Indonesia** have all achieved accreditation from the Green Climate Fund[28]. NAFIN in **Mexico** have worked with the Global Green Growth Institute (GGGI)[29] who provided a diagnostic on gaps in relation to ESG and created an action plan for specific activities to put in place in the short, medium and long-term. As a result, a new public gender policy was produced and is awaiting final publication as well as an action plan on gender (including indicators). Greater clarity and harmonization on which international accreditations would be most useful was highlighted as a challenge to overcome. This is because it can be overwhelming to a smaller PDB to work out where best to allocate scarce resources for accreditation or adoption of particular standards – a theme that was raised by private sector participants in the 2021 G20 SFWG dialogue on financing the SDGs.

Another key challenge yet requires continued efforts is to develop and emphasize the national and sub-national PDB role in connecting external 'global' finance to the local recipients in a country or region who would make best use of the resources. The role of PDBs in connecting the 'last mile' was identified as extremely important – and progress in this area was seen as likely to be supported by the PDBs ensuring they continued their own reform program, whilst also raising their profile in through international discussions.

Some of the PDBs noted the significant challenge of meeting expectations from stakeholders where there is a demand for instant results and faster progress. PT-SMI for example raised the need to understand and tackle stakeholder expectations and to work in parallel to get international support to help achieve ambitious targets.

Support for PDBs from domestic and international actors, including the sharing of experience and best practices in the regional PDB networks and through FiCS globally, was considered to be important going forward. Technical cooperation with multilateral development banks was highlighted as something that was needed going forward to help internalize the complexity of SDGs.

28 Accredited Entities | Green Climate Fund

29 Global Green Growth Institute — A resilient world through inclusive and sustainable green growth (gggi.org)

6 Conclusion

This report based on the interviews and the survey, along with the additional materials from the PDBs helps design recommendations for action by a range of actors, as expressed by national PDBs themselves. These are set out in four broad categories related to: (i) PDBs' mandates, strategies, and governance alignment to SDGs; (ii) Lending, guarantees, pricing and currency risks; (iii) data, measurement, impact and taxonomies; and (iv) effective collaboration and international support.

PDBs are a diverse group, so not all findings and recommendations will apply, but they provide a good cross-section of the types of actions that will help these vital organizations go further to align their activities with the SDGs. Equally, these recommendations provide us a sense of how those able to assist the PDBs - including national governments, G20, MDBs, UNDP, FiCS, as well as regional and global PDB networks – could collaborate with each other - from ensuring clear commitments to developing SDG-aligned strategies to ensuring impact from their implementation.

UNDP and FiCS are committed to working with all interested parties to bring these new findings and recommendations to a wide audience – and to support tangible actions to help PDBs continue to expand their potential and relevance to meeting the SDGs, through dialogue, technical assistance, partnership platforms and engagements with national governments. The hope of UNDP and FiCS is that all development partners, nationally, regionally and internationally, will be able to find ways to help PDBs through implementing recommendations identified in this work.

Moving Forward

Given the aforementioned research scope and methodology, certain topics have been identified for further rigorous policy research, including but not limited to:

01 Review of the data on actual impacts made through the SDG-aligned investments

02 Review of the governance structure of PDBs and their impact on SDG-aligned investments

03 Analysis of PDB's experiences with a wider representation of PDBs by ownership structure, geographical operation, asset size, maturity levels, official mandate, and income levels of their home countries

References

AFD (2022) 'AFD Tool for Mainstreaming the SDGs: The Sustainable Development Analysis and Opinion Mechanism', June 2022, Agence France de Développement

Attridge, S, Chen, Y and Mbate, M. (2021) 'Financial performance and corporate governance: evidence from national development banks in Africa', March 2021, Overseas Development Institute, London

https://odi.org/en/press/reduce-political-influence-and-tighten-governance-to-improve-financial-performance-of-national-development-banks/

DBN (2021) 'Annual Report and Accounts 2020/21, Development Bank of Namibia', 2021, Windhoek, https://www.dbn.com.na/phocadownload/annual-report-dbn-2020-21-b.pdf

European Think Tanks Group (2021) 'Financing the 2030 Agenda: An SDG alignment framework for Public Development Banks', October 2021,

IDDRI (2020) 'Scaling up public development banks' transformative alignment with the 2030 Agenda for Sustainable Development', Study No 5, October 2020, Paris https://www.iddri.org/sites/default/files/PDF/Publications/Catalogue%20Iddri/Etude/202010-ST0520-publis%20dev%20banks.pdf

INSE, AFD (2021)- The Institute of New Structural Economics at Peking University and French Development Agency 'Mapping 500+ Development Banks: Qualification Criteria, Stylized Facts, and Development Trends', October 2021, Beijing.

Finance in Common (2022) 'Finance in Common Progress Report to the G20', July 2022, Paris
G20 Italian Presidency (2021) 'G20 Sustainable Finance Roadmap', October 2021.

Griffith-Jones, S. and Ocampo, J. A. (Eds) 2018 'The Future of National Development Banks', October 2018, Oxford University Press https://doi.org/10.1093/oso/9780198827948.001.0001
NAFIN (2021) 'Sustainability Bond Framework', Nacional Financiera, November, 2021, Mexico https://www.nafin.com/portalnf/files/secciones/emisiones-relaciones-internacionales/captacion/documentos/BonoSostenibleMEX_ENG_Final.pdf

Review of Political Economy, Volume 34, Issue 2 (2022) https://www.tandfonline.com/toc/crpe20/34/2

Sustainalytics (2021) 'Second-Party Opinion Nacional Financiera S.N.C., I.B.D (NAFIN) Sustainability Bond Framework', October 2021, Mexico City NAFIN_Sustainability_Bond_Framework_Second-Party_Opinion_291021.pdf

TSKB (2021) "Climate Risk Report on Task Force on Climate-related Financial Disclosures (TCFD)", May 2021, Istanbul TCFD-eng-2021-05-24.pdf (tskb.com.tr)

UN (2022) "International financial system and development: Report of the Secretary-General" Report A/77/224, July 2022, New York, https://digitallibrary.un.org/record/3985258?ln=en

UNDP 2022 'Integrated National Financing Frameworks: A Short and Practical Introduction' May 2022, Integrated National Financing Frameworks https://inff.org

Annex A: Interview Questions

Q1

Please briefly outline the role of your organization
(The interview team will be familiar with the publicly available information but it is useful to hear a description of the organization in your own words).

Q2

Please briefly outline the work you have been doing with the Finance in Common Coalition (FiCS) in the past 2 years. In which of the FiCS working groups have you participated?

Q3

What are the biggest challenges you have already overcome, or started to overcome in the past 5 years on the road to aligning your work with the SDGs – for example in relation to strategy, governance, data, operations, culture, financing instruments or other issues?

Q4

If you were to highlight one area of your recent work to use as a case study to showcase the importance of the PDB role in achieving the SDGs, what would it be?
(Please elaborate on what happened. Please also refer to any documents on the experience.)

Q5

What are the biggest opportunities or developments in capacity you are planning to use in the next few years to go further?

Q6

What are the biggest challenges that remain to your organization maximizing its impact on the SDGs?

Q7

The G20 Sustainable Finance Working Group[30] focusses on actions that member states can take in collaboration with other countries and with regional and global groups. Thinking about the biggest challenges you face, what actions by the G20 would be most useful to support you in enhancing your work to achieve the SDGs?

Q8

Please outline any additional information or material you feel would be useful to help the G20 delegates in their discussions on Scaling Up Sustainable Finance.

30 Please see https://g20sfwg.org/ for more details on the G20 Sustainable Finance Working Group

Annex B: Survey Questions

Introduction

Q1 Please provide a link that shows your organization's mandate. Does it prioritize climate actions and the SDGs at all levels?

- ◯ Yes
- ◯ No

Q2 Please briefly explain your strategy development process – highlighting how many years your current strategy covers, when it was decided and when the next revision will be made.

Q3 Is SDG-alignment[31] a core part of the strategy process or do you map the existing strategy and activities to the SDGs retrospectively?

- ◯ SDGs fully incorporated into the organisational strategy
- ◯ SDGs only partly incorporated into the organisational strategy
- ◯ Some limited areas aligned to the SDGs, but strategy not generally aligned
- ◯ Strategy not aligned to the SDGs, but some retrospective mapping occurs
- ◯ Strategy not aligned and activities are not mapped to the SDGs

Q4 [Only applicable to respondents who checked SDGs fully/only partly incorporated into the organizational strategy] Since what year has your strategy process been integrating SDG alignment?

31 A definition of SDG-alignment was contained in the UNDP/OECD Framework for SDG Aligned Finance, where the Global Investors for Sustainable Development Alliance (GISD) suggested:
"Sustainable development investing refers to deploying capital in ways that make a positive contribution to sustainable development, using the SDGs as a basis for measurement". Yet beyond creating a net positive impact over the life of the investment, our ambition should also be to aim that investment does no harm across the SDGs.
SDG alignment is both a means to mobilize resources for the implementation of the 2030 Agenda and a value proposition for private sector to preserve the long-term value of assets by doing no harm and contributing solutions to sustainable development challenges, thereby reducing risks and enhancing resilience of the global financial system. This double materiality (financial and non-financial) of the SDG alignment agenda relies on the achievement of two objectives: 1. Equality: resources should be mobilised to leave no one behind and fill the SDG financing gaps, and 2. Sustainability: resources should accelerate progress across the SDGs.

Q5 Does your strategy mention your country's 'Voluntary National Review[32]' or national development plan/strategy linked to the SDGs and focus on the same areas of development?

- ◯ Yes
- ◯ No

Q6 Does your strategy mention your country's Nationally Determined Contributions (NDC) and Long-term low green-house gas emissions development strategy (LTS)?[33]

- ◯ Yes to both
- ◯ Yes to LTS only
- ◯ Yes to NDC only
- ◯ No to both

Q7 Do you identify how your financing is split between supporting the mitigation of climate impact mitigation compared to adaptation to new approaches that have a lower climate impact? If so, please specify what percentage is focused on mitigation and what percentage on adaption.

- ◯ Yes
- ◯ No

If yes, what percentage of finance on is focused on mitigation ☐

and what percentage on adaptation ☐

Q8 Are there any legal / governance / economic / capacity barriers that prevent your organization from joining international initiatives on the SDGs for examples initiatives such as the Equator Principles, the United Nations Principles for Responsible Banking or others?

- ◯ Yes
- ◯ No

Q9 Please provide examples in relation to legal, governance, economic or capacity barriers as appropriate.

☐

32 Voluntary National Reviews | High-Level Political Forum

33 https://wedocs.unep.org/bitstream/handle/20.500.11822/34480/ACF.pdf?sequence=1&isAllowed=y

Q10 What are the biggest challenges you have already overcome, or started to overcome in the past 5 years to align your work with the SDGs – for example in relation to strategy, governance, data, operations, culture, financing instruments or other issues?

Q11 What are the top 3 biggest challenges for your organization to promote, develop, and implement changes so that investments support the SDGs? Please select three from the list below.

- ◯ Ensuring consistency between investment choices and the imperative of sustainability
- ◯ Considering trade offs when an investment helps one SDG but may not help a different SDG.
- ◯ Developing a comprehensive portfolio with SDG lens rather than a pipeline of good individual projects
- ◯ Developing and improving transparency, monitoring, oversight, grievance, and accountability mechanisms
- ◯ Lack of opportunities to learn from other public development banks' knowledge and experiences
- ◯ Lack of understanding in common language on SDG alignment SDG.
- ◯ Lack of political backing and support from other partners including MDBs and the government
- ◯ Lack of internal capacity to implement a transition finance framework
- ◯ Other (please specify)

Q12 Do you measure and manage the impact of your activities against the SDGs?

- ◯ Yes
- ◯ No

Q13 How do you measure the impact of your activities against the SDGs? Please reference any national, regional or global standards that you use or any third-party monitoring of your activities that is produced. If available, please provide the link to the annual sustainability report.

Q14 What are the biggest challenges you find in measuring the impact of your investments?

Q15 Do you produce figures on the wider benefits of projects and the detail of the beneficiaries (e.g. by gender or income level) in addition to figures on the financial costs and returns of a project?

- ◯ Yes
- ◯ No

Q16 What are the biggest opportunities or developments in capacity you are planning to use in the next few years to advance your efforts in scaling up sustainable finance?

Q17 If you were to highlight one area of your recent work as a case study for the PDB role in financing the SDGs or scaling sustainable financing instruments, what would it be? Please elaborate on what happened. Please also refer to any documents on the experience.

Q18 What are the most successful services that your organization provides to MSMEs (Medium, Small and Micro Enterprises) for better access in financing?

Q19

Rate where your organization is now in relation to the following 4 areas on a scale of 1-10 - where 1 is no progress and 10 is fully achieving all aspects of alignment of your activities with the SDGs. Please provide any comments that help explain your rating if needed.

☐ **Internally leading and fostering a sustainable development-oriented culture**
(e.g. require qualifications in strategic sustainable development areas when hiring new financial aspects; related capacity development efforts; and ensuring regular monitoring and development of these skills in performance appraisals)

☐ **Developing a holistic strategy and long-term vision linked to SDGs**
(e.g. PDB's strategy, mission, vision and other medium- and long-term frameworks are in place, and linked to strategic choices made in daily operations)

☐ **Mainstreaming SDG priorities within internal operations**
(e.g. a systematic and coherent internal process for analyzing finance with SDG considerations are embedded in both the ex-ante and ex-post phases of investment)

☐ **Mobilizing and catalyzing truly transformational investment**
(e.g. new competencies and incentive structures within organizations like project preparation facilities to ensure SDG bankability)

Q20

Rate where you think your organization was 5 years ago against the same 4 areas on a scale of 1-10 - where 1 is no progress and 10 is fully achieving all aspects of alignment of your activities with the SDGs. Please provide any comments that help explain your rating if needed.

☐ **Internally leading and fostering a sustainable development-oriented culture**
(e.g. require qualifications in strategic sustainable development areas when hiring new financial aspects; related capacity development efforts; and ensuring regular monitoring and development of these skills in performance appraisals)

☐ **Developing a holistic strategy and long-term vision linked to SDGs**
(e.g. PDB's strategy, mission, vision and other medium- and long-term frameworks are in place, and linked to strategic choices made in daily operations)

☐ **Mainstreaming SDG priorities within internal operations**
(e.g. a systematic and coherent internal process for analyzing finance with SDG considerations are embedded in both the ex-ante and ex-post phases of investment)

☐ **Mobilizing and catalyzing truly transformational investment**
(e.g. new competencies and incentive structures within organizations like project preparation facilities to ensure SDG bankability)

Q21 **Considering the biggest challenges you face, please rate the following issues on a scale of 1-10 in terms of importance to help your organization, where 1 is not at all important and 10 is the most important?**

- [ ] Collaboration between national and sub-national PDBs to help share knowledge and expertise across countries and organizations
- [ ] Policy development to establish sustainable finance taxonomies reporting/disclosure and sustainable data ecosystems
- [ ] Developing collaboration between the private sector investors and company recipients of investment and the PDBs
- [ ] Developing a low-cost disclosure framework for ESG and SDG reporting that is affordable for small PDBs as well as MSMEs (Micro, Small and Medium Enterprises) in developing countries
- [ ] Developing measurable commitments to incorporating climate/SDG impact criteria in the operations of PDBs
- [ ] ESG risk management
- [ ] Portfolio alignment strategies
- [ ] Impact assessment
- [ ] Board SDG training
- [ ] Use of guarantees to reduce the cost of finance
- [ ] Use of digital technologies to reduce the costs of sustainable finance operations
- [ ] Market intelligence to identify SDG-enabling investment opportunities and accelerate SDG-aligned investment
- [ ] Co-investment to unlock transformative projects where scale is a barrier for a PDB to lead a particular project
- [ ] Establishing SDG and thematic bond frameworks and standards
- [ ] The potential role for PDBs participating in green bond and green loan markets
- [ ] De-risking instruments (credit insurance, debt swaps, etc.)

Q22 **Please outline any additional information, examples, observations or material you feel would be relevant that have not been covered in this survey.**

Annex C: Graphs from the Survey Analysis

Figure 2: PDB mandates prioritizing climate actions and the SDGs at all levels

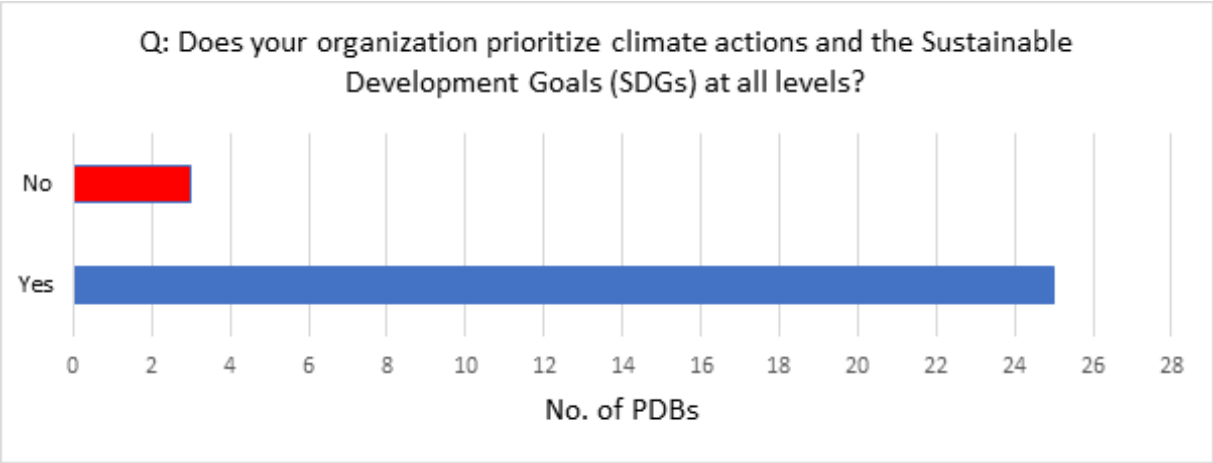


Figure 3: SDG alignment as a core part of the organizational strategy

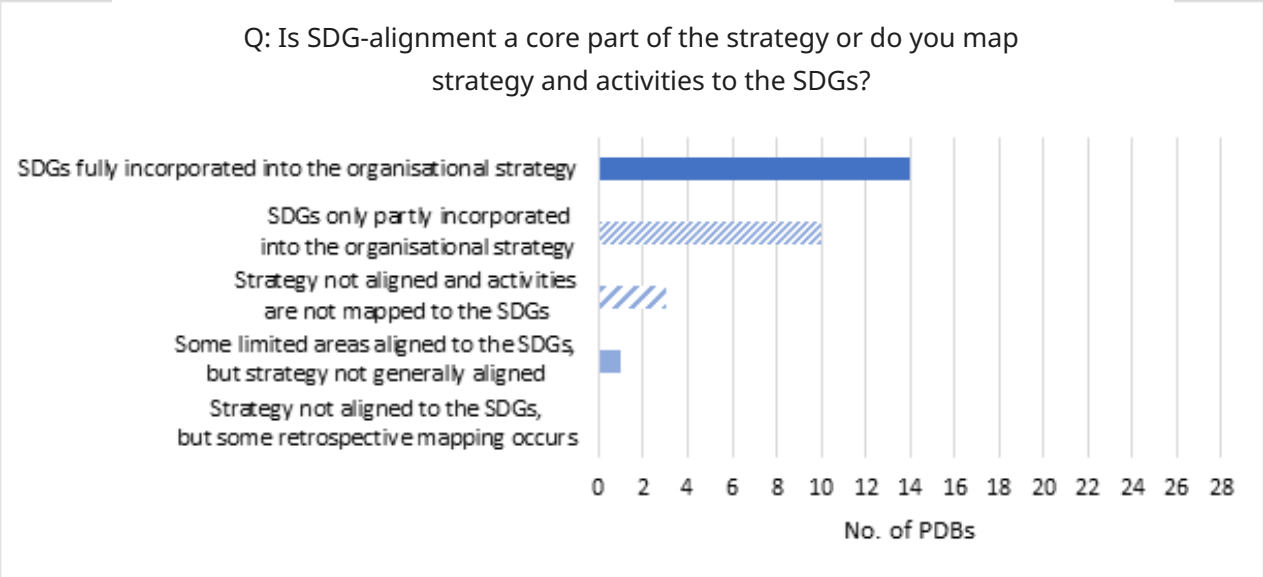


Figure 5: PDB strategy mentioning country's 'Voluntary National Review' or national development plan/strategy linked to the SDGs

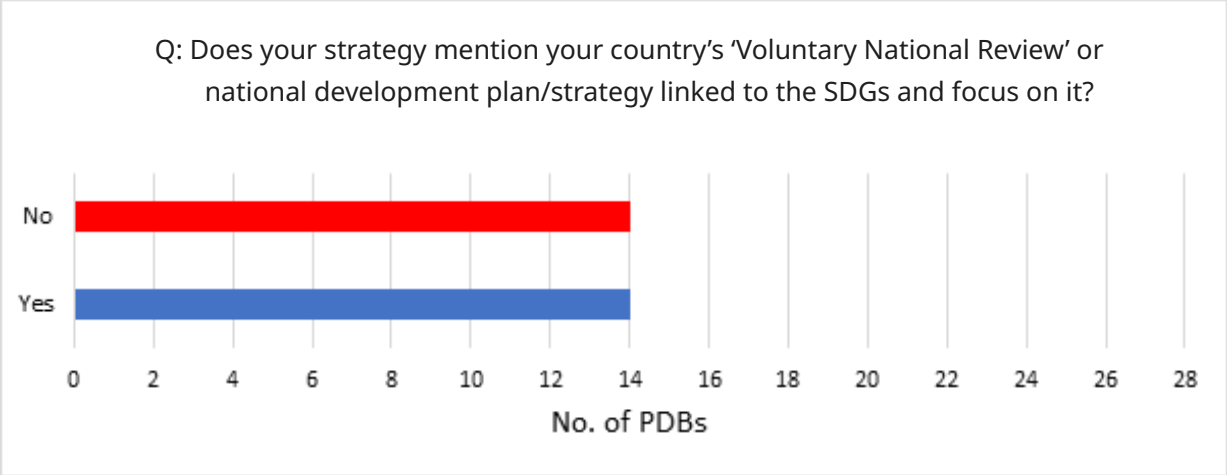


Figure 6: PDB strategy mentioning country's Nationally Determined Contributions (NDC) and Long-term low green-house gas emissions development strategy (LTS)

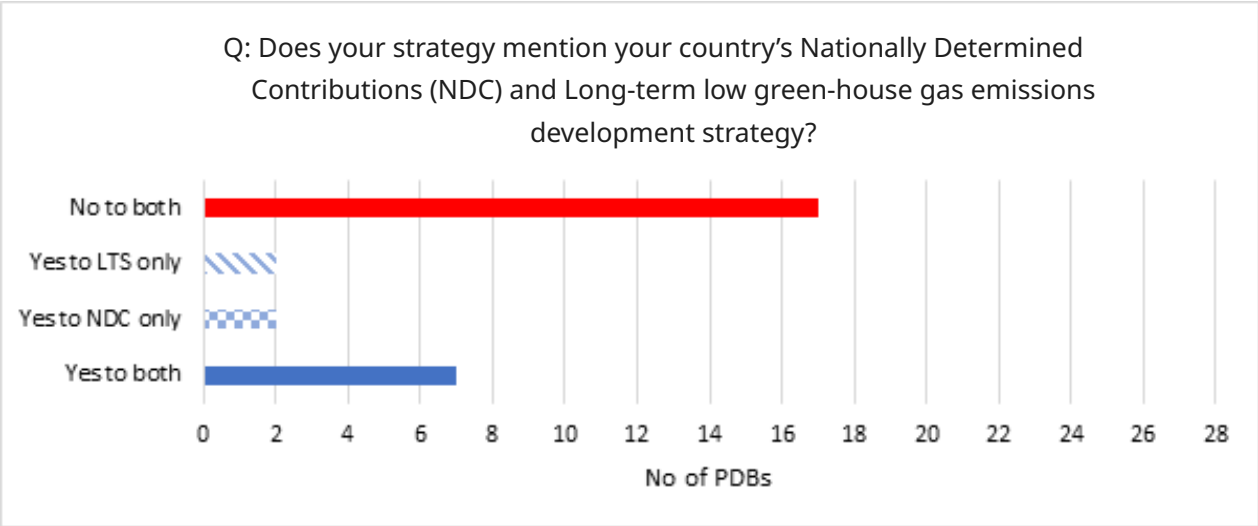


Figure 7: Top 3 challenges to promote, develop, and implement changes to support SDGs

Figure 10: Measuring and managing the impact of your activities against the SDGs

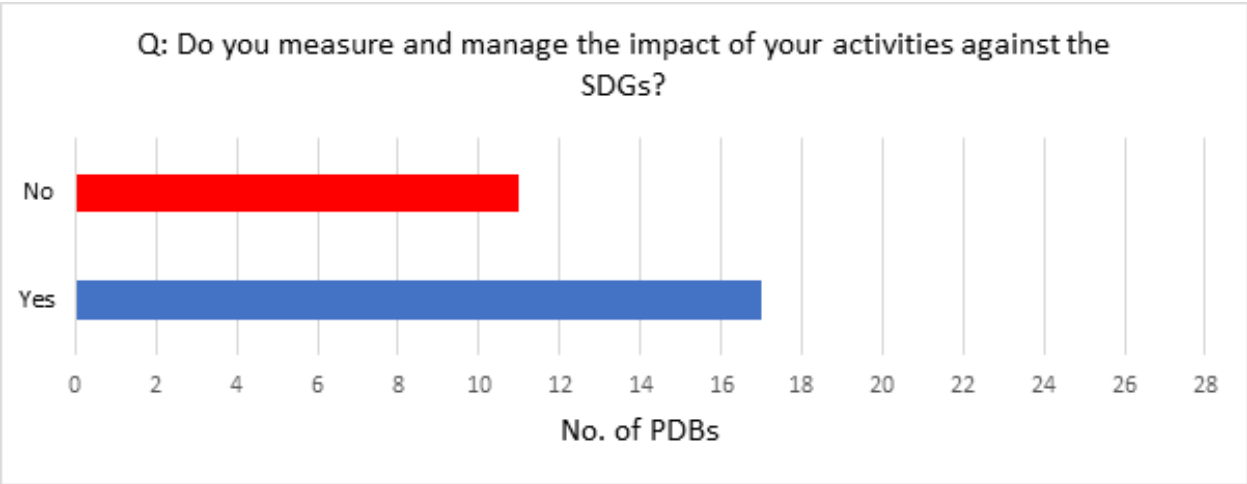


Figure 11: Rating from 1 – 10 of challenges faced by PDBs

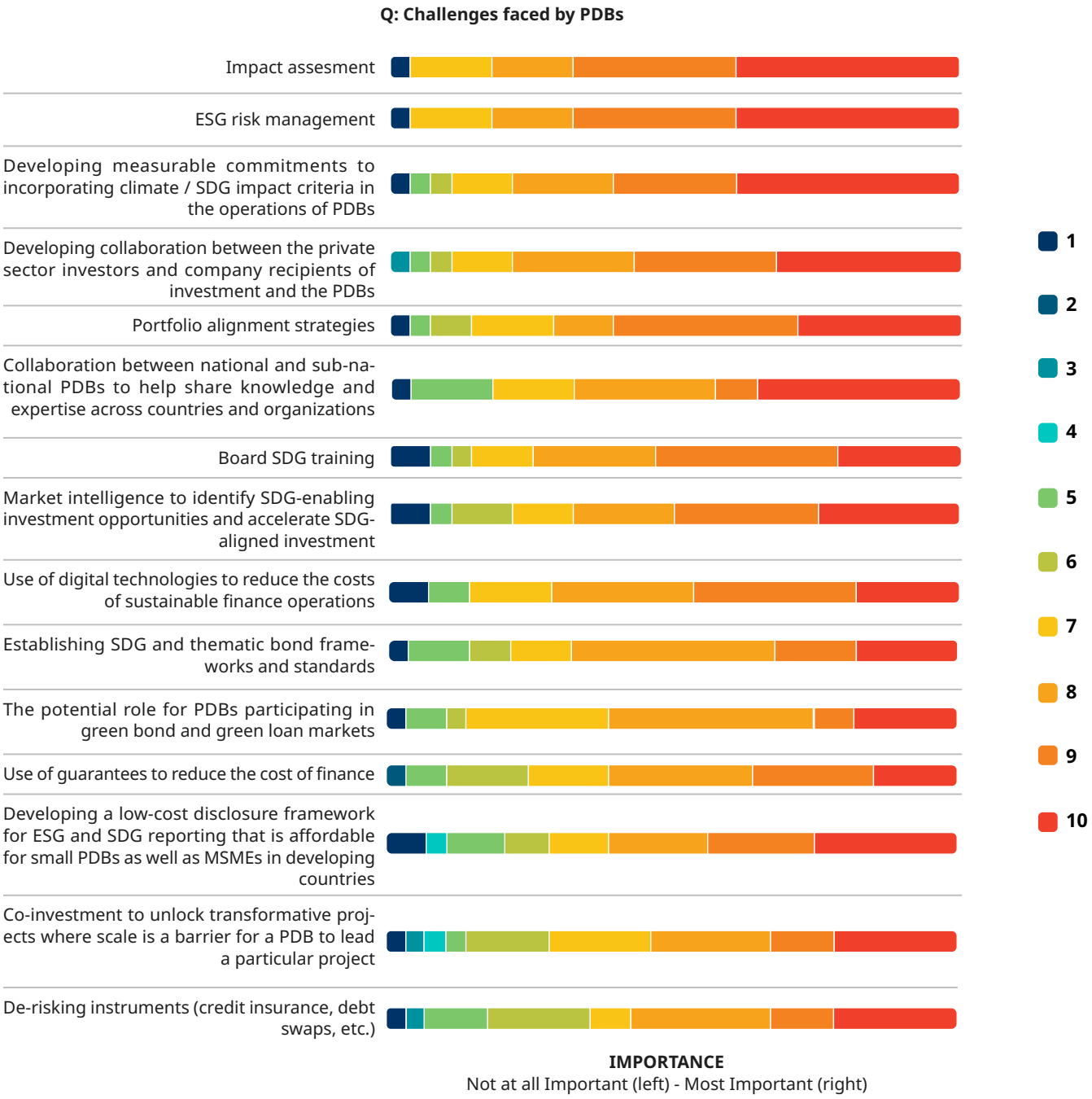


Figure 12: Identifying financial split between climate impact mitigation and adaptation

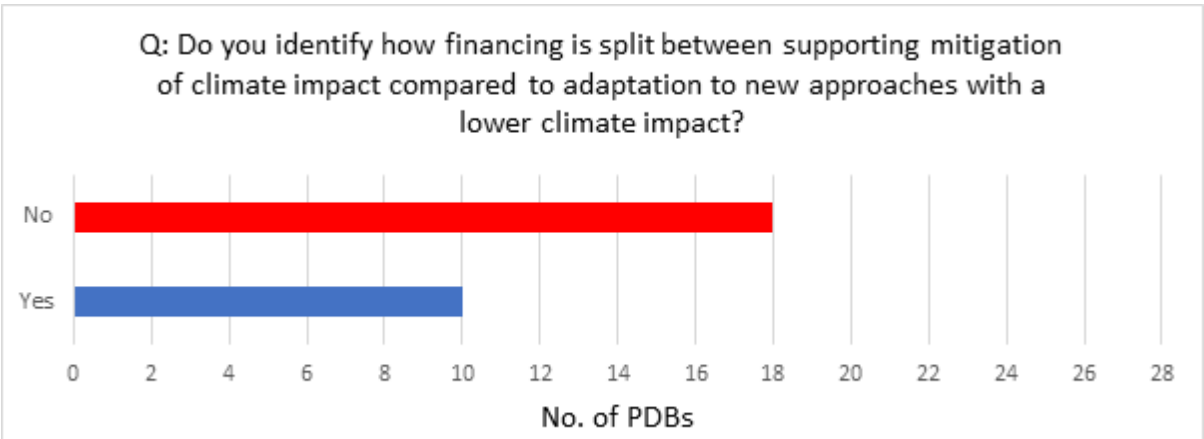


Figure 13: Producing financial analysis on the wider benefits and returns on the project

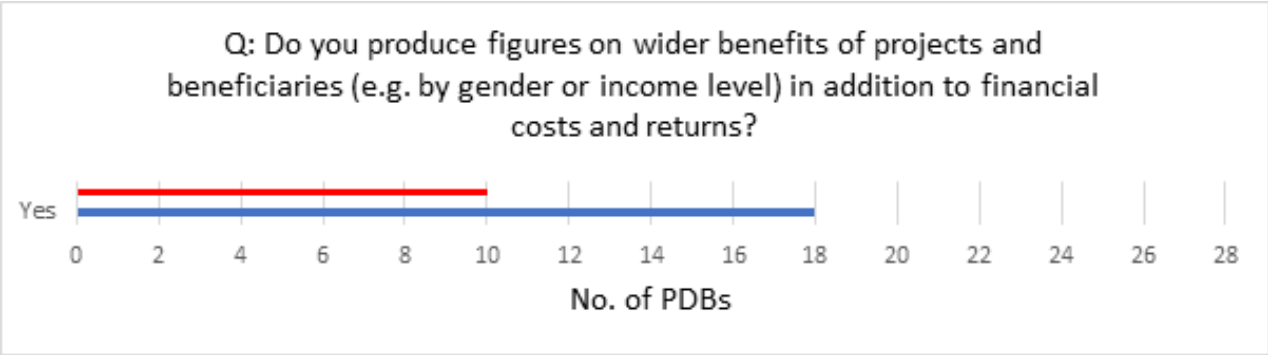


Figure 15: Legal/governance/economic barriers to joining international initiatives on the SDGs

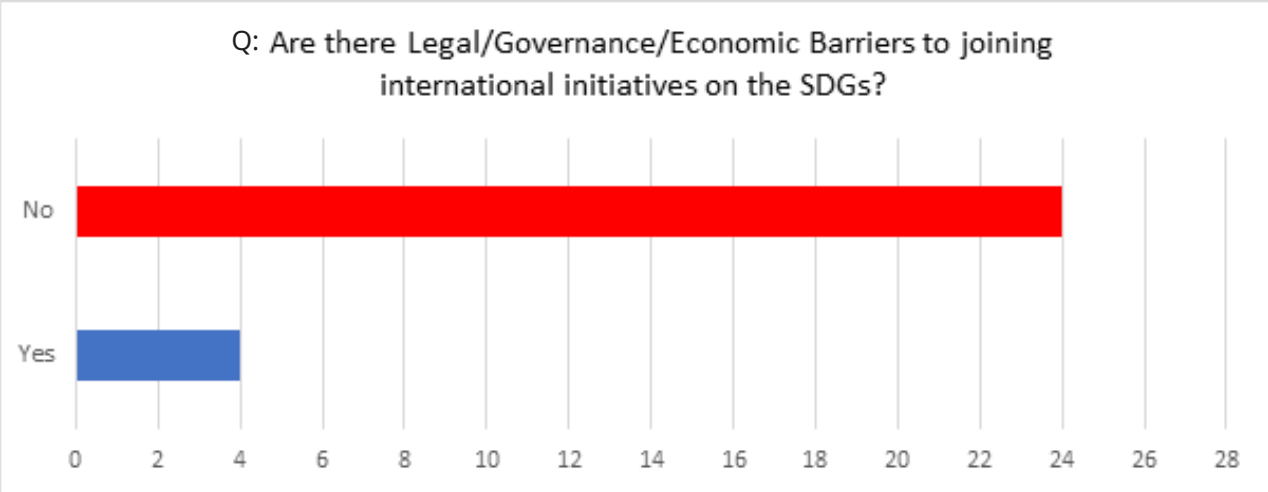


Figure 16: Internally leading and fostering a sustainable development culture

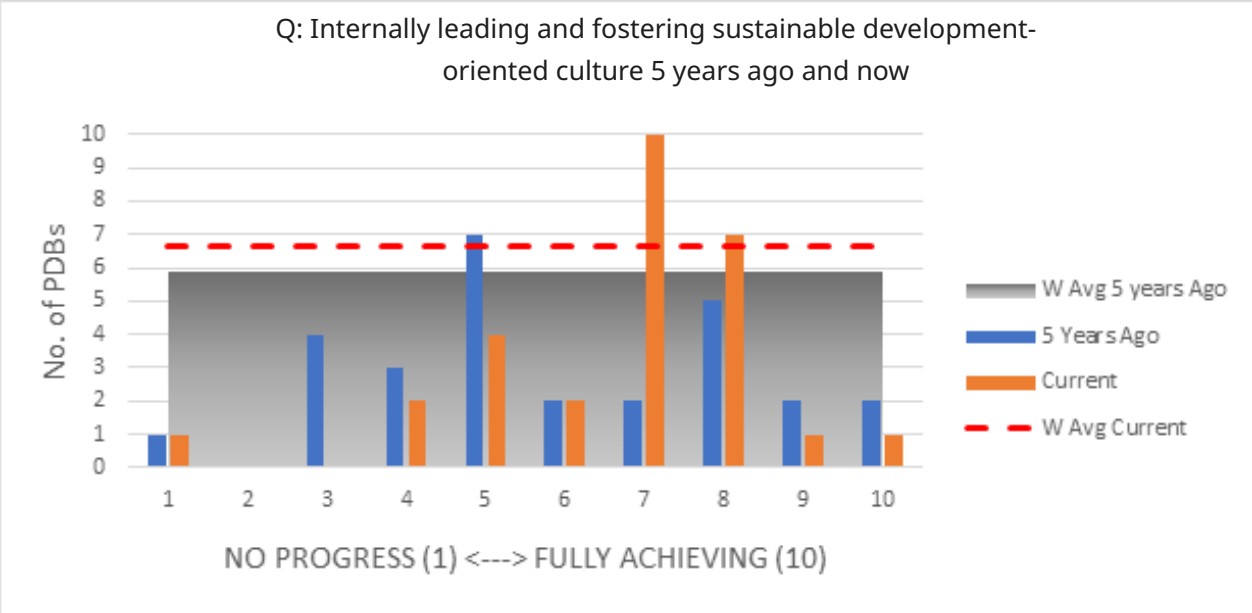


Figure 17: Developing a holistic strategy and long-term vision linked to SDGs

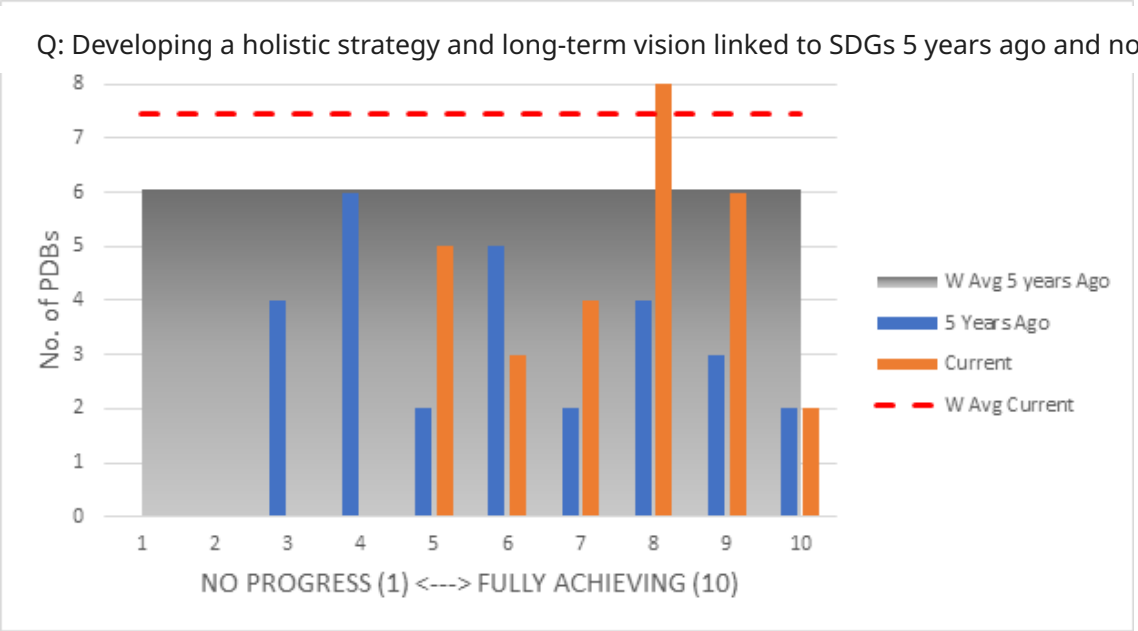


Figure 18: Mainstreaming SDG priorities within internal operations

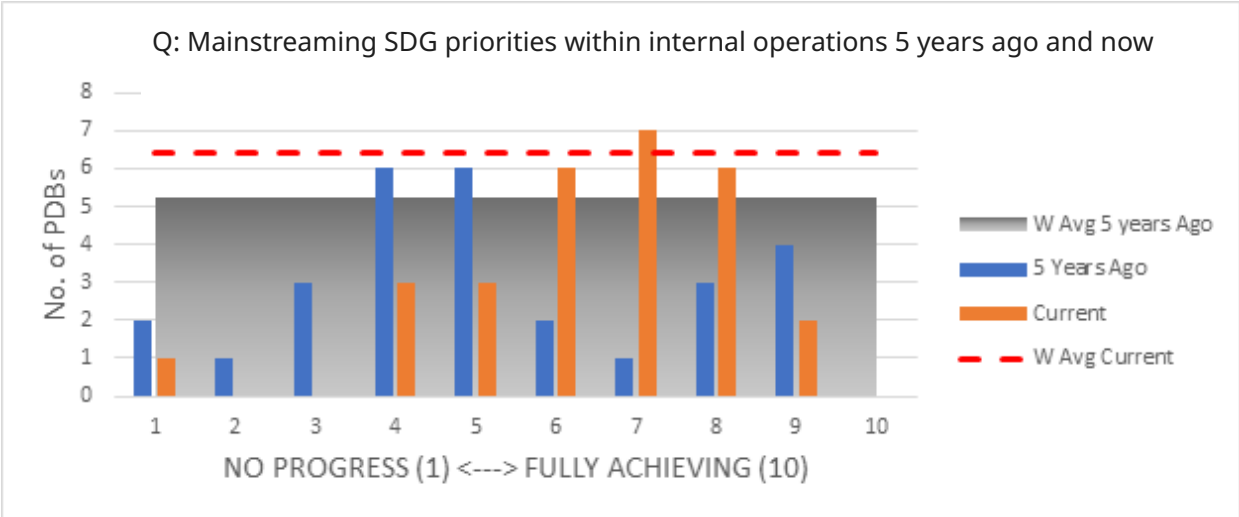
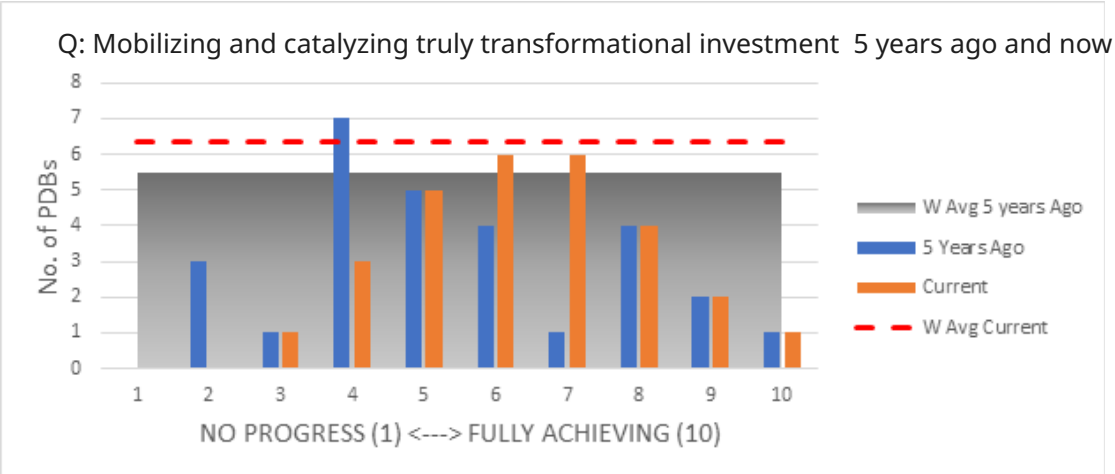


Figure 19: Mobilizing and catalyzing truly transformational investment



United Nations Development Programme
One United Nations Plaza
New York, NY 10017
www.undp.org