The role of Subnational Development Banks in financing an urban and territorial resilient post-covid recovery

Position paper – DRAFT[1]
Alliance of Subnational Development Banks in Latin America and the Caribbean

Finance in Common Summit 2
19-20 October 2021

[1] This paper has been drafted by FMDV, the Global Fund for Cities Development in its capacity of Secretariat of the Alliance of Subnational Development Banks in Latin America and the Caribbean

This position paper is a contribution of the Alliance of Subnational Development Banks-SDBs in Latin America and the Caribbean to the Second edition of the Finance in Common Summit.

It highlights the strategic role of Subnational Development Banks - Public banks with the mandate to finance local governments and stakeholders – to finance a resilient post-covid recovery at the local level.

- **As professional intermediaries, SDBs, acting as "last-mile banks" demonstrated their critical role to channel recovery funding to local actors and to close the subnational financial gap.**

- **Their knowledge of local contexts - and particularly of local governments - and ability to lend in local currency, as well as to support structuring pipelines of local projects, provides them with a strategic added value in partnering with local and national governments, as well as with Development Finance Institutions to finance local sustainable development.**

- **SDBs can act as focal points for local financing, pooling the demand for local projects and matching them with investments from public and private resources. They can act as "project takers," as well as "market and policy makers" to structure subnational financial markets and align local development with the Global agenda.**

The Alliance of SDBs in Latin America and the Caribbean[2] was launched in April 2021, following the first edition of the Finance in common Summit. This multi-stakeholder alliance gathering SDBs and their institutional and financial partners[3] aims to strengthen the capacity of SDBs to broaden and improve their services offered to local governments and stakeholders and to consolidate portfolios of local projects to finance just local urban and territorial transitions.

[2] See the Alliance webpage https://financeincommon.org/alliance-of-subnational-development-banks-in-latin-america

[3] Its Steering Committee is composed of : Latin American Association of Development Financing Institutions – ALIDE, Brazilian Association of Development- ABDE, Banco de Desenvolvimento de Minas Gerais – BDMG, Banco Regional de Desenvolvimento do Extremo Sul – BRDE, Corporación Financiera de Desarrollo S.A. – COFIDE, Fideicomisos Instituidos en Relación con la Agricultura – FIRA, Fondo de Garantías de Buenos Aires – FOGABA, Agence Française de Développement – AFD, Latin American Development Bank (Corporación Andina de Fomento) – CAF, Central American Development Bank- CABEI, European Investment Bank – EIB, Inter-American Development Bank – IDB, Plata Basin Financial Development Fund – FONPLATA, World Bank, Economic Commission for Latin America and the Caribbean UN-ECLAC, United Nations Development Programme – UNDP, European Union (EC-INTPA), Ibero-American General Secretariat – SEGIB, Institute for Sustainable Development and International Relations – IDDRI, World Resources Institute – WRI, United Cities and Local Governments – UCLG, Global Fund for Cities Development- FMDV

Introduction

Unlocking financing for an urban and territorial resilient post-covid recovery is a prerequisite to addressing the negative impacts of the pandemic on local governments regarding their financial and their economic territorial ecosystems, while keeping the objectives of reaching the Paris Agreement goals and the Sustainable Development Goals by 2030.

The critical role of local and regional governments for sustainable development has been recognized by the Global Agenda endorsed by the United Nations since 2015. It has been acknowledged that 65% of the SDGs may not be fully achieved without the involvement of urban and local actors. Moreover, cities are game changers to achieve the Paris Agreement goals.

Local governments have shown an unprecedented level of commitment to fighting the global pandemic, acting as first-responders, and investing in sanitary and social protection measures, while also providing their citizens with essential services at the local level. At the same time, in emerging countries, local revenue has been badly hit by extraordinary negative fiscal impacts that have been combined with a decline in economic activity and the closure of much revenue-generating infrastructure. The COVID-19 crisis has strongly affected the equilibrium of local finance and exacerbated the systemic failure of the subnational financial market.

Yet, in many parts of the world, **local governments deplore their lack of involvement and access to the financial recovery packages** that are being set up at the national and regional levels, as well as the lack of consideration for the role that cities can play in both the economic recovery and the ecological transition in the aftermath of the health crisis.

Even before the Covid outbreak, the **subnational financial market faced a systemic failure** characterized by an insufficient connection between:
- **the supply side:** the financial instruments available are insufficiently adapted to the needs of local and regional governments and insufficiently disbursed, and
- **the demand side:** despite a large set of credit lines and instruments set up for urban and local development, local governments hardly access the required financing, both for project preparation and the investment itself to deliver on the goals of these Global Agreements.

This systemic failure is mainly due to inadequate institutional frameworks, a lack of capacities, expertise, and creditworthiness of local governments, or because projects are being considered either too small or not bankable enough.

In this context, this paper aims to demonstrate how Subnational Development Banks (SDBs), as professional financial intermediaries, can contribute to better financing an urban and territorial resilient post-covid recovery.

Understanding the mandate and potential of Subnational Development Banks

Subnational Development Banks are Public Development Banks supported by National governments (National Development Banks or National Development Financial Institutions) or Federal governments, with the specific mandate to provide financing to local governments and local stakeholders such as SMEs.

As public development banks, SDBs benefit from the following attributes:

-they are owned, controlled, or supported by governments
-they execute a public, development-oriented mandate, addressing market inconsistencies.

Public Development Banks (PDBs) at all levels, multilateral, regional, national including subnational, have demonstrated their efficiency to support governments financing the post covid 19 recovery. Indeed, they can provide rapid large-scale responses to economic shocks, counter-cyclical financing, both for urgent short-term expenditures, as well as supply an important boost to recovery packages and longer-term investment aligned with the SDGs, the Paris Agreement goals and regional and national recovery plans, paving the way for long-term structural transformation.

Empirical evidence shows the very effective role of Public Development Banks facing the covid crisis. In times of crisis, they have demonstrated their ability to significantly increase their total lending as a response, contrarily to private domestic and international banks which have rather contracted their lending[4]. Indeed, given their public mandate, Public Development Banks are more willing to expand lending and take on more risks during a crisis period. In Latin America and the Caribbean, in response to the Covid outbreak, Regional Development Banks have increased their total contribution by USD 20 billion, while National Development Banks have increased their contribution by USD 90 billion, demonstrating their very high financial impact[5]. In terms of scale and number of assets, National or Subnational Development Banks have a greater importance since they can operate as intermediaries (second-tier banks) for larger financial institutions[6]. Their financing potential is estimated to be five times higher than for Multilateral Development Banks.

Among National Development Banks, Subnational Development Banks have a critical role to play to channel funding to local governments, including secondary cities and local stakeholders such as SMEs which suffer from a dramatic underfinancing, acting as "last-mile banks".

---

[4] Griffith-Jones, S., Ocampo, J. A., Rezende, F., Schclarek, A, and Brei, M. (2018), *The Future of National Development Banks: Introduction*, Oxford University Press.

[5] *According to Professor Stephany Griffith-Jones, In Latin America and the Caribbean, Regional Development Banks have increased their contribution in response to the Covid outbreak by USD 20 billions : the IDB has provided a better response to the covid crisis than during the global crisis in 2008, through mobilizing USD 8 billion. CAF has mobilized USD 12 billion. Regional Banks have increased their capital by up to 40% (CABEI). They dedicated 80% of funds to finance governments. National Development Banks have a very large impact with 90 billion dollars provided in the year 2020, reaching 3% of the GDP in some countries like Brazil. They focus particularly on the support to the private sector and SMEs.*

[6] See AFD 2020 research Program "Realizing the Potential of Public Development Banks and Development Finance Institutions for Achieving the Sustainable Development Goals" allowed to deliver the first comprehensive database on PDBs. More information on the program is available at https://www.afd.fr/en/carte-des-projets/realizing-potential-public-development-banks-achieving-sustainable-development-goals

Although SDBs are diverse in status and operating modalities, their specific mandate centers on financing subnational public entities and private enterprise which implies specific responsibilities and added value within the financial chain:

- **SDBs can act as professional financial intermediaries** to catalyze public and private financing and to channel funding to the local level, including financial recovery packages and credit lines deployed by Development Finance Institutions (DFIs), providing an efficient response to close the subnational financial gap. As a complement to intergovernmental transfers to local governments and fiscal equalization, SDBs can provide a large array of financial instruments to unlock and broaden the sources of funding at the local level, such as technical assistance, guarantees, credit enhancement, and debt or at concessional or market rates, directly or through commercial banks.

- **SDBs are well-established domestic players** closely connected to national policies and strategies to implement the SDGs and the Paris Agreement. They can offer a range of specific benefits, including local currency financing and a deep understanding of local contexts and markets.

- **SDBs have the potential to act as transformative partners** that can pave the way for the development of stronger subnational financial markets in the long term, especially for intermediary cities.

In this context, as an outcome of the First Edition of the Finance in Common Summit, SDBs have joined forces through the launch of the **Alliance of Subnational Development Banks in Latin America and the Caribbean, in April 2021**. This multi-stakeholder alliance gathering SDBs and their institutional and financial partners (Development Finance Institutions - DFIs, International Organizations, Local Governments associations, Academia and Think Tanks, gathered in different constituencies) aims to strengthen the capacity of SDBs to **broaden and improve their services offered to local governments and stakeholders and to consolidate portfolios of local projects to finance just local urban and territorial transitions**.

This Alliance is the second regional alliance of SDBs after the African Alliance (the RIAFCO - *Réseau des institutions africaines de financement des collectivités locales*) set up in 2014 with the support of FMDV and AFD. These two regional alliances address the objective of creating a Global Alliance of SDBs, announced during the UN Secretary-General's Climate Action Summit in September 2019, and endorsed by the Marrakech Partnership for Global Climate Action (the platform of non-state actors led by the COP's High-level Champions)[7].

This paper is based on a peer-to-peer workshop of the Alliance that took place on September 23rd, 2021, on "Reinforcing the role of SDBs in financing an urban and territorial resilient post COVID-19 recovery".

[7]See the MPGCA Climate Finance Pathway. Vision summary p. 4 & p.9
https://unfccc.int/sites/default/files/resource/Finance_VisionSummary_V2.pdf

Action table p. 92-93, p. 99: https://unfccc.int/sites/default/files/resource/Finance_ActionTable.pdf - Human Settlements Pathway

See the MPGCA Climate Human Settlements Pathway. Action table p.3, p.29, p.39.
https://unfccc.int/sites/default/files/resource/HS_ActionTable_2.1.pdf

The role of Subnational Development Banks to identify and assess the financing needs of local governments and stakeholders

The first added value of SDBs in bridging the subnational financial gap is their deep understanding of local contexts and markets. Indeed, the effectiveness of national and regional post covid recovery strategies relies on the capacity of interactive channels to reach stakeholders at the subnational level. **SDBs, being "last-mile banks" are strategically positioned to have a greater knowledge of local governments, stakeholders, and local projects as well as their technical and financial viability**, helping to overcome information asymmetries, which are a major obstacle for the financial sector.

In Latin America and the Caribbean, **during the pandemic, National Governments have relied heavily on SDBs' mandate and capacity to offer liquidity to municipalities and local stakeholders with below market rates of interest and eased conditions of repayment.**

Development banks in Colombia responded to the COVID-19 induced financial crisis by fulfilling their countercyclical role, increasing their credit provision three times more than the whole financing system. Among them, it is worth highlighting the role of the Subnational Development Bank **Financiera de Desarrollo Territorial S.A- FINDETER**, whose disbursements in 2020 grew 24% compared to 2019 and commercial loans by 11% in 2020 compared to the 4% growth of the annual portfolio of all financial establishments.[8]

"**Compromiso Colombia**" (*Commitment Colombia*), implemented by FINDETER in collaboration with the National government for a total amount of USD 94,1 million, started during the first stage of the health emergency and provided liquidity to municipalities and territorial entities. Doing so, FINDETER has been a key actor to reach territorial entities and public or private companies providing public services all over the country.

Besides this program and throughout the pandemic, FINDETER set up eight lines of credit amounting to around USD 1,1 billion to address the emergency, with a focus on the sectors most in need, including health, education, and energy. Four credit lines were created related to the economic reactivation for a total amount of USD 466 million. Many of these resources were sent directly to local governments, for investment in working capital associated with projects that promote economic reactivation.[9]

Before the pandemic, FINDETER had identified that the credit rate subsidy granted by the national government had been lost in the intermediation cost charged by first-tier banks. FINDETER then sought to distribute these resources, succeeding in disbursing USD 107 million to water, basic services, and energy companies at a 0% interest rate. Seventy-six percent of the beneficiary local authorities are considered as poor municipalities.

[8] Mónica Palomino, FINDETER Economic Studies Director, intervention in *II Reunión de Economistas Jefes de Bancos de Desarrollo de América Latina y el Caribe "Desafíos de la Banca de Desarrollo para la Reactivación Económica y Desarrollo Regional Frente a la Pandemia del Covid-19"*, April 2021. Retrieved from: https://www.youtube.com/watch?v=lD-0WyzC01g&ab_channel=ALIDE

[9] Reunión Ordinaria de la Asamblea General de ALIDE. Papel de la Banca de Desarrollo Durante la Crisis y en la Reactivación Económica, May, 2021: https://www.alide.org.pe/wp-content/uploads/2021/05/Documento-Basico-Alide51.pdf

Multilateral Development Banks and Development Finance Institutions also relied on SDBs' capillarity to reach local governments and SMEs through special covid recovery facilities.

In response to the pandemic, **CAF, the Development Bank of Latin America,** built and approved a program of financial support to the development banks of the region, for an amount of USD 1.6 billion[10], with the main purpose of contributing in a timely and effective manner with emergency measures to face the crisis generated by COVID-19, and with the subsequent economic reactivation of SMEs in CAF's Shareholder Countries. The Facility was designed to support Regional and National Development Banks - including Subnational Development Banks- through financial and non-financial assistance in order to increase their capacity and scope for action in their efforts to boost and strengthen companies in affected productive sectors, such as health, tourism, infrastructure, among others, in addition to serving other segments prioritized by CAF's Shareholder Countries and by Development Banks in the context of the crisis. Through this funding, USD 270 million were allocated in support of Brazil's economic reactivation plan under this program through different SDBs. USD 250 million were allocated in support of Paraguay's economic reactivation plan[11]. The credit is distributed to different entities, such as the SDB *Crédito Agrícola de Habilitación* (CAH), which acts as an intermediary agent, giving financial assistance to micro, small and medium enterprises.[12] And a third example was the USD 100 million allocated in FONPLATA, were destination of the resources will be channeled through operations for the financing of programs aimed at attending to the emergency of vulnerable populations or supporting companies in critical sectors in relation to COVID-19; financing operations for companies, particularly MSMEs, aimed at mitigating the effects of the crisis and supporting the process of recovery of economic activity; and financing initiatives for the institutional strengthening of Development Banks, including corporate governance, digital transformation, innovation, financial inclusion, product development, process management, among others.

As a complement of this top-down approach, consisting in identifying and responding to demand for financing, **SDBs can also be proactive on the supply side in structuring pipelines of local projects or investment portfolios through a bottom-up approach.**

They do so through public calls for proposals, aiming at reaching secondary and isolated cities, where the technical and financial gaps are the most important. The development of digitalization tools supports wider dissemination of information and shortens transactions.

SDBs are also strategically positioned to provide technical assistance to local governments to improve local capacities to formulate investment-worthy projects and develop strong pipelines of sustainable projects. Faced with the challenge of project preparation and procurement, especially at the municipal level, the expertise of the SDBs can facilitate the creation of pipelines of bankable projects. Technical assistance to local promoters has demonstrated to be critical to improve the speed at which funding is allocated.

[10] CAF Investor Presentation - June 2021: *https://www.caf.com/media/3041734/caf-investor-presentation-june-2021.pdf*

[11] "Se aprueban USD 250 millones para apoyar el plan de reactivación económica del Paraguay", https://www.caf.com/es/actualidad/noticias/2021/03/caf-destinara-usd-250-millones-para-apoyar-el-plan-de-reactivacion-economica-del-paraguay/

[12] "Financiamento de la ley de emergencia": https://rindiendocuentas.gov.py/covid/perfilprestamo

Banco de Desenvolvimento de Minas Gerais – BDMG has an active lending portfolio with more than 450 municipalities in the State of Minas Gerais which includes among the poorest regions of the country. In 2021, they launched a public call of USD 54 million through a 100% digital platform to finance urban infrastructures with special conditions to municipalities that have a lower human development index[13]. A sustainable financing line for "sustainable cities" has also been launched through this digital platform that enables a significant efficiency gain, allowing a 4-months reduction in the length of the credit processing[14].

BMDG also supports local stakeholders with technical assistance in project preparation, concessions, PPP, in many sectorial fields (public lighting, roads, water, and sewage treatment). Its project preparation facility provides technical assistance to support climate smart urban investments.

→ ***SDBs have the potential to reinforce their focal point role at the local level, pooling the demand for local projects and investments on the one hand, and matching local projects with investments from DFIs and other potential partners on the other hand****. This intermediary role is critical to bridge the subnational financial gap. SBDs also have a critical role to support project leaders, in particular intermediate cities, to formulate the projects, aligning them with investors' criteria.*

→ *In this regard, it is critical for SDBs to continue coordination efforts and ongoing communication with national and regional associations of local governments to strengthen the connection between the demand and the supply for technical and financial support to invest in sustainable development projects.*

[13] "Edital BDMG Municipios 2021": https://www.bdmg.mg.gov.br/editalmunicipios/

[14] "BDMG amplia para R$ 410 milhões edital de financiamento a municípios mineiros" 14 Oct 2021: http://agenciaminas.mg.gov.br/noticia/bdmg-amplia-para-r-410-milhoes-edital-de-financiamento-a-municipios-mineiros

The role of Subnational Development Banks to identify and prioritize investment for a resilient urban and territorial recovery

The granularity of SDBs and their capacity to channel diverse sources of funds to local stakeholders allows national governments, MDBs and DFIs to **finance local post covid recovery projects with a very high social and environmental impact**, while supporting local employment and local economies.

A Bolivian SDB, **the Bolivian National Fund for Production and Social Investments- Fondo Nacional de Inversión Productiva y Social (FPS),** operating under the Ministry of Development, played an intermediary role to support an employment generation infrastructure program in coordination with 24 local governments with the financial support of the Multilateral Development Bank FONPLATA (USD 140 million). To select the projects (which included street paving and development of communal areas), the central government has completed a local needs assessment based on climate impacts in urban zones suffering from demographic growth and concentration, with a specific focus on creating employment in the most vulnerable cities and villages.

The program paved and developed 2 million m² in 24 cities from 9 States, creating over 85,000 direct and indirect jobs, among which 7,500 women and 3,900 young employed, corresponding to 222,000 families, and contracted 900 SMEs. It was built on participation and empowerment from beneficiaries and local stakeholders and allowed significant indirect impacts: improvement of public transportation accessibility, development of local shops benefiting from the improvement of the neighborhoods, inclusion of inhabitants in the banking system, contributing to fostering social cohesion.

→ *SDBs, as all other public development banks, have the capacity to go beyond correcting market failures, by taking a proactive role to achieve the SDGs and comply with the Paris Agreement through funding the sectors and projects that are the most relevant depending on local contexts. They can act not only as implementing and funding institutions but also, and foremost, as investment mobilization institutions, able to support transformative change in their countries and regions of operation*[15]*. In this sense,* ***SDBs can also move from "project takers" to "project makers"***[16] ***and "policy makers"****.*

→ ***They can have an important leverage effect on public policy making****. They can develop and drive national policies by contributing to national planning processes, financing national policies to implement the global agendas at the local level and by developing an enabling environment for urban investment.*

[15] Griffith-Jones, S., Attridge, S., & Gouet, M. (2020) *Securing climate finance through national development banks*. ODI Publishing

[16] Project Sindicate, The Age of Public Development Banks Has Arrived

Subnational Development Banks' commitment to reinforce their alignment with the SDGs and the climate agenda to finance a resilient recovery

Many SDBs in Latin America and the Caribbean have committed to **align their strategies, norms, standards, investments, and portfolios with the 2030 Agenda and its Sustainable Development Goals (SDGs) and the Paris Agreement on Climate**, which is one of the objectives of their regional Alliance. Doing so, SDBs act as critical bridges in turning national government's climate ambition to concrete projects that will help the countries to meet their Intended Nationally Determined Contributions objectives.

They have maintained this effort within the Covid recovery credit lines and facilities set up with Multilateral Banks and Development Finance Institutions that have also been providing growing technical assistance to support SDBs in developing their internal expertise to evaluate the projects' environmental and social impact, as well as on digital transformation.

In response to the COVID outbreak, the **European Investment Bank-** EIB repurposed credit lines and adapted eligibility criteria of signed credit lines to provide greater flexibility. Furthermore, EIB granted new loans to SDBs to target the economic resilience, in particular of the MSME sector.

In addition to the cooperation with CABEI, CAF, CDB and FONPLATA, the EIB is currently working with 11 Subnational and Regional Development Banks covering 8 countries for a total amount of EUR 878 Million.

As an illustration, the existing USD 115,7 million credit line channeled from EIB to **BDMG (Banco de Desenvolvimento de Minas Gerais)** was adapted from its pure climate orientation with sectorial obligation (renewable and efficient energy) to having a USD 34 million flexible portion to be posted in multiple sectors while maintaining a climate approach.

To date, 64% of these resources have been used in relation to climate contracts, financing 19 projects (small hydroelectric power plants, public lighting), allocated in 17 different municipalities of Minas Gerais, with 50% of solar energy projects allocated in the Northwest of the State (which is the poorest region). USD 52 million have been invested, around 11,702 tons of CO_2 emission per year were avoided and 908 jobs were created. This emergency line adapted to the pandemic supported 2600 SMEs companies and 16,300 employees.

This illustrates a successful cooperation, combining multilateral financial capacity with SDBs' knowledge of local context, which allows a better selection of projects with less costly and more agile credit analysis. This cooperation with EIB, combined with other successful initiatives such as the development of a greenhouse gas emissions calculator with the support of IDB, allowed BMDG to incorporate new social and environmental standards, including methods for measuring and reporting SDGs and climate impacts. They have been directly contributing to the implementation of BDMG's 5 years strategy that aims at a full alignment with the 2030 agenda and SDGs.

The French Development Agency (AFD) is committed to support its development bank partners, including Subnational Development Banks to increase their ambitions to align their action with the SDGs and to better fight climate change and gender inequality.

The partnership introduced in 2018 between AFD and **BRDE** (Banco Regional de Desenvolvimento do Extremo Sul) consists of a two-stage credit agreement, amounting to USD 138,89 million up to date. It has been used to finance, on the one hand, the development of a pipeline of sustainable projects and, and, on the other hand, a technical assistance scheme aiming at enhancing the BRDE's expertise to develop and evaluate sustainable projects through an innovative environmental and social screening tool.

→ *Beyond standards and investment portfolios, SDBs in Latin America and the Caribbean within their Alliance have been increasingly committed to progress on anchoring the Global agendas in their institutions' organizational cultures.*[17]

Innovative financial instruments set up by Subnational Development Banks and their financial partners to finance a resilient urban and territorial recovery

Through their public mandates and anchored in their respective institutional and economic contexts, SDBs have the potential to build bridges between:

- local and national governments and the private sector;
- domestic and international agendas;
- resources and microeconomic solutions;
- short-term and longer-term priorities.

As a complement to intergovernmental transfers to local governments and fiscal equalization, SDBs can employ a wide range of financial instruments and services to unlock the potentiality of all financial flows, public and private, and help shift current development pathways towards sustainability such as loans, technical assistance, guarantees, credit enhancement, debt, equity, at concessional or market rates, directly or through commercial banks.

Facing the covid outbreak, MDBs and DFIs have deepened their cooperation with SDBs that allows them to develop new financial products, disburse faster, and gain agility and efficiency to finance subnational stakeholders.

SDBs represent a very efficient vehicle to develop **blended finance with Multilateral Development Banks,** that allows a significant scale up in subnational funding based on additionality principle.

[17] *IDDRI has set up a list of recommendations for Public Development Banks (i) the 2030 Agenda should be firmly anchored in the institutions' organizational cultures, (ii) a stronger focus should be given to early-stage SDG-compatible project preparation, and (iii) PDBs should harmonize their practices and develop common norms and standards related to SDG alignment with diverse stakeholders (international organizations, commercial banks and private investors).*

Riaño, M., Boutaybi J., Barchiche, D., Treyer S. (2020) *Scaling up public development banks' transformative alignment with the 2030 Agenda for Sustainable Development* IDDRI, Issue Brief N°05/20.

The partnership with **Banco Regional de Desenvolvimento do Extremo Sul (BRDE)** that operates in four States in Brazil[18], allowed the **World Bank** to finance a transformative project to scale up urban resilience in Southern Brazil that benefited 547 Brazilian municipalities instead of a handful of municipalities able to work directly with international finance institutions. Without SDBs as intermediaries, the World Bank would have lost many markets, due to legislative and fiscal constraints, including the need to secure national sovereign guarantees. A USD 119,68 million investment component supports the construction or the upgrading of infrastructure to mitigate the impacts of natural disaster and climate-related risks in smaller and medium-size cities, not excluding capital cities such as Porto Alegre that has been able to subscribe a loan only thanks to BRDE's intermediation. It is complemented by a USD 7,25 million capacity building component to strengthen the institutional capacity of selected municipalities for urban resilience, and a USD 2,59 million capacity building component to build BRDE's institutional capacity, including in assessing social and environmental risk, supporting its efforts to align its procedure and portfolio with the 2030 Agenda and the Paris agreement. BRDE's intermediation offers field knowledge, as well as an efficient institutional framework to sign contracts with DFIs in a faster manner and provide capacity building to small municipalities. This institutional arrangement allows BRDE to reach more municipalities and public institutions, which only represents 5% of its activities to date. Furthermore, it widens the financial offer available and helps to structure the subnational market.

SDBs can also act as efficient vehicles to attract private investment, based on a financial mix of public and DFIs funds and de-risking instruments. They offer the advantage of mitigating currency risks by providing financing in local currency.

SDBs can also **partner with domestic private banks**, contributing to structuring the subnational financing market.

The Banco de Comercio Exterior de Colombia (Bancoldex) - a public private Colombian SDB, manages a loan of USD 400 million, in which three commercial banks - Banco Santander, BBVA, and JP Morgan - participated[19]. This USD 400 million loan, guaranteed by the World Bank through the Multilateral Investment Guarantee Agency (MIGA), has been allocated to finance Colombian companies affected by the Covid-19 crisis in most productive sectors. These Bancóldex's special credit lines provide working capital resources of up to USD 3 billion for micro, small, and medium-size companies, and up to USD 5 billion for large companies, with terms of up to 36 months.[20]

In response to the Covid crisis, National Development Banks and Subnational Development Banks in Latin America and the Caribbean devoted 60% of their operations to **lending**, mostly at preferential terms, 27% for **debt repayment moratoria** and 11% for **credit guarantees, which are key financial instruments in contexts of uncertainty.**

Corporación Financiera de Desarrollo S.A (COFIDE), a Peruvian SDB (National Development Bank with a mandate to finance subnational stakeholders, infrastructure, and productive investment). It provides guarantees to finance recovery loans to SMEs It also supports Subnational Governments through trusts administration, guarantee funds that allows the execution of infrastructure projects.

---

[18] Rio Grande do Sul, Paraná, Santa Catarina, Mato Grosso do Sul

[19] Banca de Desarrollo y apoyo a la Pyme - durante la crisis Covid-19. ALIDE, Sept. 2020, pag. 25. Available from: https://www.alide.org.pe/wp-content/uploads/2020/10/ROL-BD-Pymes-espa%C3%B1ol.pdf

[20] Bancoldex cuenta con garantía hasta por US$ 400 millones de MIGA para respaldar créditos a empresarios bajo crisis del Covid-19, July, 2020. Available from: https://www.bancoldex.com/noticias/bancoldex-cuenta-con-garantia-hasta-por-us400-millones-de-miga-para-respaldar-creditos-empresarios-3723

The "Programa Reactiva Peru", hereinafter "Reactiva Peru", is a fund of up to USD 14,7 billion, created by the Peruvian Government, mostly benefiting Micro and Small Enterprises. This program was a unique recovery measure representing almost 7% of the country's GDP.[21] COFIDE administered the guarantees, creating agreements with Financial System Institutions all over the country.[22]

Reactiva Peru reached more than 500,000 companies, 98% of which were micro and small enterprises. It has allowed a 41.6 % expansion of credit to companies, including medium-sized companies (+ 53.4 %) and large companies (+21.8 %). In 2020, without "Reactiva Peru", loans to SMEs and medium-sized companies would decrease from -4.9 %, and -6 % for large companies in 2020. [23]

Additionally, COFIDE has other business support funds for SMEs in agriculture, tourism and other sectors in order of USD 2.2 billion

A precondition for Subnational Development Banks to scale up their action for the post covid recovery is to quickly access sufficient capital. There is an important room of improvement to **scale up and diversify their resources** with capital from the domestic and international markets, as well as from multilateral institutions, including through supporting their accreditation to climate funds.

The Mexican Trust Fund for Rural Development - Fideicomisos Instituidos en Relación con la Agricultura (FIRA) provides resources to both small and large farmers, as a second level financing institution, working with short and long-term credit facilities aligned with the SDGs. FIRA placed a long-term debt for about USD 448,5 million through trust bond certificates to channel credit to small rural enterprises.[24]

In 2019, the **Banco de Desenvolvimento de Minas Gerais -BDMG** adopted a 5-year strategy with two main objectives:

- full alignment with the 2030 agenda and the SDGs

- diversification of sources of funding

This strategy allowed a funding campaign in 2020 with a historic record of USD 416,4 million, including:

- a climate finance program with the EIB (over USD 100million),

- an emergency line for sustainable projects and SMEs with AFD (USD 80,9 million),

[21] Banca de Desarrollo y apoyo a la Pyme - durante la crisis Covid-19. ALIDE, Sept. 2020. pag. 16 Available from: https://www.alide.org.pe/wp-content/uploads/2020/10/ROL-BD-Pymes-espa%C3%B1ol.pdf

[22] Programas de apoyo empresarial. COFIDE, 2021. Available from: https://www.cofide.com.pe/detalles1.php?id=1

[23] Reactiva Perú impulsó crédito bancario a una tasa de crecimiento anual de 11.4%. DATASUR, Feb, 2021. Available from: https://www.datasur.com/reactiva-peru-impulsa-creditos-bancarios-a-una-tasa-de-crecimiento-anual-de-11-4/

[24]Coloca FIRA con éxito 10 mil millones de pesos en el mercado bursátil. 2000 Agro Magazine, June 2020. Available from: http://www.2000agro.com.mx/analisis/coloca-fira-con-exito-10-mil-millones-de-pesos-en-el-mercado-bursatil/

- USD 100 million line with CAF, the Latin American Development Bank, aimed at financing micro, small and medium entrepreneurs in a situation of vulnerability due to the health crisis[25] BDMG reached around 13,000 companies in 2020 (ie a volume 341% higher than the disbursed to these segments in the same period of 2019).[26]

- a 36 million dollars credit line with FONPLATA dedicated to sustainable cities.

In 2020 BDMG was the first bank in Brazil to issue a sustainable bond which was subscribed through a private placement with IDB-invest.

→ *MDBs and DFIs should reinforce their cooperation with SDBs including through extending credit lines, concessional financing, and financing approaches to a resilient urban and territorial recovery.*

→ *SDBs in Latin America and the Caribbean, among which some have reached a high level of maturity, have demonstrated their potential to* ***further develop innovative financial instruments*** *to leverage private investment, aggregate projects, and develop long-term credit option for investments on SDGs, risk mitigation instruments and guarantees, as well as project preparation facilities to maximize their impact in cooperation with MDBs and DFIs. Several MDBs and DFIs such as the European Union, the IDB and the World Bank are currently developing concepts around such innovative tools to develop investment platforms with SDBs for sustainable urban and territorial projects.*

[25] CAF y Brasil: una alianza para impulsar el crecimiento. CAF, Sept. 2021. Available from: https://www.caf.com/es/actualidad/noticias/2021/07/caf-y-brasil-una-alianza-para-impulsar-el-crecimiento/

[26] BDMG anuncia captação de US$ 100 milhões do CAF para apoiar micro, pequenas e médias empresas. BDMG, Dec. 2020. Available from: https://www.bdmg.mg.gov.br/bdmg-anuncia-captacao-de-us-100-milhoes-do-caf-para-apoiar-micro-pequenas-e-medias-empresas/

The Alliance of SDBs in Latin America and the Caribbean ambition to amplify the potential of SDBs and broaden their services offered to local governments and local stakeholders through enhanced cooperation with all stakeholders committed in financing just urban and territorial transitions around the following objectives:

- Align their strategies, standards, initiatives, investments, and portfolios with the 2030 Agenda and its sustainable development goals (SDGs) and the Paris Agreement on Climate ;

- Promote sustainable investments through portfolios of urban and territorial development projects and boost the financial urban and municipal markets;

- Develop a strategic space for dialogues with peers, development institutions, governments, municipalities, and technical and financial partners in the region;

- Enhance the strategic role of SDBs and the contribution of the Alliance to the Global Agendas in international fora.

To join the Alliance, and participate in its activities please contact the Secretariat to endorse the Joint declaration of the Alliance:

https://financeincommon.org/sites/default/files/2021-08/Declaration%20of%20the%20Alliance%20of%20Subnational%20Development%20Banks%20in%20Latin%20America%20and%20the%20Caribbean_0.pdf

Alliance Secretariat:

Juliana Devis Cantillo, jdevisc@fmdv.net

Libertad Sobrado, lsobrado@fmdv.net