Key findings

The Role of Public Development Banks in Scaling up Sustainable Financing

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Public development banks (PDBs) have a vital role in scaling sustainable financing in an affordable way. There are successful examples in all regions of how PDBs have delivered inclusive, equitable and sustainable growth with a mix of strategy, instruments, data and collaboration. However, many challenges remain, and the report sets out what more PDBs, national and international actors can do.

Objectives and research questions

The research looks at the roles, progress, and challenges of PDBs aligning financing with the Sustainable Development Goals (SDGs) and Paris Agreement in an affordable way. It demonstrates the good practices PDBs have already developed, what they are seeking to do in the future and how national and international actors can better enable the scaling of their work. In particular, it focuses on the issues as seen by national and sub-national PDBs predominantly in developing countries. The research sought to identify a clear set of recommendations based on the views of the PDBs themselves for what could enhance their ability to align with the SDGs. These recommendations could be relevant for: governments (national-/subnational-level and G20/non-G20 members), PDBs themselves, Multilateral Development Banks (MDBs), bank coalitions/networks, regulators, credit rating agencies, technical assistance providers and development partners.

Methods

The research was based on face-to-face detailed interviews and an online survey about PDBs' challenges in scaling sustainable finance. The survey included questions aimed at benchmarking progress over the past 5 years using categories from previous research. 11 detailed interviews were conducted with national and sub-national PDBs as well as relevant experts. There were 36 survey responses, of which 8 were from MDBs. The analysis of the responses is complemented by case studies on examples of progress by PDBs.

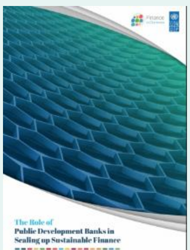
Results

The results highlighted significant progress and also substantial challenges for PDBs in aligning their activities to the SDGs. There were four main areas of focus:

1. **PDB mandates, strategies, and governance aligned to SDGs**: some PDBs had integrated the SDGs throughout their organization's strategy and operations but others had further to go. There were particular challenges in driving change from the strategic level of the organization to operations.
2. **Lending, guarantees, pricing and currency risk**: many PDBs had innovated within the terms and instruments they could offer, but faced difficulties on the pricing, tenor and currency of loans. This is a particularly important area where PDBs could support a greater focus on gender through the targeting of their loans.
3. **Data, measurement, impact, and taxonomies**: this was perhaps the most challenging area cited, given that many impact initiatives are still relatively young. There are examples of progress but a common need for better data and impact measurement, and a simpler and clearer set of standards that can be implemented at relatively low cost.
4. **Effective collaboration and international support**: Many PDBs had made key innovations through collaboration, but many opportunities remain for the international and development community to provide more easily accessible, financial, and technical support to fully realise PDB potential.

Recommendations

1. **Align PDB mandates, activities and incentives with the SDGs and the Paris Agreement, with a more integrated assessment of the costs and benefits of different projects to identified trade-offs between the SDGs**. This could be supported by better PDB alignment with the strategies of their own national governments, for example, through Integrated National Financing Frameworks, a country-level framework for financing national sustainable development priorities and the SDGs, and enhanced training for all staff, including non-executive Board members who change with the political cycle.
2. **Provide lower-cost and longer-term financing so PDBs can offer real incentives for firms to take SDG-related loans** even if they have more demanding reporting requirements. PDBs also seek help with currency risk when getting donor funds in international currencies, plus capacity development for themselves and project partners.
3. **Strengthen use of better data, particularly on gender to show impact and avoid green washing, supported by clear definitions, taxonomies, and common impact measurement standards**. This would also support the creation of new assets classes to channel finance to beneficial investments.
4. **Enhance collaboration at all levels – with the public and private sector, between sub-national and national entities and between the PDBs and other international partners including MDBs**. For international partners, it is important to offer long-term financing that can be accessed without excessive cost and delay, and ensure that local stakeholders, including women, are fully involved in initiatives with local PDBs.



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