Key findings

"PDBs' catalytic role in achieving the UN SDGs", Natixis GSH study with the IDFC [1]

Coordinator:
Orith Azoulay, Global Head, Natixis CIB Green & Sustainable Hub
Cedric Merle, Director of Innovation, Natixis CIB Green & Sustainable Hub

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While 2030 is looming, countries remain far from reaching the quantitative targets set in the 2030 Agenda. To maximize their chance, they need the support of an overarching "SDG alignment ecosystem". In this regard, Public Development Banks (PDBs) can play a catalytic role, notably through concessional funding, de-risking mechanisms and technical assistance. Contribution to SDGs cannot be assumed, it must be demonstrated and steered, notably by tilting lending toward SDG contributive projects. The latter can be identified through granular Taxonomies and country-specific criteria [2].
The review of current SDG integration practices reveals that most PDBs do not monitor and manage their country-by-country contribution. SDG mapping is a widespread practice. It is often backward looking, limited to sectorial exposures with SDG-sector code used as a proxy, and for reporting purpose. If monitoring, demonstrating and enhancing their actual contribution to reaching Agenda 2030 targets, PDBs need to reshape their intervention model and anchor it in national SDG roadmaps and/or needs.

Objectives and research questions

PDBs cannot strictly be aligned per se with the SDGs, nor more than a company, because the 2030 Agenda is a framework designed by and for countries. Is the notion of "alignment" so easily transposable to the multidimensional nature of the 2030 Agenda? How can PDBs act as alignment catalyzers or enablers?
Although SDGs are quantified targets, the causal pathways to achieve them are hard to decipher. Many exogenous factors influence their fulfillment. Contrary to carbon and climate finance, "SDG accounting or budgeting" does not exist yet. It raises the question of efforts allocation between actors and methods to set individual contribution targets and invent proper units.

Methods

Natixis CIB Green & Sustainable Hub performed:
• A review of PDBs' SDG integration/alignment practices (stocktaking exercise);
• A survey of private investors' opinion on PDBs' sustainable financing frameworks and impact demonstration practices and disclosure;
• Bilateral interviews with IDFC members, impact data providers, alternative data collectors/vendors, credit rating agencies, think tanks, consultancies, and NGOs;
• A series of workshops with members to further explore, test and fine-tune the concepts and tools.

Results

The study spells out a set of "SDG contribution principles" and "integration trackers" at entity and activity levels. It proposes a practical and simplistic canvas designed to accommodate different maturity levels or starting points: the SAAU Framework (Stop, Adjust, Amplify, Undertake). It can be used by an individual bank for diagnosis and strategy setting purposes, but also by coalitions or clubs looking for collective commitments. Tools to guide the integration of SDGs in core operations, including strategic capital allocation, are proposed ("SDG Adjusted Return Tool" to tilt financings towards highly contributive projects).

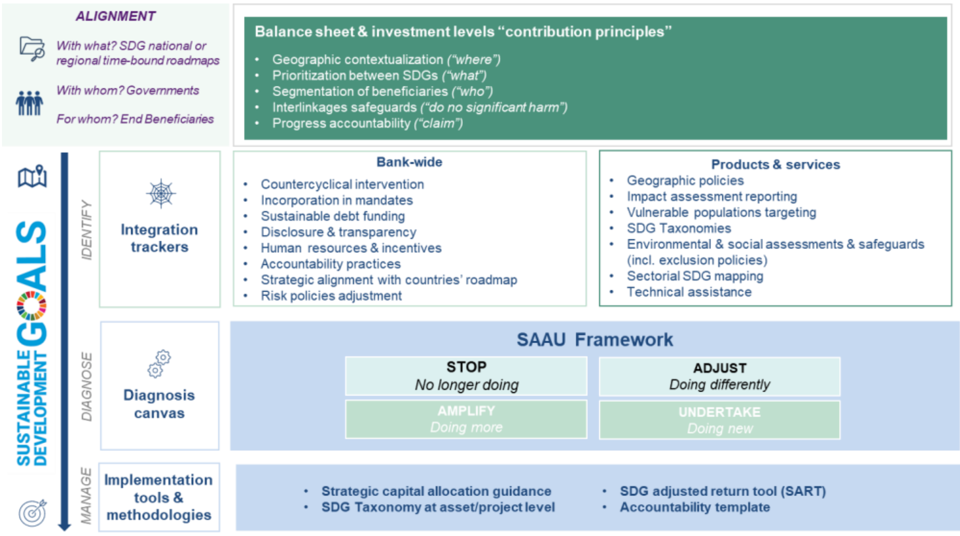

Figure 1 - Overview & articulation of guidance and tools

Source: Natixis CIB, "PDBs' catalytic role in achieving the UN SDGs" (forthcoming, 2022)

Recommendations

Suggested actions are most designed for PDBs, but can inspire other actors, or require their participation.

• Call for governments to refine their SDG national roadmaps, with quantitative guidance and granularity about the expected role from private actors and financial actors;

• Systematically map the assets and/or investees' spatial locations, and identify most acute and pressing SDGs gaps in those areas;

• Measure impacts ex-ante, in itinere (current) and ex-post, notably through timely and disaggregated data, with emphasis on end-beneficiaries segmentation;

• Rate the "SDG contribution potential" of each financing by using an SDG Taxonomy (preferably made of quantitative thresholds or specific features, adapted per activity, geography and financing type);

• Use this "contribution potential" assessment for capital allocation purposes, i.e. ahead of credit approval decision, as an incentive/disincentivize, and not as a due diligence or exclusion criteria only;

• Optimize the use of PDB's instruments – technical assistance, policy-based loans, grants, subsidies and other financial tools – to maximize synergies between projects and SDG gaps bridging;

• For PDBs coalitions, prioritize both individual and collective target setting and annual enforcement accountability to spur emulation around tangible and comparable decisions.

Finance in Common

This one-pager is produced to disseminate research for the Finance in Common Summit 2022 and remain the responsibility of their authors.

[1] Natixis CIB (20 October 2021), Press release "IDFC appoints Natixis CIB to develop a SDGs alignment framework for public development banks", available here.
[2] What is defined as "truly transformative investments" in ETTG study (October 2021),"Financing the 2030 Agenda An SDG alignment framework for Public Development Banks", available here.
[3] IDFC (September 21, 2022), "IDFC seminar on SDG alignment with Natixis", available here.