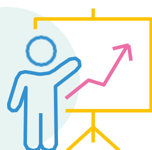
Key findings

Public Development Banks and the SDGs: A global architecture for global good

C. P. Chandrasekhar, Senior Research Fellow at The Political Economy Research Institute at UMass Amherst. Formerly at Jawaharlal Nehru University, New Delhi

This overview is published in the framework of the third edition of the Finance in Common Summit in Abidjan "Green and Just transition for a sustainable recovery".

As the international community looks to mobilize the resources needed to address the SDGs, including the trillions needed that need to be allocated for climate mitigation and adaptation, there has been a revival of interest in the role that public development banks (PDBs). Surveying the history of the emergence of evolution of these institutions, the paper argues this revival is because they are "fit for purpose" when it comes t addressing the challenges at hand. Designed to mobilize resources appropriate to financing high cost, long gestation, and low return projects with significant positive, economy-wide, non-pecuniary externalities, they meet the requirements set by the special character of SDG financing. The opportunities to use these institutions as a combined force is immense because we have in place a global development financing architecture, populated with around 500 national public development banks, besides supranational institutions such as the World Bank and the regional development banks.



Objectives and research questions

The paper examines how the global PDB architecture can be strengthened to advance the SDGs and climate agenda, by addressing the following questions:

(i) What are the defining features of development banks and how do those features make them suitable as instruments to advance sustainable development and climate action?

(ii) How was the inherited legacy in the form of a global development financing architecture shaped, in terms of its components and dominant objectives, and how was that influenced by the changing economic and developmental context?

(iii) How, if at all, have the dominant objectives of these institutions changed as a result of this evolution and, if so, how was this a result of the changing context in which the DFIs functioned? What policy implications does this have for the effort to utilise them as instruments to promote sustainable development.

(iv) What are the financial and non-financial relationships and interlinkages between different segments and institutions within those segments, and do they facilitate operationalizing a globally integrated development financing system in pursuit of common goals and the global good?

Methods

Besides using data from a variety of secondary sources, the paper relies heavily on the database prepared by Agence française de développement (AFD) and the Institute of New Structural Economics (INSE), Peking University.

Results

While there is a strong case for using public development banks as instruments to pursue the SDGs, two stand out weaknesses in the current development finance architecture are (i) the geographic unevenness in the development of that structure, especially in terms of assets under their management, reflecting unevenness in access to deployable resources; and (ii) the absence of adequate global or cross-country linkages that can facilitate the flow of concessional capital (and expertise) to address the consequences of that unevenness. This makes it crucial to modify that architecture to transform a geographically diverse and dispersed structure into an effective tool for the provision of a range of global public goods.

Recommendations

The way forward

Since the goals are global public goods, their pursuit by NDBs must be the common agenda of multiple agents, and the drive to refocus must be fronted in cooperative institutions or conventions like the World Federation of Development Finance Institutions (WFDFI), the International Development Finance Club (IDFC) and the Finance in Common summits. The pivot to SDG-financing must be backed by a common approach, involving qualitative indicators and quantitative assessments, to identifying projects that can be seen as promoting the SDGs or contributing to climate change mitigation or adaptation.

Second, teams of national DFIs must be persuaded to assess a reasonable profile of projects that need to be financed by elements of this architecture to facilitate realisation of specified SDG targets and components of the nationally determined contributions (NDCs) to carbon emission reduction that their governments have committed to making.

Third, within the development financing architecture, this redirection should partly be aimed at compensating for the huge divergence in assets position between DFIs across nations and geographies. One goal is to ensure greater evenness relative to development levels and spending requirements in the presence and asset-scale of DFIs. The other is to ensure that finance flows from those DFIs that have a disproportionate share of surpluses mobilised to DFIs in locations that do not have access to similar surpluses or surpluses in keeping with their SDG-funding and climate finance needs. This would require strengthening linkages between states, multilateral and regional DFIs, and national public development banks.

2022 ©FICS

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.