

## Global Research Network on PDBs

November 2024

### PDBs' role in the global financial architecture

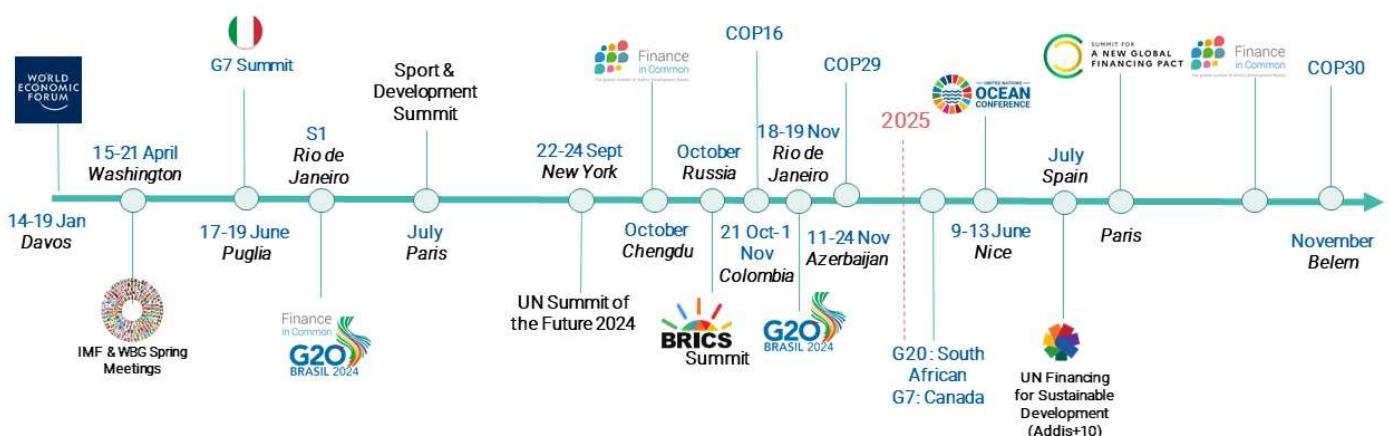
Coordinated by the Agence Française de Développement and Stellenbosch University

#### 1. Background

Finance in Common is now widely recognized as offering a unique and unified perspective to prioritize PDBs contributions to the reform of the international financial architecture. The FiCS 2025, which will take place in February in Cap Town, South Africa, must contribute to better understand PDBs' role in channeling funds where they are the most needed. In this endeavor, the Global Research Network on Public Development Banks is expected to deliver relevant insights to feed in the global agenda.

In parallel, PDBs are increasingly involved in various annual events, including the Conferences of Parties on climate and biodiversity, World Bank and IMF General Assemblies, and G20 meetings. As announced by UN DESA at the last FiCS Executive Committee, the 4<sup>th</sup> International Conference on Financing for Development will take place in Spain in 2025. Ten years after the Addis Ababa Action Agenda, the FiCS initiative is called upon to play an important role in shaping and implementing a new financial action plan. This dense international agenda calls for more research to address PDBs' role within the global financial architecture.

### ROADMAP 2024 & 2025



## 2. Objectives of the work stream

The objectives of the work stream are as follows:

- Produce original research and analytical papers on PDBs.
- Prepare the contribution of the GRN to the FiCS 2025 and subsequent international conferences (COP 16, COP 30, FFD 2025,...).
- Foster interactions between researchers, think tanks, policy makers and practitioners.
- Articulate research efforts to allow for continued exchanges and debates, and help structuring research projects that are useful to decision makers.

## 3. Research questions

Researchers involved in the work stream could explore the following topics:

- **What is the Theory of Change behind the role of PDBs in financing the transition?** According to the traditional life-cycle theory, PDBs marginal benefit for the economy decreases as financial markets develop. Once private financial actors mature, PDBs should only have an indirect role in funding the economy until they get privatized or decommissioned by the government. This vision is in contradiction with the fact that PDBs prevail in developed and developing economies alike. In this regard, what is the rationale for PDBs in developed financial markets? How do they interact with other financial actors? All the following questions should help writing PDBs' new theory of change.
- **Towards an optimal global financial architecture?** To engage in the discussion of the global financial architecture's reform, it is necessary to have an exhaustive understanding of the various actors and their interlinkages. A central issue is to identify the instrumental financial flows, which allow vulnerable countries to access concessional finance and sustainable finance. To what extent do PDBs channel these flows and how could they be more efficient in transforming them into sustainable investments?
- **What are the governance structures, accountability mechanisms and regulations in place for PDBs within the international financial architecture?** The adequacy regarding the rules governing PDBs' activity is likely to play a significant role in their collective capacity to finance the SDGs. Unlike other systemic financial actors, PDBs are not subject to common regulation frameworks. This study could map the different regulatory and legal frameworks to which PDBs respond. Secondly, it could determine to what extent regulatory divergences impact, PDBs in terms of financial performance and mandate (e.g. common law VS civil law).
- **What role do PDBs play in debt financing, and how do they address potential debt-related challenges?** Following the Covid crisis, debt levels have skyrocketed in many developed and developing economies. Depending on their vulnerabilities, some countries, especially in the Global South, are stuck in a climate-fiscal trap. In this context of tight fiscal space, what are the long-term implications of PDBs' role in financing the transition?
- **How do PDBs contribute to global financial stability?** Over the last few years, several articles have demonstrated PDBs' countercyclical nature, particularly in periods of crisis. Depending on the macroeconomic context and the *modus operandi*, these quasi-fiscal interventions can generate frictions in the articulation of fiscal and monetary policies. This study would allow (i) to question the role of PDBs with regard to broader macroeconomic policies, and (ii) to study the conditions under which their stabilization role and effectiveness are optimal.

- **How can PDBs lower currency risks?**  
Local currency risks raise significant challenges for development financing. In emerging markets and developing economies, the availability of hedging instruments to mitigate currency risks can be limited or costly, making it difficult for investors to manage their exposure effectively. Research is needed to assess PDBs' capacity in facilitating local currency lending while preserving their own financial soundness.
- **Understanding the dynamics of collaboration between PDBs, and their potential areas of subsidiarity.** In a context where a growing number of financial actors point out the lack of bankable sustainable projects, what are the risks of crowding-out effects between MDBs and national development banks? This issue raises the question of PDBs' ability to co-finance projects. Cooperation and divergence dynamics need to be better understood and analyzed in relation with PDB's mandates, type of clients, financial instruments, geographical scope...

#### 4. Expected deliverables for the FiCS 2025

Over the last few years, several seminal papers have questioned PDBs' role within the global financial architecture, including a recent publication by Marianna Mazzucato<sup>1</sup>. Besides, the call for contributions launched by the GRN allowed to identify the following analytical works:

| Focal point                                      | On-going research  | Contemplated research projects |
|--|--|--------------------------------|
| Thomas Marois<br>(McMaster University / AFD)     | "Toward a new financial architecture<br>- National Development Banks potential to boost SDG investment with MDBs support"  |                                |
| Valérie Laxton and<br>Carolyn Neunuebel<br>(WRI) | 1) "Clarifying the role of MDBs in financing global environmental public goods"<br>2) "Design and access to concessional finance for the climate-vulnerable countries" |                                |
| Chris Humphrey<br>(ODI)                          | "The role of southern-led MDBs and sovereign debt restructuring" involving the Common Framework, IMF and Paris Club treatment of preferred creditor status             |                                |
| Sam Attridge (ODI)                               | "The evolving role of PDBs" - literature review on the evolving role on PDBs in the development finance architecture and how this has changed over time.               |                                |
| Zeph Nhleko<br>(DBSA)                            | "Role of domestic development finance institutions in national capital   |                                |

<sup>1</sup> Mazzucato M.(2023), Financing the Sustainable Development Goals through mission-oriented development banks, *UN DESA Policy Brief*. Access: [PB\\_Special-Issue\\_HLAB\\_September\\_2023.pdf \(un.org\)](https://www.un.org/development/desa/policy/policybriefs/pb202309/pb202309_hlab.pdf)

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|   | allocation”.   |  |
| <b>Mark Swilling &amp; Ric Amansure</b><br>(Stellenbosch University)  | Financing Just Energy Transitions in Africa and the role of Africa’s PDBs  |  |
| <b>Carolyn Neunuebel</b><br>(WRI)   | The complementary role of international climate finance providers.   |  |
| <b>Alfredo Schclarek Curutchet</b><br>(CONICET/National University of Cordoba) & <b>Jiajun Xu</b> (INSE, PKU) | Local Currency Loans in the Global Development Finance Architecture  |  |
| <b>Joshua Yindenaba Abor</b> (University of Ghana)  | “Development Finance Institutions and Inclusive Green Finance: Implications for Financial Stability”   | <ol style="list-style-type: none"> <li>1) The Changing Role of National Development Banks in Africa</li> <li>2) Perspectives on Development Banks in Africa</li> </ol> |
| <b>Ricardo Gottschalk</b><br>(UN)   | “Sub-Regional Development banks in Sub-Saharan Africa: Exploring new forms of capitalization and leveraging.”  |  |
| <b>Lavinia Barros de Castro</b> (BNDES)   | <ol style="list-style-type: none"> <li>1) “PDBs’ positive macroeconomic consequences of investment finance for economic development”</li> <li>2) “Development Banks Theory of Change”</li> </ol>         |  |
| <b>Rishikesh Bhandary</b><br>(Boston University)  | <ol style="list-style-type: none"> <li>1) “Unlocking synergies between multilateral development banks and national development banks”</li> <li>2) “Channeling SDRs through the PDB ecosystem”</li> </ol> |  |
| <b>Elise Dufief</b> (IDDRI)   |  | “Anchoring the reforms of international financial architecture at national level – insights from Kenya”  |
| <b>Juan Martinez Alvarez</b> (IDB)  |  | Financial Deepening in Latin America: Balancing Market and Government  |
| <b>Matthieu Boussichas &amp; Andrea Dsouza</b>  | 1) Relations between the Regional banks and World Bank: Why is it different in Africa?   |  |

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| (FERDI)  | 2) PDBs respective roles in responding to countries' vulnerabilities |   |
| Muyang Chen<br>(Peking University)             |  | The Latecomer's Challenge: Contestation, Convergence, and Complementarity |
| Song Jin (Chinese Academy of Social Sciences)  |  | Efficiency of Development Financing and Levels of Development             |
| Peng Li & Mingming Yu<br>(Liaoning University) |  | PDBs' role in the global financial architecture                           |

## 5. Interested contributors

The table below summarizes all the stakeholders that are explicitly interested in contributing to the work stream on global financial architecture.

Other contributors are welcome.

| Institution                        | Focal point                            | Contact   |
|------------------------------------|--|---|
| Agence Française de Développement  | Régis Marodon / Jean-Baptiste Jacouton | <a href="mailto:marodonr@afd.fr">marodonr@afd.fr</a> / <a href="mailto:jacoutonjb@afd.fr">jacoutonjb@afd.fr</a>                       |
| BNDES                              | Lavinia Barros de Castro               | <a href="mailto:laviniab@bndes.gov.br">laviniab@bndes.gov.br</a>  |
| Boston University                  | Kevin Gallagher<br>Rishikesh Bhandary  | <a href="mailto:kpg@bu.edu">kpg@bu.edu</a><br><a href="mailto:rrbhanda@bu.edu">rrbhanda@bu.edu</a>                                    |
| Chinese Academy of Social Sciences | Song Jin                               | <a href="mailto:songjin@cass.org.cn">songjin@cass.org.cn</a>  |
| DBSA                               | Zeph Nhleko                            | <a href="mailto:ZephN@dbsa.org">ZephN@dbsa.org</a>  |
| ETTG                               | Iliana Olivié                          | <a href="mailto:io@ettg.eu">io@ettg.eu</a>  |
| European Investment Bank           | Massimo Cingolani                      | <a href="mailto:m.cingolani@eib.org">m.cingolani@eib.org</a>  |
| FERDI                              | Matthieu Boussichas                    | <a href="mailto:matthieu.boussichas@ferdi.fr">matthieu.boussichas@ferdi.fr</a>  |
| Inter-American Development Bank    | Juan Martinez Alvarez                  | <a href="mailto:JMAR@IADB.ORG">JMAR@IADB.ORG</a> ; <a href="mailto:simonfernandez.bid@outlook.com">simonfernandez.bid@outlook.com</a> |
| IDDR                               | Elise Dufief                           | <a href="mailto:elise.dufief@sciencespo.fr">elise.dufief@sciencespo.fr</a>  |
| Liaoning University                | Peng Li<br>Mingming Yu                 | TBC<br>TBC  |

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|---|-----------------------------|--|
| McMaster University   | Thomas Marois               | <a href="mailto:maroist@mcmaster.ca">maroist@mcmaster.ca</a>   |
| ODI   | Chris Humphrey              | <a href="mailto:c.humphrey@odi.org.uk">c.humphrey@odi.org.uk</a> ;<br><a href="mailto:s.attridge@odi.org.uk">s.attridge@odi.org.uk</a> |
| Peking University   | Muyang Chen                 | <a href="mailto:cmuyang@pku.edu.cn">cmuyang@pku.edu.cn</a>   |
| Sciences Po Paris   | Matthias Thiemann           | <a href="mailto:matthias.thiemann@sciencespo.fr">matthias.thiemann@sciencespo.fr</a>   |
| SOAS London   | Ulrich Volz                 | <a href="mailto:uv1@soas.ac.uk">uv1@soas.ac.uk</a>   |
| Stellenbosch University   | Mark Swilling               | <a href="mailto:swilling@sun.ac.za">swilling@sun.ac.za</a>   |
| United Nations (Resident Coordination's Office - South Africa)                                  | Ricardo Gottschalk          | <a href="mailto:ricardo.gottschalk@un.org">ricardo.gottschalk@un.org</a>   |
| University of Ghana   | Joshua Yindenaba Abor       | <a href="mailto:joshabor@ug.edu.gh">joshabor@ug.edu.gh</a>   |
| World Bank  | Eva Gutierrez               | <a href="mailto:egutierrez2@worldbank.org">egutierrez2@worldbank.org</a>   |
| World Resources Institute   | Valérie Laxton              | <a href="mailto:Valerie.Laxton@wri.org">Valerie.Laxton@wri.org</a>   |
|   | Carolyn Neunuebel           | <a href="mailto:Carolyn.Neunuebel@wri.org">Carolyn.Neunuebel@wri.org</a>   |
| National Scientific and Technical Research Council (CONICET) and National University of Córdoba | Alfredo Schclarek Curutchet | <a href="mailto:alfredo.schclarek@unc.edu.ar">alfredo.schclarek@unc.edu.ar</a>   |

## 6. Contacts

This workstream is coordinated by the Agence Française de Développement and Stellenbosch University. For any question, please contact:

- **Régis Marodon** (AFD) – Special advisor in sustainable finance: [marodonr@afd.fr](mailto:marodonr@afd.fr)
- **Jean-Baptiste Jacouton** (AFD) – Research officer: [jacoutonjb@afd.fr](mailto:jacoutonjb@afd.fr)
- **Ric Amansure** (Centre for Sustainability Transitions, Stellenbosch University) – Senior Researcher: [ramansure@sun.ac.za](mailto:ramansure@sun.ac.za)
- **Mark Swilling** (Centre for Sustainability Transitions, Stellenbosch University) – CST Co-Director and Distinguished Professor: [swilling@spl.sun.ac.za](mailto:swilling@spl.sun.ac.za)
- **Megan Davies** (Centre for Sustainability Transitions, Stellenbosch University) – Researcher: [megandavies@sun.ac.za](mailto:megandavies@sun.ac.za)