PUBLIC DEVELOPMENT BANKS

A REFERENCE BOOK

For consultation

DISCLAIMER

This work is a product of the staff of the Agence Française de Développement (AFD), the Finance in Common Secretariat (FiCS) with the support of the United Nations Department of Economic and Social Affairs (UNDESA).

The findings and conclusions do not necessarily reflect the views of AFD, The FiCS Secretariat or United Nations, nor of their Executive Directors or the governments they represent. They do not guarantee the accuracy of the data included in this work and errors, omissions and inaccuracies are those of the authors only.

This publication is released for consultation purposes and should not be considered final or definitive.

Finance in Common

For consultation

Public Development Banks

A REFERENCE BOOK

NOTES ON CONTRIBUTORS

Publication Coordinators

Régis Marodon,
Special Adviser Sustainable Finance, Agence Française de Développement (AFD).

Jean-Baptiste Jacouton,
Research Officer, AFD.

Lennart Ploen,
Senior Project Manager, BearingPoint.

Editorial assistants:
Marilou Vincent, Research Assistant, AFD.
Max Neumann, Knowledge Manager, FiCS Secretariat.

Main contributors (alphabetical order)

Peter Chowla, Senior Economic Affairs Officer, United Nations Department of Economic and Social Affairs.
Clémence Guiresse, SDG Advisor, FiCS Secretariat.
Jean-Baptiste Jacouton, Research Officer, AFD.
Rémi de Lassus, Africa & International Development, BearingPoint.
Régis Marodon, Special Adviser Sustainable Finance, AFD.
Max Neumann, Knowledge Manager, FiCS Secretariat.
Lennart Ploen, Senior Project Manager, BearingPoint.

Graphic design and composition

Angélique Lahitte, Graphic Designer, BearingPoint.

TABLE OF CONTENTS

EXECUTIVE SUMMARY 9

CHAPTER 1
KEY FEATURES 14
1.01 What Are Public Development Banks?
1.02 PDBs at a Glance
1.03 How PDBs Can Help Deliver a Sustainable Future
1.04 A Short History of Development Banking
1.05 The Development Paradox
1.06 Asset Size
1.07 Counter-cyclicality
1.08 Economic Theory and Development Banks

CHAPTER 2
THE UNIVERSE OF PUBLIC DEVELOPMENT BANKS 38
2.01 Ownership Structure
2.02 Multilateral Development Banks
2.03 National Development Banks
2.04 Subnational Development Banks
2.05 Policy Mandates
2.06 Africa
2.07 Asia
2.08 Europe
2.09 Latin America And The Caribbean
2.10 Islamic PDBs
2.11 PDBs as a System

CHAPTER 3
BUSINESS MODELS 66
3.01 Balancing Development Impact and Financial Sustainability
3.02 Financial Instruments
3.03 Clients and Beneficiaries
3.04 Liabilities
3.05 Profitability
3.06 Governance
3.07 Prudential Regulation and Supervision
3.08 Risk Management
3.09 Monitoring & Evaluation (M&E)
3.10 Failing Development Banks

TABLE OF CONTENTS

CHAPTER 4

SUPPORTING THE SUSTAINABLE DEVELOPMENT GOALS 92

4.01 An International Roadmap
4.02 Small and Medium Enterprises
4.03 Infrastructure
4.04 Clean and Renewable Energy
4.05 Climate
4.06 Biodiversity
4.07 Gender
4.08 Health and Education
4.09 Sustainable Cities
4.10 Peace, Justice and Strong Institutions
4.11 Indigenous Peoples
4.12 Human Rights
4.13 Identifying SDG Contributions Using Artificial Intelligence

CHAPTER 5

PARTNERSHIPS AND COOPERATION 126

5.01 Cooperation between PDBs
5.02 International Associations
5.03 International Development Finance Club (IDFC)
5.04 Finance in Common System (FiCS)
5.05 Caisses des Dépôts in Africa
5.06 European Development Finance Institutions (EDFI)
5.07 EXIM Banks
5.08 Mobilizing Private Capital
5.09 Philanthropy & Civil Society
5.10 Technical Assistance
5.11 International Financial Architecture

COMPENDIUM OF KEY TAKEAWAYS 156

AREAS FOR FUTURE RESEARCH 170

APPENDIX CASE STUDIES 176

Agence Française de Développement (AFD)
Asian Infrastructure Investment Bank (AIIB)
Banco Nacional de Desenvolvimento Econômico e Social (BNDES)
Bancóldex
Banque Ouest Africaine de Développement (BOAD)
Caisse des Dépôts (France)
China Development Bank (CDB)
Development Bank of Rwanda (BRD)
Development Bank of South Africa (DBSA)
Islamic Development Bank (ISDB)
Kreditanstalt für Wiederaufbau (KfW)
PDBs in Small Island Developing States
Subnational PDBs in India
Türkiye Sinai Kalkinma Bankasi (TSKB)

This publication is released for consultation purposes and should not be considered final or definitive.

EXECUTIVE SUMMARY

Global crises and sustainable development challenges have revitalized interest in the role of development banks in promoting global economic growth and improving well-being. These institutions play a structural role in financing long-term, developmentally impactful investments in areas that are neglected by the private sector—especially in the context of growing global challenges such as inequality, economic crises, and climate change. They also play a meaningful countercyclical role in times of crisis, as illustrated during the global financial crisis of 2008/2009 and the COVID pandemic of 2020/2021.

The Addis Ababa Action Agenda, adopted by all United Nations Member States following the 2015 Financing for Development Conference, highlighted the role of these institutions in financing the Sustainable Development Goals (SDGs). The European Commission has also underscored the significance of development banks in its Investment Plan for Europe and has issued guidelines to help establish such banks in EU countries.

The Finance in Common System (FiCS) is a global initiative designed to foster collaboration and knowledge sharing among public financial institutions to help mobilize public and private capital and align financial flows with the SDGs and the Paris Climate Agreement. More than 530 national, regional, and multilateral banks are on track to join the FiCS coalition by the end of this year.

Objectives of the Reference Book

This Reference Book consolidates information about multilateral, regional, national and subnational development banks. A publication of the FiCS Secretariat and AFD, with the support of the United Nations Department of Economic and Social Affairs (UNDESA), it aims to:

- Summarize the important role that these institutions can play in a modern economy, the challenges they face, and the debates that surround them;
- Identify what makes them effective, including governance, expertise, regulatory and funding criteria;
- Recognize the role that these banks can play in financing sustainable development, notably the just transition;
- Highlight the role that associations of these banks can play to share ideas for increasing their effectiveness and impact.
- Offer a collection of case studies displaying the diversity of business models used by development banks

- Build a bibliography of the literature that can inform future studies, including more than 400 research and policy papers

Most data presented in this book stems from the Public Development Bank Database, as released by end 2024, an initiative of the Institute of New Structural Economics (INSE) at Peking University and the Agence Française de Développement (AFD), with recent support from the Fondation pour les Etudes et Recherches sur le Développement International (FERDI). The dataset is available through the FiCS website (available here). The dataset is based on the FiCS criteria of a public development bank. It provides a comprehensive mapping of such institutions worldwide, including information on their ownership structure, asset size, official mandate and key financial ratios.

The Reference Book is not a policy paper and does not offer any specific guidance or recommendations on set-up, strategies or operational practices, although many insights can be drawn from its content. It is a resource publication for practitioners, partners, researchers, think tanks, students, civil society organizations, or any stakeholder wishing to gain insights into these institutions.

Key takeaways

There is no official agreement on the definition of a Public Development Bank (PDB). FiCS proposes five criteria to qualify a financial institution as a PDB: (1) being a stand-alone entity, (2) using fund-reflow-seeking financial instruments and having financial instruments as main product and service, (3) exploiting funding sources that go beyond periodic budgetary transfers, (4) having a proactive public policy mandate, and (5) having corporate strategy steered by government.

Institutions presented in the book comprise multilateral development banks (MDBs), including regional development banks and other financial institutions created by two or more countries; national development banks (NDBs), owned by a single country; and subnational banks (SDBs) owned by local governments.[1] In 2023, total assets of NDB institutions in the PDB database (2024) exceeded USD 15.6 trillion (or USD 22.7 trillion if mega banks are included). By comparison, the world's 100 largest commercial banks held USD 113 trillion in assets in the same year.

There is a stark contrast between the smallest banks, which hold less than USD 500 million in assets, and the largest, which hold more than USD 500 billion. Most assets are held by a very small number of institutions, with just 6% accounting for 82% of total assets, and 2% representing 59% of total assets. The largest are predominantly NDBs owned by G20 countries (79% of assets), but several of them provide international development finance. There are no medium or large NDBs in low-income countries.

The first development banks appeared in the 19th century to leverage funds for economic and social development. Their role expanded after World War II, with the creation of the International Bank of Reconstruction and Development, the first MDB, to help rebuild Europe and Japan. In the 1980s and 1990s, there was a wave of reforms and liquidations of NDBs. Poor performance of NDBs and debt crises, which affected the solvency of governments and their ability to provide financial support to NDBs, raised questions about their role by the late twentieth century.

More recently, these institutions have been acknowledged for their resilience and the counter-cyclical financing roles they have played during major economic downturns. Countercyclical lending supported economic growth in tandem with expansionary fiscal and monetary policies. The need to mobilize private capital to fill funding gaps to meet the SDGs, the challenges of climate change, and to support economic growth and job creation amid fiscal constraints, has renewed interest in these institutions, with several new ones created during the last 15 years.

The efficacy and role of public development banks, as well as the rationale for state intervention in the economy and the use of banking institutions versus other policy tools, continue to be debated. Arguments range from the 'development view' that they are necessary to spur growth in early stages of development by financing investments in activities with high social returns that are neglected by the private sector, to the 'political and agency view' that sees them as ineffective institutions, saddled with "government failures" and focused on attaining political goals. There are also more recent calls for development banks to foster solutions to societal challenges through the creation of new markets, one notable example being the effort to address the social and environmental externalities of economic activity. The wide variation in NDB performance highlights the importance of better understanding the roles and functions assigned to them and their operational environments.

When they work well, development banks help address market failures that hinder private investment, such as incomplete information, coordination failures, or externalities. Long-term projects inherently involve more uncertainty than short-term projects, which can also discourage investment. Because of implicit or explicit support from governments, NDBs have a higher risk appetite and can provide patient capital for infrastructure projects or funding to SMEs and new ventures that would otherwise find it difficult to secure external funding.

Development banks can also support financial market diversification and financial innovation. They often act as first movers launching new products and creating new markets. For example, the first green bond was issued by a development bank. The analytical work presented in this book shows that the effectiveness of these banks lies in their ability to fill gaps in investments with high social, economic and environmental value that might otherwise be neglected by the private sector. They catalyze private sector finance and prioritize credit-constrained borrowers and projects with strong potential, while addressing negative environmental or social effects throughout the project lifecycle. Effective development banks generate "additionality", meaning that they finance projects with positive development impact that would not have been financed by the private sector alone. Their success depends on strong governance frameworks, advanced risk management strategies, effective human resource management, and robust accountability mechanisms.

Development banks are set up to meet policy objectives but must remain financially sustainable. To address externalities and finance the riskier projects unattractive to the private

sector, development banks require public support. To fulfill these mandates, NDBs often require public support, which can be provided directly or indirectly. NDBs that operate largely on commercial terms provided limited subsidized lending have greater incentives to innovate to make their products attractive and useful to credit-constrained borrowers. International development finance is an important source of funding for NDBs in lower income countries. To justify public funding, these banks must demonstrate the impact, additionality and the value-for-money of their activity.

Political influence and poor governance may prevent development banks from delivering on their developmental objectives or cause poor financial performance. Good governance balances the relationships between management, board, shareholders, and stakeholders, as described in the OECD Guidelines for the Corporate Governance of State-Owned Enterprises. The government or governments that own development banks are responsible for setting a clear mandate, appointing qualified and independent directors, and giving the institution operational autonomy. As they operate in riskier sectors and segments, sophisticated risk-management capabilities and operational independence are essential to properly price risks. Prudential regulation and independent supervision enhance risk-management practices of banks, limit political influence and support access to funding. Comprehensive monitoring and evaluation frameworks, including development impact evaluations, enable development banks to fine-tune their strategies, optimize resource allocation, and demonstrate their contributions to socio-economic development and to their policy goals.

Cooperation between development banks includes inter-bank financing, such as co-financing of projects, and non-financial cooperation, including strategic and operational coordination and sharing of expertise and experience. Country platforms bring such financial institutions together to enhance expertise, technical assistance and knowledge sharing on sustainability issues. Development banks can work together as a system to increase the volume of finance available for development, efficiently allocate funds to the sectors most in need, and transform our economies by closing the financing gap for SDGs.

Roadmap of the Reference Book

The Reference Book is organized into 5 chapters addressing definitional issues and economic literature, landscape, business models, sustainable developmental activities, and interactions with other key stakeholders. The chapters comprise 53 topic sections. Each topic section is designed to stand on its own, as an introduction to a specific policy area relevant to public development banks. Not all the topics, particularly those related to the SDGs, are relevant to all types of development banks as they have different mandates and clients. The topic sections include (in a box on the first page) a set of “key takeaways” that summarize the important issues raised.

The Chapters organize the topic sections into different thematic areas. Each Chapter begins with its own introduction and roadmap.

Each topic section is identified by its chapter number and its sequence in the chapter. For example, topic section 2.02 refers to the second topic section in Chapter 2.

Chapter 1: Key Features introduces the terminology public development banks. It presents the criteria FiCS uses to qualify what a PDB is and what it is not (1.01), presents basic statistics on these institutions around the world (1.03), surveys the literature and presents established and competing theories on their contributions to growth and development (1.02, 1.06, and 1.07), and presents a short history of development banking (1.04) including an introduction to the “development paradox” (1.05).

Chapter 2: The Universe of Public Development Banks provides a primer on the universe of development banks. It introduces different types of banks including the multilateral development banks (2.01), national development banks (2.02), and subnational development banks (2.03), their ownership structures (2.04) and the mandates that define their operations (2.05). It presents statistics on asset size (2.06). It also offers a high-level summary by region and themes (Africa 2.07, Asia 2.08, Europe 2.09, Latin America 2.10), and of Islamic PDBs (2.11).

Chapter 3: Public Development Bank Business Models discusses how they balance their developmental mandates with financial sustainability requirements (3.01). The chapter also discusses how these institutions operate (3.02), the clients and beneficiaries they serve (3.03), how they fund their operations (3.04), and how they ensure profitability (3.05). Governance (3.06), risk management (3.07), regulation and supervision (3.08), and monitoring and evaluation issues (3.09) are also reviewed in the chapter. The last section introduces the experiences of failing institutions (3.10).

Chapter 4: Aligning With the Sustainable Development Goals presents contributions of development banks to achieving the Sustainable Development Goals (SDGs). Many are placing more emphasis on environmental and social objectives, a significant shift in strategy (4.01). The chapter offers insights into their evolving missions and developmental impacts.

Chapter 5: Partnerships and Cooperation introduces the topics of competition, associations, and interlinkages among MDBs, NDBS and SDBs. The chapter discusses the opportunities and barriers to a greater cooperation (5.01), presents existing regional associations (5.02-5.04), and highlights three networks for relevance in advancing the SDGs (the network of Caisse des Dépôts in Africa) (5.05), the European Association of Development Finance Institutions (5.06) and the Exim Banks (5.07)). It also addresses the question of their capacity to mobilize private sector capital (5.08), the role of technical assistance (5.10) and current international discussions for a renewed international financial architecture (5.11).

An appendix includes a series of 14 case studies that illustrate both the diversity of experiences of large and small development banks, and how they are shaping their strategy to cope with the financing of the transition. Countries and institutions reviewed include Brazil; China; Colombia; Germany; India; France; Rwanda; South-Africa; Türkiye; and a few multilateral banks: Islamic Development Bank; West African Development Bank (BOAD) and Asian Infrastructure Investment Bank (AIIB).

KEY FEATURES

1.01 WHAT ARE PUBLIC DEVELOPMENT BANKS? 18

1.02 PDBs AT A GLANCE 20

1.03 HOW PDBs CAN HELP DELIVER A SUSTAINABLE FUTURE 22

1.04 A SHORT HISTORY OF DEVELOPMENT BANKING 24

1.05 THE DEVELOPMENT PARADOX 26

1.06 ASSET SIZE 28

1.07 COUNTER-CYCLICALITY 30

1.08 ECONOMIC THEORY AND DEVELOPMENT BANKS 32

KEY FEATURES

Chapter 1 introduces the notion of development banking, focusing primarily on National Development Banks (NDBs). It provides an overview of Multilateral Development Banks (MDBs), NDBs and their features (*section 1.01*), and it presents statistics on MDBs and NDBs around the world (*section 1.03*). Surveying the literature on development banks, it presents established and competing theories on how these institutions contribute to growth, job creation and development (*sections 1.02, 1.06, and 1.07*), and provides a short history of development banking (*section 1.04*), and an introduction to the "development paradox" (*section 1.05*).

There is no agreed definition of what a Public Development Bank is. The Reference Book refers to the criteria proposed by the Finance in Common System and uses, where relevant, the proxy terminology of a Public Development Bank: an independent legal entity with a proactive public policy-oriented mandate. Their funding must go beyond periodic budget transfers, and the government should exert a controlling interest over the policy objectives of the bank (see set of criteria in *Section 1.01*). Using these criteria, the PDB database endorsed by Finance in Common captures 47 MDBs and more than 480 national and subnational institutions, which vary in terms of ownership, mandate, geographic focus, and asset size.

Ownership structure is a significant differentiating factor. MDBs are international financial institutions created by two or more countries. However, the majority of institutions discussed in this reference book are National Development Banks or Sub-national Development Banks (SDBs) – around 90%, established by one single individual national or local government. NDBs operate in all continents, with 80% of their assets concentrated in G20 nations, albeit several of them provide international development finance. MDBs and NDBs are part of a larger ecosystem of Public Finance Institutions which also includes Non-Bank Financial Institutions (NBFI), and Commercial Banks.

NDBs were first created to support investment in Europe during the industrial revolution of the 19th century. Since the creation of the Caisse des Dépôts et Consignations in France in 1816, they have spread all over the world.

Economists have discussed the role of national development banks for many years. In general, the correction of market failures has been identified as their main raison d'être. In this respect, development banks focus on funding projects with externalities or supporting riskier projects and "innovative" ventures. Recent literature notes however that NDBs can also go beyond addressing market failures and provide "mission-oriented" funding through the incubation of new markets.

On the other hand, government failures such as political capture can counter these positive impacts. The wide variation in NDBs performance calls for a better understanding of NDBs operational environments.

1.01 WHAT ARE PUBLIC DEVELOPMENT BANKS?

DEFINITION, OBJECTIVES, AND ROLES

The terminology "Public Development Bank" (PDB) has been an object of debate among scholars and researchers, often leaving confusion regarding their difference with other financial institutions. The creation of the Finance in Common System (FiCS), in 2020, has shed light on these public financial institutions which act as a policy instrument at the hand of governments to promote sustainable development.

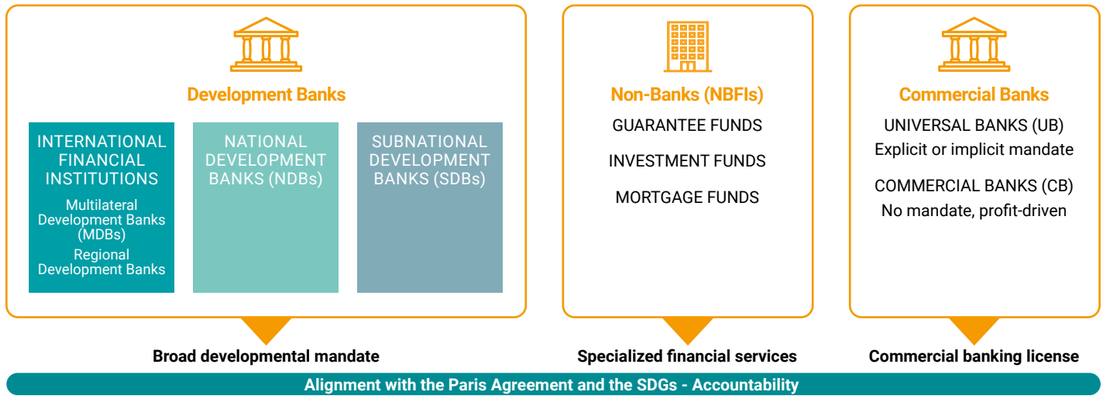
KEY TAKEAWAYS

- There is no consensus on the definition of a PDB. This book refers to PDBs as a proxy to refer to public financial institutions created by governments with an explicit official mission to fulfill policy objectives.
- The PDB Database (2024) endorsed by the FiCS has used five criteria to identify a financial institutions as a PDB: being a stand-alone entity, using fund-reflow-seeking financial instruments, having financial instruments as main product and service, exploiting funding sources that go beyond periodic budgetary transfers, having a proactive public policy mandate, and having the government steering the corporate strategy.
- There is a large diversity of development banks with a variety of ownership structures, policy mandates, geographical areas of intervention, license types, asset sizes and income levels of their owners.

PART OF THE PUBLIC FINANCE ECOSYSTEM

Public Development Banks are part of a larger ecosystem of Public Finance Institutions. This ecosystem comprises MDBs, NDBs, Subnational Development Banks (SDBs), Non-Bank Financial Institutions (NBFI), and Public Commercial Banks, each operating through different standards. These institutions display a broad variety as they are owned and operate on different geographic scales – Multinational, National and Subnational (see *section 2.01*) - and according to a wide array of dedicated mandates (see *section 2.05*). This book also presents Export Credit Agencies, Caisses des dépôts and Exim-Banks as part of this ecosystem. At the national level, public commercial banks hold commercial banking licenses; public NBFIs offer specialized financial services (e.g. credit to riskier or specialized market segments such as infrastructure, guarantees, insurance of asset management); and national and subnational PDBs have dedicated mandates for general or specific development objectives (see Figure 1).

Figure 1: Typology of Public Finance Institutions (PFI)



Source: Authors

FICS' FIVE CHARACTERISTICS DEFINING A PDB

The PDB Database (2024) endorsed by the FiCS has identified 5 criteria to distinguish PDBs from other public or private financial institutions such as aid agencies, government credit programs, or commercial banks with policy functions. An extensive research effort building upon exchanges with scholars and practitioners allowed to establish the following five criteria[1]:

1. **The entity must be independent,** with distinct legal status, dedicated personnel, separate financial statements, and a long-term mission. That sets it apart from government appropriation programs, specific ministerial agencies with credit programs, and special purpose vehicles (SPVs).

2. **The entity's primary offer should consist of fund-reflow-seeking financial instruments,** allowing to differentiate from other public entities with public policy objectives, such as central banks. Notably, most financial instruments employed, including loans, equity investments, or guarantees, should enable some form of repayment, capital dividends, or risk premium. The exclusion of pure grants from meeting this criterion is crucial, as grants lack repayment requirements and do not constitute assets. This distinction serves to further separate from agencies primarily focused on grant disbursement.

3. **The funding sources of the entity must go beyond periodic budgetary transfers.** While retaining the capacity to receive grants, the institution must demonstrate self-sufficiency, securing financing beyond intermittent government budget allocations by borrowing from capital markets or financial institutions. Mobilizing funds from market actors necessitates government support, often in the form of public guarantees. This distinguishes from aid agencies.

4. **The entity must demonstrate a proactive public policy-oriented mandate.** This criterion reveals the key identifier. The official mandate should center on the proactive implementation of the public policy that led to their establishment. Institutions are tasked with bridging financing gaps that private capital markets and commercial banks may be hesitant or unable to address. In contrast to commercial banks, they are not designed to prioritize profit maximization.

5. **The government exerts controlling influence in the strategic direction.** Governments are pivotal in guiding these entities to fulfill public policy objectives. The conventional approach involves governmental strategy steering on the board through majority shareholding. In a few cases governments are not majority shareholders (such as TSKB in Türkiye or the UK Green Development Bank). However, in these cases, the provision of guarantees and subsidies by the government for specific projects aligned with public priorities steer the strategy of the development bank.

BOX 1: TO BE OR NOT TO BE A PDB?

1. The Banco de Comercio Exterior de Colombia (Bancóldex)

… is a typical national development bank. It was established in 1991 by the Colombian government, with the mandate to support exports. Over the years, its activities have expanded and it now provides support to domestic MSMEs. Since 2023, it co-chairs the International Development Finance Club. Bancóldex is one of the case studies presented in the Appendix of this book.

2. The Sino French Midcap Fund

… consists of a trust fund jointly created by the Public Investment Bank of France and the China Development Bank. It does not qualify as a PDB because it is a Special Purpose Vehicle (SPV) that is only meant to last until its mission is accomplished. Hence it does not satisfy criteria 1 (being a stand-alone entity).

3. The Green Climate Fund

… was created by the United Nations and provides grants to SMEs as its main funding vehicle. The fund does not satisfy criteria 2 (Using fund-reflow-seeking financial instruments as main products and services) as grants lack repayment requirements. Hence, it does not qualify as a PDB.

4. The Industrial Development Bank of Türkiye

… is fully owned by shareholders from the private sector, but the government steers its corporate strategies, notably by providing funding and support, to ensure its mandate pursues public policy-oriented objectives. It qualifies as a PDB.

5. The Postal Bank of France

… is a state-owned bank, but it seeks profit maximization and performs the same operations as commercial banks. Hence, it does not qualify as a PDB.

1.02
PDBs AT A GLANCE

OVERVIEW OF A DIVERSE ECOSYSTEM

The institutions captured by the PDB Database (2024) represent a diverse range of financial institutions. While they share certain common characteristics, they differ significantly in terms of ownership structure, policy mandates, geographical scope, and asset size. These differences shape and influence their operations globally. Researchers have created various typologies to better classify this vast ecosystem of development finance institutions[1].

KEY TAKEAWAYS

- The Database (2024) definition endorsed by FiCS captures 536 institutions across 155 countries, collectively representing 10% of annual financing as a percentage of total global investment.
- They encompass a wide range of institutions, varying significantly in ownership, mandates, geographic focus, and asset size.
- NDBs operate in all continents, with 80% of assets concentrated in G20 nations.
- A significant portion of NDB assets is controlled by a few major players, notably in the U.S. and China.

TYPOLOGIES

Four primary criteria[1] (see Figure 2) are useful to establish a typology of development finance institutions.

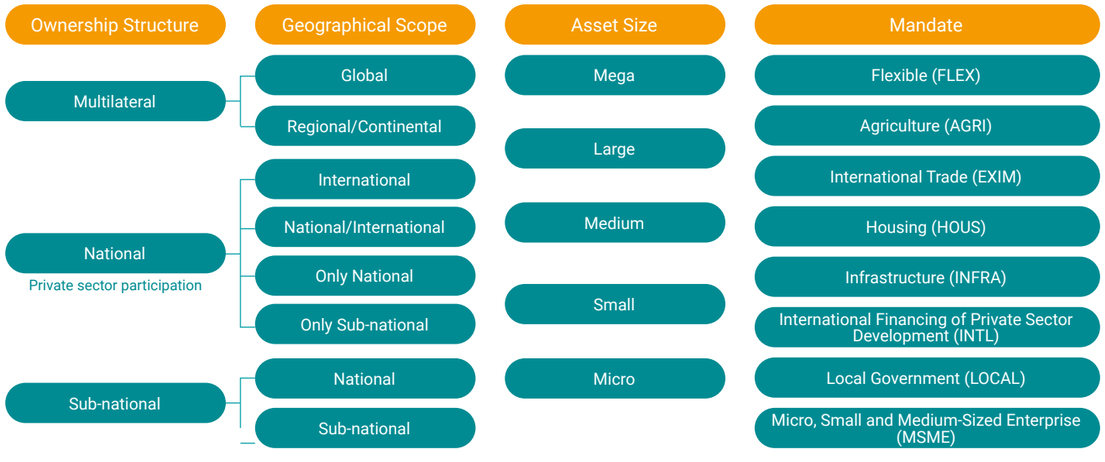
One significant differentiating factor is their ownership structure. Multilateral Development Banks (MDBs) are international financial institutions created by two or more countries. The majority institutions in the database are National Development Banks (NDBs) or Sub-national Development Banks (SDBs) – around 90%, established by one single individual national or local government.

The geographical scope of operations varies widely. While some MDBs operate on a global scale—such as the World Bank or the International Fund for Agricultural Development —many focus on specific regions or continents, depending on their mandate. NDBs have more varied operational scopes. They may operate internationally, nationally, or sub-nationally, depending on their mission or asset size. SDBs generally operate at the national or sub-national level, reflecting their specific local focus.

Asset size also provides insight into the type of NDB. Institutions are classified into five size categories (see *section 1.06*) depending on the total asset of the bank annually.

- **Mega:** Over 500 billion USD
- **Large:** Between 100 and 500 billion USD
- **Medium:** Between 20 and 100 billion USD
- **Small:** Between 500 million and 20 billion USD
- **Micro:** Less than 500 million USD

Figure 2: Typologies[2]



Finally, mandates, which define their core mission and purpose, as outlined in their founding documents and legal frameworks, are a key differentiating factor. They can be classified into eight main categories. Some institutions focus on specific sectors, such as agriculture (AGRI), international trade (EXIM), housing (HOUS), or infrastructure (INFRA). Others focus on financing private sector development, such as those with mandates for international private sector financing (INTL) or supporting small and medium-sized enterprises (MSME). Certain mandates may be limited by geographical scope, such as local government-focused institutions (LOCAL), while others are more multidisciplinary, falling under what is known as a flexible (FLEX) mandate.

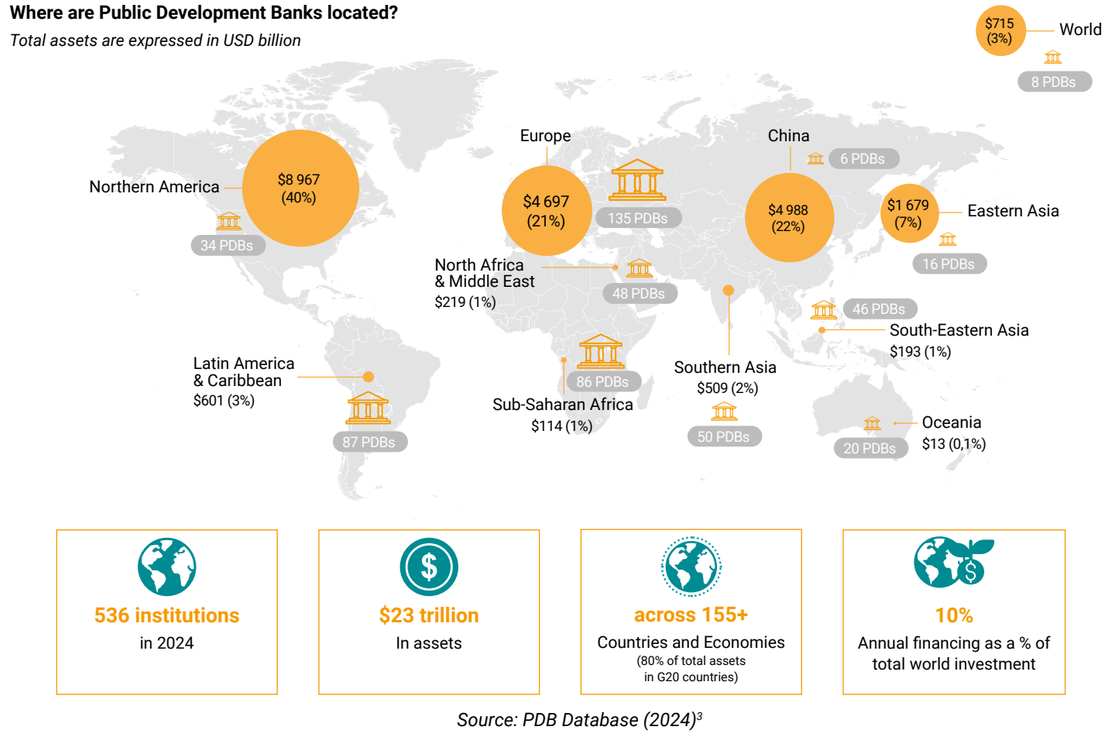
MAPPING NDBS WORLDWIDE

National Public Development Banks are present in 155 countries across all continents, though their distribution and assets vary widely by region. Roughly 80% of NDB assets are concentrated in G20 countries, where wealthier nations hold the majority of these assets[3].

Asia leads in the number of NDBs, with 151 institutions (30%) across 34 countries, holding over USD 7 trillion in assets, largely driven by 18 East Asian banks (USD 6 trillion). Europe follows with 135 NDBs and Regional Development Banks (25%) controlling nearly USD 5 trillion in assets. The Americas, despite having fewer institutions (120), account for 42% of global NDB assets, predominantly due to North America's influence. The United States alone hold USD 8 trillion of the continent's USD 9 trillion in NDB assets[3].

In terms of assets, China holds the largest institutions, while OECD countries have a relatively higher number of NDBs. On the other hand, Africa and Oceania account for the smallest portions. Figure 3 illustrates this distribution, highlighting the disparities across regions.

Figure 3. Mapping of PDB total assets worldwide in 2023



Source: PDB Database (2024)[3]

1.03
HOW PDBs CAN HELP DELIVER A SUSTAINABLE FUTURE

KEY TAKEAWAYS

- ➜ PDBs' effectiveness lies in their ability to provide financing to their clients in sectors or for categories of economic actors that generate high social, economic or environmental value.
- ➜ Effective MDBs and NDBs prioritize projects that generate positive outcomes, while assessing potential negative environmental or social impacts throughout the project life cycle.
- ➜ Efficient institutions adopt strong governance frameworks, advanced risk management strategies, effective human resource management, and robust accountability mechanisms.
- ➜ Efficiency also requires providing "additionality", meaning that they should finance projects that would not have been financed by the private sector alone.

DEFINING EFFECTIVENESS

The rationale for NDBs, is still a matter of controversy. It revolves around historical reasons, the evidence of market failures and the prevalent economic theories. Once their existence is understood in historical and economic terms, one question remains: what is an "effective development bank"? And beyond its own capacities, how should it be expected to play a "catalytic" role in moving the financial system in a more sustainable direction?

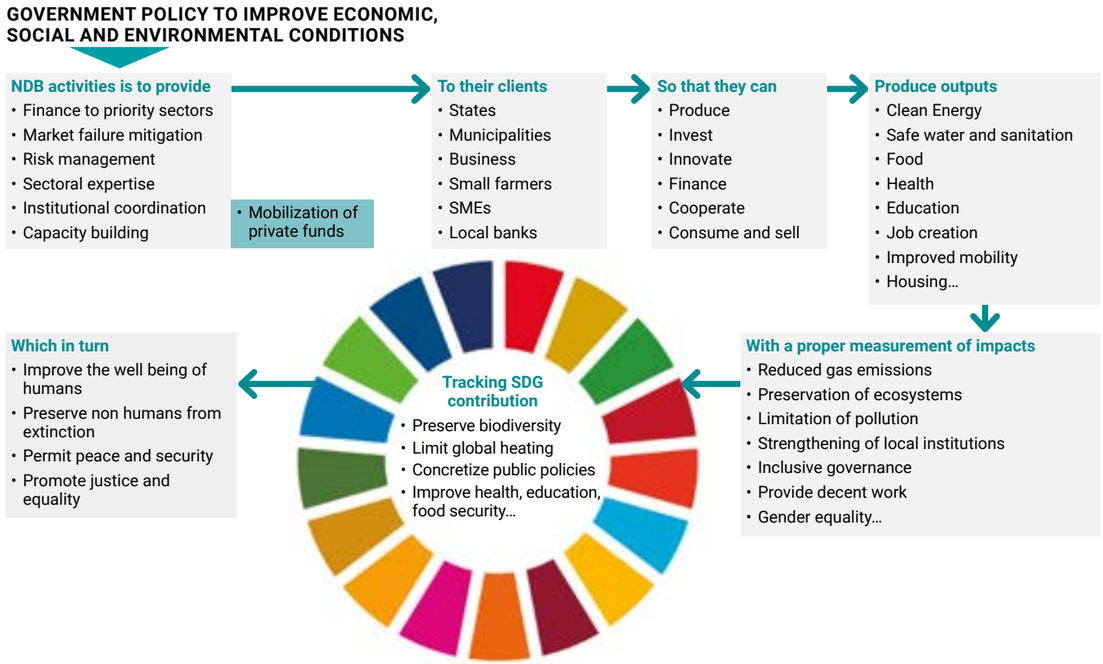
WHAT EFFECTIVENESS MEANS

Effective multinational, national, or sub-national development banks, provide financing to their customers in sectors or for categories of actors that generate high social, economic or environmental value. They enable projects that would otherwise be considered "not bankable" according to market criteria[4]. They generally provide financing through lending, with or without a subsidized interest rate. They typically exhibit a different approach of risk, balancing it with expected outcomes and lower profit margins compared to private financial institutions. Effective ones can make projects "bankable" by alleviating risks that the private sector is not willing to absorb. It is important to note that cross-border multilateral and national Development Banks, particularly multilateral ones, frequently require sovereign guarantees to mitigate loan repayment risks. In contrast, most NDBs must manage credit risk independently.

PDBs do not implement projects, they focus on financing them. Effective institutions prioritize financial support to projects that generate positive outcomes, while assessing potential negative environmental and social effects throughout the project lifecycle. These projects subsequently should have positive impacts on people, climate and nature. Through their developmental mandate, financial and technical capabilities, they can effectively mobilize resources, mitigate risks, and facilitate investment decision of their clients in projects that contribute to long-term economic growth, poverty reduction, and environmental sustainability.

This expected positive channel of transmission is presented in Figure 4. It shows how these institutions, by contributing to advancing their clients' efforts to integrate the Sustainable Development Goals (SDGs), promote improvements in human well-being—including job creation and income levels, health, education, gender equality, peace, and security—while also fostering a global positive impact through the preservation of biodiversity, the protection of natural habitats, and the reduction of greenhouse gas emissions.

Figure 4: Achieving SDGs through effective NDBs



Source: Marodon (2024, unpublished)

WHAT EFFICIENT PDBs DO

In addition to effectively fulfilling their developmental role, it is essential to ensure that NDBs operate efficiently. Achieving efficiency requires strong governance frameworks, advanced risk management strategies, effective human resource management, and robust accountability mechanisms.

They should maintain financial sustainability, as adherence to sound banking principles inherently requires it. However, some academics contend that development impact should take precedence, even if a project is not financially viable. Conversely, others caution that relying on frequent government support may weaken incentives for proper risk pricing, risk management, and financial innovation. The need for frequent capital injections to cover losses could also erode public trust in the NDBs.

Efficiency also requires providing "additionality". It means that MDBs and NDBs should concentrate on projects that would not have been funded by the private sector alone, although in practice, the border line is not easy to draw. A minimum criterion is to avoid distortions that could hinder the development of local financial markets. Such distortions may occur if activities undermine financial stability, increase fiscal debt and interest rates, or crowd-out private sector funding.

Furthermore, efficiency involves optimizing the use of available resources to maximize the number of projects financed. This objective calls for blending or leveraging these resources to mobilize private capital.

With these principles in place, governments will be able to leverage their NDBs to scale up the financing for the transition. Effective and efficient NDBs have the potential to mobilize substantial new financing for sustainability and transition projects, without compromising their government's fiscal position.

1.04 A SHORT HISTORY OF DEVELOPMENT BANKING

National Development Banks were created to support investment in Europe during the industrial revolution of the 19th century. Since the creation of the Caisse des Dépôts et Consignations in France in 1816, they have spread all around the world. Perceptions of their role have been linked to prevailing theories of government intervention in the economy.

KEY TAKEAWAYS

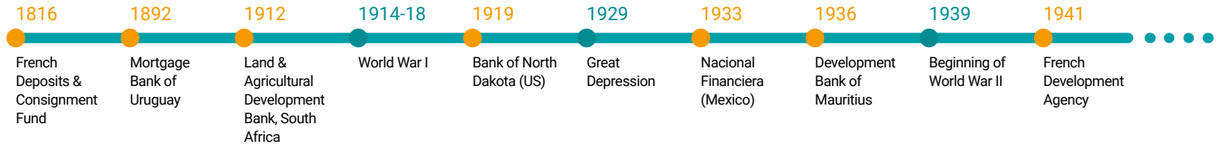
- The first development banks appeared in the 19th century to leverage funds for economic and social development.
- Development banks have faced several cycles of praise and criticism. After playing a central role in the economic recovery after World War II, their role was challenged in the 1970s as economists questioned government intervention in the economy.
- Crises reveal the role of PDBs: The financial crises of 1929 and 2008, and the Covid-19 pandemic of 2020-2021, highlighted the value of their countercyclical role and ability to withstand economic downturns.
- Their global mandate is changing today, as they are called upon to support job creation and transitions with a sustainable perspective.

1816 TO 1944: THE FIRST DEVELOPMENT BANKS

The Caisse des Dépôts et Consignations of France is the oldest public development bank still in operation. It was founded in the aftermath of the Napoleonic wars in France. From then on, the PDBs created in the 19th century, such as the Cassa Depositi e Prestiti in Italy (1850) or Kommunekredit in Denmark (1898), were mandated with territorial development, including the financing of transport and communications infrastructure.

The beginning of the 20th century and the aftermath of the Great Depression of the 1930s saw the creation of a significant number of new NDBs, when the collapse of global financial markets led governments to create public financial institutions to support economic activity. Financial market distress, and the need to provide patient funding to address longstanding gaps for example in infrastructure, required the emergence of new public development banks such as Türkiye's National Bank of Provinces (Illerbankasi) or Mexico's Nacional Financiera to support MSMEs[1].

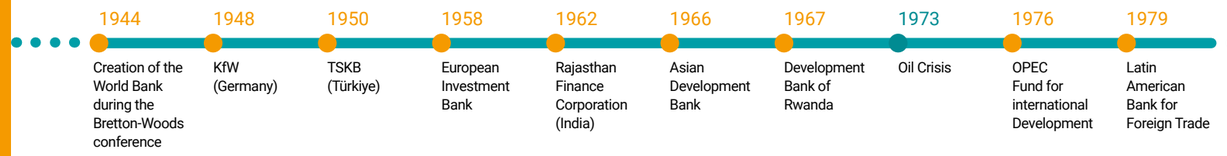
Little literature or data exist regarding financial institutions which have now disappeared, such as the Chilean National Bank (dissolved in 1925), although better understanding the causes of their disappearance could help shed light on PDBs' current challenges.



1944 TO THE 1980S: RECONSTRUCTION AND REGIONAL INTEGRATION

The need for the involvement of the public sector in the financial system was clear in the aftermath of World War II. Supported by the magnitude of investments needed for the reconstruction, governments played a crucial role in financing and regulating the economy both in the short term and long term[6]. This period witnessed the creation of multilateral and international banks with flexible mandates. The International Bank for Reconstruction and Development (IBRD, known as World Bank), created at the Bretton Woods conference in 1944, emerged as the financial pillar of a multilateral system, to assist those countries that had been ravaged by war. In the post-war years, more development banks were bolstered or created at local level to drive industrial and infrastructure investments[7].

Another wave of MDB creation occurred in the 1950s and 1960s, as governments were eager to foster regional integration. Solidarity between countries holding shares of capital in the same financial institution unlocked powerful political and financial leverage. Regional banks were created, such as the European Investment Bank (EIB – 1958), which illustrated the success of this shared vision, and was highly effective both economically and politically[6]. Other examples include the Council of Europe Bank (CEB -1956), the Central American Bank for Economic Integration (CABEI - 1963), or the West African Development Bank (BOAD - 1973). The wave of decolonization and independence movements also spurred the creation of national development banks to support infrastructure financing and economic activities in the newly created countries – in a context of strong state planning and nation-building[8].



1980S TO 2008: DECLINE AND REVIVAL

In the 1970s and 1980s, amid government debt crises and financial distress, several economists challenged government intervention in the economy. Financial sector policies, introduced in this era included the elimination of interest rate controls and the allocation of credit by the market as opposed to government decisions. Scholars argued that the context of most low-income countries was not conducive to reaping the potential benefits of development banks[6]. At the same time, many national development banks faced financial distress and were liquidated, restructured, or privatized, particularly in Latin America and Africa[9]. Efforts were also made to enhance the governance and transparency of NDBs. Following the collapse of the Soviet Union in the early 1990s, newly independent Eastern European countries established NDBs to channel international financial support and generate confidence and accountability to international investors[6].

The 2008 Global Financial Crisis (GFC) exposed weaknesses in the financial system and triggered an institutional renaissance. Multilateral and National Development Banks have played an important countercyclical role globally in the aftermath of the 2008 financial crisis. For example, PDBs were for example meaningful actors in the implementation of the European Junker plan[10]. The EU published guidelines for member states to create their own NDB[11]. 20% of existing NDBs were created in the aftermath of the GFC[2].

SDG FINANCING IN THE 'AGE OF CONSEQUENCES'

As the world is confronted with global social, ecological and climate challenges, PDBs have endorsed a new role. After the adoption of the Sustainable Development Goals (SDGs) by the United Nations in 2015, MDBs and NDBs have emerged as crucial players in financing sustainable development initiatives. With the Monterrey Conference (2002) and the Addis Ababa Action Agenda (2015), the UN recognized the role of these institutions in channeling funding to sectors in need of investment, in compliance with environmental and social requirements to preserve long-term sustainability.

Recent years witnessed the creation of new MDBs and NDBs and enlarged partnerships. The creation of the BRICS' New Development Bank in 2014 and the Asian Infrastructure Investment Bank in 2016 are part of an increasing responsibility taken by large emerging countries in the international financial architecture[12]. Cooperation is also increasing through co-financing platforms, knowledge sharing and joint advocacy to mobilize the resources and expertise needed to achieve the SDGs[13].

1.05 THE DEVELOPMENT PARADOX

WHY DO NDBs CONTINUE TO EXIST?

Economic theory posits that there would be no use for public financial institutions if financial markets were complete and efficient. In this regard, NDBs should disappear as financial markets develop. However, NDBs remain active, if not prominent, in many advanced economies as they continue to yield positive returns for society. How to explain this paradox?

KEY TAKEAWAYS

- A central hypothesis of mainstream economic theory is that NDBs should be beneficial in the early stages of economic development, but that their marginal benefits diminish as local financial systems develop.
- Lifecycle theories, which state that NDBs should disappear as economies develop, are not supported by empirical evidence.
- Development banks persist globally, as they support investments and growth, tackle market failures and reinforce economies' resilience to crises.

THE LIFECYCLE HYPOTHESIS: THE NEED FOR NDBs IN DEFICIENT MARKETS

A central hypothesis of economic theory is that NDBs should be beneficial in the early stages of economic development, but that their marginal benefits diminish as local financial systems develop. At the onset of the development process, financial markets can often be described as "shallow and incomplete", with institutional voids and high levels of financial instability.

In this context, development banks provide long-term investments and finance in areas where private banks are reluctant to operate. In the aftermath of World War II, for example, both industrialized and developing countries sought to address their long-term financing requirements with the establishment of development banks, acknowledging that these institutions could address their market failures. Their creation has brought various benefits, including the financing of low-income farmers, small and medium enterprises, and exporters of domestic production.

As financial markets and economies develop and gain maturity, NDBs reinvented their business models, adding new financial products (guarantees, mezzanine structures, climate funds, ...) or non-financial services (technical assistance, policy loans,..) to their traditional long-term credit activity.

A key question remains on whether NDBs address market failures or whether they themselves contribute to market inefficiencies as financial markets develop. Assuming that the private sector is able to provide financial services efficiently, NDBs' size and indirect actions might create market distortions e.g. by supporting inefficient firms, crowding out other investors or preventing private actors from offering "competitive" rates. As markets reach full maturity, the economic theory based on a "life cycle" would predict that development banks should become useless and gradually disappear.

Wartime, as a peculiarly disruptive economic and social event, provides a vivid example of the lifecycle hypothesis. The War Finance Corporation (WFC) emerged in 1918 and was the first PDB created in the United States[14]. Established by the federal government, its primary objective was to offer financial backing to industries associated with wartime efforts. This also included providing capital to commercial banks supporting such industries.

After the war, the scope of its operations expanded to actions facilitating the transition to peacetime conditions. In 1919, the WFC undertook the financing of the transportation sector (notably railroads), the supply of loans to American exporters, and the provision of credit to agricultural ventures. It was dissolved in 1925; recreated in 1932 as the Reconstruction Finance Corporation due to the Great Depression and liquidated once again in 1956.

THE PERSISTENCE OF NDBs IN MATURE MARKETS

The lifecycle hypothesis is contradicted by the persistence of NDBs, their size, and even their recent proliferation in response to new challenges in mature markets. Private capital markets and financial institutions have reached unprecedented levels of sophistication in many markets globally. Virtual financial institutions are now emerging with a wide range of services, including access to credit[11], cash management, insurance purchases, and assets oversight.

Despite this evolution of the financial landscape, development banks remain significant actors in both developed economies and emerging markets. On average, NDB assets represent 6.5% of GDP in high-income countries, slightly lower than in middle-income countries (7.5%), and significantly higher than in low-income economies (2.9%)[3]. In 2023, the total assets of G20 national development banks represented 24% of GDP of these G20 countries. Multilateral banks controlled by the same G20 countries accounted only for 2% of their GDP[3].

Surprisingly, more NDBs have been created in high income countries since 2009 than in any other income group. 8 NDBs have been established in both low-income and upper-middle income countries, 14 in lower-middle income countries, and 19 in high-income countries[3]. As an example, Bpifrance, established in 2013[15], was built upon the legacy of various public institutions involved in small business financing in France. Today, it provides comprehensive financing solutions from business inception to merger or transmission stages including equity, guarantee, and loan products.

The EU issued guidelines for member countries to set up new NDBs in case they had not done so yet in 2015[11].The British Business Bank (BBB), an NDB serving SMEs through the provision of equity, partial credit guarantees, and on-lending facilities was created in 2014. Following Brexit, the UK lost access to funds from the European Investment Bank which prompted the creation of three new NDBs in the UK; the Development Bank of Wales (Banc) in 2017, the Scottish National Investment Bank (SNIB) in 2020, and the UK Infrastructure Bank (UKIB) in 2021.

In recent years, several governments have established public green investment banks (GIBs) and GIB-like entities. Their mandates aim to meet ambitious emission targets, reduce energy costs, promote markets for green technologies, reduce the cost of capital, mobilize private capital, support local community development, and create employment opportunities. For example, the USA are structuring a network of green banks at the state and county level (e.g., California, Connecticut, Hawaii, New Jersey, New York,...).

The persistence of NDBs in mature markets can be explained by three main factors. First, in economies with strong and efficient institutions, governments cherish their development banks, as they serve public policies that go beyond supporting investment and growth[5].

Market failures still abound in developed markets and NDB objectives go beyond growth as they strive for positive environmental and social impacts. Contemporary examples are mentioned above for the UK or France with the creation of BBB[16] or BPI to compensate the poor appetite of private banks in the financing of SMEs.

Second, NDBs can support public and private investments with limited impact on governments' fiscal space when operating efficiently. For example, European development banks were meaningful actors in the implementation of the European Junker Plan amid fiscal constraints in many European countries[11].

Finally, NDBs constitute a powerful instrument in times of crises to sustain economic activity. It seems probable that the frequency, diversity and intensity of crises will increase, potentially leading to a polycrisis context. This reinforces the argument for the continued relevance of NDBs in developed economies.

1.06
ASSET SIZE

KEY TAKEAWAYS

- Most assets are concentrated within a few mega banks, while the vast majority of NDBs are micro and small organizations.
- Small NDBs might still represent an important financing vehicle relative to the size of their economies.
- There is an active debate on the need to increase the size of NDBs and a broad agreement in the G20 on the need for expanding MDB financing.

Overall, MDBs, NDBs and SDBs as captured by the PDB database (2024) hold nearly USD 23 trillion in assets, of which 10% is held by MDBs. If we relate their annual commitments to gross fixed capital formation worldwide, all these institutions taken together would be responsible for about 10% of global annual investments[2]. Yet, they exhibit a broad variety of asset size both in absolute terms and relative to the size of the economies in which they intervene. There is an active debate on optimal size of the balance sheet of NDBs and broad agreement in the G20 on the need to expanding the financing provided by MDBs.

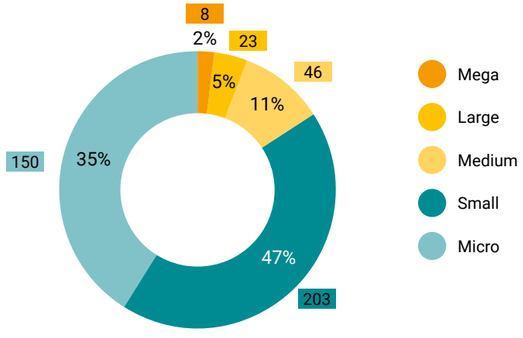
A DIVERSE BUT CONCENTRATED SYSTEM

Figure 5: Size categories, in USD

Source: Xu, Marodon et al. (2021)[2]

Evidently, the majority of NDBs are micro and small institutions; however, the majority of assets remain concentrated in ten mega-banks[2]. In 2023, total assets of NDB institutions in the PDB database (2024) exceeded USD 15.6 trillion (or USD 22.7 trillion if mega banks are included)[2]. By comparison, the world's 100 largest commercial banks held USD 113 trillion in assets in the same year[5]. A significant concentration of assets is held by a small number of PDBs, as 7% of PDBs (mega and large banks) account for 82% of total assets, and 2% of PDBs (mega banks) own 56% of total assets[1]. MDBs account for 10% of consolidated total assets of institutions in the database[1]. This reflects global wealth disparities, as mega and large NDBs are predominantly owned by G20 countries (80%). There are no medium or large NDBs in low-income countries.

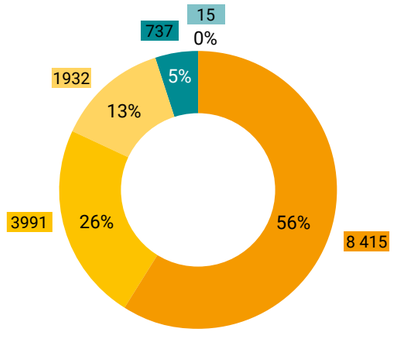
Figure 6: Distribution of the number of PDBs per size



Source: PDB Database (2024)[3]

There are 104 institutions for which asset data are not available and Fannie Mae and Freddie Mac are not accounted for (see Section 1.01). Hence, the sum of institutions in Figure 6 is equal to 536 -106 = 430

Figure 7: Share of total assets per size, in USD billion

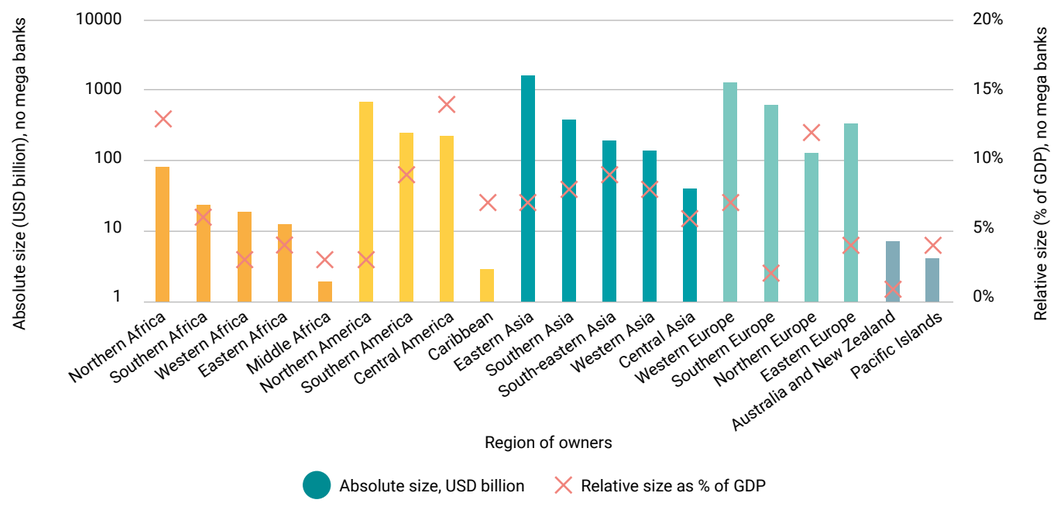


Source: PDB Database (2024)[3]

RELATIVE ASSET SIZE BY REGIONS

Even if most NDBs may seem relatively small as measured by their asset size, they may carry substantial financial weight in their respective regions of operation. For instance, the total assets of the Tonga Development Bank were "only" USD 106 million in 2021, qualifying it as a micro NDB. However, its asset size amounts to 23% of Tonga's GDP (USD 469 million in 2021)[1]. By comparison, the China Development Bank (CDB), which qualifies as a mega bank with USD 2,701 billion in assets, represents approximately 15% of China's GDP[1].

Figure 8: Comparison between the absolute size and relative weight of NDBs, mega banks excluded



Source: PDB Database (2024)[3]

Some smaller NDBs can represent an important source of financing in their sectors of intervention. For instance, the Vietnam Bank for Social Policies is responsible for 60% of Vietnam's micro-loan distribution. Similarly, FIRA, the Trust Fund for agriculture in Mexico, accounts for 67% of the agricultural sector's total lending, with loans distributed via private commercial banks to the final borrowers[17].

When assessing NDBs by asset size, it is important to take their geographic scope of operation or specific mandate into consideration. NDBs are a relevant vehicle to intermediate international financing in their domestic economy. Relative size compared to specific economic sectors or segments is an indicator of PDBs' absorption capacity.

ARE PDBs TOO SMALL?

There is an active debate on the need for increasing NDB capital to expand their operations. Broad agreement exists on the need for additional financing through MDBs. The debate on international development financing resolves around two different perspectives. Some argue that substantial increases in capital investment are needed for achieving sustainable development in low-income countries[18]. They assert that large-scale financial injections can spur economic growth, infrastructure development, and poverty reduction by overcoming critical investment gaps. Conversely, critics argue that there is no strong evidence demonstrating positive impact of state-owned banks and PDBs, and that the issue does not lie in the quantity of available capital but in its allocation[18]. The G20 has recognized the need for MDBs to expand their financing capacity to address global challenges and development needs by optimizing the use of their existing capital. The G20 notes that the Boards of the MDBs are best placed to decide if additional capital is needed. The World Bank Group, during 2024 Annual Meetings, announced a package of financial measures that will boost lending capacity by 150 billion USD in the next decade.

1.07
COUNTER-CYCLICALITY

NAVIGATING CRISES

Counter-cyclical policies are central to the Keynesian economic theory, which argues for government interventions to mitigate market fluctuations[19]. Private banks' and investors' risk appetite decreases in times of economic downturn, which further accentuates credit contraction. In this context, MDBs and NDBs contribute as stabilizers complementing expansionary monetary and fiscal policies, by injecting funds, offering flexible loan terms, and providing support for sectors in need.

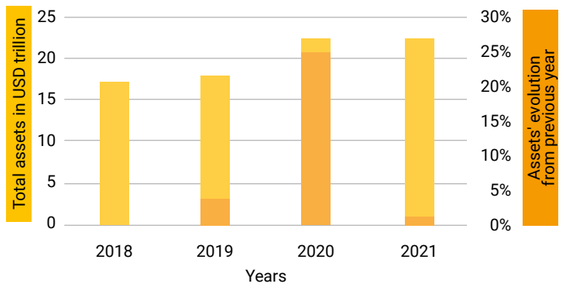
KEY TAKEAWAYS

- ➜ As illustrated during the Covid-19 pandemic, MDBs and NDBs play a crucial role in times of crises as economic stabilizers in various regions, through a variety of relief measures and funding sources.
- ➜ One of the primary limitations to the counter-cyclical effectiveness of NDBs is the pace at which they can deploy their financing.
- ➜ To strengthen their counter-cyclical impact, NDBs should maintain sufficient capital during "regular" times to allow for an immediate response to crises.
- ➜ Besides speed and scale, MDBs and NDBs must target their counter-cyclical operations efficiently.

CURBING THE COVID-19 CRISIS

During and after the Covid-19 outbreak, NDBs were used as a primary instrument for many governments to offer relief and drive economic recovery. This is illustrated by the significant 25% increase in their total assets from 2019 and 2020 (see Figure 9). As such, they demonstrated their important role as economic stabilizers. In Latin America and the Caribbean, as the GDP shrank by 7% and investments plummeted by 20% in 2020, PDBs channeled loans amounting to USD 90 billion to counter serious economic setbacks[20]. Similarly, in Europe, shortly after the outbreak of Covid-19, the EIB provided a EUR 200 billion pan-European guarantee scheme[21]. In 2020 alone, the collective support of Korean PDBs amounted to 3 percent of GDP[16].

Figure 9: NDB assets' evolution around COVID



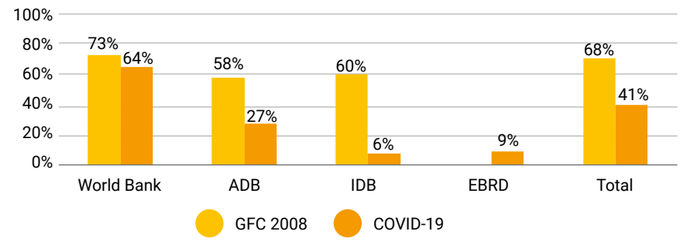
Source: PDB Database (2024)[3]

With paralyzed businesses worldwide, and skyrocketing unemployment rates, NDBs implemented a variety of relief measures to support firms and help stabilize financial markets. The strategies implemented were tailored to the specific needs of sectors and businesses, including: (i) loans (some of which were interest-free or offered on favorable terms) to address urgent liquidity demands[23], (ii) credit guarantees that improved financing conditions by reducing costs, extending maturity periods, and increasing guarantee ratios, and (iii) equity investments in companies[24]. NDBs also supported financial markets by (i) providing liquidity to other credit institutions experiencing problems with customer repayments, (ii) stepping up purchases of bonds to support market stabilization, and (iii) providing guarantees on securities issued by firms. In addition to financial support, many NDBs also provided advisory services to their borrowers. The Business Development Bank of Canada, for example, provided remote access to experts that advised borrowers on online sales optimization or workplace health risk mitigation measures[20]. MDBs such as the World Bank and the Asian Development Bank (ADB) entered partnerships allowing for the pooling of financial resources and expertise, increasing the impact of their response to the pandemic[24].

NDBs used a variety of funding sources to support their countercyclical activities. In most cases, the risk was assumed by the government directly so NDBs did not need additional capital. The China Development Bank issued pandemic bonds that were purchased by domestic banks and retail investors. National PDBs in Türkiye and India accessed central bank facilities. In addition, Turkish NDBs received loans from multilateral development banks[10]. While NDBs focused on supporting the private sector, MDBs provided resources to governments to fund public sector deficits and expenditures in key sectors such as social protection, health and education.

However, despite a significant increase in lending to governments in 2020 (amounting to USD 145 billion), the increase in lending from MDBs was less pronounced than for the 2008 global financial crisis. Resource constraints[27] to respond on the required scale prompted calls for additional capital injections in MDBs, which played a central role in averting further economic downturn.

Figure 10: Percent change in MDB commitments, by crisis period



Source: OECD-DAC Creditor Reporting System (CRS)

IMPROVING THE COUNTER-CYCLICAL CAPACITY

There remains a need for NDBs to enhance their counter-cyclical capabilities and prepare for future crises, ensuring they have adequate financial and operational resources[24]. One of the primary limitations to their counter-cyclical effectiveness of PDBs is the pace at which they can deploy their financing. Bottlenecks may restrict their ability to scale up lending in a counter-cyclical manner. Digitalizing NDB operations can significantly improve the speed and scale of their responses.

To strengthen their counter-cyclical impact, NDBs should maintain sufficient capital during "regular" times to allow for an immediate response to crises[24]. Maintaining sufficient capital during regular times involves careful capital management, including downsizing operations as the economy recovers. However, the Global 2017 World Bank survey finds that most NDBs continued expanding their operations in the aftermath of the global financial crisis.

Having crisis response programs administered by NDBs outside their balance sheet increases transparency of the performance of support programs, protects the financial performance of the NDB and eliminates the need to expand and contract the balance sheet of the institution. This, however, requires fiscal resources to implement the countercyclical programs which is not feasible in all circumstances[1,29].

NDBs in lower-income countries do not always have the capacity to react in such an intensive way. Research highlights the significance of strong guarantee mechanisms to reduce risks linked to lending, the importance of the support of regional development banks, as well as the need for international aid for poorer countries. As seen during the Covid-19 crisis, strong interactions between multilateral and national development banks are also important, to increase their joint impacts.

Besides speed and scale, development finance institutions must target their counter-cyclical operations efficiently. By increasing their lending volumes and assuming more risks, MDBs and especially NDBs, can be exposed to higher levels of non-performing assets and experience financial losses. In the case of Covid-19, most NDBs limited support to firms that were profitable and/or did not have past due loans before the crisis.

However, it is challenging to distinguish firms affected by a given crisis and firms who would have experienced difficulties in any case. Empirical evidence indicates that NDBs' counter-cyclical response in Western Africa did not affect their profitability in the aftermath of the Covid-19 crisis[30].

1.08 ECONOMIC THEORY AND DEVELOPMENT BANKS

MARKET FAILURES AND BEYOND

The past decades have witnessed intense academic debates on the benefits and drawbacks of state-owned financial institutions. Recent literature on development banks has increasingly focused on their ability to correct market failures. More research is needed to understand their role in countries' policy mix, their interactions with other economic actors, and the impact of their operations on financial and economic development.

KEY TAKEAWAYS

- Economists have been debating for decades on the role of state-owned banks, including NDBs. Renewed interest is reigniting the debate.
- The correction of market failures has been identified as a main role for NDBs – by providing countercyclical lending, funding projects with social externalities, or supporting riskier projects and "innovative" ventures. Others, however, point to government failures such as political capture, that counter positive effects.
- Wide heterogeneity of performance underlines the importance of understanding PDB operational environments.
- Recent literature underlines their role beyond "market fixing": they can provide "mission-oriented" funding through the incubation of new markets.
- Empirical evidence is needed as most studies focus on public commercial banks.

IS GOVERNMENT OWNERSHIP THE KEY FACTOR?

Since the 1960s, there have been intense academic debates regarding State ownership of banks, questioning their role in the economy and their efficiency in achieving policy mandates.

According to the "developmental view", state-owned financial institutions are necessary to spur growth and capital accumulation in early stages of development. This theory was endorsed by development economists in the 20th century who advocated for government ownership in strategic sectors of the economy such as industries and transport[31].

The "market failure view" argues that financial markets face problems arising from a variety of market imperfections. Market failures arise from asymmetry of information, externalities and coordination failures among others that hamper access to finance or result in suboptimal levels of investment in socially desirable projects. Public development banks can offer a solution[32].

Proponents of the "political view" argue that political failures can dominate over market failures. Self-interested politicians tend to use their influence over state-owned banks to finance projects that yield the highest returns in terms of electoral voting shares, or political support[33,34]. This results in inefficient allocation of resources, and operational losses. Several papers find credit allocation by state owned banks to be influenced by election cycles or directed to political allies[35].

The "agency view" argues that inefficiencies in public institutions may more than offset the social gains of public participation. National state-owned enterprises tend to have more employees and be less sophisticated in risk management and the use of technology. Several papers discussed the different views on public sector banks and found that public banks had worse operational efficiency indicators and/or higher non-performing loans (NPLs) than private banks, especially in developing countries[36].

A new "dynamic theory of NDBs" looks at the institutional functions and the forces that shape them to explain evolution and performance[37]. The dynamic approach doest not focus on wether public banks are inherently better or worse than private banks. Instead, it assesses practical questions of how, why, and for whom development banks function in time- and place-bound contexts. The dynamic view includes historical social forces and power relations in its analysis. By doing so, the dynamic theory can explain heterogeneity and change over time.

Studies agnostic on the effect of ownership on performance focus on distilling common features of effective development banks. Good corporate governance and professional management are a common feature of well performing NDBs[16]. Focusing on crowding in private capital for developmental priorities, sophisticated risk management capabilities, and alignment of incentives through the institution underpin effectiveness. Suitable remuneration policies, prudential supervision, and monitoring and evaluation frameworks would support this alignment of incentives.

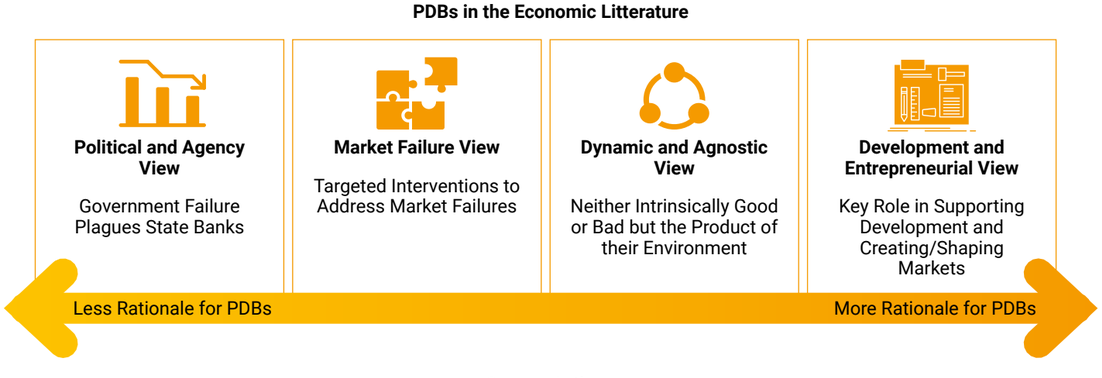
A growing concern in the literature is development banks' role in supporting fiscal and monetary policies to support market stability and growth. Development banks' interventions can affect real interest rates and productivity growth. Large amount of subsidized lending can lead to credit market segmentation and undermine monetary policy transmission. As a result, central banks may be forced to raise interest rates more than needed to curb inflation[38]. The results underline the importance of limiting subsidized lending to avoid market distortions. To fully understand their development potential in the economy, research needs to consider development banks' activities in relation to all fiscal, monetary and industrial policies and take into account their interactions with all public and private economic players.

EMPIRICAL EVIDENCE

Older empirical evidence based on cross-country studies mostly found that public sector banks underperform compared to private banks in developing economies; more recent evidence paints a mixed picture. State ownership of banks appeared harmful in countries with low financial development and low institutional quality, which tended to be the case in low-income economies[34]. The negative impact of public ownership on economic growth fades as the financial and political systems develop – in part, because public banks are increasingly forced to match the market's best practices, due to competition or tightened regulatory constraints. In the case of European developing economies and former Soviet republics, a 5 percentage point increase in state banks' share of branches in a particular region is associated with a 10.5 per cent decline in that region's aggregate productivity[39]. In highly developed countries, some research found positive effects of public banks on growth[40]. A recent study with wider geographical coverage finds no evidence of a negative or positive correlation between state ownership of banks and economic growth, including in low-income economies, albeit there is substantial regional variation in the outcomes[41]. The same study finds that prior to the global financial crises, public commercial banks had lower profitability than private banks but no substantial differences afterwards. Previous studies found public banks to underperform private banks in terms of profitability, asset quality and efficiency in developing countries[42]. Substantial variation exists in the performance of public banks across countries within regions[43]. The cross-country empirical literature does not support the view that public banks negatively affect banking sector competition or result in banking crises when taking into account countries' regulatory and supervisory practices[43].

More empirical analyzes are necessary to explore the contributions of development banks to sustainable development and identify factors that are associated with better developmental outcomes. To date, most papers focus on public commercial banks and financial performance or effects of financial development on economic growth[44]. Studies of individual NDBs show wide variation in PDB performance with both successful and failure cases. More cross-country empirical research is needed to settle the discussion on the overall effect of NDBs on growth and development and the factors explaining differences in performance.

Figure 11: A simplified representation of NDBs' analysis in the economic literature



Source: Authors

KEY ACTORS FOR DEVELOPMENT

The literature identifies several channels through which development banks can "fix markets" which include providing countercyclical credit, accounting for externalities, and investing in long term projects and relatively risky ventures[32]. First, they can supply credit and market liquidity in times of recession or crisis (counter-cyclicality), which would otherwise be in shortage due to the pro-cyclical risk-aversion of private financial institutions and liquidity preference (see *section 1.07*). Thus, development banks' financing provides short-term stimulus to maintain economic activity supporting fiscal and monetary policies. They can channel funds towards projects with large positive externalities (like green energy or regional development projects) which may not have been sufficiently funded by private banks which focus on profit as opposed to developmental outcomes. They have higher risk appetite and can provide patient capital for infrastructure projects or funding to SMEs and new ventures that would otherwise face difficulties to secure external funding due to a lack of collaterals or of a track-record of profitable projects. They can also support regional development projects or big push initiatives and take a leadership and coordination role among financing institutions.

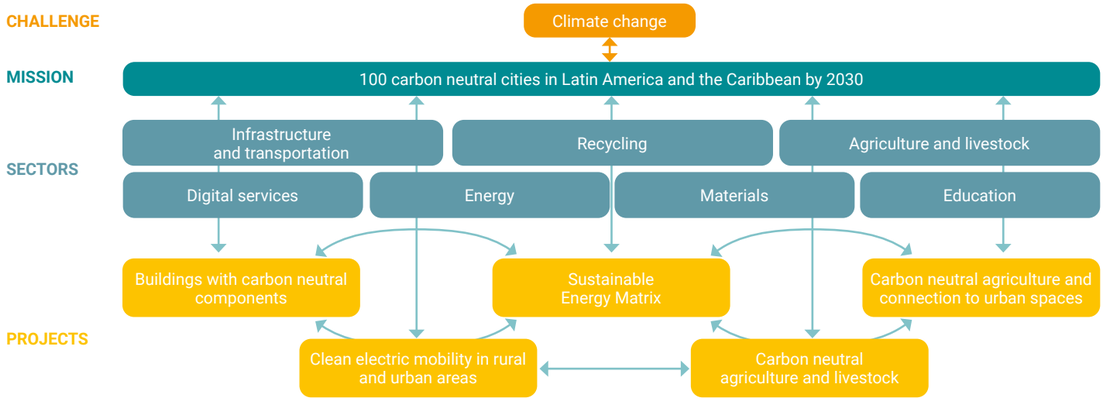
Development banks can also create markets by solving coordination failures. They can occur through demonstration effects or through the creation of financial infrastructure (e.g. standardization of contracts, financial platforms etc.)[46].

Recent literature emphasizes their beyond addressing market failures. While market failures provides a rationale for a wide range of interventions, it does not account for the broad range of activities they perform or the issues they address[47]. For example, they do not only provide funding to riskier SMEs and new ventures. But through accumulated knowledge they can identify and support SMEs with high growth potential (i.e. "gazelles") fostering entrepreneurship and innovation. They do not only fund projects with developmental impacts. They can also support policy formulation, develop social capabilities and coordinate activities of different actors.

"Mission oriented" banks are being proposed to address key developmental challenges by adopting a proactive approach[48] **by some stakeholders.** Under this approach, they would finance innovation and incubate new markets through a mission-based approach as oppose to a passive reaction to market failures.

Under these proposals, adopting a mission-oriented approach would begin with the identification of a specific challenge and its transformation into a clear, actionable mission. This mission is articulated through a visionary statement coupled with a defined time horizon. Once the mission is articulated, all relevant sectors involved in this endeavor should be identified. Mission-oriented banks would foster bottom-up innovation across diverse sectors. Finally, a project portfolio would be identified to achieve the set objectives is defined and strong monitoring and evaluation framework would be put in place.

Figure 12: Example of a mission-oriented approach in Latin America and the Caribbean



Source: Mazzucato (2023)[49]

BIBLIOGRAPHY

1. Xu J, Marodon R, Ru X. *Mapping 500+ Development Banks.* Agence française de développement; 2020. Accessed October 21, 2022. https://ideas.repec.org/p/avg/wpaper/en11748.html

2. Xu J, Marodon R, Ru X, Ren X, Wu X. What are public development banks and development financing institutions ? ——qualification criteria, stylized facts and development trends. *China Economic Quarterly International.* 2021;1(4):271-294. doi:10.1016/j.ceqi.2021.10.001

3. Agence Française de Développement (AFD), Institute of New Structural Economics at Peking University (INSE), Fondation pour les Etudes et Recherches en Développement International (FERDI). Public Development Banks and Development Financing Institutions Database. PKU AFD. 2024. http://www.dfidatabase.pku.edu.cn/

4. UNDP, Finance in Common. *The Role of Public Development Banks in Scaling up Sustainable Finance*.; 2022. Accessed October 21, 2022. https://www.undp.org/publications/role-public-development-banks-scaling-sustainable-finance

5. Gourvish T. The Channel Tunnel: A case study of financing and governance after 25 and 125 years. *rhcf.* 2019;(52):23-33. doi:10.4000/rhcf.2440

6. Marodon R. Can Development Banks Step Up to the Challenge of Sustainable Development? *Review of Political Economy. 2022*;34(2):268-285. doi:10.1080/09538259.2021.1977542

7. Diamond W. *Development Banks.* Economic Development Institute, International Bank for Reconstruction and Development; 1957. https://books.google.mg/books?id=n6ezwQEACAAJ

8. Cherif Y. 75 ans au service du développement. L'Agence Française de Développement, des origines à nos jours. *Revue internationale des études du développement.* 2020;N°241(1):221. doi:10.3917/ried.241.0221

9. Naqvi N. Economic crisis, global financial cycles and state control of finance: public development banking in Brazil and South Africa. *European Journal of International Relations.* 2023;29(2):283-318. doi:10.1177/13540661221114370

10. Gutierrez E, Kliatskova T. *National Development Financial Institutions: Trends, Crisis Response Activities, and Lessons Learned.* World Bank; 2021. Accessed October 21, 2022. https://openknowledge.worldbank.org/handle/10986/36467

11. European Commission. Working together for jobs and growth: The role of National Promotional Banks (NPBs) in supporting the Investment Plan for Europe. Published online 2015. Accessed April 25, 2024. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52015DC0361

12. Barrowclough D. SOUTH-SOUTH PUBLIC FINANCE: A RAPID REVIEW OF COOPERATION AND RESILIENCE TO FACE COVID-19. In: *Public Banks and Covid-19: Combatting the Pandemic with Public Finance.* ; 2021.

13. Ocampo JA, Ortega Pastor A, AFD. *The Global Development Banks' Architecture*.; 2020.

14. Torres E, Zeidan R. The life-cycle of national development banks: The experience of Brazil's BNDES. T*he Quarterly Review of Economics and Finance.* Published online November 1, 2016. doi:10.1016/j.qref.2016.07.006

15. Hayez S, Savel F. Bpifrance : entreprises et territoires. 2018;(132):p.179-189.

16. Gutierrez E, Kliatskova T. *National Development Financial Institutions: Trends, Crisis Response Activities, and Lessons Learned.* World Bank; 2021. Accessed October 21, 2022. https://openknowledge.worldbank.org/handle/10986/36467

17. World Bank, World Federation of Development Financing Institutions. *2017 Survey of National Development Banks.* World Bank; 2018. doi:10.1596/29815

18. Attridge S, Velde DW te. I*mpact of Development Finance Institutions on Sustainable Development. ODI; 2019*. Accessed October 21, 2022. https://odi.org/en/publications/impact-of-development-finance-institutions-on-sustainable-development/

19. Keynes J. The General Theory of Employment, Interest, and Money. Published online 1936.

20. FiCS Progress Report 2022. *Finance in Common.* Published online 2022. https://financeincommon.org/sites/default/files/2022-10/Finance%20in%20Common%20Progress%20Report%202022.pdf

21. Mertens D, Rubio E, Thiemann M. COVID-19 and the Mobilisation of Public Development Banks in the EU. Published online April 2020. Accessed October 26, 2022. https://hal-sciencespo.archives-ouvertes.fr/hal-02586063

22. Trusted statistics supporting evidence-based policy. OECD. https://www.oecd.org/coronavirus/en/data-insights/bankruptcy-rates-fall-during-covid-19

23. Hu B, Schclarek A, Xu J, Yan J. Long-term finance provision: National development banks vs commercial banks. *World Development.* 2022;158:105973. doi:10.1016/j.worlddev.2022.105973

24. Griffith-Jones S, Barrowclough D. Countercyclical Responses: How Development Banks helped the Covid-19 Recovery, and Lessons for the Future. Published online July 2023.

25. Small Business Administration. *AGENCY FINANCIAL REPORT FISCAL YEAR 2021*. https://www.sba.gov/sites/default/files/2021-12/SBA_FY2021_AFR-508.pdf

26. Small Business Administration. *Agency Financial Report Fiscal Year 2020.* https://www.sba.gov/sites/default/files/2021-01/FY20_SBA_AFR-508%20%281.11.21%29.pdf

27. Lee N, Aboneaaj R. MDBs to the Rescue? The Evidence on COVID-19 Response. *Center for Global Development | Ideas to Action.* Published online May 2021. Accessed October 24, 2022. https://www.cgdev.org/publication/mdbs-rescue-evidence-covid-19-response

28. Ning S, Ying W, Wenzhe C. Many hands make light work: Evidence from China's anti-epidemic bonds. *Economic Letters.* 2022;214(110426). https://openknowledge.worldbank.org/handle/10986/36467

29. Gutierrez E, Rudolph H, Homa T, Beneit E. Development Banks: Role and Mechanisms to Increase Their Efficiency. Published online July 1, 2011.

30. Léon F. Public bank lending in Africa in times of crisis. *Agence française de développement.* Published online September 1, 2022. https://www.afd.fr/en/ressources/public-bank-lending-africa-times-crisis

31. Lewis A. *The Principles of Economic Planning.* G. Allen & Unwin; 1955.

32. Levy Yeyati E, Micco A, Panizza U. *Should the Government Be in the Banking Business? The Role of State-Owned and Development Banks.* Inter-American Development Bank.; 2004.

33. La Porta R, Florencio Lopez-de-Silanes, Shleifer A. Government Ownership of Banks. *The Journal of Finance.* 2002;57(1):265-301.

34. Körner T, Schnabel I. Public ownership of banks and economic growth: The impact of country heterogeneity1. *Economics of Transition.* 2011;19(3):407-441. doi:10.1111/j.1468-0351.2011.00421.x

35. Ashraf B, Arshad S, Yan L. Do Better Political Institutions Help in Reducing Political Pressure on State-Owned Banks? Evidence from Developing Countries. *JRFM.* 2018;11(3):43. doi:10.3390/jrfm11030043

36. Farazi, S, Feyen E, Rocha R. Bank ownership and performance in the Middle East and North Africa Region. Review of Middle East Economics and Finance. 159-196.

37. Marois T. A Dynamic Theory of Public Banks (and Why it Matters). *Review of Political Economy.* 2021;2021. doi:10.1080/09538259.2021.1898110

38. de Bolle M. Do Public Development Banks Hurt Growth? Evidence from Brazil. Published online 2015. https://www.piie.com/publications/policy-briefs/do-public-development-banks-hurt-growth-evidence-brazil

39. EBRD. *The States Strikes Back : EBRD Transition Report 2020-2021*. EBRD Accessed August 20, 2024. https://www.ebrd.com/news/publications/transition-report/transition-report-202021.html

40. Andrianova S, Demetriades P, Shortland A. Government Ownership of Banks, Institutions and Economic Growth. Economica. 2012;79(315):449-469.

41. Panizza U. State-owned commercial banks. *Journal of Economic Policy Reform.* 2023;26(1):44-66. doi:10.1080/17487870.2022.2076678

42. Micco A, Panizza U, Yañez M. Bank ownership and performance. Does politics matter? *Journal of Banking & Finance.* 2007;31(1):219-241. doi:10.1016/j.jbankfin.2006.02.007

43. Cull R, Martinez Peria M, Verrier J. *Bank Ownership: Trends and Implications.* World Bank; 2018. Accessed December 12, 2024. http://hdl.handle.net/10986/29160

44. Schclarek A, Xu J, Yan J. The maturity-lengthening role of national development banks. *International Review of Finance.* Published online September 21, 2022. doi:10.1111/irfi.12391

45. Mendonça ARRD, Deos S. Beyond the market failure argument: *Public banks as stability anchors.* In: Scherrer C, ed. Public Banks in the Age of Financialization. Edward Elgar Publishing; 2017. doi:10.4337/9781786430663.00009

46. de la Torre A, Gozzi JC, Schmukler SL. *Innovative Experiences in Access to Finance: Market-Friendly Roles for the Visible Hand?* World Bank; 2017. doi:10.1596/978-0-8213-7080-3

47. Fernández-Arias E, Hausmann R, Panizza U. Smart Development Banks. *Journal of Industry,* Competition and Trade. 2020;20. doi:10.1007/s10842-019-00328-x

48. Mazzucato M, Penna CCR. Beyond market failures: the market creating and shaping roles of state investment banks. *Journal of Economic Policy Reform*. 2016;19(4):305-326. doi:10.1080/17487870.2016.1216416

49. Mazzucato M. Financing the Sustainable Development Goals through mission-oriented development banks. Published online 2023.

2.01 OWNERSHIP STRUCTURE 42
2.02 MULTILATERAL DEVELOPMENT BANKS 44
2.03 NATIONAL DEVELOPMENT BANKS 46
2.04 SUBNATIONAL DEVELOPMENT BANKS 48
2.05 POLICY MANDATES 50
2.06 AFRICA 52
2.07 ASIA 54
2.08 EUROPE 56
2.09 LATIN AMERICA AND THE CARIBBEAN 58
2.10 ISLAMIC PDBs 60
2.11 PDBs AS A SYSTEM 62

CHAPTER

2

THE UNIVERSE OF PUBLIC DEVELOPMENT BANKS

THE UNIVERSE OF PUBLIC DEVELOPMENT BANKS

Chapter 2 discusses ownership structures (2.01), and introduces multilateral development banks, national development banks, and subnational development banks (MDBs 2.02, NDBs 2.03, SDBs 2.04). It also reviews the policy mandates that define their operations (2.05). It presents statistics on asset size (2.06) and provides an overview of the regional development bank landscape (Africa 2.07, Asia 2.08, Europe 2.09, Latin America 2.10), as well as a focus on Islamic PDBs (2.11).

This book distinguishes MDBs from NDBs by their level of ownership, MDBs being initiated, owned, and governed by multiple countries.

NDBs are created and owned by a central government or national public entities; there are very few privately owned examples of NDBs. They represent the vast majority (67%) of PDBs and account for 78% of PDB assets worldwide. NDBs increasingly support the green transition not only by providing financing but also by serving as "policy coordinators," fostering collaboration among diverse stakeholders at the national level. SDBs, typically owned by sub-national authorities (cities, regions or federal states) are growing in numbers but are still limited to less than thirty countries. SDBs are well placed to structure pipelines of local projects or investment portfolios given their local knowledge.

As all these institutions are not designed to maximize profits, they serve as public policy instruments, and act in accordance with their official mandate, which can vary from SME financing (the most recurrent one) to agriculture, infrastructure, and affordable housing.

African NDBs are large in numbers but small in size, while Asian NDBs are fewer but much larger in terms of assets. Latin American NDBs are present in every country, but Mexico and Brazil's NDBs lead the pack by far. Europe remains the region with the longest tradition and the highest number of RDBs and NDBs, also as a result of a push by the European Union to leverage NDBs for the implementation of EU policies.

2.01 OWNERSHIP STRUCTURE

GOVERNMENTS' FINANCIAL ARMS

Government ownership of financial institutions is regularly challenged, especially for commercial banks, but it remains the most prevalent ownership form for development banks. This section explores the different ownership and shareholding models, which may affect PDBs capacity to leverage funds.

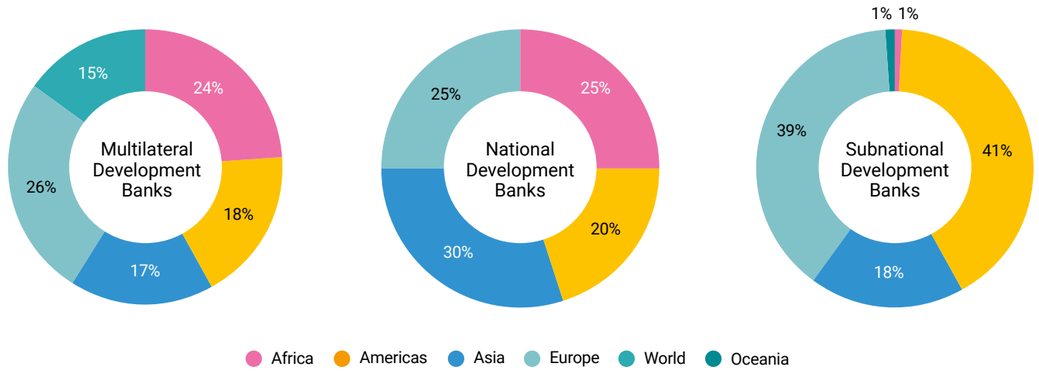
KEY TAKEAWAYS

- ➜ PDBs are typically owned and controlled by national or sub-national governments, who steer corporate strategies to implement public policy objectives.
- ➜ About 10% of NDBs include private shareholders, but only two banks are fully privately owned. One MDB is also partially privately owned.
- ➜ The resources held by PDB shareholders may significantly affect their capacity to leverage funds on international markets.

THREE LEVELS OF GOVERNMENT JURISDICTION

Multilateral Development Banks (MDBs) are created and owned by entities from more than two countries. They include the most well-known examples of development banks[1]. National Development Banks (NDBs) are created and owned by a central government (or national public entities), or private entities in rare cases. They represent the vast majority (67%) of development banks. Subnational Development Banks (SDBs) are established and owned by a local government entity or jointly by several local governments (23% of all PDBs)[1]. As shown in Figure 1, all MDBs, NDBs and SDBs exist in comparable numbers across continents (Asia, Europe, Africa and the Americas). SDBs are under-represented in Africa, and a minority of MDBs do not have a region-specific ownership structure ("World", 15% of MDBs).

Figure 1: Geographical distribution of MDBs, NDBs and Subnational DBs



Source: PDB Database (2024)[1]

OWN TO CONTROL

Globally, governments and their agencies are the predominant shareholders in 94 percent[2] of these institutions[3]. A PDB is an institution which must fulfill five criteria (see *section 1.01*), among which government steering of corporate strategies to ensure the pursuit of public policy objectives. The easiest way to do that is through the full control of the capital of the bank. It empowers governments to vote on major decisions at shareholder meetings, appoint board members (often management is also appointed by the government), and to approve strategies and action plans. In addition to holding shares directly, governments may also indirectly control development banks through other public entities such as state-owned enterprises, holding companies, or sovereign wealth funds. For instance, in 2019, one major Ivorian public social security fund, the "Caisse Nationale de Prévoyance Sociale", acquired 20% of shares of the National Development Bank of Ivory Coast[4]. FIRA of Mexico, a prominent NDB for rural sector, is a conglomerate of four fiduciary funds created by the Central Bank of Mexico.

About 10% of all PDBs, mostly NDBs, include private shareholders. Several mixed ownership PDBs were created in the early twentieth century including the Belgian "Société Nationale De Crédit à l'Industrie" (1919) or the English "Bankers' Industrial Development Company" (1930). Diamond (1958) enumerates several of these institutions and notes that they all "have usually (…) been sponsored by governments, have generally had government aid in the form of share capital or low interest or interest-free loans or guaranteed bond issues, and have often been under government direction or have had government representation on their policy-making bodies"[5].

Governments also endorsed the creation of privately owned development finance companies (DFCs) such as the "Development Finance Corporation of Ceylon" created in 1955 (now a commercial bank), to facilitate industrial finance and promote entrepreneurship[5]. DFCs were provided with lines of credit from governments which functioned as equity capital, typically without specific repayment schedule. Examples are numerous where PDBs created by their government were then privatized, such as the UK Green Bank, created in 2012 as the first of its kind. Some European PDBs (see *section 5.06*) financing the private sector in emerging and developing economies, such as the French Proparco or the Dutch FMO, have given private investors seats on the board.

However, only 8 institutions have direct private majority shareholders. The The Latin American Bank for Foreign Trade (Bladex), was established in 1979 by the central banks of several Latin American and Caribbean countries, has its shares listed on the New York Stock Exchange (NYSE) and its ownership is divided among private investors, financial institutions, and other entities from around the world, alongside some government entities from the region[3]. Two NDBs are fully privately owned: the Industrial Development Bank of Türkiye (TSKB) (see *Appendix*) and the Development Bank of Austria (OeEB). In these cases, government steering takes indirect forms, such as a partial state guarantee on the banks' liabilities.

OWNERSHIP AND COST OF BORROWING

Several authors have underlined the effect of shareholder composition on the capacity to leverage funds. PDBs must tap into private financial markets in order to mobilize sufficient financing of their developmental objectives[6]. Credit ratings granted by independent agencies are mainly determined by the wealth of their member countries and the amount of guaranteed capital they provide[7]. For example, only the guaranteed capital of wealthy countries is considered reliable in the event of a crisis[7]. Consequently, MDBs like the World Bank (WB) and the Inter-American Development Bank (IDB), with major industrialized economies as shareholders[7], enjoy an AAA rating. In contrast, the Development Bank of Latin America and the Caribbean (CAF), lacking major industrialized nations among its members, receives a lower rating, leading to higher borrowing costs. Kolasa et al. (2024)[7], analyze 3,248 distinct bonds issued by MDBs between financial years 2000 and 2023. They show that on average MDB bonds over the period had a yield spread to US Treasury rate of 55 bps, a maturity of 13 years and a face value of USD 670 million.

2.02 MULTILATERAL DEVELOPMENT BANKS

ACTORS OF REFERENCE

Dating back to post-Renaissance Europe and rooted in historical milestones such as the Treaty of Westphalia and the Congress of Vienna, multilateralism serves as institutionalized global policy coordination. The establishment of the United Nations in 1945 enhanced multilateral efforts to foster peace, human rights, and global welfare.

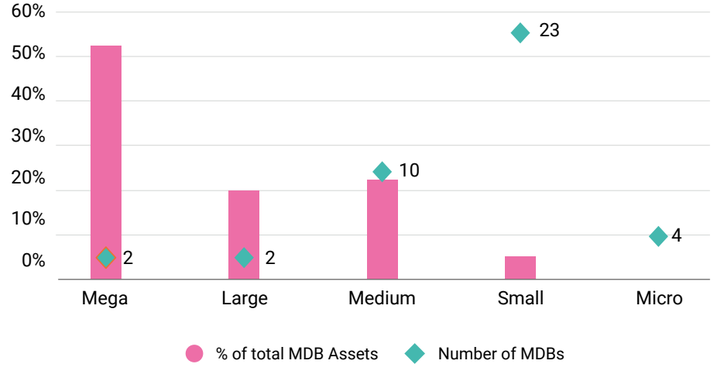
KEY TAKEAWAYS

- MDBs are initiated, owned, and governed by several countries, mostly with a specific geographical scope.
- The G20 Independent Expert Group recognizes 17 of these MDBs.
- MDBs' total assets amount to USD 2,320 million (2023) and account for about 10% of PDBs' total assets.
- Beyond the prominent MDBs with extensive international activities, smaller MDBs exist at the sub-regional level. FiCS has identified 30 of such MDBs, that play a catalytic role to foster sustainable development at the local level.

MAPPING MULTILATERAL DEVELOPMENT BANKS

MDBs emerged to coordinate action between multiple states. There is no common definition of MDBs. The 2023 report of the G20 Independent Expert Group lists 17 MDBs in total[8], referring to MDBs as "Multilateral Development Banks". For example, MDBs with a regional focus such as the Black Sea Trade and Investment Bank, have access to international lines of credit in addition to issuing bonds. Other smaller recognized MDBs are the Central American Bank for Economic Integration (CABEI), the Development Bank of Latin America (CAF) or the Arab Bank for the Economic Development of Africa (BADEA). Figure 2 shows how a few big MDBs own the majority of MDB assets, whereas numerous smaller MDBs own a smaller share of total MDB assets.

Figure 2: Number of MDBs and proportion of total MDB assets per size category



Source: PDB Database (2024)[1]

MDBs include most renowned banks such as the World Bank Group or the Asian Infrastructure Development Bank. However, the majority of MDBs, have a geographic scope of operation limited to a particular region or subregion[1]. These include, for example, the African Development Bank, the Asian Development Bank, and the Trade and Development Bank in East Africa.

Europe led the establishment of Regional Development Banks (RDBs). It founded the Council of Europe Development Bank (CEB) and the European Investment Bank (EIB) in the late 1950s, aiming at post-war reconstruction financing. Following this example, newly independent countries in Africa and development-seeking nations in Latin America embarked on the creation of RDBs in the 1960s and Subregional Development Banks in the 1970s[9]. Today, the European Investment Bank, owned by the Member States of the European Union, is the largest MDB[3], with USD 2.5 billion in annual net income and USD 607 billion in total assets[1].

Table 1: 17 Multilateral Development banks recognized by the G20 Independent Expert Group[1], including their main subsidiaries (Alphabetical order).

Bank name	Acronym	Establishment Year	Main Region of operation	Total assets 2023 (USD million)
African Development Bank	AfDB	1964	Africa	53,076
Arab Bank for the Economic Development of Africa	BADEA	1973	Africa	5,968
Asian Development Bank	ADB	1966	Asia	301,411
Asian Infrastructure Investment Bank	AIIB	2016	Asia	53,793
Black Sea Trade and Development Bank	BSTDB	1999	Eastern Europe	2,394
Caribbean Development Bank	CDB	1969	Caribbean	2,032
Central American Bank for Economic Integration	CABEI	1960	Americas	17,186
Council of Europe Development Bank	CEB	1956	Americas	37,994
Development Bank of Latin America	CAF	1970	Americas	53,814
European Bank for Reconstruction and Development	EBRD	1991	Europe	81,602
European Investment Bank	EIB	1958	Europe	631,457
European Investment Fund	EIF	1994	Europe	7,235
Inter-American Development Bank	IDB	1959	Americas	152,019
IDB Invest	IDB Invest	1986	Americas	11,328
International Investment Bank	IIF	1970	Eastern Europe	1,218
Islamic Development Bank	IsDB	1974	World	39,363
New Development Bank	NDB	2014	World	28,840
North American Development Bank	NADB	1993	North America	2,288
The World Bank Group	WBG		World	
International Bank for Reconstruction and Development	IBRD	1944	World	332,641
International Development Association	IDA	1960	World	227,482
International Finance Corporation	IFC	1956	World	110,547
Multilateral Investment Guarantee Agency	MIGA	1988	World	3,269

Beyond the prominent MDBs with extensive international membership, the PDB Database endorsed by the FiCS includes institutions being owned by a limited number of countries[1]. These smaller MDBs are supranational institutions, enhance their member countries' ability to leverage available funds, and are hence viewed by some as a legally binding form of solidarity[3]. In addition to the 17 recognized by the G20, Finance in Common has identified a set of 30 MDBs of this kind.

These smaller MDBs are frequently formed by neighboring countries with strong economic or political ties, and they concentrate on addressing the specific local development challenges identified by their member countries. Similar to their larger counterparts, their capital base is derived from member subscriptions, supplemented by borrowing from bilateral NDBs with an international mandate, other MDBs, or international and local capital markets. However, their comparatively smaller size can, at times, constrain their access to large-scale funding. These institutions play a catalyst role in fostering regional integration and promoting sustainable development at the local level.

2.03 NATIONAL DEVELOPMENT BANKS

FINANCING NATIONAL PRIORITIES

Unlike MDBs, National Development Banks (NDBs) are created and owned by a single government, national public entities, or private entities in rare cases. They are the financial arm of governments to promote country-specific investments for sustainable development.

KEY TAKEAWAYS

- NDBs are specialized financial institutions set up and steered by central governments or national public entities to fill financing gaps in new or strategic sectors.
- NDBs can have a significant economic weight, in both developed and developing economies.
- NDBs experience common challenges related to governance, transparency, ensuring additionality of their activities and measuring impact.
- NDBs increasingly support the green transition not only by providing financing but also by serving as "policy coordinators," fostering collaboration among diverse stakeholders at the national level.

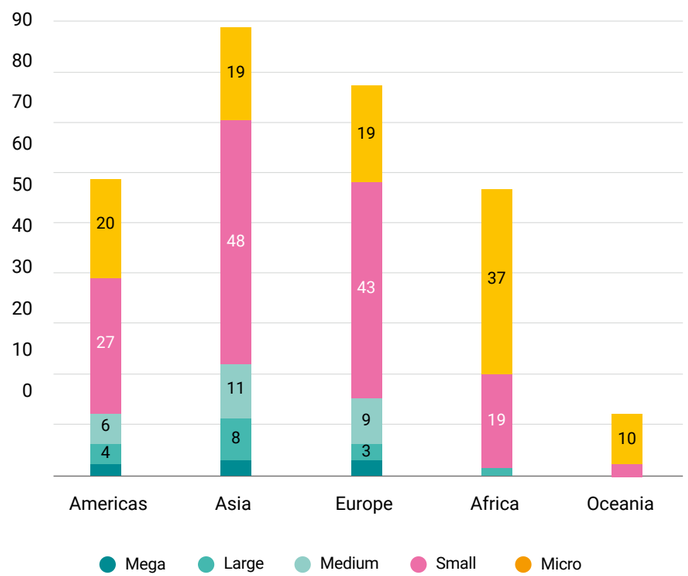
GLOBAL OVERVIEW

National Development Banks (NDBs) are specialized financial institutions set up to fill financing gaps in new or strategic sectors. Their development-oriented mandate, long-term liabilities, and ability to borrow from international markets are some of the key features enabling them to provide longer-term, affordable capital[14].

NDBs represent the vast majority (67%) of institutions in the PDB Database, holding 78% of assets. Globally, the 356 NDBs are distributed in 153 countries[1]. While most of them operate at the national level, some operate at the international or subnational level.

There is significant heterogeneity across countries in terms of asset size. NDBs often have an important economic weight – in both developed and developing economies.

Figure 3: NDBs by continent and size category



Source: PDB Database (2024)[1]

While most countries have established one single NDB, some host various, like Mexico, India or Pakistan[1]. NDBs' asset size is notable in several European economies as well as in India and China, where they finance strategic private sector development and infrastructure projects. These major actors are still relatively understudied. Further research could shed light on their role, business models, and challenges.

COMMON CHALLENGES

NDBs do not only provide financing. NDBs can also structure new deals, create new channels to mobilize private sector resources, provide technical assistance, and build capacity of private sector firms and public institutions.

NDBs face common challenges. Governance, transparency, ensuring additionality of interventions and measuring impact are common areas of attention to most NDBs. Their mandate involves allocating resources to projects with high social and environmental impacts. However, weak governance and lack of transparency heighten the risk of public fund mismanagement, potentially resulting in support for projects or actors driven by interests unrelated to development priorities[16,17]. By targeting viable projects and segments underserved by private intermediaries NDBs provide additionality and effective use of resources. This requires sophisticated risk management capabilities. Beyond transparency, ensuring adequate use of public resources requires measuring the impact of NDB activities.

To address these challenges, several good practices have been identified for NDBs. Strengthening accountability, transparency, and monitoring and evaluation mechanisms, along with safeguarding NDBs' independence, have emerged as key priorities (see *Chapter 3*). Additionally, some countries have opted to merge their NDBs to enhance impact and leverage, lower fixed costs, and support transparency initiatives.

ACCELERATING THE GREEN TRANSITION

NDBs are increasingly involved in financing the green transition. They also act as "policy coordinators" that bring together stakeholders nationwide. NDBs provide long-term financing, which is critical for the green transition, and to provide financing for sustainable projects for which risks may be relatively high. They also have technical expertise, to prepare and make projects bankable. This technical expertise in many instances provides a "seal of approval" to reassure and mobilize investors in co-financing activities[18]. Many NDBs also have a sectoral focus and act as policy coordinators by bringing together sectoral stakeholders to clarify the policy course and financing needs[19].

2.04 SUBNATIONAL DEVELOPMENT BANKS

THE LOCAL BANKS

Subnational Development Banks (SDBs) might be the least studied or known type of development banks. Yet, they play a significant role in channeling national or international funding to local levels. Acting as professional financial intermediaries to ensure resilient post-covid recoveries, SDBs could facilitate the implementation of the 2030 Agenda at local levels.

KEY TAKEAWAYS

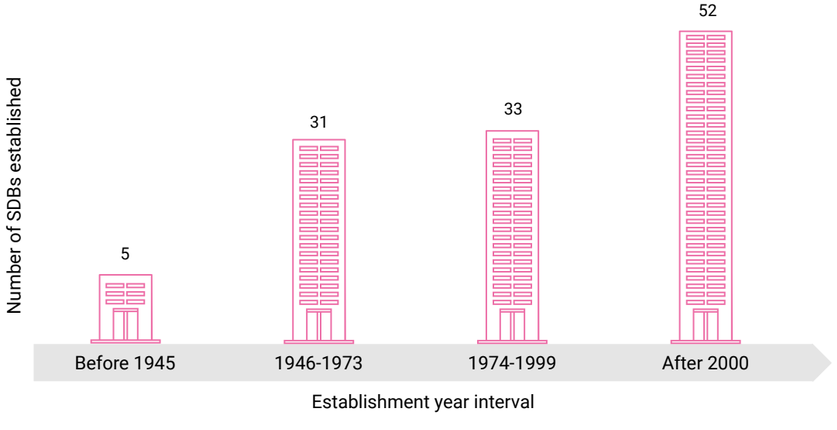
- ➜ SDBs are created by local governments to serve the development priorities of specific territories.
- ➜ The number of SDBs has grown significantly throughout decades, but they still remain limited to a small number of countries.
- ➜ Due to their strategic position as financial intermediaries, SDBs channel funds to local levels and bridge financial gaps.
- ➜ SDBs are well placed to structure pipelines of local projects or investment portfolios given their local knowledge.

THE GROWING MOMENTUM OF SDBs WORLDWIDE

SDBs are established to coordinate development policies at local levels. They are owned by a local government entity or jointly by several local governments. The vast majority of them (95%) limit their operational scope to the local level and a notable portion of them (40%) specialize in financing local micro, small and medium enterprises[1].

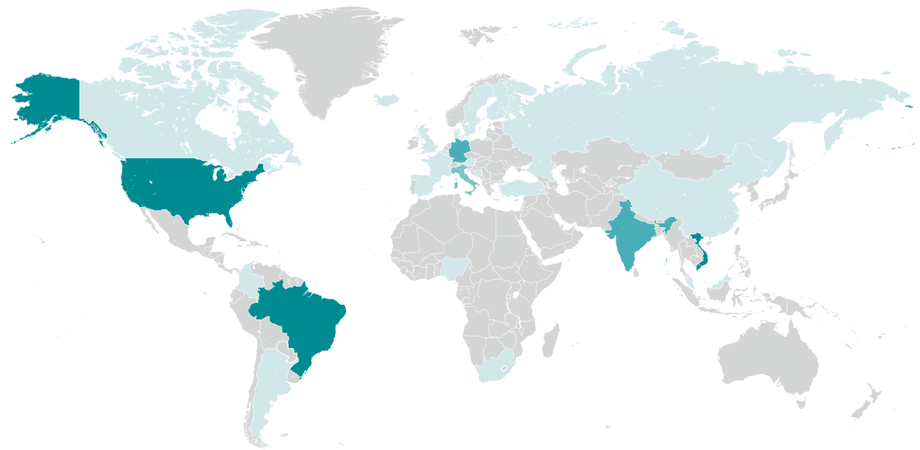
Although SDBs have grown significantly in numbers throughout the past decades, they are limited to a small number of countries worldwide (27 countries). While National Development Banks (NDBs) grew extensively in numbers during the 1950s to support rapid industrialization, SDBs have often been created more recently[21]. Most SDBs (44%) were established after 2000 both in low, middle and high income countries. SDBs are predominantly located in countries subdivided into federal states or provinces such as Brazil (17% of SDBs worldwide), USA (16%), Vietnam (15%), Germany (13%) or in India (12%).

Figure 4: Periods of establishment of SDBs



Source: PDB Database (2024)[1]

Figure 5: Countries hosting SDBs worldwide



Source: PDB Database (2024)[1]

CHANNELING FUNDS AT LOCAL LEVEL

SDBs operate at a closer level to final beneficiaries, and are well placed to connect the local reality with policy agendas and development resources. The establishment of PDBs at subnational level is driven by the belief that establishing policy synergies between national and subnational development priorities can lead better outcomes[22]. While some countries have more concentrated national development banking systems with one central development bank, others display a more horizontal relation with one NDB relying on specialized and localized institutions to serve various segments and sectors[23]. SDBs carry an in-depth understanding of local markets and are intricately connected to broader national policies. SDBs pool national or international funding and channeling resources to local companies or cities[24].

SDBs can also be proactive on the supply side in structuring pipelines of local projects or investment portfolios through a bottom-up approach. To closely answer specific local companies' and government's needs, SDBs might leverage their strategic position to not only act as project takers but also as project makers, structuring project pipelines and pooling funds. For example, the Banco de Desenvolvimento de Minas Gerais (BDMG) supports local stakeholders with technical assis-tance in project preparation, concessions, PPP, in many sectorial fields (public lighting, roads, water, and sewage treat-ment). Its project preparation facility provides technical assistance to support climate smart urban investments[24]. In that sense, BDMG performs the role of a mission-oriented bank[25].

CATALYZERS OF THE SUSTAINABLE DEVELOPMENT AGENDA

The C40 Knowledge Hub has highlighted the role of local and regional governments in accelerating sustainable development[26]. It has been acknowledged that 65% of the SDGs may not be fully achieved without the involvement of urban and local actors[24]. As such, SDBs have gained traction in recent years, as illustrated by the establishment of several green banks at state levels. It shows that high reliance is set on SDBs to mitigate the deleterious effects of the climate crisis. SDBs have an in-depth understanding of local contexts while the successful achievement of SDGs is constrained to each specific local context.

However, comprehensive research remains necessary to substantiate the significant contributions of SDBs to the global endeavor of achieving the SDGs effectively at the local level. Expanding literature on this topic could enhance the role of SDBs as influential policy actors in the international arena, enabling them to highlight local challenges and propose impactful, context-specific policy solutions.

2.05 POLICY MANDATES

DEFINING THE SCOPE OF OPERATIONS

For a government, granting a mandate to a public development bank (PDB) entails delegating the authority to finance economic, social, or environmental priorities on its behalf. Clearly outlining the scope of this mandate, as well as the government support necessary for its implementation, is crucial for ensuring its effective execution.

KEY TAKEAWAYS

- For a government, granting a mandate to a PDB entails delegating the authority to finance economic, social, or environmental priorities on its behalf. Clearly outlining the scope of this mandate, as well as the government support necessary for its implementation, is crucial for ensuring its effective execution.
- PDB Boards must ensure that the activities of the bank are consistent with its mandate. Government representatives often sit at the Board.
- Mandates can be summarized into eight main categories but NDBs may serve one or multiple categories: flexible, MSMEs, rural and agricultural development, social housing, export promotion, infrastructure, local government, and private sector development. Most MDBs have a flexible mandate but some RDBs are focused on trade.
- Mandates are aligned with policy priorities and revised to address private market funding gaps for new policy priorities.

EXECUTING A PUBLIC MANDATE

Development banks are not designed to maximize profits: they serve as public policy instruments, and they must act in accordance with their official mandate to support the achievement of policy objectives. This defining characteristic differentiates them from commercial banks and other private actors. Mandates are typically to support economic development or to provide finance to specific market segments such as small business or agriculture producers. Over two thirds of the NDBs listed in the World Bank Global Survey reported serving firms in the services, industry, housing, agriculture, energy and infrastructure sector[17]. A clear mandate is essential for properly defining the scope and preventing crowding out of private financial institutions.

OVERVIEW OF PDB MANDATES

More recently, Xu, Marodon et al. (2021) have identified the mandates of development banks globally, revealing a broad diversity categorized in 8 groups[15]:

General Development (FLEX): With about USD 9 trillion in total assets, the majority of MDBs and NDBs have a flexible development mandate to support sustainable development without restricting their missions to specific sectors or clients.

Micro, Small, and Medium-sized Enterprises (MSMEs): With more than 130 institutions worldwide, they represent the main type of specialized NDBs. Most of them invest at the national and subnational levels. The Montreal Group promotes collaboration among NDBs dedicated to supporting MSMEs in their respective countries.

Rural and Agricultural Development (AGRI): Development banks with a specific mandate to support the agricultural industry are mostly concerned with small-scale family farming. They can be as big as the Agricultural Bank of Germany, with 116 billion USD of total assets, or as small as the Tanzania Agricultural Development Bank, with total assets worth 156 million USD[15].

Social Housing (HOUS): These banks specialize in financing buildings or social housing, often for the poorest populations. As shown by Figures 6 and 7, there are relatively few banks with a housing-specific mandate, but they have larger total assets on average. Housing banks are also important in Emerging Markets and Developing Economies (EMDEs).

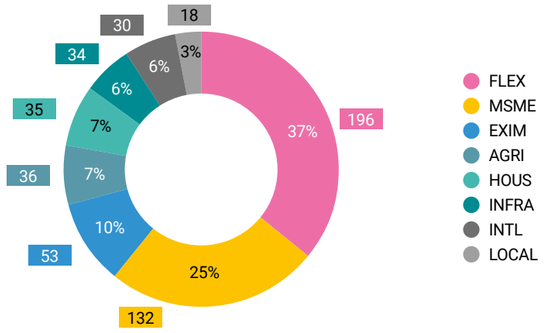
Promotion of Exports and Foreign Trade (EXIM): Exim banks use specific financial facilities, such as export factoring or forfaiting, to promote trade, investments, and integration into the global economy. 53 Exim banks constitute 10% of institutions worldwide. Examples include the Export-Import Bank of China, the Export Development Bank of Egypt The Latin American Foreign Trade bank, and the African Export and Import Bank – are cases of Regional Exim banks.

Infrastructure (INFRA): Infrastructure financing often involves long-term, large-scale investments, associated with high perceived risks. As such, private actors alone may be unwilling or unable to fill the financing gap. Specialized institutions are established to fill the infrastructure deficit and catalyze private investments. Infrastructure financing is a traditional mandate for NDBs. For instance, the French Deposits and Consignment Fund was founded in 1816 to finance the development of infrastructure (and nowadays has a flexible mandate).

Local Government (GOV): In an increasingly urbanized world, with a global trend of migration towards cities, NDBs that serve local governments are key actors in many countries. Local governments usually face more challenges compared with central governments in raising funds to finance key sectors, as decentralization levels remain highly heterogenous. Specialized NDBs finance municipalities, regions, and local governments. Kommunekredit (1898), one of the oldest NDBs still in activity, is specialized in local finance. Others include for example the Territorial Development Bank in Colombia (Findeter), Kommuninvest in Sweden, and the Municipal Equipment Fund in Morocco.

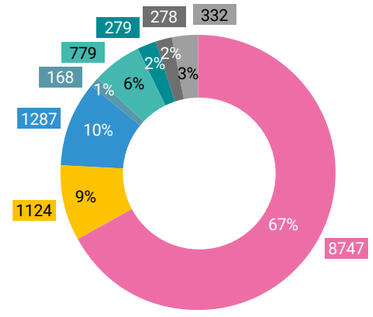
International Financing of Private Sector Development (INTL): This group of institutions specializes in financing private or public companies, also called non-sovereign actors. They operate on a multinational, regional or national scale and are widely spread out globally. Examples include the World Bank Group's International Finance Corporation (IFC) and the Pacific Islands Development Bank. The EDFI Association gathers European PDBs which finance MSMEs worldwide.

Figure 6: Distribution of PDBs by official mandate (Number of PDBs)



Source: PDB Database (2024)[1]

Figure 7: Distribution of PDBs' assets by official mandate (Value of assets in USD billion)



Source: PDB Database (2024)[1]

ALIGMENT WITH POLICY PRIORITIES

The mandates have evolved to align with changing policy priorities and the enhanced emphasis on addressing funding gaps and to catalyze private finance. A change in mandate results in a revision of the operations of the institution to be achieved by that new mandate, involving products, operational procedures and indicators to monitor performance[27]. Many MDBs and NDBs that do not have climate objectives in their legal mandate have however, adopted such objectives in their mission statements and strategies approved by the Boards.[28] The World Bank Group, for example, recently expanded its mission to incorporate climate considerations; its mission is "to end extreme poverty and boost shared prosperity on a livable planet". To ensure this goal is met, the World Bank Group sets climate finance targets, assesses the alignment of its projects with global climate goals (i.e. Paris agreement), and is piloting new financial instruments. Adapting mandates can also improve risk management strategies through diversification and better screening of environmental and social criteria. Further research can shed light on these issues, by assessing PDBs' added value in specific policy areas.

There is also a potential downside to having a wider mandate. Wide mandates can dilute management and staff focus from core activities. Tight mandates can also be protective for the banks, as they concentrate expertise and reduce the risk of weak strategized priorities. Good governance and strong management are essential to ensuring that each bank's appetite for a wider mandate is in line with its capabilities.

2.06 AFRICA

PDBs IN ACTION

African PDBs tend to be overlooked by the literature, as most case studies focus on high-income countries, Latin America, or Asia. This paucity fails to encompass their importance in financing resilient and sustainable growth. Most of the African PDBs demonstrated resilience during the Covid-19 crisis and continue to present solid financial performance[29].

KEY TAKEAWAYS

- The 100 African PDBs represent almost 20% of all PDBs worldwide, but hold 1.9% of total PDB assets.
- African institutions exhibit a strong overall performance with an average ROA of African PDBs at 1.37% against for example only 0.46% for Europe.
- Despite their small size, African institutions have proven their capacity to drive positive change, particularly during the COVID-19 pandemic and in their contribution to the SDGs.
- The AfDB is the largest PDB in Africa with a total asset reaching USD 53 billion in 2023.

AFRICAN PDBs

Many African NDBs were created to support state-led growth models in the 1960s and 1970s[30]. For instance, the Development Bank of Rwanda (see *Appendix*) was established in 1967 under an act of parliament to finance projects directed by the government to industrialize the country[31]. Some banks existed under colonial rule as 'social banks' to serve basic needs in agriculture and housing such as the Tunisian Caisse des Prêts et de Soutien des Collectivités Locales, established in 1902, making it the oldest NDB in Africa[32]. Many African NDBs faced challenges or were privatized during the structural adjustment periods of the 1980s and 1990s. However, since the early 2000s, the situation has evolved and 35 new institutions have been established[20].

The landscape of the 100 African institutions is unique in its wide diversity of size, structure, and mandate. Unlike multinational development banks from other continents, all 13 African multinational banks limit their operations to the African continent. While the African Development Bank (AfDB) operates across the continent, the others are focusing on specific regions or sub-regions such as the West African Development Bank (BOAD) or the Eastern Africa Development Bank (EADB). National Development Banks (NDBs) constitute 84% of the PDBs in Africa operating across 39 of the continent's 54 countries. While the vast majority of them are characterized by their diminutive asset size, the Moroccan Caisse de Dépôt et de Gestion (CDG), the AfDB and the African Export and Import Bank are classified as medium-sized institutions, with total assets in the range of USD 36, 53 and 33 billion in 2023, respectively.

The small size of many African NDBs may limit their development impact. Only the assets of Northern African NDBs are relatively large (14% of regional GDP). Sub-Saharan Africa NDBs are significantly smaller (below 6% of regional GDP) and represent only 0.7% of the total assets of PDBs worldwide[20]. Together, the 100 African institutions represent roughly a fifth of all PDBs worldwide, but hold 1.9% of total PDB assets.

SOLID PERFORMANCE AND POTENTIAL FOR SUSTAINABLE GROWTH

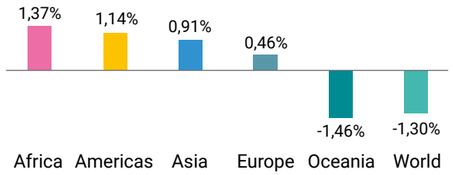
In general, African PDBs exhibit positive financial results, although stark disparities seem to be driven by a high non-performing loans (NPLs) ratio and governance issues for some institutions. Overall, most African NDBs report higher profitability than their counterparts on other continents (Figure 8). Yet, there are wide disparities in terms of performance (Figure 9). Six out of the 33 sampled PDBs report a negative ROA, while nine report ROA in excess of 2.5%, including regional development banks such the West African Development Bank (see *Appendix*) but also NDBs like the Uganda Development Bank. It has been argued that asset quality and political interference explain these[32].

Sampled African NDBs have an average NPL ratio of 22.72% with quite high standard deviation (23.61) highlighting wide disparities between banks. Political interference, as proxied by the presidential appointment of the CEO, is linked to a decrease of the ROA by 6% on average[32].

During the COVID-19 pandemic, African PDBs responded effectively, providing support and unlocking significant recovery[33]. Unlike the traditional perception of rigid public institutions, African development banks have shown adaptability and flexibility. For instance, the National Investment Bank of Ghana reformed its governance structure, balancing government control with efficient management.

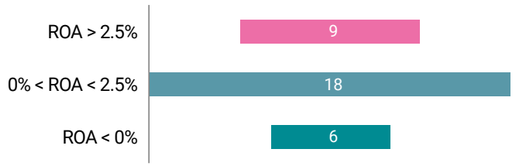
Despite the dramatic impact of climate change on their countries and population, African institutions face significant funding constraints which limits their ability to contribute to the SDGs. Africa, a minor contributor to global carbon emissions, disproportionately suffers from climate change's adverse effects. To bridge this funding gap, an estimated USD 2.7 trillion is needed between 2020 and 2030[34]. However, the continent currently receives only 3% of global climate finance. To enhance African PDB's capacity to mobilize funds for resilient and sustainable development, research can identify their positive impacts and key success factors.

Figure 8: Average ROA of NDBs per continent (2023)



Source: PDB Database (2024)[1]

Figure 9: Distribution of African PDBs' ROA in 2023



Source: PDB Database (2024)[1]

BOX 1: THE AFRICAN DEVELOPMENT BANK (AfDB)

The African Development Bank (AfDB) group, with its total assets reaching USD 53 billion in 2023, is the continent's largest development bank also recognized as an MDB. Through its three branches, the African Development Bank, the African Development Fund (ADF), and the Nigeria Trust Fund (NTF), it finances large-scale projects across Africa through loans and grants, catering to countries at various development stages.

Aligned with the African Union's Agenda 2063 and the SDGs, the AfDB group's strategy focuses on accelerating inclusive green growth and driving prosperous, resilient economies. It has prioritized five key areas: energy, quality of life, integration, industrialization, and food security.

To bolster its financial capacity, the president of the AfDB Dr. Akinwumi Adesina has been advocating for the recycling of Special Drawing Rights (SDRs) from the International Monetary Fund (IMF). Recently, the IMF approved a mechanism allowing member countries to use part of their SDRs to acquire hybrid capital instruments from development banks like the AfDB. This innovative approach will unlock additional lending capacity, enabling the AfDB to address critical global challenges such as climate change and food security.

2.07 ASIA

A MULTIFACETED SYSTEM

There is no single PDB Asian system. Asian PDBs are diverse, reflecting the vast differences in wealth, culture and economic structures across the region. Among others, Asia hosts Southeast Asian national development banks (NDBs), internationally oriented development banks of Japan and South Korea, the Chinese policy-bank system, and MDBs such as the Asian Infrastructure Investment Bank (AIIB) and the Asian Development Bank (ADB).

KEY TAKEAWAYS

- Several Asian NDBs, including Chinese policy banks, Korean and Japanese NDBs operate domestically and across borders.
- Indian and South East Asian NDBs focused on domestic development played an important role in India's industrialization. Their liberalization in the 1990s transformed the public financial landscape of India.
- There are two MDBs focused on Asia, the ADB and the AIIB, which collaborate in a variety of projects.

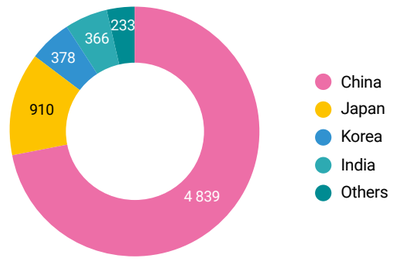
CHINESE POLICY-BANKS

The largest Asian development banks are in East Asia. They account for over 80% of Asian PDB assets, with China alone accounting for almost three-quarters (see Figure 10). China counts three policy-banks, all founded in 1994.

The China Development Bank (CDB) is the largest policy bank in China, focusing on funding large infrastructure projects, social development, and strategic industries in alignment with the government's economic policies[36]. It has financed numerous large-scale projects, including the Three Gorges Dam[37] in 2007 and the Shanghai Pudong International Airport.

The Export-Import Bank of China (Exim Bank) provides financial support to promote Chinese products and services abroad while the Agricultural Development Bank of China (ADBC) focuses more on agricultural modernization, rural infrastructure, and poverty alleviation[38].

Figure 10: PDB assets in Asia per country (USD billion)



Source: PDB Database (2024)[1]

INTERNATIONAL-ORIENTED DEVELOPMENT BANKS OF JAPAN AND SOUTH KOREA

Since their establishment, the Korea Development Bank (KDB), and the Japan International Cooperation Agency (JICA) have expanded their mandate from fostering national economic development to offering comprehensive investment and supporting global solutions.

KDB was established in 1954, with "the mission of establishing and fostering the national economy, industries and infrastructure, financial and corporate system"[39]. It is Korea's main NDB, with assets equivalent to 15% of GDP in 2021. Since 2000, the bank has expanded its operations to include investment banking services and now functions as both a commercial and investment bank[40]. As a global player, the expanding KDB network now includes ten overseas branches, six subsidiaries, and seven representative offices.

JICA was established in 1974 to implement Japan's official development assistance (ODA) programs. Merging with the Overseas Economic Cooperation Fund (OECF) in 2008, JICA now provides comprehensive development support, including technical cooperation, grants, and loans[41]. JICA's budget has increased significantly in recent years, with Japan's ODA rising from USD 8.6 billion in 2018 to USD 19.3 billion in 2023, making it the world's fourth-largest bilateral donor [42].

INDIAN AND SOUTHEAST ASIAN NDBs FOCUSED ON NATIONAL DEVELOPMENT

Post-independence, Indian NDBs focused on financing India's industrialization and private sector development. They aimed to provide long-term financing for large infrastructure and agriculture projects with high financial risks, filling a gap left by commercial banks. They were under the dual control of the Central and State Governments, enjoying predictable funding.

The economic liberalization reforms of the mid-1990s and the emergence of the private capital market challenged the business model of Indian NDBs. With the liberalization of the financial sector, the government reduced the provision of long-term and concessional funds to NDBs and eliminated interest rate controls. This significant shift prompted some NDBs to transform into commercial banks, such as the Infrastructure Development Finance Company, established as a NDB in 1997, becoming a private institution in 2014.

Despite this change, Indian NDBs hold assets comparable to those of Korea (USD 366 billion, see Figure 10). In addition, they benefit from a decentralized network of local branches and subnational development banks (SDBs), present across various states in India and addressing diverse sectors (see *Appendix*).

Emerging Southeast Asian countries like Malaysia and Thailand rely on their NDBs to finance critical development projects, enhancing infrastructure and economic growth.

In Thailand, the Bank for Agriculture and Cooperatives (BAAC) and the Government Housing Bank are key to the financing of development projects nationwide and are economic powerhouses at the country level. Since its creation 1966[44], the BAAC has supported the government's rural policies by promoting business development in rural areas and financing the development of cooperatives to help smallholder farmers increase their bargaining power. Examples of projects include the debt moratorium for small debtors, covering USD 7.7 million in loan principal and benefiting 1.85 million farmers[45].

In Malaysia, the Bank Pembangunan Malaysia Berhad (BPMB) was established in 1973 to support national economic development through medium to long-term financing for projects in sectors such as infrastructure, technology, and oil & gas[46]. Since its inception, it has supported notable national projects such as the electrification of a 329 km double track railway (RM 6.7 billion, almost USD 2 billion) in 2009. This railway, used by 611,000 passengers in 2021, seeks to improve connectivity in north-western Malaysia, bordering Thailand[47].

BOX 2: AIIB AND ADB COLLABORATION

There are two Asian MDBs, the Asia Infrastructure Investment Bank (AIIB) and the Asian Development Bank (ADB). The more recently established (2016) AIIB emphasizes its Asian roots, with 75% of shares held by regional shareholders, while the ADB's largest shareholders are the USA and Japan[43]. Both banks recognize the need for collaboration, signing their first co-financing agreement in 2019, updated in 2023 for 5 years. Their co-financing totals USD 4.8 billion, making the AIIB the second-largest multilateral partner for ADB in terms of project-specific co-financing. In 2023, ADB's Gender Equality Division has engaged with AIIB on gender equality, holding sessions for ADB staff, implementing agencies, and units of 11 ADB-financed projects.

2.08 EUROPE

A PDB FABRIC

Europe hosts a large number of NDBs and some well-known MDBs amounting to 135 banks which hold one fifth of the total PDB assets in 2023 (USD 5.2 trillion). Examining the multifaceted landscape of European development banks reveals a complex network of institutions each with distinct roles, characteristics, and interconnections.

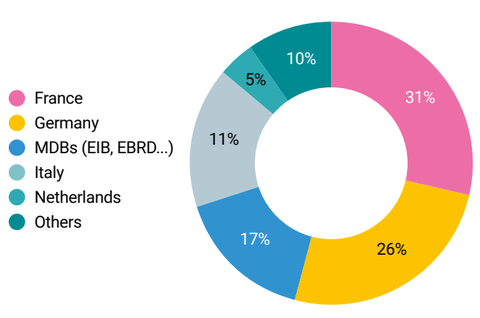
KEY TAKEAWAYS

- ➜ With a total of 135 institutions, Europe hosts the second-largest number worldwide.
- ➜ The modern ecosystem of European PDBs really emerged after the Second World War when European countries faced major financing needs to rebuild prosperous economies. Since then, they have also supported regional integration.
- ➜ The European Investment Bank is the financial arm of the European Union. 90% of its financing is targeted for strategic sectors in EU Member States to accelerate the green transition, boost technological innovation, and support security, defense, and social infrastructure development.
- ➜ European PDBs are part of a broader group of actors that constitute the European Financial Architecture for Development (EFAD). Together, the EU and its member states are the world's leading donors.

OVERVIEW

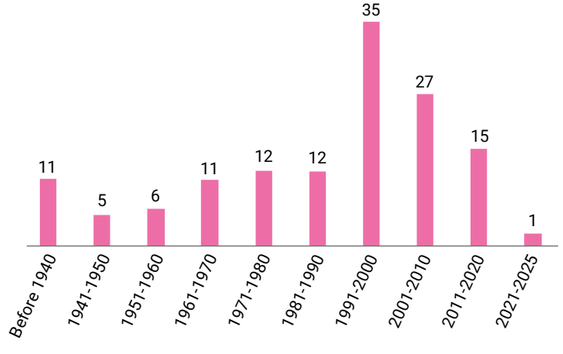
Europe hosts MDBs, NDBs and SDBs amounting to 135 institutions, the second largest number worldwide[15]. A large majority are located within the European Union (EU) and they concentrate 98% of total assets owned by European PDBs. Within the EU only Cyprus does not have an NDB. On average, Member States have more than 2 national DBs. Europe also hosts 31 subnational DBs that finance local governments and MSMEs. Half of these are located in the German *Länder*. Germany is the country with by far the largest development banking ecosystem (19), followed by France (9) and Italy (8). Europe is also home to multilateral development banks, such as the European Investment Bank (EIB), a cornerstone of European integration (see Box 3), the European Bank for Development and Reconstruction (EBRD) and the Council of Europe Development Bank (CEB), which promotes social cohesion in Europe.

Figure 11: PDBs' total assets in Europe



Source: PDB Database (2024)[1]

Figure 12: Period of creation of PDBs still operating in Europe



Source: PDB Database (2024)[1]

A FACTOR OF EUROPEAN INTEGRATION

Since the 19th century, European NDBs have played an important role in economic development and regional integration. Prior to the Second World War, European countries set up NDBs to finance key infrastructure and support the development of cities (see *Appendix*).

The modern ecosystem of European PDBs really emerged after the Second World War when European countries faced major financing needs to rebuild prosperous economies. Institutions like the German KfW (see *Appendix*) were established to channel the funds of the Marshall Plan, while France created the "Sociétés de Développement Régional" (see *section 1.05*). In 1957, the Treaty of Rome established the European Economic Community supported by a multilateral lending arm: the European Investment Bank.

The dissolution of the Soviet Union spurred a new dynamic of European integration. With no less than 37 newly created institutions between 1990 and 2000 (see Figure 12), NDBs such as the Croatian Bank for Reconstruction and Development (HBOR) and the Bulgarian Development Bank, contributed to the creation of viable market economies and the ability of Eastern European countries to compete within the Union, thus facilitating their integration within the EU.

Following the global financial crisis, European NDBs, in cooperation with MDBs, helped to support the economic recovery, and the European Commission supported the establishment of NDBs in countries that did not yet have one[15]. This strong network of development banks was instrumental easing the economic impacts of the Covid crisis on European economies.

In the context of debates regarding the future of European competitiveness[20], all types of European MDBs and NDBs are called upon to support the implementation of EU industrial policies. In this perspective, it is recommended that they better cooperate in order to channel their financing towards innovative and strategic sectors, such as green and renewable energy[48].

BOX 3: THE EUROPEAN INVESTMENT BANK (EIB)

The EIB was established in 1957, as the financial arm of the European Union. The EIB was designed to promote three main lending objectives: the prevention of imbalances between EU member States through growth of the least developed regions; integration to develop the Common Market; and investment, to rebalance capital markets through investments[49]. Today, it is fully owned by the 27 member states of the EU, and it is financially autonomous: thanks to its "triple A" credit rating it raises long-term resources through bond issues on international capital markets to finance its lending operations[50]. Around 90% of its financing are destined for EU Member States, while the rest is lent to EU neighboring countries, as well as countries in Africa, Asia and Latin America and the Caribbean. In 2023, it held over EUR 547 billion in assets, making it the world's largest Multilateral Development Bank.

COOPERATION FOR EUROPEAN OUTREACH

Beyond their activities within Europe, PDBs are part of a broader group of actors that constitute the European Financial Architecture for Development (EFAD)[51]. EFAD comprises a variety of European actors that include government, development partners, MDBs and NDBs, including European ones, and private institutional investors. EFAD fosters effectiveness of European developmental investments outside of the EU. Together, the EU and its Member States are the world's leading donors[52]. EFAD is also expected to play an important role in achieving the economic and geostrategic interests of the EU, as highlighted in the Global Gateway strategy.

European development banks operating outside the EU face the collective challenge of working together to ensure better effectiveness. As such, they are structured in a variety of formal and informal groups. For example, the Joint European Financiers for International Cooperation (JEFIC) is a network of five European development banks established in 2021 to enhance coordination and visibility among its members. The network actively engages in policy dialogue, advocating for a more coherent and effective European development framework, and provides valuable insights and recommendations on pressing development issues. With a combined financing volume exceeding EUR 21 billion in 2022, JEFIC mobilizes resources for sustainable development worldwide[53].

2.09 LATIN AMERICA AND THE CARIBBEAN

THE EPITOME OF PDBs WORLDWIDE

Following the period of industrial policy post-World War II, many NDBs in the region were dismantled in the 1980s and 1990s. Currently, Latin America and the Caribbean hosts 87 institutions including MDBs, RDBs, NDBs and SDBs. They remain important actors in development financing. As accelerators of sustainable economic development, Latin American PDBs regained significance. However, their history is marked by cycles of boom and bust, reflecting the broader debates about the role of the state in the economy.

KEY TAKEAWAYS

- NDBs emerged in Latin American countries (LAC) in the 19th century. After facing various cycles of popularity and criticisms during the 20th century, they continue to be significant actors in the regional financial ecosystem.
- LAC MDBs as well as Brazilian and Mexican NDBs hold most of the assets in LAC. While both countries have several NDBs, assets are relatively concentrated in large institutions.
- The association ALIDE has identified key strategic areas to help its members embrace a forward-looking perspective.

THE HISTORY OF DEVELOPMENT BANKING IN LAC

The first commercial banks with development functions in LAC emerged in the 19th century, when they surfaced under various titles such as land banks or development institutions. Their primary objective was to attract savings and provide credit activities that were monopolized by foreign-owned banks at the time. The initial wave of development-oriented commercial banks in LAC included institutions such as the Bank of Brazil (established in 1808), the Bank of the Argentine Nation (1891) and the Bank of the Oriental Republic of Uruguay (1896). In addition to their commercial activities, these banks emerged with an economic and social mandate and credit instruments which support small-scale ventures, or pawnshops offering families access to funds by leveraging their possessions[54].

Development banks emerged following the 1929 crisis amid policies state interventionist policies. Within this context, "the first experiences of "pure" development banks were seen, with an exclusive mandate to promote economic growth [and to finance] specific sectors, unlike banks that also carried out commercial activities"[54]. The Corporation for Promotion and Reconstruction of Chile (CORFO) established in 1939 aimed at channeling funds into sectors deemed pivotal for economic advancement. It served as a model for others, such as the National Finance Corporation in Mexico (NAFIN in 1934), the Industrial Development Institute of Colombia (1940), the Venezuelan Development Corporation (1946), and the National Bank for Economic and Social Development of Brazil (BNDES in 1952)[54]. In 1959, amid the Cold War, the Inter-American Development Bank (IDB) was established, replicating the organizational structure of the World Bank on a regional scale, and counting 48 member nations as of today[55]. The Central American Bank for Economic Integration (CABEI), founded in 1960, and the Development Bank of Latin America and the Caribbean (CAF), founded in 1970, are both owned by regional and non-regional member countries and institutions. Notably, Spain and Portugal hold shares in CAF[56], while Korea and Cuba are shareholders of CABEI[57].

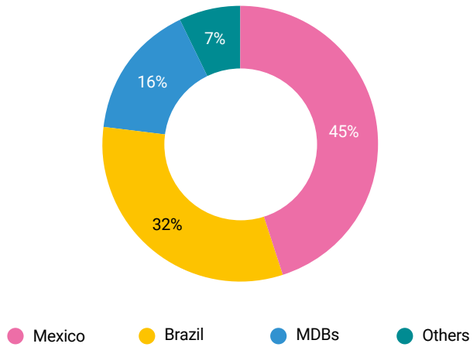
The history of Latin American development banks reflects the history of these institutions globally, with a first wave of banks in the 19th century, and a reinforcement of their roles after crises. Following the period of industrial policy post-World War II, many NDBs in the region were dismantled and restructured in the 1980s and 1990s. Argentina's development bank, Banco Nacional de Desarrollo (BANADE), was liquidated in 1993 due to a high rate of non-performing loans, which accounted for 90% of its total loans[6]. The longevity of other institutions, such as the BNDES, can be attributed to the stability of national political coalitions. Unlike Argentina, Brazil was able to forge a long-lasting societal partnership with sufficient influence to advocate for long-term loans and investments in the real economy[6].

In recent years, some new NDBs have been created or restructured in LAC to expand the range of their activities. In Colombia, la Financiera de Desarrollo Nacional was created in 2011 from an existing dormant institution to support infrastructure financing. It is successfully mobilizing private capital to fund the development of the G4-road program. Chile is contemplating the creation of a new NDB. NDBs in El Salvador, Colombia and Peru have in recent years expanded their rate of operations from wholesale lending to direct lending.

TODAY'S ECOSYSTEM

In LAC, 87 LAC's institutions held USD 478 billion in assets in 2023, accounting for 8% of the region's GDP (USD 6,340 billion)[1]. Latin American MDBs, and NDBs in Mexico and Brazil (59% of the region's GDP[58]) hold 90% of PDB assets in the region (90%), with only 10% of assets being held by the remaining 17 countries[1] (see Figure 13). There are 22 PDBs in total in Brazil and 9 in Mexico[1]. However in both countries assets are concentrated in a small number of NDBs. BNDES alone accounts for an overwhelming 92% of total PDB assets in Brazil[1]. In Mexico, INFONAVIT holds 49% of the total assets of the 9 PDBs and the top 4 hold 97% of these total assets[15].

Figure 13: PDBs' total assets by country in LAC in 2023

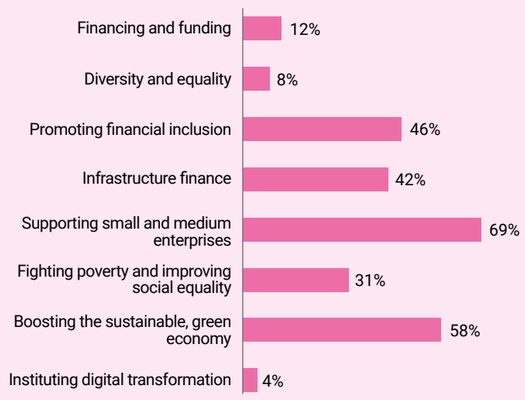


Source: PDB Database (2024)[1]

BOX 4: IDENTIFYING KEY STRATEGIES

ALIDE is the association representing LAC's development banks[60] with the goal to foster cooperation and exchanges among PDBs in Latin America and the Caribbean (see *section 5.02*). Its member's survey reveals that recent events such as the COVID-19 pandemic, supply chain disruptions, geopolitical tensions, and inflationary pressures have significantly affected their operational environment. They face significant challenges, including particularly SME support and sustainable and green economy (Figure 14). To address these challenges, ALIDE has identified key strategic areas (Figure 15) to help its members embrace a forward-looking perspective and adopting a data-driven approach, therefore addressing the region's sustainable development.

Figure 14: Main Challenges identified by ALIDE's members



Source: ALIDE (2024)[59]

Figure 15: Strategic Lines of Action for the future

Source: ALIDE (2024)[59]

2.10 ISLAMIC PDBs

SHARIA-COMPLIANT FINANCE

Islamic finance has grown steadily by 10 to 15% annually for the past two decades and is expected to continue expanding in both Muslim and non-Muslim countries. Beyond religious considerations, Islamic finance has garnered appeal thanks to ethical principles that govern Islamic financial activities, including equity, participation, and ownership. In theory, Islamic finance is resilient to shocks and prone to finance sustainable transitions because of its emphasis on risk sharing, limits on excessive risk taking, and a strong link to the real economy.

KEY TAKEAWAYS

- In the past two decades, Islamic finance has grown rapidly in Muslim and non-Muslim countries as an ethical and responsible alternative of doing finance.
- Islamic finance is an economic development tool for Islamic low- and middle-income countries, which seek to diversify their sources of financing and reduce their dependence on traditional debt financing.
- Islamic finance provides a novel option to finance the SDGs and presents an additional source of funding to reach the 2030 Agenda.

THE RAPID GROWTH OF ISLAMIC FINANCE

Islamic finance refers to financial practices that are compliant with sharia law. Qur'anic principles are the backbone of Islamic finance as they provide a set of fundamental tenets. In Islam, money has no inherent value alone and any sort of interest ('riba') on transactions is strictly prohibited. Financing must be linked to real assets and returns must be linked to risks. Speculation or any financial transaction based on chance ('gharar') such as gambling or hedging is not allowed. Engagement in immoral ('haram') or ethically problematic businesses (e.g. arms manufacturing or alcohol production) is not permitted[61]. An array of financial instruments has been developed to comply with these fundamental tenets (see Table 1).

In its modern form, Islamic finance first emerged in Muslim countries to align finance with Qur'anic principles. Islamic banking started with pioneering experiments during the early 1960s with the establishment of the Mit-Ghamr Islamic Saving Associations (MGISA) in Egypt, gathering Muslim investors' savings and returning profits without violating sharia law. After three years of operation, MGISA doubled its deposits. Islamic finance gained momentum in the 1970s with the establishment of the Islamic Development Bank (IsDB – *see Appendix*) in 1974 along with several significant Islamic commercial banks such as the Dubai Islamic Bank. To support the growth of Islamic financial practices and to ensure strict compliance with sharia, international standard-setting institutions emerged, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in 1991 or the Islamic Financial Services Board (IFSB) in 2002[62].

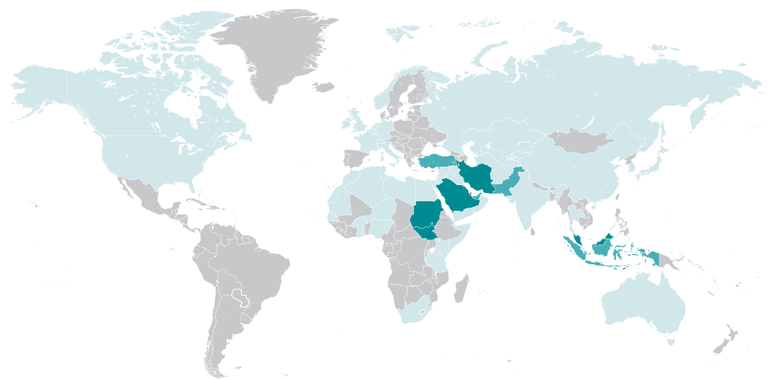
Table 1: Overview of Islamic finance instruments

IJARAH	MUDARABAH	MURABAHA	MUSHARAKAH	SALAM	SUKUK
Ijarah is a contract whereby a financial institution buys an asset and leases it back to a company.	*Mudarabah* is a contract in which one party brings capital and the other brings expertise and management. The profit share is mutually agreed upon and losses borne only by the capital provider.	*Murabaha* involves a deferred payment of a commodity or asset sale from a seller to an Islamic financier, who then sells it to an investor.	*Musharakah* is a joint venture contract by which individuals combine their financial and human capital to create a business or develop an activity.	A *Salam* contract concerns a sale in which the buyer pays in advance, with the agreement that the goods will be delivered at a specified future date.	Akin to bonds, *Sukuk* represents ownership in tangible assets with repayment through rental payments derived from project cash flows, culminating in the purchase of the bond's par value at a later date.

Source: UNDP (2016)[61]

In the past two decades, Islamic finance has grown rapidly in Muslim and non-Muslim countries as an ethical and responsible alternative of doing finance. The weight of Islamic finance on the international financial architecture has risen significantly, notably following the global financial crisis of 2008 and the Arab Spring in 2010. Islamic finance grew from USD 600 billion in 2007[62], prior to the financial crisis, to USD 2.5 trillion in 2018 and is due to exceed USD 3.5 trillion by the end of 2024[63]. Islamic financial products and services expand in more than 50 Muslim-majority and non-Muslim countries, including global finance hubs, such as the UK, the US or Singapore[63] (see Figure 16).

Figure 16: Importance of Islamic finance around the world



Source: UNDP (2017)[64]

THE RISING USE OF ISLAMIC FINANCE FOR DEVELOPMENT

Organization for Islamic Cooperation (OIC) member countries are increasingly turning to Islamic finance as a tool for economic development, seeking to diversify their funding sources and reduce their dependence on traditional debt financing. Many of the 57 countries forming the OIC are Emerging and Developing Economies (EMDEs) with often fragile contexts. In 2018, 21 of its members were considered least developed countries and 21% of the OIC's population still live below the international poverty line, which is double the worldwide figure[63]. While most Islamic finance is operated by private actors such as commercial banks, Muslim-majority governments show a growing interest in structuring and better regulating Islamic financial vehicles to overcome development issues. For instance, the Indonesian government started applying Zaqat funds to finance renewable energy projects in underserved areas[65]. Islamic development finance can be effective to promote low systemic risks and a sustainable financing system, particularly important for EMDEs that have been piling up debt[63].

The Islamic development finance system is mainly composed of Islamic development banks. However, there is a growing interest of conventional financial sector actors in Islamic finance. The Saudi Arabia-based IsDB fully integrated Sharia law in its operational model and has a religion-based operational scope and ownership structure as it only accepts OIC countries as shareholders[3]. Most Islamic PDBs are NDBs such as the Al-Amanah Islamic Investment Bank of the Philippines which exclusively finances pilgrimages to Mekka. However, some major MDBs originally using conventional finance have progressively integrated Islamic finance instruments and foster cooperations with Islamic PDBs to boost their financing to Muslim-majority countries. In 2009, The World Bank Group issued a USD 100 million sukuk for term funding in the Middle East as the first non-Islamic institution in the world[66]. Large MDBs such as ADB, AfDB or ERDB have all signed Memorandums of Understanding with IsDB during the 2010's to set up investment funds in Muslim-majority countries. For example, EBRD set up a USD 120 million investment fund aimed at assisting development of SMEs in Egypt, Jordan, Morocco, and Tunisia[66].

2.11 PDBs AS A SYSTEM

JOINING FORCES

In its positive understanding, a system can be defined as a group of organizations that work together for a particular purpose, or have similar activities[67]. The idea of cooperation between MDBs and NDBs stems from the fact that while development institutions may have distinct geographical priorities and operate under their respective mandates, they still function as a system insofar as NDBs often receive financial resources and technical support from MDBs. Overall PDBs' collective actions support the shared objective of achieving the Sustainable Development Goals (SDGs).

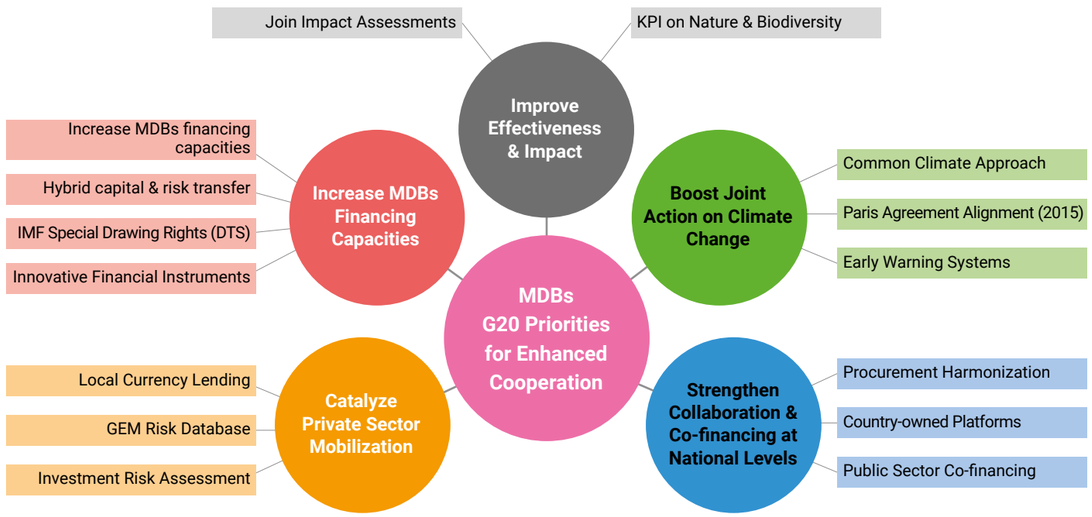
KEY TAKEAWAYS

- Describing PDBs as a system aims at characterizing the way their activities articulate within the development finance architecture.
- Country ownership is fundamental to achieving just transitions: the role of NDBs in a reformed system could be better acknowledged, in particular in their capacity to mobilize local financial ecosystems.
- A PDB system should emphasize cooperation of MDBs with national PDBs and rely on country-led strategies.
- According to FiCS, a stronger and more coordinated system of MDBs and NDBs could trigger a broader systemic shift in the global financial system towards sustainable development.

FOSTERING ACTION AND COOPERATION

In their common declarations at the G20[65], leaders of MDBs identified key areas for enhanced cooperation and accelerated progress towards the SDGs issued in their joint statement in Marrakesh in 2023 and further developed in the MDBs Viewpoint Note published in 2024.

Figure 17: Priority actions identified by MDBs to enhance their cooperation



Source: Adapted Heads of MDBs (2024)[13]

MDBs WORKING AS A SYSTEM FOR IMPACT AND SCALE

There has been growing demand for reforming multilateral development banks in recent years[10,11]. Recent G20 presidencies have laid out a comprehensive agenda for MDB reform calling for several solutions to increase MDB financing capacity, including by mobilizing financing, and enhancing MDB operating models, individually and as a system[12]. Commissioned by the Indian G20 Presidency, the 2023 report of the Independent Expert Group (IEG) calls for MDBs to be "better, bolder, and bigger."[8] This report informed the G20 MDB Roadmap which was endorsed by the G20 in 2024.

A key area of improvement is to scale up the joint financing capacity of MDBs. MDBs are implementing Capital Adequacy Framework measures that could expand their financing capacity in up to $400 billion in the next decade. In this perspective, MDBs are calling for greater recognition of the value of callable capital to facilitate greater lending. MDBs can diversify risk exposure through exchanges of risk among each other and with NDBs. In parallel, MDBs are working to amend lending limits included in their charters or policies. There have been growing calls to channel Special Drawing Rights (SDR), an international reserve whose value is based on a basket of five currencies, to MDBs which some argue could leverage them up three to six times[68].

MDBs also call for joint climate action. They are currently implementing Joint Methodological Principles to assess their alignment on the Paris Agreement[67]. This initiative could inspire all PDBs to adopt joint alignment frameworks.

Enhanced coordination is needed to ensure that MDB operations collectively align with national strategies. In this regard, country and global platforms on developmental challenges, including climate adaptation, energy transitions, and infrastructure, may foster articulation. In parallel, several MDBs have launched the Global Collaborative Co-Financing Platform, a digital platform to facilitate and accelerate co-financing of public sector projects. The first of its kind, it is managed by the WBG, and has more than 150 projects across several participants. The digital platform seeks to help fill financing gaps, improve coordination, facilitate better alignment of MDB financing behind country priorities, and increase transparency.

CONNECTING THE DOTS

While the international debate on MDBs is important, the role of NDBs within the international financial system has received less attention. Despite their considerable number and combined financial assets of USD 15.6 trillion (see section 1.06), the potential of NDBs to serve as partners in financing local projects could be leveraged. Furthermore, the relations between MDBs and NDBs remains insufficiently understood, despite their potential role in aligning international priorities with national investments[67].

More systematic cooperation with MDBs can enhance NDBs' capacity to contribute to sustainable development efforts. G20 governments have called for MDB to enhance cooperation with several actors including NDBs. Think tanks[68] have proposed three main pillars for strengthening MDB-NDB collaboration: harmonize their own measurement methodologies of alignment, support the same process within their national counterparts, and foster these principles throughout all national financial systems, including private banks.

BIBLIOGRAPHY

1. Public Development Banks and Development Financing Institutions Database. PKU AFD. http://www.dfidatabase.pku.edu.cn/
2. World Bank, World Federation of Development Financing Institutions. *2017 Survey of National Development Banks.* World Bank; 2018. doi:10.1596/29815
3. Jiajun Xu, Régis Marodon, Ru X. *Mapping 500+ Development Banks.* Agence française de développement; 2020. Accessed October 21, 2022. https://ideas.repec.org/p/avg/wpaper/en11748.html
4. Mieu B. Côte d'Ivoire : la CNPS va acquérir 19,16% de la banque publique BNI pour 20 milliards de francs CFA. *Jeune Afrique.* Published online March 2019. https://www.jeuneafrique.com/752096/economie-entreprises/cote-divoire-la-cnps-va-acquerir-1916-de-la-banque-publique-bni-pour-20-milliards-de-francs-cfa/
5. Diamond W. *Development Banks. By William Diamond. (The Economic Development Institute, International Bank for Reconstruction and Development).* Vol 18.; 1958. Accessed October 24, 2022. https://www.cambridge.org/core/journals/journal-of-economic-history/article/abs/development-banks-by-william-diamond-the-economic-development-institute-international-bank-for-reconstruction-and-development-baltimore-the-johns-hopkins-press-1957-pp-xiv-128-300/D178F774E288CC24D5A609EE8647A0D6
6. Humphrey C. The Invisible Hand: Financial Pressures and Organisational Convergence in Multilateral Development Banks. *The Journal of Development Studies.* 2016;52(1):92-112. doi:10.1080/00220388.2015.1075978
7. Kolasa T., Ongena S., Humphrey C. (2024), Multilateral Development Bank Bonds, *Swiss Finance Institute, Research Papers Series N°24-87*. Available at SSRN: https://ssrn.com/abstract=5034542 or http://dx.doi.org/10.2139/ssrn.5034542
8. The Independent Experts Group. *Strengthening Multilateral Development Banks The Triple Agenda.*; 2023. https://cdn.gihub.org/umbraco/media/5354/g20-ieg-report-on-strengthening-mdbs-the-triple-agenda.pdf
9. Ray R. Who Controls Multilateral Development Finance? Published online 2017.
10. Lee N, Xton VLA, Matthews S. What Would the Ideal Development and Climate MDB Look Like? Published online April 2023.
11. Feminist Action Nexus. *Retour Sur l'Initiative Bridgetown : Une Analyse et Une Critique Féministes Systémiques.*; 2023. https://wedo.org/wp-content/uploads/2023/06/ActionNexus_BridgetownBrief_FR_June2023.pdf
12. Chakrabarti S, Bains M, Prizzon *A. Reforming MDBs: We Have the Solutions, Now We Need Sustained Leadership.* ODI; 2024. Accessed January 10, 2025. https://odi.org/en/insights/reforming-mdbs-we-have-the-solutions-now-we-need-sustained-leadership/
13. ADB. MDBs Working as a System for Impact and Scale. Published online April 20, 2024. https://www.adb.org/sites/default/files/news-release/962971/Heads-of-MDBs-Viewpoint-Note.pdf
14. Hu B, Schclarek A, Xu J, Yan J. Long-term finance provision: National development banks vs commercial banks. *World Development.* 2022;158:105973. doi:10.1016/j.worlddev.2022.105973
15. Xu J, Marodon R, Ru X, Ren X, Wu X. What are public development banks and development financing institutions ? ——qualification criteria, stylized facts and development trends. China Economic Quarterly International. 2021;1(4):271-294. doi:10.1016/j.ceqi.2021.10.001
16. Smallridge D, Olloqui F. A Health Diagnostic Tool for Public Development Banks. Published online January 1, 2011.
17. World Bank, World Federation of Development Financing Institutions. 2017 *Survey of National Development Banks.* World Bank; 2018. doi:10.1596/29815
18. Attridge S, Xu J, Gallagher K. *Piloting and Scaling Up Clean Energy Transitions: The Role of Development Finance Institutions.* Agence française de développement; 2020. Accessed October 21, 2022. https://ideas.repec.org/p/avg/wpaper/en11702.html
19. Zhang F. The policy coordinator role of national development banks in scaling climate finance: Evidence from the renewable energy sector. *Climate Policy.* 2022;22(6):754-769. doi:10.1080/14693062.2022.2038063
20. Xu J, Marodon R, Ru X. *Mapping 500+ Development Banks.* Agence française de développement; 2020. Accessed October 21, 2022. https://ideas.repec.org/p/avg/wpaper/en11748.html
21. Griffith-Jones S, Ocampo JA, Rezende F. Book review: The Future of National Development Banks. *The Journal of Development Studies.* 2021;57(4):715-717. doi:10.1080/00220388.2020.1860576
22. Ferroni M. Regional Public Goods: The Comparative Edge of Regional Development Banks. Published online 2004.
23. Além AC, Ferreira Madeira R, Agostini Martini R. National systems of development: comparative experiences. Published online 2017.
24. ALIDE, IDFC. *The Role of Subnational Development Banks in Financing an Urban and Territorial Resilient Post-Covid Recovery.;* 2021. Accessed November 2, 2022. https://financeincommon.org/the-role-of-subnational-development-banks-in-financing-an-urban-and-territorial-resilient-post
25. Mazzucato M, Penna C. The Rise of Mission-Oriented State Investment Banks: The Cases of Germany's KfW and Brazil's BNDES. *SSRN Electronic Journal.* Published online January 1, 2015. doi:10.2139/ssrn.2744613
26. Cities Climate Finance Leadership Alliance. *Financing the Local Climate Transition through Local Climate Funds.* Cities Climate Finance Leadership Alliance; 2022. Accessed January 10, 2025. https://www.c40knowledgehub.org/s/article/Financing-the-local-climate-transition-through-local-climate-funds?language=en_US
27. European Commission. Directorate General for Economic and Financial Affairs. *The Role of Public Development Banks & Institutions in the Implementation of the United Nations' Agenda 2030: A Survey in Europe.* Publications Office; 2023. Accessed April 27, 2023. https://data.europa.eu/doi/10.2765/82646
28. Dalhuijsen E, Gutierrez E, Kliatskova T, Mok R, Regelink MGJ. *Greening National Development Financial Institutions: Trends, Lessons Learned, and Ways Forward (Overview).* Washington, DC: World Bank; 2023. doi:10.1596/978-1-4648-2031-1
29. Léon F. Public bank lending in Africa in times of crisis. *Agence française de développement.* Published online September 1, 2022. https://www.afd.fr/en/ressources/public-bank-lending-africa-times-crisis
30. Ndikumana L, Naidoo K, Perez F. *Is There a Case for National Development Banks in Africa? Conceptual Rationale and Empirical Evidence.* Political Economy Research Institute (PERI); 2021. Accessed October 26, 2022. https://peri.umass.edu/component/k2/item/1455-is-there-a-case-for-national-development-banks-in-africa-conceptual-rationale-and-empirical-evidence
31. ACET. *Challenges and Changes: The Political Economy of the Development Bank of Rwanda.; 2022.* Accessed October 21, 2022. https://acetforafrica.org/research-and-analysis/reports-studies/multi-country-studies/challenges-and-changes-the-political-economy-of-the-development-bank-of-rwanda/
32. Attridge S, Chen Y, Mbate M. *Financial Performance and Corporate Governance: Evidence from National Development Banks in Africa.* ODI; 2021. Accessed October 21, 2022. https://odi.org/en/publications/financial-performance-and-corporate-governance-evidence-from-national-development-banks-in-africa/
33. Attridge S, Chen Y, Getzel B. *Weathering the Storm: African Public Development Banks' Response to Covid-19 and Their Recovery Role.* ODI; 2022. Accessed October 21, 2022. https://odi.org/en/publications/weathering-the-storm-african-public-development-banks-response-to-covid-19-and-their-recovery-role/
34. AADFI. Report of the Joint International CEO forum. Published online November 2023.
35. Introduction | China-Pakistan Economic Corridor (CPEC) Secretariat Official Website. Accessed July 15, 2024. https://cpec.gov.pk/introduction/1
36. China Development Bank. Accessed July 15, 2024. https://www.cdb.com.cn/English/gykh_512/khjj/
37. Société de développement du projet des Trois Gorges de Chine. April 7, 2007. Accessed July 15, 2024. https://web.archive.org/web/20070407133833/http://www.ctgpc.com.cn/sx/sxgczds.php?mClassId=015004
38. ADBC. Accessed July 15, 2024. https://www.adbc.com.cn/en/n1060/n1066/index.html
39. KDB Bank Seoul. Accessed July 15, 2024. https://www.kdbbank.eu/kdb-bank-seoul
40. Gov't mulls a capital increase of over $1BN for KDB - 매일경제 영문뉴스 펄스(Pulse). Pulse. Accessed July 15, 2024. https://pulse.mk.co.kr/news/english/11005274
41. History | About JICA - JICA. Accessed July 15, 2024. https://www.jica.go.jp/english/about/basic/history/index.html
42. OCDE. *Japan.*; 2024. doi:https://doi.org/https://doi.org/10.1787/b8cf3944-en
43. adbheadhoncho. Credit Fundamentals. December 19, 2023. Accessed July 15, 2024. https://www.adb.org/work-with-us/investors/credit-fundamentals
44. Fitch Ratings. Ratings Report : Bank for Agriculture and Agricultural Cooperatives. Published online October 5, 2023. Accessed September 13, 2024. https://www.fitchratings.com/research/banks/bank-for-agriculture-agricultural-cooperatives-05-10-2023
45. Bank for Agriculture and Cooperatives (BAAC). *Annual Report 2023.* BAAC; 2024. Accessed September 13, 2024. https://www.baac.or.th/en/content-report.php?content_group_sub=3
46. Corporate Profile - BPMB. Accessed July 15, 2024. https://www.bpmb.com.my/corporate-profile
47. Notable Projects - BPMB. Accessed July 15, 2024. https://www.bpmb.com.my/notable-projects
48. European Commission. Repower EU. European Commission. Accessed December 2, 2024. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en
49. Clifton J, Díaz-Fuentes D, Gómez AL. The European Investment Bank: Development, Integration, Investment? J of Common *Market Studies.* 2018;56(4):733-750. doi:10.1111/jcms.12614
50. European Investment Bank. Investor Relations. EIB. Accessed December 2, 2024. https://www.eib.org/fr/investor-relations/index.htm?
51. Gavas M, Pérez A. *The Future of the European Financial Architecture for Development.* CGD; 2022. Accessed October 24, 2022. https://www.cgdev.org/publication/future-european-financial-architecture-development
52. Team Europe Initiatives. https://international-partnerships.ec.europa.eu/policies/team-europe-initiatives_en#what-is-team-europe
53. JEFIC – Joint European Financiers for International Cooperation. *Agence Française de Développement.* Accessed January 10, 2025. https://www.afd.fr/en/jefic
54. Calloia F. After over a century of development banks in Latin America and the Caribbean, what institutions do we find ourselves with today? In: *ALIDE's 50 Years Past, Present and Futur.* ; 2018. https://www.alide.org.pe/wp-content/uploads/2018/06/Book-50-years-of-ALIDE-Past-present-future-of-Development-Banks-ilovepdf-compressed-1.pdf
55. Comment nous-sommes organisés. *Banque Interaméricaine de Développement.* https://www.iadb.org/fr/qui-sommes-nous/structure-organisationnelle
56. Who we are. CAF. https://www.caf.com/en/about-caf/who-we-are/
57. Member countries. CABEI. https://www.bcie.org/en/member-countries
58. The World Bank. GDP (current US$) - Latin America & Caribbean. Data. https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=ZJ
59. ALIDE General Secretariat. *Latin American Development Banking System : Strategic Fields of Action and Scope of the International Financial Architecture.* ALIDE;2024. Accessed January 10,2025. https://alidedatabank.org/1001/plantilla/DocumentosBiblioteca/1443.pdf
60. ALIDE. *ALIDE's 50 Years. Past, Present & Future.* Latin American Association of Development Financing Institutions (ALIDE); 2018. https://www.alide.org.pe/wp-content/uploads/2018/06/Book-50-years-of-ALIDE-Past-present-future-of-Development-Banks-ilovepdf-compressed-1.pdf
61. UNDP, IICPSD. Islamic finance and impact investing. Published online 2016. https://www.undp.org/policy-centre/istanbul/publications/islamic-finance-and-impact-investing
62. IMF Working Paper. An overview of Islamic finance. Published online June 2015. https://www.imf.org/en/Publications/WP/Issues/2016/12/31/An-Overview-of-Islamic-Finance-42976
63. OECD. *How Islamic Finance Contributes to Achieving the Sustainable Development Goals.* OECD; 2020. doi:10.1787/ac1480ca-en
64. UNDP, IICPSD. Blending Islamic finance and impact investing for the global goals. Published online March 2017. https://www.undp.org/policy-centre/istanbul/news/blending-islamic-finance-and-impact-investing-sustainable-development-goals
65. UNDP. Unlocking Islamic Social Finance to Help Communities Address Vulnerability and Inequality.https://www.undp.org/speeches/unlocking-islamic-social-finance-help-communities-address-vulnerability-and-inequality. October 2018.
66. W. Sidlo K. Islamic finance and Development Financial Institutions (DFIs). Published online September 2017. https://www.gov.uk/research-for-development-outputs/islamic-finance-and-development-financial-institutions-dfis
67. SYSTEM | English meaning - Cambridge Dictionary. Accessed January 10, 2025. https://dictionary.cambridge.org/dictionary/english/system
68. What is the SDR? IMF. Accessed January 10, 2025. https://www.imf.org/en/About/Factsheets/Sheets/2023/special-drawing-rights-sdr
69. Finance in Common. *FiCS' Contribution for FFD 4 Tentative Report Summary.* Finance in Common; 2024. Accessed January 10, 2025. https://financing.desa.un.org/sites/default/files/2024-10/FiCS%20Elements%20Paper%20for%20FfD4.pdf

3.01 BALANCING DEVELOPMENT IMPACT AND FINANCIAL SUSTAINABILITY 70
3.02 FINANCIAL INSTRUMENTS 72
3.03 CLIENTS AND BENEFICIARIES 74
3.04 LIABILITIES 76
3.05 PROFITABILITY 78
3.06 GOVERNANCE 80
3.07 PRUDENTIAL REGULATION AND SUPERVISION 82
3.08 RISK MANAGEMENT 84
3.09 MONITORING & EVALUATION (M&E) 86
3.10 FAILING DEVELOPMENT BANKS 88

CHAPTER

3 BUSINESS MODELS

BUSINESS MODELS

Chapter 3 primarily discusses how NDBs balance their developmental mandates with financial sustainability requirements (*3.01*): how they operate (3.02), what clients and beneficiaries they serve (*3.03*), how they fund their operations (*3.04*), how they secure profitability (*3.05*), governance (*3.06*), their regulatory and oversight frameworks (*3.07*), how they manage risks, monitor and evaluate results and impact (*3.08* and *3.09*). Where relevant, the practices and experience of MDBs on these various issues is presented. The last section takes stock of experiences of failing NDBs (*3.10*).

NDBs must meet development goals while remaining financially sustainable. This requires adapting products, pricing, and risk appetite. As NDBs are not for profit institutions and have access to low-cost long-term funding, they can fund projects with high development impact that commercial banks find unattractive due to low profitability or long tenor. Subsidies may be needed for some high-impact projects, providing that limit potential distortions. They should be targeted and strategically deployed to foster efficiency and innovation.

MDBs and NDBs use diverse financial instruments, primarily loans, directly or via on-lending. Equity and guarantees are less common, probably due to higher risk. NDBs mostly focus on small businesses, individuals lacking access to financial services, and local governments. MDBs and some large NDBs provide international development financing. NDBs rely more on equity and bonds than commercial banks, especially in high/middle-income countries. Lower-income country NDBs use more international development finance. Most NDBs are profitable, though the role of government subsidies in their financial equilibrium is still unclear.

Private sector lending requires sophisticated risk management and operational independence. Political influence and poor governance can hinder development goals and cause financial distress. Second-tier lending which effectively outsources credit decisions to private institutions, associated with strong governance and effective prudential oversight can limit political influence.

Good governance balances relationships between management, board, shareholders, and stakeholders. The OECD guidelines for the Corporate Governance of State-Owned Enterprises state the government's role is setting mandates, appointing qualified directors, and ensuring NDB autonomy. Most NDBs are regulated under the same standards like commercial banks. However, there are debates on the suitable prudential frameworks, but supervisory independence remains a must.

NDBs and MDBs directly engaging with the private sector face a spectrum of financial and operational risks. Exposure limits, co-lending, financial hedges and insurance, sound credit origination and credit monitoring procedures are important elements for good risk management. Effective monitoring and evaluation (M&E) frameworks enable enable MDBs and NDBs to fine-tune their strategies, optimize resource allocation, and demonstrate their contributions to socio-economic development and impact.

While NDBs have tremendous potential to advance development, experiences of failing institutions also underline that NDBs should not lose sight of their mandate but must remain agile and adaptable to their evolving financial environment.

3.01 BALANCING DEVELOPMENT IMPACT AND FINANCIAL SUSTAINABILITY

STRIKING THE RIGHT BALANCE

PDBs are distinctive financial institutions, as their business model is designed to both fulfill their public mandate and ensure sound financial management. Understanding how this dual objective shapes their operations requires a thorough examination of the driving factors and operational constraints that govern their activities.

KEY TAKEAWAYS

- Central to the business model is a balancing act: achieving development goals in line with their mandate and policy objectives, while remaining financially sustainable.
- PDBs are not for profit institutions and have access to low-cost long-term funding so they can fund projects with high development impact that commercial banks find unattractive due to low profitability or long tenor.
- The right balance requires PDBs to adapt their product offering to target clients and/ or beneficiaries; adjust their pricing to achieve financial sustainability objectives; calibrate their risk appetite; and maximize the use of resources to make a large-scale impact.

ADAPTING TO DIFFERENT OBJECTIVES

Maximizing the developmental impact of their financing requires PDBs to address market failures, foster market creation, and mobilize funding at scale for sustainable operations (Figure 1).

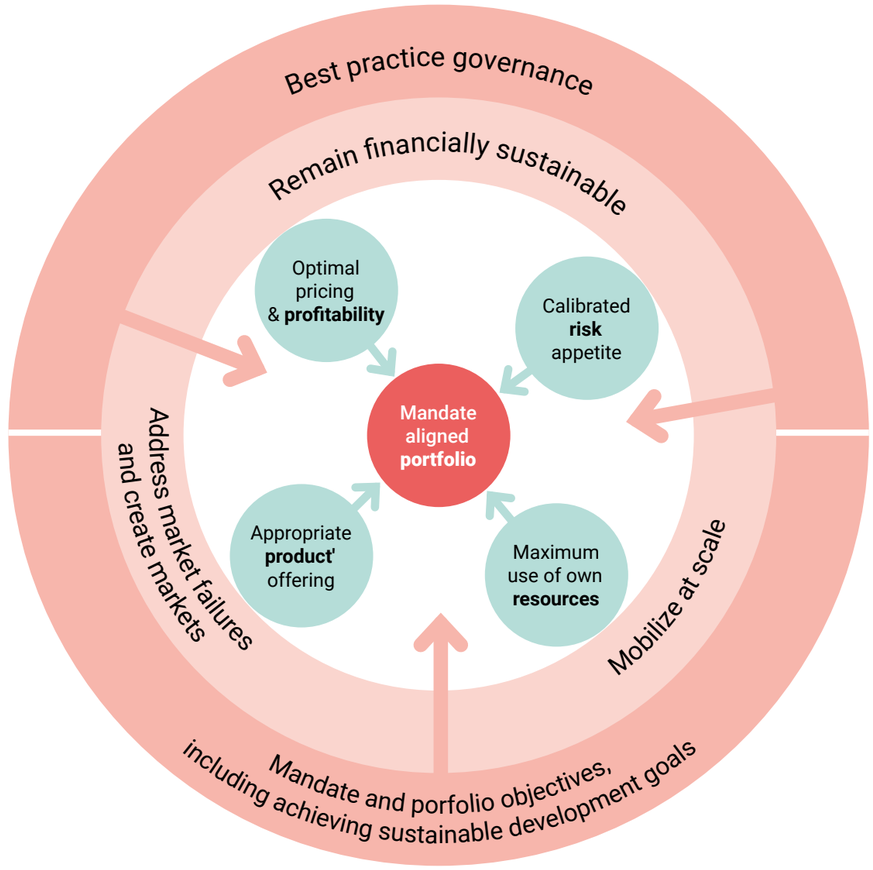
Achieving these goals requires the adaption of their funding sources, operations, and product offering. To fill credit gaps and make projects with developmental impact bankable, MDBs and NDBs fund more projects using their own capital and have access to long-term funding, including from development partners (see section 3.03) to reduce their cost of long-term funds. For example, customer deposits only represent a fraction of NDB resources: deposits are accepted by 55% of NDBs but represent 15% of resources on average – contrasting with commercial banks for which deposits often represent more than 50% of resources[1]. MDBs and NDBs need to adapt their products and services offering, to ensure they meet their beneficiaries' needs. When lending, they either interact directly with public or private sector borrowers (first-tier), or they can channel funds to end borrowers through financial intermediaries (second-tier). Some MDBs (e.g. the International Financial Corporation part of the World Bank Group) and most NDBs do both[2]. The pricing and risk management approach should enable to specifically reach borrowers or projects which are credit-constrained, in order to optimally allocate resources and prevent crowding-out of the private sector. NDBs and MDBs must also leverage their resources to enhance the quantity of funds intermediated, while ensuring that their sources of funding are compatible with the products they offer, in particular to offer longer term maturity as well as lower interest rates.

BALANCING IMPACT AND PROFITABILITY

Balancing the achievement of development goals with financial sustainability is a key challenge for NDBs. It is often argued that profitability goals, even if low for NDBs compared to private banks, may conflict with their developmental mandates so NDBs need to have access subsidies and grants from governments or donors[2]. Grants and subsidies are often used by MDBs when providing international development finance but also by NDBs when financing domestic developmental projects. However, some NDBs targeting credit constrained borrowers focus on providing access to funding rather than to provide subsidized lending. This is for example the case of Business Development Bank of Canada (BDC), which lends to risky firms underserved by private banks. BDC loans carry higher loan rates than commercial banks to ensure financial sustainability of the institution. This approach to fill credit gaps is based on the idea that loan pricing is often less of a problem for credit constrained borrowers than the lack of access to financing itself[3].

Maintaining financial sustainability is essential for NDBs as well as for private sector oriented MDBs. It strengthens their autonomy and reduces dependence on public support. By capitalizing the results, it increases the bank's capital base, which in turn to mobilize additional funds for new projects. While it may be acceptable in the short-term, persistent low profitability undermines investment capacity[4] by eroding investors' confidence and credit ratings, thereby limiting their ability to access stable and affordable funding from capital markets[5]. Limited profitability also constrains a bank's ability to cover its operational costs, expand its activities, and drive innovation through the exploration of new products or new markets. Weak financial performance can compromise NDBs operations and autonomy if frequent recapitalizations to cover losses are required..

Figure 1: Business Model – A simple Pictorial Representation



Driving factors: these factors are key to the operations of PDBs and play a fundamental role in business execution

Why investment decisions are made: these factors drive PDBs' investment decisions and help achieve high-level shareholder objectives

How PDBs make investment decisions: these factors are used to source investment opportunities to achieve financial efficiency objectives, in pursuit of their mandate

Source: Adapted from Attridge & Novak (2022)[4]

3.02 FINANCIAL INSTRUMENTS

PRODUCTS OFFERED

Development Banks offer a broad range of financial products adapted to the diverse needs of their clients and tailored to support development projects. The most common products include loans (both at market conditions or subsidized), credit lines and project finance. Guarantees, equity and quasi-equity instruments are offered by specialized institutions. Grants and trust funds, when offered, are usually provided by external sources that entrust PDBs to manage them on their behalf.

KEY TAKEAWAYS

- ➜ PDB portfolios can comprise debt finance, equity investment, as well as guarantees, credit insurance, and grants.
- ➜ Debt finance through loans is the most common financial instrument used. Loans can be provided directly (first tier) or through financial intermediaries (second tier). Only few NDBs operate exclusively in second tier, serving small businesses.
- ➜ Due to higher risks and intensive management, equity investments are not as widely utilized as loans.
- ➜ Higher risks and lack of incentives prevent PDBs from issuing more financial guarantees.

Figure 2: A simplified representation of the products that can be offered and/or distributed by PDBs

LOANS	EQUITY		OTHERS
Great variety in characteristics Structure Maturity Security Repayment Priority	**Direct Stakes in companies**	**Equity funds** (often diversified across multiple industries)	**Guarantees** **Credit Insurances** **Grants** **Other innovatives products**
		Quasi-equity (instruments combining debt and equity features - e.g. convertible loans)	

Source: Authors

AN OVERVIEW OF PDB PRODUCTS

Loans, also known as debt finance, are the primary product offered by NDBs, to serve all types of customers and sectors[6]. Studies find that loans are the main asset in the financial portfolio of PDBs[4]. MDBs are well known for the provision of very long term loans (up to 30-40 years), but 90% of NDBs surveyed by the World Bank offered long-term loans to their clients[9]. PDBs are described as a source of patient capital, financing projects that generate returns after a long period of time[10]. Loans offer straightforward funding mechanism with low transaction costs, a fixed repayment schedule, and defined returns[4]. Loans involve risk: 58% of NDBs experienced higher non-performing loan (NPLs) ratios than the average for the banking sector in their country during 2010-2015. To the extent that NDBs fund riskier projects, the higher NPL ratio is to be expected. However, a few of the surveyed development banks experienced consistently high NPL ratios, sometimes exceeding 30 percent, pointing to deficiencies in credit risk management and governance[9]. MDBs, on the other hand, providing loans to governments or public sector entities with a government guarantee tend to have low NPLs. For example, from 1959 to 2023, the IDB reports and average default rate in its sovereign-guaranteed loan portfolio of 0.5%[60]. IDB invest, part of the IDB group, reported a 1.8% default rate on its loans to the private sector.

Loans can be provided to borrowers directly (first tier) and through financial intermediaries (second tier), with the majority of NDBs offering both. Only 10% of NDBs surveyed by the World Bank operated exclusively on second tier (all of them SME focused), 40% offered only direct loans while 50% provided both types of loans. MDBs, particularly those serving private sector, also typically offer first and second tier loans. While many development banks offer SME loans only in second tier, those funding infrastructure projects tend to provide direct loans. Direct loans provide flexibility to target the loan structure to beneficiaries and avoid margins charged by financial intermediaries. Second tier loans can be operated with a limited branch network, reducing operational costs. They also limit the scope for crowding out private sector. Delegating credit decisions to private intermediaries limits the scope for political interference which makes the model particularly suitable in contexts of poor governance culture[3].

NDBs gradually developed capabilities since the 1980s, to inject capital into high-risk sectors that might otherwise lack funding[11]. MDBs operating with the private sector and some NDBs invest in direct equity stakes in companies, equity funds, or quasi-equity instruments (see Figure 2). Several NDBs acknowledge that developing equity investment products took time, sometimes decades, and pointed that they had to prove to their boards that equity investments can be developmental and provide financial returns[11]. According to existing studies, equity would represent between 20% and 47% of PDBs' product portfolio[9,11].

Guarantees are used to mitigate risks for other investors and attract private sector investment in development projects[6]. By limiting investors' potential losses, guarantees make projects more attractive and financially viable. This is particularly important in sectors like infrastructure, renewable energy, or social housing, where upfront investment costs are high, and returns may be slow to materialize[12]. Guarantees are also used to support working capital loans to SMEs. Usage of guarantees varies significantly based on several factors including the economic development of the target country, the risk environment, and the specific mandates of PDBs. 44% of NDBs surveyed by the World Bank offered credit guarantees[9]. Some NDBs distribute credit insurance provided by insurance companies[6].

MDBs and NDBs also provide grants to enhance their development impact. Grants can be offered to finance financially unviable projects with a high developmental impact. IDA, part of the World Bank, offers grants as well as loans at zero or low rates. Often grants are used to make projects bankable by reducing borrowing costs. Often grants are provided through trust funds that allow MDBs and NDBs to pool resources from multiple sources (including other institutions) to address specific development challenges. Off-balance sheet funds, are administrated by NDBs and some MDBs on behalf of fund providers who bear the credit risk. In on-balance sheet funds, PDBs bear the credit risk[5]. Fund stakeholders benefit from NDBs' local experience, supervision capacity, financial control frameworks, and monitoring and evaluation capabilities[13]. Relatively high administrative and operational costs of managing such funds can hinder their effectiveness[14].

IMPACT OF FINANCIAL INSTRUMENTS ON DEVELOPMENTAL AND FINANCIAL PERFORMANCE

NDBs and MDBs need to carefully target their customers and adopt a suitable pricing strategy for their loans loans to avoid crowding out the private sector. Loans provided by MDBs and NDBs are generally cheaper than those available from commercial banks[6]. This cost advantage, even in the absence of subsidies, stems from the lower funding costs due to the public or semi-public status and not-for-profit nature of these institutions. However, some NDBs who position themselves in the risk frontier charge higher prices than commercial banks when lending in first-tier. As borrowers' access to commercial funding improves, they will reduce their demand for NDB funding. This pricing strategy ensures NDBs complement private banks and ensure additionality even when lending directly[16]. NDBs can also ensure they do not crowd out the private sector by lending on second-tier or targeting underserved segments such as young firms without credit history or informal firms[16].

Despite being a highly developmental product, the use of equity is relatively limited due to the higher risks and the intensive management often required. Equity investments signal to other potential investors the attractiveness of certain markets or sectors[11]. By investing in equity, development banks may influence corporate governance and sustainability practices in the investee companies, fostering broader societal benefits. However, this involvement can also be a challenge in terms of resources required to effectively manage these roles[6]. Another factor contributing to the relatively limited use of equity is the greater volatility in returns[4].

Financial guarantees for large investments have been traditionally underutilized due to underlying risks. Conservatives have argued that the low use of project guarantees stems from prudent risk management. Critics argue that a combination of risk aversion and lack of incentives discourage the use of guarantees in key sectors.[17] The limited incentives arise from guarantees' smaller ticket size compared to debt, and the fact that they do not expand PDBs' balance sheet. These limited incentives impact the effectiveness of NDBs and MDBS operating with the private sector business models by restricting their financial additionality and development impact, particularly in challenging and frontier markets[1]. Lack of standardized transactions involving multiple partners and higher transaction costs also limits the use of guarantees[18]. In 2024, the World Bank Group launched a guarantee platform with the goal to boost annual guarantee issuance to $20 billion by 2030.

3.03 CLIENTS AND BENEFICIARIES

OVERVIEW

Most MDBs and NDBs support SMEs and rural smallholders. They also finance international development and investments both by sovereign government or sub-sovereign local authorities, as well as private investors. Depending on the national context of their operations, they also support financial inclusion.

KEY TAKEAWAYS

- Due to their importance in fostering economic growth and employment, 82% of PDBs primarily support SMEs.
- Half of the development banks focus on financial inclusion.
- Most MDBs support rural smallholders.
- International development financing is mostly provided by MDBs and NDBs from wealthier countries.
- About one-third of all PDBs provide financial support to local governments.

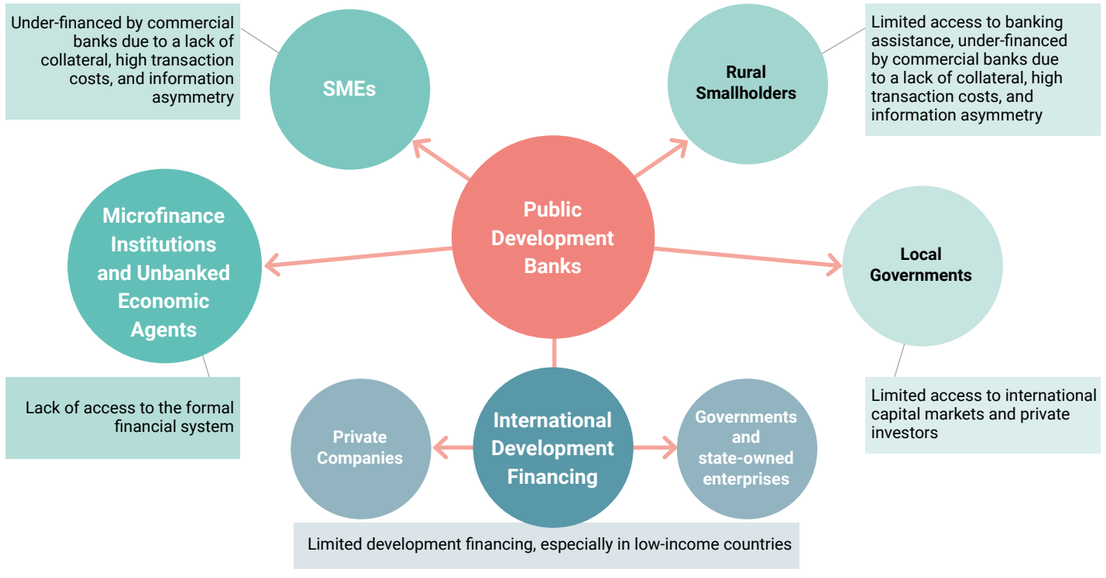
COMMITTED TO SMEs AND FINANCIAL INCLUSION

SMEs, are key drivers of economic growth and employment. SMEs account for 90% of all enterprises worldwide and employ 50% of the private sector workforce[19]. However, they face numerous challenges including lack of collateral, higher transaction costs, and information asymmetry[20]. It has been argued that regulatory frameworks within which commercial banks operate, can exacerbate this challenge[21].

82% of NDBs support SMEs (see Figure 4), often providing loans through financial intermediaries that finance SMEs. NDBs provide loans tailored to the specific needs of SMEs while strengthening their capacity to manage risks and develop innovative financial products[21]. NDBs often use this "second-tier" as it reduces operational costs and does not require a large branch network. NDBs lending directly to SMEs can have more flexibility in tailoring their products. However, they need more sophisticated risk management and adequate targeting to assess risks and avoid crowding-out private sector.

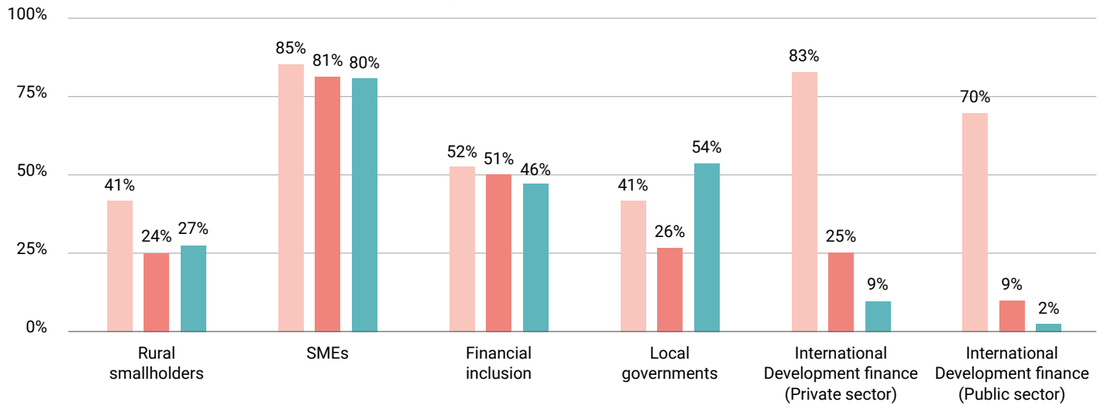
About half of development banks address the issue of financial inclusion, which refers to providing financial services to individuals who previously lacked access. In many regions, a significant portion of the population remains unbanked, with approximately 1.7 billion adults worldwide without access to banking services[22]. Financial exclusion is driven by a range of factors, including insufficient funds, limited financial literacy, prohibitive banking costs, and logistical barriers to accessing financial institutions. NDBs frequently support micro-enterprises and some NDBs also offer savings products to individuals, particularly in rural areas of developing countries.

Figure 3: Development Banks' borrowers



Source: Authors, adapated from J. Xu, R. Marodon and al. (2023)[59]

Figure 4: Distribution of Clients



Source: PDB Database (2024)[23], unpublished data

INTERNATIONAL FINANCING, RURAL SMALLHOLDERS, AND LOCAL GOVERNMENTS

International development financing is predominantly provided by MDBs and NDBs of high-income and upper-middle-income countries[24]. This international form of financing, connected to ODA principles, supports development projects across national borders, promoting economic development in less developed countries. It includes both private and public sector financing, with each country managing such funds through its own institutional system. PDBs such as AFD, KfW, and JICA typically have primary responsibility for this mandate (see *section 2.05*).

About one-third of PDBs provide financial support to local governments, mostly through the intermediation of the central government. Cities and territories are crucial in addressing sustainable development challenges, as highlighted since the 1992 Earth Summit with the initiation of Local Agenda 21. The rapid urbanization, with predictions that 60% of the global population will reside in urban areas by 2030, underscores the immense need for robust urban infrastructure[25]. However, local governments face difficulties in securing necessary funding due to their difficulty to structure projects in ways that attract private investors and financial markets' insufficient recognition of their risk profiles. PDBs specializing in municipal financing can bridge these gaps by supporting the structuring and financing of municipal projects through public-private partnerships (PPPs) and providing funding for non-revenue-generating public investments.

3.04 LIABILITIES

FUNDING SOURCES

Access to large, long-term, and stable funding sources is a prerequisite for PDBs to achieve their developmental goals. They fund a larger share of their assets than commercial banks with equity financing . They typically raise funds in capital markets. In lower-income countries with underdeveloped capital markets, official development assistance is more used. The appropriate funding structure varies depending on each PDB's specificity.

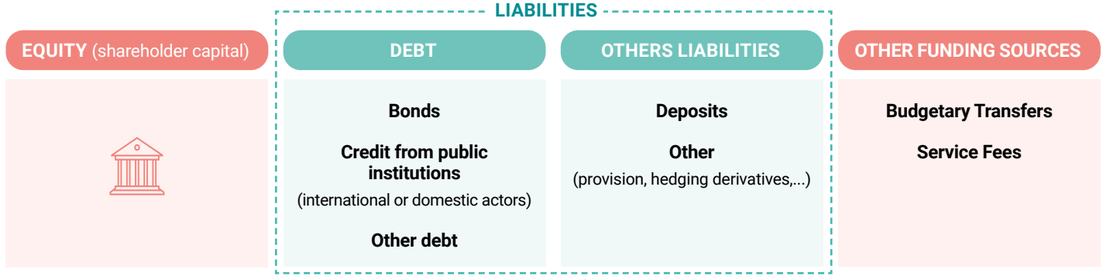
KEY TAKEAWAYS

- ➜ PDBs rely more than commercial banks on equity to fund their assets.
- ➜ NDB liabilities comprise a variety of instruments including deposits, bonds and loans. NDBs rely less on deposits than commercial banks. They are active issuers of bonds on capital markets, particularly those in high- and middle-income countries.
- ➜ Government support reduces NDB cost of funding. Goverments also provide equity, subsidies, and often guarantee NDB debts.
- ➜ The appropriate funding structure of an NDB depends on its characteristics, including size, mandate, or area of operations.

EQUITY

Equity financing (share capital) is a key channel through which governments provide funds to PDBs. Most MDBs and NDBs are owned by one or several governments/public sector entities, while others open their capital to private investors (see *section 2.01*). Profits retained within the bank as reserves are part of the bank equity. Retained profits are higher for NDBs than for commercial banks as their main shareholders (governments) do not demand significant dividends from their activities[26]. Larger NDBs are typically perceived as systemically important so the government would ensure they does not default on its liabilities. Government support is also expected for MDBs and factor in their ratings. Hence larger MDBs and larger NDBs can raise longer-term liabilities at affordable rates[27].

Figure 5: A simplified representation of NDBs' funding sources



Source: Authors

DEBT VS DEPOSITS

MDBs and NDBs rely less on debt to fund their assets than commercial banks. Most of the liability side of any bank consists of debt financing, and comprises bonds, deposits, interbank and other borrowing. NDBs, on average, fund 71% of their assets with debt instruments. This ratio is lower than for commercial banks[26], since NDBs' long-term assets are viewed as risky. On average, the weight of long-term liabilities has increased over the past two decades from 25% to 35% reflecting capital market development and financial innovation[8]. MDBs have also had in recent years a conservative approach to debt issuance to fund their activities[61].

Virtually all MDBs and 46% of NDBs issue bonds on capital markets – the latter often with the support of their government[26]. This support can be provided through guarantees or credit enhancements that convert bonds issued by an NDB into "government bonds" or "quasi-government bonds", reducing the interest paid to investors to purchase the bonds. Many NDBs benefit from the expectation that the government will avoid bankruptcy of the institution (e.g., implicit government guarantee). Governments sometimes introduce regulations requiring financial institutions to purchase a certain amount of NDB bonds at a given price. When this price is below market rates, it provides a subsidy for the NDB at the expense of financial investors. These types of mandatory investment requirements, considered by some to be financial repression, can reduce local financial savings and intermediation. Small and micro NDBs are often unable to issue bonds on capital markets due to issuance costs. In these cases, NDBs often rely on government, treasury, or central bank loans. Their liabilities are often earmarked to specific developmental programs, providing them with an opportunity to issue bonds matching specific eligibility criteria such as green, social, or sustainability-linked bonds that are attractive to ESG investors (see Box 1).

Deposits are accepted by 55% of NDBs but represent 15% of resources on average – contrasting with commercial banks for which deposits often represent more than 50% of resources[1]. Many NDBs only collect wholesale term deposits from companies and investors to fund their long-term assets as they lack a branch network to collect deposits from the public.

NDBs and MDBs with regional focus also borrow directly from MDBs, bilateral donors, aid agencies or other development banks. 10% of NDBs globally (18% in low-income countries) benefit from Official Development Assistance (ODA), in the form of grants and concessional loans[26]. NDBs often also act as intermediaries by on-lending funds received from international actors (including concessional funds considered as ODA) to targeted beneficiaries.

Provisions, hedging derivatives and other liabilities are instruments to cope with risks. For example, development banks keep financial reserves in case of default on their outstanding loans, or they buy derivatives to protect themselves against currency mismatches.

Beyond liabilities, NDBs also rely on other funding sources, in particular direct budgetary transfers or service fees. They may receive direct budgetary transfers from their government or international organizations, which provide an important funding source for some (see *section 3.04*). Some NDBs also receive service fees from their government or partners, in exchange for services provided (e.g., technical assistance, project or fund management).

BOX 1: SOCIAL, GREEN, SUSTAINABILITY-LINKED... WHAT ARE THESE "NEW" BONDS?

Global issuance of green, social, sustainability, and sustainability-linked bonds reached USD 1 trillion in 2023, up from USD 115 billion in 2016[28]. These bonds are used by both public and private financial institutions to raise funds whose use is dictated by specific eligibility criteria. For instance, green bonds exclusively finance projects with environmental benefits, such as renewable energy or pollution reduction. To reduce "impact-washing", international standards have been created which seek to provide a common taxonomy of "sustainable" activities that can be financed through such bonds – such as the EU taxonomy[28]. PDBs are at the forefront of this financial innovation and often catalyze development of local sustainable financing markets by demonstrating the feasibility of such bonds with potential issuers. The first ever green bond was thus issued by the European Investment Bank in 2007[28]; and Banque Ouest Africaine de Développement (BOAD) issued the first ever Sustainability Bond in Africa in January 2021[29].

FUNDING STRUCTURES

The capital adequacy framework differs among PDBs, including the role of "callable capital", which is capital that is not paid-in but can be called in extreme circumstances of financial stress. In some MDBs, callable capital has been an integral part of their capital structure and a foundational element in their capital adequacy framework. Major MDBs have worked with shareholders to provide increased clarity on the process and governance surrounding callable capital, including clarification on scenarios that could lead to a call, when callable capital can be called, how a call could be made, and how shareholders could respond to a call. Some MDBs are working on new ways to enhance the value of callable capital[30]. Less is known about the funding structure of NDBs and SDBs, which are highly diverse. They often finance local operations through national and international on-lending[31].

3.05 PROFITABILITY

THE CHALLENGE OF FINANCIAL SUSTAINABILITY

KEY TAKEAWAYS

- ➜ Although profit maximization is not the main driver of development banks, an adequate level of profitability is needed to ensure financial sustainability.
- ➜ Most report profits albeit the level of profits before subsidies is typically not reported.
- ➜ Profitability can be achieved while meeting developmental goals.
- ➜ MDBs lending to private sector and NDBs operate in riskier sectors and segments. Sophisticated risk management capabilities and operational independence are essential for PDBs to properly price their risks.

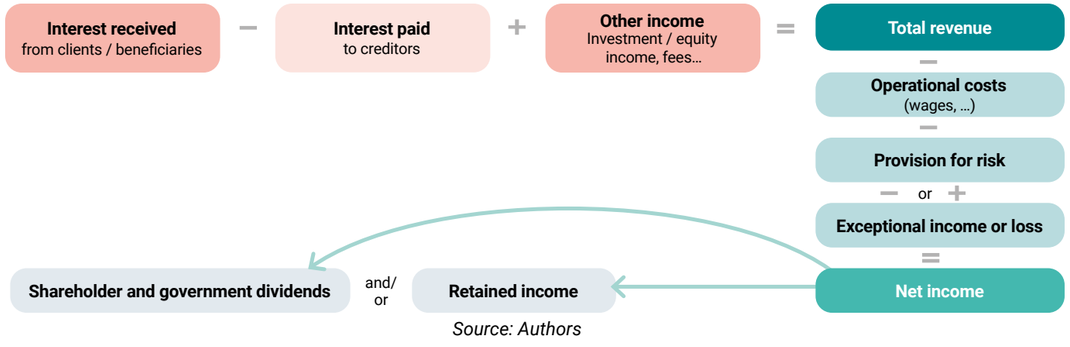
While profitability is not the primary focus of PDBs, abiding to sound banking principles is essential. To ensure financial sustainability, PDBs need to price their products according to the risk they are taking, their funding and operational costs. Access to low-cost financing, coupled with an efficient cost and organizational structure, lowers loan rates. This reduced borrowing cost diminishes the credit burden and therefore enhances the bankability of development projects. However, PDBs require adequate risk management systems and operational independence to price risk properly.

AN INTRODUCTION TO THE FINANCIAL MODEL

MDBs and NDBs finance their activity mainly by borrowing from capital markets and development partners or relying on their capital base (see *section 3.04*). Commercial banks leverage their resources to provide loans, thus increasing the money supply. In contrast, NDBs often do not accept household deposits and do not engage in monetary creation.

PDB revenues mostly stem from the interest rate margin they generate, as illustrated by Figure 6. The interest margin is defined as the difference between interest received and interest paid to creditors. Because they rely on capital markets and development partners, PDBs access to low-cost and long-term funding is needed to fund development projects. Such funds allow lower interest rates to be charged to borrowers, which is key to making development projects bankable when financial returns on projects are low. Sound cost and risk management is also essential to ensure financial sustainability. Positive net income increases the bank's financial capacity and may also be used to pay shareholder dividends (although governments usually do not expect significant dividends, given NDBs' policy-oriented mandate).

Figure 6: A simplified representation of PDBs' financial model



Source: Authors

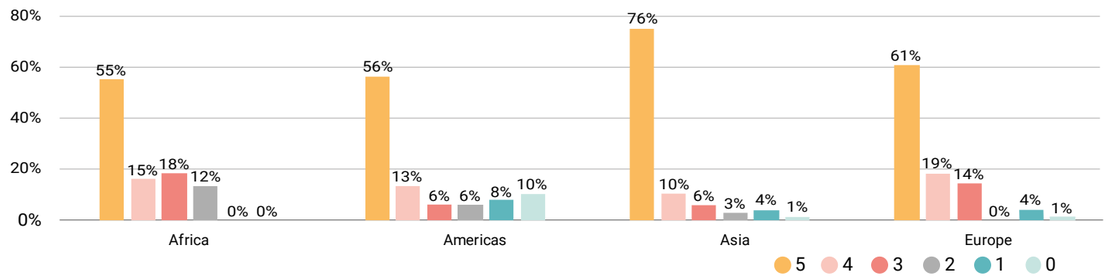
EMPIRICAL EVIDENCE ON PROFITABILITY

Most NDBs report profits[23]. In 2023, out of 259 NDBs, 203 (78%) reported positive profitability. This figure has remained somewhat constant since 2018, with 80% of NDBs reporting positive profitability figures on average across the period (2018 to 2023), despite the Covid crisis. Overall, more than half (52%) of sampled PDBs systematically reported positive profitability figures; and 87% reported positive net income for three or more years (i.e. for most years).

Significant differences emerge when comparing NDBs operating in different regions, and/or with different mandates. Asian NDBs stand out with a high proportion systematically reporting positive profits. A relatively larger share of American and African ones report negative incomes at least part of the time. Variation can also be observed across mandates: for instance, whilst 57% of NDBs with a flexible mandate systematically reported positive profitability figures; only 41% of NDBs supporting MSMEs did so[23].

However, a full assessment of PDBs financial sustainability requires looking at profits before subsidies, which PDBs do not typically report. 51% of NDBs provided some of their financial products below-market rates in 2017[2]. To be able to lend at subsidized rates, PDBs rely on different support mechanisms: 27% of NDBs rely on cheaper lines of credit from donors to finance such activities, 23% on budget transfers from the government, and 13% resort to cross-subsidization from other profitable budget lines[2]. Profits reported comprise all income sources, including subsidies provided by budgetary resources or funding obtained at below market rates. For example, Brazil's BNDES reported profits in 2015 but it received a credit subsidy from the treasury estimated at 0.75 percent of GDP[34]. Such subsidies create a risk of distortion: they can lead to inefficient allocation of resources, including by "picking out losers"[2]. Large, subsidized loans can increase public debt and interest rates, which can have negative economic effects. It may also reduce incentives for financial innovation and open the door to political capture[34].

Figure 7: Proportion of NDBs reporting net profits between 2018 and 2023, by region of ownership



Source: Authors' calculations based on PDB Database (2024)[23] - Interpretation: 55% of sampled African PDBs systematically reported positive profits between 2018 and 2023. None systematically reported losses.

DRIVERS OF FINANCIAL SUSTAINABILITY

Financial sustainability can be achieved by appropriately targeting projects and pricing risks. PDBs can charge an interest rate that covers the expected portfolio losses and ensures financial sustainability while fulfilling their developmental goals[35]. For example, the Business Development Bank of Canada (BDC) offers loans that carry higher rates than the market to riskier SMEs that are not served by commercial banks. Its loan portfolio is risky and has higher non-performing assets than commercial banks, but the interest rate charged ensures financial sustainability. Firms naturally exit BDC support and recur to commercial banks' cheaper loans as their situation improves, ensuring BDC additionality[36]. Many NDBs do not receive subsidies from governments (or only for a small subset of loans). They raise funds from capital markets, including for example green bonds, to fund projects. This category of PDBs, comprising many NDBs as well as MDBs lending to the private sector, charges interest rates to borrowers that ensure the financial sustainability of the institution and their continued access to long-term funds.

Appropriately pricing risk requires sophisticated risk management capabilities and operational independence. Development banks must often take greater risks than private counterparts to support growth, which requires accurate risk modelling. Independence from political influence is also necessary for NDBs to enable them to charge the appropriate rates[34]. Enshrining financial sustainability in the mandate of the NDB or its bylaws, together with its developmental focus, helps protect the PDB from political interference in pricing decisions[34]. Further analysis is necessary to understand variations in NDB financial performance, which may reflect differences in mandate, business model and both external and internal factors. Externally, the available fiscal space of the government and/or shocks affecting specific sectors or geographies can impact NDBs' results. Those with a flexible mandate may be better able to diversify their portfolio, which could explain why they outperform their peers with sector-specific activities. Further analyzinghow appropriate pricing, cost, and risk management approaches affect the profitability, could help identify best practices and relevant trade-offs between subsidies, targeted sectors and additionality.

3.06

GOVERNANCE

PROTECTING THE BANK FROM OUTSIDE COMMERCIAL AND POLITICAL INTERESTS

KEY TAKEAWAYS

- ➜ Good corporate governance is critical to the success of public development banks.
- ➜ As NDB owner, the State is responsible for setting a clear mandate and appointing a strong board of directors. The owner should provide the bank with operational autonomy.
- ➜ An effective board of directors is the core element of good governance. Most NDBs have boards dominated by public officials as opposed to independent board members.
- ➜ Good governance can protect NDBs from political and commercial interference in its operations and credit decisions.

Effective corporate governance promotes a balanced relationship between management, the board of directors, shareholders, and stakeholders. This balanced approach enhances corporate performance, minimizes political interference, and improves access to capital markets. Conversely, poor governance have been a major factor in the failure of some institutions to achieve their development objectives and ultimately lead to their financial distress. The OECD Guidelines for the Corporate Governance of State-Owned Enterprises (SOEs) provide the framework for the governance of state-owned enterprises (including NDBs). The Guidelines address *inter alia* the State's role as an owner, and the composition and responsibilities of boards of directors[37]. Governance requirements are often complex and can be driven by a bank's own founding legislation and policies, company law, banking law, rules for SOEs, and the policies of the owner. These overlapping requirements can make governance difficult to adjust or reform.

THE ROLE OF THE STATE

The government as owner of the NDB is responsible for setting broad mandates and expectations, providing the bank with operational autonomy, and ensuring compliance with transparency and disclosure obligations. An often-forgotten element of good governance is how the State executes its ownership rights.

The state should have strong authority, and its role should be clear and transparent. Most NDBs are controlled by Ministries, often the Ministry of Finance. Best practices recommend that ownership should focus on expertise, authority, and accountability. But in many countries, responsibility is spread over several institutions (e.g., the office of the President appoints board members, a Ministry of Planning sets goals and objectives, and NDBs receive instructions from a variety of government institutions).

Several countries have passed SOE laws or established "ownership policies" for SOEs that define the ownership framework and set high-level rationales and policy goals for all SOEs.

The owner should have clear responsibility for establishing and reviewing the mandate and long-term goals and objectives. The owner should also carefully coordinate with other government stakeholders (e.g., planning ministries) to ensure that the mandate reinforces and is consistent with other aspects of government policy. The bank's strategy should be developed by management, discussed and approved by the board, in consultation with a variety of stakeholders, including the owner[38].

The owner typically sets the basic framework for corporate governance, including the responsibilities of the board of directors, the structure and composition of the board, and the establishment of board committees. This includes thinking through the appropriate legal form and working to change the legal form of an NDB if it does not meet current needs or allow the implementation of good corporate governance. The governance framework is also dependent on the governance requirements for all banks issued by the banking regulator – but the PDB should exceed these basic requirements where necessary.

> The state should act as an informed and active owner, ensuring that the governance … is carried out in a transparent and accountable manner, with a high degree of professionalism and effectiveness.
>
> – OECD Guidelines on Corporate Governance of State-Owned Enterprises (2024)[37]

Merit-based and transparent board nomination processes result in strong and professional boards of directors to oversee the PDB[34]. Boards need experience (in development or commercial banking, management, law, accounting, finance, and corporate governance) to appoint and oversee management, take strategic decisions, and push management to improve operations.

Governance is an area of opportunity for many NDBs. The World Bank Global Survey of Development Banks found that most boards remain dominated by political appointees and have few independent directors[2]. CEOs are typically appointed by the government and not by the Board. These arrangements weaken board effectiveness, hamper operational autonomy and are contrary to the good practices provided by the OECD Guidelines.

> Good corporate governance is critical for the success of development banks.
>
> – 2017 Survey of Development Banks, World Bank[2].

THE ROLE OF THE BOARD OF DIRECTORS

Strong boards can effectively implement and oversee risk management and internal controls. MDBs and NDBs must formulate risk tolerance policies to ensure that risks are properly priced and that costs, including risk premiums, are either included in the price of the product or compensated for by subsidies. Boards are typically supported in this work by specialized committees, including an audit committee and a risk management committee. The effectiveness of board committees depends in turn on the quality of the board members assigned to them.

Under good practice, boards are responsible for aligning incentives through remuneration, monitoring and evaluation (M&E) and ethics codes. Remuneration policies can provide incentives to management and staff to attain the NDB's mandate and strategic goals. However, remuneration policies should absolutely avoid the excesses of the private sector, and management salaries should remain within a reasonable range compared to the average staff. The board should ensure that an effective monitoring M&E is in place, as it enhances development effectiveness and increases accountability for the use of public resources. Boards of directors are responsible for setting a clear standard of ethical behavior and establishing and implementing a code of ethics and conduct.

Protecting an NDB from political interference: the power to say "no". In many countries, the key governance concern is protecting the bank from unwanted political or commercial influence. This interference can take many forms but can include requests for subsidized or directed credit that do not meet the bank's own credit and risk management standards.

NDBs have adopted a number of practices to shield their operations from unwanted interference. These include:

- Putting in place a governance framework that gives the bank operational autonomy and the responsibility for taking its own credit decisions;
- Building strong and dynamic boards to shield managers from activities that are not in the interests of the bank or do not serve its mandate;
- Minimizing the number of Ministers or other senior officials on boards, to allow all board members to work together on an even footing;
- Appointing independent directors to allow the board to minimize its own conflicts of interest. In some countries with advanced governance frameworks, boards are composed of 100% independent directors;
- Appointing experienced directors and managers with high qualifications from the private sector, to build the culture of autonomy;
- Establishing credit procedures that give credit committees the power to veto loss making transactions;
- Adopting strict rules to limit credit exposures to single borrowers and related parties, and explicit profitability targets.

3.07 PRUDENTIAL REGULATION AND SUPERVISION

INSTITUTIONAL SAFEGUARDS

Prudential regulation and supervision aim to mitigate the risk of institutional failure and prevent the accumulation of risks within the financial sector, ultimately protecting depositors and maintaining financial stability. Being subject to regulation and supervision provides significant advantages for NDBs and their stakeholders.

KEY TAKEAWAYS

- ➜ Prudential regulation and supervision aim to reduce the risk of failure of an institution.
- ➜ Most NDBs are prudentially regulated and supervised by the country financial sector supervisor.
- ➜ Adherence to prudential regulation enhances risks management practices and limits political influence.
- ➜ The effective supervision of state-owned banks (including NDBs) is often hampered by the legal frameworks under which they operate and insufficient supervisory independence.

PRUDENTIAL REGULATION AND SUPERVISION

Prudential regulation and supervision aim to reduce the risk of institutional failure and systemic risk within the financial sector. It is designed to protect the interests of depositors and maintain financial stability. The insolvency of NDBs could create direct financial instability if they take deposits, or indirectly if they are connected with other banks (for example, through a lines of credit) or segments of the financial system (through their bond emissions), as it occurs for systemically important NDBs. It raises the need for prudential regulation and supervision.

The Basel Committee for Banking Supervision formulates standards and guidelines on prudential regulation and supervision to improve banks' solvency, liquidity, governance and risk management. The Basel Accords in its different iterations (Basel I, Basel II and Basel III) set standards for internationally active commercial banks on many aspects, notably capital and liquidity. These rules are also applied to domestic banks and, considering the proportionality principle, often to cooperative banks, as well as other lending institutions and NDBs.

MDBs are not subject to prudential regulation. MDBs do not hold a national banking license and generally are neither regulated nor supervised by a national authority. They do, however, operate under self-imposed rules for capital adequacy, liquidity and governance.

Most NDBs, on the contrary, are prudentially regulated and supervised by the country financial sector supervisor. Surveys on regulatory frameworks for NDBs found that two thirds or more of respondent NDBs were prudentially regulated according to the same Basel standards applicable to private banks[9]. Different institutions reported compliance with other standards. For example, several NDBs in Africa reported they follow the prudential standards of the African Association of Development Finance Institutions which requires a capital adequacy ratio of 15 percent, higher than the Basel requirement. According to a World Bank survey (2017), 72 percent of NDBs are supervised by the financial sector supervisor. However, a study on 33 African NDBs found that only 15 were supervised by the financial sector authority[39].

BENEFITS OF REGULATION AND SUPERVISION

Adherence to prudential regulation enhances risk management practices and, if the supervisor is sufficiently independent from the government, limits political interference. For example, the Brazilian BNDES views Basel rules as a driver for the development of a culture of risk management, supporting institutional soundness as their operations are diversified and the institution takes on new risks[40]. Prudential regulation also bolsters independence from political influence and forces NDBs to comply with regulations regarding limits on large exposures (10 percent or more of banks' high-quality capital) or classify and provision loans according to the repayment capacity of the borrower and the expected recovery rate in case of default. Such regulations limit the scope for NDB engagement on large or unviable projects with political dividends.

Adherence to Basel standards is also favorably viewed by stakeholders including rating agencies and development partners. It supports long-term institutional soundness and risks management capabilities, underpins credit rating analysis, and facilitates due diligence assessments by development partners. It also supports access to capital markets.

NDB compliance with prudential regulation also establishes a level playing field with commercial banks operating in same segments. Commercial banks, unlike most NDBs, collect retail deposits which provides low-cost funds. However, banks fund long-term investment loans, especially infrastructure and housing, with funds raised from bond issuance in capital markets. Having the same requirement to allocate capital to a project supports competitive neutrality among NDBs and private banks and mitigates the risk of NDBs crowding out private banks of some projects.

While prudential regulation does not appear to pose a major obstacle for NDBs, there is ongoing debate on the appropriate prudential framework for NDBs. While the benefits or prudential regulation are widely recognized, questions have been raised regarding the suitability of Basel standards for NDBs. For example, it has been noted that the higher capital requirements for project finance included in the Basel framework and large exposure limits reduce the amount of funding provided and thus could impede on an NDB's developmental mandate[40]. Some NDB proponents argue that prudential regulation should take into account the developmental mandate of the institutions. Others propose to tailor financial regulation for NDBs to their risk profile, which could result in less or more stringent requirements. For example, the Central Bank of Malaysia developed a regulatory framework with stricter fit and proper requirements for the CEOs of NDBs recognizing the higher governance risk in these institutions.

While some requirements may be more challenging to comply for NDBs than for commercial banks, prudential regulation was not identified as a major obstacle in the World Bank's 2017 Survey of NDBs[9]. Most NDBs hold capital buffers well in excess of Basel requirements and as they rely more on equity financing than commercial banks (see *section 3.04*), they have better capitalization ratios than commercial banks.

The effective supervision of state-owned banks (including NDBs) is often hampered by the legal framework under which they operate and insufficient supervisory independence. Effective supervision requires supervisory authorities to take enforcement and prompt corrective action to address risks that could threaten the solvency of an institution. Removal of board directors and management is a key element of a prompt corrective action framework.

However, the establishment laws of many NDBs require Ministers and other government officials to sit on their boards. Those legal provisions constrain the ability of the supervisor to remove them. Practical challenges to the autonomy of financial supervision often also hampers the effectiveness of supervision limiting enforcement capacity.

3.08 RISK MANAGEMENT

PDB APPROACHES TO RISKS

Development banks address sectors, markets and regions often neglected by private financial institutions due to inherent risks. To effectively identify, measure, monitor, and mitigate the diverse range of risks they encounter, PDBs need a robust risk-management framework. Sophisticated risk management system is crucial for effectively assessing these risks while simultaneously achieving developmental impacts.

KEY TAKEAWAYS

- ➜ Development banks deal with a spectrum of financial and operational risks, which stem from both internal and external factors.
- ➜ Risk management is an essential component of banking activities, which relies on three key dimensions: identification, mitigation, and monitoring.
- ➜ Exposure limits, co-lending, financial hedges and insurance, sound credit origination, and credit monitoring procedures are important elements of sound risk management frameworks.
- ➜ Sophisticated risk management capabilities enable banks to properly assess, manage and price risks, and undertake riskier projects to meet developmental goals.

MAPPING RISK EXPOSURE

As financial institutions, MDBs and NDBs deal with a spectrum of risks that vary according to their business model:

Figure 8: Overview of the range of risks faced by PDBs

Source: Authors

These various risks find their origin in both internal and external factors. For example, internal factors can stem from failure to adopt a relevant strategy for the bank, corruption, legal issues, breaches to cyber-security, inefficient information systems, and failure of any operational process, including risk management[40]. External factors may include macroeconomic shocks or political instability.. In certain countries, political instability can directly affect the feasibility and outcomes of projects or the repayment capacity of the sovereign. External sources also include ESG-related risks. As such, the increased frequency of natural disasters can disrupt economic activities, impacting loan performance and operations. Similarly, NDBs and MDBs lending to the private sector are exposed to transition risks whenever the implementation of a low-carbon economic model is associated with uncertain financial impacts[41].

RISK MANAGEMENT STRATEGIES

Strengthening risk management capacity ranks among the main challenges identified by NDBs[9]. Risk management is an essential component of the banking business, which relies on three key dimensions: identification, mitigation, and monitoring.

1. **Identification.** A sound risk strategy requires access to relevant information to assess risks and their possible financial and operational impacts. Most importantly, development banks need data about the markets they serve (e.g., size of market, concentration and level of competition, production costs, rates of return, failure rates,...). They also require a comprehensive understanding of the risks that their customers face (e.g., price volatility, climate and biodiversity risks, infrastructure, cost and time to resolve commercial disputes between private parties,...).
2. **Mitigation**. While risks cannot be entirely avoided, they can be managed and reduced.
   - **Diversification is a prevailing risk management strategy.** Institutions with broad mandates have flexibility to finance a wide range of activities, sectors, and geographies, which can reduce their exposure to risks of varying nature. Exposure limit policies can support risk diversification. Conversely, institutions that have a narrow mandate face higher risks if a shock affects the customers they principally serve. On the other hand, broad scope of activities can increase risks in the absence of specialized sector knowledge to properly assess projects.

Adapting financial instruments to customer needs and business requirements also contributes to risk management. To reduce credit risk, development banks can tailor the maturity of loans, disbursement and repayment schedules, depending on customers' profile. For high-risk projects, equity investing allows for more control over the use of funds. Hence, they can actively monitor and influence projects execution.

- **Several financial instruments can be used to reduce exposures.** NDBs and MDBs can share the granting of loans with other credit institutions. In addition to dividing risks, loan syndication enables smaller banks to participate in the financing of larger projects. NDBs can also benefit from a guarantee issued by a third party. This instrument is particularly used in the case of MDB-NDB cooperation[42]. Financial derivatives are used to hedge losses that development banks could face in case of changes in exchange rates or interest rates.
- **As development banks are mostly in the lending business, sound credit origination is a first line of mitigation.** Analyzing the repayment capacity of the borrower, including in stress scenarios, is key to inform credit decisions which should not be made on the basis of collateral alone.

3. **Monitoring.** Throughout the project cycle, they need effective tools to monitor the performance of their portfolio and take actions to prevent asset deterioration by having in place effective loan recovery processes.

STRIKING THE RIGHT BALANCE

PDBs face the challenge of achieving high developmental impacts while managing risks effectively. Risk reduction could come at the expense of providing less finance to the sectors they are expected to serve and, vice versa, serving riskier customers could automatically increase credit risk. This is a major tradeoff and there are debates[4] regarding risk tolerance and their capacity to fulfill their developmental objectives. Risk management capabilities enable MDBs and NDBs to appropriately evaluate and price risks, and transfer risks to pricing or use available subsidies to fund risky projects without compromising the financial sustainability of the institution[3]. Many NDBs perceive that the lack of sophisticated risk management capabilities prevents them from positioning themselves on the risk frontier and increasing their developmental effectiveness[9].

3.09 MONITORING & EVALUATION (M&E)

ASSESSING THE DEVELOPMENT IMPACT OF OPERATIONS

Effective monitoring and evaluation (M&E) frameworks increase accountability and are essential to ensure that MDBs and NDBs achieve their developmental objectives effectively and efficiently. By systematically tracking and assessing outcomes, comprehensive M&E frameworks enable them to fine-tune their strategies, optimize resource allocation, and demonstrate their contributions to social, environmental and economic development. Impact evaluations can also identify the additional benefits of interventions that would not have occurred in their absence.

KEY TAKEAWAYS

- M&E supports PDB efficiency and effectiveness, and increases accountability.
- M&E frameworks comprise a variety of tools including project reports, key performance indicators, score cards, and different types of evaluations.
- M&E is an area of opportunity as many PDBs only track financial performance as opposed to impact, and impact evaluation results are often not disclosed.
- Standardization of KPIs would help aggregate and compare results, but tailoring M&E frameworks to local contexts is essential.
- Enhanced governance arrangements for M&E and increased capabilities could improve M&E systems.

WHY M&E FRAMEWORKS MATTER

Robust M&E frameworks support effectiveness, efficiency, and accountability of operations. Monitoring involves the systematic gathering of data to track progress against established goals. Evaluation can be defined as the analysis of performance[44]. M&E informs design features to enhance results, guides resource allocation to increase efficiency, and supports good governance by increasing accountability. M&E can apply to a single project or an entire organization.

M&E frameworks guide how performance will be assessed and include a variety of tools. Monitoring tools include results frameworks and progress reports that track key performance indicators (KPIs). When they are aggregated by themes, KPIs are often used to produce institutional scorecards. Evaluations can be done under different methodologies, including impact evaluations and cost-benefit analyses, among others. Impact evaluations assess the project outcomes[45]. The most rigorous impact evaluations involve randomly selecting similar individuals to a treatment group (project beneficiaries) or a control group and comparing outcomes[46]. Quasi-experiments use existing treatment and control groups, lacking random assignment. These evaluations can identify the economic or financial effects that would not have happened without the project (i.e. project additionality). Cost-benefit analysis is used to assess the value-for-money of interventions.

APPROACHES TO MONITORING AND EVALUATION

M&E is receiving increased attention from NDBs. Only 56 percent of them had a dedicated M&E unit in 2017[9]. Most NDBs tracked financial indicators but lack the tools to assess their developmental impact. Many PDBs reported performing impact evaluations but most of them do not disclose the evaluation results.

The World Bank Group (WBG) has a comprehensive M&E framework that has been recently updated to better monitor outcomes of its interventions. In 2024, the WBG adopted a new scorecard comprising 22 result indicators[47]. A Theory-of-Change approach is used to identify the mechanisms through which a change is expected to occur during project implementation as well as the project indicators at different levels: output, intermediate outcomes and ultimate outcomes. Those indicators are aligned with the scorecard indicators and aggregated to produce the scorecard. An independent evaluation office, reporting directly to the Board, assesses every project analyzing project design, implementation, quality of monitoring framework and attainment of indicators. The World Bank Developmental Impact Group assists member countries to rigorously evaluate the impact of government policies, including those supported by World Bank projects, through a model aimed at transferring capacity and know-how to partners. However, only a relatively small fraction of WBG operations undergo impact evaluations.

The British Business Bank (BBB) M&E framework comprises an institutional scorecard and regular impact evaluations. The 2024 BBB Annual report discloses several KPIs including input indicators (e.g., disbursements and private capital mobilized along BBB funds), output KPIs (e.g. small business funded) and outcomes KPIs (e.g. jobs created). KPIs also include organizational indicators such as delivery of sustainability reporting. The BBB regularly conducts impact evaluations of its programs which are published. The main conclusions of those evaluations are included in the Annual Reports. In 2024, it published an evaluation of the Recovery Loan Scheme launched in 2021 after the closure of COVID programs. The evaluation[48] found that borrowers had an estimated 17% higher turnover than they would have had without the scheme. Also, most of the finance extended would not have been provided without the scheme, estimating an additionality rate of 83%[48].

CHALLENGES FOR M&E SYSTEMS

All PDBs can enhance their impact through stronger monitoring and evaluation practices. By investing in robust systems to measure outcomes and development impacts, they can learn from their experiences, and modify their strategies. This will lead to greater accountability, improved resource allocation, and will maximize their contribution to development goals.

Comparability, customization, and costs are important considerations for the design of M&E systems. The lack of harmonized M&E frameworks and international standards complicates comparability of outcomes and aggregation of results[49]. Adoption of sustainability reporting indicators issued by the International Standards Sustainability Board (ISSB) in 2023 could standardize carbon emissions reporting. However, projects only evaluated ex post or relying on standardized evaluation grids may fail to consider specific norms of targeted communities[50]. A Theory-of change approach can help identify local interactions and additional project indicators. Evaluation costs can be substantial and need to be put in perspective in relation to the size and costs of the project or similar projects. USAID, for example, devotes approximately 3% of its total expenses to external performance and impact evaluation, excluding resources dedicated to monitoring.

Enhanced governance arrangements for M&E and increased capabilities can improve M&E systems in NDBs[51]. The establishment of independent M&E units reporting directly to NDB boards can foster objectivity and accuracy of M&E activities. Disclosure of KPIs and impact evaluations also supports this goal and enhances accountability. Collaborations with academia and other partners to collect data and conduct impact evaluations can provide additional capabilities.

3.10 FAILING DEVELOPMENT BANKS

TWO LEARNING EXPERIENCES

This book consistently reflects on the positive potential of Public Development Banks in translating specific public policies into financing. But their history is also marked by some failures, due to poor macroeconomic conditions, poor risk management practices and governance weaknesses.

KEY TAKEAWAYS

- ➜ Development banks should be operated with the same level of transparency, governance and financial strength that would be required if exposed to market conditions.
- ➜ PDBs should not assume risks beyond the scope of their mandate.
- ➜ PDBs must remain agile and adaptable to their evolving financial environment, as failure to do so can lead to severe consequences, including the risk of bankruptcy.

THE FORGOTTEN STORY OF FRENCH REGIONAL DEVELOPMENT CORPORATIONS

The history of the Sociétés de Développement Régional (SDRs) in France, now largely forgotten, illustrates the difficulties that can arise when the financial model is no longer in line with operating conditions. In the beginning of the 50s, coming out of World War II, the French government wanted to boost investment, growth and employment through the creation and financial strengthening of small regional businesses, mostly through the acquisition of stakes in new or expanding companies. To that end, it promoted the creation of SDRs, each with a specific mandate limited to a particular region[52].

The initial operating conditions seemed ideal: private partnerships in the capital, associating regional authorities, commercial banks and local industries; in-depth knowledge of the local economic fabric; a minimum dividend of 5% guaranteed by the State to attract private banks' participation; tax exemptions on profits and dividend distributions; and subsidized loans from the Treasury to offer attractive financial terms.

Shortly after their creation, SDRs witnessed resounding success, and they rapidly became part of the local economic landscape. Between 1955 and 1960, 20 SDRs were created, including 4 outside mainland France. In the beginning of the 80s, 17 of them were listed on the stock exchange, under the control of dispersed shareholders (private and public) and making public offerings. Their total combined balance sheet reached 33 billion francs (around EUR 8 billion at present value). They had exposure to 32,000 small companies and held equity stakes in 3,000 of them[53].

In the context of austerity policies in France in 1983, the French government gradually reduced the budgetary allocations which was allowed to SDRs to provide subsidized lending, and which had formed the mainstay of their business model. Under European competition rules, SDRs' financing was indeed perceived as a market distortion. The total disappearance of subsidies in 1990 led to a narrowing of the SDRs' sphere of activity, as private financial institutions increasingly served their customers. To compensate, SDRs ventured into new and riskier areas (property leasing, golf courses, hotels, riskier venture capital). Having become "regional business banks", their business model had difficulty reconciling the promotion of local businesses, the quest for financial performance and risk management. The underpricing of risks, due to poor risk evaluation and the aim to continue offering low rates in the absence of subsidies, led to financial difficulties. They were unable to withstand the violent recession of 1992-1993 and the collapse of the mortgage market.

By 1996, half of them had failed to meet the 8% solvency ratio and many were making losses, while their shareholders refused to recapitalize them. Liquidation or backing from another financial institution became unavoidable. SDRs gradually disappeared from the French financial landscape during the 1990s. The only one left in 2024 is the Corsican Finance Company (CADEC), which works exclusively in co-financing with private commercial banks.

SUB-SAHARAN AFRICAN DEVELOPMENT BANK: LESSONS FOR A REFOUNDATION

Another interesting example with relevant lessons for PDBs is to be found in Sub-Saharan Africa[54]. At the time of independence, new States wanted to achieve rapid economic growth and the construction of modern national economic systems. The only local banks existing then were subsidiaries of English, French, or Portuguese groups, essentially oriented towards the granting of short-term commercial loans.

Almost all Sub-Saharan countries created development banks during the 1960s to channel funds to their national economies for investment purposes. In the Franc Zone, many countries created sectoral development banks, for agriculture, industry, and housing, such as the government of Côte d'Ivoire (see box 2) which set up five sectoral PDBs in the 1960s[55]. During the 1960s-70s, external financial assistance and good macroeconomic conditions in Sub-Saharan countries supported the national development banks' operations. In some countries, development banks even held a dominant position.

The situation turned sour when two major weaknesses emerged as inherent to most development banks created during this period. Firstly, the very mixed results of the supported projects weakened, or even compromised, the profitability of these banks and their ability to grow. Poor choices of industrial or sectoral targets, poor assessments of investment costs, and poor or fraudulent management by the managers of some of the financed companies affected asset quality, profitability and solvency of these institutions. Then, within the development banks themselves, management errors, excessive or improper evaluation of risks, as well as the absence of financial strategy to secure liquidity and balance sheet matching were a second hurdle[56].

These weaknesses came to light during the systemic crises that hit banks in Sub-Saharan Africa in the 1970s and 1980s[54]. In Benin for example, credit to private sector decreased by 53% between 1986 and 1993[54]. Some banks identified a large share of non-performing assets, a substantial part of which had been granted to politically exposed persons[57]. The crisis was deep, and the governments, which were their main shareholders, were most of the time unable to carry out the necessary recapitalization in the face of threats of insolvency. The crisis led to major evolutions.

Most strikingly, some of these development banks simply disappeared, and the West African banking systems lost almost a third of its development banks[58].

For the development banks that weathered this storm, new shareholders entered the capital, such as Central Banks, Regional Development Banks, and sometimes private banks. These new investors not only brought fresh capital but also imposed stricter management criteria. In some cases, the business model was expanded to include commercial banking activities. This expansion included a drastic revision of the strategy of these banks, both in terms of clientele, collection of deposits, or short-term and consumer loans, thus losing the specificity of "development banking". In Mali, the Banque de Développement du Mali (BDM), which was placed under provisional administration in the early 1980s, then restarted with a new shareholding structure, associating the Central Bank of West African States (BCEAO), the West African Development Bank (BOAD), national private investors and the Moroccan bank BMCE, which involved itself in the management. It has now become a full-fledged commercial bank and owns the largest share of the Malian market. Similar situations can be found in Central Africa, such as the Gabonese Development Bank (BGD), and in East Africa, such as the Development Bank of Kenya (DBK).

BOX 2: A TYPICAL ARRAY OF DEVELOPMENT BANKS

In the 1950s and 1960s, the government of Côte d'Ivoire established five development banks to support key sectors. These included two industrial banks, Crédit de la Côte d'Ivoire (CCI) and Banque Ivoirienne de Développement Industriel (BIDI), which provided term loans to industries[55]. Additionally, there were two housing banks, Banque Nationale pour l'Epargne et le Crédit (BNEC) and Banque Ivoirienne de Construction et de Travaux Publics (BICT), focused on mortgage lending. Lastly, the Banque Nationale pour le Développement Agricole (BNDA) served as a rural development bank, mobilizing rural deposits, financing agricultural projects, and offering bridge loans to farmers[55].

BIBLIOGRAPHY

1. Leon F, Opoku-Bossman M. How do Public Development Banks mobilize their resources to finance transitions? *Papiers de Recherche de l'AFD*. https://www.afd.fr/en/ressources/how-public-development-banks-mobilize-their-resources-finance-transitions. August 2024. Accessed November 18, 2024.
2. World Bank, World Federation of Development Financing Institutions. *2017 Survey of National Development Banks*. World Bank; 2018. doi:10.1596/29815
3. Gutierrez E, Kliatskova T. National Development Financial Institutions: Trends, Crisis Response Activities, and Lessons Learned. World Bank; 2021. Accessed October 21, 2022. https://openknowledge.worldbank.org/handle/10986/36467
4. Attridge S, Novak C. *An Exploration of Bilateral Development Finance Institutions' Business Models*.; 2022. Accessed December 20, 2022. https://odi.org/en/publications/an-exploration-of-bilateral-development-finance-institutions-business-models/
5. Xu J, Wang K, Ru X. *Funding Sources of National Development Banks*.; 2020. Accessed October 21, 2022. https://www.afd.fr/en/ressources/funding-sources-national-development-banks
6. Griffith-Jones S, Spiegel S, Xu J, Carreras M, Naqvi N. Matching Risks with Instruments in Development Banks. *Review of Political Economy*. 2022;34(2):197-223. doi:10.1080/09538259.2021.1978229
7. Présentation De L'AFD Aux Investisseurs. Published online 2022.
8. Development Bank of Namibia. DBN Annual Report 2022. https://www.parliament.na/wp-content/uploads/2021/08/Annual-Report-of-DBN-min.pdf
9. World Bank, World Federation of Development Financing Institutions. *2017 Survey of National Development Banks*. World Bank; 2018. doi:10.1596/29815
10. Abor J. *The Changing Role of National Development Banks in Africa*. Springer International Publishing; 2023.
11. Michelitsch R, Soriano A, Cuestas E, et al. *Comparative Study of Equity Investing in Development Finance Institutions*. Inter-American Development Bank; 2017. doi:10.18235/0000649
12. Dalhuijsen E, Gutierrez E, Kliatskova T, Mok R, Regelink MGJ. Greening National Development Financial Institutions: Trends, Lessons Learned, and Ways Forward. World Bank; 2023.
13. Michaelowa K, Michaelowa A, Reinsberg B, Shishlov I. Do Multilateral Development Bank Trust Funds Allocate Climate Finance Efficiently? *Sustainability*. 2020;12(14):5529. doi:10.3390/su12145529
14. World Bank. Trust fund support for development : an evaluation of the World Bank's trust fund portfolio (English).http://documents.worldbank.org/curated/en/268141468149109451/Trust-fund-support-for-development-an-evaluation-of-the-World-Banks-trust-fund-portfolio. 2011. Accessed November 15, 2024.
15. Reinsberg B, Shishlov I, Michaelowa K, Michaelowa A. Climate change-related trust funds at the multilateral development banks. Published online June 2020. doi:10.5167/UZH-188309
16. Gutierrez E, Rudolph H, Homa T, Beneit E. Development Banks: Role and Mechanisms to Increase Their Efficiency. Published online July 1, 2011.
17. World Bank, IMF. From Billions To Trillions: Transforming Development Finance Post-2015 Financing For Development: Multilateral Development Finance. Published online April 2015.
18. Climate Policy Initiative. *Global Landscape of Climate Finance: A Decade of Data*.; 2022. Accessed November 8, 2024. https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-a-decade-of-data/
19. World Bank. SME Finance. World Bank. Accessed January 17, 2025. https://www.worldbank.org/en/topic/smefinance
20. Boosting SME Finance for Growth: The Case for More Effective Support Policies. Published online September 30, 2024. doi:10.1596/42213
21. UNCTAD. *The Role of Development Banks in Promoting Growth and Sustainable Development in the South*.; 2016. Accessed October 27, 2022. https://unctad.org/system/files/official-document/gdsecidc2016d1_en.pdf
22. Demigürc-Kunt A, Klapper L, Singer D. The Global Findex Database 2017: Measuring Financial Inclusion and Opportunities to Expand Access to and Use of Financial Services. Published online 2018. https://documents1.worldbank.org/curated/en/491271624538346557/pdf/The-Global-Findex-Database-2017-Measuring-Financial-Inclusion-and-Opportunities-to-Expand-Access-to-and-Use-of-Financial-Services.pd
23. FERDI, Peking University, AFD (2025), Exploring the Financial Profiles of Public Development Banks: An Umbrella Paper, to be published.
24. UNDP, Finance in Common. *The Role of Public Development Banks in Scaling up Sustainable Finance*.; 2022. Accessed October 21, 2022. https://www.undp.org/publications/role-public-development-banks-scaling-sustainable-finance
25. UN Habitat: World Cities Report 2020 : *The Value of Sustainable Urbanization*. UN Habitat Accessed December 20, 2024. https://unhabitat.org/sites/default/files/2020/11/world_cities_report_2020_abridged_version.pdf
26. Xu J, Wang K, Ru X. *Funding Sources of National Development Banks*.; 2020. Accessed October 21, 2022. https://www.afd.fr/en/ressources/funding-sources-national-development-banks
27. Wang H. New Multilateral Development Banks: Opportunities and Challenges for Global Governance. *Glob Policy*. 2017;8(1):113-118. doi:10.1111/1758-5899.12396
28. World Bank: *Green, Social, Sustainability, and Sustainability-Linked (GSSS) Bonds Market Update*.; 2024. https://thedocs.worldbank.org/en/doc/dc1d70af2c45cb377ed3ee12b27399d4-0340012024/original/GSSS-Quarterly-Newsletter-Issue-No-6.pdf
29. Banque Ouest Africaine de Développement: Sustainable Bond of the Year. BOAD. 2021. https://www.boad.org/en/our-publications/news/sustainable-bond-of-the-year-supranational-sub-sovereign-and-agency-ssa-boad/
30. Delikanli IU, Dimitrov T, Agolli R. *Multilateral Development Banks. Governance and Finance*. Springer International Publishing; 2018. doi:10.1007/978-3-319-91524-1
31. Gusmão Suchodolski S, Adauto MJ, Cinthia HDOB, Leila MBC. *From Global to Local: Subnational Development Banks in the Era of Sustainable Development Goals*. BNDES; 2020. Accessed October 21, 2022. https://www.afd.fr/en/ressources/global-local-subnational-development-banks-era-sustainable-development-goals
32. Spielberger L. EIB policy entrepreneurship and the EU's regulation of Green Bonds. *Journal of Economic Policy Reform*. Published online May 26, 2024:1-18. doi:10.1080/17487870.2024.2356810
33. Xu J, Marodon R, Ru X, Ren X, Wu X. What are public development banks and development financing institutions ? ——qualification criteria, stylized facts and development trends. *China Economic Quarterly International*. 2021;1(4):271-294. doi:10.1016/j.ceqi.2021.10.001
34. Gutierrez E, Kliatskova T. *National Development Financial Institutions: Trends, Crisis Response Activities, and Lessons Learned*. World Bank; 2021. Accessed October 21, 2022. https://openknowledge.worldbank.org/handle/10986/36467
35. Attridge S, Novak C. *An Exploration of Bilateral Development Finance Institutions' Business Models*.; 2022. Accessed December 20, 2022. https://odi.org/en/publications/an-exploration-of-bilateral-development-finance-institutions-business-models/
36. Innovation, Science and Economic Development Canada (ISED): *2010-2022 Business Development Bank of Canada Legislative Review Report*. ISED; 2023. Accessed October 4, 2024. https://ised-isde.canada.ca/site/bdc-review/en
37. OECD: *OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2024 Edition*. OECD;2024. doi:10.1787/9789264244160-en
38. Basel Committee on Banking Supervision: *Corporate Governance Principles for Banks*. Bank for International Settlements; 2015. https://www.bis.org/bcbs/publ/d328.pdf
39. Attridge S, Chen Y, Mbate M. *Financial Performance and Corporate Governance: Evidence from National Development Banks in Africa*. ODI; 2021. Accessed October 21, 2022. https://odi.org/en/publications/financial-performance-and-corporate-governance-evidence-from-national-development-banks-in-africa/
40. Gottschalk R, Castro LB, Xu J. Should National Development Banks be Subject to Basel III? *Review of Political Economy*. 2022;34(2):249-267. doi:10.1080/09538259.2021.1977541
41. Hilke A, Hubert R. *Connecting the Dots between Climate Risk Management and Transition Finance*.; 2024. Accessed December 2, 2024. https://www.i4ce.org/en/publication/connecting-dots-between-climate-risk-management-transition-finance/
42. Marois T, Marodon, Stewart J. From Multi to National and Back Again: Realizing the SDG Potential of Public Development Banks. AFD Research Paper n°267; January 2023.
43. Evaluation Systems in Development Co-operation 2023. OECD. 2023. https://www.oecd-ilibrary.org/sites/a255365e-en/1/3/2/index.html?itemId=/content/publication/a255365e-en&_p_=16f796b93df545666b9bf5673d1e5b5f&itemIGO=oecd&itemContentType=book#endnote4e6f20f8162
44. OECD. *Glossary of Key Terms in Evaluation and Results-Based Management*.; 2022.
45. *Impact Evaluation Map of Uses*.; 2022.
46. Duflo E, Glennerster R, Kremer M. Using randomization in development economics research: A toolkit. *Handbook of development economics*. Published online 2007.
47. New World Bank Group Scorecard FY24-FY30 : Driving Action, Measuring Results.; 2024.
48. *British Business Bank Annual Report 2024*.; 2024.
49. Marodon R. Can Development Banks Step Up to the Challenge of Sustainable Development? *Review of Political Economy*. 2022;34(2):268-285. doi:10.1080/09538259.2021.1977542
50. Sardan J, Lombard M. La revanche des contextes : Rencontre avec Jean-Pierre Olivier de Sardan. squisses: *Les Afriques dans le monde*. Published online 2022. https://shs.hal.science/halshs-03540563/document
51. USAID. https://2017-2020.usaid.gov/project-starter/program-cycle/project-monitor-evaluation-plan/monitor-evaluation-and-learning-plan-budget
52. CESE Le rôle des Sociétés de Développement régional dans l'Economie des Régions. Published online December 1978.
53. Code monétaire et financier. Légifrance. https://www.legifrance.gouv.fr/codes/section_lc/LEGITEXT000006072026/LEGISCTA000019266462/
54. Pacquement F. Decolonising Finance, Africanising Banking. In: Dimier V, Stockwell S, eds. *The Business of Development in Post-Colonial Africa*. Cambridge Imperial and Post-Colonial Studies. Springer International Publishing; 2020:213-239. doi:10.1007/978-3-030-51106-7_8
55. Daumont R, Le Gall F, Leroux F. Banking in Sub-Saharan Africa: What Went Wrong?
56. Ferdi, Derremaux P. Development Banks in Sub-Saharan Africa: *Some Historical Lessons for a Re-Foundation*.; 2020.
57. Bank of Zambia - Annual Report. *Bank of Zambia*. Published online 2022. https://www.boz.zm/Bank_of_Zambia_2022_Annual_Report.pdf
58. Abor JY. *The Economics of Banking and Finance in Africa: Developments in Africa's Financial Systems*. 1st ed. Springer International Publishing AG; 2022.
59. Xu J, Marodon R, Chen W, Jacouton JB. Art is in the Doing, Public Development Banks serving public policies. Published online 2023.
60. Inter-American Development Bank Sovereign-Guaranteed Lending: Historical Default & Loss Rates. August 2024.
61. Boosting MDBs' investing capacity. (2022). An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks.

4.01 AN INTERNATIONAL ROADMAP 96
4.02 SMALL AND MEDIUM ENTERPRISES 98
4.03 INFRASTRUCTURE 100
4.04 CLEAN AND RENEWABLE ENERGY 102
4.05 CLIMATE 104
4.06 BIODIVERSITY 106
4.07 GENDER 108
4.08 HEALTH AND EDUCATION 110
4.09 SUSTAINABLE CITIES 112
4.10 PEACE, JUSTICE AND STRONG INSTITUTIONS 114
4.11 INDIGENOUS PEOPLES 116
4.12 HUMAN RIGHTS 118
4.13 IDENTIFYING SDG CONTRIBUTIONS USING ARTIFICIAL INTELLIGENCE 120

CHAPTER

4 SUPPORTING THE SUSTAINABLE DEVELOPMENT GOALS

SUPPORTING THE SUSTAINABLE DEVELOPMENT GOALS

Chapter 4 focuses on how PDBs are integrating the Sustainable Development Goals (SDGs) into their business models, providing insights into their evolving missions. It provides an overview of the different customers, sectors, and cross-cutting objectives currently supported by PDBs. The chapter underlines existing financing gaps to highlight possible areas for PDB interventions. It provides sourced examples, detailing the range of instruments and methods currently implemented.

Historically, PDBs have prioritized objectives tied to economic growth and capital accumulation (4.01) through the financing of small and medium enterprises (4.02), infrastructure (4.03), energy (4.04) and sustainable urban development (4.09). More recently, PDBs contributed to cross cutting objectives such as climate action (4.05), biodiversity (4.06), gender (4.07), human capital development via health and education (4.08), support to peace and strong institutions (4.10), indigenous people (4.11), and integration of human-rights based approaches into projects and operations (4.12). Recent developments of artificial intelligence have facilitated the mapping of SDG priorities in their annual reports (4.13).

Following the adoption of the Sustainable Development Goals in 2015, development institutions were called upon to systematically mainstream environmental and social objectives in their operations. Over the past years, climate financing has increased, driven by multilateral development banks and large NDBs. Yet, biodiversity and gender equality also remain underfunded. Since most NDBs are based in countries that have adopted the SDGs and the Paris agreement on climate, they are well-positioned to catalyze sustainable finance.

MDBs, RDBs, and NDBs operations reflect the interconnected nature of sustainable development. Supported by 2/3 of them worldwide, infrastructure projects can for example, simultaneously address economic growth, job creation, inequality reduction, and access to essential services. Similarly, countries must strike a balance between financing energy transitions in parallel to their growth trajectory. As such, advancing clean energy transitions may necessitate temporary trade-offs, such as continued reliance on fossil fuels to mitigate short-term socio-economic disruptions.

All NDBs do not need to support all the SDGs at the same time. They should strive to identify investment opportunities that support SDGs within their mandates, as permitted by their business models. Larger NDBs with the capacity to diversify their activities tend to adopt a wider range of sustainable development objectives more than smaller and more-specialized NDBs and SDBs.

Moreover, NDBs face the need to strike a balance between domestic needs and global priorities. Governments and boards are responsible for ensuring that local development banks implement credible sustainable development strategies, maintain independent governance structures and do not pose a threat to financial stability.

Enhancing transparency and accountability is critical to ensure their interventions are both efficient and effective. Human Rights Impact Assessments, Grievance Accountability Mechanisms, and knowledge-sharing between institutions would allow them to identify and prevent adverse effects in the human right components of their projects. Eventually, aligning internal metrics with international standards remains a major challenge. Innovative technologies, such as artificial intelligence can open new avenues for advancing transparency and accountability.

4.01
AN INTERNATIONAL ROADMAP

FINANCING THE SDGs

Historically, development banks addressed major challenges of their time, including post-war reconstruction, economic growth stimulation, eradication of poverty, and crisis intervention as seen during the 2008 Global Financial Crisis or the 2020 Covid-pandemic. Today, new and urgent issues including biodiversity preservation and the fight against climate change are also on the agenda. Development banks can become agents of sustainable development, aligning their strategies and operations with the achievement of the Sustainable Development Goals (SDGs).

KEY TAKEAWAYS

- ➜ Historically, PDBs have focused their efforts on economic growth. The increasing focus on balancing the three dimensions of sustainability - economic, social and environmental - marks a shift in their strategies.
- ➜ Achieving the SDGs is challenging, especially in low-income countries, and it requires organizational change and alignment with national sustainable development strategies.
- ➜ MDBs and many larger NDBs strive to identify investment opportunities that support the SDGs within their target segments and integrate SDG criteria and analytical tools into their project selection, project design and project evaluation processes.
- ➜ One possible analytical path for analyzing the linkages between PDBs and the SDGs is through the lens of the five "Ps": "People", "Planet", "Prosperity", "Peace" and "Partnerships".

A COMPREHENSIVE APPROACH TO THE 17 SDGs

Figure 1: SDGs and the five "P's"

Source: UNDESA (n.d)[1]

Adopted by the Member States of the United Nations in 2015, the 2030 Agenda for Sustainable Development aims to eradicate poverty, protect the planet, and ensure long-term prosperity for all by 2030. Containing 17 interconnected SDGs, the agenda comes with a total of 169 specific targets, which provide measurable objectives for achieving the broader aims of the 2030 Agenda.

Although numerous and oftentimes positive, the interactions between SDGs are still understudied.[2] Having a comprehensive approach that acknowledges the interlinkages between these goals is essential, as progress in one SDG can contribute to advancements in others. As an example, reducing poverty through SDG 1 correlates with advancements in SDG 3 (Good health and well-being), 4 (Quality education), 5 (Gender equality), 6 (Clean water and sanitation), and 10 (Reduced inequalities)[2].

SDGs can be analyzed through the lens of the five "Ps"[3] (see figure 1). The preamble to the 2030 Agenda groups actions into the categories of "People", "Planet", "Prosperity", "Peace" and "Partnerships". It is a categorization that, while simplistic and somewhat subjective, facilitates a holistic understanding of the SDGs.

Development banks are enablers and catalysts for advancing progress on the SDGs through their financing and investment activities. Through investments in key sectors such as education, healthcare, and infrastructure, they support goals related to human well-being, economic prosperity, environmental sustainability, and peace and justice, accelerating progress towards the 2030 Agenda[3]. Their catalytic role comes from acting as a "first mover", leading by example, and by mobilizing private lenders and investors ("scale effects"). This does not imply that SDGs need to be supported at the same time, but that they can identify investment opportunities that support SDGs within their target segments (e.g. small businesses, agricultural sector, housing sector etc.).

INTEGRATING SUSTAINABILITY

In the past ten years, the MDBs and larger NDBs have increased their focus on sustainable development. Over the 2016-2020 period, available data show that most lending continued to focus on the "productive" SDGs such as SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation, and Infrastructure)[4]. However, the increasing urgency to tackle sustainable development, encompassing environmental, social and economic issues has pushed many institutions to review their focus[3]. Since 2015, an increasing number of development banks have integrated their projects' carbon emissions into their evaluations[5]. In 2020, via a new SDG Bond Framework, AFD's scope of eligible loans was broadened from climate to social policy areas, notably health and education[3]. Other large NDBs have also set safeguards: In 2021, members of the IDFC elaborated SDG integration trackers, helping PDBs verify that their policies, strategies and processes are aligned and consistent with the SDGs[3].

However, the integration of cross-cutting objectives is heterogeneous and varies according to size, geographic area of intervention, mandate and structure of ownership. The MDBs and larger NDBs with the capacity to diversify their activities tend to adopt sustainable development objectives more than small and specialized PDBs[3].

In order to better align their actions with the achievement of the SDGs, PDBs have accelerated the development of strategic partnerships with different stakeholders, including NGOs, local governments, and private sector entities. PDBs can direct public and private funds towards sustainable development projects that align with the SDGs. They have collaborated in initiatives such as the Catalytic Green Fund, an initiative designed to strengthen decarbonization in LAC, which gathers IDB and the Bayer Foundation among other stakeholders[6].

While addressing climate issues is crucial, it represents just one aspect of the broader challenge of sustainability[7]. Projects aimed at combating climate change cannot be separated from their social and economic consequences. Failure to understand the multifaceted nature of sustainable development can negatively affect strategies to reduce global warming[2].

THE WAY FORWARD

Lending for sustainable development must be tailored to local conditions. The human and social agenda of the SDGs is critical in low-income countries, where CO_2 emissions are comparatively low, but poverty rates are high. Countries face dilemmas when choosing projects and promoting investments, as some activities may generate economic growth while harming the social or environmental aspects of sustainable development[1]. The 2030 Agenda emphasizes the need to enhance synergies and promote sustainable development holistically. The limited resources available stress the importance of leveraging different types of financing and aligning economic and financial policies with the SDGs, as noted in the 2015 Addis Ababa Action Agenda. Key insights emerge regarding the role of PDBs in promoting sustainable development[4]:

- Governments can ensure that NDBs: implement a credible strategy for sustainable development; maintain independent governance and risk management for financial stability; secure sufficient capital to take on increased risks; and align operations with national climate strategies and other national development policies, such as export, housing, agricultural and access to finance.
- As the transition towards sustainability introduces complex considerations for investment projects, NDBs can integrate SDG criteria and analytical tools in their project selection, project design, and project evaluation processes, including through the use of artificial intelligence[4].
- Beneficiaries' awareness of the SDGs can promote the buy-in of project owners and more demand for bankable projects that align with the SDGs. Governments can require reporting from NDBs on standardized SDG metrics in order to increase accountability.
- Cross-border NDBs and MDBs can augment their support to national NDBs offering affordable financing that positively impacts SDGs.
- MDBs, RDBs and NDBs can assume an ever more critical role in linking economic progress with environmental and social sustainability. By collaborating across international, multilateral, regional, and national levels, and aligning investment with achievement of the SDGs, they can significantly contribute to financing the evolution towards more sustainable economies.

4.02 SMALL AND MEDIUM ENTERPRISES

SUPPORTING ECONOMIC GROWTH AND JOB CREATION

KEY TAKEAWAYS

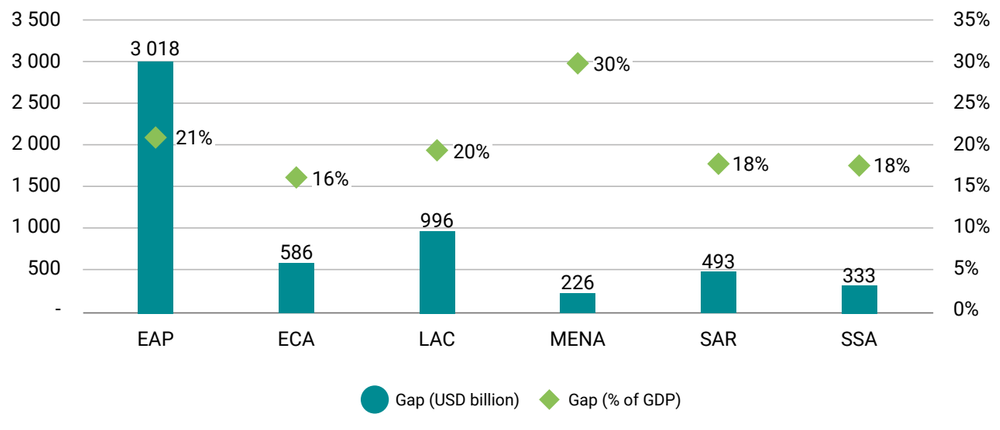
- ➜ Supporting SMEs is a historical mandate.
- ➜ Despite widespread public support programs in Emerging Markets and Developing Economies, SMEs continue to face a sizeable financing gap.
- ➜ New research demonstrates that removing debt and equity financing constraints for SMEs can lead to significant gains in productivity, growth, job creation and resilience.

The financing gap for SMEs remains significant and more needs to be done to develop effective policies to spur SME growth. Development banks have historically focused on filling SME financing gaps. Several have successfully leveraged digital financial services and developed tools and platforms to facilitate demand and supply for SME financing.

SME ACCESS TO FINANCE

Small and medium enterprises (SMEs) face a number of constraints that hamper their access to finance. They include high credit risk and inadequate collateral. Lending to SMEs is marked by higher transaction costs when compared to large corporates, partly because of limited access to information. These challenges are often heightened in emerging market and developing economies (EMDEs) given additional supply-side shortcomings, such as the lack of competition in the banking sector, missing markets (for example, the lack of equity markets in some countries), and inadequate enabling environments that underlie private financing for SMEs. In EMDEs, SMEs often consider the constraints in access to finance one of the top obstacles for business operations and growth. Recent estimates show that the credit gap for formal SMEs has remained fairly constant in recent years. In 2024, the gap was estimated to be about USD 5.7 trillion, equivalent to 19 percent of GDP, as per regional average[8].

Figure 2: SME Credit Gap



Source: Carvajal and Didier (2024)[12]

BRIDGING THE SME FINANCING GAP

MDBs and NDBs have deployed a wide set of targeted interventions to directly affect the supply of financing to SMEs. These include, for example, lines of credit, partial credit guarantee schemes, and, increasingly, investment programs in venture capital funds. A guidebook recently launched by IFC has taken stock of the different business models or approaches for supporting small and medium-sized enterprises through supply chain finance and highlights how initiatives have proved to be successful if aligned with local conditions, mandates of development banks, and participation of the private sector[9].

NDBs have played a countercyclical role during the COVID pandemic but have also gone further by supporting ecosystems of specialized MSME lenders. Recent research demonstrates that removing debt and equity financing constraints for SMEs can lead to significant gains in productivity, growth, and resilience[10]. Removing financial frictions and distortions, thereby relaxing access to finance constraints for firms, can result in large productivity gains of up to 86 percent in MICs, with the largest gains observed among MICs with lower levels of GDP per capita.

Besides financing solutions, MDBs and NDBs also deployed several advisory services at market and firm level. At market level, many have supported: reforms to SME laws, regulations and simplified accounting standards adoption; and reforms to enhance market infrastructure with the development of company registrars and credit bureaus. At firm level, PDBs have developed capacity building programs to support firm adaptation to crises, and to support new entrepreneurship[11].

NDBs can be an effective tool if they adopt a business model that is appropriate for their local conditions[12]. NDBs may support SME financing by operating as first tier lenders (retail lending) or second tier lenders (wholesale lending through private financial intermediaries). But good credit decisions for first-tier lending can be dependent on conditions such as strong credit policies and procedures, politically independent boards, robust and effective monitoring and evaluation (M&E) and low levels of corruption, which can be more difficult to attain in countries where institutions are still developing[12]. If these conditions cannot be met, limiting NDB operations to second tier can help to establish an arm's length relationship between the NDB and the government and limit political interference in credit decisions. Selectivity and additionality (especially in gender and green finance) are key to avoid crowding-out private financial flows and distorting markets.

NDBs have served as platforms for raising wholesale financing through capital market instruments which can be channeled to SMEs - for example, through the use of proceeds. But NDBs can also continue to support the creation of effective financial platforms by leveraging digital solutions to bridge the gap, and many solutions have proven to be effective[13]. NDBs can create facilities (including re-financing) through which banks and financial institutions can lend for longer tenors, which is critical for capital investments by SMEs.

The case study below provides one of many examples of how NDBs can leverage digital solutions to improve workflow, speed of underwriting, and centralized access to information for underwriting.

BOX 1: MEXICO - DEVELOPMENT OF A FACTORING PLATFORM

In 2001, NAFIN, an NDB in Mexico, created an online platform to facilitate factoring transactions. The program was anchored in the notion of supply chains, whereby buyers invite their suppliers, very often SMEs, to the platform. Suppliers choose the invoice they want to have factored and open it up for auction to the participating institutions, which in the case of NAFINs' platform are banks. All factoring transactions are done without recourse. The program experienced a significant expansion between 2001 and 2010, with over 11 million factoring transactions amounting to more than USD 90 billion completed during this period—equivalent to about 1% of Mexico's GDP[14]. Many suppliers participating in the program did not have access to external financing before, relying on trade credit and internal funds to finance their activities. By December 2020, NAFIN had supported over 390 chains with over 14,000 suppliers[14].

4.03 INFRASTRUCTURE

A HISTORICAL MANDATE

Historically, PDBs have financed large, capital-intensive infrastructure projects that are essential for economic development. Today, integrating sustainability issues when financing new infrastructure is one of the main challenges for PDBs.

KEY TAKEAWAYS

- The annual infrastructure financing gap is estimated at USD 1,500 billion in Emerging Markets and Developing Economies (EMDEs).
- Nearly 2/3 of MDBs, RDBs and NDBs contribute to infrastructure financing. They can finance large scale infrastructure as they have the capacity to provide long-term financing and take risks the private sector is unwilling or unable to take.
- The growing impacts of climate change are pushing countries to develop sustainable and resilient infrastructure.
- Adaptation finance is crucial for infrastructure projects, especially in vulnerable regions, to mitigate climate risks, protect communities, and support resilient economic growth.

NO DEVELOPMENT WITHOUT INFRASTRUCTURE

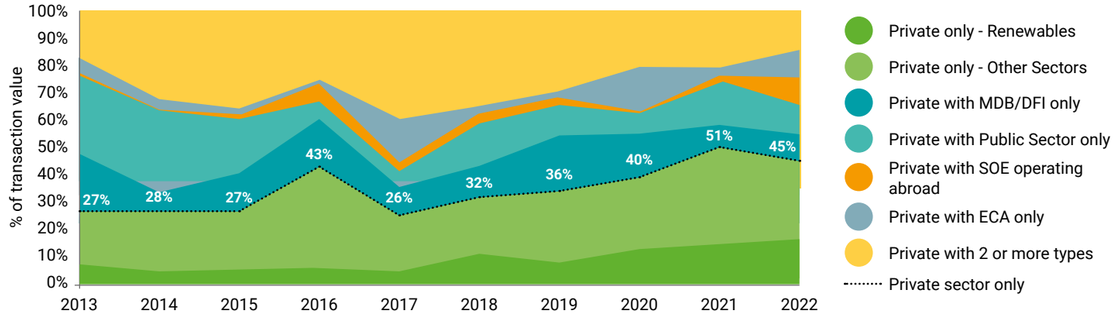
Infrastructure is key to any economic development. It refers to the physical assets such as roads, bridges, power supply, water systems, and communications networks[15] on which growth can flourish. Investments in energy, telecommunications, and transport networks directly impact growth, as all types of infrastructure represent an essential input in any production of goods and services. In addition, infrastructure can also reduce the cost of delivered goods, facilitate the physical mobility of people and products, reduce productivity constraints, and increase competitiveness.

Nearly two-thirds of institutions contribute to the financing of infrastructure[16], as they have access to long term funding[17]. Where private investors may require short-term financial returns[18], they can assume a long term vision and political, financial or regulatory risks[19]. This way, they can crowd-in more private sector capital into infrastructure financing, derisking parts of the capital. Figure 3 shows that more than 50% of the infrastructure financing volume with private sector funding participation consists of co-financing, including with development banks, the Public Sector, State-Owned Enterprises (SOEs) or Export Credit Agencies (ECAs).

MDBs, RBDs and NDBs mobilize private sector capital using different financial instruments. Beyond traditional debt and equity finance, blended finance refers to the combination of public and private capital. Over half of private infrastructure investment relies on co-financing from non-private institutions such as MDBs and public sector entities.

Additionally, they provide advisory services to infrastructure projects across the entire life cycle, from initial planning to financing and implementation[20]. This approach strengthens project viability, particularly in low-income countries with weaker institutions[20]. Middle-income countries also benefit from targeted advisory services at critical stages, although the support has been less intensive and more focused on targeted advisory and policy interventions across the whole cycle[20].

Figure 3: Private investment in infrastructure projects by co-financing type (percentage of total transaction value)



Source: PPIAF (2024)[15]

Investment needs are vast[21]. Approximately USD 1.5 trillion are needed annually for infrastructure in low and middle-income countries by 2030, particularly in the sectors of energy, water and sanitation[22]. The current level of financing falls short of meeting the infrastructure demands in low and middle-income countries[23] and a substantial infrastructure financing gap is projected to widen over the next two decades[24]. Small and micro-sized banks struggle to finance infrastructure projects due to the capital intensive nature of such investments[16].

SUPPORTING INFRASTRUCTURE PROJECTS

NDBs can play different roles depending on the specific needs of the country in which they operate. 65% of PDBs have incorporated "infrastructure financing" in their official mandate or as a main public policy objective[25]. For example, the Canada Infrastructure Bank (CIB) was created "to invest (…) in infrastructure projects in Canada that will generate revenue and that will be in the public interest (…)"[26]. The China Development Bank has strongly contributed to the expansion of Chinese infrastructure through initiatives like the New Silk Roads and the Three Gorges Dam[4].

The EIB is a global leader in providing finance to infrastructure. It has financed major infrastructure projects, notably the Channel Tunnel between the UK and France, by providing a GBP 200 million loan in 1998 for the Channel Tunnel Rail Link (CTRL)[27]. Additionally, EIB provided EUR 2 billion for the construction of the Grand Paris express transport project[28]. EIB is also active outside of Europe and provided for example EUR 450 million for the metro in Lucknow, India. The EIB has also been a key player in developing capital market solutions for infrastructure projects through its Project Bond Credit Enhancement.

The Asian Infrastructure Investment Bank (AIIB) is a growing player in infrastructure development through large-scale projects, particularly in South Asia[17]. Initiatives include projects in energy generation, transportation, and urban infrastructure across countries like Bangladesh and Nepal. Those projects are often realized in partnership with other development banks and national governments[29].

In Colombia, the Fondo de Desarrollo Nacional (FDN) financed the country's Fourth Generation (4G) road infrastructure program, which is the largest of its kind in Latin America and the Caribbean[30]. The FDN introduced innovative financial instruments, such as mini-perm loans[31] to support the construction phases. Mini-perm loans typically mature after three to five years, allowing for refinancing under better terms once cash flow is established. The 4G program, launched in 2014 and still ongoing, aims at modernizing Colombia's road infrastructure and the FDN's efforts were pivotal in securing close to COP 21 trillion (USD 7.2 billion) in funding for these projects as of 2019[30].

BOX 2: SUSTAINABLE INFRASTRUCTURE

Today, 79% of global greenhouse gas emissions are related to infrastructure, mostly from construction and transport relying on fossil fuel, highlighting the urgency to render infrastructure investments more sustainable[32]. Sustainable infrastructure should deliver long-term economic, social, and environmental (ESE) benefits[17]. It is critical to the achievement of both SDG 9 (Industry, Innovation, and Infrastructure)[33] and SDG 8 (Decent Work and Economic Growth). It is estimated that clean energy investments can contribute 4% to global GDP growth by 2030[34] and that 92% of SDG targets are achievable through infrastructure investments (for instance access to clean water, sustainable cities, education, etc.)[32]. Investing in sustainable infrastructure has thus become increasingly important as the world grapples with the challenges of climate change, a slowing global economy, and the need to reduce inequalities that heavily impact the most vulnerable populations. Developing sustainable infrastructure thus offers an opportunity to drive positive transformation[35].

Adaptation finance is a critical component of sustainable infrastructure[36]. It supports investments in infrastructure designed to withstand climate risks, such as flood-resistant transportation networks and resilient water systems, which are particularly vital for vulnerable regions[37]. It not only strengthens adaptive capacity mitigating the effects of climate change, but also contributes to long-term economic growth and social equity[37].

4.04 CLEAN AND RENEWABLE ENERGY

SCALING UP CAPACITIES

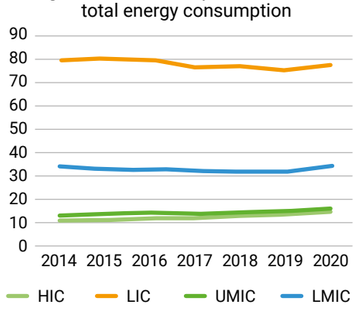
Despite the Paris Agreement setting clear targets for 2030[38] and SDG 7 detailing 'affordable and clean energy' targets, the world is lagging behind. Faster deployment of renewable energy would be needed to achieve decarbonization and climate goals[39]. PDBs have the mandate to deploy their financing capacities to adress this market failure.

KEY TAKEAWAYS

- ➜ To meet decarbonization and climate goals, renewable energy sources need to be scaled up at least six times.
- ➜ Achieving renewable energy targets requires an estimated USD 4.4 trillion annually in energy transition investments by 2030.
- ➜ Lower-income countries must strike a balance between financing energy transitions in parallel to their growth trajectory.
- ➜ PDBs can use several instruments to support countries in their transition to renewable energy. In addition to excluding fossil fuels from their portfolios, they can provide affordable long-term financing for RE and issue guarantees to reduce private sector risks.
- ➜ Since 2021, Just Energy Transition Partnerships (JETPs) are multilateral initiatives aimed at speeding up the transition away from fossil fuels.

THE RENEWABLE ENERGY TRANSITION

Figure 4: RE consumption as share of total energy consumption



Source: World Bank (2021)[38]

The development of renewable energy (RE) is essential to reducing carbon emissions and it requires long-term investment. Increasing the share of renewables to 86% of global power generation by 2050 could reduce energy-related carbon emissions by around 70% globally[40]. However, achieving these targets requires an estimated USD 4.4 trillion annually in energy transition investments by 2030, highlighting a substantial funding gap[40]. At the same time, investments in fossil fuels remain significant, especially in oil and gas, amounting to around USD 1 trillion in 2022[40].

In high-income countries (HIC), fossil fuels strongly dominate the energy consumption mix, representing 80-90% of total energy consumption, while RE account for only about 10%[41] (see figure 4). In the USA, at least 14 States have set up SDBs to support the energy transition like *Energize Delaware* or *the Colorado Clean Energy Fund*. In contrast, renewable energy represents nearly 80% of energy consumption in low-income countries (LIC), as they tend to have less established fossil-based infrastructure to produce energy.

However, LICs face barriers in scaling up RE to support industrial growth as transitioning from small-scale RE usage to an industrial RE-based economy is costly[39]. For instance, wind power is still 20 to 70% more expensive than natural gas plants[39] and purchasing expensive RE technology abroad may lead to balance-of-payment and foreign exchange issues if they do not generate foreign reserves. The lack of supporting infrastructure such as storage technology, transmission lines or grid adaptation[39] hinders large-scale deployment of RE like solar and wind[39].

Additionally, technological and capacity constraints as well as regulation may represent barriers to RE projects[43]. High technical risks are prevalent in RE sectors such as battery storage, hydrogen, offshore wind, and floating solar, primarily due to the new and untested nature of these technologies[43]. In Mexico, a favorable regulatory environment attracted significant commercial sector financing for RE, but changes in government have introduced new priorities and legal barriers that jeopardize these markets[43].

Still, recent trends give hope to a feasible RE transition without hampering the development of more energy-intensive sectors. The price of RE technologies has fallen by over 80% since 2010, thanks to technological advancements, economies of scale, and increased investment in the sector[44]. Countries like China are integrating RE in their multi-year strategies[45].

FINANCING RE INFRASTRUCTURE

Development banks' contributions to the RE transition vary depending on local context and needs. In LICs, they tend to provide financing for energy infrastructure projects, such as rural electrification and decentralized grid systems. Given the high initial costs and limited resources in these regions, grants and concessional financing are vital to make RE both affordable and sustainable[46]. In HICs, where substantial energy capacities already exist, they can facilitate the transition by divesting from outdated fossil fuel assets and reallocating funds toward modern RE technologies.

Investments are needed not only in production but also in grid infrastructure and technologies. While USD 644 billion is expected to be spent on new RE capacity in 2024, inadequate and outdated grid infrastructure remains a significant obstacle[47]. An estimated USD 3.1 trillion would be needed by 2030[47] to modernize power grids and ensure efficient energy distribution, especially as PDB support has primarily focused on energy production rather than transmission networks.

MDBs and NDBs can offer funding and guarantee mechanisms to finance and incentivize the energy transition. They can provide low-interest, high risk and long-term capital[39]. They may provide funds especially in LICs for the construction of industrial parks for RE production, smart grids, or energy storage; or for the import of RE technologies. Their support to private sector stakeholders through additional instruments like guarantees is crucial in order to mitigate their investment risk[48]. In Brazil, BNDES uses feed-in tariffs and risk guarantees to attract private investment[48]. In Mexico, Nacional Financiera (NAFIN) supports low-carbon investments by providing credit lines, guarantees, and collaborating with international climate funds. These tools reduce investor risk and help Mexico finance RE technology imports without causing balance-of-payments issues[49]. MDBs and RDBs can finance large and cross-border projects given their larger balance sheets and international operations.

Beyond financing, they are well positioned to help overcome challenges in the RE transition. In line with their public policy mandate, they may include climate and RE finance in their mandate, and exclude fossil fuels from their funding portfolios, or allowing limited fossil fuel financing where it directly supports national development goals and aligns with the principles of a just energy transition, while fixing a minimum share of RE projects[50]. They often serve as neutral intermediaries to bring various stakeholders together, including governments, private investors, and communities, helping mitigate resistance from entrenched fossil fuel interests ("incumbent entrenchment")[39].

Most development banks recognize the importance of supporting the RE transition but lack concrete roadmaps and private sector buy-in. By offering risk mitigation tools like guarantees and concessional financing, they can crowd in private capital in large-scale RE projects. While many MDBs and NDBs have started shifting their strategies towards the Paris Agreement[39] and prioritized RE in their policy goals, few have turned their mission-driven vision into a concrete roadmap[39]. Moreover, onboarding the private sector in this transition remains a challenge, as they will only participate if PDBs make significant investments using long-term and patient capital[39].

BOX 3: TRANSITION THROUGH "JUST ENERGY TRANSITION PARTNERSHIPS"

Just Energy Transition Partnerships (JETPs) are a multilateral initiative aimed at speeding up the transition away from fossil fuels[51]. These partnerships coordinate financial resources and technical assistance from donor to recipient countries. They are mainly funded by France, Germany, the United Kingdom, the United States, and the European Union, with additional support from development banks and various international actors. The financing involves a combination of public and private grants, loans, and investment[51].

JETPs primarily focus on emerging economies with significant coal production and consumption. The first JETP was announced for South Africa at COP26 in 2021. Subsequent JETPs were announced in 2022, including USD 15.5 billion for Vietnam and USD 20 billion for Indonesia[52]. In 2023, EUR 2.5 billion were pledged for a JETP with Senegal[53].

4.05 CLIMATE

MITIGATE AND ADAPT

Progress on climate action requires mobilizing sufficient resources to address underserved and unserved climate priorities, shifting finance away from misaligned policies, and promoting financial policies that enable systemic economy-wide transitions.

KEY TAKEAWAYS

- ➜ Development banks' climate financing has increased in recent years, in both volumes and share of global commitments, mainly driven by MDBs and large NDBs.
- ➜ Common approaches include phrasing out fossil fuel financing, adopting climate risk strategies, and mainstreaming climate change into strategies, operating modalities and activities.
- ➜ More efforts are needed, in particular to finance adaptation to the effects of climate change in vulnerable contexts, and to seek more transformational effects on climate action.
- ➜ It is key to systematically include commitments to the fight against climate change in PDB mandates and strategies.

STRATEGIES FOR CLIMATE ACTION

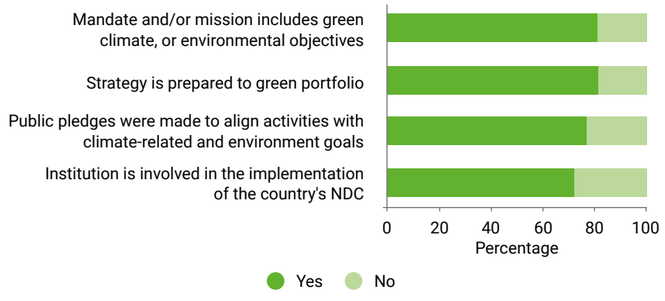
Although global climate finance reached close to USD 1.5 trillion in 2022, the Intergovernmental Panel on Climate Change (IPCC) indicates that this amount would need to increase about 5 to 7 times between 2030 and 2050 to achieve the climate goals[54,55]. At the same time, the IPCC highlights that there is sufficient global capital to close the investment gaps but there are barriers to redirecting capital to climate action.

Contributions to climate objectives are important and increasing[44]. NDBs in particular are the main providers of climate finance[57] as they align with their national policies, have the proper background of local contexts and attract private investments through risk-reducing financial strategies[47]. Figure 5 shows the commitment of 22 surveyed NDBs with regard to environmental objectives: over 80 percent of respondents have set green objectives or prepared a strategy to green their portfolio[48]. Consistent with Article 2.1.c of the Paris Agreement, they are not only aligning their own financial flows to climate[45], but also working on the climate alignment of their clients and partners[56].

Most MDBs and large NDBs have adopted safeguards ("do no harm"), either excluding or significantly reducing funding for coal-fired power projects and, in some cases, all hydrocarbon-based initiatives. For instance, the African Development Bank (AfDB) no longer finances projects involving the extraction, processing, or utilization of coal as a primary energy source. Similarly, the European Investment Bank (EIB) ceased backing fossil fuel projects in 2021 and systematically assesses the emission impacts of its projects[49].

Climate impact assessment is increasingly being used by MDBs and large NDBs in their M&E frameworks (*see section 3.09*). A growing number of them have integrated in their Environmental and Social (E&S) Management Systems[50] the systematic screening for all types of climate risks and opportunities, following among others the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Risks include those regarding the physical impacts of climate change but also those linked to the transition to a lower-carbon economy, when the profitability of an organization is dependent to fossil fuels. In addition, MDBs and the IDFC have been computing since 2015 a common reporting methodology to measure their climate mitigation and adaptation finance[58]. Even if disparities exist, many PDBs are making efforts to harmonize reporting approaches on the overall greenhouse gas emissions of their projects[52].

Figure 5: NDBs' commitment to the Green Agenda



Source: Dalhuijsen et al. (2023)[59]

BOX 4: CLIMATE MITIGATION, ADAPTATION AND LOSS & DAMAGE

Mitigation refers to efforts to contain and reduce emissions. At country level, corresponding targets, policies, investment plans and efforts are captured in their Nationally Determined Contributions (NDC)[53]. They include policies and regulations such as carbon taxation, cutting fuel subsidies or providing incentives to the promotion of low carbon investment. A classical example of mitigation is the transition from fossil fuels to renewable energy sources[53]. Working on energy efficiency programs can also help optimize the use of resources.

Adaptation efforts are focused on actively reducing vulnerability to climate impacts[53]. For example, the African Development Bank has supported climate-resilient agriculture in the Sahel region, focusing on water management and soil conservation to combat desertification. Similarly, the Asian Infrastructure Investment Bank has contributed to the restoration of mangrove forests in Indonesia, which serve as natural barriers against coastal erosion and storm surge[55].

The *Loss and Damage* concept refers to the unavoidable impacts of climate change that cannot be addressed by mitigation and adaptation. These can result from both sudden-onset events (e.g. cyclones, heatwaves and flooding) and slow-onset events (e.g. sea-level rise, increasing temperatures and desertification)[56]. Vulnerable communities and countries that contribute the least to global emissions yet face the greatest climate risks are particularly impacted by Loss and Damage.

ADDRESSING CLIMATE FINANCE

Identifying bankable projects that effectively address climate issues remains complex in countries that are heavily dependent on fossil fuels, or for large infrastructure projects. They present complex trade-offs and climate risk assessment must include all dimensions. Potential negative impacts can be very indirect, such as the exclusion of local communities or resilience to future (climate) shocks. Similarly, benefits of climate finance may only be long-term, not monetary, and spread over a wide range of stakeholders.

Climate adaptation finance lags far behind mitigation finance[51]: In 2023, IDFC members' mitigation finance reached USD 175 billion, whereas adaptation finance only stood at USD 10.5 billion[57].

CLIMATE FINANCE AGENDA

Enhancing climate-finance disclosures, with comparable reporting methodologies, is critical for improving transparency and accountability[44]. As regulatory frameworks are reinforced, development banks can support their beneficiaries in adopting climate and sustainability disclosure[58]. Those adopting double-materiality reporting, disclose information not only on ESG risks that could financially impact them but also on how their operationscontribute to or mitigate social and environmental issues[58]. Tools like those developed by the Inter-American Development Bank (IDB), including a green-climate self-assessment, a climate tagging model, or heat maps[51], may serve as a best practice for other development banks. Similarly, the Common Principles for Climate Mitigation Finance Tracking elaborated by IDFC provide guidelines for development finance institutions to track and report climate mitigation investments[59].

More structurally, a number of NDBs are considering going beyond transaction-level interventions by fostering transformational finance for climate. Transformational potential can notably pertain to: supporting capacities with regards to country-driven long-term strategies, policies, regulations or action plans; Elaboration of NDCs with higher ambition; Identification of climate-friendly bankable investment projects; Introduction of technical innovation, including technology transfer; Supporting the design and implementation of climate strategies by companies, financial institutions, local authorities and other stakeholders; and more generally supporting the design and implementation of activities with a systemic scope[62].

4.06 BIODIVERSITY

A SILENT CRISIS

The world is facing a major environmental crisis due to rapid loss of biodiversity caused by habitat destruction, overexploitation of natural resources, climate change, pollution, and invasive species. The contributions of PDBs to addressing this challenge have remained comparably small.

KEY TAKEAWAYS

- ➜ Biodiversity has been a neglected issue: only 17% of NDBs have formally committed to biodiversity conservation.
- ➜ Half of the global GDP, amounting to USD 44 trillion, is moderately or highly reliant on nature and the services it offers.
- ➜ USD 85 billion is allocated to biodiversity projects each year, representing only 12% of the USD 700 billion needed to protect and sustainably use ecosystems.
- ➜ Various frameworks exist to align PDBs with biodiversity goals, including the IDFC's four-pillar approach on nature-related impacts or the WWF's dual approach to greening finance and financing green.

FUNDING BIODIVERSITY

The consequences of biodiversity loss are immense and not yet precisely understood. Research[2] shows that more than half of the global GDP, amounting to USD 44 trillion, is moderately or highly reliant on nature and the services it offers[61]. Firms not only contribute to biodiversity loss but are also heavily dependent on the services provided by natural ecosystems. Companies rely on ecosystem services for resources, the regulation of natural processes like pollination or cultural value (e.g. tourism). Their deep interactions are not yet clearly understood by science.As the world witnesses the unprecedented speed and scale of decline in biodiversity due to human activities[60], biodiversity was integrated into the UN Sustainable Development Goals through SDGs 14 (Life below Water) and 15 (Life on Land). The biodiversity financing gap has been estimated at USD 700 million[3].

MDBs are increasingly supporting biodiversity objectives, but biodiversity remains to be mainstreamed by most NDBs and biodiversity risks are not properly mitigated. Biodiversity investments by development banks over the period represent a small share of their portfolio, amounting to 38 billion[63]. However, it greatly exceeds bilateral development financing for biodiversity (6.1-9.7 billion on average over the period 2015-2022)[63]. Ten MDBs made a joint statement in 2021 affirming their commitment to mainstream nature into their policies, analyses, assessments, advice, investments and operations[64]. They also defined in 2023 a set of Common Principles for tracking nature-positive finance that can be used by each MDB and that may be informative for other investors[65].

Only 17% of NDBs have officially committed to the preservation of biodiversity[60]. Similarly, the protection of biodiversity is a neglected topic in PDB activity reports[3]. Lack of awareness and capacity constrains affect the adoption of nature positive investments. Furthermore, nature positive investments are often perceived as conservation projects with limited return for which crowding in private capital is challenging[66]. Certain activities financed by NDBs aiming to increase economic growth inadvertently harm natural ecosystems through agriculture, deforestation and urbanization[60]. Most NDBs consider biodiversity through risk-based approaches, i.e. actions to mitigate a negative impact on biodiversity, rather than through positive contributions[60]. Nevertheless, a considerable amount of NDBs' activities endanger nature, creating a cost to society that has been evaluated at USD 800 billion annually[64].

INTEGRATING BIODIVERSITY IN PDB APPROACHES

The International Development Finance Club (IDFC) has developed a "Biodiversity Toolbox" in 2022 based on four pillars[65].

- The first pillar, governance, requires organizations to disclose how their governance structures support the integration of nature-related considerations into decision-making processes.
- The second pillar, strategy, involves detailing the strategic approach taken by organizations to manage nature-related risks and opportunities.
- The third pillar, risk management, focuses on describing how organizations identify, assess, and manage nature-related risks.
- Finally, the fourth pillar, metrics and targets, includes the quantitative and qualitative metrics used to assess and track nature-related performance, along with the targets set to improve or maintain these metrics.

The WWF[135], on its side, suggests a two-fold strategy for development banks: (1) "greening" finance by integrating biodiversity objectives into all operations and (2) "financing green" by providing financial resources for protection and restauration of ecosystems[60]. Achieving the objective of "greening" finance implies that they not only apply safeguards to "do no harm" but also mainstream biodiversity considerations across all sectors. This involves incorporating environmental assessments into their M&E systems and using tools like the Integrated Biodiversity Assessment Tool (IBAT) to identify projects with high biodiversity risks early on.

The IFC Performance Standards are another useful reference of environmental safeguards to mitigate environmental and social risks in investment projects. In addition, the IFC Biodiversity Finance Reference Guide provides insights and guidelines to support financial institutions in incorporating biodiversity into their investment strategies, helping to safeguard ecosystems[66]. "Financing green" is equally relevant. It means that development banks should increase financial flows to projects that contribute to the conservation, sustainable use, and restoration of biodiversity and ecosystems, acknowledging the services they provide to people[67].

BOX 5: NATURE-BASED SOLUTIONS (NBS)

Nature-based Solutions (NbS) increase resilience and promote biodiversity conservation[67]. The UNEA-5 defines NbS as follows: "Nature-based Solutions are actions to protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services, resilience and biodiversity benefits"[68].

A mangrove restoration project in Indonesia - supported by the World Bank - illustrates how MDBs can finance biodiversity conservation through NDBs[69]. This initiative aimed to protect coastal communities from storm surges and erosion by restoring mangrove forests, which act as natural barriers against these environmental threats. The project saved millions in potential damage costs by mitigating storm impacts, and the restoration improved local biodiversity by providing habitats for various species. Additionally, the project supported local communities by creating new livelihood opportunities through sustainable tourism and fishing[69].

4.07 GENDER

REDUCING GENDER INEQUALITIES

Although gender equality stands out for its cross-cutting impact on other development objectives, disparities across and within development banks persist regarding their integration in operations. Addressing these gaps requires concerted efforts to prioritize gender equality, strengthen institutional capacity, improve data collection and monitoring systems, and promote a gender-inclusive culture.

KEY TAKEAWAYS

- ➜ NDBs have traditionally neglected social-related SDGs such as gender equality.
- ➜ When NDBs integrate gender equality as a cross-cutting issue in their operations, it generates positive outcomes and contributes to inclusive and sustainable development.
- ➜ The creation of the Finance in Common System (FiCS) marked a significant turning point, rallying participants for a declaration to actively commit to gender equality.
- ➜ MDBs and NDBs rely on various instruments to mainstream gender in their activities. They should systematically use metrics to measure the impact of their activities in reducing gender inequalities.

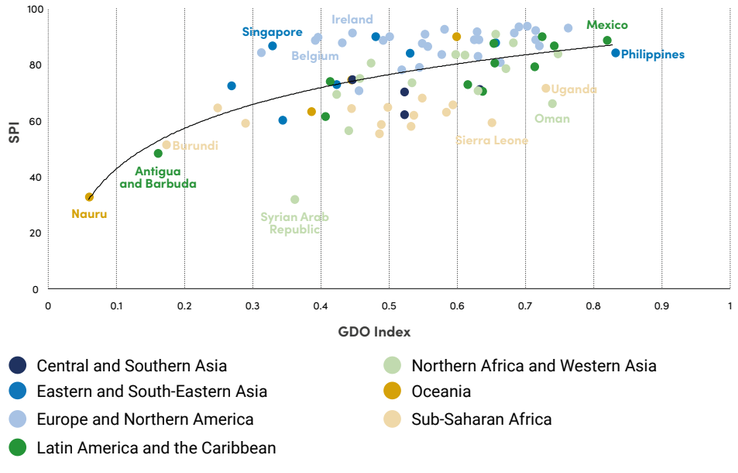
A CROSS-CUTTING ISSUE

Gender equality is a fundamental human right and is essential for realizing all SDGs. Among its many benefits, gender equality has been recognized for its socio-economic impact. Closing the gender gap in employment and entrepreneurship could increase global GDP by more than 20%[70]. Eliminating the gender gap over the next decade would essentially double the current global growth rate[70]. Addressing gender inequalities has also been shown to be crucial for reducing poverty and promoting social inclusion. Yet almost no country has achieved full equality between men and women.

For many years, some NDBs have overlooked the social dimension of their projects, and particularly gender issues. They have fallen behind mainstreaming gender in their activities[4] under the influence of traditional power structures in society. As such, NDB progress in tackling gender inequalities remains relatively slow. There is a noticeable lack of gender data, which hinders effective policy-making and the ability to monitor progress on gender equality[71]. Figure 6 shows that among the 83 countries analyzed, most countries are only halfway in terms of planning, coordinating, producing, and providing access to gender data[71].

Yet, a growing number of NDBs recognize that progress towards goals such as good health and well-being, quality education, and reduced inequalities, hinges on gender equality. This change is reflected in the increase in projects aimed at closing the gender gap[4].

Figure 6: The Gender Data Outlook Index and Statistical Performance Indicator (SPI)



Source: United Nations (2024)[71]

> We are kicking off [...] a movement to rally all PDBs willing to empower women. In fact, many PDBs have already decided to mainstream gender across their operations and measure their gender equality-related impacts. And by bringing together public development banks from around the world, the Finance in Common Summit provides a unique opportunity to highlight the transformative power of these institutions on gender equality.–
> **Rémy Rioux, CEO of AFD (2020)[73]**

The first edition of the Finance in Common Summit in 2020 marked a significant milestone, urging participants to actively commit to gender equality, signaling a collective acknowledgment of its importance. A group of 44 participants have signed the FiCS' declaration showing their commitment to "strengthen institutional commitment to gender equality, increase accountability and funding on investments in favor of gender equality"[72].

EXPLORING GENDER INITIATIVES

Many MDBs and large NDBs have taken strides to promote gender equality. In 2022, 92% of World Bank operations included indicators to measure results in closing gender gaps[74]. The Bank launched in 2024 a WBG gender strategy to accelerate gender equality to end poverty on a livable planet. The strategy focuses on concerted action, financing, and programs at scale to support foundational wellbeing, economic participation and women's leadership equity. Similarly, the Development Bank of Southern Africa (DBSA) has developed a gender mainstreaming program, focused on (i) promoting investments in women-owned projects, (ii) adapting policies for gender inclusion, (iii) building capacity through workshops, and (iv) fostering partnerships with like-minded organizations such as the ADB[75]. The Asian Development Bank (ADB) launched the Pacific Private Sector Development Initiative (PSDI), a technical assistance program providing technical assistance, capacity development and intensive reform implementation support to address the significant underrepresentation of women in the workforce, management, and company boards across Pacific Island Countries[76]. Finally, the African Development Bank (AfDB) issued its first "Gender Equality Bond" in 2017 to fund projects that empower women across Africa by enhancing access to finance and workforce participation[77].

Beyond supporting women economic empowerment, development banks can reduce gender inequality by improving care infrastructure. Unpaid domestic work, which is undertaken primarily by women, is a major contributor to gender inequality. Caregiving responsibilities should be better recognized and redistributed between men and women, with a reduction in unpaid care work[78]. They can invest in both public and private care infrastructure, such as the infrastructure needed for the provision of affordable childcare and eldercare services. For instance, the Inter-American Development Bank (IDB) has invested in expanding childcare services in countries like Mexico to increase women's workforce participation[79]. They can promote the supply in the care economy, allowing redistribution of certain care obligations to the private sector by directly investing in care providers or indirectly through financial intermediaries for market-based care solutions[80].

STRENGTHENING PDBs' IMPACT ON GENDER

Based on best practices and existing literature[81], PDBs have the potential to enhance their impact on gender equality[82]:

- **Integrate gender considerations across all operations:** Many NDBs are mainstreaming gender into every aspect of their operations, from project design and implementation to monitoring and evaluation. Dedicated gender strategies and targets are more likely to result in a higher level of gender integration within their operations, strategies, programming, and financing.
- **Improve data collection and analysis:** Enhancing the collection and analysis of sex-disaggregated data enables organizations to better understand gender gaps and evaluate the effectiveness of their initiatives. Common frameworks should be developed to assess the level of gender inclusion of a project, as highlighted by the International Development Finance Club (IDFC) through its first Gender Tracker Initiative[83].
- **Strengthen focus on gender in climate actions:** Recognizing the differential impacts of climate change on women and men as due to social, economic, and cultural factors, development banks should increase their efforts to address both issues concurrently, integrating gender perspectives into climate resilience projects.
- **Improve internal gender strategies:** Strengthening internal gender policies within institutions can enhance their impact on gender equality. This involves evaluating women's status in the organization, promoting equal leadership opportunities, and adopting gender-sensitive workplace policies. Organizations with inclusive cultures are more effective in advancing gender equality externally.[84]

While overall development banks have made strides in recognizing the importance of gender equality in achieving sustainable development, concerted efforts are needed to (i) prioritize this cross-cutting goal, (ii) form strategic partnerships, and (iii) employ rigorous impact measurement techniques.

4.08 HEALTH AND EDUCATION

VECTORS FOR WELL-BEING AND GROWTH

KEY TAKEAWAYS

- ➜ Health and education are fundamental for long-term well-being and sustainable economic growth.
- ➜ Low- and Middle-Income countries struggle with sufficient funding for these sectors.
- ➜ Although 40% of PDBs offer solutions in these sectors, they represent comparably small shares of their loan portfolios.

PDB investments in SDG 3 “Good Health and Well-Being” and SDG 4 “Quality Education” are contributions to the "people" SDGs, which focus on building human capital. While health and education are distinct sectors, PDBs engaged in health initiatives are likely also involved in supporting educational activities and vice versa[16]. Health and education are relatively prominent in the activities of development banks, with around 40% offering solutions to finance these sectors[16].

INVESTMENTS IN HEALTH

The health sector constitutes an important foundation for both well-being and economic growth. A healthy population is not only characteristic of well-being: a healthy population is able to work more consistently and is more productive[85]. A functioning health system provides decent employment opportunities in both the production of medical products and services like health centers, especially for women and youth in both rural and urban areas. Globally, the health sector accounts for 10% of GDP. Over the past two decades, global health spending has increased faster than GDP, driven by new technologies and rising demand for health services. Spending on medicines is expected to grow by 3% to 6% annually between 2019 and 2025[85].

Investment in health is insufficient and not sustainable[16] in many low-income countries, particularly in sub-Saharan Africa. Most Official Development Assistance (ODA) funding for health, approximately USD 25 billion in 2019, is used for purchasing medicines and vaccines targeting a few well-known diseases and benefiting a limited population[85]. Germany’s KfW has invested EUR 2.87 billion in forty-one countries to combat infectious disease and supporting reproductive health initiatives[16]. However, funding for human resources development and infrastructure in the health sector, both required for a sustainable health system, has been small.

THE COVID-19 CRISIS

MDBs and NDBs played a pivotal role during the COVID-19 crisis, underscoring their importance in health crises (see section 1.07). The financial response to the COVID-19 crisis has been largely effective, resulting in a significant increase in health-related development finance and investments in social protection[85]. During the pandemic, they implemented support measures for businesses, especially as economic activities froze, and unemployment surged globally. For instance, in Latin America and the Caribbean, they deployed about USD 90 billion in loans to mitigate the 7% GDP shrinkage and a 20% investment decline in 2020. Similarly, in Europe, shortly after the pandemic’s onset, the European Investment Bank (EIB) introduced a EUR 200 billion guarantee scheme to support the economy. However, despite these efforts, lower-income countries faced challenges in matching the intensity of these responses, highlighting the disparity in financial capabilities and underscoring the need for stronger international support mechanisms.

The COVID-19 pandemic has underscored the necessity of increasing investments in health and social protection systems[85]. Although development banks have been reactive during the COVID-19 pandemic and ensured short-term stability, the crisis has interrupted the overall progress towards improving global health and reducing inequality[85]. There have been regressions in critical health areas, with declines in measles and polio vaccinations and increases in the spread of HIV, tuberculosis, and malaria due to fundings being redirected to the COVID crisis[85].

INVESTMENTS IN EDUCATION

Like health, education is a contributor to long-term economic development. An educated workforce qualifies for more complex and high paying jobs and can take more informed decisions on many dimensions. Some investments into education may have quite direct benefits, such as students’ increased employability after participating in vocational training programs. However, other benefits may only be indirect or materialize in the very long term, especially if the investments concern early childhood education[86]. This argument has been put forward as one reason why some governments focus on public spending with palpable short-term results instead of sectors like health or education with less visible results notably within the period of one political mandate[87]. Education loans are typically done on favorable terms with interest rates usually around 2-3%[86].

The Council of Europe Development Bank (CEB) has provided support in enhancing educational systems particularly in Eastern Europe[16]. By financing projects that expand access to quality education and vocational training, the CEB aims to impact social integration and employment prospects, especially for disadvantaged groups[88]. Initiatives include the construction of school facilities and the support of educational programs that enhance employability[89]. This approach not only addresses immediate educational needs but also ensures long-term development benefits.

In 2024, education loans accounted for 6.1% of the IBRD’s total loans[90], and 6.4% of the Asian Development Bank's commitments[91].

ENHANCING INVESTMENTS IN HUMAN CAPITAL: WAY FORWARD

Development banks with generalist mandates can explore new opportunities to increase health and education funding. As policy instruments to curb market failures, they should step in where the private sector does not invest, for example because of limited purchasing power of targeted populations[16].

Health projects should focus on institution building and sustainable health systems[85]. As recommended by the WHO, the focus of public health financing could be on investing in Common Goods for Health (CGH), which are interventions in the health sector correcting market failures[92]. As illustrated by the COVID-19, investment in institutions is vital for monitoring, preventing, and responding to national and global health threats. The G20 High-Level Independent Panel has pushed for increased public health infrastructure like national and regional Centers for Disease Control worldwide[93].

Development banks could also explore additional projects in education. As most low and middle-income countries encounter challenges in mobilizing public or private funds for their education systems[86], PDBs can consider expanding their programs in this area.

4.09 SUSTAINABLE CITIES

GLOBAL ISSUES, LOCAL MANDATE

Since the 19th century, NDBs were used to finance urban development. As urban populations expand globally, cities need increasing financing and technical expertise to support integrated urban planning. This includes ensuring equitable access to decent housing, basic services and sustainable economic opportunities, while strengthening climate-resilient infrastructure. By mobilizing long-term resources and promoting innovative solutions, PDBs help shape urban spaces that balance social inclusion, environmental sustainability and economic growth.

KEY TAKEAWAYS

- Cities concentrate many issues that suffer from a lack of funding, such as public transport, water, waste collection, land use and energy efficiency.
- The negative effects of climate change call for more investments to build resilient urban infrastructure.
- Subnational development banks may have a comparative advantage in financing the sustainable development of cities, particularly where local governments have limited borrowing capacity.
- NDBs can involve local communities in urban planning and decision-making to improve acceptability and ownership.

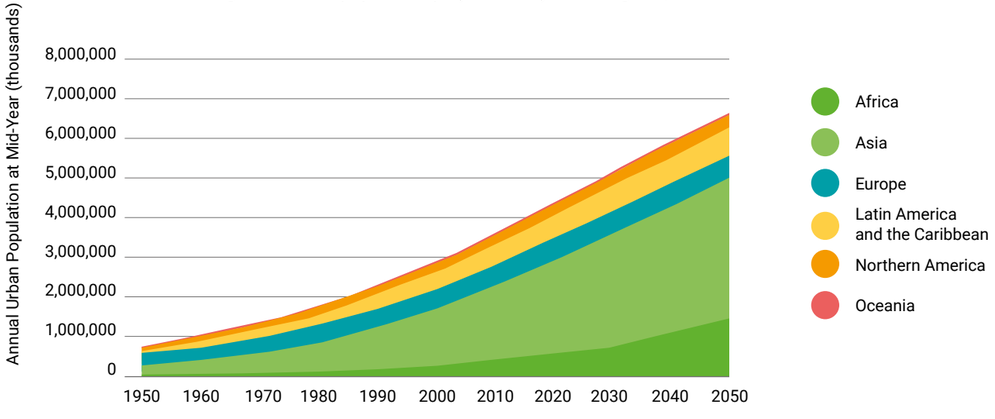
GROWING URBANIZATION

Today, some 4.4 billion people - 56% of the world's population – live in cities. This figure is expected to grow, with the urban population more than doubling its current size by 2050, at which point nearly 7 out of 10 people will live in cities[94] (see Figure 7). Today 1.1 billion urban poor live in slums and are far from social and economic opportunities[95].

The speed and scale of urbanization raises a large number of challenges in terms of affordable housing, viable infrastructure, efficient transport systems, solid waste management, and access to basic services such as clean water and natural amenities. The negative effects of climate change call for increased investments to build resilient urban infrastructure.

Overall SDG 11 "Sustainable cities and communities" displays synergies with all the other sustainable development goals.

Figure 7: Urban population projections by world regions, 1950-2050.



Source: UNDESA Population Division (2018)

LANDSCAPE OF CITY FINANCE

The financing of cities and urban development is a historical mandate for NDBs, as illustrated by institutions like the Norwegian Agency for Local Governments created in 1926. Today, 18 public financial institutions have a specific mandate dedicated to financing cities and local governments. Together, they totalize more than USD 332 billion in assets[25], not including other general-mandate development banks that also contribute to financing projects that are located in urban areas or that contribute directly to urban development.

Depending on their geographical location or ownership structure, development banks use different channels to provide funding to cities. MDBs and bilateral development banks often intermediate their financing, either through the central government, or through local financial institutions, like Findeter in Colombia or the Caisse des Prêts et de Soutien des Collectivités Locales (CPSCL) in Tunisia[96]. CPSCL was created with the mandate to stimulate investment by local authorities, improve communal resources and enhance the management potential of local authorities. Over the past 20 years, the CPSCL has intermediated funding from other development banks such as the World Bank, the European Investment Bank (EIB), and the Agence Française de Développement (AFD).

Other countries, such as Mexico and Denmark, have imposed borrowing restrictions on municipalities and local governments in an effort to rationalize public budgets. In these cases, local governments have set up sub-national development banks to finance urban development. Kommunekredit was established in Denmark in 1898 as a voluntary association, but today all Danish municipalities and regions are members and owners of the bank. The central government has neither ownership nor management responsibility for the bank. KommuneKredit provides loans to Danish municipalities and regions, municipally owned companies and companies with regional or municipal functions. Projects financed with loans from KommuneKredit must have a public purpose[97].

OPERATIONAL APPROACHES TO FINANCING SUSTAINABLE CITIES

Financial constraints for cities are often the result of limited creditworthiness and little access to financing, which in turn can hinder the delivery of public services. As such, one sphere of action is to bring transversal support to local governments to improve their financial health and autonomy. Effective financial solutions require mature administrations[98] and development banks can help cities through enhanced financial planning and transparency, thus improving confidence of public and private investors in the longer-term.

One challenge when operating in urban areas is to promote holistic urban development projects that consider housing, transport, economic development, and environmental management. Once a city is built, its physical form and land use patterns can generate long-term pressures on land and natural resources. EBRD's Green Cities program seeks to help cities identify and prioritize environmental challenges and address them through targeted investments, services and policy instruments. With more than EUR 5 billion distributed over 90 projects, it is one of the bank's largest investment programs[99].

MDBs, RDBs and NDBs can also involve local communities in planning and decision-making to ensure projects meet their needs. For example, land-use planning goes beyond traditional stakeholder consultation and instead invites inhabitants to propose ideas for local development. Greater inclusivity and transparency are more likely to improve projects' acceptability and communities' ownership.

BOX 6: FMDV AND THE COALITION ON RESILIENT CITIES AND REGIONS

The Global Fund for Cities and Development (FMDV), a network of local governments, serves as a bridge between municipalities and public institutions in need of financing for urban infrastructure projects, and potential public or private investors. As part of its activities, FMDV has initiated partnerships with around 150 public development banks governments and facilitated the mobilization of more than USD 1.3 billion for urban development initiatives[100]. Under the Finance in Common umbrella, FMDV and AFD launched a global coalition on Resilient Cities and Regions. Established in 2022, the Coalition aims to create a global and strategic community of practice for multilateral, regional, national and subnational public development banks based on their mandate to finance subnational urban development.

4.10 PEACE, JUSTICE AND STRONG INSTITUTIONS

INSTRUMENTAL FOR PEACE

The modern ecosystem of development banks emerged after World War II with the creation of the Bretton Woods institutions and the German KfW for the reconstruction of Europe. They also contribute to conflict prevention, bolstering institutions, thus furthering SDG 16 "Peace, Justice, and Strong institutions".

KEY TAKEAWAYS

- MDBs and NDBs have historically made important contributions to post-war reconstruction, such as the World Bank after World War II.
- Post-war interventions may include both physical infrastructure reconstruction and "softer" support to capacity (re-)building, technical assistance and advisory services, which may support institution building as well as conflict-sensitive programs to avoid doing harm and promote sustainable peaceful solutions.
- Violence and conflict may impact capacity to finance projects effectively, result in loss of investments and hinder the ability of development actors to stay engaged during crisis.
- MDBs do not take sides in conflicts, but they have identified ways to stay engaged through, for example, emergency loans, crisis response funds or working in regions not affected by conflict.

POST CONFLICT RECONSTRUCTION, PEACE AND INSTITUTION BUILDING

MDBs and NDBs can be instrumental in post-conflict reconstruction and economic recovery[101]. Following World War II, KfW was established in 1948 as part of the Marshall Plan to help rebuild Germany. Funded primarily by U.S. aid, KfW focused on financing critical infrastructure, including industries, transportation, and energy systems, laying the foundation for Germany's economic recovery[102]. Similarly, the Korea Development Bank (KDB) supported the rapid industrialization of South Korea post-conflict by funding key sectors like steel, shipbuilding and electronics[103]. Post-conflict funds created in the early 2000s have evolved to include multiple forms of financing for countries over the conflict cycle, the World Bank's FCV Envelope being one example.

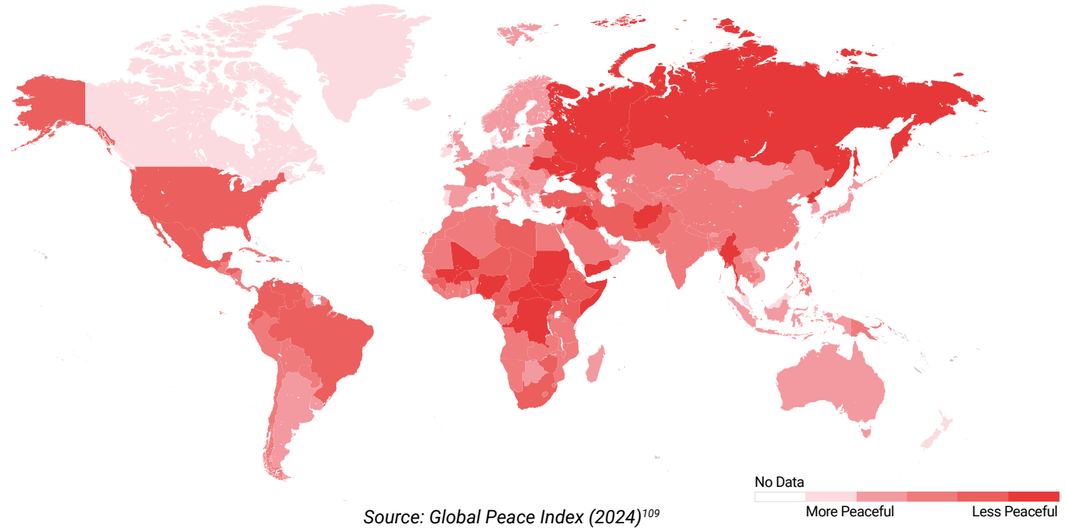
Beyond physical reconstruction, development banks are contributing to foster governance stability. The Asian Development Bank (ADB) supports the stabilization of economies by providing financial assistance and policy advice to help achieve macroeconomic stability. In Myanmar, ADB has supported governance reforms to improve transparency and accountability in public administration[105]. AfDB enhances local governance in the Sahel region by building institutional capacity and financing anti-corruption measures, while fostering social cohesion through integrated development programs like the development of women's health and education, to help prevent conflicts[106].

Institution-building and strengthening of the judicial system are part of this holistic approach. Following the 2011 Jasmine Revolution in Tunisia, the World Bank financed a project aiming at capacity building of Members of Parliament (MPs) and improving the efficiency of the Courts of Accounts[107]. Training for MPs was provided on budget oversight, legislative processes and ways to increase citizen participation. This resulted in enhanced transparency and accountability of key institutions in Tunisia[107]. Many strengthen the judicial system of the recipient country by providing funding to expand justice infrastructure like courts or correctional facilities[108].

Public sector reforms tend to be particularly difficult to implement in post-conflict situations due to a volatile political environment and low institutional capacity. In these contexts, the challenges are to support establishing transitional justice processes, updating legal frameworks to ensure the relevance of laws, and engaging non-state actors to broaden access to justice. Additionally, public awareness campaigns and gender sensitization are crucial for ensuring an inclusive access to justice, especially in fragile and conflict-affected settings[108].

By integrating development and peace-building efforts, development banks aim to build resilient societies capable of withstanding future shocks[101]. This holistic approach involves close coordination with local governments, international organizations, and civil society to ensure interventions are context specific.

Figure 8: Levels of conflict and stability worldwide as of 2024



Source: Global Peace Index (2024)[109]

BOX 7: MINKA FUND'S HOLISTIC APPROACH TO CONFLICT-AFFECTED REGIONS

AFD's Minka Fund adopts a humanitarian-development-peace (HDP) nexus approach, which enables enhanced coordination with humanitarian aid[110]. The Minka Fund collaborates with local governments, international organizations, NGOs, and development partners. Its primary objectives include conflict prevention, resilience building, and support for peace processes. The fund supports diverse projects, including infrastructure development, local governance and efforts to strengthen social cohesion and community resilience. Minka provides EUR 200 million annually for medium- and long-term interventions[110]. Between 2017 and 2023, AFD invested over EUR 1.2 billion in 175 Minka operations across four priority crisis regions: the Sahel, Lake Chad, the Central African Republic, and the Middle East[111].

TIMES OF CONFLICT

During conflicts, MDBs can provide financial support through emergency loans and crisis response funds[101]. As seen in figure 8, many regions around the world are experiencing conflicts and instability in 2024, and over the past years, global peace has been declining[109]. Support instruments are specifically designed to adapt to the changing dynamics of conflict environments. International NDBs and MDBs provide funding for emergency response using tools like grants, concessional financing, and innovative funding mechanisms to support rebuilding efforts[112]. Some have a Crisis Response window which provides for rapid financial support to countries experiencing severe crises, including armed conflict. As of December 2024, the World Bank had mobilized nearly USD 57 billion for Ukraine World Bank support for settings affected by fragility, conflict, and violence (FCV) under IDA 19 accounted for 41 percent of total financing[114].

Additionally, MDBs may work with NGOs, civil society, and local governments, when intervening in countries affected by conflicts. These interventions aim to deliver services to people affected by military conflict by integrating humanitarian and development actions[101].

Still, MDBs and NDBs face significant challenges in active conflict zones, such as limited access to reliable partners, safety risks and communication barriers. Conflicts generate institutional instability which impacts the capacity to finance projects effectively[115]. MDBs typically have the financial leverage, international legitimacy, and risk-mitigation capacity that NDBs lack, and can operate in conflict-affected areas[116]. NDBs and governments may be weakened and limited in their capacity during times of conflict.

4.11 INDIGENOUS PEOPLES

PARTNERS FOR A LIVABLE PLANET

Development projects can have a profound impact on Indigenous Peoples (IPs). To avoid and address negative impacts, safeguard approaches have been adopted to "do no harm". Whereas safeguarding Indigenous Peoples' rights is critical as a baseline for good development, far too often these approaches have fallen short of integrating IPs' voice, vision and aspirations in the development process. With growing attention being placed by the international community on the need to conserve the world's ecosystems and mitigate climate change, awareness has also grown around the critical role of IPs' stewardship. Evidence shows that fostering meaningful participation and the traditional knowledge and systems of IPs into project design and delivery can improve project effectiveness and sustainability of development outcomes.

KEY TAKEAWAYS

- Indigenous Peoples are critical partners for the future of a livable planet as they hold tenure rights and manage some of the most biodiverse territories. They suffer social and economic marginalization, exacerbated by climate change and its impacts on the ecosystems on which they depend.
- PDBs increasingly partner with Indigenous Peoples to enhance sustainability, evolving from the "do no harm" approach that focuses on minimizing negative effects of development projects on indigenous communities.
- Through financing and policy dialogue, MDBs and NDBs can serve as critical conduits to enable Indigenous Peoples in their front-line stewardship, while also supporting their own development aspirations.

INDIGENOUS PEOPLES WORLDWIDE

Indigenous peoples, about 6 percent of the world population, are caretakers of ecological and cultural wealth albeit their historical economic and social marginalization. As of 2023, there are an estimated 476 million Indigenous Peoples worldwide. Studies have found that IPs manage or hold tenure rights to 28 percent of the world's surface, accounting for about 40 percent of the Earth's terrestrial protected areas and ecologically intact landscapes[118]. At the same time, researchers found that when combining IPs' and local communities' lands, 65 percent remain untouched, and 90 percent are in good or moderate ecological condition[119]. Other researchers estimates that 25 percent of all tropical forest above-ground carbon are found within indigenous lands[120]. IPs have ancestral knowledge and expertise on how to adapt, mitigate and reduce climate and disaster risks. IPs also hold cultural wealth, speaking 4,000 of the world's 7,000 languages[119]. IPs' have made progress in the articulation and global approval of their rights as enshrined within the 2007 United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and other global frameworks and mechanisms. National legal adoption and implementation of these rights vary, and in some regions, IPs are still fighting for basic recognition. IPs represent 19% of the world's extreme poor and in some countries report a life expectancy up to 20 years lower than non-indigenous peoples[121].

PDBs can partner with IPs to enhance sustainability outcomes of projects. Critical to reducing multidimensional poverty while contributing to the Sustainable Development Goals (SDGs) are policies and investments that: improve IPs' security over customary lands and natural resources; strengthen traditional governance structures; promote public investment in quality and culturally appropriate service delivery, infrastructure and livelihoods; and support indigenous systems for resilience. NDBs and MDBs even more can leverage their policy dialogues and programs with countries to address these issues. PDBs can also finance investments that are critically needed within IP territories. A recent study identified access to finance for IPs as key to economic development, economic empowerment, and job creation[122].

INVESTING IN IPs PRIORITIES & STEWARDSHIP

MDBs have supported IPs involvement in policy discussions related to the SDGs. In 2007 at the COP 13 in Bali, IPs expressed concern about the potential impacts on their lands and ways of life from the global initiative of Reducing Emissions from Deforestation and Forest Degradation (REDD+). REDD+ strategies were to be adopted by multiple countries around the world in preparation for Emission Reduction (ER) programs[123]. Considering IPs' concerns, the World Bank's Forest Carbon Partnership Facility (FCPF) launched a Capacity Building Program for Forest-Dependent IPs and local communities (LCs) that supported their capacity building and participation at national, regional and global policy discussions around REDD+ and climate change. This Program mobilized USD 15 million in direct financing to empower forest-dependent IPs and LCs to come to the table, engage with governments, and implement their own REDD+ projects[124].

PDBs invest in projects that empower IPs to improve livelihoods by preserving their ecosystems. The "Jewelry and Forest Knowledge" project, launched by KfW in partnership with the Rikbaktsa Indigenous Women's Association (AIMURIK), aims to empower Indigenous women in 39 villages in the regions of Erikbaktsa, Japuíra and Escondido in Mato Grosso, Brazil. The initiative focuses on promoting traditional knowledge in herbal medicine and handicrafts, strengthening community governance structures, and providing training to increase women's participation in decision-making and economic activities.

The creation of an Indigenous Development Bank in Canada is under consideration. A study proposed the creation of an Indigenous Development Bank in Canada, as called for in the 2022 National Indigenous Economic Strategy[125]. This development bank would serve as intermediary between IPs, through their Indigenous Financial Institutions, and the Canadian federal government to address multiple market gaps to transform the indigenous economy. The Government of Canada recognized that the existing 58 Canadian Indigenous Financial Institutions (autonomous, indigenous-controlled, and community-based) *"have demonstrated success, but are undercapitalized and do not have the capacity to lend at the level that these businesses need to scale up"*[125].

IP Recognition by the International Community

Source: Indigenous Peoples at the United Nations | Division for Inclusive Social Development (DISD)

4.12 HUMAN RIGHTS

ENHANCING EFFECTIVENESS

The inclusion of human rights into PDB operations is a strategy designed to prevent, mitigate, and indirectly enhance the effectiveness of development finance. The Human Rights-Based Approach (HRBA) is one of the approaches that PDBs can follow to promote and protect human rights[1] and reduce multidimensional inequalities.

KEY TAKEAWAYS

- There is no single approach to integrating human rights into development policies and programming.
- Human Rights Based Approaches are one of the approaches that PDBs can follow to not harm but contribute to equitable and sustainable development.
- PDBs could incorporate HRBA or alternatively reflect human rights principles in their development work. This integration may be hampered by challenges such as the lack of resources, expertise and clear frameworks, or, in the cases of HRBA, limitations based on the differing bank mandates.
- Human Rights Impact Assessments, Grievance Accountability Mechanisms, and knowledge-sharing between PDBs can allow PDBs to identify and prevent adverse effects of their projects on human rights.

HUMAN RIGHTS AND DEVELOPMENT BANKS

> The achievement of full human potential and of sustainable development is not possible if one half of humanity continues to be denied its full human rights.– **UN Secretary Resolution 70/1 adopted by the General Assembly of the United Nations (2015)[127].**

Over the past two decades, numerous development banks have acknowledged the interconnection between development and human rights. Since the 1993 Vienna World Conference on Human Rights, the concept of human rights has expended and gained greater prominence.

MDBs and NDBs have adopted various approaches to integrating human rights in their operations. These range from embedding human rights principles within their environmental and social safeguards, to more implicit approaches focusing on governance. Other strategies include human rights mainstreaming and the adoption of explicit normative human rights-based approaches.

The United Nations have developed guidance frameworks such as the Common Understanding on HRBA to Development Cooperation and the UN Guiding Principles on Business and Human Rights (UNGPs). The UN adopted in 2003 the 'Human Rights-Based Approach to Development Cooperation' declaration to agree on the need that all development efforts should contribute to human rights. It should specifically target the people most vulnerable to abuse such as women, children, refugees, migrants, people with disabilities, indigenous communities and other ethnic and racial minorities[128]. In 2011, the United Nations Human Rights Council endorsed the UNGPs, establishing a global standard for corporate responsibility applicable to all businesses. While development banks are not explicitly mentioned, the principles provide actionable steps for them to safeguard human rights.

MDBs and NDBs can support their clients in implementing human rights commitments and facilitate dialogue with stakeholders on the ground to ensure the application of human rights principles, including transparency, accountability, participation, non-discrimination, and social inclusion. In doing so, they can ensure the protection of all individuals. They have developed and implemented Environmental & Social (E&S) frameworks to ensure that their operations cause no harm and generate positive impacts. These frameworks help identify and manage potential negative effects, such as those arising from infrastructure projects that require the relocation of populations and alterations to their natural habitat, which could negatively impact these communities. Studies have shown that failure to manage social conflict effectively can lead to delays and increased costs.

Over the past two decades, a few development banks have adopted a human rights-based approach to development programming as allowed by their mandates[126]. However, most MDBs and NDBs have environmental and social policy frameworks that are risk-based and outcomes oriented. While these frameworks are not rights-based, they are recognized international good practice, and reflect relevant human rights principles, such transparency, participation, inclusion, non-discrimination, and accountability. These frameworks are concerned with avoiding adverse impacts and build sustainability into their development operations. E&S policy frameworks, when adequately implemented, can support countries as they strive to progressively achieve their human rights commitments. In 2023, the Finance in Common System established a Human Rights working group, focusing on developing a strategic and operational dialogue to enhance the integration of HRBA in PDBs' financial operations[129].

Figure 9: HRBA principles and framework

Source: OECD, World Bank (2013)[126]

INTEGRATING HUMAN RIGHTS INTO OPERATIONS

Integrating human rights into operations presents several challenges but addressing these can strengthen devlopment banks' ability to ensure that human rights are respected and promoted in development projects[130]. These challenges include leadership commitment, capacity constraints, resource and mandate limitations, and the varying levels of practice.

First, experience shows that strong commitment from leadership is a pre-requisite to integrate human rights in the assessment of any financing. Effective leadership can set clear, actionable human rights goals and actively supports these efforts across the organization[131]. The European Bank for Reconstruction and Development (EBRD) and the World Bank are notable examples, having embedded human rights within their environmental and social policies.

Second, as human rights concerns are a relatively new area for many institutions, they lack dedicated human rights divisions or officers, limiting their ability to conduct thorough due diligence[132]. Development banks could invest in capacity building, such as comprehensive training programs and recruitment of human rights specialists, to ensure staff are equipped to address human rights issues effectively.

Third, incorporating human rights into operations requires administrative and financial resources. Conducting a human rights impact assessment before project approval can cause delays and increase project preparation costs, potentially affecting project timelines. Human rights assessments have to be integrated into early project design phases and streamline processes to reduce delays while ensuring rigorous human rights scrutiny[133].

Lastly, there are significant differences in commitment and practices related to human rights, particularly between between MDBs and NDBs in emerging economies. While some MDBs, such as the World Bank, EBRD, IDB, and AIIB, have well-established human rights frameworks, many NDBs in emerging markets are at the beginning of their human rights journey. These differences lead to inconsistencies in human rights integration and challenges in maintaining uniform human rights standards across projects. Collaborative platforms, such as the Finance in Common System, can serve as spaces for sharing best practices and fostering capacity building.

4.13 IDENTIFYING SDG CONTRIBUTIONS USING ARTIFICIAL INTELLIGENCE

Recent developments in artificial intelligence make it possible to systematically analyze the activity reports of public development banks. Text analysis enables to identify how these institutions have incorporated the SDGs into their strategic narrative. Far from being a method of impact analysis, this solution helps identify strategic shifts and point out objectives that are currently little addressed by development banks.

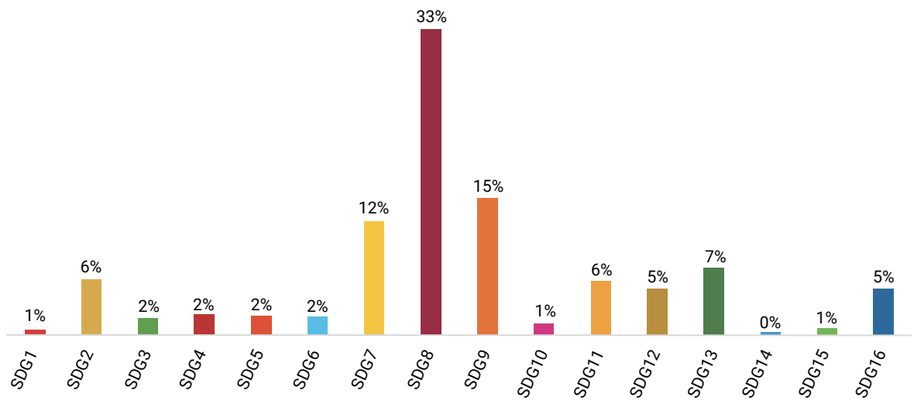
KEY TAKEAWAYS

- On average, strategic narratives mostly focus on SDG 8 "Decent Work and Economic Growth" and SDG 9 "Industry, Innovation and Infrastructure".
- Climate objectives are a growing concern for PDBs since the adoption of the Paris Agreement. However, biodiversity seems strongly overlooked.
- A positive relationship exists between the size of a PDB and the share of its narrative dedicated to environmental SDGs.
- Cross-cutting SDGs such as gender equality, reduced inequalities and the eradication of poverty concentrate a relatively lower share of a typical PDB's strategic narrative.

THE PROOF IS IN THE PUDDING

About 250 development banks regularly report on their activities by publishing annual reports, financial statements, sustainability reports and various strategies. These reports, some of which are available online, provide a goldmine of information on how PDBs operationalize their mandate and take into account the Sustainable Development Goals. Recent developments in artificial intelligence facilitate automatic text analyses and allow to identify how PDBs frame sustainable objectives in their institutional communication.

Figure 10: Average share of SDG narrative in PDBs' annual reports, 2016 - 2022



Note: Because of the variable size of PDBs' annual reports, absolute values are inconvenient for comparing institutions. In order to avoid interpretation biases related to the size of the reports, results are expressed in relative values. Interpretation: on average, SDG 7 accounts for 12% of all SDG-related references in PDBs annual reports.

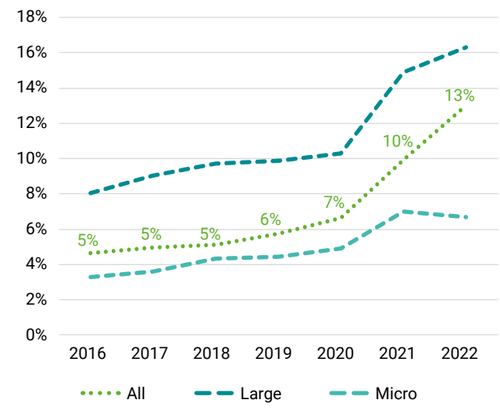
Source: Jacouton et al. (2022)[4]

Recent research[4] shows that strategic narratives are largely dominated by the prevalence of SDG 8 "Decent Work and Economic Growth" and SDG 9 "Industry, Innovation and Infrastructure", reflecting PDBs historical mission of sustaining growth and capital accumulation[134]. Interestingly, SDG 7 "Affordable and Clean Energy" and SDG 13 "Climate Action" also appear to be significant concerns. Biodiversity objectives (SDG 14 & 15) are relatively marginal in PDB strategic narratives. Biodiversity is little integrated in the strategies of the largest banks and even less so in the smaller ones[135]. Similarly, the SDGs dedicated to poverty eradication (SDG 1) and reducing inequalities (SDG 10) seem overlooked. However, it should be noted that SDG 8 includes key social targets such as decent work conditions, facilitating the access of vulnerable populations to the job market, developing financial services for all, and labor rights' protection.

TOWARDS A SIGNIFICANT SHIFT IN PRIORITIES?

Since 2015, MDBs and NDBs felt increasing pressure to play a catalytic role in aligning financial flows with the Paris Agreement on climate. These expectations are increasingly reflected in their annual reports: between 2016 and 2022, references to climate action have more than doubled in institutional documentation, with a particular acceleration since 2020. The dynamic suggests that climate is an increasing issue for development banks. Yet, this result does not allow to conclude that these banks have stronger impacts on mitigation and adaptation objectives. Further research is needed to assess the extent to which this stronger narrative is associated with an increase in PDB contributions to climate goals.

Figure 11: Share of SDG 13 in PDBs' narrative



Source: Jacouton et al. (2022)[4]

Data show that that larger banks (measured by total assets) tend to have a stronger focus on climate than smaller institutions[136]. Investing in climate change adaptation requires a long-time horizon, with more risks than short-term investments in productive sectors. It is therefore likely that the risks for smaller banks' portfolio justify their higher difficulties in diversifying their activities.

SUPPORTING INNOVATION

The lack of common methodologies makes it difficult to aggregate data and monitor the progress made in closing the SDG finance gap. The use of frontier technologies is likely to improve the quality of information that decision makers need to promote the necessary transitions. More research is needed to explore how innovative solutions such as artificial intelligence can support PDBs in mainstreaming the SDGs in all their operations.

SDG Prospector

Developed by the Agence Française de Développement, the SDG Prospector relies on a new generation of artificial intelligence able to process large amounts of data[4]. To draw an exhaustive and precise mapping of SDG-related references in written documents, the tool was trained on a unique learning-base composed of 8,500+ labeled paragraphs. In this regard, its results are more robust than traditional keyword analyses[137]. Since June 2023, the tool is available online: **https://sdgprospector.org**

BIBLIOGRAPHY

1. UNDESA (n.d.), Key Features and Principles of the 2030 Agenda. https://sdgs.un.org/sites/default/files/2022-04/4.Ms_.%20Carol.Pollack-Key%20features-and-principles-of-the-2030-Agenda_CP%2027%20March%20Version.pdf
2. Marodon R. Can Development Banks Step Up to the Challenge of Sustainable Development? Review of Political Economy. 2022;34(2):268-285. doi:10.1080/09538259.2021.1977542
3. Natixis. PDBs' catalytic role in achieving the UN SDGs. Published online 2022.
4. Jacouton JB, Marodon R, Laulanie A. *The Proof Is in the Pudding. Revealing the SDGs with Artificial Intelligence.* Agence française de développement; 2022. Accessed October 21, 2022. https://ideas.repec.org/p/avg/wpaper/en14520.html
5. UNDP, Finance in Common. The Role of Public Development Banks in Scaling up Sustainable Finance.; 2022. Accessed October 21, 2022. https://www.undp.org/publications/role-public-development-banks-scaling-sustainable-finance
6. IDB Lab. New Call for Proposals: Catalytic Green Fund - Driving Decarbonization in Latin America and the Caribbean.https://bidlab.org/en/new-call-proposals-catalytic-green-fund-driving-decarbonization-latin-america-and-caribbean. September 2024.
7. IPCC. *Climate Change 2023 Synthesis Report.*; 2023:19. https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_FullVolume.pdf
8. IFC. *MSMEs Factsheet.* The World Bank Group; 2024. Accessed January 9, 2025. https://www.ifc.org/content/dam/ifc/doc/2024/msme-s-factsheet-ifc-financial-institutions-group.pdf
9. International Finance Corporation. *Supply Chain Finance by Development Banks and Public Entities.* World Bank; 2021. doi:10.1596/35177
10. David A Ikmal,Doumbia,Djeneba,Gregory,Neil,Ragoussis,Alexandros,Reddy,Aarti,Timmis,Jonathan. Small and Medium Enterprises in the Pandemic : Impact, Responses and the Role of Development Finance. World Bank. Accessed December 20, 2024. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/729451600968236270/Small-and-Medium-Enterprises-in-the-Pandemic-Impact-Responses-and-the-Role-of-Development-Finance
11. Unlocking The Decarbonization of SMEs: How Public Development Banks Are Supporting SMEs and Measuring The Success of Their Solutions. *The Montreal Group.* Published online October 2024. https://themontrealgroup.org/wp-content/uploads/2024/10/Unlocking-The-Decarbonization-of-SMEs-How-Public-Development-Banks-Are-Supporting-SMEs-And-Measuring-The-Success-of-Their-Solutions.pdf
12. Carvajal,Ana Fiorella; Didier Brandao, Tatiana. *Boosting SME Finance for Growth : The Case for More Effective Support Policies (English).* Washington, D.C. : World Bank Group, http://documents.worldbank.org/curated/en/099092724122562655/P1790051b7ddde0d51b13b12b908018aa52
13. OECD. *OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2024 Edition.* OECD; 2024. doi:10.1787/9789264244160-en
14. NAFIN. *NAFIN Annual Report 2021.* NAFIN; 2022. Accessed January 8, 2025. https://www.nafin.com/portalnf/files/secciones/normatividad/pdf/informes_anuales/2021/INFORME_2021_ING.pdf
15. Sustainable Infrastructure. PPIAF. https://www.gihub.org/sustainable-infrastructure/
16. Xu J, Marodon R, Chen W, Jacouton JB. Art is in the Doing, Public Development Banks serving public policies. Published online 2023.
17. Bhattacharya A, Oppenheim J, Stern N. Driving Sustainable Development Through Better Infrastructure: Key Elements Of A Transformation Program. Published online July 2015. https://www.brookings.edu/wp-content/uploads/2016/07/07-sustainable-development-infrastructure-v2.pdf
18. UNESCAP. Financing Sustainable Infrastructure Investment in South Asia. The case of Asian Infrastructure Development Bank. Published online October 2019. https://www.unescap.org/sites/default/files/Policy%20Brief%20AIIB_Oct19.pdf
19. Colombo M, Cuda M. Public finance and SDGs alignment - The role of Public Development Banks and Institutions in the UN Agenda 2030: a survey in Europe. Published online 2022. https://financeincommon.org/sites/default/files/2022-10/Eu%20Commission_Public%20finance%20and%20SDGs_The%20role%20of%20PDBIs%20in%20the%20UN%20Agenda%20a%20survey%20in%20Europe_Colombo_Cuda.pdf
20. World Bank Group. *Literature Review and Framework for Institutional Investor Mobilization.;* 2023. https://openknowledge.worldbank.org/server/api/core/bitstreams/1a4baa7b-61fa-4055-8b71-bc3768975a98/content
21. Christianson G, Lee A, Larsen G, Green A. Financing the Energy Transition: Are World Bank, IFC, and ADB Energy Supply Investments Supporting a Low-Carbon Future? WRI; 2017. Accessed October 27, 2022. https://www.wri.org/research/financing-energy-transition-are-world-bank-ifc-and-adb-energy-supply-investments
22. Sustainable Infrastructure Finance. World Bank Group. 2024. https://www.worldbank.org/en/topic/sustainableinfrastructurefinance/overview
23. Miyamoto K, Chi E. Official Development Finance for Infrastructure: With a Special Focus on Multilateral Development Banks. Published online November 2016.
24. Forecasting infrastructure investment needs and gaps. Infrastructure Outlook. https://outlook.gihub.org/
25. Public Development Banks and Development Financing Institutions Database. PKU AFD. http://www.dfidatabase.pku.edu.cn/
26. Marois T. A Public Bank for the Public Interest: Recommendations for the Canada Infrastructure Bank five-year review. Published online October 2022. Accessed December 14, 2022. https://cupe.ca/sites/default/files/cupe_cib_marois_report_2022_e.pdf
27. Channel Tunnel Rail Link. EIB. https://www.eib.org/en/press/all/1998-099-ecu-290-mio-for-channel-tunnel-rail-link
28. EIB. France: EIB grants second EUR 1bn loan for Grand Paris Express. 2017. https://www.eib.org/en/press/all/2017-275-france-deuxieme-pret-bei-dun-milliard-deuros-pour-le-grand-paris-express
29. Asian Development Bank. *Financing the Sustainable Development Goals the Contributions of the Multilateral Development Banks.;* 2020. https://www.adb.org/documents/financing-sdgs-contributions-mdbs
30. Colombia's 4G road development programme back on track. Oxford Business Group. 2020. https://oxfordbusinessgroup.com/reports/colombia/2019-report/economy/increased-transparency-and-financial-diversification-help-the-road-programme-get-back-on-track-take-the-high-road
31. Duldinger L. Mini-Perm Loans: The Game-Changer for Project Finance. RVI. 2024. https://courses.renewablesvaluationinstitute.com/pages/academy/mini-perm-loans-the-game-changer-for-project-finance
32. UNOPS. *Infrastructure for Climate Action.*; 2021. https://content.unops.org/publications/Infrastructure-for-climate-action_EN.pdf?mtime=20211008124956&focal=none
33. Infrastructure. UNOPS. https://www.unops.org/expertise/infrastructure
34. Layke J, Jaeger J, Pastor K, Levin K, Searchinger T. 5 Things to Know About the IEA's Roadmap to Net Zero by 2050. World Resources Institute. 2021. https://www.wri.org/insights/5-things-know-about-ieas-roadmap-net-zero-2050
35. Johnson O, Muhoza C, Osano P, Senyagwa J, Kartha S. Catalysing investment in sustainable energy infrastructure in Africa: Overcoming financial and non-financial contraints. *Stockholm Environment Institue.* Published online 2017.
36. Endo K, Edelenbos J, Gianoli A. Sustainable Infrastructure: A Systematic Literature Review on Finance Arrangements and Governance Modes. *Public Works Management & Policy.* 2023;28(4):443-475. doi:10.1177/1087724X221130284
37. OECD, Weltbank, UNEP, eds. *Financing Climate Futures: Rethinking Infrastructure.* OECD Publishing; 2018. doi:10.1787/9789264308114-en
38. UNEP. *The Emissions Gap Report 2019.* United Nations Environment Programme; 2019.
39. Xu J, Gallagher KP. Transformation Towards Renewable Energy Systems: Evaluating the Role of Development Financing Institutions. *St Comp Int Dev.* 2022;57(4):577-601. doi:10.1007/s12116-022-09375-8
40. International Renewable Energy Agency. World Energy Transitions Outlook: 1.5°C Pathway. Published online 2021. https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2021/Jun/IRENA_World_Energy_Transitions_Outlook_2021.pdf
41. Renewable energy consumption. World Bank. https://data.worldbank.org/indicator/EG.FEC.RNEW.ZS?locations=XD-XM-XT-XN
42. The World Bank. *Scaling Up to Phase Down.* World Bank; 2023. Accessed January 8, 2025. https://www.worldbank.org/en/topic/energy/publication/scaling-up-to-phase-down
43. Attridge S, Xu J, Gallagher K. *Piloting and Scaling Up Clean Energy Transitions: The Role of Development Finance Institutions.* Agence française de développement; 2020. Accessed October 21, 2022. https://ideas.repec.org/p/avg/wpaper/en11702.html
44. The price of solar power has fallen by over 80% since 2001. Here's why. World Economic Forum. 2021. https://www.weforum.org/agenda/2021/11/renewable-energy-cost-fallen/
45. *The 14th Five-Year Plan of the People's Republic of China—Fostering High-Quality Development.* Asian Development Bank; 2021. doi:10.22617/BRF210192-2
46. International Energy Agency. Financing Clean Energy Transitions in Emerging and Developing Economies.; 2021. https://iea.blob.core.windows.net/assets/6756ccd2-0772-4ffd-85e4-b73428ff9c72/FinancingCleanEnergyTransitionsinEMDEs_WorldEnergyInvestment2021SpecialReport.pdf
47. Christoffersen E. Enable or inhibit: Power grids, key to the energy transition, require $3.1 trillion in investments by 2030. Rystad Energy. 2024. https://www.rystadenergy.com/news/power-grids-investments-energy-transition-permitting-policies
48. Isah A, Dioha MO, Debnath R, Abraham-Dukuma MC, Butu HM. Financing renewable energy: policy insights from Brazil and Nigeria. *Energ Sustain Soc.* 2023;13(1):2. doi:10.1186/s13705-022-00379-9
49. Mexico's experience shows that development banks can play a key role in financing transitions to low-carbon economies. LSE. 2017. https://blogs.lse.ac.uk/latamcaribbean/2017/04/12/mexicos-experience-shows-that-development-banks-can-play-a-key-role-in-financing-transitions-to-low-carbon-economies/
50. Zhang F. The policy coordinator role of national development banks in scaling climate finance: Evidence from the renewable energy sector. *Climate Policy.* 2022;22(6):754-769. doi:10.1080/14693062.2022.2038063
51. Just Energy Transition Partnerships. German Council on Foreign Relations. https://dgap.org/en/research/glossary/climate-foreign-policy/just-energy-transition-partnerships
52. Indonesia JETP CIPP is Open for Public Comments. UNDP. 2024. https://www.undp.org/indonesia/projects/indonesia-just-energy-transition-partnership-jetp
53. Launch of a Just Energy Transition Partnership. Elysée. June 22, 2023. https://www.elysee.fr/en/emmanuel-macron/2023/06/22/launch-of-a-just-energy-transition-partnership
54. Climate Policy Initiative. *Global Landscape of Climate Finance 2024.* Climate Policy Initiative; 2024. Accessed January 8, 2025. https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2024/
55. IPCC. Sixth Assessment Report — IPCC. Accessed January 8, 2025. https://www.ipcc.ch/assessment-report/ar6/
56. Paris Agreement. *United Nations*. Published online 2015. https://unfccc.int/sites/default/files/english_paris_agreement.pdf
57. Alberti C, Stout S, Miao G, Baudry C. *IDFC Green Finance Mapping 2024.* Accessed January 9, 2025. https://www.climatepolicyinitiative.org/publication/idfc-green-finance-mapping-2024/
58. IDFC. *Common Principles for Climate Mitigation Finance Tracking.*; 2021. Accessed November 2, 2022. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/514141645722484314/Common-Principles-for-Climate-Mitigation-Finance-Tracking
59. Dalhuijsen E, Gutierrez E, Kliatskova T, Mok R, Regelink MGJ. *Greening National Development Financial Institutions: Trends, Lessons Learned, and Ways Forward.* World Bank; 2023.
60. Strinati C, Naran B, Stout S, Macquarie R, Chiriac D, Choi J. *IDFC Green Finance Mapping 2021*. CPI; 2021. Accessed November 2, 2022. https://www.climatepolicyinitiative.org/publication/idfc-green-finance-mapping-2021/
61. Joint report on multilateral development Banks' climate finance. Published online 2016.
62. IDFC, PRI, UNEP. *Making Finance Work for Climate: A Contribution from Major Groups and Coalitions of Public and Private Financial Actors to the UNFCCC Post-2025 Climate Finance Processes: The New Collective Quantified Goal & Sharm El Sheikh Dialogue.* IDFC; 2024. Accessed January 8, 2025. https://www.idfc.org/wp-content/uploads/2024/11/joint-contribution-making-finance-work-for-climate-final.pdf
63. OECD. *Biodiversity and Development Finance 2015-2022: Contributing to Target 19 of the Kunming-Montreal Global Biodiversity Framework.* OECD; 2024. doi:10.1787/d26526ad-en
64. COP26 MDB Joint Statement on Nature. Accessed December 20, 2024. https://thedocs.worldbank.org/en/doc/e523c9386dd95f2ec59613310611e1de-0020012021/mdb-joint-statement-on-nature
65. EIB. *MDB Common Principles for Tracking Nature-Positive Finance.* European Investment Bank; 2023. Accessed December 20, 2024. https://www.eib.org/en/publications/20230329-mdb-common-principles-for-tracking-nature-positive-finance
66. Adhikari B, Safaee Chalkasra LS. Mobilizing private sector investment for climate action: enhancing ambition and scaling up implementation. *Journal of Sustainable Finance & Investment.* 2023;13(2):1110-1127. doi:10.1080/20430795.2021.1917929
67. Final Communiqué 2023. *Finance in Common.* Published online 2023. https://financeincommon.org/sites/default/files/2023-09/FICS%202023%20Final%20Communiqu%C3%A9_2_0.pdf
68. UN Environment Assembly 5 Resolutions. UN environment programme. https://www.unep.org/resources/resolutions-treaties-and-decisions/UN-Environment-Assembly-5-2#:~:text=Resolution%205%20defines%20the%20concept,Resolution%206%3A%20Biodiversity%20and%20Health

69. Assessing the Benefits and Costs of Nature-Based Solutions for Climate Resilience: A Guideline for Project Developers. World Bank Group. 2023. https://www.worldbank.org/en/news/feature/2023/05/22/assessing-the-benefits-and-costs-of-nature-based-solutions-for-climate-resilience-a-guideline-for-project-developers

70. Women, Business and the Law 2024. World Bank; 2024.

71. *Progress on the Sustainable Development Goals: The Gender Snapshot 2024*. United Nations; 2024.

72. UN Women. *Public Development Banks Driving Gender Equality: An Overview of Practices and Measurement Frameworks.*; 2021. Accessed October 21, 2022. https://www.unwomen.org/en/digital-library/publications/2021/10/public-development-banks-driving-gender-equality

73. Finance in Common. Press Release : Public Development banks committing towards gender equality financing and accountability. Published online November 2020. Accessed January 8, 2025. https://financeincommon.org/sites/default/files/2020-11/PR%20PDBs%20committing%20towards%20gender%20equality%20financing%20and%20accountability.pdf

74. The World Bank in Gender. World Bank Group. https://www.worldbank.org/en/topic/gender/overview#3

75. How gender mainstreaming in South Africa can improve infrastructure projects. DBSA. 2024. https://www.dbsa.org/article/how-gender-mainstreaming-south-africa-can-improve-infrastructure-projects

76. Asian Development Bank, *The Asia Foundation. Emerging Lessons on Women's Entrepreneurship in Asia and the Pacific:: Case Studies from the Asian Development Bank and The Asia Foundation.* 0 ed. Asian Development Bank; 2018. doi:10.22617/TCS189585-2

77. African Development Bank Group's Integrated Safeguards System 2023. African Development Bank Group. 2023. https://www.afdb.org/en/documents/african-development-bank-groups-integrated-safeguards-system-2023

78. International Labour Office, Addati L, Cattaneo U, Esquivel V, Valarino I. *Care Work and Care Jobs for the Future of Decent Work.* International Labour Organization; 2018.

79. Banco Interamericano de Desarrollo. *Una Fotografía Sobre La Calidad de Los Centros de Atención Infantil y El Estado Del Desarrollo Infantil En México En Niñas y Niños Menores de Tres Años.* 2021st ed. Banco Interamericano de Desarrollo; 2021. doi:10.18235/0003789

80. Espinoza Trujano J, Lévesque AM. Development finance institutions and the care economy: opportunities for building more resilient and gender-equitable economies. *Journal of Sustainable Finance & Investment.* 2022;12(3):704-723. doi:10.1080/20430795.2022.2030662

81. Public development banks driving gender equality: An overview of practices and measurement frameworks. Agence Française de Développement & United Nations Entity for Gender Equality and the Empowerment of Women. 2021. https://www.afd.fr

82. Babugura AA, Duran CV, Acosta M, Ferraz J. Taking Gender Mainstreaming Seriously in Climate Finance. Published online June 2023.

83. IDFC releases its first Gender Mapping on the occasion of the FiCS. International Development Finance Club. 2023. https://www.idfc.org/news/idfc-releases-its-first-gender-tracker-on-the-occasion-of-the-fics/

84. OECD. *Gender Equality and the Empowerment of Women and Girls.* 1st ed. Organization for Economic Cooperation & Development; 2022.

85. Investing in health and social protection systems: a proposed investment agenda towards the SDGs. *Finance in Common.* Published online 2022. https://financeincommon.org/sites/default/files/2022-10/Social%20Investment%20Agenda.pdf

86. Morozkina A, Sabelnikova E. Education Systems and Multilateral Development Banks: International Practices and Perspectives. IORJ. 2017;12(1):24-42. doi:10.17323/1996-7845-2017-01-24

87. Investing in Quality Education for Economic Development, Peace, and Stability. CSIS.

88. Reyes O. The Council Of Europe Development Bank And Covid-19. In: *Public Banks and Covid-19: Combatting the Pandemic with Public Finance.* ; 2021.

89. Education and vocational training. Council of Europe Development Bank. https://coebank.org/en/project-financing/sectors/education-and-vocational-training/

90. Annual Report 2024. World Bank. Accessed January 9, 2025. https://www.worldbank.org/en/about/annual-report

91. Asian Development Bank. *ADB Annual Report 2023.* Asian Development Bank; 2024. Accessed January 9, 2024. https://www.adb.org/sites/default/files/institutional-document/959761/adb-annual-report-2023.pdf

92. Common goods for health. World Health Organization. https://www.who.int/health-topics/common-goods-for-health#tab=tab_1

93. Investing in health and social protection systems: a proposed investment agenda towards the SDGs. *Finance in Common.* https://financeincommon.org/sites/default/files/2022-10/Social%20Investment%20Agenda.pdf. 2022.

94. Urban Development. World Bank Group. 2023. https://www.worldbank.org/en/topic/urbandevelopment/overview

95. United Nations. *The Sustainable Development Goals Report 2023.*; 2023. https://unstats.un.org/sdgs/report/2023/The-Sustainable-Development-Goals-Report-2023.pdf

96. Fuchs S, Kachi A, Sidner L, Westphal M. *Aligning Financial Intermediary Investments with the Paris Agreement.* WRI; 2021. Accessed October 21, 2022. https://www.wri.org/research/aligning-financial-intermediary-investments-paris-agreement

97. Pedersen N, Jensen J. Local government borrowing and the role of KommuneKredit: An international comparative analysis. Vive. Published online 2021. https://www.vive.dk/media/pure/16718/6190243

98. Effective policy options for green cities. *European Bank for Reconstruction and Development.* Published online 2020. https://ebrdgreencities.com/assets/Uploads/PDF/Effective-policy-options-for-green-cities.pdf?vid=3

99. Bisatdze R. EBRD to allocate additional €3 billion for its Green Cities programme. November 6, 2024. Accessed January 9, 2025. https://www.ebrd.com/news/2024/ebrd-to-allocate-additional-3-billion-for-its-green-cities-programme-.html

100. Global Fund for Cities Development. FMDV. https://www.financeyourcities.org/

101. Dorronsoro G, Baczko A, Riche E. Interventions in contexts of armed conflicts. AFD. Published online 2023.

102. A boost from the USA. KfW. https://www.kfw.de/stories/kfw/stories/society/social-cohesion/marshallplan/

103. Neszmelyi G. The Role of Development Banks in the Economic Development Policy of the Republic of Korea. *Public Finance Quarterly.* Published online 2019.

104. World Bank. Fragility, Conflict and Violence Envelope. World Bank. Accessed December 20, 2024. https://ida.worldbank.org/en/financing/resource-management/fcv-envelope

105. Maynmar and ADB. ADB. https://www.adb.org/where-we-work/myanmar

106. Desert to Power initiative. African Development Bank Group. https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/desert-power-initiative

107. Republic of Tunisia Strengthening Accountability and Oversight Institutions in Tunisi. *World Bank Group*. Published online 2017. https://documents1.worldbank.org/curated/en/647561510230297794/pdf/Final-Completion-Note-Tunisia-Oversight-and-Accountability-P159777-June-30-2017.pdf

108. Increasing Access to Justice in Fragile Settings. *World Bank Group.* Published online 2023. https://openknowledge.worldbank.org/server/api/core/bitstreams/67db7e01-058a-482a-b082-d78f98142e4c/content

109. Global Peace Index 2024. *Institute for Economics & Peace.* Published online 2024. https://www.visionofhumanity.org/wp-content/uploads/2024/06/GPI-2024-web.pdf

110. Minka: Le fonds paix & résilience. Published online 2023. https://www.afd.fr/fr/ressources/minka-fonds-paix-resilience-bilan-activite-2022

111. France's Minka Fund, an instrument for peace and resilience. OECD. 2023. https://www.oecd.org/development-cooperation-learning/practices/france-s-minka-fund-an-instrument-for-peace-and-resilience-5f2db03d/

112. Maximizing the impact of the World Bank Group in Fragile and Conflict-Affected Situations. *World Bank Group.* Published online 2018. https://documents1.worldbank.org/curated/en/855631522172060313/pdf/124654-WP-PUBLIC-MaximizingImpactLowresFINAL.pdf

113. Immediate Response Mechanism. International Development Association - World Bank Group. 2023. https://ida.worldbank.org/en/financing/crisis-financing/immediate-response-mechanism

114. Supporting the Most Vulnerable: Scaling Up Support to Address Fragility, Conflict, and Violence https://www.worldbank.org/en/results/2023/06/15/supporting-the-most-vulnerable-scaling-up-support-to-address-fragility-conflict-and-violence

115. Addison T, Chowdhury AR, Murshed SM. *By How Much Does Conflict Reduce Financial Development? United Nations University,* World Inst. for Development Economics Research; 2002.

116. Carvalho B, Coning C. Rising Powers and the Future of Peacebuilding: The BRICS and Beyond. *Norwegian Institute of International Affairs.* Published online 2013.

117. Abor JY, Subramanian L, Iddrisu K, Nsor-Ambala R. Multilateral Development Banks: Contributions and Challenges. In: Abor JY, Ofori-Sasu D, eds. *Perspectives on Development Banks in Africa.* Springer Nature Switzerland; 2024:277-298. doi:10.1007/978-3-031-59511-0_12

118. Garnett ST, Burgess ND, Fa JE, et al. A spatial overview of the global importance of Indigenous lands for conservation. *Nat Sustain.* 2018;1(7):369-374. doi:10.1038/s41893-018-0100-6

119. WWF, UNEP, LM, TNC, WCS. *The State of Indigenous Peoples' and Local Communities' Lands and Territories: A Technical Review of the State of Indigenous Peoples' and Local Communities' Lands, Their Contributions to Global Biodiversity Conservation and Ecosystem Services, the Pressures They Face, and Recommendations for Actions.* WWF; 2021.

120. Rights + Resources. A Global Baseline of Carbon Storage in Collective Lands - Rights + Resources - Supporting Forest Tenure, Policy, and Market Reforms. 2018. Accessed January 9, 2025. https://rightsandresources.org/publication/globalcarbonbaseline2018/

121. World Bank. Indigenous Peoples Oveview. World Bank. Accessed January 9, 2025. https://www.worldbank.org/en/topic/indigenouspeoples

122. *Addressing Gaps in Indigenous Access to Finance.;* 2023. https://fnfmb.com/sites/default/files/2024-01/2023-10-16_idb_pre-scoping_study_final_report.pdf

123. What is REDD+? United Nations Climate Change. https://unfccc.int/topics/land-use/workstreams/redd/what-is-redd

124. *FCPF 2024 Annual Report.;* 2024. https://www.forestcarbonpartnership.org/sites/default/files/documents/fcpf_fy24_annual_report_for_web.pdf

125. *Government of Canada. Pathways to Socioeconomic Parity for Indigenous Peoples*.; 2022. Accessed November 15, 2024. https://niestrategy.ca/wp-content/uploads/2022/05/NIES_English_FullStrategy.pdf

126. OECD, World Bank. *Integrating Human Rights into Development, Second Edition: Donor Approaches, Experiences, and Challenges.* The World Bank; 2013. doi:10.1596/978-0-8213-9621-6

127. United Nations. *Transforming Our World : The 2030 Agenda for Sustainable Development.* United Nations; 2015. Accessed January 8, 2025. https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf

128. The Human Rights Based Approach to Development Cooperation Towards a Common Understanding Among UN Agencies. https://unsdg.un.org/sites/default/files/6959-The_Human_Rights_Based_Approach_to_Development_Cooperation_Towards_a_Common_Understanding_among_UN.pdf

129. Public Development Banks Statement on Human Rights and Human Rights Based Approach. *Finance in Common.* Published online 2022. https://financeincommon.org/sites/default/files/2022-10/FICS%202022%20Human%20Rights%20and%20Human%20Rights-Based%20Approach%20Statement.pdf

130. McInerney-Lankford S, Çiçek D. Integrating Human Rights into Development: Law, Policy and Practice. Published online 2023. Accessed January 8, 2025. https://thedocs.worldbank.org/en/doc/5187c606b75877ea4933d84619f2d85e-0260012024/integrating-human-rights-into-development-law-policy-and-practice

131. FICS. Public Development Banks Statement on Human Rights and Human Rights Based Approach. Published online October 2022.

132. Human Rights Watch. *EBRD Draft Environment and Social Policy Retreats on Human Rights.* Human Rights Watch; 2014. Accessed July 23, 2024. https://www.hrw.org/news/2014/03/05/european-bank-reconstruction-and-development-draft-environment-and-social-policy

133. Accountability, Transparency, Participation, and Inclusion: A New Development Consensus? 2024. https://carnegieendowment.org/research/2014/10/accountability-transparency-participation-and-inclusion-a-new-development-consensus?lang=en

134. Gerschenkron A. *Economic Backwardness in Historical Perspective.* Harvard University Press; 1962.

135. WWF, The Biodiversity Consultancy. *Public Development Banks and Biodiversity How PDBs Can Align with the Post-2020 Global Biodiversity Framework*.; 2021. https://www.wwf.fr/sites/default/files/doc-2021-06/20210621_Summary_Public-development-banks-and-biodiversity_WWF-The-Biodiversity-Consultancy-min.pdf

136. Neunuebel C, Gebel A, Laxton V, Kachi A. Aligning Policy-Based Finance with the Paris Agreement. Published online October 17, 2022. Accessed October 21, 2022. https://www.wri.org/research/aligning-policy-based-finance-paris-agreement

137. Borchardt S, Jacouton J, Maroni M, Marelli L. (2024), In Quest for Meaning: Towards a Common Understanding of the 2030 Agenda?, AFD Research Papers N°326. AFD Research Papers. 2024.

PARTNERSHIPS AND COOPERATION

CHAPTER 5

5.01 COOPERATION BETWEEN PDBs 130

5.02 INTERNATIONAL ASSOCIATIONS 132

5.03 INTERNATIONAL DEVELOPMENT FINANCE CLUB (IDFC) 134

5.04 FINANCE IN COMMON (FiCS) 136

5.05 CAISSES DES DÉPÔTS IN AFRICA 138

5.06 EUROPEAN DEVELOPMENT FINANCE INSTITUTIONS (EDFI) 140

5.07 EXIM BANKS 142

5.08 MOBILIZING PRIVATE CAPITAL 144

5.09 PHILANTHROPY & CIVIL SOCIETY 146

5.10 TECHNICAL ASSISTANCE 148

5.11 INTERNATIONAL FINANCIAL ARCHITECTURE 150

PARTNERSHIPS AND COOPERATION

Chapter 5 discusses the opportunities and barriers to a greater cooperation between development banks (5.01). It describes existing associations (5.02), with a particular focus on the International Development Finance Club (5.03) and the international Finance in Common System (5.04). Three specific networks are profiled for their inspiring relevance in advancing the SDGs: the emerging network of Caisse des Dépôts in Africa (5.05), the European Association of Development Finance Institutions (EDFI) dedicated to private finance outside the Union (5.06) and the Exim Banks (5.07). Finally, the chapter addresses the question of theses institutions' capacity to mobilize private sector financing (5.08), the role of technical assistance (5.10), and it concludes with an overview of current international discussions for a renewed international financial architectur (5.11).

Cooperation between development banks is a concrete application of SDG 17 "Partnerships for the Goals". It includes inter-bank financing, co-financing of projects, and non-financial cooperation - including strategic and operational coordination and sharing of expertise and experience. The main barriers to increased financing from MDBs to NDBs are related to macroeconomic or market risks, the nature of the partners' operations, and the quality of governance or the diversity of operating models. Existing international associations provide platforms to improve coordination, enhance operational efficiency and collectively address global challenges.

Associations of banks tend to focus on region-specific priorities and serve as hubs for sharing best practices and resources across Africa, Latin America, Asia, Europe and Islamic countries. A notable non-regional association is the International Development Finance Club (IDFC), a network of 26 development banks from all continents that actively tracks and promotes climate finance and biodiversity initiatives among its members. The Finance in Common System (FiCS) seeks to recognize and strengthen the role of PDBs and their existing associations and networks within the global financial system. One such network is constituted in Africa by the "Caisses des dépôts" (CDCs), which centralize regulated savings accounts or social security contributions to channel them to social housing, local governments, infrastructure or SMEs businesses. EDFI members finance entrepreneurs in low-and middle-income countries where private investment is limited, providing patient capital at market rates. Exim banks, which specialize in financing export and import sectors, are increasingly aligning their activities with climate goals.

MDB and NDBs are well positioned to leverage private investments to finance development projects. The operationalization of mobilization strategies, and the efficient use of grants and financial innovation are critical to realizing this potential. Philanthropic organizations and NGOs are also important partners, contributing to blended finance solutions and promoting good governance and best practices. Technical assistance and capacity building remain success factors, both to promote change for sustainable development and to provide non-financial support to enhance the capacity of project owners. Country platforms are identified as an appropriate means to enhance expertise, technical assistance and knowledge sharing on sustainability issues. PDBs could work better as a system to increase the volume of finance available for development, efficiently allocate funds to the sectors most in need, support job creation and transform our economies by closing the financing gap for the climate and biodiversity crises.

5.01 COOPERATION BETWEEN PDBs

PARTNERSHIP DYNAMIC

Development banks already cooperate in various ways. Financial cooperation mainly includes lines of credit from one PDB to another and co-financing arrangements, which allow PDBs to "join forces" to finance complex, large or strategic projects. Non-financial cooperation is also common, including technical assistance, advisory services and harmonization of procedures.

KEY TAKEAWAYS

- ➜ Cooperation among banks includes inter-bank financing, co-financing of projects, as well as non-financial cooperation - including strategic and operational coordination, sharing of expertise or other exchanges.
- ➜ MDBs are working with NDBs but face a number of obstacles in stepping up financial cooperation with NDBs, including macroeconomic or market risks, the nature of partners' operations, the quality of governance or the diversity of operating models.
- ➜ There are opportunities for increased cooperation, which could be a priority to increase impact and contribute to SDG 17.

FINANCIAL AND NON-FINANCIAL

Financial cooperation between MDBs, RDBs and NDBs encompasses both inter-bank financing and co-financing of projects. Inter-bank financing using different financial products is particularly observed between institutions operating at different geographical scales. Most development banks with a cross-border mandate, such as AFD or KfW would use local counterparts as recipient of funds. The assets of one becomes the liability of the other. Regional Development Banks also provide direct funding to NDBs, while Multilateral Development Banks (MDBs) can lend directly to NDBs but with a sovereign guarantee if their target client segment are sovereign governments*. Regional banks in Europe (EIB, EBRD) are quite active in lending to NDBs and IDB, CAF, CABEI frequently lend to NDBs in Latin America. It is less clear in Africa and in the Middle East[1]. On another perspective, co-financing, a very common form of cooperation, allows various development banks to "join forces" to finance complex, large-scale or strategic projects.

Non-financial cooperation between these institutions is also very active and can take various forms. It involves strategic and operational coordination through joint project preparation and monitoring; high-level or technical meetings; advisory services and expertise pooling; joint research; or the co-creation of standard project tools and methodologies, e.g. for impact evaluation. This type of cooperation is facilitated through more or less formal mechanisms, such as joint membership in associations of MDBs, memoranda of understanding or frameworks for cooperation or co-financing between institutions, as well as contributions to working groups, participation in technical assistance facilities, or cooperation between governments contributing to MDB strategies. Some of the MDBs are working together on impact measurement and reporting frameworks, but much remains to be done to standardize[1] sustainable development impact for use across a wider range of PDBs.

The special role of MDBs in cooperating with NDBs should be emphasized. MDBs have the mandate and capacity to finance and coordinate regional and local development projects. Their asset size, strong credit ratings and technical expertise enable them to provide affordable financing to national or sub-national development banks – which in some cases may have difficulties in raising funds, especially in emerging markets[2]. NDBs and regional banks, on the other hand, argue that they have the capacity to finance "the last mile", thanks to their knowledge of local contexts and contact with final beneficiaries.

* *For example the International Bank of Reconstruction and Development (IBRD) known as the Worl Bank, provides credit lines and guarantees to national development banks with sovereign guarantee. The International Financial Corporation (IFC) and the Multilateral International Guarantee Agency (MIGA), part of the World Bank Group, can provide financing, guarantees and co-invest with national development banks without sovereign guarantee.*

TOWARD EFFECTIVE COOPERATION

Cooperation between MDBs and NDBs faces a number of obstacles, including governance, macroeconomic and market risks, and a perceived lack of capacity, especially in emerging markets. Barriers to increased MDB financing to NDBs vary across regions, as highlighted in a qualitative survey of 9 MDBs (Marois et al., 2023). In the Middle East, the Islamic Development Bank mentions the difficult access to local currency (and related exchange rate risks) at competitive rates. In Europe, the Council of Europe Development Bank (CEB) and the European Investment Bank (EIB) point to competition from other financial actors, sometimes using concessional funding to breach the international agreements of untied financings. In Africa and Asia, fiscal constraints and challenges of external debt levels hinder further financing of NDBs via MDBs. African MDBs are often concerned with the operations of NDBs in the region, including weak balance sheets, risk management, credit underwriting, reporting (in line with international standards), and Information Technology (IT) systems. Issues related to good governance, government and political interference are highlighted in the survey[1] as barriers to increased cooperation.

While NDBs tend to focus on to financing revenue-generating projects, they are also well placed to manage the budgetary allocation of grants to public investment. Their operating models do not prevent them from acting as trustees or management agencies for a fee. They can serve their government, aid agencies or other MDBs providing concessional funding to facilitate complex transactions and their associated financing plan.

Cooperation should avoid redundancies and overlapping activities and ensure complementarity of investments. It can help develop systematic impact measurement and avoid distortions in the functioning of markets[3]. It also limits the risk of the duplication of projects with sometimes conflicting objectives, leading to inefficiencies and negative impacts on local development[4].

In Europe, for example, the EIB and EBRD coordinate their efforts. In particular, together with the European Commission, they have established a coordination mechanism, developed complementary portfolios in terms of sectoral exposure and geographical coverage, and regularly co-fund projects. Although there is room for improvement[5], it results in a broadly interdependent and coherent development finance structure, efficiently supporting the overarching policy goals of the two banks – and could serve as a reference for other regions[6].

Challenges remain to optimize cooperation between all these actors at large. The landscape is still fragmented: the absence of globally standardized reporting guidelines hampers the assessment of results while a lack of strategic coordination hinders their impact[7]. In general, the interlinkages between development banks are under-studied, and the opportunities for increased cooperation are under-utilized[1]. This could be a priority to improve efficiency and better contribute to SDG 17. Further research on the existing relations between these institutions is needed to better identify the channels of cooperation that can be enhanced for mutual benefits.

BOX 1: PROMOTING COOPERATION THROUGH "TEAM EUROPE INITIATIVES"

Team Europe aims to support European members cooperation for development projects outside of Europe. It gathers EU Member States, their agencies and public development banks, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). Team Europe Initiatives (TEIs) must involve at least three "Team Europe" members[8]. More than 150 initiatives have been launched since 2020. One example is the "Manufacturing and Access to Vaccines, Medicines, and Health Technologies in Africa" (MAV+) initiative, which supports production and access to vaccines and medicines in Africa. The project involves 17 European countries, leverages support from the European Medicines Agency and the World Health Organization. European PDBs have provided EUR 663m of the 1bn total allocation, through loans and other financial instruments[9]. Such initiatives enhance coordination across European PDBs, promote expertise pooling, and facilitate large-scale impact and private sector mobilization.

5.02 INTERNATIONAL ASSOCIATIONS

PLATFORMS FOR JOINT ACTION

Since the inception of the first associations of PDBs in the 1960s, the number of networks and initiatives has steadily increased. These platforms aim to boost collaboration between PDBs, identify best practices, and strengthen their representation within the international arena.

KEY TAKEAWAYS

- PDBs have developed associations and platforms to improve coordination, enhance operational efficiency, and address global challenges collectively.
- Regional networks focus on region-specific priorities and serve as essential hubs for sharing best practices and resources across Africa, Latin America, Asia, Europe and Islamic states.
- Global collaborative initiatives, such as the Finance in Common System (FiCS), have united institutions around sustainable development goals.
- Collaborative networks have positioned NDBs as influential voices in international finance discussions, empowering them to push for structural changes in the global financial system.

A RICH ECOSYSTEM

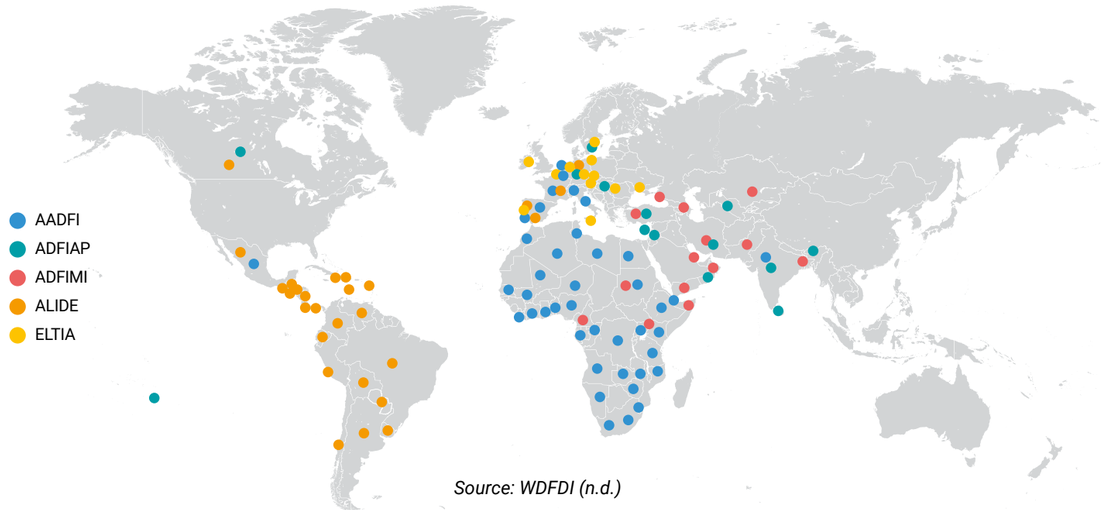
Through the years, development banks have formed several geographic and thematic associations. Regional associations were created to unify across regional and cultural lines. The World Federation of Development Financing Institutions (WFDFI) unifies regional associations and is one of the constituents ofthe Finance in Common System (FiCS). In parallel, thematic associations such as the Group of Heads of Multilateral Development Banks and the International Development Finance Club (IDFC) emerged to address critical, large-scale challenges. Figures on the next page provide a global overview of PDB associations.

In parallel, special-purpose initiatives are another form of cooperation. Unlike associations, they have a fixed lifespan and a less formalized structure. They often emerge in response to urgent issues, and around joint declarations from their members. The Global Emerging Market Consortium (GEMs) gathers 26 members – MDBs, NDBs, commercial banks, research institutions and civil society, around a collaborative effort to better understand and manage the risks in emerging markets[8].

Building on these collaborative efforts, the FiCS was launched in 2020 to unite all PDBs to directing financial flows toward sustainable development[6]. FiCS gathers institutions around 13 thematic coalitions and a global research network (GRN), working on or investigating various themes, from sustainable development to sport, gender mainstreaming, or water and sanitation[7] (*see section 5.04*).

Other NDB networks work to support capacity-building, facilitate private finance mobilization, and reinforce their membership's role in global discussions. First, joint working groups or mutual technical assistance foster continuous learning across institutions. Second, collaborative networks among PDBs help catalyze private sector financing for sustainable development. Initiatives like the Montreal Group (TMC) provide a platform to coordinate strategies that mobilize funding for MSMEs[10]. Through these networks, NDBs can act as coordinated market shapers by pooling resources, collectively reducing risks, and improving market conditions for private investment. Third, increased collaboration also elevates the role of NDBs in global discussions on financing sustainable development, providing a united front in major international forums. That allows these institutions to contribute towards structural shifts to better align financial flows with development and climate priorities[10].

Figure 1: Map of the countries represented in the associations forming the World Federation of Development Finance Institutions



Source: WDFDI (n.d.)

Table 1: Some Prominent Development Bank Associations

Association of African DFIs (AADFI) Year: 1975 Headquarters: Ivory Coast Members: 80+ Region of Op. : Africa	**Association of Nigerian DFIs** Year: 1982 Headquarters: Nigeria Members: 18 Region of Op. : Nigeria	**Global Network of Import-Export DFIs** Year: 2006 Headquarters: Switzerland Members: 14 Region of Op. : Global
Association of DFIs in Asia and the Pacific (ADFIAP) Year: 1976 Headquarters: Philippines Members: 90 Region of Op. : Asia & Pacific	**European Association of Public Banks (EAPB)** Year: No data Headquarters: Belgium Members: 22 Region of Op. : Europe	**International Development Finance Club** Year: 2011 Headquarters: France Members: 26 Region of Op. : Global
Association of national DFIs in member countries of the Islamic Development Bank Year: 1986 Headquarters: Türkiye Members: 36 Region of Op. : Asia & Africa	**Southern African Development Community** Year: 1980 Headquarters: Botswana Members: 16 Region of Op. : Southern Africa	**Association of Bilateral European DFIs** Year: 1999 Headquarters: Belgium Members: 15 Region of Op. : Europe
Association of DFIs in Latin America (ALIDE) Year: 1968 Headquarters: Peru Members: 91 Region of Op. : LAC	**World Federation of DFIs** Year: 1979 Headquarters: Rotating Members: 5 Associations Region of Op. : Global	**European Association of Guarantee Institutions** Year: 1992 Headquarters: Belgium Members: 46 Region of Op. : Europe
European Association of Long-Term Investors (ELTIA) Year: 2013 Headquarters: Belgium Members: 33 Region of Op. : Europe	**D20 - Long-term Investors Club** Year: 2009 Headquarters: Luxembourg Members: 20 Region of Op. : Global	**Network of European Financial Institutions for the MSMEs** Year: 1999 Headquarters: Belgium Members: 21 Region of Op. : Europe
Brazilian Development Association (ABDE) Year: 1969 Headquarters: Brazil Members: 34 Region of Op. : Brazil	**Global Emerging Market Risk Database Consortium** Year: 2009 Headquarters: No data Members: 25 Region of Op. : Global	**The Montreal Group** Year:2012 Headquaters: Montreal, Canada Members: 12 Region of Op: Global
Association of DFIs in Malaysia Year: 1981 Headquarters: Malaysia Members: 17 Region of Op. : Malaysia	**Global Network of Guarantee Institutions** Year: 2016 Headquarters: No data Members: 21 Region of Op. : Global	

Regional Associations | Association of Associations | Thematic Associations | Regional & Thematic Associations

Source: Authors' analysis, associations' websites

5.03 INTERNATIONAL DEVELOPMENT FINANCE CLUB (IDFC)

LEVERAGE SUSTAINABLE INVESTMENT

In 2011, 19 leading national and regional development banks united to form the International Development Finance Club (IDFC). This alliance first aimed to address pressing global challenges such as climate change, infrastructure deficits, and social inequality. Today, the IDFC has expanded to 26 members and its activities are coordinated by a dedicated secretariat around three pillars: the Green Finance Mapping, five Working Groups, and the IDFC Facility.

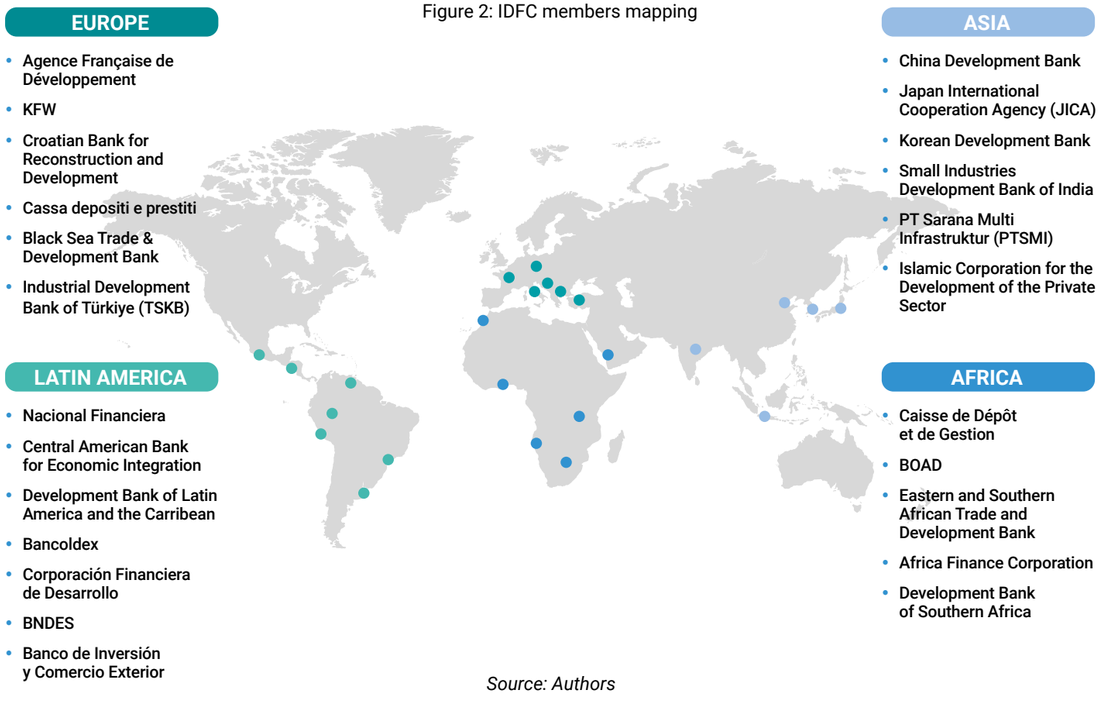
KEY TAKEAWAYS

- IDFC is a network of 26 development banks, 15 of which are accredited by the Green Climate Fund (GCF). It is supported by a dedicated Secretariat.
- IDFC is actively tracking and promoting climate finance and biodiversity initiatives among its member banks. Over the past years, there has been a significant increase in green finance commitments (USD 1.5 trillion in total green finance since 2015), but more needs to be done to align with the Global Biodiversity Framework.
- IDFC fosters cooperation and knowledge sharing among its members through various initiatives like working groups, the IDFC Facility, and the NUCA Programme. These efforts aim to enhance capacity building, facilitate project preparation, and mobilize private sector involvement in sustainable development.

GREEN FINANCE MAPPING

Since 2015, the Green Finance Mapping tracks the climate and biodiversity finance commitments of IDFC members. It reveals the increase of green investments both in terms of volume and relatively to other financial commitments (Figure 2)[3]. Globally, this translates to a cumulative USD 1.5 trillion in green financing since 2015.

Figure 2: IDFC members mapping



Source: Authors

In 2023, IDFC members experienced a 31% decrease in total finance commitments, totaling USD 199 billion, while many members increased their commitments[4]. This decline, primarily attributed to fluctuations in large reporting institutions, currency depreciation, and the adoption of stricter tracking methodologies, underscores the complex interplay of economic and regulatory factors affecting green finance. Despite this setback, a meaningful portion of IDFC members (13) increased their green finance commitments by an average of 27%.

WORKING GROUPS

The Climate Finance Working Group supports the Paris Agreement through knowledge sharing, capacity building, climate finance tracking, and international advocacy.

The IDFC Biodiversity Working Group is dedicated to addressing the Kunming-Montreal Global Biodiversity Framework. Some activities include developing biodiversity finance tracking methodologies and the mobilization of financial resources towards biodiversity[6]. In 2022, IDFC members commit to mobilize over USD 100 billion in biodiversity finance by 2027[7], contributing to the goals of the Post-2020 Global Biodiversity Framework. They also produce the IDFC Biodiversity Toolbox[8] to offer a practical guide for financial institutions and to integrate biodiversity considerations into their strategies and operations, providing step-by-step guidance and illustrative examples.

The IDFC Gender Equality Working Group is committed to eliminating gender-based inequalities. By advocating for equal pay, opportunities, and representation for women within institutions and in external operations, the group is driving positive change among public development banks[9]. Through initiatives like the IDFC Gender Tracker[9], the group is measuring progress and driving systemic change in gender equality within the development finance sector.

The IDFC SDGs Alignment Working Group is dedicated to aligning the activities of its member institutions with the SDGs. It conducts research, develops sustainability frameworks, and advocates for sustainable policies[11]. In collaboration with Natixis, the group has published a study on the catalytic role of PDBs in achieving the SDGs[12].

The Cooperation for Development (C4D) Working Group aims to expand collaboration among IDFC members beyond traditional South-South or trilateral cooperation. By fostering knowledge sharing, this platform enables IDFC members to showcase their collaborative efforts and collectively contribute to sustainable development[13].

IDFC CLIMATE FACILITY

First started in 2019 as the "IDFC Climate Facility", this operational tool seeks to enhance knowledge sharing between members on climate and SDG related topics[14]. The IDFC Climate Facility aims to enhance IDFC members' capacity to integrate climate change and SDG goals into their operations. To achieve this, the facility offers a range of services, including (i) knowledge sharing through forum events and an online library; (ii) capacity building through "in-person" tailored training modules and a mentoring program provided by IDFC members; (iii) support for project preparation focusing on innovative and demonstrative operations; and (iv) facilitation of access to International Green Climate Fund accreditation.

BOX 2: NUCA PROGRAMME FOR URBAN INFRASTRUCTURES

The NDBs Urban Climate Action (NUCA) Programme is an IDFC example of Facility, financed by the International Climate Initiative (IKI) with support from the AFD, C40 and IDFC members[11]. This program aims to enhance the role of NDBs in driving low-carbon, climate-resilient urban infrastructure investments in developing and emerging economies. Given the level of cities' greenhouse gas emissions and vulnerability to climate change, NDBs can leverage their local relationships and funding capabilities to support climate-smart projects. The NUCA first targets five economies—Brazil, Colombia, Indonesia, South Africa, and Mozambique— to develop urban infrastructure projects that reduce greenhouse gas emissions and increase resilience.

5.04 FINANCE IN COMMON (FiCS)

MAINSTREAMING SUSTAINABILITY

Gathered for the first time in 2020 in Paris, the regional associations of PDBs, the International Development Finance Club (IDFC) and MDBs signed the first Joint Declaration of all PDBs in the world[1], launching the Finance in Common System. It seeks to strengthen partnerships among these institutions to support their commitments to shift their strategies towards sustainability, and to give NDBs a voice and visibility in the global fora discussing international policy issues. In 2024, FiCS brings together 530+ institutions (multilateral, regional, national and subnational), across 155 countries. Taken together, they collectively manage assets worth over USD 23 trillion and invest annually around USD 2.5 trillion, i.e 10% of global investments.

KEY TAKEAWAYS

- ➜ Finance in Common is a global movement that seeks to recognize and strengthen the role of development banks within the global financial system to promote sustainable development.
- ➜ In 2024, FiCS brings together more than 530 institutions in 155 countries, collectively managing around USD 23 trillion in assets. These institutions account for 10% of global investments, both public and private, underscoring their role in reorienting finance towards sustainability.
- ➜ FiCS activities span across various work streams including its Annual Summit, a Global Research Network, thematic coalitions, and policy dialogues, to help members and stakeholders align their financing and operations towards a common goal of sustainability.

FiCS PRACTITIONERS' NETWORK

To drive impactful solutions, FiCS has established 13 thematic coalitions and alliances[3] gathering MDBs, NDBs and SDBs. These dedicated thematic platforms foster collaboration and resource mobilization on topics of common interests, such as gender equality, clean water access, agriculture and food security, and resilient cities. FiCS also supports sustainable development through emerging sectors such as sports as well as art & culture (see Figure 3). By sharing knowledge and best practices, these coalitions empower practitioners to implement solutions in traditional areas of development.

The FiCS Financial Innovation Lab is advancing innovative financial instruments to amplify the impact of MDBs, RDBs and NDBs in climate finance[4]. Launched during a joint FiCS – G20 event held in Rio de Janeiro in May 2024, and led by the Climate Policy Initiative (CPI) with the Inter-American Development Bank (IDB), the FiCS Lab is a platform that fosters innovation & collaboration in mobilizing private capital and expanding climate finance, particularly in EMDEs. The FiCS Lab covers four thematic areas: Climate Resilient Debt Clauses, Debt for Nature Swaps, Domestic Carbon Markets and Currency Risks. It will incubate selected initiatives allowing to expand climate finance, particularly small and medium-sized institutions in EMDEs.

Figure 3: FiCS Thematic Coalitions

Source: Finance in Common (2024)[11]

GLOBAL RESEARCH NETWORK (GRN)

In close connection with the FiCS, an international collective of researchers and think tanks has been exploring the resurgence of public finance as a catalyst for societal transitions. The primary goal of the GRN is to investigate and to document with analytical evidence the role that PDBs play in financing the green and just transition. These contributions, which take the form of publishing academic and policy papers, are designed to be both rigorous and practical, and should contribute to the numerous debates coming out of the priorities spelled out during the yearly FiCS Summits. The GRN is organized around 4 working groups: (i) PDBs' role in the global financial architecture, (ii) Private sector mobilization, (iii) Sustainable and solidary investments, and (iv) PDB Analytics, which provides an exhaustive multi-criteria database on PDBs[2]. Each research group is composed of researchers from various countries and scientific disciplines. They constitute a community, including think tanks, that identify relevant research topics on PDBs, promote collective research, and foster policy dialogue with policy makers and practitioners.

POLICY DIALOGUE

Through high-level policy dialogues, FiCS advocates on the role of development banks in driving systemic transformation.

In 2021, the G20 Finance Ministers recognized the importance of the FiCS, acknowledging the role of the coalition towards the achievement of the SDGs and the Paris Agreement. FiCS feeds in a specific dialogue with rotating presidencies of the G20, to showcase specific contributions into the deliverables of the G20 finance track, including those of the Sustainable Finance Working Group (SFWG), the Infrastructure Working Group (IWG), the Taskforce on Climate Finance mobilization (TF CLIMA) and the International Financing Architecture Working Group (IFAWG), as well as specific tasks upon request. FiCS acts as a catalyst for implementing G20 recommendations, encouraging to collaborate as a cohesive system, avoid fragmentation, and encourage the provision of sustainable finance.

FiCS is enhancing its strategic partnership with the United Nations and its specialized agencies to optimize financing for sustainable development. Since 2021, UNEP FI and UNDP have been active members of the FiCS Executive Committee. This collaboration has reached a new level of engagement with the FiCS' contributions to the Fourth United Nations Conference on Financing for Development (FfD4).

BOX 3: FiCS SUMMITS

Since the first edition in 2020 in Paris, the FiCS Summit has become an integral part of the international financial agenda[5]. The Annual Summit is a privileged space to secure further political impetus, promote financial announcements or commitments, present new financial and non-financial activities. It also serves as a demonstrator of PDB actions and impact on the ground. It is organized by members across the globe, with guidance and support from the FiCS Secretariat. Gathering all PDBs and their stakeholders, these Summits are a platform to network, communicate, engage in business opportunities, meet with peers and exchange on the role of PDBs in global finance architecture. At each edition, FiCS members evaluate previous PDBs achievements and establish new commitments.

1st edition 2020 (online and from Paris, France)
- Co-organized with AFD and IsDB
- Theme: First Global Summit & FiCS Joint Declaration of all PDBs

2nd edition 2021 (Rome, Italy)
- Co-organized with CDP and IFAD
- Theme: Building Resilience for People and Planet

3rd edition 2022 (Abidjan, Ivory Coast)
- Co-organized with EIB and AfDB
- Theme: Green and Just Transition for a Sustainable Recovery

4th edition 2023 (Cartagena de Indias, Colombia)
- Co-organized with Bancoldex, ALIDE and IaDB
- Theme: Building New Alliances for the Next Generation of Development Financing

5th edition 2025 (Cape Town, South Africa)
- Co-organized with DBSA and AIIB
- Theme: Fostering Infrastructure and Finance for Just and Sustainable Growth
- Key milestone on the way to FfD4 and COP30

5.05 CAISSES DES DÉPÔTS IN AFRICA

MOBILIZING DOMESTIC SAVINGS

"Caisses des dépôts" (CDCs) constitute a unique model of NDB: they centralize certain types of domestic savings and direct them towards national investments. CDCs reduce dependency on foreign investments and they can leverage other private and public sources of funds.

KEY TAKEAWAYS

- "Caisses des dépôts" (CDCs) primarily rely on domestic savings, such as funds on regulated savings accounts or social security contributions.
- African CDCs have been created in French-speaking countries.
- CDCs are mobilizing, centralizing and securing domestic resources, including funds stored on regulated savings accounts, deposits from government institutions or regulated deposits of specific professions (e.g. notaries and lawyers).
- CDCs are long term countercyclical investors financing long-term national investments in strategic sectors, such as social housing, local governments, infrastructure and SMEs.

WHAT IS A "CAISSE DES DÉPÔTS"?

In 2024, 10 Caisse des depots (Deposit Funds) were active in Africa, and 7 more countries are actively exploring the possibility of creating one[12]. The African model of CDCs was first implemented in Morocco in 1959 when the "Caisse des Dépôts et de Gestion" was founded. Most of the African CDCs were however created after 2005. Senegal, Gabon, Mauritania and Tunisia were created between 2006 and 2011. After 2016, Niger, Ivory Coast, Benin, Cameroon and Burkina Faso followed. A number of reasons, linked to a new vision for sustainable and local economic development, motivated their creation.

CDCs in Africa have different profiles reflecting country specificities, but they share some common features. Civil law, as opposed to common law, is prevalent in their home countries. Networks of notaries and "pay as you go" public social security fund systems prevail instead of private pension funds. Commercial banking systems, and the overall financial sector, tend to be smaller and are not always robust, hampering savings mobilization and efficient intermediation. Access to credit, particularly for infrastructure projects and SMEs is challenging. By centralizing liquidity including pension resources, CDCs mobilize funds for development needs, providing a concrete financial support to National Development Plans.

As illustrated in Figure 4, there is a clear momentum for CDCs in Central and West Africa. They cover different fields of the national economy, and their size may vary. While data on asset size is not systematically available, their economic weight is notable: the Moroccan CDC's assets are worth 19% of all African PDB assets[13].

THE CAISSE DES DÉPÔTS' MODEL

The transformation of savings into long-term investments is a central feature of CDCs' business model. These institutions are characterized by a high level of equity capital and long-term funding, enabling them to manage short-term asset price volatility and to develop a long-term investment strategy[1]. This long-term perspective distinguishes CDCs from commercial banks and permits to finance local authorities and social housing. CDCs are able to operate in times of crisis, playing a counter-cyclical and prudent long-term investor role. This involves a specific financial prudential model and liquidity management and requires CDCs to retain high equity ratios. A high degree of confidence from citizens is an imperative, which relies on independent governance and adequate financial returns on managed assets, particularly pension funds. Other sources of funding, such as unclaimed bank and insurance accounts or notary deposits may have a low regulated rate of return, making them a very affordable source of funds. Newly created CDCs will also largely depend on their ability to find a way for working together with the existing financial actors like national social savings managers (Caisse Nationale de Protection Sociale).

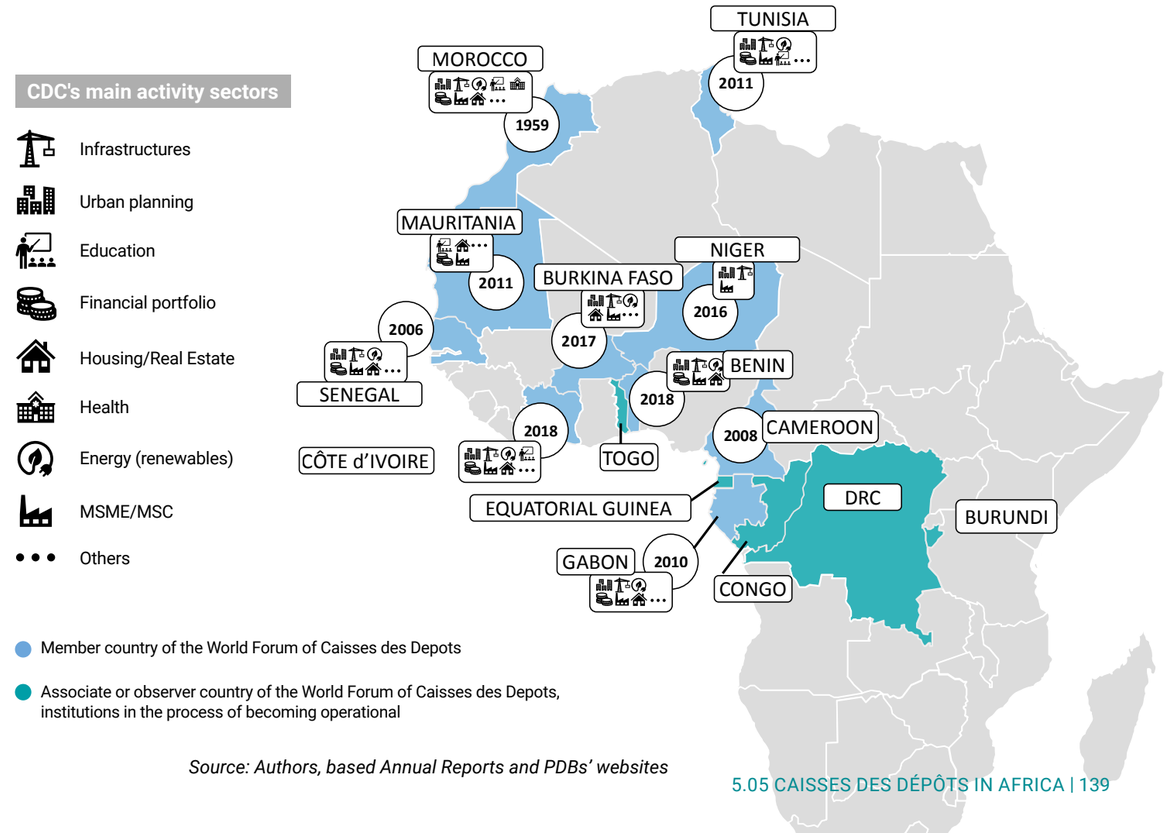
CDCs stand out from other NDBs by the nature of their funding sources: their government entrusts them, by law or by mandate, to secure and manage regulated savings[14]. These savings include funds stored on regulated savings accounts, deposits from government institutions (in particular social security contributions), or regulated deposits of specific professions (e.g. notaries and lawyers). Most CDCs do not directly receive deposits from the public: they rather manage savings kept by customers on regulated savings accounts managed by commercial banks. Consequently, and contrary to other PDBs, CDCs do not rely on capital markets to obtain the majority of their funds (*see section 3.04*)[14]. In addition, CDCs can act as the guarantor agency for government investments, as well as undertake specific banking and financial market activities, depending on local laws[15].

CDCs often emerge to centralize and mobilize regulated domestic savings, which have previously been scattered across different financial institutions. An example of regulated savings are funds stored by individuals on specific savings accounts whose interest rate, deposits and withdrawal limits, or tax regime are regulated. Relationships with "incumbent" financial institutions, whether private or public, may thus be a challenge for recently established CDCs, as resources are effectively re-allocated from them to a newcomer.

Ultimately, the positive impact of the centralization of institutional savings is conditional on good risk management and governance. Building strong risk assessment capabilities, accountability, evaluation mechanisms, robust prudential models, as well as preserving CDCs from government's interference is essential to supporting this efficiency and fostering the necessary trust.

Interestingly, since 2011, the "Forum des Caisses des dépôts", an association that brings together all CDCs from around the world, has stepped up its activities for further research and partnerships among CDCs and promotes their specific model. Workshops and common activities (e.g., the use of diaspora's fundings) multiplied and identified replicable best practices. This Forum provides a platform for enhanced cooperation through international conferences, knowledge sharing, or joint permanent working groups, therefore actively contributing to discussions on financing for development. At least every two years[16], an international conference is organized by the rotating presidency of the Forum (Mauritania 2023-2025) to discuss the main issues related to national economies, as well as to interact with other financial institutions. At first seen on the fringe of the African financial system, CDCs are now considered as interesting partners by the African Development Bank and the West African development Bank (BOAD) (*see Appendix*).

Figure 4: Year of establishment and sectors of intervention of CDCs in Africa



Source: Authors, based Annual Reports and PDBs' websites

5.06 EUROPEAN DEVELOPMENT FINANCE INSTITUTIONS (EDFI)

KEY TAKEAWAYS

- ➜ European DFIs are specialized in financing the private sector in EMDEs.
- ➜ Because of their clients and their increased use of equity financing, DFIs constitute a singular type of PDBs.
- ➜ EDFI members are mandated to leverage more private sector funds to accelerate the transition. DFI investments must meet three criteria: target customers that are excluded from other sources of finance, crowd-in private investors, and yield sustainable impacts.

SUPPORTING THE PRIVATE SECTOR WORLDWIDE

In Europe, PDBs specialized in financing the private sector are sometimes referred to as Development Finance Institutions (DFIs). The Association of European Development Finance Institutions (EDFI) was established to empower entrepreneurship in emerging markets and developing economies. DFIs invest in businesses in low-and middle-income countries to promote job creation and sustainable economic growth. They apply stringent investment criteria aimed at safeguarding financial sustainability, transparency, additionality, and environmental and social accountability. DFIs work with entrepreneurs in markets, where private investment is limited, providing patient capital at market rates, pioneering the way for private investors to follow.

ACHIEVING MORE BY WORKING TOGETHER

After World War II, various European countries set up bilateral DFIs as state-owned institutions to support economic growth in partner countries. Over time, DFIs have been innovating in the financial instruments and standards that they use to maximize impact.

In 1992, these institutions teamed up, creating the Association of European DFIs, or EDFI, to be more effective in offering sustainable, green and inclusive solutions to their clients. It comprises 15 PDBs including BII (United Kingdom), BIO (Belgium), Cofides (Spain), DEG (Germany), Finnfund (Finland), FMO (The Netherlands), IFU (Denmark), Norfund (Norway), OeEB (Austria), Proparco (France), SIFEM (Switzerland), Simest and CDP Development Finance (Italy), SOFID (Portugal), Swedfund (Sweden)[17]. Successful cooperation among members on knowledge exchange, co-financing solutions (such as the EDFI Management Company), policy advocacy, and harmonization of standards shows the added value of working together. The EDFI takes part in the Finance in Common Summit through its membership in the Executive Committee[18].

Date of establishment:
From 1948 onward

Mandate:
Sustainable investments in the private sector in developing countries

Number of employees:
3,541 across 15 DFIs and the Association

Total assets:
EUR 52 bn

Level of ownership:
National

ROA:
1.1%

A BRIDGE TO PRIVATE CAPITAL

EDFIs provide sustainable long-term financing to businesses on terms that are, in principle, market-based. EDFI investments need to be additional and 'crowd-in' private investors in underdeveloped markets. As such, EDFIs create the bridge between development finance and private capital. Commercial and impact success are closely linked: unless a company is financially sustainable, it will never make a long-term impact. At the same time, those financial returns are important for EDFIs because they are reinvested to support other businesses to grow and generate further impact. The commercial success also shows that investing private capital in emerging markets can be viable, paving the way for private investors to come in. Cooperation being in the DNA of EDFIs, they value opportunities to work with other stakeholders to make the most out of the public means available. As such, they participate with their joined expertise in the Global Gateway Strategy of the European Union, discussions with Multilateral Development Banks and international fora such as G7, G20 and Finance in Common.

Figure 5: Main Categories of Financial Instruments for Development Cooperation

DEVELOPMENT FINANCE APPROACHES		
AID Grants and technical cooperation for humanitarian and development assistance Donor agencies	**Public Sector Loans** Concessional and non-concessional loans to states and state institutions Development banks	**Private Sector** Equity, loans, guarantees to commercrally sustainable private sector projects DFIs

Source: Authors (EDFI)

ADDITIONAL, CATALYTIC AND SUSTAINABLE

Additional investments target customers or sectors that are excluded by other investors.

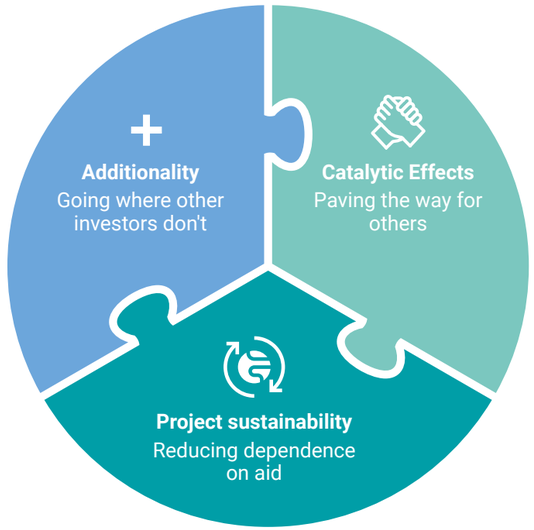
By showing that investments can be profitable while creating impacts, EDFIs aim at **catalyzing** more development finance from commercial institutions.

Sustainable finance aims at integrating ESG standards to mitigate negative impacts on the environment and society. By enabling better development conditions, it aims at reducing countries' dependence on international aid.

This operating model has supported the clients of EDFIs to achieve impact results in 2022:

- Supporting 8.6 million direct jobs, equivalent to the workforce of Mali;
- Paying EUR 33 billion of taxes or other payments to governments, amounting to half of Egypt's tax revenues;
- Producing 96 TWh of clean electricity, comparable to Bangladesh's annual electricity consumption.
- Moreover, EDFI mobilized EUR 4.4 billion of private capital in 2023.

Figure 6: The three pillars of development cooperation effectiveness



Source: Authors (EDFI)

MOBILIZING MORE SUSTAINABLE FINANCE

EDFIs are developing tools and standards to mobilize sustainable capital, through harmonization, climate finance, and 'just transition' approaches. As sustainable finance has become more regulated in recent years, EDFI has undertaken a program of work with the European Union to identify how low- and middle-income countries are affected by sustainability regulations in high-income countries, and how best to ensure that new regulations support – rather than hinder – the flow of sustainable capital to the countries that need it most.

To accelerate transition activities, EDFI members have piloted innovative models and structures to crowd in private capital, despite market conditions pushing private investments out of emerging markets[19]. They leverage blended finance structures to loop in institutional investors, issue sustainable bonds and create investable, sustainable assets through targeted advisory services.

5.07
EXIM BANKS

TRADE-SPECIALIZED PDBs

The first Exim Bank was established in the United Kingdom in 1919 to fill financing gaps for British exports. Its mission was "to ensure that no viable British export fails for lack of finance or insurance from the private sector". Since then, the number of Exim banks has increased, reaching 54 by 2023[5]. While many Exim banks can be categorized as meeting the PDB criteria due to their government ownership and development-oriented mandates, they are often confused with export credit agencies.

KEY TAKEAWAYS

- 10% of all PDBs, with total assets of USD 1.5 trillion in 2023, have an Exim Bank mandate; they play an active role in import-export financing.
- Exim banks have a broader mandate than export credit agencies (ECAs), including facilitating both exports and imports, while ECAs focus primarily on supporting domestic exports.
- The Berne Union is the leading global association for the export credit and investment insurance industry, insuring around USD 2.5 trillion of payment risk protection to banks - equivalent to 13% of world cross border trade for goods and services.
- Exim Banks are increasingly aligning their activities with climate goals, supporting the transition to a low-carbon economy through their financing and insurance products.

INTERNATIONAL TRADE FINANCIERS

Exim Banks are government or semi-government banks that promote the development of foreign trade[20]. Export Credit Agencies (ECAs) and Exim Banks are often used interchangeably, although they do not cover the same perimeter. An ECA is mandated to provide financial support and risk mitigation services to domestic companies for their international export activities[21]. Exim banks have a broader mandate in that they facilitate international trade, including imports. They provide export credit, import finance, trade insurance and guarantees (see Figure 7) to mitigate the risks associated with global trade and enhance the competitiveness of domestic firms in international markets[22].

About 10% of PDBs (53 of the 536 institutions in the PDB Database) have Exim Bank mandates, most of them being national development banks[23]. However, the US Exim bank identified 115 active ECAs and Exim banks around the world in 2019, a 35 percent surge since 2015[2]. Exim Banks are typically funded through a combination of government budget allocations, borrowings from capital markets, and retained earnings from their operations[22]. In 2023, they totaled USD 1.5 trillion in assets, representing around 10% of total PDB assets[23*].

The Berne Union is the leading global association for the export credit and investment insurance industry. With 84 members including Exim Banks, ECAs, as well as private companies like private credit insurers[22], Berne Union is the largest association of export credit institutions. Its secretariat promotes best practices, facilitates information exchange and helps its members manage risks and support international trade[22]. It provides payment risk capital worth USD 2.5 trillion every year, insuring approximately 13% of the value of total global cross-border trade[22].

The Export-Import Bank of China is the world's biggest Exim bank, accounting for more than 58% of total ECAs' assets[24], followed by the United States Exim Bank, and the Japan Bank for International Cooperation (JBIC). The Export-Import Bank of China is fully owned by the Chinese government. Its role is to implement state policies in industry and provide financial support to promote the export of Chinese goods and services[25]. It has contributed to the development of the Belt and Road Initiative (BRI)[20], by financing technologies and infrastructure[26]. In 2021, the United States Exim Bank was the world's leading provider of export aid, issuing over USD 215 billion in short term Export Credit, compared to USD 61 billion of the Export-Import Bank of China[24].

* *"Excluding Fannie Mae and Freddie Mac from PDBs' global total assets".*

Figure 7: Main Exim Bank support measures

EXPORT CREDITS	IMPORT FINANCING	WORKING CAPITAL LOAN GUARANTEE	EXPORT CREDIT INSURANCE
Loans directly provided to foreign buyers to finance the purchase of goods and services from the home country. This helps exporters by ensuring that their foreign customers have the necessary funds to complete the transaction.	Financial support provided to domestic companies to facilitate the import of goods and technologies necessary for production and development of the economy.	Partnership of Exim Banks with private lenders to secure financing for international sales. The lender receives a loan guarantee from the Exim bank, covering a percentage of the loan repayment if the exporter defaults. This loan can be used to cover labor, materials, and other inputs needed to fulfill sales.	An insurance policy for foreign accounts receivable protects against the risk of buyer nonpayment. As EXIM backs foreign receivables, private lenders often lend assets typically excluded from the borrowing base. This means the same collateral can provide a larger borrowing base and improve cash flow of the borrower.

Source: adapted from Berne Union (2022)[27]

BOX 4: AFREXIMBANK: DRIVING TRADE AND ECONOMIC GROWTH

The African Export-Import Bank (Afreximbank) is a pan-African PDB dedicated to financing and promoting intra- and extra-African trade[28]. It is one of the 5 multilateral banks with an Exim mandate. By the end of 2022, Afreximbank's total assets stood at USD 33.5 billion[29]. Afreximbank group comprises the Bank, its impact financing subsidiary, the Fund for Export Development in Africa (FEDA), and its insurance management subsidiary, AfrexInsure. During the 2008 financial crisis, Afreximbank helped maintain trade finance for African exporters by providing pre- and post-shipment financing and guarantees[30]. During the COVID-19 crisis, the bank launched the Pandemic Trade Impact Mitigation Facility (PATIMFA), a USD 3 billion facility to help African countries deal with the economic and health impacts of the pandemic[31]. PATIMFA provided liquidity to Central Banks, corporates, and SMEs to support trade finance and avert trade debt payment defaults.

THE GREEN TRANSITION

Exim banks have a huge challenge to support the global transition to a net-zero emissions by 2050. Many Exim banks align their activities with governments' policy goals and support climate finance through their funding, guarantees, and insurance. For instance, Export Development Canada (EDC) has committed to support a low-carbon future by facilitating EUR 4.3 billion in cleantech finance[11]. Multilateral regulations under the OECD Arrangement, as well as initiatives like the Export Finance for Future (E3F) coalition are aligning export finance with climate objectives and scaling up renewable energy use. In 2020, Exim Bank and ECA climate finance contributions were estimated at up to EUR 8.4 billion (1.4 percent of total climate finance)[18], substantially higher than previous Climate Policy Initiative (CPI) estimates[32].

Exim Banks in many countries have historically financed the fossil fuel sector. To meet the 2030 climate finance targets, Exim Banks would have to increase their contributions to climate finance nearly sevenfold to up to EUR 57.4 billion annually[32]. The Climate Working Group (CWG) established by Berne Union focuses on documenting climate-related innovations, sharing best practices for low-carbon transitions, and promoting Exim's alignment with global climate goals[33]. More research is needed to understand how Exim Banks and ECAs can contribute in a more efficient way to sustainable development[17].

5.08 MOBILIZING PRIVATE CAPITAL

BRIDGING THE FINANCING GAP

Financing gaps for sustainable development are very large, particularly for EMDEs, ranging between USD 2.5 trillion and USD 4 trillion annually[34]. Public finance alone will not be able to fill this gap, given the limited fiscal space in many economies. Development banks can crowd in private funds to address the funding gap through co-investments, guarantees, technical assistance, platforms, portfolio sales and insurance, debt issuance and development of new financial instruments.

KEY TAKEAWAYS

- MDBs, RDBs and NDBs are all in their own way positioned to crowd-in private investment to finance developmental projects.
- They can mobilize private funds through a variety of instruments, including blended finance. When creating favorable conditions that subsequently mobilize private capital, they act as catalyzers.
- In 2022, the MDBs and development finance institutions that are part of the MDB task force on mobilization reported more than USD 71 billion in private capital mobilized in low- and middle-income countries. About a third of the capital was mobilized for climate projects.
- Mobilization strategies, efficient use of subsidies and financial innovation enable PDBs to materialize their potential. Adoption of good practices and knowledge sharing among PDBs will support this process.

LEVERAGE AND CATALYZE

Funding gaps and efficiency considerations call for action in catalyzing private investment to fund development needs. The G20 issued principles for MDBs to crowd-in private funds for sustainable development[35]. Crowding-in is a widely used term, covering a wide range of activities.

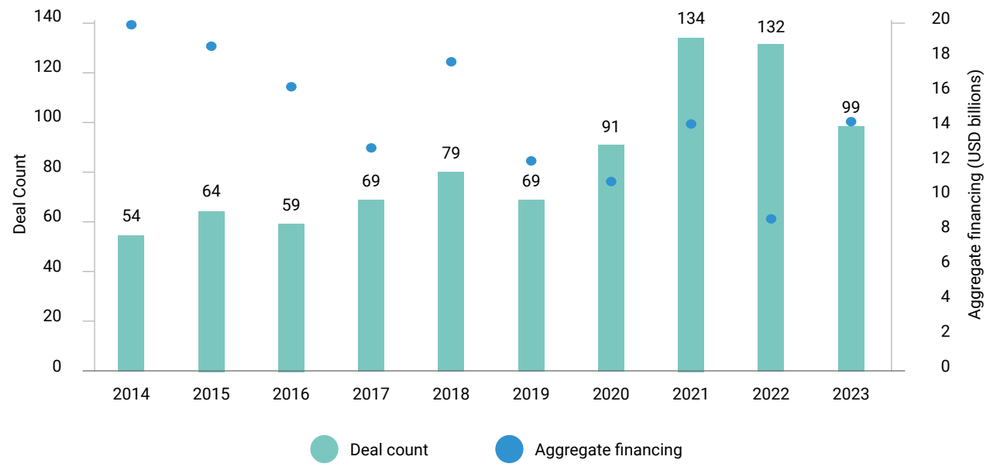
Private Capital Mobilization (PCM) can include several activities including transaction mobilization, portfolio mobilization and balance sheet mobilization[36]. Transaction mobilization includes all private cofinancing committed to a client at the time of a transaction. Investment platforms managed by MDBs count as direct mobilization while MDB co-investments in platforms are considered indirect mobilization. Portfolio mobilization occurs when the MDB sells or insures its portfolio, transferring the risk to private investors and freeing up the capital to finance new transactions. Balance sheet mobilization occurs when the bank issues debt (not-guaranteed by the government) so debt-holders are exposed to the institution's commercial risk.

Blended finance combines concessional funding with bank funds to mobilize private investment for sustainable development[37]. Concessional funding is subsidized funding (provided at below market rates) that can be channeled through debt (e.g. loans), equity, and grants to lower the risks of private investors and enhance returns. A group of MDBs formulated the Enhanced Principles for Concessional Funding for Private Sector Projects[59, 60, 61]. According to these principles, concessional funding should be used to address market failures, ensure that the private sector is not overcompensated, and that markets are not distorted. Concessional financing should also promote adherence to high ESG standards, disclosure and transparency. According to one source, over the last decade, the blended finance market has comprised 85 deals per year on average, with a median annual financing total of USD 15 billion[38]. On average, every dollar of concessional capital has mobilized USD 4.1 in commercially priced capital, of which just under half (USD 1.8) on average has been sourced from private sector investors[38]. High due diligence costs, capacity constraints, complex treatment by investors and regulators and reliance on sovereign ratings to assess the creditworthiness of blended finance projects hamper blended finance development.

Enabling private capital refers to PDB financing or advisory operations that create conditions for subsequent private capital flows. Private capital enabliziation can occur because of demonstration effects or can involve complementary investment facilitated by PDB activities. For example, the World Bank enables private investment through advisory work and development policy loans that support policy reforms developing capital markets and enabling investments[39]. PDBs have created numerous instruments that have been replicated by other institutions to finance projects, such as for example guarantees, green bonds, impact bonds or sustainability-linked loans.

In 2022, the MDBs and European PDBs reported more than USD 71 billion in private capital mobilized in low- and middle-income countries. About a third of the capital was mobilized for climate projects. In 2022, the MDBs and other development finance institutions that are part of the MDB task force on mobilization reported more than USD 71 billion in private capital mobilized in low- and middle-income countries.

Figure 8: Aggregate financing in Blended Finance Transactions, 2014 – 2023



Source: Convergence, 2024[38]

UNLOCKING PRIVATE CAPITAL: THE WAY FORWARD

NDBs can unlock private capital adopting comprehensive PCM strategies. Such strategies should include PCM targets and indicators that should be disclosed, as well as a menu of financial and advisory instruments to mobilize private capital. For example, la Financiera de Desarrollo Nacional de Colombia (FDN) was created to mobilize capital and per internal regulations can only finance 25 percent of a given project[40]. Adopting standardized PCM definitions allows to evaluate performance at the institution and global level. Creating a "one-stop-shop" for partnerships with the private sector and centralizing internal expertise on their management, may help increase capacities within PDBs. Expertise sharing among NDBs will support this endeavor.

Effective use of subsidies and incentives through the adherence of good practices fosters good use of public resources. Mobilizing private finance at scale while preventing market distortion and moral hazard is necessary to ensure subsidies and incentives are "smart"[41]. Smart subsidies focus on the additionality of concessional financing. This avoids providing excessive coverage of risks, which could effectively crowd out private finance or distort markets. Engagement with other PDBs helps ensure concessional support programs do not overlap. The German KfW Development Bank is making efforts in this direction by developing multi-stakeholder funding platforms[42].

Product innovation is important to mobilize capital. Joint efforts across PDBs can help to advance knowledge and best practices on financial innovation gaps, initiatives, and implementation. Initiatives such as the Finance in Common Innovation Lab seek to assist PDBs in joining forces to identify and develop new products. The initiative combines the roles of an incubator and a task force, providing technical assistance and grants to pilot PDBs financing projects relying on new financial instruments. Such innovation may help in filling the USD 4.2 trillion annual funding gap for achieving the SDGs by 2030[34].

5.09 PHILANTHROPY & CIVIL SOCIETY

LEVERAGE AND SCRUTINIZE

Philanthropic organizations contribute to development finance efforts by catalyzing private sources of funds. Meanwhile, civil society organizations (CSOs) or non-governmental organizations (NGOs) bring local expertise to ensure targeted impact and respect for human rights during project implementation.

KEY TAKEAWAYS

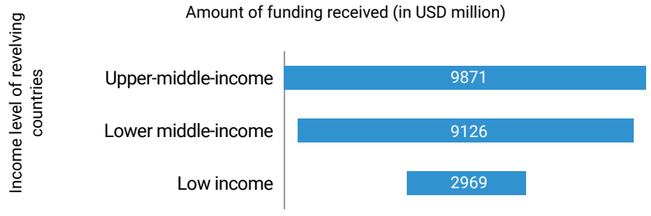
- By working together, philanthropic organizations and development banks can contribute to blended finance solutions and make investments in emerging markets and developing economies more attractive to private capital.
- NGOs' work contributes to public scrutiny of banks' activities, in an effort to promote good governance and best practices.
- Promoting dialogue between MDBs, RDBs, NDBs, NGOs and philanthropies is relevant to the design and implementation of infrastructure at national and local levels. It leads to more inclusive, participatory, accountable and impactful development interventions.

A LEVER FOR BLENDED FINANCE

Philanthropic organizations are foundations, often led by wealthy individual donors or affiliated with a particular corporation, that provide concessional and other innovative financing for development goals. Philanthropy for development has been rising over the past decade, amounting to USD 42.5 billion of funding over 2016-2019[43] and USD 11 billion in 2022 alone[44]. Yet, these contributions appear relatively modest, for example compared to the Official Development Assistance (ODA) provided by OECD member countries ascending to almost USD 211 billion in 2022[45]. Moreover, low-income countries only received 13% of the USD 24 billion of traceable philanthropies' funding from 2016 to 2019, as most was directed towards middle-income countries (see Figure 9)[43].

Development banks and philanthropies share similar investment and developmental goals, and SDG-financing is on the rise. Following the 2015 Addis Ababa Action Agenda, like traditional bilateral donors, large philanthropic organizations are becoming increasingly aware of the need to catalyze new sources of finance for the SDGs. Building on the USD 10 billion in climate finance mobilized by philanthropic institutions, investors, startups, energy companies, and governments at COP26[46], the Business & Philanthropy Climate Forum at COP28 announced USD 5 billion in new commitments for climate and nature initiatives[8]. During the Summit for a New Global Financing Pact (NFP) in 2023, a coalition of 16 philanthropic organizations renewed common ambitions to mobilize investment, provide strategic support on SDG-related priorities and unlock new investment to finance climate action in low- and middle-income countries[47].

Figure 9: Amount of development finance provided by philanthropies (2016 to 2019), by receiving country income level



Source: OECD (2021)[43]

Differences in structure, decision-making processes, and strategy can hinder collaboration with philanthropies. Differences in ownership and governance structures naturally make collaboration more difficult, between government-led are privately led. In general, philanthropic organizations act with shorter timelines and more agility than development institutions. Philanthropies may be reluctant to collaborate, fearing reporting and administrative requirements. Differences may also exist in terms of objectives, success factors, impact assessment or viability thresholds for investments and projects[46].

Current funding activities of philanthropic organizations show their potential to contribute to blended finance solutions (see *section 5.08*). Blending public and philanthropic funds reduces risk and increases the attractiveness of private capital. By mid-2024, philanthropic investors accounted for 16% of all blended finance transactions in emerging and developing economies (of a total of 221 billion[48]). The most prominent ones are the Shell Foundation, the Bill & Melinda Gates Foundation, the Omidyar Network, and Oikocredit[48].

Philanthropists, MDBs and NDBs could enhance their collaboration to become financial and advocacy partners. They can support each other's activities by co-sponsoring solutions, using a range of their assets such as funding, networks, influence or expertise to support, pilot and scale projects[46]. Overall, by aligning efforts and resources, these two groups of institutions can increase their impact, including through multi-annual investment pathways. In addition to increased learning, capacity and training, increased dialogue could support a much-needed infrastructure for collaboration at national and local levels. Collaborations are beginning to emerge, such as the launch of the Green Catalytic Innovation Fund announced in October 2022. This project co-led by the Inter-American Development Bank (IDB) and different philanthropies aims to accelerate decarbonization and Net-zero solutions by funding innovative green Tech[46].

PROMOTING ACCOUNTABILITY

Non-governmental organizations (NGOs) serve as implementation and advocacy partners, and contribute to public scrutiny of activities, in an effort to promote good governance and best practices and prevent misallocation of funds and adverse impacts of PDBs. NGOs are non-profit organizations, groups or institutions that operate independently from governments and have humanitarian or development objectives. They are often specialized in on-the-ground implementation, possess deep knowledge of local culture and contexts, and can provide detailed monitoring and feedback from the field. Their proximity with local communities and ability to identify development priorities and mobilize citizens directly make NGOs relevant partners for project implementation. Involving them in the design, implementation and monitoring of interventions ensures alignment with local needs and development trajectories, facilitating the achievement of positive impacts.

Promoting dialogue between development banks and NGOs may foster synergies and cooperation for more inclusive, participatory, and accountable development interventions. During the Finance in Common Summit 2022 in Abidjan, four institutions endorsed a joint statement to commit to human-rights based approaches[49]. This resulted in the creation of the Finance in Common Human rights working group in 2023. It carries out joint research, communication, and advocacy to identify and promote best practices in terms of human rights' mainstreaming, notably in collaborations with NGOs[49]. The scope of this cooperation could be enlarged to other topics and further research may help recognize the complementarity of PDB and NGO objectives and capacities in order to enhance positive impact.

5.10 TECHNICAL ASSISTANCE

The multifaceted nature of sustainable development demands substantial knowledge, skills and expertise. Technical assistance (TA) and capacity building (CB) are important for PDBs to scale up sustainable finance. In this context, how to ensure the effectiveness of technical assistance and capacity building for PDBs?

KEY TAKEAWAYS

- Technical assistance and capacity building provide non-financial support to improve the capabilities of beneficiaries, fostering catalytic change for sustainable development.
- Capacity building programs put institutions in a dual position as both recipients and providers: they should benefit from the experience of others, especially multilateral banks, but should also act as local promoters of sustainability for their local economic system.
- Platforms, including country platforms, could be an appropriate means to enhance international dialogue, expertise, technical assistance and knowledge sharing on sustainability issues.
- The ICR Facility, launched in 2019, offers tailored technical assistance to public development banks to improve their effectiveness and inclusivity, focusing on business environment reforms, strengthening PDBs, and knowledge management.

RELEVANCY OF NON-FINANCIAL SUPPORT

TA and CB are available tools but they are very different in essence[50]. TA typically offers specialized expertise, advice, or support to address immediate needs[50] and provides short-term solutions. It can cover technical, financial or even organizational needs and can usually be obtained through consulting services. CB is a longer-term process, focusing on enhancing the abilities, skills, and resources of individuals, organizations, or institutions. After completing a CB program, participants incorporate their newly acquired skills in their current practice. While TA can offer solutions to a well identified problem, CB aims at creating sustainable transformation and strengthening the capabilities and resilience of organizations.

MDBs and NDBs are both recipients and providers of TA and CB, depending on the role of non-financial activities in fulfilling their mandate. Various modalities can be listed[50]:

- MDBs, such as the World Bank and many others, often providing technical assistance programs together with their loans
- NDBs, providing TA and CB to their customers, in particular to promote a better incorporation of sustainability in their operations
- Dedicated TA facilities and programs, supported by donor programs, offering specific TA programs to PDBs, such as the ICR facility.
- Networks or coalitions, such as the International Development Finance Club (IDFC) Facility (see *section 5.03*) or the Finance in Common (FiCS) Water Finance Coalition.
- Some institutions specialized in developing large TA programs, such as Expertise France or GIZ of Germany.
- And of course a number of consulting firms, experts, NGOs or specialized institutions offering TA services at a price.

Figure 10 presents a typology of TA supports[50]. There are several priority areas and challenges to provide transformative TA and CB. TA support and refinancing are the most sought-after forms of assistance by PDBs[50]. NDBs require TA primarily for impact assessment, monitoring and evaluation (M&E), governance, and project preparation in specific areas such as adaptation finance, gender and climate, mapping climate risks and opportunities and alignment with regulations.

Figure 10: Technical Assistance and Capacity building for Public Development Banks

TYPES		OBJECTIVES
Project related TA	Project related TA	Give PDBs capacity to support early-stage project development, especially ensuring financial and economic sustainability and that projects are well-designed, feasible, and ready for implementation.
	Transactional TA	Typically refers to short-term, task-oriented support provided to PDBs to address specific issues or challenges in relation with a specific transaction or investment (not necessarily in relation with a donor-funded project).
	Project implementation TA	Supports the successful execution of a donor-funded project according to its goals, timeline, and budget. Often linked to a (thematic/sectoral) credit line.
Institutional strengthening		Aims to improve the internal effectiveness and efficiency of PDBs with a focus on governance and organization, processes and procedures.
Capacity building TA		Focuses on strengthening the skills and capabilities of PDB staff and teams.
Sectoral TA		Provides specialized support within specific sectors or technical areas.
Policy advisory/PDBs client support		Assists in the development, review, and implementation of sector policies and strategies; facilitation of policy dialogue with policymakers, regulators, etc. Allow PDBs to provide non-financial assistance to clients and support to public entities (to improve the institutional framework and public policies).
Peer-learning and networking		Facilitates knowledge exchange and learning among peers.

Source: Finance in Common (2024)[50]

MDBs and NDBs can also foster CB services[52]. During the 2023 FiCS Summit in Cartagena, Colombia, participants emphasized the need for substantial CB and TA within the system[52]. Despite 73% of TA being provided in parallel with credit lines[50], there is a growing need for standalone, sector-agnostic TA to better support smaller NDBs[53]. These smaller institutions often face challenges in absorbing large-scale TA due to limited internal expertise and resources[53]. Larger institutions can play a role by disseminating knowledge, offering tailored guidance, and fostering access to technical expertise[53]. Moreover, many NDBs remain unaware of existing TA providers that could support their operations, underscoring the need for greater coordination and awareness within the ecosystem. By working as a coordinated system, they can leverage the strengths of larger institutions—such as risk mitigation, project preparation, and blended financing—to empower smaller NDBs and drive transformative climate and development outcomes.

MOMENTUM FOR COUNTRY PLATFORMS

Country platforms have emerged as a suitable framework, designed to coordinate financing, expertise, and resources among various development actors—including PDBs, bilateral donors, and local governments— to support sustainable development initiatives within specific countries[54]. These platforms are structured partnerships that bring together different development actors to coordinate their efforts[55]. This coordination enables more targeted delivery of TA and CB, ensuring that resources are aligned with country-specific priorities[54]. For instance, the Ethiopia Country Platform brings together international organizations, such as the World Bank and ADB, to coordinate efforts in agriculture and climate resilience according to Ethiopia's national priorities[55]. The FiCS Agricultural Coalition has created an Agricultural Public Development Banks Platform hosted by IFAD, which promotes exchanges and best practices to support green, inclusive, and sustainable finance.

5.11 INTERNATIONAL FINANCIAL ARCHITECTURE

KEY TAKEAWAYS

- ➜ The IFA comprises the global governance arrangements that ensure financial stability, facilitate trade and investment, and mobilize finance for the SDGs.
- ➜ More cooperation and better articulation of MDB and NDB activities could strengthen the response of the IFA. MDBs often play an active role to inform reform agendas with their concrete experience that can be helpful for NDBs.

The international financial architecture (IFA) stands at a crossroads, with the need to scale-up sustainable development finance. IFA reform has been the subject of numerous recent international summits, including at the G20, and it will be discussed at the Fourth International Conference on Financing for Development to be held in Spain in 2025.

IFA AND PDBs

The IFA refers to institutions, policies, rules and practices governing the global financial system[56]. While it is a reality with many dimensions, this section focusses on the parts of the architecture relevant to MDBs and NDBs, as illustrated in Figure 11. This includes:

- International financial institutions, such as multilateral development banks (MDBs) and the International Monetary Fund, providing financial and non-financial assistance worldwide;
- International organizations, such as the United Nations or the World Trade Organization, setting norms and implementing activities in some contexts[55];
- Global funds, sometimes called "vertical funds" focusing on specific areas, such as climate, biodiversity, education or health;
- Monitoring and standard-setting organizations, such as the Financial Stability Board, monitoring financial stability and setting international norms and guidelines;
- Official development assistance (ODA) from donor countries.

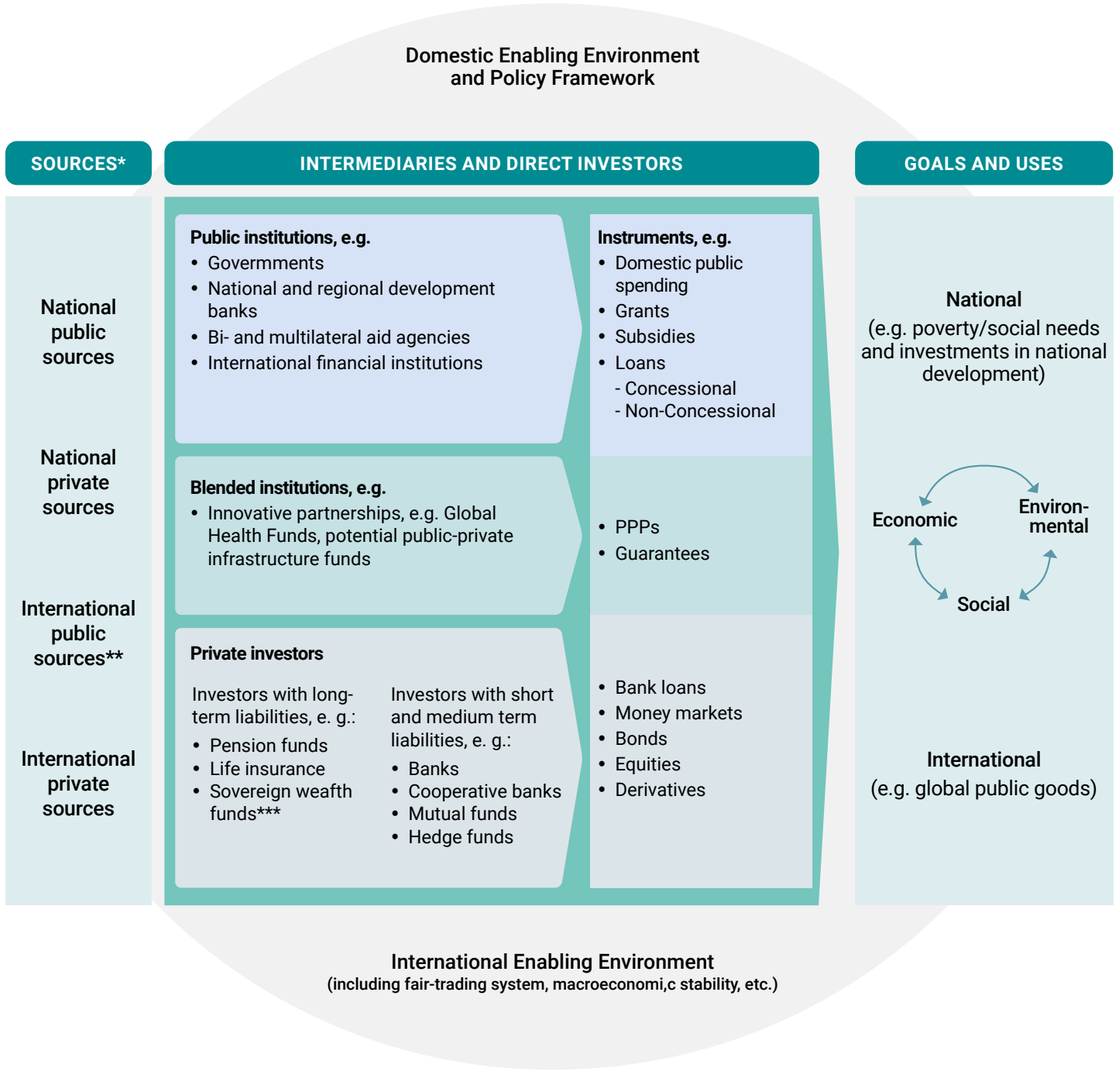
Most of these actors support financial stability, international trade and long-term investment for sustainable development[56]. Development financial institutions and funds, as well as donors and private actors, such as commercial banks, international investors, businesses and philanthropies, provide grants, loans and engage in investment activities, within the policy frameworks set by the norm-setters and elements of the architecture.

NDBs are a singular part of the IFA because of their role in financing development. In 2023, MDBs, NDBs, and SDBs represented USD 23 trillion in total assets, and accounted for around 10% of total global financing (see *section 1.02*). The largest NDBs are considered to be instrumental in channeling resources into investments, and are increasingly moving to align with the Sustainable Development Goals.

PDBs can also be effective instruments of policy reforms, particularly MDBs, helping change policies and practices in the locations where they invest which may also at times contribute to reduce funding needs, including by creating enabling environments for private investments.

This may be through explicit work on capacity building with governments and businesses, or more indirect influence through their work in re-shaping or creating new markets.

Figure 11: Flows of funds from international and national financing sources to sustainable development



** The size of boxes does not represent financing volumes/importance*
*** There can be cases where international public finance also directly supports the implementation of international objectives*
**** Sovereign wealth funds handle public money, but are managed like private investors*

Source: Report of the Intergovernmental Committee of Experts on Sustainable Development Financing - 2014

There has been a wave of debates regarding the necessary reform of the IFA, and the optimal approach to do so. Many advocates for reform have focused on change to the governance of institution within the IFA, which tend to reflect the post-World War II economic landscape. A renewed vision should better reflect the increased role of large emerging markets and developing countries in the global economy. Other reform areas include increasing overall financing volumes to accelerate structural economic transformations and enhancing the allocation of existing funds towards urgent priorities and to respond to shocks, while striving to mobilize at scale international and domestic private capital to reduce financing gaps.

There is indeed both a financing gap for achieving development outcomes, and a financial divide considering low and middle-income countries' ability to raise capital for investment at an acceptable cost.

Scaling-up of development cooperation[34] requires the use of efficient mechanisms within the IFA. NDBs, and more notably MDBs[57], have a role to play by scaling up long-term lending, which may require banks to have more capital or use more innovative financing structures to unlock higher levels of investment[34]. Several MDBs, notably the World Bank Group in 2018 and the African Development Bank Group in 2019, have bolstered their capital bases. Public investments, if well structured, can effectively mobilize private investment flows[56], utilizing blended finance to bring down the costs of private investments in emerging markets and developing economies[34] (see *section 5.08*).

MOBILIZING NDBs

In recent years, the addition of new MDBs has expanded the IFA. In 2014, Brazil, India, Russia, South Africa, and China signed an agreement to create the BRICS New Development Bank[57] and, two years later, China gave the impulse for the start of operations at the AIIB (see *section 2.08* and *appendix*)[58]. PDB coalitions such as the Finance in Common System (FiCS) were also created (see *section 5.04*), aiming to gain recognition for the role of PDBs in financing the transition.

More cooperation and better articulation of MDBs and NDBs activities could strengthen the response of the entire IFA to the needs of sustainable development investment (see *section 2.11*). Discussions are ongoing in the scope of the FiCS and proposals have been put forward for consideration. For example, MDBs often play an active role to inform reform agendas with their concrete experiences. They finance large and complex projects, some regional and cross-border projects, involving cooperation with other players. They can provide financial and technical support to national and subnational PDBs that have local knowledge (see *sections 5.01 & 5.10*).

BIBLIOGRAPHY

1. Marois T, Marodon, Stewart J. From Multi to National and Back Again: Realizing the SDG Potential of Public Development Banks. Published online 2023.
2. Wang H. New Multilateral Development Banks: Opportunities and Challenges for Global Governance. *Glob Policy*. 2017;8(1):113-118. doi:10.1111/1758-5899.12396
3. Bilal S. How European financial institutions can work better together for sustainable and green (co-)investment in times of COVID-19. Published online March 2021.
4. Le Roy A, Severino JM. Diversification and fragmentation of public financing for development. Ferdi. 2023. Accessed April 17, 2024. https://ferdi.fr/en/publications/diversification-and-fragmentation-of-public-financing-for-development-reducing-the-opacity-and-rationalising-the-fragmented-structure-of-development-financing
5. Erforth B. *The Future of European Development Banking: What Role and Place for the European Investment Bank?* German Development Institute; 2020. doi:10.23661/dp11.2020
6. Ji X. Promoting regional development bank complementarity: challenges to Asia and lessons from Europe. Asia Eur J. 2017;15(3):261-281. doi:10.1007/s10308-016-0465-y
7. World Bank. *Serving a Changing World: Report of the Taskforce on Multilateral Development Banks*. World Bank; 1996. https://documents1.worldbank.org/curated/en/492001493828548746/pdf/Serving-a-changing-world-report-of-the-Task-Force-on-Multilateral-Development-Banks.pdf
8. Team Europe Initiatives. https://international-partnerships.ec.europa.eu/policies/team-europe-initiatives_en#what-is-team-europe
9. Team Europe Initiative on manufacturing and access to vaccines, medicines and health technologies in Africa. European Commission. Accessed April 17, 2024. https://international-partnerships.ec.europa.eu/policies/team-europe-initiatives/team-europe-initiative-manufacturing-and-access-vaccines-medicines-and-health-technologies-africa_en
10. World Federation of Development Financing Institutions. About Us. World Federation of Development Financing Institutions. Accessed January 14, 2025. https://wfdfi.org/about-us/
11. ALIDE, IDFC. *The Role of Subnational Development Banks in Financing an Urban and Territorial Resilient Post-Covid Recovery*.; 2021. Accessed November 2, 2022. https://financeincommon.org/the-role-of-subnational-development-banks-in-financing-an-urban-and-territorial-resilient-post
12. Forum Caisse des Dépôts. Caisse des Dépôts et Consignation de Tunisie. nd. Accessed April 15, 2024. https://www.cdc.tn/fr/partenaires/forum-des-caisses-de-depot
13. Xu J, Marodon R, Ru X, Ren X, Wu X. What are public development banks and development financing institutions ? ——qualification criteria, stylized facts and development trends. *China Economic Quarterly International*. 2021;1(4):271-294. doi:10.1016/j.ceqi.2021.10.001
14. Haas A, Löffler G. *Case Studies of Subnational Financial Intermediaries in Africa*. ODI; 2023. www.odi.org/en/publications/case-studies-of-subnational financial-intermediaries-in-africa
15. Rousseau C. L'essaimage du modèle Caisse des Dépôts en Afrique. Groupe Caisse des Dépôts. 2021. Accessed May 7, 2024. https://www.caissedesdepots.fr/blog/article/lessaimage-du-modele-caisse-des-depots-en-afrique
16. Groupe Caisse des Dépôts. *Plaquette de Communication Du Forum Mondial Des Caisses Des Dépôts*. Forum Mondial des Caisses des Dépôts; 2020. Accessed April 25, 2024. https://www.caissedesdepots.fr/sites/default/files/2021-01/20%20063%20Plaquette%20Forum%20caisses-africaines-CDC2020%20A4.pdf
17. EDFI. https://edfi.eu/our-impact/
18. Finance in Common. https://financeincommon.org/
19. EDFIs make innovation inroads in 2023. EDFI. May 21, 2024. Accessed January 14, 2025. https://edfi.eu/edfis-make-innovation-inroads-in-2023/
20. Unvan YA, Moniruzzaman M. The export-import bank of China and Bangladesh: a comparative overview. *Pressacademia*. Published online January 31, 2023:1. doi:10.17261/Pressacademia.2023.1682
21. Export Credit Agency (ECA). CFI. https://corporatefinanceinstitute.com/resources/commercial-lending/export-credit-agency-eca/
22. Berne Union. Berne Union. https://www.berneunion.org/
23. Xu J, Marodon R, Ru X, Ren X, Wu X. What are public development banks and development financing institutions ? ——qualification criteria, stylized facts and development trends. *China Economic Quarterly International*. 2024;1(4):271-294. doi:10.1016/j.ceqi.2021.10.001
24. Note on ECAs and Asian ECAs. *Finance in Common*. file:///C:/Users/leana.lebeuf/AppData/Local/Microsoft/Windows/INetCache/Content.Outlook/PXV71AQM/Draft%20note%20on%20ECAs%20and%20Asian%20ECAs.pdf
25. The Export-Import Bank of China. http://english.eximbank.gov.cn/
26. China Exim Bank helps pave way for Belt and Road Initiative to blossom. Belt and road portal. 2023. https://eng.yidaiyilu.gov.cn/p/319899.html
27. Get Financed. Export-Import Bank of the United States. https://www.exim.gov/solutions/get-financing
28. Afreximbank accorde à Horizons Clininc Limited (Gambia) une facitilité de relais pour la construction et le tourisme médical. Afreximbank. May 30, 2024. https://www.afreximbank.com/fr/afreximbank-accorde-a-horizons-clinic-limited-gambia-une-facilite-de-relais-pour-la-construction-et-le-tourisme-medical-conmed-dun-montant-168-millions-de-dollars-us/
29. Afreximbank Annual Report 2023, https://www.afreximbank.com/afreximbank-delivers-exceptional-financial-results-in-2023-amidst-a-challenging-operating-environment-results-well-ahead-of-expectations/
30. Global network of export-import banks and development institutions meets in Geneva. UNCTAD. 2006. https://unctad.org/press-material/global-network-export-import-banks-and-development-finance-institutions-g-nexid
31. Afreximbank Announces $3-Billion Facility to Cushion Impact of COVID-19. Afreximbank. 2020. https://www.afreximbank.com/afreximbank-announces-3-billion-facility-to-cushion-impact-of-covid-19/
32. Klasen A, Wanjiru R, Henderson J, Phillips J. Export finance and the green transition. *Global Policy*. 2022;13(5):710-720. doi:10.1111/1758-5899.13121
33. Berne Union launches climate working group, aims to drive policy alignment for trade finance green transition. Trade Finance Global. 2024. https://www.tradefinanceglobal.com/posts/berne-union-launches-climate-working-group-aims-to-drive-policy-alignment-for-trade-finance-green-transition/
34. UNDESA. *Report of the Inter-Agency Task Force on Financing for Development 2024 Financing for Sustainable Development Report: Financing for Development at a Crossroads*. United Nations Research Institute for Social Development; 2024.
35. G20 (IFA Working Group). *Principles of MDBs' Strategy for Crowding-in Private Sector Finance for Growth and Sustainable Development*. G20; 2017.
36. Gregory N, Grubert M. *Private Capital Mobilisation: Concepts and Definitions*. Itad; 2024.
37. Mutambatse E, Schellekens P. *The Why and How of Blended Finance: Recommendations to Strengthen the Rationale for and Efficient Use of Concessional Resources in Development Finance Institutions' (DFI) Operations*. World Bank - International Finance Corporation; 2020. https://www.ifc.org/content/dam/ifc/doc/mgrt/202011-new-ifc-discussion-paper.pdf
38. Convergence Blended Finance. *State of Blended Finance 2024*. Convergence; 2024. Accessed May 28, 2024. https://www.convergence.finance/resource/state-of-blended-finance-2024/view
39. World Bank. *World Bank Group Approaches to Mobilize Private Capital for Development: An Independent Evaluation*. World Bank; 2021. doi:10.1596/35040
40. Gutierrez E, Kliatskova T. *National Development Financial Institutions: Trends, Crisis Response Activities, and Lessons Learned*. World Bank; 2021. Accessed October 21, 2022. https://openknowledge.worldbank.org/handle/10986/36467
41. Amin AL, Dimsdale T, Jaramillo M. *Designing Smart Green Finance Incentive Schemes*. E3G; 2014. Accessed October 27, 2022. https://www.e3g.org/news/designing-smart-green-finance-incentive-schemes2/
42. KFW. Code for a Dpi open source platform for matching and collaboration on cross borders projects. Published online 2024. https://github.com/JadenX-GmbH/dpi-platform?tab=readme-ov-file
43. OECD. Private Philanthropy for Development – Second Edition: Data for Action. Published online 2021.
44. OECD. Finance for sustainable development. Published online 2023. https://www.oecd.org/en/topics/finance-for-sustainable-development.html
45. OECD. Official development assistance. Published online 2023. https://www.oecd.org/en/topics/official-development-assistance-oda.html
46. Netto M, Gusmão Suchodolski S. Public Development Banks and Philanthropies: No Longer Strangers. Published online August 2023.
47. Sommet pour un Nouveau Pacte Financier Mondial. Contribution of private philanthropies to the summit for a new global financing pact. Published online 2023. https://pactedeparis.org/en.php
48. Convergence. Blended finance database. Published online 2024. https://www.convergence.finance/blended-finance
49. FICS. Public Development Banks Statement on Human Rights and Human Rights Based Approach. Published online October 2022.
50. FiCS. *Technical Assistance and Capacity Building for Public Development Banks (PDBs) Mapping and Qualitative Benchmarking*.; 2024. https://financeincommon.org/sites/default/files/2024-07/FiCS%20TA%20PDB%20mapping_report_final.pdf
51. How Technical Assistance for Public Development Banks can be Transformational in Achieving National Climate and Gender Objectives. ICR. 2023. https://www.icr-facility.eu/how-technical-assistance-for-public-development-banks-can-be-transformational-in-achieving-national-climate-and-gender-objectives/
52. *FICS Report 2023*.; 2023. https://financeincommon.org/sites/default/files/2023-11/ANNUAL%20REPORT%20-%20FINAL%20-%20Digital%20Version.pdf
53. *Final Communiqué 2023 FiCS Summit*.; 2023. https://financeincommon.org/sites/default/files/2023-09/FICS%202023%20Final%20Communiqu%C3%A9_2.pdf
54. Reyes L, Ahlgren V. Has the moment come to embrace country platforms? E3G. 2014. https://www.e3g.org/news/has-the-moment-come-to-embrace-country-platforms/
55. Kelly L, Papoulidis J. Country platforms in fragile states: A new path for development cooperation. IEG. 2022. https://ieg.worldbankgroup.org/blog/country-platforms-fragile-states-new-path-development-cooperation
56. UNCTAD. Chapter 4: Reforming the International Financial Architecture - The View from UNCTAD. In: *Trade And Development Report 2023: Growth, Debt and Climate: Realigning the Global Financial Architecture*. ; 2023. https://unctad.org/system/files/official-document/tdr2023ch4_en.pdf
57. Pedro Braga J, De Conti B, Magacho G. The New Development Bank (NDB) as a mission-oriented institution for just ecological transitions in the BRICS: A case study approach to sustainable infra-investment. Published online 2022.
58. Kaya A, Woo B. China and the Asian Infrastructure Investment Bank (AIIB): Chinese Influence Over Membership Shares? *Rev Int Organ*. 2022;17(4):781-813. doi:10.1007/s11558-021-09441-1
59. IFC. "How Blended Finance Works." Text/HTML. Accessed January 20, 2025. https://www.ifc.org/en/what-we-do/sector-expertise/blended-finance/how-blended-finance-works.
60. Mutambatse, Emelly, and Philip Schellekens. "The Why and How of Blended Finance: Recommendations to Strengthen the Rationale for and Efficient Use of Concessional Resources in Development Finance Institutions' (DFI) Operations." Washington: World Bank - International Finance Corporation, November 2020. https://www.ifc.org/content/dam/ifc/doc/mgrt/202011-new-ifc-discussion-paper.pdf.
61. Sierra-Escalante, Kruskaia, Ibrahim Abdel-Ati, Trevor Lewis, Xiao Wang, Alex Chirmiciu, James Brenton, Marika Levena, Matthieu Pegon, and Osman Buyukmutlu. "DFI Working Group on Blended Concessional Finance for Private Sector Projects," 2021. https://www.eib.org/attachments/documents/mdb-dfi-working-group-blended-concessional-finance-private-sector-joint-reoprt-dec-2021.pdf.

COMPENDIUM OF KEY TAKEAWAYS

1 KEY FEATURES

1.01 What Are Public Development Banks?

- There is no consensus on the definition of a PDB. This book refers to PDBs as a proxy to refer to public financial institutions created by governments with an explicit official mission to fulfill policy objectives.
- The PDB Database (2024) endorsed by the FiCS has used five criteria to identify a financial institutions as a PDB: being a stand-alone entity, using fund-re-flow-seeking financial instruments, having financial instruments as main product and service, exploiting funding sources that go beyond periodic budgetary transfers, having a proactive public policy mandate, and having the government steering the corporate strategy.
- There is a large diversity of development banks with a variety of ownership structures, policy mandates, geographical areas of intervention, license types, asset sizes and income levels of their owners.

1.02 PDBs at a Glance

- The Database (2024) definition endorsed by FiCS captures 536 institutions across 155 countries, collectively representing 10% of annual financing as a percentage of total global investment.
- They encompass a wide range of institutions, varying significantly in ownership, mandates, geographic focus, and asset size.
- NDBs operate in all continents, with 80% of assets concentrated in G20 nations.
- A significant portion of NDB assets is controlled by a few major players, notably in the U.S. and China.

1.03 How PDBs Can Help Deliver a Sustainable Future

- PDBs' effectiveness lies in their ability to provide financing to their clients in sectors or for categories of economic actors that generate high social, economic or environmental value.
- Effective MDBs and NDBs prioritize projects that generate positive outcomes, while assessing potential negative environmental or social impacts throughout the project life cycle.
- Efficient institutions adopt strong governance frameworks, advanced risk management strategies, effective human resource management, and robust accountability mechanisms.
- Efficiency also requires providing "additionality", meaning that they should finance projects that would not have been financed by the private sector alone.

1.04 A Short History of Development Banking

- The first development banks appeared in the 19th century to leverage funds for economic and social development.
- Development banks have faced several cycles of praise and criticism. After playing a central role in the economic recovery after World War II, their role was challenged in the 1970s as economists questioned government intervention in the economy.
- Crises reveal the role of PDBs: The financial crises of 1929 and 2008, and the Covid-19 pandemic of 2020-2021, highlighted the value of their countercyclical role and ability to withstand economic downturns.
- Their global mandate is changing today, as they are called upon to support job creation and transitions with a sustainable perspective.

1.05 The Development Paradox

- A central hypothesis of mainstream economic theory is that NDBs should be beneficial in the early stages of economic development, but that their marginal benefits diminish as local financial systems develop.
- Lifecycle theories, which state that NDBs should disappear as economies develop, are not supported by empirical evidence.
- Development banks persist globally, as they support investments and growth, tackle market failures and reinforce economies' resilience to crises.

1.06 Asset Size

- Most assets are concentrated within a few mega banks, while the vast majority of NDBs are micro and small organizations.
- Small NDBs might still represent an important financing vehicle relative to the size of their economies.
- There is an active debate on the need to increase the size of NDBs and a broad agreement in the G20 on the need for expanding MDB financing.

1.07 Counter-cyclicality

- As illustrated during the Covid-19 pandemic, MDBs and NDBs play a crucial role in times of crises as economic stabilizers in various regions, through a variety of relief measures and funding sources.
- One of the primary limitations to the counter-cyclical effectiveness of NDBs is the pace at which they can deploy their financing.
- To strengthen their counter-cyclical impact, NDBs should maintain sufficient capital during "regular" times to allow for an immediate response to crises.
- Besides speed and scale, MDBs and NDBs must target their counter-cyclical operations efficiently.

1.08 Economic Theory and Development Banks

- Economists have been debating for decades on the role of state-owned banks, including NDBs. Renewed interest is reigniting the debate.
- The correction of market failures has been identified as a main role for NDBs – by providing countercyclical lending, funding projects with social externalities, or supporting riskier projects and "innovative" ventures. Others, however, point to government failures such as political capture, that counter positive effects.
- Wide heterogeneity of performance underlines the importance of understanding PDB operational environments.
- Recent literature underlines their role beyond "market fixing": they can provide "mission-oriented" funding through the incubation of new markets.
- Empirical evidence is needed as most studies focus on public commercial banks.

2 THE UNIVERSE OF PUBLIC DEVELOPMENT BANKS

2.01 Ownership Structure

- PDBs are typically owned and controlled by national or sub-national governments, who steer corporate strategies to implement public policy objectives.
- About 10% of NDBs include private shareholders, but only two banks are fully privately owned. One MDB is also partially privately owned.
- The resources held by PDB shareholders may significantly affect their capacity to leverage funds on international markets.

2.02 Multilateral Development Banks

- MDBs are initiated, owned, and governed by several countries, mostly with a specific geographical scope.
- The G20 Independent Expert Group recognizes 17 of these MDBs.
- MDBs' total assets amount to USD 2,320 million (2023) and account for about 10% of PDBs' total assets.
- Beyond the prominent MDBs with extensive international activities, smaller MDBs exist at the sub-regional level. FiCS has identified 30 of such MDBs, that play a catalytic role to foster sustainable development at the local level.

2.03 National Development Banks

- NDBs are specialized financial institutions set up and steered by central governments or national public entities to fill financing gaps in new or strategic sectors.
- NDBs can have a significant economic weight, in both developed and developing economies.
- NDBs experience common challenges related to governance, transparency, ensuring additionality of their activities and measuring impact.
- NDBs increasingly support the green transition not only by providing financing but also by serving as "policy coordinators," fostering collaboration among diverse stakeholders at the national level.

2.04 Subnational Development Banks

- SDBs are created by local governments to serve the development priorities of specific territories.
- The number of SDBs has grown significantly throughout decades, but they still remain limited to a small number of countries.
- Due to their strategic position as financial intermediaries, SDBs channel funds to local levels and bridge financial gaps.
- SDBs are well placed to structure pipelines of local projects or investment portfolios given their local knowledge.

2.05 Policy Mandates

- For a government, granting a mandate to a PDB entails delegating the authority to finance economic, social, or environmental priorities on its behalf. Clearly outlining the scope of this mandate, as well as the government support necessary for its implementation, is crucial for ensuring its effective execution.
- PDB Boards must ensure that the activities of the bank are consistent with its mandate. Government representatives often sit at the Board.
- Mandates can be summarized into eight main categories but NDBs may serve one or multiple categories: flexible, MSMEs, rural and agricultural development, social housing, export promotion, infrastructure, local government, and private sector development. Most MDBs have a flexible mandate but some RDBs are focused on trade.
- Mandates are aligned with policy priorities and revised to address private market funding gaps for new policy priorities.

2.06 Africa

- The 100 African PDBs represent almost 20% of all PDBs worldwide, but hold 1.9% of total PDB assets.
- African institutions exhibit a strong overall performance with an average ROA of African PDBs at 1.37% against for example only 0.46% for Europe.
- Despite their small size, African institutions have proven their capacity to drive positive change, particularly during the COVID-19 pandemic and in their contribution to the SDGs.
- The AfDB is the largest PDB in Africa with a total asset reaching USD 53 billion in 2023.

2.07 Asia

- Several Asian NDBs, including Chinese policy banks, Korean and Japanese NDBs operate domestically and across borders.
- Indian and South East Asian NDBs focused on domestic development played an important role in India's industrialization. Their liberalization in the 1990s transformed the public financial landscape of India.
- There are two MDBs focused on Asia, the ADB and the AIIB, which collaborate in a variety of projects.

2.08 Europe

- With a total of 135 institutions, Europe hosts the second-largest number worldwide.
- The modern ecosystem of European PDBs really emerged after the Second World War when European countries faced major financing needs to rebuild prosperous economies. Since then, they have also supported regional integration.
- The European Investment Bank is the financial arm of the European Union. 90% of its financing is targeted for strategic sectors in EU Member States to accelerate the green transition, boost technological innovation, and support security, defense, and social infrastructure development.
- European PDBs are part of a broader group of actors that constitute the European Financial Architecture for Development (EFAD). Together, the EU and its member states are the world's leading donors.

2.09 Latin America and the Caribbean

- NDBs emerged in Latin American countries (LAC) in the 19th century. After facing various cycles of popularity and criticisms during the 20th century, they continue to be significant actors in the regional financial ecosystem.
- LAC MDBs as well as Brazilian and Mexican NDBs hold most of the assets in LAC. While both countries have several NDBs, assets are relatively concentrated in large institutions.
- The association ALIDE has identified key strategic areas to help its members embrace a forward-looking perspective.

2.10 Islamic PDBs

- In the past two decades, Islamic finance has grown rapidly in Muslim and non-Muslim countries as an ethical and responsible alternative of doing finance.
- Islamic finance is an economic development tool for Islamic low- and middle-income countries, which seek to diversify their sources of financing and reduce their dependence on traditional debt financing.
- Islamic finance provides a novel option to finance the SDGs and presents an additional source of funding to reach the 2030 Agenda.

2.11 PDBs as a system

- Describing PDBs as a system aims at characterizing the way their activities articulate within the development finance architecture.
- Country ownership is fundamental to achieving just transitions: the role of NDBs in a reformed system could be better acknowledged, in particular in their capacity to mobilize local financial ecosystems.
- A PDB system should emphasize cooperation of MDBs with national PDBs and rely on country-led strategies.
- According to FiCS, a stronger and more coordinated system of MDBs and NDBs could trigger a broader systemic shift in the global financial system towards sustainable development.

3 BUSINESS MODELS

3.01 Balancing Development Impact and Financial Sustainability

- Central to the business model is a balancing act: achieving development goals in line with their mandate and policy objectives, while remaining financially sustainable.
- PDBs are not for profit institutions and have access to low-cost long-term funding so they can fund projects with high development impact that commercial banks find unattractive due to low profitability or long tenor.
- The right balance requires PDBs to adapt their product offering to target clients and/or beneficiaries; adjust their pricing to achieve financial sustainability objectives; calibrate their risk appetite; and maximize the use of resources to make a large-scale impact.

3.02 Financial Instruments

- PDB portfolios can comprise debt finance, equity investment, as well as guarantees, credit insurance, and grants.
- Debt finance through loans is the most common financial instrument used. Loans can be provided directly (first tier) or through financial intermediaries (second tier). Only few NDBs operate exclusively in second tier, serving small businesses.
- Due to higher risks and intensive management, equity investments are not as widely utilized as loans.
- Higher risks and lack of incentives prevent PDBs from issuing more financial guarantees.

3.03 Clients and Beneficiaries

- Due to their importance in fostering economic growth and employment, 82% of PDBs primarily support SMEs.
- Half of the development banks focus on financial inclusion.
- Most MDBs support rural smallholders.
- International development financing is mostly provided by MDBs and NDBs from wealthier countries.
- About one-third of all PDBs provide financial support to local governments.

3.04 Liabilities

- PDBs rely more than commercial banks on equity to fund their assets.
- NDB liabilities comprise a variety of instruments including deposits, bonds and loans. NDBs rely less on deposits than commercial banks. They are active issuers of bonds on capital markets, particularly those in high- and middle-income countries.
- Government support reduces NDB cost of funding. Goverments also provide equity, subsidies, and often guarantee NDB debts.
- The appropriate funding structure of an NDB depends on its characteristics, including size, mandate, or area of operations.

3.05 Profitability

- Although profit maximization is not the main driver of development banks, an adequate level of profitability is needed to ensure financial sustainability.
- Most report profits albeit the level of profits before subsidies is typically not reported.
- Profitability can be achieved while meeting developmental goals.
- MDBs lending to private sector and NDBs operate in riskier sectors and segments. Sophisticated risk management capabilities and operational independence are essential for PDBs to properly price their risks.

3.06 Governance

- Good corporate governance is critical to the success of public development banks.
- As NDB owner, the State is responsible for setting a clear mandate and appointing a strong board of directors. The owner should provide the bank with operational autonomy.
- An effective board of directors is the core element of good governance. Most NDBs have boards dominated by public officials as opposed to independent board members.
- Good governance can protect NDBs from political and commercial interference in its operations and credit decisions.

3.07 Prudential Regulation and Supervision

- Prudential regulation and supervision aim to reduce the risk of failure of an institution.
- Most NDBs are prudentially regulated and supervised by the country financial sector supervisor.
- Adherence to prudential regulation enhances risks management practices and limits political influence.
- The effective supervision of state-owned banks (including NDBs) is often hampered by the legal frameworks under which they operate and insufficient supervisory independence.

3.08 Risk Management

- Development banks deal with a spectrum of financial and operational risks, which stem from both internal and external factors.
- Risk management is an essential component of banking activities, which relies on three key dimensions: identification, mitigation, and monitoring.
- Exposure limits, co-lending, financial hedges and insurance, sound credit origination, and credit monitoring procedures are important elements of sound risk management frameworks.
- Sophisticated risk management capabilities enable banks to properly assess, manage and price risks, and undertake riskier projects to meet developmental goals.

3.09 Monitoring & Evaluation (M&E)

- M&E supports PDB efficiency and effectiveness, and increases accountability.
- M&E frameworks comprise a variety of tools including project reports, key performance indicators, score cards, and different types of evaluations.
- M&E is an area of opportunity as many PDBs only track financial performance as opposed to impact, and impact evaluation results are often not disclosed.
- Standardization of KPIs would help aggregate and compare results, but tailoring M&E frameworks to local contexts is essential.
- Enhanced governance arrangements for M&E and increased capabilities could improve M&E systems.

3.10 Failing Development Banks

- Development banks should be operated with the same level of transparency, governance and financial strength that would be required if exposed to market conditions.
- PDBs should not assume risks beyond the scope of their mandate.
- PDBs must remain agile and adaptable to their evolving financial environment, as failure to do so can lead to severe consequences, including the risk of bankruptcy.

4 SUPPORTING THE SUSTAINABLE DEVELOPMENT GOALS

4.01 An International Roadmap

- Historically, PDBs have focused their efforts on economic growth. The increasing focus on balancing the three dimensions of sustainability - economic, social and environmental - marks a shift in their strategies.
- Achieving the SDGs is challenging, especially in low-income countries, and it requires organizational change and alignment with national sustainable development strategies.
- MDBs and many larger NDBs strive to identify investment opportunities that support the SDGs within their target segments and integrate SDG criteria and analytical tools into their project selection, project design and project evaluation processes.
- One possible analytical path for analyzing the linkages between PDBs and the SDGs is through the lens of the five "Ps": "People", "Planet", "Prosperity", "Peace" and "Partnerships".

4.02 Small and Medium Enterprises

- Supporting SMEs is a historical mandate.
- Despite widespread public support programs in Emerging Markets and Developing Economies, SMEs continue to face a sizeable financing gap.
- New research demonstrates that removing debt and equity financing constraints for SMEs can lead to significant gains in productivity, growth, job creation and resilience.

4.03 Infrastructure

- The annual infrastructure financing gap is estimated at USD 1,500 billion in Emerging Markets and Developing Economies (EMDEs).
- Nearly 2/3 of MDBs, RDBs and NDBs contribute to infrastructure financing. They can finance large scale infrastructure as they have the capacity to provide long-term financing and take risks the private sector is unwilling or unable to take.
- The growing impacts of climate change are pushing countries to develop sustainable and resilient infrastructure.
- Adaptation finance is crucial for infrastructure projects, especially in vulnerable regions, to mitigate climate risks, protect communities, and support resilient economic growth.

4.04 Clean and Renewable Energy

- To meet decarbonization and climate goals, renewable energy sources need to be scaled up at least six times.
- Achieving renewable energy targets requires an estimated USD 4.4 trillion annually in energy transition investments by 2030.
- Lower-income countries must strike a balance between financing energy transitions in parallel to their growth trajectory.
- PDBs can use several instruments to support countries in their transition to renewable energy. In addition to excluding fossil fuels from their portfolios, they can provide affordable long-term financing for RE and issue guarantees to reduce private sector risks.
- Since 2021, Just Energy Transition Partnerships (JETPs) are multilateral initiatives aimed at speeding up the transition away from fossil fuels.

4.05 Climate

- Development banks' climate financing has increased in recent years, in both volumes and share of global commitments, mainly driven by MDBs and large NDBs.
- Common approaches include phrasing out fossil fuel financing, adopting climate risk strategies, and mainstreaming climate change into strategies, operating modalities and activities.
- More efforts are needed, in particular to finance adaptation to the effects of climate change in vulnerable contexts, and to seek more transformational effects on climate action.
- It is key to systematically include commitments to the fight against climate change in PDB mandates and strategies.

4.06 Biodiversity

- Biodiversity has been a neglected issue: only 17% of NDBs have formally committed to biodiversity conservation.
- Half of the global GDP, amounting to USD 44 trillion, is moderately or highly reliant on nature and the services it offers.
- USD 85 billion is allocated to biodiversity projects each year, representing only 12% of the USD 700 billion needed to protect and sustainably use ecosystems.
- Various frameworks exist to align PDBs with biodiversity goals, including the IDFC's four-pillar approach on nature-related impacts or the WWF's dual approach to greening finance and financing green.

4.07 Gender

- NDBs have traditionally neglected social-related SDGs such as gender equality.
- When NDBs integrate gender equality as a cross-cutting issue in their operations, it generates positive outcomes and contributes to inclusive and sustainable development.
- The creation of the Finance in Common System (FiCS) marked a significant turning point, rallying participants for a declaration to actively commit to gender equality.
- MDBs and NDBs rely on various instruments to mainstream gender in their activities. They should systematically use metrics to measure the impact of their activities in reducing gender inequalities.

4.08 Health and Education

- Health and education are fundamental for long-term well-being and sustainable economic growth.
- Low- and Middle-Income countries struggle with sufficient funding for these sectors.
- Although 40% of PDBs offer solutions in these sectors, they represent comparably small shares of their loan portfolios.

4.09 Sustainable Cities

- Cities concentrate many issues that suffer from a lack of funding, such as public transport, water, waste collection, land use and energy efficiency.
- The negative effects of climate change call for more investments to build resilient urban infrastructure.
- Subnational development banks may have a comparative advantage in financing the sustainable development of cities, particularly where local governments have limited borrowing capacity.
- NDBs can involve local communities in urban planning and decision-making to improve acceptability and ownership.

4.10 Peace, Justice and Strong Institutions

- MDBs and NDBs have historically made important contributions to post-war reconstruction, such as the World Bank after World War II.
- Post-war interventions may include both physical infrastructure reconstruction and "softer" support to capacity (re-)building, technical assistance and advisory services, which may support institution building as well as conflict-sensitive programs to avoid doing harm and promote sustainable peaceful solutions.
- Violence and conflict may impact capacity to finance projects effectively, result in loss of investments and hinder the ability of development actors to stay engaged during crisis.
- MDBs do not take sides in conflicts, but they have identified ways to stay engaged through, for example, emergency loans, crisis response funds or working in regions not affected by conflict.

4.11 Indigenous Peoples

- Indigenous Peoples are critical partners for the future of a livable planet as they hold tenure rights and manage some of the most biodiverse territories. They suffer social and economic marginalization, exacerbated by climate change and its impacts on the ecosystems on which they depend.
- PDBs increasingly partner with Indigenous Peoples to enhance sustainability, evolving from the "do no harm" approach that focuses on minimizing negative effects of development projects on indigenous communities.
- Through financing and policy dialogue, MDBs and NDBs can serve as critical conduits to enable Indigenous Peoples in their front-line stewardship, while also supporting their own development aspirations.

4.12 Human Rights

- There is no single approach to integrating human rights into development policies and programming.
- Human Rights Based Approaches are one of the approaches that PDBs can follow to not harm but contribute to equitable and sustainable development.
- PDBs could incorporate HRBA or alternatively reflect human rights principles in their development work. This integration may be hampered by challenges such as the lack of resources, expertise and clear frameworks, or, in the cases of HRBA, limitations based on the differing bank mandates.
- Human Rights Impact Assessments, Grievance Accountability Mechanisms, and knowledge-sharing between PDBs can allow PDBs to identify and prevent adverse effects of their projects on human rights.

4.13 Identifying SDG Contributions Using Artificial Intelligence

- On average, strategic narratives mostly focus on SDG 8 "Decent Work and Economic Growth" and SDG 9 "Industry, Innovation and Infrastructure".
- Climate objectives are a growing concern for PDBs since the adoption of the Paris Agreement. However, biodiversity seems strongly overlooked.
- A positive relationship exists between the size of a PDB and the share of its narrative dedicated to environmental SDGs.
- Cross-cutting SDGs such as gender equality, reduced inequalities and the eradication of poverty concentrate a relatively lower share of a typical PDB's strategic narrative.

5 PARTNERSHIPS AND COOPERATION

5.01 Cooperation between PDBs

- Cooperation among banks includes inter-bank financing, co-financing of projects, as well as non-financial cooperation - including strategic and operational coordination, sharing of expertise or other exchanges.
- MDBs are working with NDBs but face a number of obstacles in stepping up financial cooperation with NDBs, including macroeconomic or market risks, the nature of partners' operations, the quality of governance or the diversity of operating models.
- There are opportunities for increased cooperation, which could be a priority to increase impact and contribute to SDG 17.

5.02 International Associations

- PDBs have developed associations and platforms to improve coordination, enhance operational efficiency, and address global challenges collectively.
- Regional networks focus on region-specific priorities and serve as essential hubs for sharing best practices and resources across Africa, Latin America, Asia, Europe and Islamic states.
- Global collaborative initiatives, such as the Finance in Common System (FiCS), have united institutions around sustainable development goals.
- Collaborative networks have positioned NDBs as influential voices in international finance discussions, empowering them to push for structural changes in the global financial system.

5.03 International Development Finance Club (IDFC)

- IDFC is a network of 26 development banks, 15 of which are accredited by the Green Climate Fund (GCF). It is supported by a dedicated Secretariat.
- IDFC is actively tracking and promoting climate finance and biodiversity initiatives among its member banks. Over the past years, there has been a significant increase in green finance commitments (USD 1.5 trillion in total green finance since 2015), but more needs to be done to align with the Global Biodiversity Framework.
- IDFC fosters cooperation and knowledge sharing among its members through various initiatives like working groups, the IDFC Facility, and the NUCA Programme. These efforts aim to enhance capacity building, facilitate project preparation, and mobilize private sector involvement in sustainable development.

5.04 Finance in Common System (FiCS)

- Finance in Common is a global movement that seeks to recognize and strengthen the role of development banks within the global financial system to promote sustainable development.
- In 2024, FiCS brings together more than 530 institutions in 155 countries, collectively managing around USD 23 trillion in assets. These institutions account for 10% of global investments, both public and private, underscoring their role in reorienting finance towards sustainability.
- FiCS activities span across various work streams including its Annual Summit, a Global Research Network, thematic coalitions, and policy dialogues, to help members and stakeholders align their financing and operations towards a common goal of sustainability.

5.05 Caisses des Dépôts in Africa

- "Caisses des dépôts" (CDCs) primarily rely on domestic savings, such as funds on regulated savings accounts or social security contributions.
- African CDCs have been created in French-speaking countries.
- CDCs are mobilizing, centralizing and securing domestic resources, including funds stored on regulated savings accounts, deposits from government institutions or regulated deposits of specific professions (e.g. notaries and lawyers).
- CDCs are long term countercyclical investors financing long-term national investments in strategic sectors, such as social housing, local governments, infrastructure and SMEs.

5.06 European Development Finance Institutions (EDFI)

- European DFIs are specialized in financing the private sector in EMDEs.
- Because of their clients and their increased use of equity financing, DFIs constitute a singular type of PDBs.
- EDFI members are mandated to leverage more private sector funds to accelerate the transition. DFI investments must meet three criteria: target customers that are excluded from other sources of finance, crowd-in private investors, and yield sustainable impacts.

5.07 EXIM Banks

- 10% of all PDBs, with total assets of USD 1.5 trillion in 2023, have an Exim Bank mandate; they play an active role in import-export financing.
- Exim banks have a broader mandate than export credit agencies (ECAs), including facilitating both exports and imports, while ECAs focus primarily on supporting domestic exports.
- The Berne Union is the leading global association for the export credit and investment insurance industry, insuring around USD 2.5 trillion of payment risk protection to banks - equivalent to 13% of world cross border trade for goods and services.
- Exim Banks are increasingly aligning their activities with climate goals, supporting the transition to a low-carbon economy through their financing and insurance products.

5.08 Mobilizing Private Capital

- MDBs, RDBs and NDBs are all in their own way positioned to crowd-in private investment to finance developmental projects.
- They can mobilize private funds through a variety of instruments, including blended finance. When creating favorable conditions that subsequently mobilize private capital, they act as catalyzers.
- In 2022, the MDBs and development finance institutions that are part of the MDB task force on mobilization reported more than USD 71 billion in private capital mobilized in low- and middle-income countries. About a third of the capital was mobilized for climate projects.
- Mobilization strategies, efficient use of subsidies and financial innovation enable PDBs to materialize their potential. Adoption of good practices and knowledge sharing among PDBs will support this process.

5.09 Philanthropy & Civil Society

- By working together, philanthropic organizations and development banks can contribute to blended finance solutions and make investments in emerging markets and developing economies more attractive to private capital.
- NGOs' work contributes to public scrutiny of banks' activities, in an effort to promote good governance and best practices.
- Promoting dialogue between MDBs, RDBs, NDBs, NGOs and philanthropies is relevant to the design and implementation of infrastructure at national and local levels. It leads to more inclusive, participatory, accountable and impactful development interventions.

5.10 Technical Assistance

- Technical assistance and capacity building provide non-financial support to improve the capabilities of beneficiaries, fostering catalytic change for sustainable development.
- Capacity building programs put institutions in a dual position as both recipients and providers: they should benefit from the experience of others, especially multilateral banks, but should also act as local promoters of sustainability for their local economic system.
- Platforms, including country platforms, could be an appropriate means to enhance international dialogue, expertise, technical assistance and knowledge sharing on sustainability issues.
- The ICR Facility, launched in 2019, offers tailored technical assistance to public development banks to improve their effectiveness and inclusivity, focusing on business environment reforms, strengthening PDBs, and knowledge management.

5.11 International Financial Architecture

- The IFA comprises the global governance arrangements that ensure financial stability, facilitate trade and investment, and mobilize finance for the SDGs.
- More cooperation and better articulation of MDB and NDB activities could strengthen the response of the IFA. MDBs often play an active role to inform reform agendas with their concrete experience that can be helpful for NDBs.

AREAS FOR FUTURE RESEARCH

AREAS FOR FUTURE RESEARCH

FOSTERING KNOWLEDGE ON PDBs

Under the impetus of Finance in Common, partnering with PDBs, academic institutions and think tanks a Global Research Network (GRN) was launched to address the gaps identified in the social, political and economic literature on PDBs. The network conducts investigation and research to analyze and document the role of NDBs in contributing to the achievement of the SDGs. More than 50 papers have already been published, However, there is still an ample research agenda.

KEY TAKEAWAYS

- ➜ Developing research capacities on NDBs is necessary to ensure that international debates are based on evidence and analyzes. NDBs themselves must play an active role in sustaining quality research. MDBs and RDBs are also key research and knowledge contributors.
- ➜ Researchers and think tanks from across the five continents have formed a Global Research Network on PDBs to fill the important knowledge gap on the social, political and economic contributions of PDBs to contribute to financing the transition.
- ➜ The consolidation of original and relevant data is a necessary condition to support more research on NDBs.
- ➜ Among the most pressing areas of research, the GRN specifically identified the issue of governance, the role of PDBs in the global international financial architecture, the recognition of the interlinkages among SDGs, and the priority to be given to adressing multi-dimensional vulnerabilities.

PDB ANALYTICS

1. **What are the current gaps in existing data?** Data collection efforts are crucial to support evidence-based recommendations and policy decisions that enhance development banks effectiveness. The first database of global coverage, referred to as the the PDB Database (2024), identifies MDBs and NDBs worldwide and provides basic information on their profile and business model. Further efforts are needed to deepen data production and data consolidation to produce more comprehensive, accurate, and accessible analysis. This will require strengthened cooperation between academics, regional associations of DFIs and development banks themselves.

2. **What is the most relevant typology to reflect the diversity of public financial institutions globally?** The very purpose of the FiCS PDB Database is to identify and categorize public financial institutions that play or could play a key role for the financing of the transition, on behalf and with the support of their governments. In reality, the universe of PFIs (Public Financial Institutions) is very diverse (see *section 1.01*). The heterogeneity of missions, mandates, exposure to market, level of support from governments, and sources of capital often lead to profound confusion. Public Commercial Banks are not included in the PDB Database.

   However, some of these banks fulfill a developmental mandate, either explicitly or implicitly, are are not solely profit driven. Identifying these institutions and incorporating them into the public sphere responsible for driving the transition would be a valuable advancement. Refining the typology would foster a more comprehensive understanding of the global financial system.

3. **How do NDBs' business models vary across regions or sectors?** The renewed attention on NDBs has reignited debates regarding their ability to deliver high social returns in a fiscally and financially responsible manner. Yet, academic literature analyzing NDBs' business models is scarce. Consolidated data would offer insights into how PDBs mobilize resources, manage assets and liabilities, and navigate the balance between profitability and developmental impacts. The collection and analyzis of financial data is necessary to develop a comprehensive understanding of their financing strategies, risk management practices, and capital allocation. Above all, transparent and robust extra-financial data would make it possible to measure the degree of maturity of banks to contribute to the SDGs.

4. **What is the interplay between governance structure, financial sustainability and impacts?** Governance issues should become a key aspect in studies focusing on NDBs to shed light on the benefits of good governance and identify best practices regarding the following issues: How are they held accountable to their mandates and stakeholders? To what extent do they operate independently of political influence, ensuring decisions are driven by economic and developmental priorities rather than political agendas? What governance mechanisms do they have in place to manage financial, operational, and reputational risks effectively? How is the board of directors composed, and do members possess the expertise needed to guide PDBs effectively in fulfilling both financial and developmental objectives?

SUSTAINABLE AND SOLIDARITY INVESTMENTS

5. **To what extent do NDBs' operations contribute to environmental and social objectives?** Many NDBs recognize that sustainability criteria should influence investment decisions. However, only few possess the resources and capabilities required to thoroughly evaluate projects' compliance and impact according to sustainability standards. Further research is needed to demonstrate environmental and social impacts of interventions and provide guidance on program design.

6. **How do strategies on climate and biodiversity objectives align throughout financial chains?** NDBs adopt different approaches to select and implement their projects in function of local contexts. While more cooperation between financial institutions is needed to support just and sustainable transitions, little is known about the degree of convergence of NDBs' investment strategies. Understanding compatibility of sustainability frameworks is critical in particular in the case of intermediated lending, for example for cooperation between MDBs and NDBs.

7. **To what extent do NDBs' investments target the most vulnerable actors and geographies?** Typical interventions are designed to correct market failures by channeling financial flows towards underserved areas, topics or actors. At the same time, correcting market failures may be challenging, incentivizing funding of other areas where success is more palpable. More empirical research is needed to assess the extent to which NDBs' funds effectively benefit the most vulnerable.

8. **How does exposure to climate and biodiversity risks affect the financial position and the portfolios of NDBs?** A growing stream of literature focuses on the interlinkages between climate change, biodiversity loss and financial instability. More than 40% of all PDB assets are dependent on vulnerable ecosystems, such as sectors relying on declining stocks of natural resources (fish, wood, minerals, unpolluted fresh water sources,..) reflecting long-term financial risks for NDBs portfolios and balance sheets. While NDBs invest in the real economy, little is known about their dependance on natural resources and the associated risks.

9. **How can national regulatory frameworks encourage NDBs to roll out green and sustainable investments?** As NDBs are present in 155 countries, they are subject to different legal systems, regulations and reporting frameworks. More research is needed to explore the effectiveness of regulatory measures, such as tax incentives, disclosure requirements, or green finance regulations, in stimulating public and private investments in sustainability initiatives.

10. **How can collaboration with NGOs and local communities be fostered to catalyze virtuous impacts?** NGOs are implementation partners for NDBs, and they contribute to public scrutiny, in an effort to promote good governance and best practices, preventing misallocation of funds and adverse impacts. Further research is needed to understand and foster synergies and cooperation for more inclusive, participatory, and accountable development interventions.

GLOBAL FINANCIAL ARCHITECTURE

11. **How can PDBs contribute to rethinking the role and societal responsibilities of financial institutions and services in the light of the challenges of our century?** For several decades, a "quiet revolution" has taken place, with many financial stakeholders promoting and progressively structuring sustainable finance landscapes, aided by the international community, PDBs and other partners. These efforts, however, have generally focused on instruments and norms rather than structures, mandates and visions, and it is widely acknowledged that they remain insufficient. How are the visions, expectations and narratives on the role of financial services evolving in the context of the climate, biodiversity and SDGs challenges? Is the nature of fiduciary responsibilities changing? What are the current obstacles (financial, legal, behavioral, societal, …) and levers (regulatory, fiscal, normative, incentives, …) to accelerate the SDG reorientation of financial systems, both globally and in countries, and what could and should be the role of PDBs in this regard?

12. **What - and who - is contributing to the climate, biodiversity and SDGs agendas, and what - and who - is not, and how can PDBs contribute?** A consistent, system-wide, characterization is essential to ensure the financial system and all its stakeholders, in particular PDBs, are working in the direction of sustainability, managing corresponding risks and fostering opportunities. Multiple initiatives are advancing in this area but remain fragmented. While there is a perception that only a fraction of global capital and financial flows can be considered as SDG-compatible, more analytical work is needed to thoroughly explore this huge mass of global investments and analyze how PDBs can best contribute : breakdown by major players in the financial system; connections with country contexts and priorities; qualification, according to common/cohesive standards to be stabilized, of their pro/neutral/opposite orientation to the SDGs, climate and biodiversity; role of PDBs.

13. **How to optimize MDBs, RDBS and NDBs role in the global financial architecture to achieve the SDGs?** As debates arise on the reform of the global financial architecture, it is necessary to get a comprehensive understanding of the interplay between all financial actors. A central issue is to identify the most relevant instruments, which allow vulnerable countries to access concessional and sustainable finance. To what extent do these institutions mobilize and channel funding to vulnerable countries and how could they be more efficient in transforming them into sustainable investments?

14. **How do NDBs contribute to global financial stability?** NDBs have an important countercyclical role, particularly in periods of crisis. Depending on the macroeconomic context, NDBs' quasi-fiscal interventions can generate frictions in the articulation with fiscal and monetary policies. Research could study the role of NDBs in relation to broader macroeconomic policies and the conditions under which their stabilization role and effectiveness are optimal.

15. **What role do NDBs play in debt financing, and how do they address potential debt-related challenges?** Following the Covid crisis, debt levels have skyrocketed across many developed and developing economies. A growing number of countries, especially in the Global South, are trapped in a climate-financial trap, combining climate and macro-financial vulnerabilities. In this context of tight fiscal space, how can NDBs continue to optimize their financing with respect to budgetary considerations?

16. **What is the rationale for stronger cooperation between MDBs, RDBS, NDBs and SDBs?** In a context where a growing number of financial actors point out the lack of bankable sustainable projects, cooperation dynamics and competition need to be better analyzed. More research is needed to understand the interplay between MDBs and NDBs and the mechanisms that could maximize impact in advancing the SDGs.

17. **What are the optimal schemes to reduce currency mismatch?** Foreign currency risks represent challenges for PDBs gettting lines of credit from abroad. In emerging and developing economies, the availability of hedging instruments to mitigate currency risks are limited or costly, making it difficult for PDBs and their local customers to manage their exposure effectively. Research is needed to identify effective solutions to facilitate local currency and maintaining sound risk and financial management.

PRIVATE SECTOR MOBILIZATION

18. **To what extent can financial innovation support the mobilization of private capital for sustainable development?** There is still a dearth of research about the most effective instruments to help mobilize private capital and de-risk deals. On the liability side, NDBs' capacity to leverage (domestic and international) private capital using green and sustainable bonds should be assessed. Research could evaluate strengths and weaknesses and overall adequacy of NDBs' financial products and identify areas of improvement, as done by the FiCS Financial Innovation Lab.

19. **What is the potential of blended finance in funding the SDGs?** While the estimated annual funding gap to achieve the SDGs stands at USD 4.2 trillion globally as of 2024, financing sustainable development is both a question of allocation and augmentation of resources. Public finance alone will not be able to fill this gap, given the limited fiscal space in many economies. In a context of high debt levels, partnering with private actors is instrumental in achieving the SDGs. However, little is known about the efficiency of blended finance and the conditions under which developmental impacts are maximized.

20. **To what extent do MDBs, RDBS, and NDBs play the role of knowledge banks?** Limited access to reliable data, information asymmetry, and opaque regulatory environments constitute important barriers to direct private financial flows towards development objectives. Further research could explore how NDBs can acquire and disseminate knowledge to other financial actors, such as private banks and capital markets, about best practices and opportunities in sustainable finance.

21. **What is the role of EXIM banks in optimizing the development outcomes of trade flows?** International trade may boost productivity, economic growth, and contribute to the diffusion of technologies. These institutions have the capacity to expand financial flows towards development objectives. Yet not all countries benefit equally from trade. Research should shed light on how EXIM banks can ensure targeted financing supporting the SDGs, evaluate effects and identify best practices.

HOW CAN NDBs ADDRESS RESEARCH?

NDBs themselves can play a pivotal role in supporting research by sharing data, expertise, and insights on their operations, challenges, and impacts. One of the reasons explaining the prolific research on BNDES in Brazil (more than 70 articles to this date), derives from the transparency of the bank itself, which provides detailed access to internal financial data, performance metrics, and project case studies. Regional associations such as ALIDE also play an active role in collecting and disseminating data.

By creating dedicated research teams internally, NDBs can engage in partnerships with academic institutions, think tanks, and international organizations. Some banks may also finance research as part of broader operational projects.

Eventually, NDBs' involvement in research initiatives like the Global Research Network on PDBs, helps bridging the gap between theoretical models and practical applications, leading to evidence-based recommendations that can improve their operational efficiency and policy effectiveness. This way, NDBs are not only subjects of study but they should become active facilitators of knowledge that benefits the broader development finance community. In this perspective, several NDBs following the example of MDBs, have appointed chief economists to disseminate research outcomes effectively within the international fora.

AGENCE FRANCAISE DE DEVELOPPEMENT (AFD) 180
ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)..... 182
BANCO NACIONAL DE DESENVOLVIMENTO ECONÔMICO E SOCIAL (BNDES)..... 184
BANCÓLDEX 186
BANQUE OUEST AFRICAINE DE DEVELOPPEMENT (BOAD)..... 188
CAISSE DES DÉPÔTS ET CONSIGNATIONS (FRANCE) 190
CHINA DEVELOPMENT BANK (CDB)..... 192
DEVELOPMENT BANK OF RWANDA (BRD) 194
DEVELOPMENT BANK OF SOUTHERN AFRICA (DBSA) 196
ISLAMIC DEVELOPMENT BANK (ISDB)..... 198
KREDITANSTALT FÜR WIEDERAUFBAU (KFW)..... 200
PDBs IN SMALL ISLAND DEVELOPING STATES 202
SUBNATIONAL PDBs IN INDIA..... 204
TÜRKIYE SINAI KALKINMA BANKASI (TSKB)..... 206

APPENDIX CASE STUDIES

CASE STUDIES

A selection of 14 PDBs, each representing an emblematic case study, is proposed in this Appendix. They cover all geographies and ownership structures. They capture the diversity and richness of the development banking ecosystem and business models and demonstrate PDBs' distinct yet complementary roles in addressing development challenges worldwide.

The featured institutions were selected for their distinctive characteristics, providing insights into how PDBs adapt to unique contexts, innovate in their approaches, and contribute to global development goals. The sections of this Appendix are structured around the same logic. First, they examine the history of each institution, highlighting the context in which they were created and how their business model evolved with their economic and political environment. Depending on their specific mandate or the geography in which they operate, RDBs and NDBs have their own singularity – which acts as a differentiating factor within the PDB ecosystem. Questioning how RDBs and NDBs balance their developmental objectives with financial sustainability, each case study delves into the operating model of the banks. Finally, each case study concludes with the transition vision of the the RDBs and NDBs, i.e. what concrete solutions it has implemented in the face of environmental crises and multidimensional inequalities.

Case studies in this chapter are presented in alphabetical order.

DATA SOURCES AND FINANCIAL INDICATORS

Each case study presents key figures, derived from the PDB Database (2024)[1]. These figures include:

- Date of establishment
- Headquarters
- Official mandate
- Number of employees
- Level of ownership
- Operational scope
- Total assets

In addition, three financial indicators from the PDBs Database are consistently applied across the Appendix:

- ROA – Return on Assets: Represents the proportion of Net Income to Total Assets
- ROE – Return on Equity: Represents the proportion of Net Income to Shareholder Equity
- Equity Ratio: Represents the proportion of Shareholder Equity to Total Assets

Unless specified otherwise, all financial indicators are from financial year 2023.

AGENCE FRANCAISE DE DEVELOPPEMENT (AFD)

THE FRENCH INTERNATIONAL DEVELOPMENT BANK

KEY TAKEAWAYS

Date of establishment: **1941**

Headquarters: **Paris, France**

Official mandate: **FLEX**

Number of employees: **4,379**

Level of ownership: **NDB**

Operational scope: **National & International**

Total assets: **EUR 70 billion**

Equity ratio: **13.8%**

ROA: **0.5%**

ROE: **3.8%**

The Agence Française de Développement (AFD) is France's financial arm for supporting and accelerating transitions in low- and middle-income countries and French overseas departments and territories. A multisectoral development bank that finances various types of infrastructure and projects in the areas of climate, biodiversity, peace, education, urban development, health and governance.

A SHORT HISTORY: TIMELESS TRANSFORMATION

AFD is the heir to a long history that began in London in 1941, when its ancestor, the Caisse Centrale de la France Libre, played the role of treasury and central bank for the Free French during WWII. Since then, it has undergone many transformations, from a post-colonial development fund to the international development bank it is today, operating in 160 countries. The AFD group also includes Proparco, a private sector financing subsidiary, and Expertise France, a public agency for technical assistance and international expertise. AFD currently supports 4,200 development projects across 150 countries, providing financing that enabled for instance in 2023, 15 million people to benefit from improved services, 2.2 million people to gain access to social protection, and 400,000 children (47% of them being girls) to attend primary school.

SINGULARITY: A GLOBAL SCOPE

The AFD group stands out through its multitasking capabilities on the international scene. In line with France's commitments in the areas of sustainable development and international solidarity, it provides grants to low- and middle-income countries, supporting poverty reduction objectives. AFD has also established specialized trust funds to address environmental challenges, encourage decentralized cooperation and NGOs, promote financial innovation and private expertise. It also offers long-term loans and other instruments; both sovereign or non-sovereign, with or without a grant element, to a variety of partners like governments, public utilities, public and private banks, local authorities, and more. Through its subsidiary Proparco, AFD provides a comprehensive toolbox to finance the private sector in low- and middle-income countries, boosting climate-, biodiversity- and SDG-aligned economic development in these regions.

In addition to financing, AFD delivers technical assistance across various sectors and policies. AFD's governance structure established by decree reflects its transparency and financial autonomy, with an independent board of directors that entails State representatives but also almost 2/3 of the seats held by civil society, members of Congress and staff.

Over the years, the French government committed AFD to widen its mission, and its annual financial commitments have multiplied by 10 between 2009 and 2024.

OPERATING MODEL: FINANCIAL SOLUTIONS

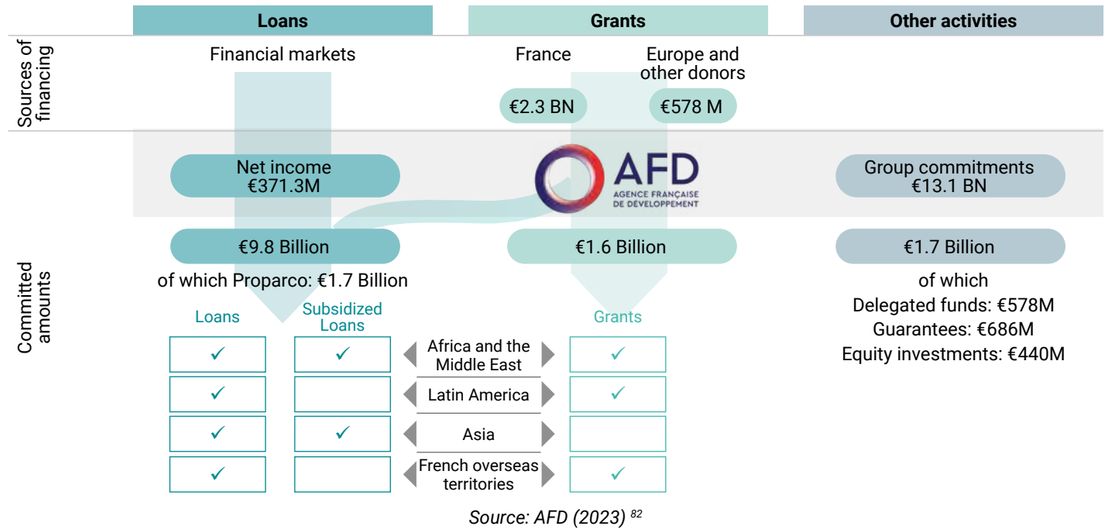
AFD's operating model is based on five characteristics:

1. **All financing is accounted for at real cost;** this means, for example, that all grant funds are passed on to the final beneficiaries without affecting AFD's net income; management fees are covered by the government.
2. Activities are financed mainly through **bond issues that mobilize private resources.**
3. **Direct loans to non-sovereign entities** (banks, businesses, local governments) without a government guarantee account for 40% of annual commitments.
4. Approximately 40% of the loans are unsubsidized and granted in conditions **close to the market**, although they benefit from long maturities (up to 25 years).
5. The non-sovereign or sovereign **pricing structure may include a grant element,** depending on the counterparty and country risk. Government budgets and/or other international concessional resources finance this grant element.

AFD is also involved in a wide range of non-financial activities. It provides technical assistance in several sectors, notably through its subsidiary Expertise France. The Agence Française de Développement actively participates in international events such as the various Conferences of the Parties (COP) on climate and biodiversity, or the Paris Pact for People and Planet (4P). AFD also hosts the secretariats of the IDFC (see *section 5.03*) and the Finance in Common System (see *section 5.04*), which are platforms for policy dialogue and partnerships. Finally, AFD also acts as a knowledge bank through its research department, which supports more than 100 research articles per year, and the Campus, a full-fledged executive direction dedicated to internal and external training. AFD also increasingly engages in education and citizen mobilization for development.

AFD primarily sources its funding from financial markets, with additional support from the French State, the EU, and other donors, as illustrated in Figure 1.

Figure 1: AFD Group's model for implementing France's development policy



Source: AFD (2023) [82]

TRANSITION VISION: A WORLD IN COMMON

AFD is committed to ensuring that the projects it finances are 100% aligned with the SDGs. This involves analyzing each of the Group's financings to ensure that they are not only consistent with long-term, low-carbon and resilient development, but also seek to maximize positive, transformative impacts. Indeed, through its financing, AFD aims to support project owners and partners in the transformation of their economies and to stimulate spillover effects for all stakeholders of society.

Integrating ESG (Environmental, Social and Governance) and SDG criteria into the decision-making process is a challenge. To this end, AFD has set up a "Sustainable Development Analysis and Opinion" mechanism. Its purpose is to detail how sustainable development is taken into account in projects. During the appraisal process, a dedicated AFD team analyzes the expected impact on each aspect of sustainable development: biodiversity, climate, social cohesion, gender, economic development and governance. This independent opinion on each project is then discussed with the project owner, the operational team and other stakeholders. Finally, it is incorporated in the reports sent to AFD's decision-making bodies. In parallel, AFD systematically assesses its exposure to climate risks, whether physical or related to the low-carbon transition.

ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)

RENEWED MULTILATERALISM

The Asian Infrastructure Investment Bank (AIIB) represents the latest example of a newly established MDB. No other MDB operating on a global scale has been created since 2016. AIIB is mainly owned by Emerging Markets and Developing Economies (EMDEs), with China playing a prominent role.

KEY TAKEAWAYS

Date of establishment:
2016

Headquarters:
Bejing, China

Official mandate:
INFRA

Number of employees:
600 (as of Nov 2024)

Level of ownership:
MDB

Operational scope:
International

Total assets:
USD 53.8 billion

Equity ratio:
43%

ROA:
0.4%

ROE:
0.9%

A SHORT HISTORY: BALANCING FINANCIAL GRAVITY

AIIB was established in 2016, with 57 founding Members (37 regional and 20 nonregional). The creation of AIIB took place during a period of transformation in the international system. Since 2007, the BRICS countries' share of global GDP has increased from 23% to 32%, while the G7's share has declined from 37% to 30%[3]. This raises questions about the potential role of the AIIB in balancing the center of gravity of the international financial architecture[4].

As of November 2024, AIIB has increased its membership to 110 approved Members (98 full Members and 12 prospective ones). Of these, 53 are regional Members (48 full Members and 5 prospective) and 57 are non-regional Members (50 full Members and 7 prospective). These Members collectively represent approximately 81% of the global population and 65% of global gross domestic product (GDP).

SINGULARITY: INFRASTRUCTURE CONNECTING ASIA

The financing gap for infrastructure investment in EMDEs is estimated at USD 1 trillion to 1.5 trillion annually[5]. For AIIB, contributing to fill this gap translates into investing in environmentally, financially and socially sustainable infrastructure, which requires new capital mobilization and new technologies to address climate change.

While the AIIB primarily focuses on operations in Asia, its global membership is based on an inclusive approach. Founding members enjoy additional votes originating from allocation of founding member shares and have drafted the Articles of Agreement, a document defining the operational foundations of the bank. The AIIB has also financed projects in non-regional members, provided that such investments support either global public goods or connectivity with Asia and should not exceed 15% of its approved financing. This has incentivized more countries to join during the establishment phase, including major western economic powers such as the United Kingdom and Germany, and enhanced the AIIB's financial credibility, international standing, and capital leveraging capacity [6].

OPERATING MODEL: JOINING THE COLLECTIVE EFFORT

AIIB introduced a "member categorization" system to ensure regionally led governance. Members are classified as regional or non-regional, with 76.14% of bank shares allocated to regional members[6]. This allows AIIB to maintain the regional character of an Asia-led institution.

As the newest MDB and the second largest by the number of its members after the World Bank, AIIB is relatively small in terms of assets when compared to other major MDBs. However, its financial weight is rapidly growing. AIIB's assets have grown since its founding from US 20 billion to USD 53.8 billion by December 2023[2]. Of note, in 2023, a total of USD 3.1 billion in private capital mobilization was reported, up from USD 2.6 billion in 2022. As a self-governing rule and treaty-based institution, AIIB holds an AAA credit rating and enjoys preferred creditor status.

Cooperation among MDBs has brought additional financing for development. For example, the World Bank and the Asian Development Bank (ADB) respectively signed a cofinancing agreement and a memorandum of understanding with the AIIB after its creation to jointly finance sustainable development projects in Asia[5].

TRANSITION VISION: CLIMATE ACTION PLAN (CAP)

Asia faces a serious climate challenge. Home to more than half the world's population and several fast-growing economies, the region contributed approximately 70% of global GDP growth in 2023 and is projected to contribute over 50% of total global GDP by 2030. The region is also home to four of the world's ten largest greenhouse gas (GHG) emitters and currently accounts for over 50% of global GHG emissions.

In 2023, AIIB unveiled its inaugural Climate Action Plan (CAP), setting a strategic framework to guide its climate-related initiatives through 2030. The CAP outlines a climate finance target of allocating at least 50% of all regular financing approvals to climate projects by 2025, in accordance with the methodology agreed upon by multilateral development banks (MDBs). Additionally, it commits to aligning all AIIB financing operations with the objectives of the Paris Agreement.

AIIB achieved its climate finance target for the first time in 2022. In 2023, 31 approved projects qualified for climate financing, representing 84% of the total number of approved regular financing projects.

The CAP clarifies the principles of AIIB climate financing and identifies its actions to guide investments. Sustainability remains a founding principle for the AIIB, and so does the promotion of regional cooperation to tackle developmental challenges in infrastructure. The CAP outlines four principles for infrastructure investment: (1) Client-based support, emphasizing collaborative support for client needs during transitions; (2) Impact and Value-added, ensuring a holistic, inclusive approach to mitigation, adaptation, nature, biodiversity, and gender equality; (3) Catalytic Action, mobilizing financing through partnerships; and (4) Innovation, promoting and deploying technological advancements to address climate challenges.

BANCO NACIONAL DE DESENVOLVIMENTO ECONÔMICO E SOCIAL (BNDES)

THE NATIONAL BANK FOR DEVELOPMENT

KEY TAKEAWAYS

Date of establishment: **1952**

Headquarters: **Brasilia and main office in Rio de Janeiro, Brazil**

Official mandate: **FLEX**

Number of employees (2024): **2,652**

Level of ownership: **National**

Operational scope: **National & Regional**

Total assets: **USD 151 340 million**

Equity/Assets ratio: **21%**

ROA: **3.2%**

ROE: **17.1%**

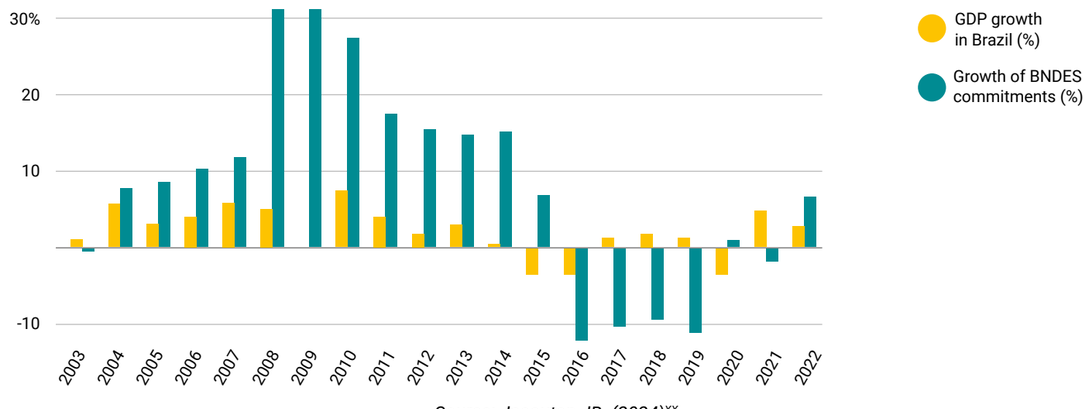
Development banks have been a significant force in Brazilian economic development since the mid-20th century, with the National Bank for Economic and Social Development (BNDES) leading the way for the past 71 years. As one of the world's largest and most important public development banks, BNDES has weathered the ups and downs of Brazil's economic cycles. Its recent history shows that while PDBs are instrumental in financing green and just transitions, they need to adapt to the ever-changing landscape of development challenges.

A SHORT HISTORY: DRIVING BRAZIL DEVELOPMENT

The history of BNDES is closely linked to Brazil's socio-economic context. Created in 1952 to foster the main economic objectives of a rapidly industrializing country, BNDES was one of the leading actors of Brazil´s take-off in the following decades, initially, focusing on infrastructure and industry investments. In the early 1980s, the difficulties of emergent markets (lower growth rates, inflation, and external debt) led to the adoption of an increasingly liberal turn in Latin America, prompting BNDES to support the privatization of state-owned companies while still supporting domestic industries, infrastructure and regional development. It was also the beginning of social programs at the Bank, primarily by grants.

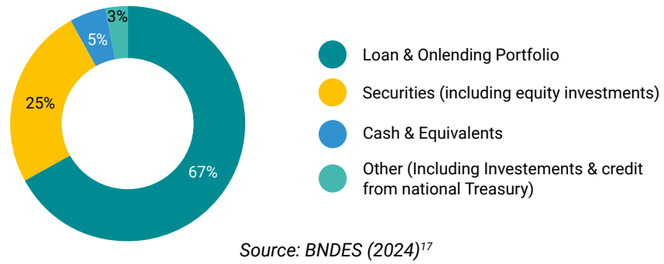
The early 2000s marked a new phase in the history of the bank: between 2003 and 2016, its total assets increased sixfold[16]. To cope with the consequences of the 2008 global financial crisis, the bank received loans and some capital from the National Treasury to fund counter-cyclical policies. Over the years, its volume of commitments increased by more than 25% per year. Over the crisis period, the banks disbursements/ GDP ratio reached a peak of 4.3% of GDP in 2010 (the historical average up to that date being 2%). Amid fiscal consolidation efforts, BNDES began repaying government loans and reduced its balance sheet. The Brazilian Congress approved a law in 2017 to align the rate of BNDES's loans with market rates. When the Covid crisis struck in 2020, BNDES contributed in counter-cyclical policies, mainly by supporting SMEs with guarantees using federal resources.

Figure 2: BNDES, particularly interventionist after the 2008 crisis



Source: Jacouton JB. (2024)[xx]

Figure 3: BNDES financial position by instruments (2023)



Source: BNDES (2024)[17]

SINGULARITY: FINANCING AT SCALE

Today, BNDES remains one of the largest NDBs in the world. It cumulated total assets of around USD 151 billion in 2023, equivalent to 7% of Brazil's gross domestic product[18]. BNDES has a generalist mandate "to support programs, projects, construction and services related to the country's economic and social development" (BNDES bylaws, art. 3).). It finances mainly long-term projects in all sectors of the economy, encompassing agriculture, industry, services and infrastructure, with a wide range of players, from small and medium enterprises to multinational companies. Its loans are denominated only in the domestic currency, and 80% of its loan rates are at market rates[19].

BNDES is recognized for its transparency as a Public Development Bank. It publishes quarterly comprehensive data on its operations, including a breakdown of commitments by sector and the level of non-performing loans[17]. This high degree of transparency has fostered research from numerous Brazilian academics. More than 70 research articles explore the added value of BNDES in the Brazilian economy. Several studies show the positive effects of BNDES' interventions, particularly through programs targeting small businesses and rural producers that tend to be credit constrained[20]. Companies financed by the Brazilian bank tend to invest more than others, and BNDES contributed to gross fixed capital formation in Brazil. Another stream of literature shows mixed results, as subsidized lending may just result in a transfer of wealth to the largest companies[21].

OPERATING MODEL

BNDES typically operates with loans and other instruments such as equity investments, guarantees, grants and export credit. Funding is available to companies of all sizes, national entities as well as individuals, either directly, indirectly (i.e., through accredited financial institutions) or in a mix between indirect and direct.

Reflecting research outcomes, BNDES conducted a comprehensive review of its operational policies and adopted new guidelines for the use of subsidized lending. These guidelines prioritize targeting specific sectors such as renewable energy and public transport while also supporting cross-cutting environmental objectives[23].

TRANSITION VISION

From the 1990s onwards, BNDES has seen its mission evolve to focus on environmental and social sustainability. In 2019, the bank adopted a new social and environmental responsibility policy that fully integrates extra-financial issues into its strategy and operations. In the same year, it was accredited by the Green Climate Fund for its commitment 'to encourage projects that contribute to reducing greenhouse gas emissions and mitigating the effects of climate change'.

BNDES is a pioneer and a leader in Green Finance, both in Brazil and worldwide. It holds an ESG Rating of A1+ from Moody's, placing it among the top 2% of institutions globally. BNDES was the first financial institution in Brazil to issue Green Bonds in the international and domestic markets. BNDES' green finance commitments increased by 37% between 2018 and 2022. While the literature agrees that the bank is a driving force in financing Brazil's energy transition, there are few studies of its impact on deforestation. In 2023, it launched the Restoration Arc initiative, an effort to restore by 2030, degraded or destroyed woodland amounting to 60,000 square km - an area nearly the size of Latvia - in the Amazon rainforest.

BANCÓLDEX

THE BUSINESS DEVELOPMENT BANK

Banco de Comercio Exterior de Colombia S.A. (Bancóldex) is the development bank for the support of micro small and medium enterprises (MSMEs) productivity, export enhancement, and promoting environmental sustainability. Bancóldex closed 2023 with a loan portfolio of USD 1.9 billion, of which 15% corresponds to a direct portfolio aimed at SMEs and benefiting more than 106 000 companies[4].

KEY TAKEAWAYS

Date of establishment:
1991

Headquarters:
Bogotá, Colombia

Official mandate:
MSME

Number of employees:
445

Level of ownership:
NDB

Operational scope:
National

Total assets:
USD 2.9 billion

Equity ratio:
25.8%

ROA:
0.42%

ROE:
3.07%

A SHORT HISTORY: EXPORT FOR GROWTH

Bancóldex was established as Colombia's export development bank in 1991[7], one of the three entities emerging from Colombia's export promotion agency Proexpo, founded in 1967[8]. The Bank is a domestic mixed-economy joint stock company linked to the Ministry of Commerce, Industry and Tourism. It is part of Bicentenario Group, an organization led by the Ministry of Finance to serve as the parent company of public entities, including public development banks (PDBs). Nowadays Bancóldex provides broader support to MSMEs. Through specific credit lines and partnerships with other financial institutions, it aims to strengthen the financing of micro-enterprises and their competitiveness. For example, in the "Fondo de Fondos" program, the Bank and other partners jointly invest in companies via private and entrepreneurial capital funds. Since its creation and as of 2024, the bank has provided more than USD 83 billion[9]. Over the same period, Bancóldex also invested USD 1.2 billion in capital for Colombian companies, facilitating their market consolidation within Colombia.

SINGULARITY: MSME SUPPORT AND DIGITAL SOLUTIONS

To strengthen the capabilities of entrepreneurs and promote their financial inclusion, Bancóldex has a portfolio of non-financial products that includes business training services and specialized technical assistance. One of the strategic actions developed by the Bank was the opening of "Conecta Digital", a new portfolio, aligned with the challenges of digital transformation, through which companies can access the Bank's portfolio of non-financial services. By the end of 2023, the platform counted 26 available courses, more than 10,000 registered users and more than 1,000 completed training courses.

As part of its innovation strategy, Bancóldex has consolidated products and channels, to increase its accessibility throughout the country. In 2022, Bancóldex launched "Neocrédito", a digital platform connecting formal and informal microentrepreneurs with financial partners such as fintechs to access microcredit[10].

OPERATING MODEL

Bancóldex offers a range of financial products tailored to the needs of MSMEs. This includes credit for investment, leasing for acquiring productive assets, leaseback arrangements to rent an asset sold to Bancóldex, short-term financing, guarantees to ensure contractual obligations, and currency hedging to manage exchange rate risks[11]. Concretely, Bancóldex operates four schemes:

1. **Direct credit operations aimed at SMEs,** where the entrepreneurs' credit risk is taken directly by Bancóldex. Fundamentally, it is oriented toward investment needs via leasing and liquidity needs.
2. **Document discounting operations,** mainly concentrated on invoice discounting, which Bancóldex operates directly to provide liquidity and time in the negotiations of MSMEs as sellers or buyers of products and services.
3. **Second-tier credit operations,** where a financial intermediary takes the entrepreneurs' credit risk, with mechanisms such as rediscount, package rediscount, and direct credit to financial intermediaries (operated primarily by microenterprise credit-oriented entities, fintech, and leasing).
4. **Non-financial services that intend to improve entrepreneurs' capabilities,** increase access to and improve appropriate use of financing, and contribute to the materialization of their growth projects. This portfolio includes (i) financial education and business training activities and programs, (ii) specialized technical assistance services, and (iii) connections with partners.

Bancóldex's support is accessible to its clients via financial intermediaries. Clients obtain access to credit thanks to an extensive network of entities operating with Bancóldex or by applying directly for the Bank's loans. The bank's network comprises banking establishments, financing companies, financial corporations, and financial cooperatives[12]. Colombian microenterprises, for instance, benefit from Bancóldex's network of bureaus delivering micro credit solutions across 610 municipalities in the country.

TRANSITION VISION: SUSTAINABILITY FOR GREEN GROWTH

As part of its corporate strategy, Bancóldex has established a sustainable framework to guide its activities at the corporate, strategic and operational levels. For the development of financial solutions, three guiding pillars are at the forefront of the strategy: green growth – with an emphasis on energy efficiency and transition; social welfare, and culture for sustainability. Bancóldex has a bond issuance and placement program, which in 2023 launched its third edition of social bonds in the public securities market for USD 600 000 million. With this issue, the Bank seeks to contribute to no poverty (SDG1), gender equality (SDG 5), decent work and economic growth (SDG 8), and reduced inequalities (SDG 10). In March 2024, Bancóldex has been accredited by the Green Climate Fund (GCF), enabling access to GCF's funding[13].

Bancóldex seeks to contribute to Colombia's leadership in international fora. In 2023, PDBs gathered for the fourth consecutive year at the Finance in Common Summit, hosted in Colombia by Bancóldex, the Inter-American Development Bank (IDB), the Development Bank of Latin America (CAF), and the Latin American association of development financing institutions (ALIDE)[14]. The discussions focused on SMEs and financial inclusion, climate and biodiversity, sustainable infrastructures, and PDBs' institutional agenda. Since 2023, Bancóldex assumes the vice-presidency of the Green Coalition of development banks for the Amazon and the co-presidency of the International Development Finance Club (5.03).

BANQUE OUEST AFRICAINE DE DEVELOPPEMENT (BOAD)

A REGIONAL BANK FOCUSED ON THE CHALLENGES OF THE FUTURE

KEY TAKEAWAYS

Date of establishment:
1973

Headquarters:
Lome, Togo

Official mandate:
FLEX

Number of employees:
338

Level of ownership:
MDB

Operational scope:
Regional

Total assets:
USD 5.5 billion

Equity ratio:
33%

ROA:
4%

ROE:
11%

The Banque Ouest Africaine de Développement (BOAD), or West African Development Bank, is a regional development financial institution, which promotes economic integration and development within the West African Economic and Monetary Union (WAEMU). BOAD's capital is primarily owned by WAEMU member states and the Central Bank of West African States (BCEAO), as well as non-regional shareholders including France, Germany, Belgium, China, and the African Development Bank (AfDB) and European Investment Bank (EIB). BOAD is headquartered in Lomé, Togo.

A SHORT HISTORY: DRIVING ECONOMIC INTEGRATION

BOAD was officially established in 1973, as the financial arm of the West African Monetary Union and became operational in 1976. Its original focus was on regional integration and public sector projects. As of 2023, it owns about USD 5.5 billion in assets[1].

In the 1990s, BOAD took on a broader development mandate. It expanded its mandate to include direct involvement in private-sector financing. This shift allowed the bank to help foster public-private partnerships (PPPs) and support the growth of small and medium-sized enterprises (SMEs) [25].

In the 2000s, BOAD financed major regional infrastructure projects, including roads, energy, water supply, and telecommunications[25]. The bank also introduced new financial products and services to better meet the needs of its member countries. These included issuing bonds in regional capital markets to raise funds for development projects and providing technical assistance to countries in the region.

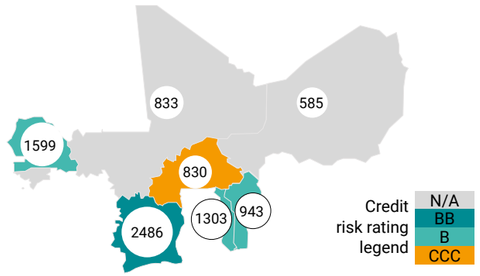
More recently, BOAD has increased its explicit focus on the Sustainable Development Goals (SDGs). The bank has incorporated environmental sustainability into its development projects, aligning its activities with global trends toward green financing and sustainable development. It has become more active in financing projects related to renewable energy and infrastructure development[26]. In this regard, the Green Climate Fund (GCF) accredited BOAD in 2016. Eventually, the bank exercised regional leadership during the COVID-19 pandemic, when it provided financial support to help WAEMU countries mitigate the economic impact of the crisis.

SINGULARITY: A CHALLENGING POLITICAL ENVIRONMENT

BOAD faces a challenging operating environment, including regional instability and creditworthiness concerns. Since their independence in the 1960s, the bank's member states suffered from more than 50 attempted coups with more than half of them effective[27]. The latest coups, which took place in the region between 2021 and 2023, illustrate regional instability. Moreover, the perceived risk and low creditworthiness of some member countries, is reflected in low sovereign ratings (see Figure 4). In this context it is challenging to mobilize funds on capital markets at affordable rates[28]. In April 2024, the Fitch Ratings agency announced the revision of BOAD's rating outlook from "stable" to "negative"[28].

To address these challenges, BOAD partners with international financial institutions and employs robust risk management practices[32]. The Bank has cultivated robust partnerships with major MDBs such as the African Development Bank, the World Bank, the European Investment Bank, and the Islamic Development Bank, members of the IDFC. It channels funds from these major international financial institutions to local development initiatives. The bank also benefits from adequate international financing access through its main shareholder, the BCEAO, and still enjoys "Preferred Creditor Status"[28] as an MDB.

Figure 4: BOAD member states' GDP per capita (2022, USD) and credit risk rating



Source: World Bank (2024)[29], Fitch (2024)[28]

OPERATING MODEL: COMPREHENSIVE FINANCIAL SOLUTIONS

BOAD raises funds through several channels. First, the Bank's primary source of funding comes from the capital subscriptions of its main shareholders (WAEMU member states, BCEAO, France and China)[30]. In complement, BOAD receives loans or grants from MDBs like the African Development Bank and the European Investment Bank or other international donors. It also issues bonds in international markets and develops public-private partnerships to scale up its financing[31].

The Bank operates through three main windows ("guichets")[10]. The Concessional Development and Cohesion Fund (FDC) supports public development projects, including infrastructure or rural development projects. The commercial Bank Office ("Guichet Banque") mainly finances private sector projects on market conditions, for example the construction of Blaise Diagne airport in Senegal in 2023. The Energy Development Fund (FDE), established under the community program "Regional Initiative for Sustainable Energy", provides financing for energy projects.

Between its inception in 1976 and 2022, BOAD committed more than XOF 8,200 billion (EUR 12.5 billion)[26], with 60% concessional and 40% on commercial terms[12]. The majority of the nearly 1,300 financed projects are concentrated in the following sectors: transportation, information and communication technology (ICT), energy, agriculture, and finance[26].

In line with its commitment to support sustainable and inclusive growth, BOAD became the first African PDB to issue a sustainable bond in 2021[32]. This 12-year EUR 750 million bond has been oversubscribed six times[32]. It exclusively finances projects with high social and environmental impact in priority sectors such as agriculture and education.

TRANSITION VISION: INTEGRATE WEST AFRICA

BOAD is a meaningful player in regional efforts to combat climate change. In its 2021-2025 Strategic plan[33], BOAD reinforces its commitment to sustainable growth through new initiatives, capital growth, and enhanced operational efficiency. Central to this plan is a focus on sustainability, evidenced by the creation of a Department for Innovation and Sustainable Development and the launch of the "ESG by Design Program" in September 2022. This initiative aims to integrate ESG criteria into all of BOAD's activities. The plan also calls for increasing capital to meet the growing development needs of the WAEMU and strengthening the human resources and digital management systems. Moreover, BOAD's support to the West African Alliance on carbon and climate finance markets in 2022 highlights its commitment to a sustainable future, by serving as an investor, coordinator, and technical assistant[33].

CAISSE DES DÉPÔTS ET CONSIGNATIONS (FRANCE)

The Caisse des Dépôts Group is neither a development bank nor a sovereign wealth fund. It is a specific public financial institution serving the general interest with a long-term focus, particularly in the social housing sector. Through its four specialized departments dedicated to local authorities, social policy, asset management and strategic investments, it is establishing itself as a promoter and financier of France's ecological transition.

KEY TAKEAWAYS

Date of establishment:
1816

Headquarters:
Paris, France

Official mandate:
FLEX

Number of employees:
353,000 (Incl. Postal Bank)

Level of ownership:
National

Operational scope:
National

Total assets:
USD 1,360 billion

Equity ratio:
6%

ROA:
0%

ROE:
7%

A SHORT HISTORY: STILL IN OPERATION

Created to manage private funds efficiently, Caisse des Dépôts et Consignations (CDC) supports thousands of businesses and social economy organizations. The CDC was created by law on 28 April 1816, just one year after the Battle of Waterloo, which put an end to the Napoleonic Empire. The financial situation in France at the time was such that confidence had to be restored. The CDC was originally created as a secure, guaranteed vehicle to manage private funds that the public authorities wished to channel into productive investment and away from budgetary needs.

Through its 16 regional offices, CDC has supported 10,000 industrial companies and 90,000 other structures, including MSMEs and social and solidarity economy organizations.

SINGULARITY: DIRECT GOVERNANCE BY THE PARLIAMENT

CDC's unique governance structure is characterized by the absence of shareholders and a Board of Directors controlled by Parliament. CDC has a special status that places it under the direct supervision and guarantee of the Parliament. It has no shareholders as such, although it has almost EUR 70 billion in equity. Its Supervisory Commission is chaired by a member of Parliament, its Director General is appointed by the President of the French Republic by decree of the Council of Ministers after a hearing before Parliament, and its accounts are audited by the Banque de France and approved by the Supervisory Commission. This balance of power makes the Bank a highly independent institution.

OPERATING MODEL: ALIGNING POLICY GOALS WITH COMMERCIAL STRATEGY

CDC has a mixed business model, with a very long-term focus on social and environmental issues and a profitability and market orientation for its activities in competition with the private sector. CDC's activities are mainly financed by its capital base, the recycling of savings accounts, the results of its subsidiaries and the issuance of bonds. The efficiency of the model lies in its ability to make an annual contribution to the State budget, which amounted to EUR 2.2 billion in 2023, while at the same time financing activities of general interest such as social housing.

CDC is a unique institution with at least three identities: a policy bank implementing social objectives, a sovereign fund and an investor in the commercial market. On the policy side, the "Banque Des Territoires" (Local Authorities) is CDC's specialized department for advising, lending and investing on behalf of local authorities throughout the country. The Social Policy Department is responsible for managing savings and pension funds, training, the disabled, the elderly and health. It also finances social housing with very long-term loans (up to 50 years).

On the commercial side, activities are mainly carried out through dedicated subsidiaries. CDC invests funds in the capital markets in all types of securities, shares, unlisted companies, real estate, forests, etc. It also participates directly in companies competing in the private market, such as Transdev in the transport sector; Egis in the engineering sector; "Compagnie des Alpes" in the tourism sector, and many others. Through its subsidiaries, it is also a provider of retail banking services (Group La Poste), a major provider of funds to local authorities (SFIL) and a strong support to export, start-up, and SME Financing (Bpifrance).

Figure 5: CDC's organizational chart

Source: CDC (2024)[34]

TRANSITION VISION: INVESTING FOR THE COMMON GOOD

CDC Group is a financial player in France for green transformation and social and territorial cohesion, with a perspective of economic development and sovereignty. The CDC Group has a clear strategy to contribute to France's path towards limiting global warming to 1.5°C. It has adopted a publicly available climate policy, a biodiversity policy and a climate change adaptation plan. It has developed a financial offer to support the adaptation of territories, considering the preservation of biodiversity and the rational use of resources. It finances the energy renovation of buildings, the transformation of production models, the sustainable management of resources or the development of decarbonized mobility and renewable energies.

In 2023, CDC displayed outstanding loans of more than EUR 200 billion, mainly for social housing and inner cities, with 50,000 social housing units to be renovated to improve their energy performance. In the context of its environmental perspectives, CDC gives high priority to the so-called "social cohesion" strategy, which reflects the "leave no one behind" principle of the SDGs.

The Caisse des Dépôts finances many projects throughout France and in overseas territories. In recent years, it has been a major player in financing inner cities, small and medium-sized towns and new industrial sites. CDC places great emphasis on supporting local authority projects and regional planning. This includes the construction and renovation of housing, the implementation of social policies in favor of the elderly, health, vocational training or digital transformation for all. One French citizen in six lives in affordable housing financed or built by CDC, and CDC pays 20% of French pensions.

CHINA DEVELOPMENT BANK (CDB)

THE WORLD'S LARGEST GENERAL-MANDATE PDB

KEY TAKEAWAYS

Date of establishment: **1994**

Headquarters: **Beijing, China**

Official mandate: **FLEX**

Number of employees: **10,000+**

Level of ownership: **NDB**

Operational scope: **National & International**

Total assets: **USD 2,628 billion**

Equity ratio: **9.0%**

ROA: **0.5%**

ROE: **5.2%**

China's emergence as a central actor in global development finance has reshaped the landscape of international economic cooperation. At the heart of this transformation lies the China Development Bank (CDB), one of China's three policy banks established in 1994 to advance national and international development priorities. By 2023, the CDB had become the world's largest general-mandate public development bank, boasting total assets of USD 2.63 trillion. What strategies underpin the CDB's operations? What priorities drive its vast investments, both domestically and internationally?

A SHORT HISTORY: FROM A NATIONAL TO AN INTERNATIONAL DEVELOPMENT BANK

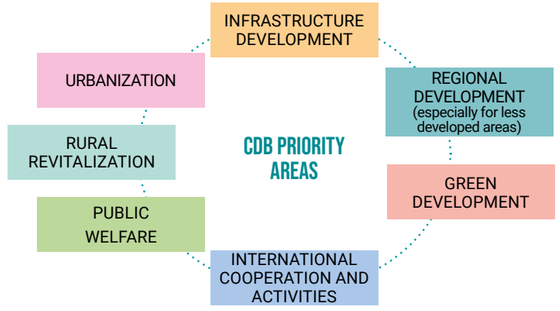
Established in 1994[35], CDB has evolved from a focus on domestic development to become a key player in international financing. This evolution reflected the Chinese government's drive to separate policy lending operations from the four state-owned commercial banks, then known as 'professional banks'[36]. In its early years, China's State Planning Commission assigned projects to CDB. However, by 1997, the bank was struggling with a high non-performing loan (NPL) ratio, with 47% of borrowers failing to repay loans[37]. CDB's performance then dramatically improved, with the NPL ratio dropping to less than 5% within four years and to 0.68% by 2010[38]. During this period, CDB expanded its lending activities within China, initiated international operations, and began financing infrastructure, manufacturing, minerals, and energy projects abroad[39]. The Chinese Ministry of Finance is the largest shareholder of CDB (36.5%), followed by the state-owned Central Huijin Investment Ltd. (35%), Buttonwood Investment Holding Co. Ltd. (a wholly owned subsidiary of China's State Administration of Foreign Exchange) (27%) and the National Council for Social Security Fund (1.6%). This government support has enabled CDB to key support industries in China's economic development, promote Chinese exports internationally, prioritize investment in poorer provinces in western and northwestern China, and expand the country's overseas development finance globally.

SINGULARITY: DIVERSE ENTITIES AND PRIORITY AREAS

CDB is committed to advancing China's economic transformation through various pillars. First, it harnesses economic resources toward seven priority areas shown in Figure 6[40]. Second, it has six majority-owned subsidiaries including the following:

The China-Africa Development Fund was initiated in 2007[41] following the Beijing Summit of the Forum on China-Africa Cooperation, to be a propeller of Chinese enterprises to willing to invest in Africa. While CDB is not an export-credit agency like the China Exim-Bank, it offers large volumes of credits that support Chinese firms' export and cross- border investments[42].

Figure 6: CDB Priority Areas



Source: CDB (2024)[40]

CDB Leasing is a subsidiary created in 2008 from the predecessor company Shenzhen Leasing, founded in 1984, after CDB became the majority shareholder of the company[43]. It offers customized financial leasing services, supporting tens of thousands of large, medium, small, and microbusinesses across various industries from aviation to urban infrastructure. CDB Capital was established in August 2009, with registered capital of RMB 80 billion, to focus on investment and asset[44].

The CDB Development Fund, incorporated in 2015[45], primarily supports construction projects in key sectors recognized for national importance by the government.

CDB Securities, created in 2010, specializes in financial advisory for brokerage and underwriting, asset management, equity investment consulting, and other activities related to securities market activities[46].

OPERATING MODEL: LONG-TERM FOCUS

With total assets amounting to USD 2,628 billion in 2023[7], CDB is a leading bond issuer in China, second only to the Ministry of Finance[37]. It primarily finances operations through bond issuance in the interbank market[47], supplemented by government and financial entity borrowing, as well as corporate deposits. Its sovereign-linked rating allows CDB to borrow at low rates.

The majority of CDB's loan portfolio consists of medium- to long-term, and quasi-market rate loans with maturities extending up to 15 years for large-scale infrastructure projects[37]. As of the end of 2023, it has supported over 1,300 Belt and Road Initiative (BRI) projects with total investments exceeding USD 280 billion. Domestically, it has funded infrastructure like electric grids and high-speed railways[37], while internationally supporting diverse projects, including hydroelectric plants in Argentina, airports in Colombia, railways in Europe, and major infrastructure in Southeast Asia and Africa.

CASE STUDY: CDB's PARTNERSHIPS IN AFRICA

China has assumed a prominent role in the African continent, leveraging the CDB to finance projects with stakeholders such as the African Development Bank and the African Export-Import Bank (Afreximbank). In August 2023, CDB signed a USD 400 million loan facility with Afreximbank to support SMEs involved in African trade and productive sectors[48]. The agreement targets SMEs involved in "extra- and intra-African trade and those engaged in the productive sectors in Afreximbank Member States"[48]. With a seven-year tenor, the facility offers medium- to long-term financing at affordable rates, benefiting SMEs directly or through local financial intermediaries[48].

TRANSITION VISION: SUSTAINABLE FINANCING OF INFRASTRUCTURE

CDB is a major financier of extractive and large infrastructure projects, which has attracted scrutiny, particularly on sustainability. Since the launch of China's "Going Out" strategy in 1999[13], Chinese authorities have encouraged local financial institutions to expand green project portfolios and improve ecological and social impact assessments. This was reinforced by President Xi Jinping's pledge to make the BRI greener. However, challenges persist, as evidenced by coal power plants financed in countries like Indonesia and Pakistan, raising concerns about the speed of transition to greener practices[49].

However, improving transparency and ensuring debt sustainability will be key to long-term success and addressing emerging challenges[50].

DEVELOPMENT BANK OF RWANDA (BRD)

SERVING NATIONAL DEVELOPMENT GOALS

The Development Bank of Rwanda (BRD) is a driver of the nation's development, combining strong governance, innovative financing, and a focus on sustainability. By aligning its operations with Rwanda's national goals, BRD supports economic growth, private sector expansion, and long-term development objectives.

KEY TAKEAWAYS

Date of establishment:
1967

Headquarters:
Kigali, Rwanda

Official mandate:
FLEX

Number of employees:
197

Level of ownership:
National

Operational scope:
National

Total assets:
USD 566.2 million

Equity ratio:
17.9%

ROA:
1.2%

ROE:
6.6%

A SHORT HISTORY: FROM PAST TO PRESENT

Founded in 1967, BRD is one of the long-lasting national development banks on the African continent. It is today indirectly owned by the Rwandan government, through the Agaciro Development fund (71.98%) and the Rwanda Social Security Board (26.4%)[51]. Since its foundation, BRD has been the exclusive provider of mid and long-term financing in Rwanda[51], aiding the growth of the private sector.

The challenges faced during the 1994 genocide led to significant changes in BRD's business model to support Rwanda's recovery from this tragic event. By 2014, more than 50% of BRD's non-performing loans (NPLs) were still linked to losses incurred during the genocide[52]. In 2005, the bank adopted a new strategic plan aiming to become profitable while remaining at the service of poverty reduction[52]. To achieve this, BRD diversified its offerings with a microfinance department in 2002, and a leasing unit in 2007. In 2011, it provided commercial bank, advisory and fund management services through the acquisition of Banque de l'Habitat du Rwanda (Housing Bank of Rwanda) and the BRD Development Fund[52]. Finally, BRD completed the sale of its commercial retail banking activities (representing 31% of its business) and aligned the bank's operations and management to its new expanded and refocused mandate as a pure PDB with the adoption of a new 2016-2020 strategy focused on providing financing to facilitate the achievement of the national development agenda and the SDGs.

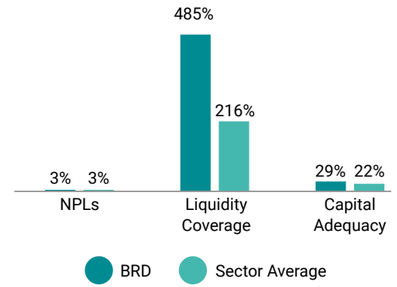
Building upon BRD's mandate, the new 2024-2028 strategy and business model highlight the Bank's strategic realignment to support the Government of Rwanda's development objectives, including the second National Strategy for Transformation (NST2) framework and Vision 2050 (see below). Additionally, the strategy aims to finance Rwanda's economic recovery from the Covid-19 pandemic, promote job creation, accelerate the green transition agenda, and contribute at least 6% to the national GDP by 2028.

SINGULARITY: AN AFRICAN FINANCIAL SUCCESS

Since 2016, BRD has been recognized by the Association of African Development Finance Institutions (AADFI) as one of the best performing PDBs in Africa[53]. AADFI, comprising over 80 member institutions, conducts annual peer reviews using the AADFI Prudential Standards, Guidelines, and Rating System (PSGRS), evaluating governance, finance, and operational standards[54]. BRD is among the fastest growing African PDBs[7], driven by key performance ratios above sector average (see Figure 7). BRD is also active and recognized on the international scene and an active member of the FiCS (see *section 5.04*).

The improvement of the economic environment in Rwanda certainly drove BRD's financial success[55]. Rwanda is ranked 2nd in Africa in the World Bank's annual "Ease of Doing Business" report and recorded annual growth rates exceeding 8% since 2018[55]. However, the presently green focus for the bank can also be credited to good corporate governance and management. Central to BRD's management is its independent Board of Directors which appoints the CEO and executive team, oversees administration, risk management, and audits[51], ensuring robust governance processes and high management standards. Rigorous governance is further evidenced by the reporting structure, where key roles such as Head of Internal Audit, Company Secretary and General Counsel, and Chief Risk Officer report directly to the Board[52]. In addition, despite being majority state-owned, in 2023, only four out of nine Board members were government representatives, reflecting a clear separation between ownership and supervision[55].

Figure 7: BRD's key performance ratios



Source: BRD (2023)[55]

OPERATING MODEL: FINANCIAL FLEXIBILITY

BRD's business model relies on a diverse funding base and a combination of financial, risk-sharing and technical assistance products for its clients. BRD works with international partners such as the World Bank, KfW, AFD, EIB and financial inclusion supporters[56]. In addition, the Bank has collaborated with relevant ministries and communities to develop sustainable community programs to improve the economic well-being of underserved individuals and families.

A shift occurred with the sale of BRD's commercial branch in 2014 and the adoption of the 2016-2020 strategic plan. The aim was to "refocus its lending to private sectors, communities, SMEs and respond better to priority development needs."[52] This focus was maintained in the 2018-2024 strategic plan enhancing export value chains, agriculture, energy, and housing to support Rwanda's transformation[57] through availing direct and on-lending finance to maintain a balanced loan portfolio.

In 2023, BRD's main financial products were debt and equity, with 57% of lending being directly distributed and 43% indirectly distributed through other financial institutions such as Micro Finance Institutions (MFIs) and commercial banks[51]. BRD also offers risk-sharing products such as guarantee funds, advisory services, and capacity-building programs, to ensure the successful implementation of projects in sectors including agriculture, education, housing and infrastructure, energy, export and manufacturing.

BRD issued Rwanda's first Sustainability-Linked Bond (SLB) in 2023, supported by the World Bank[58]. A SLB is a bond whose financial characteristics can vary based on whether the issuer meets predefined sustainability targets. Partially credit-enhanced by the World Bank, BRD's seven-year maturity SLB has secured RWF 30 billion (USD 23 million), representing the first tranche of its USD 120 million SLB issuance program.

TRANSITION VISION: ALIGNED WITH "RWANDA 2050"

Rwanda has designed a national development agenda, Vision 2050[59], to achieve middle-income status by 2035 and high-income status by 2050[60]. The country's long-term objectives are enshrined in the NST2, which applies to all public actors and is a particular driver for BRD who is dedicated to its implementation.

BRD has therefore aligned its 2024-2028 strategy and operations with the key pillars of the national development agenda, including financing housing to support human development and financing energy projects to support urbanization and agglomeration. In addition, initiatives in green finance and the digital economy are aligned with sustainable development goals, ensuring that Rwanda grows not only economically but also sustainably. The bank has also developed a set of explicit environmental and social safeguards, as well as special projects and impact measurements to progress its vision of sustainable banking.

DEVELOPMENT BANK OF SOUTHERN AFRICA (DBSA)

ADDRESSING CONTINENTAL DEVELOPMENT NEEDS

The Development Bank of Southern Africa (DBSA) aims to enhance infrastructure development in South Africa while also supporting broader regional development. In a country that is heavily dependent on coal for both its economic and energy needs, the DBSA is supporting South Africa's transition to sustainable development and green energy.

KEY TAKEAWAYS

Date of establishment:
1983

Headquarters:
Midrand, South Africa

Official mandate:
FLEX

Number of employees:
639

Level of ownership:
National

Operational scope:
Continental

Total assets (2023):
USD 6.12 billion

Equity ratio:
44%

ROA:
4.1%

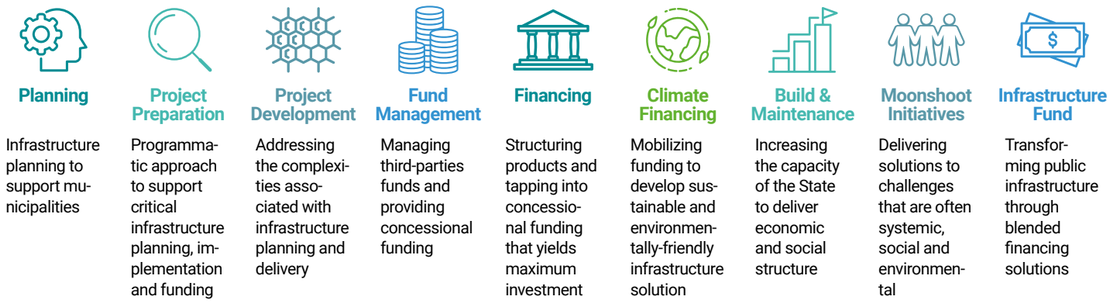
ROE:
9%

A SHORT HISTORY: TRANSFORMING SOUTH AFRICA

Founded in 1983, DBSA's journey reflects South Africa's transformation from apartheid to regional prominence. Initially, DBSA was established as a national policy instrument to facilitate infrastructure in the homelands of South Africa. By 1994, with the end of apartheid, the Bank witnessed a surge in its financial capacity, with assets reaching R4.6 billion (USD 259 million)[61]. DBSA shifted its focus to financing municipalities, which were granted legal status and financial autonomy under the 1996 Constitution.

In 2007, in support of the government and development partners, DBSA increased its lending to expand infrastructure provision, including to contribute to the success of the 2010 World Cup. The Bank financed landmark projects such as the Gautrain (rail network), stadium construction, airport expansion and road upgrades. In 2010, DBSA expanded its geographical scope and mandate across Southern Africa to include the promotion of regional economic integration and the financing of infrastructure projects at the regional level[62]. After 2010, DBSA expanded its role beyond financing to include technical assistance to enhance development impact and attract private sector investment in public infrastructure. Today, DBSA's support covers the entire infrastructure value chain, including project planning, preparation, and implementation, and a wide range of investment options (see Figure 8).

Figure 8: DBSA's products



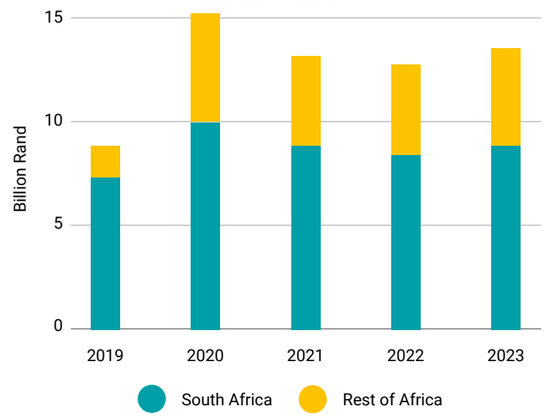
Source: DBSA (n.d.)[61]

SINGULARITY: REGIONAL REACH AND TAILORED SUPPORT TO MUNICIPALITIES

DBSA's unique position in the public development banking system stems from its commitment to national and regional development. While 70% of DBSA's assets are invested within South Africa, the Bank actively promotes regional economic integration throughout Southern Africa, particularly within the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the United Nations Economic Commission for Africa (UNECA) regions[61]. This mandate reflects a distinctive role that balances both national and regional socio-economic objectives[63].

In addition, a key aspect of DBSA's approach is to provide tailored support to South African municipalities of varying financial strength. With many of the country's 277 municipalities facing financial challenges, DBSA is engaged in initiatives to support both creditworthy and financially vulnerable municipalities. For more stable municipalities, it strengthens the municipal debt market by improving liquidity, creating new lending instruments, and supporting bond issuance to attract private investment. In contrast, DBSA provides grants and other non-lending instruments to support under-resourced municipalities, demonstrating its commitment to addressing inequality and promoting sustainable growth in diverse local contexts.

Figure 9: Total DBSA disbursements in South Africa and Rest of Africa



Source: DBSA (2024)[62]

OPERATING MODEL: FOCUSING ON INFRASTRUCTURE

DBSA's operating model is based on a comprehensive infrastructure support strategy that spans the entire project value chain. Beyond financing, the Bank provides technical assistance to enhance development impact and mobilize private sector participation, particularly in sectors underserved by traditional private institutions. DBSA focuses on sustainable infrastructure projects, with a notable impact through the Renewable Energy Independent Power Producer (IPP) Program, which has mobilized private investment finance, with 89 IPP projects currently operational. This initiative has generated 95,795 GWh of energy, enough to benefit more than 28.9 million households[64]. This integrated operating model, combining financial and technical support, reflects DBSA's commitment to promoting long-term socio-economic benefits and sustainable infrastructure development.

TRANSITION VISION: TOWARDS "JUST TRANSITION"

DBSA's portfolio is dominated by the energy and environment sector, which accounts for half of its total loan portfolio) and amounts to R49.3 billion (USD 2.8 billion) in 2023. DBSA aims to achieve net-zero carbon emissions by 2050 by helping clients to expand renewable energy generation, ensure energy security and improve the efficiency of the electricity transmission grid. Its "Just Transition" approach ensures that the transition to a low-carbon economy also addresses the social challenges of poverty, unemployment and inequality.

Additionally, DBSA is accredited by the Global Environment Facility and the Green Climate Fund, enabling access to concessional funding for low-carbon and climate-resilient projects in sub-Saharan Africa. In 2018, it enabled the Bank to establish a local climate finance facility of R2 billion (USD 110 million), thanks to a USD 55.6 million grant from the Green Climate Fund. The Bank itself contributed R650 million (USD 36 million), with the remainder provided by local institutions[65].

DBSA issued its first green bond in 2022, through a private placement with the French Development Agency (AFD). DBSA has developed frameworks for 'use-of-proceed' bonds, which consist of short-term financing tools dedicated to funding sustainable development initiatives.

ISLAMIC DEVELOPMENT BANK (ISDB)

ISLAMIC FINANCE FOR THE SDGs

KEY TAKEAWAYS

Date of establishment:
1974

Headquarters:
Jeddah, Saudi Arabia

Official mandate:
FLEX

Number of employees:
around 1,500

Level of ownership:
Multinational

Operational scope:
International

Total assets:
USD 39.3 billion

Equity ratio:
37%

ROA:
1.1%

ROE:
2.9%

IsDB stands out for innovation in leveraging Islamic financial instruments to achieve the Sustainable Development Goals (SDGs), with a focus on fostering South-South cooperation. As one of the largest issuers of Sukuk globally (see *section 2.10*), and the leading multilateral development bank in this domain, IsDB has raised over USD 8.8 billion through *Sukuk* issuances[67]. This includes pioneering instruments such as Green *Sukuk*, which promote sustainable, inclusive, and climate-resilient growth across its member countries and Muslim communities worldwide.

A SHORT HISTORY: SUPPORTING ISLAMIC COUNTRIES

The IsDB is a multilateral bank established in 1975 and its Articles of agreement were adopted the same year by 22 countries. The inaugural meeting of its Board of Governors was held in Riyadh (Saudi Arabia) in July 1975, and the IsDB commenced operation on 20 October 1975. The purpose of the IsDB is to foster the economic development and social progress of its 57 member countries and Muslim communities in non-member countries individually as well as jointly in accordance with the principles of *Shari'ah* (Islamic jurisprudence).

IsDB is composed of five entities that address several development objectives:

- Islamic Development Bank (IsDB),
- Islamic Development Bank Institute that aims to address and develop the Islamic financial services industry through innovative solutions,
- Islamic Corporation for the Development of the Private Sector (ICD)) to promote private sector growth,
- Islamic Corporation for Investment and Export Credit Insurance (ICIEC) with the objective to boost trade and investment transactions and investments flows,
- International Islamic Trade Finance Corporation (ITFC) to promote Islamic trade finance.

SINGULARITY: SHARIA COMPLIANCE PRINCIPLES

IsDB is unique among development banks in that its membership is composed exclusively of Emerging Markets and Developing Economies (EMDEs), which are members of the Organisation of Islamic Cooperation. As compared to MDBs, IsDB applies *Sharia* compliance principles in its economic and operational model. It means that its financing and investment operations should not include interest and speculation, focusing instead on profit and loss sharing based on a pro-rata basis. IsDB offers interest-free financing through leasing arrangements, equity participation, and concessional financing, which includes grants and interest-free loans. Its funding sources include member contributions, borrowing loans from international markets, *Murabaha* placements and Sukuk issuance (see *section 2.10* on instruments used by Islamic PDBs).

OPERATING MODEL: ALIGNED WITH COMMON MDB PRACTICES

While the Islamic Development Bank (IsDB) adheres to Islamic principles, its underlying economic and financial model aligns closely with that of other multilateral development banks (MDBs). The bank leverages its members' paid-up capital and issues Sharia-compliant financial instruments, primarily Sukuk, to mobilize resources for sustainable development projects. Although the nomenclature and specific characteristics of its assets and financial instruments may differ, the overall balance sheet structure of IsDB remains comparable to that of conventional MDBs.

As a leading global issuer of *Sukuk*, IsDB launched its first Green *Sukuk* in 2019 for EUR 1 billion, with a historically low "profit-rate" of 0.037%[68]. In 2024, the IsDB should issue the same amount (USD 1.1 billion) of Green *Sukuk*[69]. The Bank is prioritizing Green *Sukuks* to support low-carbon and resilient sustainable development, with a target of allocating 35% of its total financing commitments to climate change projects by 2025[70]. In 2019, 84% of IsDB's green projects were made of renewable energy and energy efficiency initiatives[71].

The Bank also claims to tailor its operations to the needs of its member countries, in a borrower-centric approach that incorporate the priority of its client/shareholder countries. Indeed, borrowing members also sit at the Board of Directors[1], ensuring that their perspectives are directly reflected in the Bank's decision-making process.

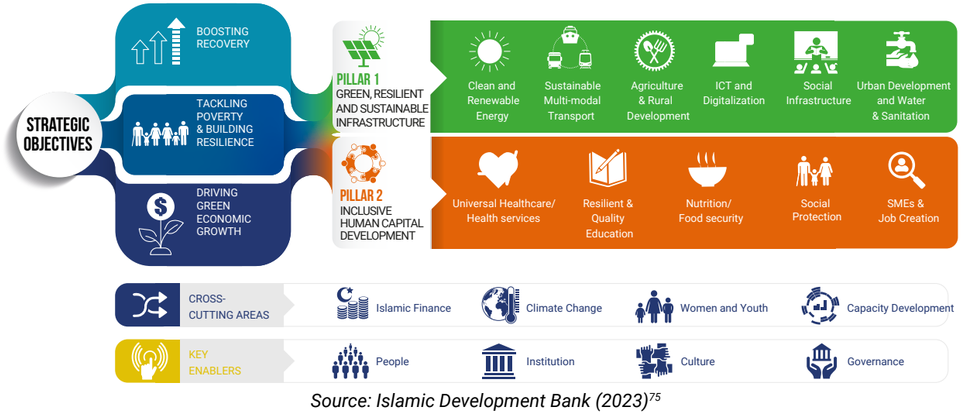
Although there are no AAA-rated sovereigns in its member countries, IsDB's prudent risk management[72] has enabled it to maintain its AAA rating for almost 20 years. One reason is probably that a large proportion of its assets (more than a third) is funded by its capital base. But it also shows, as in the case of other smaller multilateral regional banks, that the aggregation of countries in a single multilateral bank results in a better credit rating by mitigating concentration risk, which in turn offers members better borrowing terms.

TRANSITION VISION: BETTERING LIVES, DELIVERING IMPACT

The incorporation of Islamic principles to advance the SDGs is not a novelty for IsDB[70]. Indeed, one fundamental principle of Islamic teachings is the emphasis on preserving and protecting life (the principle of ﷺ *al-nafs*). Reflecting that commitment, IsDB has increased its investments in health, with initiatives such as the USD 2.3 billion COVID-19 response program[73] and cooperation with organizations such as the International Federation of Red Cross and Red Crescent Societies as well as the Gates Foundation. In line with IsDB's strategic framework (see Figure 10), the bank's approach is organized around three main objectives: Boosting Recovery, Tackling Poverty & Building Resilience, and Driving Green Economic Growth. These objectives are supported by two pillars: Green, Resilient, and Sustainable Infrastructure, and Inclusive Human Capital Development[74]. This framework enables IsDB to channel Islamic finance instruments towards SDG-related initiatives, including projects in clean energy, sustainable infrastructure, healthcare, and education. It is noteworthy that the IsDB has appointed a Senior Advisor to the President and Special Envoy on SDGs.

IsDB has been a major supporter of education in its member countries, with investments of more than USD 3.8 billion, second only to World Bank Group's total investments in these countries[73]. In 2022, the bank developed a Results-Based Management Framework (RBMF) to monitor and track the bank's progress towards achieving the SDGs. It reports a global progress of 62.2% in 2022[70]. The biggest challenge is in achieving SDG 9 (Industry, Innovation, and Infrastructure), which is a priority for more than 55% of its member countries. In addition, SDG 5 (Gender Equality) emerges as another challenge, highlighting the need to address gender disparities and increase women's empowerment. To overcome this, IsDB has identified key actions, such as increasing access to finance, education, and health programs, including maternal health, to empower women and girls[75]. The Bank's Women's Empowerment Policy aims to reduce barriers to women's economic and social development, thereby contributing to sustainable development and poverty reduction[70].

Figure 10: Strategic objectives, pillars, cross-cutting areas and enablers



Source: Islamic Development Bank (2023)[75]

KREDITANSTALT FÜR WIEDERAUFBAU (KfW)

GERMANY'S DEVELOPMENT POWERHOUSE

Germany's KfW has been instrumental in the reconstruction of post-war Germany and in the aftermath of German reunification. Today, KfW oversees the allocation of German public investment, both in domestic and international contexts, with a core emphasis on sustainability.

KEY TAKEAWAYS

Date of establishment:
1948

Headquarters:
Frankfurt am Main, Germany

Official mandate:
FLEX

Number of employees:
7984

Level of ownership:
NDB

Operational scope:
National & International

Total assets:
USD 595.2 billion

Equity ratio:
6.55%

ROA:
0.2%

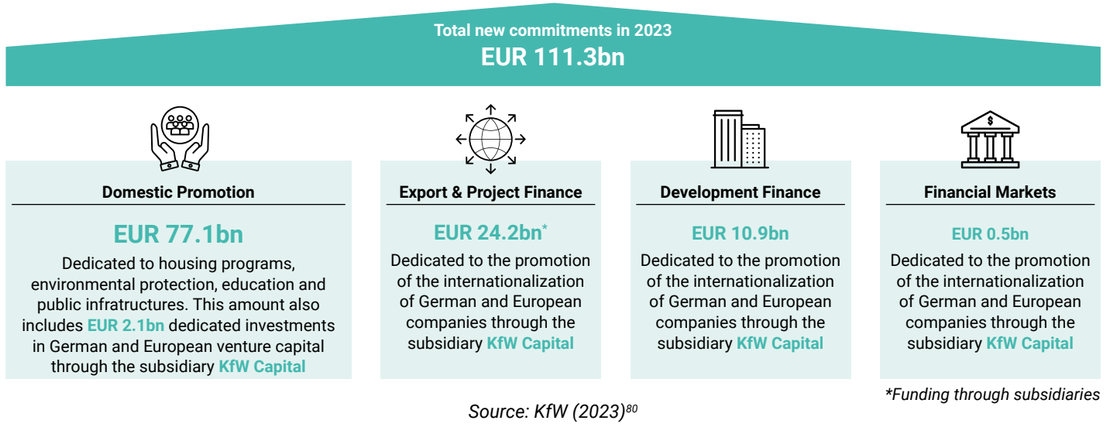
ROE:
3.7%

A SHORT HISTORY: FROM RECONSTRUCTION TO REUNIFICATION

KfW, Germany's "Credit Company for Reconstruction" (Kreditanstalt für Wiederaufbau) was established in 1948[77] with the goal of financing the reconstruction of post-war Germany. By the second half of the 1950s[78] it incorporated new programs for small and medium sized enterprises. In the 1960's, its mandate expanded to include international cooperation. Today, its mission revolves around promoting economic, social, and ecological development both within Germany and across Emerging Markets and Developing Economies (EMDEs) worldwide. KfW is a typical "promotional bank", meaning an instrument of the German government and federal states to implement the financial components of their public policies. It has become the second-largest bank in Germany.

KfW Group and its three subsidiaries (DEG, IPEX, Capital) serve both private and public sectors, nationally and internationally. The group's significance in many EMDEs builds on outreach and collaboration. KfW has more than 80 offices worldwide[79], often shared with Germany's technical international cooperation agency GIZ. They work closely together and KfW co-funds projects with other development banks, notably the World Bank, the European Investment Bank, AFD or other regional development banks. KfW is one of the founding members of the International Development Finance Club (IDFC), which aims at promoting dialogue among influential PDBs for sustainable financing.

Figure 11: Promotional Business Volume of KfW Group in 2023



Source: KfW (2023)[80]

NB: The difference between total new commitments and the sum of commitments for each activity is due to adjustments for export and project financing refinanced through KfW program loans.

SINGULARITY: SERVING SUSTAINABILITY IN GERMANY AND BEYOND

KfW is characterized by its governmental steering and commitment to sustainability. It functions under the strong directive and support of the German government. As an example, KfW was instrumental to finance the development of East Germany after reunification. It is also an instrument of the German government for executing its distinct clean energy strategy and preference for a green portfolio. From 2015 to the end of 2023, KfW developed a green bond portfolio under a mandate by the Federal Ministry for the Environment, Nature Conservation, Nuclear Safety, and Consumer Protection (BMUV). The portfolio aims to finance environmental protection and climate action measures through a capital market-based instrument and to support the development of the green bond market. The mandate requires compliance with certain criteria, including the prohibition of the allocation of funds for initiatives aimed at commercial electricity generation from nuclear energy or coal. In 2023, KfW issued 22 green bonds with a volume of EUR 12.9 billion[81].

KfW is at the core of one of Europe's major energy shifts, Germany's "Energy Turnaround" (Energiewende). This initiative dates back to 2011, setting the goal of phasing out nuclear, coal and gas power plants with 60% of Germany's gross final energy consumption made of renewable sources by 2050[78]. This effort was largely supported by a robust institutional and public policy framework, such as the Renewable Energy Act (2000)[78], which mandates grid operators to prioritize renewable sources, and the renewable energy law, which includes strong policy measures such as feed-in tariffs (FITs) that make renewable energy investments commercially viable. This regulatory framework requires KfW to report directly to the German Minister of Finance and the Minister for Economic Affairs and Energy. KfW no longer finances coal projects and has reduced funding for gas projects.

OPERATING MODEL: LEVERAGING MARKETS

From relying on recovery program financing to generating cashflows, KfW has built a solid business model over the years. The initial funding of the bank was sourced from the Marshall Plan's resources provided by the U.S. government. Over time, additional increases in capital have primarily come from KfW's own profits[82], demonstrating its financial sustainability. Today, KfW's economic model is underpinned by its ability to leverage international capital markets through the issuance of bonds to both institutional and retail investors. With backing from the German government, KfW enjoys top-tier credit ratings (AAA), offering advantageous terms, which in turn helps securing low-cost funds for its lending activities.

KfW's funding volume is substantial, bolstered by government financing[82]. In 2023, KFW's new commitments reached EUR 111.3 billion, of which EUR 77.1 billion were dedicated to domestic business and 35.1 to international activities (see figure 11)[80]. More than 90% of the bank's resources are raised on capital markets, and the bank supplements its funds with budgetary support from the German government[82]. The volume of funding provided by the bank increases the risk of crowding-out private investments, highlighting the importance of appropriate M&E frameworks able to measure the full additionality of investments[78].

KfW Development Bank mostly uses straightforward financial instruments instead of complex financial engineering. Primary instruments include loans (about 70%) and grants (around 25%)[82], with a small portion of equity, guarantees, and mezzanine finance. Despite this orientation toward more traditional means, the bank increasingly contributes to promoting green finance in emerging markets and developing economies[82], which not only attracts investments from investors but also strengthens the bank's role in global efforts toward sustainable development.

TRANSITION VISION: GREENING GERMANY

KfW has announced plans to continue its promotional efforts in 2024, focusing on areas such as construction, SMEs, and climate change[83]. On behalf of the German Federal Government, increased backing is planned for leasing, start-up promotion, and key technologies for the energy transition. KfW is committed to protecting the environment and enhancing living conditions in countries most affected by climate change and wealth inequality. For the 2024 financial year, KfW aims to raise EUR 90 to 95 billion from international capital markets for refinancing its promotional activities, with EUR 10 to 13 billion expected to come from green bonds[83].

PDBs IN SMALL ISLAND DEVELOPING STATES

NAVIGATING UNIQUE CHALLENGES

The Small Island Developing States (SIDS) gather 39 member States. Due to their size, their geographical location and their high vulnerability to natural and climatic hazards, the SIDS face unique and complex challenges that hinder their development. A majority of SIDS have established public development banks to support their economy and foster investments in strategic sectors such as education, agriculture, tourism and climate adaptation.

KEY TAKEAWAYS

Date of establishment (SIDS): **1992**

Headquarters: **Pacific, Atlantic & India Oceans**

Official mandate: **FLEX**

Population of SIDS: **65 million**

Level of ownership: **National & Multinational**

Operational scope: **National & Regional**

Aggregated Total assets (2022): **USD 3.1 billion**

Average Equity/Assets ratio: **41%**

Average ROA: **0%**

Average ROE: **2%**

A SHORT HISTORY: SMALL BUT MEANINGFUL

The history of development banking in Small Island Developing States traces back to 1936 with the establishment of the first PDB in Mauritius. This institution was created to diversify the agricultural sector and stimulate economic growth. Since then, the model has expanded significantly: 29 out of the 39 SIDS have established at least one public development bank. Among these, the Caribbean Development Bank (CDB), founded in 1969, stands as the largest development institution in the Caribbean and the only MDB operating solely in the SIDS. With 19 member states and assets totaling USD 2 billion, the CDB aims to reduce poverty and enhance living conditions through sustainable, inclusive, and resilient development efforts. The newest PDB in the SIDS was founded in Saint Lucia in 2008 to further support business growth and sustainable socio-economic development, highlighting the ongoing commitment of these states to fostering resilient economies through public development banking.

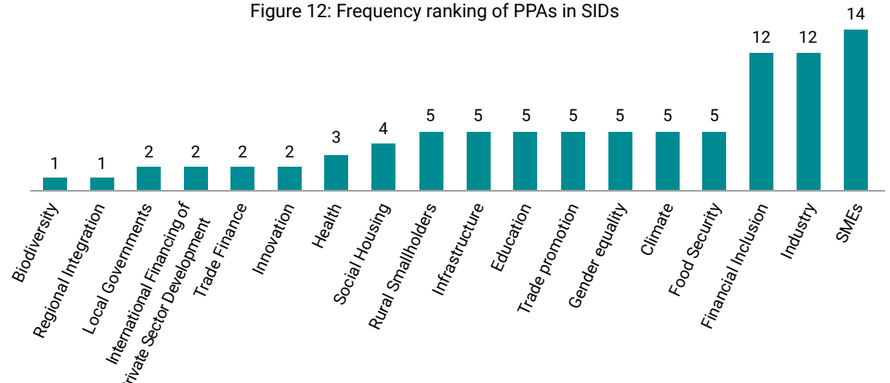
SINGULARITY: THE DEBT-CLIMATE SPIRAL

The SIDS contribute to less than 1% of global greenhouse gas (GHG) emissions, yet they are the first victims of the effects of climate change. Their exposition to natural disasters hinders their development and requires increased funding to support the resilience of economic actors and infrastructure. These financing needs trap SIDS in a vicious "debt-climate spiral", combining climate and macro-financial risks[100]. In addition, 11 SIDS do not have access to Official Development Assistance as they are classified as high-income economies; and thus, receive lower amounts of concessional finance compared to others SIDS. To break this dynamic, PDBs in the SIDS must mobilize private capital and public funds on international markets, financing local SMEs, promoting financial inclusion for vulnerable households and strengthening resilience against external and internal shocks.

OPERATING MODEL: COMMERCIAL SERVICES TO SERVE INCLUSION

In Small Island Developing States, PDBs may depart from traditional development banking activities, by offering financial services that are usually provided by commercial actors. The latter tend to underinvest in the SIDS because of the small size of their economies and their remoteness (in all its different dimensions)[101]. This translates in relatively low levels of financial inclusion and in several SIDS, such as Haiti and Comoros, only 30% of adults have a bank account[102]. Financial inclusion thus ranks as one of the 3 main policy mandates pursued by PDBs in the SIDS (see Figure 12). For example, the Development Bank of St Kitts and Nevis or the Tonga Development Bank offer payment and saving solutions, digital banking, and checking accounts to individuals and businesses. As a result of these commercial activities PDBs in the SIDS may become relatively large institutions given the size of their economies. In 2022, the Tonga Development Bank cumulated USD 98 million in total assets, equivalent to 21% of the country's GDP. This highlights the differences in the operations and mandates between SIDS' PDBs and traditional PDBs in other categories of developing economies. This enlightens the differences in the operations and mandates between SIDS' PDBs and traditional PDBs in other categories of developing economies.

Figure 12: Frequency ranking of PPAs in SIDs



Source: Marois et al. (2023)[103]

Note: Adapted from Marois et al. (2023), data was extracted on PDBs' commitments to achieve various Public Policy Areas (PPA). The graph displays results for a sample of 16 PDBs from SIDS for which complete data were available. Results must be interpreted as follows: out of 16 PDBs, 14 actively finance SMEs.[103]

TRANSITION VISION: ADAPTATION AND BIODIVERSITY

In response to the various vulnerabilities their countries face, PDBs are implementing multidimensional strategies in the SIDS to promote sustainable and resilient economic development that aligns with local needs. For instance, the Development Bank of Jamaica (DBJ) has set up a USD 2.5 million line of credit dedicated to climate change adaptation to strengthen resilience in strategic sectors. Similarly, the Development Bank of Mauritius established an emergency fund in 2022 to mitigate the impact of Cyclone Batsirai, helping to protect local communities from climate shocks.

SIDS are disproportionately rich in biodiversity, hosting a significant portion of the world's unique species and ecosystems. This biodiversity underpins the livelihoods of many SIDS communities, particularly those dependent on sectors like tourism and fisheries, which can contribute substantially to the GDP of these island economies[104]. Local biodiversity not only generates revenues, but also helps prevent the incurrence of additional costs that can result from climate change, soil erosion and pollution. The Blue Finance program, a collaborative effort between the Development Bank of Seychelles (DBS) and the Seychelles Conservation and Climate Adaptation Trust Fund (SeyCCAT), serves as an exemplary illustration of this critical issue. This support fund promotes sustainable fishing in Seychelles by financing projects that contribute to the preservation of marine ecosystems.

National PDBs in the SIDS also work with multilateral and bilateral donors. For instance, between 2018 and 2023, the World Bank allocated an extra USD 15 million to DBJ to improve access to financing for SMEs and microenterprises, providing support for local economic development and reducing vulnerability to climate risks.

SUBNATIONAL PDBs IN INDIA

ON THE GROUND ACTORS FOR LOCAL DEVELOPMENT

Subnational development banks (SDBs) in India play an important role in supporting regional economic growth, particularly through financing industry and infrastructure projects. Originally established to address regional economic disparities through credit provision to entrepreneurial ventures, over time, their focus has evolved to include broader socio-economic development, such as financing hospitals and sport facilities.

A SHORT HISTORY: SUPPORT BUSINESS ALL OVER INDIA

Financial institutions operating as PDBs were established in India following the country's independence in 1947. PDBs created at that time were notably, the Industrial Credit and Investment Corporation of India (ICICI), established in 1955; the Industrial Development Bank of India (IDBI), established in 1964; and the Infrastructure Development Finance Company (IDFC) later in 1997. They aimed to provide long-term financing for large infrastructure and agriculture projects associated with financial risks that commercial banks were eager to avoid. Under the control of the central government, PDBs enjoyed predictable funding from the Reserve Bank of India (RBI), with stable lending rates and access to government-backed instruments. For example, Statutory Liquidity Ratio (SLR) bonds ensured sufficient liquidity for PDBs as mandated by the central bank.

Subnational PDBs in India developed almost simultaneously, as a result of a concerted effort to promote regional economic growth. At the time, the Indian government recognized the need for state-level financial institutions to catalyze industrial development through SMEs and therefore promulgated the State Financial Corporations (SFCs) Act in 1951, thus providing for their establishment[84]. Institutions like Odisha State Financial Corporation (OSFC)[85], Rajasthan Finance Corporation (RFC)[86], and Uttar Pradesh Financial Corporation[87] were among the earliest to be established under the Act in 1956, 1955, and 1954. Many SDBs have faced operational challenges following the 2008 crisis[88] including non-performing assets but have remained instrumental in supporting companies and driving regional infrastructure development.

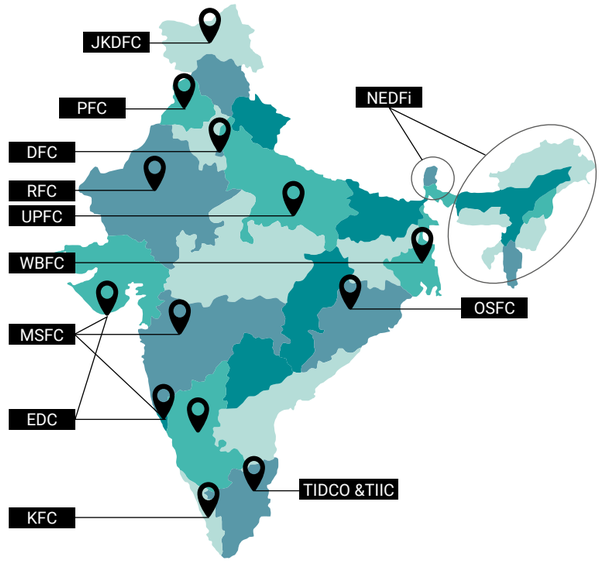
SINGULARITY: A DECENTRALIZED APPROACH TO ECONOMIC DEVELOPMENT

At the local level, India counts 14 subnational development banks, primarily known as Financial Corporations (see Figure 13). Through notifications in their official gazettes, State governments established these body corporates, defined their authorized capital and fixed the number of shares to be split between (1) central and state government institutions with a minimum of 51% equity, and (2) other parties with a maximum of 49% equity[89]. As an example, RFC was constituted following a notification from the State Government in January 1955 under the SFCs Act[86]. The government of Rajasthan is the majority stakeholder with almost 80 percent shareholding as of 2023[90]. These SDBs were empowered to supplement the work of the national PDBs, but crucially, to focus their activities on meeting the financial needs of micro, small, and medium-sized enterprises.

The majority of SDBs provide support to private entities, with a focus on industry, infrastructure, and SMEs. MSMEs serve as the cornerstone of India's economic landscape, accounting for 29% of the country's GDP in 2021-22[91]. SDBs frequently finance the acquisition of fixed assets for businesses, including land, buildings, machinery, and equipment. This financial support enables businesses to set up new industrial, infrastructure and agri-related projects, or expand their existing facilities and operations. For example, EDC Limited is considered the premier financial institution in Goa state. Over the past 45 years, it has provided term loans amounting to over Rs. 3,000 crores, supporting more than 11,500 projects across the industrial and service sectors. NEDFi helps micro, small, and medium enterprises set up industrial, infrastructure and agriculture-related projects in the North-Eastern Region of India through microfinance services in collaboration with MFIs.

Some banks focus on financing large-scale infrastructure projects. Tamilnadu Industrial Development Corporation (TIDCO) spearheaded the Tanflora Infrastructure Park project, a 50-hectare facility for rose production that serves both domestic markets and international clients in regions such as the Middle East, Southeast Asia, and Europe[92].

Figure 13: States of operation of India's SDBs



Source: official websites of the SDBs

OPERATING MODEL: SUPPORT SMALL BUSINESSES

Overall, India's 14 SDBs' core offerings include both short- and long-term loans for existing and new business, but also advisory services. They take the form of working capital loans, guaranteed emergency credit lines, mortgage loan schemes, and construction project loans, among others[93,94]. These enabled the Delhi Financial Corporation (DFC) to support projects of printing press units, pharmaceutical units, shoe manufacturing units, and mineral water units[95]. India's SDBs also manage specialized funds and programs such as EDC's Goa Tribal Employment Generation Program meant for manufacturing, service, and trade businesses of members of the tribal community registered with the Government of Goa[96]. Beyond financial products, many SDBs offer advisory services and facilitate the sale of industrial units[97], expanding their role from financiers to comprehensive business enablers.

Offices at the local level help SDBs provide their products. RFC has 14 branches across the State, where citizens have an opportunity to discuss their projects with managers and submit their applications directly within the jurisdiction the project will be set up in[98].

TRANSITION VISION: EXPANDING THE SCOPE OF OPERATIONS

Apart from SDBs, Indian NDBs equally act on the local level through their subnational agencies. National Bank for Agriculture and Rural Development (NABARD) focuses on rural development by providing funding and financial services to agricultural and rural sectors; Export-Import Bank of India (Exim Bank) is a premier export finance institution in India; and National Housing Bank (NHB) focuses on housing finance in the country. Their extensive subnational network enables them to function as on-the-ground agents, developing local expertise and selecting relevant projects to finance in each state where sub-national agencies are established.

India's PDBs are expanding beyond industrial finance to incorporate broader objectives of financial inclusion and poverty alleviation. Programs targeting women entrepreneurs and marginalized groups are growing in importance, such as NEDFi's microfinance initiatives targeting under-served populations in rural and semi-urban areas[99].

TÜRKIYE SINAI KALKINMA BANKASI (TSKB)

A PRIVATELY CONTROLLED PDB

The Industrial Development Bank of Türkiye (TSKB) is one of the very few privately-controlled PDBs worldwide[7]. However, in consideration of its operations and their value to the Nation, it benefits from a government guarantee on its external borrowing. It plays a leading role in innovating and paving the way for Türkiye's financial sector on sustainable and inclusive finance.

KEY TAKEAWAYS

Date of establishment:
1950

Headquarters:
Istanbul, Türkiye

Official mandate:
FLEX

Number of employees:
459

Level of ownership:
NDB

Operational scope:
National

Total assets:
USD 6.5 billion

Equity ratio:
13%

ROA:
4.7%

ROE:
37.4%

A SHORT HISTORY: BOOSTING INDUSTRIAL DEVELOPMENT

TSKB's history is closely tied to that of the Turkish Republic. Following state-led planned industrialization from 1930 to 1945[105], Türkiye experienced a rapid increase in the demand for long-term investment loans and technical support. Industry chambers, unions, and leading business figures vocalized the need for a specialized bank. Following consultations between the Turkish government and the World Bank, the Industrial Development Bank of Türkiye began its operations in 1950[105]. During its early years, it played a leading role in both the establishment of capital markets, and in the offering of foreign currency loans required for imports of machinery and equipment, in a period of restricted foreign currency movement. TSKB contributed to Türkiye's industrialization, financing the first locally made buses, motor vehicle tires, high voltage cables, batteries, and plastic and acrylic fibers[106].

In 1960, Türkiye started a period of planned economy, to which TSKB contributed with its financing activities[105]. IFC became TSKB's second largest shareholder in 1963. After a long series of vicissitudes, with difficult years in the 1980s, the bank merged with the Industrial Investment Bank (IIB) in 2002. In doing so, it established itself as a reference bank for the contemporary challenge of integrating sustainability into Turkish banking.

> As Türkiye's first and only privately-owned development and investment bank, TSKB has been creating enduring value for a sustainable future for 74 years. With this long-standing vision, we will continue to finance green investments and contribute to our country's development objectives by adhering to the Sustainable Development Goals (SDGs).- **Murat Bilgiç, CEO at TSKB (2024)[107]**

SINGULARITY: PRIVATE CAPITAL BUT GLOBAL VISION

TSKB stands out for its majority level of private ownership. Almost everywhere else in the world, governments hold a controlling interest in their national development banks[7]. Only eight PDBs (1.5% of the total) are steered through majority private sector shareholding, and only one PDB is fully privately owned (the Development Bank of Austria)[7]. TSKB is mostly owned by a private bank Türkiye İş Bankası A.Ş. (47.7% of shares). Türkiye Vakıflar Bankası[1] T.A.O., a state-owned commercial bank, holds 8.4% of shares. The remaining shares are categorized as free float and other[108], available for trading on the stock market. This unique ownership structure is one of the key factors for TSKB's operational vision, corporate governance and independent management. It is also allowing management flexibility and creativity to manage risks, design new products, diversify and strategize its funding sources, as well as managing its human resources in connection with market realities, in order to attract talented executives and secure its competitiveness.

1 Although TSKB is organized as a private institution, it is important to note that its major shareholders, VakıfBank and İşbank, have a coherent and consistent vision for TSKB operations to be effective as a PDB. VakıfBank is a state-owned commercial bank. İşbank, while a commercial bank, was created by Atatürk, father of the nation, and has carried out a development vision since the founding of the Republic. Both shareholders support the commitment of TSKB in its developmental mandate, permitting the support of the Turkish government through State guarantees. This enables TSKB to access international Development Finance Institution (DFI) funds.

OPERATING MODEL: LEADING THE MARKET

TSKB relies on a wide range of financial services and partners. Its services include corporate banking, investment banking, and advisory (see Figure 14). The operational model is quite standard for a PDB: borrow, add operational costs and risks provisions, and lend to local customers. TSKB has a diversified lending portfolio including both direct and wholesale (on lending through banks, and NBFIs) financing arrangements. In its efforts to obtain funding, the bank collaborates mainly with other PDBs. Around 60 percent of the funding comes from international PDBs, which provide long-term funding in foreign currency, that TSKB on-lends to local counterparts.

Over the years, TSKB has established itself as a "gate of entry" for various multilateral and bilateral partners such as the EIB, IsDB, KfW, AFD, JBIC and the China Development Bank. All have provided loan agreements targeted to specific sectors.

In March 2024, TSKB successfully concluded a bond issuance, raising USD 300 million, backed by nearly three times the investor demand, leading to the diversification of its product offerings, thereby fortifying its balance sheet structure and diversification of funding resources.

Figure 14: TSKB's service offering

TSKB's Service Offering

Corporate Banking	Investment Banking	Advisory Services
Corporate Loans	Corporate Finance	Economic Research
Project Finance	Money and Capital Markets	Financial and Technical Advisory
Other Loan Products	Advisory Services	Engineering
	Derivatives	

Source: TSKB (n.d.)[108], TSKB website (, n.d.)[107]

TRANSITION VISION: PIONEERING CLIMATE AND GENDER ACTIONS

TSKB was one of the first banks in Türkiye to integrate sustainability into its strategy, making it a key partner for international PDBs focused on the SDGs. The bank incorporates globally accepted sustainability and inclusion criteria across its operations and evaluates environmental and social risks using its ERET and CRET tools[109]. It has also developed an SDG Mapping Tool to measure the impact of its loan portfolio, setting ambitious targets for SDG-linked financing by 2025 (90% SDG-linked, 60% climate-focused).

In 2021, TSKB published its first Climate Risks Report aligned with TCFD standards, followed by an IFRS-compliant report in 2024. Its Climate Change Mitigation and Adaptation Policy, approved in 2021, includes a commitment to net-zero emissions by 2050 and the phasing out of coal financing by 2035. TSKB's climate strategy is further strengthened by stress tests and scenario analyses based on sector-specific heat maps.

TSKB also champions gender equality, adding social inclusion to its mission in 2016. It finances gender-friendly companies and assesses gender equality criteria through dedicated tools. As a signatory of the Women's Empowerment Principles, it co-chairs the IDFC Gender Equality Group. In 2024, TSKB achieved top ranking among Turkish companies in Equileap's gender equality assessment.

BIBLIOGRAPHY

1. Agence Française de Développement (AFD), Institute of New Structural Economics at Peking University (INSE), Fondation pour les Etudes et Recherches en Développement International (FERDI). Public Development Banks and Development Financing Institutions Database. PKU AFD. 2024. http://www.dfidatabase.pku.edu.cn/

2. Xu J, Marodon R, Ru X. *Mapping 500+ Development Banks*. Agence française de développement; 2020. Accessed October 21, 2022. https://ideas.repec.org/p/avg/wpaper/en11748.html

3. European Parliament. Expansion of BRICS: a quest for greater global influence? Published online March 2024. https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/760368/EPRS_BRI(2024)760368_EN.pdf

4. Banque de France. Élargissement des BRICS : quelles conséquences potentielles pour l'économie mondiale ? Published online February 2024. https://www.banque-france.fr/fr/publications-et-statistiques/publications/elargissement-des-brics-quelles-consequences-potentielles-pour-leconomie-mondiale

5. Wang H. New Multilateral Development Banks: Opportunities and Challenges for Global Governance. *Glob Policy.* 2017;8(1):113-118. doi:10.1111/1758-5899.12396

6. Humphrey C. From Drawing Board to Reality: The First Four Years of Operations at the Asian Infrastructure Investment Bank and New Development Bank. Published online April 2020. https://www.bu.edu/gdp/files/2020/04/Humphrey_AIIB.NDB_.April2020.FINAL_.pdf

7. Xu J, Marodon R, Ru X, Ren X, Wu X. What are public development banks and development financing institutions ? ——qualification criteria, stylized facts and development trends. *China Economic Quarterly International.* 2024;1(4):271-294. doi:10.1016/j.ceqi.2021.10.001

8. Official export credit agency: Colombia - Segurexpo de Colombia SA Asegradaradora del Comercio Exterior; Banco Colombiano de Exportaciones (Bancoldex); Fondo Nacional de Garantias (FNG). *Project & Trade Finance.* Published online 1995. https://www.proquest.com/docview/200670880?accountid=13739&parentSessionId=b8ROrf6NoyLQCFtETMx8fpk8lzvOgx1Ls0%2BVXtbrqI4%3D&pq-origsite=primo&sourcetype=Trade%20Journals

9. Bancóldex. Bancóldex 30 years. https://www.bancoldex.com/en/sobre-bancoldex/bancoldex-30-years-4134

10. *Report Of The Board Of Directors And The President To The General Shareholder's Meeting 2022.* BANCOLDEX; 2022. https://www.bancoldex.com/sites/default/files/1._report_from_the_board_of_directors_and_president_2022.pdf

11. Bancoldex. We have a Direct Portfolio. Accessed July 5, 2024. https://www.bancoldex.com/es/directo

12. Bancóldex. Financial Partners. Accessed July 5, 2024. https://www.bancoldex.com/es/credito-traves-de-aliados/credito-traves-de-aliados

13. Bancóldex. Green Climate Fund Approves Bancóldex Accreditation to Boost Fight Against Climate Change. https://www.bancoldex.com/en/noticias/green-climate-fund-approves-bancoldex-accreditation-boost-fight-against-climate-change-4647

14. 2023 Cartagena FiCS Summit. FICS Summits. https://financeincommon.org/ficssummits

15. de Menezes Barboza R, Vasconcelos GFR. Measuring the aggregate effects of the Brazilian Development Bank on investment. *The North American Journal of Economics and Finance.* 2019;47:223-236. doi:10.1016/j.najef.2018.12.013

16. Naqvi N. Economic crisis, global financial cycles and state control of finance: public development banking in Brazil and South Africa. *European Journal of International Relations.* 2023;29(2):283-318. doi:10.1177/13540661221114370

17. Results Center - BNDES. BNDES Investor Relations. Accessed December 17, 2024. https://ri.bndes.gov.br/en/financial-information/results-center/bndes/

18. BNDES Integrated Annual Report 2023. BNDES Investor Relations. Accessed December 17, 2024. https://ri.bndes.gov.br/en/publications-and-communications/integrated-annual-report/

19. Lazzarini SG, Musacchio A, Bandeira-de-Mello R, Marcon R. What Do State-Owned Development Banks Do? Evidence from BNDES, 2002–09. *World Development.* 2015;66:237-253. doi:10.1016/j.worlddev.2014.08.016

20. de Bolle M. Do Public Development Banks Hurt Growth? Evidence from Brazil. Published online 2015. https://www.piie.com/publications/policy-briefs/do-public-development-banks-hurt-growth-evidence-brazil

21. Kayo EK, Silva WED, Martelanc R. The two faces of subsidized loans. *Finance Research Letters.* 2023;56:104149. doi:10.1016/j.frl.2023.104149

22. Palludeto AWA, Borghi RAZ. Institutions and Development From a Historical Perspective: the Case of the Brazilian Development Bank. Review of Political Economy. 2021;33(1):126-144. doi:10.1080/09538259.2020.1720144

23. Gomes M. *The Impact of Development Banks on Corporate Investments: The BNDES Experience.* 2021. doi:10.11606/T.96.2021.tde-24092021-160917

24. BNDES. Executive Board presents 2022 profit and projects BNDES' size to double to 2% of GDP by 2026. BNDES. March 2023. Accessed November 29, 2023. https://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/conteudos/noticia/Executive-Board-presents-2022-profit-and-projects-BNDES-size-to-double-to-2-of-GDP-by-2026/

25. BOAD. Genèse de la création de la BOAD. Accessed May 28, 2024. https://www.boad.org/fr/nous-decouvrir/missions-et-objectifs/genese-de-la-creation-de-la-boad/

26. BOAD. Rapport annuel 2022. https://admin.boad.ayctor.dev/wp-content/uploads/2024/03/Rapport-annuel-2022-BOAD.pdf

27. Williamson MD and B. By The Numbers: Coups in Africa. Accessed June 4, 2024. https://projects.voanews.com/african-coups/

28. Fitch Ratings. Fitch Revises BOAD's Outlook to Negative; Affirms at "BBB." Accessed June 3, 2024. https://www.fitchratings.com/sovereigns/fitch-revises-boad-outlook-to-negative-affirms-at-bbb-25-04-2024

29. World Bank Open Data. World Bank Open Data. Accessed June 20, 2024. https://data.worldbank.org

30. BOAD. Bilan d'activités 2021. https://admin.boad.ayctor.dev/wp-content/uploads/2024/04/Bilan-dactivites-2021.pdf

31. BOAD. Integrating and sustainably transforming West Africa. Accessed June 10, 2024. https://www.boad.org/en/

32. Banque Ouest Africaine de Développement. Sustainable Bond of the Year. BOAD. 2021. https://www.boad.org/en/our-publications/news/sustainable-bond-of-the-year-supranational-sub-sovereign-and-agency-ssa-boad/

33. BOAD. DJoliba - Plan stratégique 2021-2025. https://admin.boad.ayctor.dev/wp-content/uploads/2024/03/plan-strategique-Djoliba.pdf

34. Groupe Caisse des Dépôts. *Rapport Financier 2023.* Groupe Caisse des Dépôts Accessed May 7, 2024. https://www.caissedesdepots.fr/rapport-annuel-2023

35. About CDB. China Development Bank. https://www.cdb.com.cn/English/gykh_512/khjj/

36. Xu J. Market Maker: The Role of China Development Bank in Incubating Market. *Man and the Economy.* 2017;4. doi:10.1515/me-2017-0007

37. Huang S, Jensen-Cormier S, Garzón P, Gandarillas MA. *Understanding the China Development Bank: Financing, Governance and Socio-Environmental Challenges for Latin America and the Caribbean.* Latinoamérica Sustenable; 2021.

38. Lau L. The Implications of China's Twelfth Five Year (2011-2015) Plan and Internationalisation of the Renminbi for China Development Bank (CDB). *China Development Bank Financial Research Centre.* 2012;(Working Paper No. 8).

39. Rabinovitch S. China Development Bank gets new boss. *Financial Times.* https://www.ft.com/content/f7bee36c-a7fe-11e2-8e5d-00144feabdc0. 2013.

40. China Development Bank. 2023 *Annual Report.* China Development Bank Accessed May 12, 2024. https://www.cdb.com.cn/English/gykh_512/ndbg_jx/2023_jx/

41. China Development Bank. China-Africa Development Fund. Strategic priorities. https://www.cdb.com.cn/English/ywgl/zhjryw/zffzjjyxgs/

42. Chen M. The Latecomer's Challenge. :102-138.

43. China Development Bank. CDB Leasing Co., Ltd. Strategic priorities. https://www.cdb.com.cn/English/ywgl/zhjryw/gyjrzlyxgs/

44. China Development Bank. CDB Capital Co., Ltd. Strategic priorities. https://www.cdb.com.cn/English/ywgl/zhjryw/gkjryxzrgs/#:~:text=CDB%20Capital%20is%20one%20of,capital%20operators%20and%20overseas%20investors.

45. China Development Bank. CDB Development Fund. Strategic priorities. https://www.cdb.com.cn/English/ywgl/zhjryw/gkfzjj/

46. China Development Bank. CDB Securities Co., Ltd. Strategic priorities. https://www.cdb.com.cn/English/ywgl/zhjryw/gkzqyxzrgs/

47. Run X, Wang K, XU J. *Funding Sources of NationalDevelopment Banks.* Peking University; 2021.

48. Afreximbank. Afreximbank and China Development Bank sign US$400-million loan to support Africa SMEs.https://www.afreximbank.com/afreximbank-and-china-development-bank-sign-us400-million-loan-to-support-africa-smes/. 2023.

49. Nedopil C. *China Belt and Road Initiative (BRI) Investment Report 2022.* Green Finance & Development Center, FISF Fudan University; 2023.

50. Skalamera Groce M, Köstem S. The dual transformation in development finance: western multilateral development banks and China in post-Soviet energy. *Review of International Political Economy.* 2023;30(1):176-200. doi:10.1080/09692290.2021.1974522

51. brd_slb_bond_prospectus.pdf. Accessed May 29, 2024. https://bkcapital.rw/IMG/pdf/brd_slb_bond_prospectus.pdf

52. Quist GA. Africa's National Development Banks: Lessons from Côte d'Ivoire and Rwanda.

53. 2021_AADFI_Report-on-the-11th-PSGRS-Peer-Review.pdf.

54. AADFI. About us. August 9, 2023. Accessed June 14, 2024. https://adfi-ci.org/about-us/

55. SLB-Investor-Presentation.pdf. Accessed June 12, 2024. https://www.brd.rw/wp-content/uploads/2023/09/SLB-Investor-Presentation.pdf

56. AFD. Rwanda Climate Finance Partnership Powers Innovative Climate Action. Agence Française de Développement. Accessed December 17, 2024. https://www.afd.fr/en/actualites/communique-de-presse/rwanda-climate-finance-partnership-powers-innovative-climate-action

57. BRD_Strategic_Plan_2018-2024.pdf. Accessed May 29, 2024. https://www.brd.rw/wp-content/uploads/2022/07/BRD_Strategic_Plan_2018-2024.pdf

58. Alatabani A, Verma N, Navarro M. How Rwanda's inaugural Sustainability-Linked Bond broke new ground in leveraging private capital. World Bank Blogs. November 30, 2023. Accessed August 1, 2024. https://blogs.worldbank.org/en/psd/how-rwandas-inaugural-sustainability-linked-bond-broke-new-ground-leveraging-private-capital

59. Case-Study-Rwanda-SLB.pdf. Accessed May 29, 2024. https://thedocs.worldbank.org/en/doc/743272cfbb73c6a9a1e97ecfcadb2d58-0340012023/original/Case-Study-Rwanda-SLB.pdf

60. English-Vision_2050_Abridged_version_WEB_Final.pdf. Accessed June 21, 2024. https://www.minecofin.gov.rw/fileadmin/user_upload/Minecofin/Publications/REPORTS/National_Development_Planning_and_Research/Vision_2050/English-Vision_2050_Abridged_version_WEB_Final.pdf

61. *DBSA Official Website.* https://www.dbsa.org/

62. DBSA Integrated Annual Report 2023.2023.

63. UNECA. *Ad Hoc Expert Group Meeting on: "Accelerating the Implementation of the AfCFTA in Southern Africa Building on the Acquis of the RECs FTA."* UNECA; 2023.

64. DBSA. DBSA 2024 Sustainability Review Report. DBSA; 2024. Accessed November 29, 2024. https://www.dbsa.org/sites/default/files/media/documents/2024-08/DBSA%20Sustainability%20Review%202024_0.pdf

65. DBSA. 2020 Integrated Annual Report.

66. Development Bank of Southern Africa. The DBSA Partners with Green Climate Fund to Bolster the Department of Water and Sanitation's Efforts Towards Climate Resilient Water Security | Development Bank of Southern Africa. DBSA. Accessed December 17, 2024. https://www.dbsa.org/press-releases/dbsa-partners-green-climate-fund-bolster-department-water-and-sanitations-efforts

67. ISDB. Islamic Development Bank rings Nasdaq Dubai's market-opening bell to celebrate US$ 1.7 billion Sukuk listing. October 26, 2021. Accessed December 17, 2024. https://www.isdb.org/news/islamic-development-bank-rings-nasdaq-dubais-market-opening-bell-to-celebrate-us-17-billion-sukuk-listing

68. IsDB. Islamic Development Bank Achieves New Milestone with Debut Green Sukuk Worth EUR 1 Billion for Green Financing in its Member Countries.https://www.isdb.org/news/islamic-development-bank-achieves-new-milestone-with-debut-green-sukuk-worth-eur-1-billion-for-green-financing-in-its-member-countries#:~:text=The%20supranational%20raised%20EUR%201,Euro%20issuance%20by%20the%20Bank. 2019.

69. APAC. Islamic Development Bank: Islamic Finance for Climate Action - APAC Network. APAC Network. Accessed December 17, 2024. https://apacnetwork.com/story/islamic-development-bank-islamic-finance-for-climate-action/

70. IsDB. Development effectiveness report 2021. Published online 2022.

71. IsDB. Annual Impact Report on IsDB Debut Green Sukuk. Published online 2020.

72. Fitch Ratings. Fitch Affirms Islamic Development Bank at "AAA"; Outlook Stable. https://www.fitchratings.com/research/sovereigns/fitch-affirms-islamic-development-bank-at-aaa-outlook-stable-19-05-2023. 2023.

73. IsDB. the road to SDG - progress and achievements. Published online 2021.

74. IsDB. Empowering women and girls, inspiring futures: 50 briefs of IsDB programs and operations.

75. Islamic Development Bank. *ISDB Strategic Realignment 2023-25 : Information Report.* Islamic Development Bank; 2022. Accessed November 29, 2024. https://www.isdb.org/sites/default/files/media/documents/2023-03/IsDB_SR23-25_English_WEB_Single.pdf

76. OECD. Official development assistance. 2023. https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm

77. KfW. KfW – Responsible banking. https://www.kfw.de/About-KfW/

78. Mazzucato M, Penna C. The Rise of Mission-Oriented State Investment Banks: The Cases of Germany's KfW and Brazil's BNDES. *SSRN Electronic Journal.* Published online January 1, 2015. doi:10.2139/ssrn.2744613

79. KfW. KfW Locations. https://www.kfw.de/About-KfW/Arbeitsweise-und-Unternehmensf%C3%BChrung/KfW-Standorte-und-Au%C3%9Fenb%C3%BCros/

80. KfW. *KfW Group Financial Report 2023*. KfW https://www.kfw.de/About-KfW/Reporting-Portal/Reporting-Portal.html

81. *2023 Sustainability Report Data According to GRI, HGB and TCFD.* KfW; 2023. https://www.kfw.de/PDF/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/Sustainability-Report-2023.pdf

82. Griffith-Jones S. National Development Banks and Sustainable Infrastructure; the case of KfW. Published online July 2016.

83. Pöthig C. KfW is expanding promotion for affordable housing and climate-friendly refurbishment in Germany in 2024. February 7, 2024. https://www.kfw.de/About-KfW/Newsroom/Latest-News/Pressemitteilungen-Details_795392.html

84. State Financial Corporations Act, 1951. UN Academy. https://unacademy.com/content/bank-exam/study-material/general-awareness/state-financial-corporations-act-1951/#:~:text=The%20State%20Financial%20Corporation%20Act,medium%20businesses%20and%20support%20entrepreneurship.

85. Our Mission, Vision, Profile. OSFC Odisha State Financial Corporation. http://www.osfcindia.com/

86. About The Corporation. The Rajasthan Financial Corporation. https://rfc.rajasthan.gov.in/home/dptHome

87. Welcome to Uttar Pradesh Financial Corporation. Uttar Pradesh Financial Corporation. http://www.upfcindia.com/#

88. Swati R. *Non-Performing Assets of Banks in India: Efficiency in Management.* University of Mumbai Accessed November 22, 2024. https://www.iibf.org.in/documents/reseach-report/Swati-Raju-Final-Report.pdf

89. The State Financial Corporations Act. India Code - Digital repository of laws. 1951. https://www.indiacode.nic.in/bitstream/123456789/2018/1/195163.pdf

90. Rajasthan Financial Corporation. Acuite Ratings & Reasearch. October 19, 2023. https://connect.acuite.in/fcompany-details/RAJASTHAN_FINANCIAL_CORPORATION/19th_Oct_23#:~:text=Government%20of%20Rajasthan%20is%20the,other%20domestic%20banks%20and%20institutions.

91. Indian Ministry of Micro, Small and Medium Enterprises. Strategic Action Plan of Ministry of Micro, Small and Medium Enterprises. Published online 2015.

92. About us. Tanflora Infrastrcuture Park Ltd. https://tanflora.com/

93. About NEDFi. North Eastern Development Finance Corporation Limited. https://www.nedfi.com/who-we-are/

94. EDC Profile. EDC Limited. https://edc-goa.com/

95. Success Stories /Units Financed. Delhi Financial Corporation. https://dfc.delhi.gov.in/photo-gallery

96. Goa Tribal Employment Generation Programme(GTEGP) Scheme. EDC Limited. https://edc-goa.com/goa-tribal-employment-generation-programmegtegp-scheme/

97. Unit For Sale. Uttar Pradesh Financial Corporation. http://www.upfcindia.com/unit-for-sale.php

98. Financial assistance. Rajasthan Financial Corporation (RFC). https://rfc.rajasthan.gov.in/pages/sm/department-page/48420/728

99. Our Journey. North Eastern Development Finance Corporation Limited. https://www.nedfi.com/who-we-are/#vision_mission

100. Bedossa B. Climate-financial trap: an empirical approach to detecting situations of double vulnerability. Published online October 2023. https://www.afd.fr/en/ressources/climate-financial-trap-empirical-approach-detecting-situations-double-vulnerability

101. UNCTAD. Remoteness. UNCTAD. Accessed November 29, 2024. https://sdgpulse.unctad.org/remoteness/

102. World Bank. The Global Financial Development Database. Accessed November 10, 2024. https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database

103. Marois T, Marodon, Stewart J. From Multi to National and Back Again: Realizing the SDG Potential of Public Development Banks. Published online 2023.

104. Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing State. About Small Island Developing States. United Nations. Accessed November 5, 2024. https://www.un.org/ohrlls/content/about-small-island-developing-states

105. *TSKB From Past To Present: A 70-Year Story.* https://www.tskb.com.tr/uploads/file/TSKB_70YIL_KITABI-Dijital.pdf

106. TSKB. History of TSKB. Accessed July 5, 2024. https://www.tskb.com.tr/en/about-us/about-us/history-of-tskb

107. TSKB.

109. TSKB. Environmental and Social Risk Evaluation. Strategy and Management. https://www.tskb.com.tr/en/services/sustainable-banking/strategy-and-management/environmental-and-social-risk-evaluation

110. The World Bank Group. The World Bank Group Timeline. Explore History. Accessed November 14, 2024. https://www.worldbank.org/en/archive/history/timeline

111. The World Bank Group. Products and Services. What We do. Accessed November 15, 2024. https://www.worldbank.org/en/what-we-do/products-and-services

112. Smets L, Knack S. World Bank Policy Lending and the Quality of Public-Sector Governance. Published online August 2018.

113. World Bank. Knowledge Bank. The World Bank. April 16, 2024. Accessed November 29, 2024. https://www.worldbank.org/en/about/unit/brief/knowledge-bank

114. WBG. Food Security Update | World Bank Response to Rising Food Insecurity. Agriculture and Food. 2024. https://www.worldbank.org/en/topic/agriculture/brief/food-security-update

115. The World Bank Group. Who We Are. Accessed November 15, 2024. https://www.worldbank.org/en/who-we-are#:~:text=With%20189%20member%20countries%2C%20staff,shared%20prosperity%20in%20developing%20countries.

116. The World Bank Group. The World Bank Group Overview. Explore History. Accessed November 12, 2024. https://www.worldbank.org/en/archive/history

117. Wade R, Vestergard J. "Puppet on a string"? The attempts at World Bank governance reform. Oxford Global Society. August 2024. Accessed November 27, 2024. https://oxgs.org/2024/08/09/puppet-on-a-string-the-attempts-at-world-bank-governance-reform/

118. Fitch. Fitch Affirms IBRD at "AAA"; Outlook Stable. 2023. Accessed November 27, 2024. https://www.fitchratings.com/research/sovereigns/fitch-affirms-ibrd-at-aaa-outlook-stable-20-01-2023

119. The World Bank Group. IBRD/IDA Summary. World Bank Group Finances. Accessed November 15, 2024. https://financesapp.worldbank.org/summaries/ibrd-ida/#ibrd-net/

120. The World Bank Group. A Closer Look at World Bank Group Climate Finance.https://www.worldbank.org/en/news/factsheet/2022/10/31/a-closer-look-at-world-bank-group-climate-finance. 2022.

TABLE OF FIGURES

CHAPTER 1 KEY FEATURES

Figure 1: Typology of Public Finance Institutions (PFI) 18
Figure 2: Typologies 20
Figure 3. Mapping of PDB total assets worldwide in 2023 21
Figure 4: Achieving SDGs through effective NDBs 23
Figure 5: Size categories, in USD 28
Figure 6: Distribution of the number of PDBs per size 28
Figure 7: Share of total assets per size, in USD billion 28
Figure 8: Comparison between the absolute size and relative weight of NDBs, mega banks excluded 29
Figure 9: NDB assets' evolution around COVID 30
Figure 10: Percent change in MDB commitments, by crisis period 31
Figure 11: A simplified representation of NDBs' analysis in the economic literature 33
Figure 12: Example of a mission-oriented approach in Latin America and the Caribbean 34

CHAPTER 2 THE UNIVERSE OF PUBLIC DEVELOPMENT BANKS

Figure 1: Geographical distribution of MDBs, NDBs and Subnational DBs 42
Figure 2: Number of MDBs and proportion of total MDB assets per size category 44
Figure 3: NDBs by continent and size category 46
Figure 4: Periods of establishment of SDBs 48
Figure 5: Countries hosting SDBs worldwide 49
Figure 6: Distribution of PDBs by official mandate 51
Figure 7: Distribution of PDBs' assets by official mandate 51
Figure 8: Average ROA of PDBs per continent 53
Figure 9: Distribution of African PDBs' ROA 53
Figure 10: PDB assets in Asia per country (USD billion) 54
Figure 11: PDBs' total assets in Europe 56
Figure 12: Period of creation of PDBs still operating in Europe 56
Figure 13: PDBs' total assets by country in LAC in 2022 59
Figure 14: Main Challenges identified by ALIDE's members 59
Figure 15: Strategic Lines of Action for the future 59
Figure 16: Importance of Islamic finance around the world 61
Figure 17: Priority actions identified by MDBs to enhance their cooperation 62

CHAPTER 3 BUSINESS MODELS

Figure 1: Business Model – A simple Pictorial Representation 71
Figure 2: A simplified representation of the products offered and/or distributed by PDBs 72
Figure 3: Development Banks' borrowers 74
Figure 4: Distribution of Clients 75
Figure 5: A simplified representation of NDBs' funding sources 76
Figure 6: A simplified representation of PDBs' financial model 78
Figure 7: Proportion of NDBs reporting net profits between 2018 and 2023, by region of ownership 79
Figure 8: Overview of the range of risks faced by PDBs 84

CHAPTER 4 SUPPORTING THE SUSTAINABLE DEVELOPMENT GOALS

Figure 1: SDGs and the five "P's" 96
Figure 2: SME Credit Gap 98
Figure 3: Private investment in infrastructure projects by co-financing type (percentage of total transaction value) 100
Figure 4: RE consumption as share of total energy consumption 102
Figure 5: NDBs' commitment to the Green Agenda 104
Figure 6: The Gender Data Outlook Index and Statistical Performance Indicator (SPI) 108
Figure 7: Urban population projections by world regions, 1950-2050. 112
Figure 8: Levels of conflict and stability worldwide as of 2024 115
Figure 9: HRBA principles and framework 118
Figure 10: Average share of SDG narrative in PDBs' annual reports, 2016 - 2022 120
Figure 11: Share of SDG 13 in PDBs' narrative 121

CHAPTER 5 PARTNERSHIPSAND COOPERATION

Figure 1: Map of the countries represented in the associations forming the World Federation of Development Finance Institutions 133
Figure 2: IDFC members mapping 134
Figure 3: FiCS Thematic Coalitions 136
Figure 4: Year of establishment and sectors of intervention of CDCs in Africa 139
Figure 5: Main Categories of Financial Instruments for Development Cooperation 141
Figure 6: The three pillars of development cooperation effectiveness 141
Figure 7: Main Exim Bank support measures 143
Figure 8: Aggregate financing in Blended Finance Transactions, 2014 – 2023 145
Figure 9: Amount of development finance provided by philanthropies (2016 to 2019), by receiving country income level 146
Figure 10: Technical Assistance and Capacity building for Public Development Banks 149
Figure 11: Flows of funds from international and national financing sources to sustainable development 151

APPENDIX CASE STUDIES

Figure 1: AFD Group's model for implementing France's development policy 181
Figure 2: BNDES, particularly interventionist after the 2008 crisis 184
Figure 3: BNDES financial position by instruments (2023) 185
Figure 4: BOAD member states' GDP per capita (2022, USD) and credit risk rating 189
Figure 5: CDC's organizational chart 191
Figure 6: CDB Priority Areas 192
Figure 7: BRD's key performance ratios 195
Figure 8: DBSA's products 196
Figure 9: Total DBSA disbursements in South Africa and Rest of Africa 197
Figure 10: Strategic objectives, pillars, cross-cutting areas and enablers 199
Figure 11: Promotional Business Volume of KfW Group in 2023 200
Figure 12: Frequency ranking of PPAs in SIDs 203
Figure 13: States of operation of India's SDBs 205
Figure 14: TSKB's service offering 207

ACRONYMS

4G	Fourth Generation
AADFI	Association of African Development Finance Institutions
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ADB	Asian Development Bank
ADBC	Agricultural Development Bank of China
ADFIAP	Association of Development Financing Institutions in Asia and the Pacific
AFC	African Finance Corporation
AFD	French Development Agency
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
ALIDE	Latin American Association of Development Financing Institutions
BAAC	Bank of Agriculture and Agricultural Cooperatives of Thailand
BANADE	National Development Bank of Argentina
BBB	British Business Bank
BCEAO	Central Bank of West African States
BII	British International Investment
BIO	Belgian Investment Company for Developing Countries
BNDES	National Bank for Economic and Social Development of Brazil
BOAD	West African Development Bank
BRD	Development Bank of Rwanda
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China, South Africa
C4D	Cooperation for Development
CABEI	Central American Bank for Economic Integration
Caecl	French Fund for the Equipment of Local Authorities
CAF	Development Bank of Latin America
CAP	Climate Action Plan
CB	Capacity Building
CDB	China Development Bank
CDC	Deposits and Consignment Fund
CDG	Moroccan Deposit and Management Fund
CDP	Italian Deposits and Loans Fund
CEB	Council of Europe Development Bank
CEO	Chief Executive Officer
CLF	Local Credit Institution of France
COFIDES	Spanish Financing Company for Development
CORFO	Corporation for the Development of Production
CPI	Climate Policy Initiative
CPSCL	Loans and Support Fund for Local Authorities (Tunisia)
CSO	Civil Society Organizations
DBN	Development Bank of Namibia
DEG	German Investment and Development Company
DFIs	Development Finance Institutions
E&S	Environmental and Social
E3F	Export Finance for Future
EADB	East African Development Bank
EAP	East Asia Pacific
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ECAs	Export Credit Agencies
ECB	European Central Bank
EDC	Export Development Canada
EDC	Economic Development Corporation Limited (India)
EDFI	European Development Finance Institutions
EFAD	European Financial Architecture for Development
EI	Equity Investments
EIB	European Investment Bank
EIF	European Investment Fund
EMDE	Emerging Market and Developing Economies
ER	Emission Reduction
ERET	TSKB's Environmental and Social Risk Evaluation Tool
ESE	Economic, Social and Environmental
ESG	Environment, Social and Governance
EU	European Union
FDN	National Development Fund of Saudi Arabia
FDN	National Development Finance Corporation of Colombia
FEDA	Fund for Export Development in Africa
FI	Financial Instiutions
FIRA	Trust Funds for Rural Development (Mexico)
FiCS	Finance in Common System
FIT	Feed-in tariffs
FINFUND	Finnish Fund for Industrial Cooperation Ltd
FMDV	The Global Fund for Cities and Development
FMO	Dutch Entrepreneurial Development Bank
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEMs	Global Emerging Market Consortium
GFC	Global Financial Crisis
GHG	Greenhouse gas
GIB	Green Investment Banks
GIZ	German Agency for International Cooperation
GRN	Global Research Network
HICs	High-income countries
HRBA	Human Rights Based Approaches
I4CE	Institute for Climate Economics
IBRD	International Bank for Reconstruction and Development
ICR	Investment Climate Reform Facility
IDA	International Development Association
IDB	Inter-American Development Bank
IDBI	Industrial Development Bank of India
IDDRI	Institute for Sustainable and Responsible Development
IDFC	International Development Finance Club
IFA	International Financial Architecture
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
IFU	Danish Investment Fund for Developing Countries
IKI	International Climate Initiative
INFONAVIT	Institute of the National Housing Fund for Workers of Mexico
INSE	Institute of New Structural Economics
IPCC	Intergovernmental Panel on Climate Change
IPs	Indigenous Peoples
IsDB	Islamic Development Bank
IT	Information Technology
ITFC	International Islamic Trade Finance Corporation
JBIC	Japan Bank for International Cooperation
JEFIC	Joint European Financiers for International Cooperation
JETP	Just Energy Transition Partnerships
JICA	Japan International Cooperation Agency
KDB	Korea Development Bank
KfW	Reconstruction Credit Institute
KPI	Key performance indicators
LAC	Latin America and the Caribbean
LCR	Low-carbon and climate resilient
LCs	Local communities
LICs	Low-income countries
M&E	Monitoring and evaluation
MDBs	Multinational or Multilateral Development Banks
MENA	Middle East and Northern Africa
MFI	Micro Finance Institution
MICs	Middle-income countries
MIGA	Multilateral Investment Guarantee Agency
MPs	Members of Parliament
MSMEs	Micro, small and medium-sized enterprises
NAFIN	National Finance Corporation in Mexico
NBFI	Non-Bank Financial Institutions
NbS	Nature-based solutions
NDBs	National Development Banks
NDB	New Development Bank
NDC	Nationally Determined Contributions
NDICI	Neighbourhood, Development and International Cooperation Instrument
NEDFi	North Eastern Development Finance Corporation Ltd
NGO	Non-Governmental Organizations
NORFUND	Norwegian Investment Fund for Developing Countries
NPL	Non Performing Loan
OACPS	Organisation of African, Caribbean and Pacific States
OCDE	Organisation for Economic Co-operation and Development
ODA	Official Development Assistance
ODI	Overseas Development Institute
OeEB	Development Bank of Austria
OIC	Organization for Islamic Cooperation
OKR	World Bank Open Knowledge Repository
PCM	Private Capital Mobilization
PDBs	Public Development Banks
PFIs	Public Finance Institutions
PPA	Public Policy Areas
PPP	Public-Private Partnerships
PROPARCO	Promotion and Participation Company for Economic Cooperation
RDBs	Regional Development Banks
RE	Renewable Energy
REDD+	Reducing Emissions from Deforestation and Forest Degradation
ROA	Return on Assets
ROE	Return on Equity
SAR	South Asia Region
SBA	Small Business Administration
SDBs	Sub-national Development Banks
SDGs	Sustainable Development Goals
SDR	Regional Development Companies
SDR	Special Drawing Rights
SIDS	Small Island Developing States
SIFEM	Swiss Investment Fund for Emerging Markets
Simest	Italian Company for Foreign Investments
SLB	Sustainability-Linked Bond
SLR	Statutory Liquidity Ratio
SMEs	Small and medium-sized enterprises
SOEs	State-Owned Enterprises
SOFID	Portuguese Society for the Financing of Development
SPV	Special Purpose Vehicle
SSA	Sub-Saharan Africa
SWEDFUND	Swedfund International AB
TA	Technical assistance
TCFD	Task Force on Climate-Related Financial Disclosures
TEIs	Team Europe Initiatives
TMC	The Montreal Club
TSKB	Industrial Development Bank of Türkiye
UMICs	Upper middle-income countries
UN	United Nations
UNDESA	United Nations Department of Economic and Social Affairs
UNDRIP	United Nations Declaration on the Rights of Indigenous Peoples
UNEA	United Nations Environment Assembly
UNECA	United Nations Economic Commission for Africa
UNFCCC	United Nations Framework Convention on Climate Change
UNGPs	United Nations Guiding Principles on Business and Human Rights
WAEMU	Western African Economic and Monetary Union
WBG	World Bank Group
WRI	World Resources Institute

ACKNOWLEDGEMENTS

The Publication Coordinators extend special thanks to all those who contributed directly or indirectly to the edition of this book, and in particular (alphabetical order):

Elvin Afandi (IsDB), Alex Moreira Andrade (BNDES), Paulo Roberto de Oliveira Araujo (BNDES), Amélie Aubert (AFD), Celia Benboualia (BearingPoint), Carl Bernadac (AFD), Cristina Blaso (BNDES), Alexis Bonnel (AFD), Lavinia Barros de Castro (BNDES), Fatoumata Binta Barry (BearingPoint), Claudia Marcela Gutiérrez Cárdenas (Bancoldex), Julian Clec'h (Caisse des Dépôts et Consignations), Benjamin Coudert (AFD), Natalia Cintia Cupello (BNDES), Rayan Delacroix (BearingPoint), Olivier Darondel (BearingPoint), Hélène Djoufelkit (AFD), Antonin d'Ersu (AFD), Jérémie Daussin-Charpentier (AFD), Bertrand de Dianous (AFD), Ange Nguedia Djoumessi (BearingPoint), Hervé Dubreuil (AFD), Thomas Eloy (AFD), Cyril Gerardon (AFD), Audrey Guiral-Naepels (AFD), Jean-Michel Huet (BearingPoint), Djedjiga Kachenoura (AFD), Catherine Karyotis (Neoma Business School), Inès Labidi (AFD), Leana Lebeuf (BearingPoint), Hugo Lecue (AFD), Katrin Lueke (EDFI), Thomas Marois (McMaster University), Julie Marsaudon (AFD), Florence Marzuk (AFD/IDFC), Zeph Nhleko (DBSA), Ysaline Padieu (AFD), Sandra Kassab (AFD), José de Luna Martinez (IMF), Franck Komlanvi Moglo (BOAD), Ysaline Padieu (AFD), Nathalie Nirina Pierson (BearingPoint), Christine Poursat (AFD), Lina Maria Ricaurte (Bancoldex), Sophie Salomon (AFD), Dougouye Omar Sanogo (Université Clermont Auvergne), Kampeta Pitchette Sayinzoga (BRD), Damien Serra (AFD), Lucie Astier Such (AFD), Iona Tuta (The Danish Human Rights Institute), Jiajun Xu (INSE, Peking University), Laurent Zylberberg (Caisse des Dépôts et Consignations).

This publication is designated to provide competent and reliable information regarding the subject matter covered. However, the authors and publishers specifically disclaim all responsibility for any liability, loss or risk, personal or otherwise, that is incurred as a consequence, directly or indirectly, of the use and application of any of the contents of this book. The views expressed in this publication do not reflect the respective position of AFD or UNDESA. Errors, omissions and inaccuracies are those of the authors only.

Development banks are key players in fostering economic growth and sustainable development, including through the financing long-term projects with large developmental impacts underserved by the private sector and through the provision of countercyclical support during crises. They are receiving renewed attention by policy makers and new institutions have been created in the last two decades.

This book consolidates information on public development banks, exploring what characteristics support their effectiveness and their role in financing sustainable development. It emphasizes the importance of maintaining profitability, strong governance, risk management, effective monitoring and evaluation systems and cooperation for maximizing impact. Development banks address market failures and catalyze private sector finance, generating "additionality" through impactful projects.

The book builds on The Finance in Common System (FiCS), a global initiative conceived to promote stronger collaboration among development banks to boost and align financial flows to the benefit of the SDGs.

Finance in Common