Finance in Common

UNLOCKING THE POTENTIAL OF PUBLIC DEVELOPMENT BANKS FOR SUSTAINABLE DEVELOPMENT

A FINANCE IN COMMON CONTRIBUTION TO FfD4

Context and Purpose of the Report

As the international community prepares for the Fourth International Conference on Financing for Development (FfD4) in Seville, the United Nations Department of Economic and Social Affairs (UN DESA) has called for strategic input to help shape the future of the global financial system.

Recognizing the pivotal role of Public Development Banks (PDBs) in financing growth and sustainable development, UN DESA invited Finance in Common (FiCS) to lead the preparatory work on public finance and contribute to concrete discussions on blended finance and private sector mobilization. This report responds to that request, offering an in-depth analysis of how PDBs can operate as a system to better align financial flows with the Sustainable Development Goals (SDGs) and global priorities.

Development and Coordination

Developed under the leadership of FiCS Chairman Rémy Rioux, this report represents the collective perspective of the global PDB community.

It was coordinated and drafted by Clémence Guiresse, ensuring alignment with FiCS priorities while engaging key stakeholders throughout the process.

The report also integrates insights from extensive consultations across the broader development finance ecosystem, reinforcing its role as a strategic contribution to the FfD4 discussions.

About Finance in Common (FiCS)

Finance in Common (FiCS) is the global coalition of all 530 Public Development Banks, ranging from Multilateral Development Banks (MDBs) to National and Local Development Banks. Together, they manage approximately $23 trillion in assets and invest more than $2.5 trillion annually, positioning themselves as a powerful force for sustainable and inclusive growth. Since its launch in 2020, FiCS has worked to enhance the role of PDBs within the global financial system by fostering collaboration, aligning financial flows with development objectives, and advancing innovative financial solutions.

By progressively uniting development banks under a common vision, FiCS promotes a systemic transformation to maximize the impact of public finance while catalyzing private sector engagement. This report builds on that vision, advocating for a more structured and coordinated PDB system to accelerate progress toward financing the SDGs.

Looking Ahead

FfD4 is not just a moment for reaffirming commitments. It must mark the start of a sustained effort to transform the global financial system. The recommendations outlined in this report lay the groundwork for future actions, ensuring that public finance is fully leveraged to bridge investment gaps and foster a more equitable, resilient, and sustainable global economy.

The Finance in Common movement remains committed to supporting these efforts, working alongside international institutions, Member States, and financial actors to translate these recommendations into concrete action.

TABLE OF CONTENTS

Clickable titles

EXECUTIVE SUMMARY

Unlocking Public Development Banks' Potential for Sustainable Development Finance

As the global community prepares for the Fourth International Conference on FInancing for Development (FfD4), urgent action is needed to scale up sustainable development financing. With only five years remaining to achieve the Sustainable Development Goals (SDGs), progress has been slower than required. Public Development Banks (PDBs) are essential in driving the transformation needed to shift financial flows toward sustainable, low-carbon, and resilient growth. This document, prepared by the Finance in Common System (FiCS), presents key recommendations aimed at unlocking PDBs' full potential to catalyze a more efficient, inclusive and sustainable global financial system.

Key Recommendations

1. Setting an ambitious framework : making PDBs effective "SDGs enablers"

Unlocking PDBs' potential is crucial to addressing the scale and urgency of sustainability challenges both nationally and globally. To achieve this goal, it is essential to establish a shared ambition for PDBs as SDG enablers by embedding sustainability at the core of their mandates and operations. Such mandates must explicitly require the redirection of financial flows away from investments incompatible with a just, inclusive transition to sustainable, low-carbon, and resilient growth.

Key Recommendations:

- **Review and align PDBs' mandates:** PDBs should revise their mandates to prioritize SDG-aligned objectives in the context of national development priorities, ensuring transparency in SDG alignment and impact reporting.
- **Mainstream sustainability across operations:** Implement sustainability considerations at both the entity and operational levels to effectively steer resources toward SDG-aligned projects, programs, and policies.

2. Designing a seamless and at scale architecture: one coherent PDBs system

While PDBs play vital roles at national, regional, and international levels, their fragmented architecture and sometimes overlapping efforts reduce their collective impact. To drive sustainable development financing more effectively, PDBs must operate as a unified system, leveraging their complementary strengths and fostering synergies through enhanced partnerships.

Key Recommendations:

- **Mirror MDB reforms to all PDBs:** Incorporate multilateral, regional, national, and local development banks into a cohesive system to improve resource utilization efficiency and strengthen trust in the multilateral governance of sustainable development financing.
- **Foster synergies across the FiCS system:** Encourage collaboration among MDBs, Regional Development Banks (RDBs), and National and Sub-national Development Banks (NDBs) to harmonize procedures, leverage local expertise, and enhance project origination capacities to generate more quality, bankable projects aligned with national priorities.
- **Align financial flows with national priorities:** Strengthen country ownership by placing NDBs at the center of the implementation of national development strategies, ensuring that financing is aligned with country-led development priorities rather than donor-driven agendas.

3. Empowering PDBs: mobilizing resources and tools to unleash potential

A unified PDB system requires adequate resources and enabling conditions to maximize its impact. This includes increasing capital, improving access to funding, fostering favorable regulatory environments, and supporting innovative sustainable finance approaches.

Key Recommendations:

- **Enhance capital and financing capacities:** Increase public finance flows and optimize PDB balance sheets through measures such as Capital Adequacy Framework (CAF) reviews. Establish streamlined processes to enable PDBs to access vertical climate and SDG-aligned funds.
- **Enhance project preparation and origination:** Develop structured pipelines of investment-ready projects, ensuring they align with SDGs while addressing investor requirements for bankability and scalability. Strengthening collaboration between PDBs and technical assistance providers will be critical to this effort.
- **Leverage private finance:** Actively seek to catalyze private investment for sustainable development by establishing PDBs as a distinct asset class with clear sustainability criteria, and fostering market access through regulatory and policy reforms.
- **Regulatory and risk management frameworks reforms:** Engage in structured dialogue to adapt regulatory frameworks to the distinctive mandates of PDBs, removing barriers that limit their ability to scale SDG investments. Enhance risk management frameworks to mitigate perceived risks, especially in emerging markets.
- **Incentivize strategic use of climate and SDG finance:** Promote the efficient and strategic use of climate, biodiversity, and SDG finance, ensuring that funds are directed toward projects with transformational, long-term impact.

Call to Action

These recommendations call for bold, coordinated action by Member States at FfD4 to align PDBs' mandates, foster systemic collaboration, and ensure access to resources and tools. This collective effort will enable PDBs to play their pivotal role in driving progress toward the SDGs while shaping a global financial system that supports sustainable, inclusive, and resilient development.

The Finance in Common System remains committed to supporting these initiatives, facilitating dialogue, innovation, and collaboration to unlock the full potential of PDBs in achieving the SDGs.

INTRODUCTION

As the world approaches the Fourth International Conference on Financing for Development (FfD4), the imperative to realign global financial systems with the Sustainable Development Goals (SDGs) has never been clearer. With only six years left to achieve the 2030 Agenda, progress remains critically off track. The COVID-19 pandemic, compounded by geopolitical tensions and deepening climate and biodiversity crises, has further strained already inadequate financing systems. Public Development Banks (PDBs) stand out as key actors for change due to their public mandates, ability to address market gaps, and capacity to mobilize long-term, patient capital. Already managing over $23 trillion in assets and accounting for approximately 12% of global annual investments, PDBs are uniquely positioned to redirect financial flows toward sustainable, inclusive growth. They also have a unique role as interlocutor in creating enabling investment climate in each country, by channeling collective voices of the private sector to the policymakers and vice versa, thus paving the way for trust building and predictability.

Despite this potential, systemic obstacles within the global financial architecture significantly limit PDBs' capacity to act. Fragmented mandates, insufficient resources, restrictive regulatory frameworks, and inefficiencies in global coordination undermine their ability to mobilize and deploy resources effectively. From the perspective of PDBs, several critical challenges obstruct the alignment of financial flows with sustainable development priorities:

- **Fragmented development finance architecture:** PDBs operate within a scattered landscape characterized by overlapping mandates and uncoordinated priorities. This lack of cohesion perpetuates geographic disparities, with 80% of PDB assets concentrated in G20 economies, leaving the most vulnerable regions underfunded.

- **Mistrust in multilateral governance:** The existing financial architecture has long undergone critique for its deficit of inclusivity, fairness, and democratic governance, weakening trust in multilateral systems to address global and local challenges equitably.

- **Misallocation of financial resources:** Financial flows remain misaligned both thematically and geographically. Indeed, beyond the urgent need to not only finance green but also shift away from brown investments, insufficient resources are directed toward the most vulnerable countries and contexts, where they are critically needed.

- **Multiplicity of frameworks and standards:** The proliferation of overlapping frameworks—including ODA, TOSSD, climate finance metrics, taxonomies, and ESG criteria—creates confusion, undermining accountability and incentives for sustainable development financing.

- **Capacity to unlock ambition:** There is an urgent need to scale and leverage both public and private resources to advance the implementation of the 2030 Agenda and related frameworks such as the Paris Agreement, Sendai Framework, and Kunming-Montreal Biodiversity Framework.

In that context, the Finance in Common System (FiCS) proposes its commitment to actively engage in global development finance dialogues. At the invitation of UN DESA, FiCS was mandated to lead preparatory work on public finance and contribute to blended finance and private sector mobilization discussions. Building on its ability to convene institutions, provide robust research, and address operational challenges, FiCS is willing to contribute to critical conversations. By synthesizing insights from our community, this report seeks to inform the FfD4 deliberations and underscore the transformative potential of PDBs in fostering a just transition that leaves no one behind.

1.

PDBs' CRITICAL CONTRIBUTION TO SUSTAINABLE DEVELOPMENT FINANCING

Despite more than two centuries of existence, Public Development Banks (PDBs) are not always perceived as distinct players in the financial system. While largely used by states to address domestic challenges, their contributions and the special role they could play in the international financial architecture have long been overlooked. The last decade has marked a shift, with growing recognition of both their specialized role in financing sustainable development and the critical mass they represent in capital flows today. The evidence shows that, for any meaningful reform of the global financial system, the role of PDBs must be considered at all levels, from the initial design of financial policies to their effective implementation.

To analyze the critical role that PDBs could contribute to address urgent challenges, it is necessary to present a comprehensive definition of (a) who they are; (b) how they contribute to sustainable development financing; (c) the limitations and constraints they face; and (d) recommendations to unlock their full potential in enabling and fostering sustainable development.

A. WHO ARE PDBs? KEY FEATURES

PDBs stand as unique entities in the financial landscape: PDBs stand as unique entities in the financial landscape: they are public financial institutions, established by governments, with a mission to achieve specific policy objectives. Unlike private financial institutions, PDBs prioritize advancing public policy goals over maximizing profit. That focus positions them as key instruments for directing financial resources towards areas that are typically underserved by private investors yet critical for societal well-being, environmental resilience, and economic inclusivity.

Building on decades-long research, FiCS has come to establish five defining features of PDBs, which collectively distinguish them from both private and other public-sector institutions. First, PDBs are policy instruments with a mission to address financing gaps and invest in projects that private banks may avoid. In that sense, and although they are independent in their operations, PDBs are influenced by governments, through ownership and strategic steering mechanisms that ensure their alignment with national and international priorities. On the other hand, PDBs can be characterized as standalone entities with distinct legal status, separate financial statements, and dedicated staff – setting them aside from government funds. In terms of business models and funding structures, PDBs mainly use fund-reflow-seeking instruments, which means that, while not primarily profit-driven, they aim for the reimbursement of funds to reinvest them over time. On this basis, they utilize financial instruments such as loans, equity investments and guarantees, generally not only engaging in pure grant-making as purely aid-driven entities do. Besides, while they may receive periodic allocations from government budgets, PDBs actively seek additional funding through capital markets and financial institutions. This enables them to expand their capacities and impact, without over-relying on government budgets and fiscal revenues.

Defining features of Public Development Banks (FiCS)

The FiCS definition of PDBs is broad enough to include not only traditional banking institutions but also various non-bank entities like Public Investment Funds, Public Guarantee Funds, Trust Funds, Equity Funds, Partial Credit Guarantee Funds, and Mortgage Finance Companies. Another area of interest in the realm of public financial institutions is public commercial banks, which operate under public mandates but within commercial frameworks. This inclusive definition emphasizes the wide array of public financial institutions available to governments for promoting sustainable development.

Typology of Public Finance Institutions

Public Development Banks (PDBs)

MULTINATIONAL

Multilateral Development Banks (MDBs)

Regional Development Banks (RDBs)

NATIONAL

National Development Banks (NDBs)

SUBNATIONAL

Subnational Development Banks (SDBs)

→ **Dedicated mandate**

Non-Banks (NBFIs)

GUARANTEE FUNDS

INVESTMENT FUNDS

MORTGAGE FUNDS

→ **Filling market gaps**

Public Commercial Banks

PURE UNIVERSAL BANKS (PUB)

Explicit of implicit mandate

PURE COMMERCIAL BANKS (PCB)

No mandate, profit-driven

→ **Commercial banking license**

Sustainability - Alignement with Paris and SDG - Accountability

The wide panorama of Public Finance Institutions involved in Finance in Common

In 2024, there were over 530 PDBs across 155 countries, collectively managing assets of approximately USD 23 trillion. These institutions contribute to around 12% of global annual investments, from both public and private sectors combined. However, this substantial financial force is not evenly distributed; approximately 80% of PDB assets are concentrated within the G20 economies. This concentration highlights the significant resource gap in many low- and middle-income countries, where the needs for development financing are the largest and most pressing.

In that context, the Finance in Common System (FiCS) launched in 2020 provids a unified platform for PDBs worldwide, that jointly committed to redirecting financial flows toward climate and sustainable development goals. Today, the coalition brings together all PDBs, including all multilateral development banks (MDBs), the World Federation of Development Financing Institutions (WFDFI) and its five regional associations of PDBs[1] and the International Development Finance Club (IDFC). In dialogue with other financial coalitions, and with support from all relevant development stakeholders - including multiple UN agencies -, FiCS fosters greater coherence and cooperation among all PDBs, strengthening their collective impact on the SDGs.

[1] Namely, the Association of African Development Finance Institutions (AADFI), Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank (ADFIMI), the Latin American Association of Development Financing Institutions (ALIDE), and the European Long-Term Investors Association (ELTI)

WFDFI

The World Federation of Development Financing Institutions

Established in 1979, the World Federation of Development Financing Institutions (WFDFI) is the global umbrella organization for regional associations of Development Finance Institutions (DFIs). It was founded by key regional networks, including the Association of African Development Finance Institutions (AADFI), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), the Latin American Association of Development Financing Institutions (ALIDE), and German KfW. Later, it expanded to include the Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank (ADFIMI) and the European Long-Term Investors Association (ELTI), reinforcing its global reach.

WFDFI enhances the role of DFIs in promoting sustainable development by fostering collaboration, knowledge-sharing, and policy advocacy. It works to strengthen the capacity of its members, improve development financing practices, and support economic progress, particularly in emerging markets. By leveraging the expertise and financial resources of its network, WFDFI plays a pivotal role in mobilizing public and private capital for long-term investment.

As one of the founding members of the Finance in Common System (FiCS), WFDFI has been instrumental in uniting DFIs on a global scale to drive collective action for sustainable development. It actively contributes to global discussions on development finance, ensuring that DFIs are recognized as key actors in the international financial architecture.

Through its engagement in major global platforms, WFDFI advocates for greater financial inclusion, climate action, and social impact investment. It remains committed to enhancing the role of DFIs as strategic enablers of economic transformation, helping to bridge financial gaps and accelerate progress toward the Sustainable Development Goals (SDGs).

IDFC

The International Development Finance Club

Established in 2011, IDFC is a coalition of 27 public development banks from around the world. As the largest provider of public development and climate finance globally, IDFC collectively manages over USD 4 trillion in assets (2022) and commits more than USD 800 billion annually, including USD 170 billion per year in climate finance. The club is co-chaired by Bancoldex and the West African Development Bank (BOAD), with its Secretariat hosted by the French Development Agency (AFD).

The Club fosters collaboration with four core objectives:

1. **Knowledge sharing and capacity building**

IDFC supports its members in mainstreaming climate, biodiversity, and SDG finance through tailored tools and training:

- Development of climate and biodiversity toolboxes.
- Training programs such as the 2023 session on nature-based solutions for adaptation in South Africa and the 2024 session on carbon accounting in Colombia..

2. **Aligning finance to sustainable development**

IDFC advocates for aligning financial flows with the Sustainable Development Goals (SDGs) and the Paris Agreement:

- **Green Finance Mapping:** In 2023, IDFC members reported USD 199 billion in green finance commitments, totaling USD 1.7 trillion since 2015. This includes USD 175 billion for climate mitigation and USD 8.2 billion for biodiversity in 2023.

- **Gender Finance Mapping:** The inaugural report in 2023 revealed EUR 10 billion in 2021 commitments, while the 2024 report recorded EUR 23.7 billion cumulatively for 2022-2023.

- **Global Commitments:** At COP26, IDFC pledged to mobilize USD 1.3 trillion in green finance by 2025 and USD 100 billion in biodiversity finance by 2027.

3. **Fostering cooperation among members,** to facilitate project preparation and financing:

- Current initiatives include a program on sustainable urban development (NUCA), financed by the German Ministry of Economic Affairs and Climate Action through the International Climate Initiative (IKI).

4. **Partnering across the financial ecosystem** to strengthen financial ecosystem synergies:

- Partnerships include the Green Climate Fund (GCF), enhancing member access to GCF resources, and the Mainstreaming Climate in Financial Institutions (MCI) initiative, which integrates climate considerations into financial strategies.

FiCS

Finance in Common

Established in 2020, the Finance in Common System (FiCS) brings together the over 530 PDBs worldwide, collectively managing $23 trillion in assets—12% of global annual investments. FiCS provides a global platform to align financial flows with the Sustainable Development Goals (SDGs) and the Paris Agreement, addressing systemic challenges like fragmented mandates, limited capacities, and resource gaps, especially in underserved regions. The objective is to transform PDBs from individual actors into a coordinated system, fostering coherence and collaboration at local, national, regional, and global levels. . FiCS also works in partnership with other key coalitions, such as the Network for Greening the Financial System (NGFS), GFANZ, and UN agencies, to amplify its reach and impact.

Core pillars of FiCS:

1. **Community of Practice:** A space for peer-to-peer learning, knowledge sharing, and co-financing opportunities, connecting PDBs with the private sector, civil society, and other stakeholders to scale sustainable finance.

2. **Policy Dialogue:** By engaging in global forums, FiCS positions PDBs as pivotal change-makers, shaping policies that advance the SDGs and address critical global challenges.

3. **Research:** FiCS generates evidence-based insights through its Global Research Network (GRN), a community of 50+ scholars and practitioners, while its PDB Reference Book and database provide a comprehensive overview of PDB contributions to systemic change.
4. **Annual Summit:** As the cornerstone event of FiCS, the Summit gathers PDBs and stakeholders annually to share best practices, showcase innovations, and strengthen partnerships.

Achievements and ongoing efforts:

FiCS supports practical initiatives to address global challenges, including thematic coalitions on water, agriculture, and gender equality. The Coalition for Sustainable Development through Sport, launched in 2020, aims to boost investment in inclusive and sustainable sports infrastructure, with members committing to invest $10 billion by 2030.
The FiCS Financial Innovation Lab, launched in 2024, develops and pilots innovative financial instruments to scale climate finance, particularly in emerging markets and developing economies.

FiCS also actively contributes to global policy dialogues, including the G20 and the United Nations.

- Under Brazil's presidency in 2024, FiCS provided inputs to the G20 finance track, focusing on sustainable finance and development priorities, and will continue its engagement under South Africa's presidency in 2025.
- In the context of the Fourth UN Conference on Financing for Development (FfD4), FiCS plays a key role to align the contributions of PDBs with the FfD4 agenda, providing evidence-based insights and practical solutions to address financing gaps and advance sustainable development globally.

POLICY MANDATE	DISTRIBUTION
AGRI	7%
EXIM	10%
FLEX	37%
HOUS	7%
INFRA	6%
INTL	6%
LOCAL	3%
MSME	25%

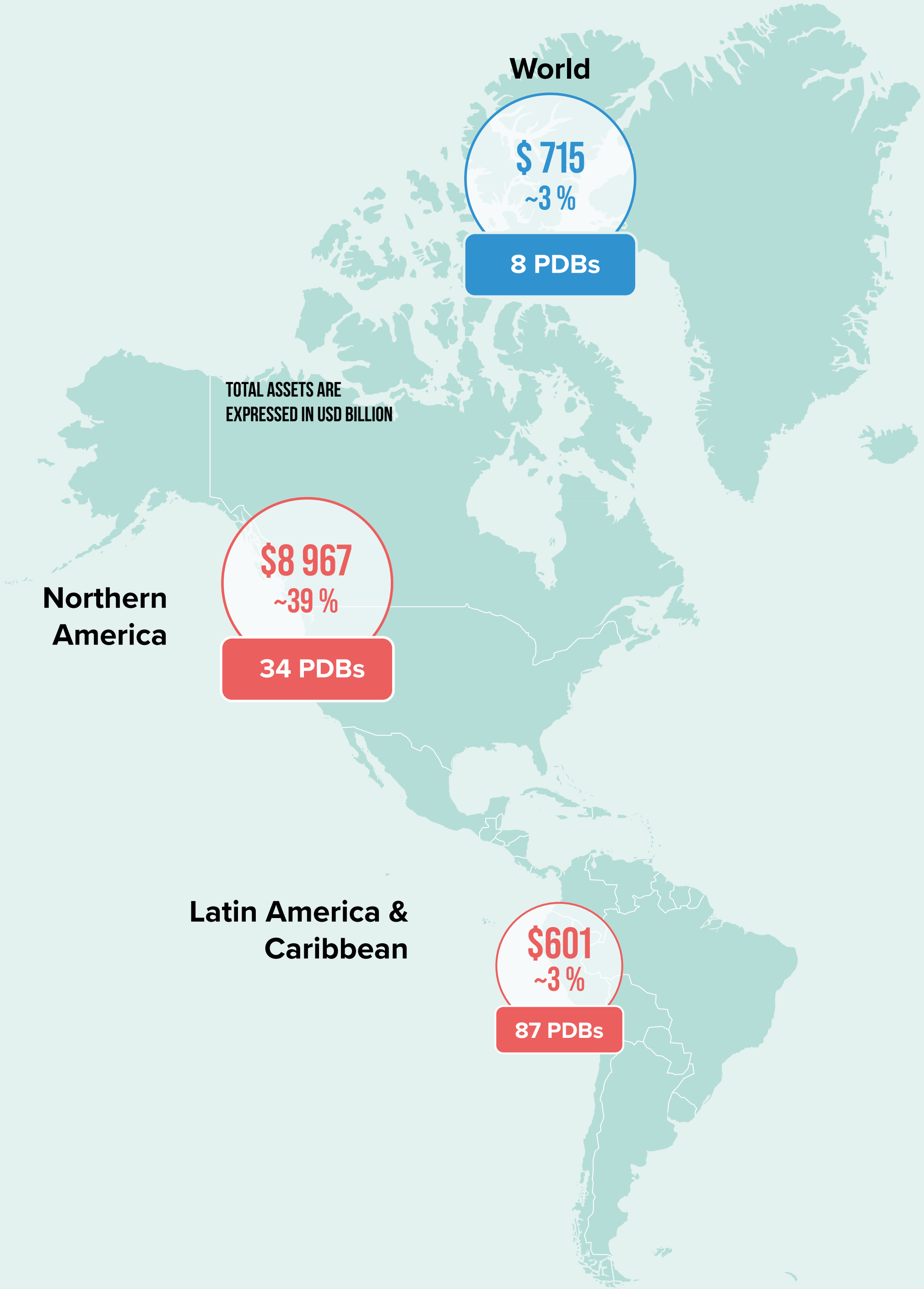
GEOGRAPHIC MANDATE	DISTRIBUTION
GLOBAL	17%
REGIONAL	9%
NATIONAL	52%
SUBNATIONAL	22%

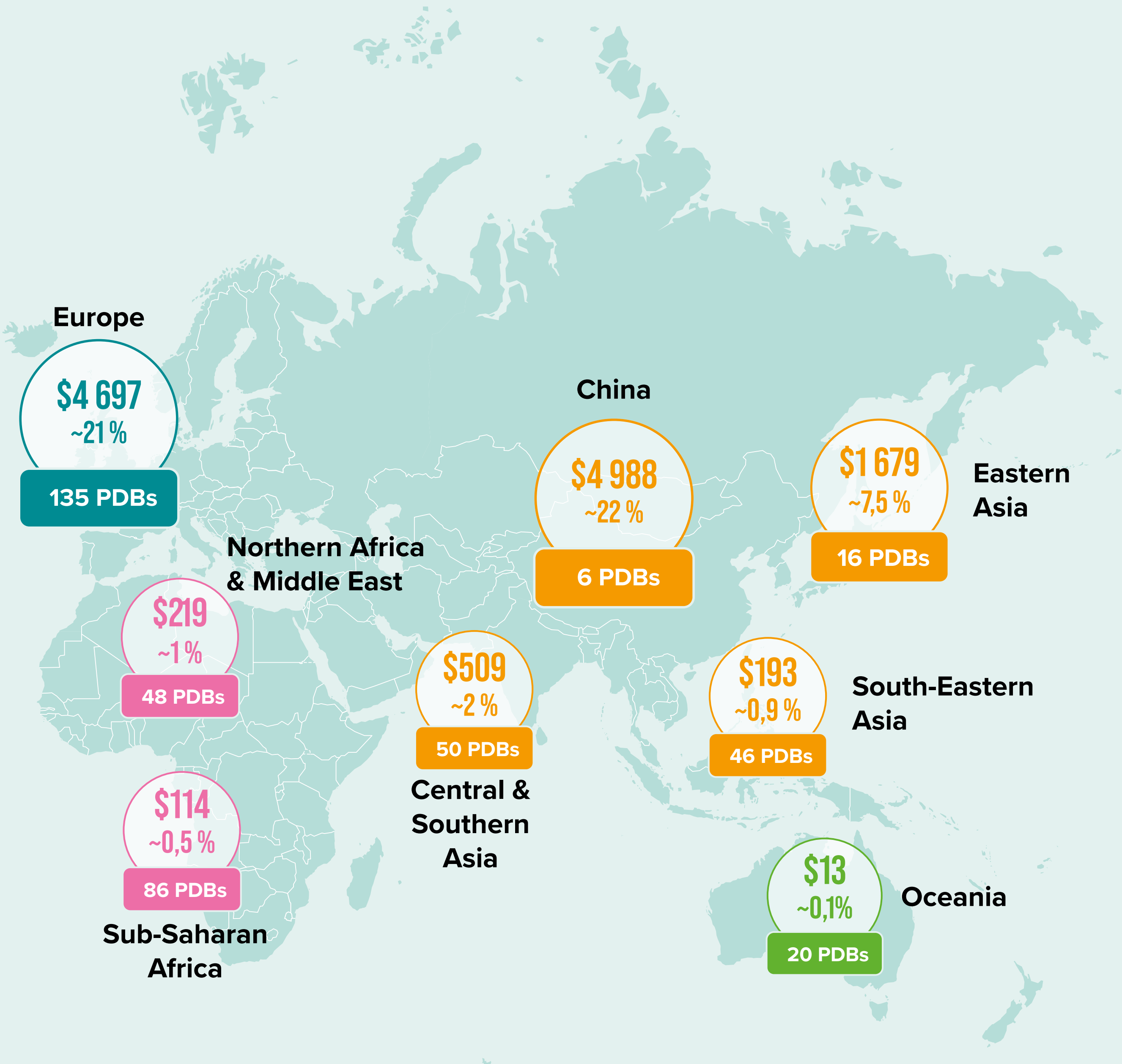
Total assets are expressed in USD billion

WHERE ARE THE PDBs?

Updated total assets correspond to 2023 figures

Xu, Jiajun, Régis Marodon, Xinshun Ru, Xiaomeng Ren, and Xinyue Wu. 2021. "What are Public Development Banks and Development Financing Institutions? Qualification Criteria, Stylized Facts and Development Trends."China Economic Quarterly International, volume 1, issue 4: 271-294. Open-source database website.





536 PDBs
in 2025

12%
annual financing as a % of total world investment

~$23 TRILLION
in assets

ACROSS 155+
Countries & economies (more than 80% of total assets in G20 countries)

B. WHAT ARE PDBS DOING? KEY FUNCTIONS

In light of their unique nature in the financial system, and their mandate to advance public policy objectives rather than maximize profit, PDBs are key players in sustainable development financing. Accountable entities at the service of the public interest, they orient investments to support national priorities in areas like infrastructure, health or education - that are crucial to sustainable development but where returns may be indirect or long-term. PDBs contribute to sustainable growth through three key roles: they serve as i) significant financers for sustainable development, ii) strategic partners with a deep understanding of local contexts, and iii) market shapers that guide the flows of both public and private capital.

Financers of sustainable development

In the global financial system, PDBs stand among the best-suited institutions to bridge the investment gaps in sectors and regions that are structurally underserved. Indeed, one of the most distinctive functions of PDBs is their ability to provide long-term capital, essential for sustainable development projects that require funding over extended periods. In addition to patient capital, PDBs fulfill a countercyclical role, stepping in to lend and invest during economic downturns when private capital recedes. This stabilizing function was evident in the last 15 years when 20% of existing PDBs were created in that period[2], as a response to the 2008 global financial crisis and the outburst of the 2020 Covid-19 pandemic. By maintaining flows of investments to essential sectors and helping to sustain economic activity while mitigating the effects of the recession, PDBs are instrumental in responding to both urgent and long-term crises.

In concrete terms, PDBs offer a wide range of financial instruments, including concessional and non-concessional loans, which come with flexible terms suited for long-term projects. Grants are another critical tool, delivering direct financial support without requiring repayment, which is particularly beneficial for high-impact, low-profit initiatives. Guarantees reduce investment risk, encouraging private sector participation—particularly valuable for large-scale infrastructure projects. Additionally, equity investments in companies or projects are also part of the PDB toolkit, to support growth and ensure alignment with sustainability objectives. Altogether, this comprehensive set of instruments, along with PDBs' commitment to financial innovation, allow them to respond flexibly to emerging challenges, continuously finding new ways to mobilize capital and advance sustainable impact.

Islamic Development Bank: Catalyzing Sustainable Development Funding through Sukuks

Sukuk as a Catalyst for Funding a Better Future

As a AAA-rated supranational institution, the Islamic Development Bank (IsDB) mobilizes market resources to support sustainable development across its 57 Member Countries (MCs). To achieve this, IsDB issues Sukuk (Islamic bonds), Shariah-compliant instruments akin to conventional fixed-income securities. The Sukuk market is expected to surpass US$ 1 trillion in 2025, and IsDB has successfully raised over US$ 50 billion through Sukuk issuances to finance sustainability-linked projects aligned with the Sustainable Development Goals (SDGs).

Sustainable and Ethical Finance

Sukuk operate in line with Islamic principles, ensuring that prohibited activities such as weapons, alcohol, and gambling are excluded from financing. By design, they prioritize sustainability, making them effective instruments for ethical and responsible investments.

Under its Sustainable Finance Framework, IsDB has issued more than US$ 5 billion in Green and Sustainability Sukuk, aligned with International Capital Market Association (ICMA) Principles. These issuances finance renewable energy, clean transportation, healthcare, and climate-resilient infrastructure, reinforcing the role of Sukuk in sustainable development.

Impact and Achievements

- 2019 Green Sukuk (€1 billion): Fully allocated to 11 renewable energy and clean transportation projects, avoiding 12 million tons of CO2 emissions annually.
- 2020 COVID-19 Sustainability Sukuk (US$ 1.5 billion): Focused on access to essential services and SME financing, benefiting 80 million people with outpatient services annually.
- 2021 Sustainability Sukuk (US$ 2.5 billion): The largest IsDB issuance, with 90% allocated to social projects and 10% to green projects, including the training of 3 million health personnel.

Scaling Up Sustainable Finance

The increasing focus on climate action and social responsibility is driving investor interest in Sukuk. By tapping into this market, IsDB is expanding the reach of Islamic finance as a scalable and innovative mechanism for SDG-aligned investments, helping to bridge global funding gaps for sustainable development.

[2] Institute of New Structural Economics (INSE) at Peking University, Agence Française de Développement, Fondation pour les Etudes et Recherches en Développement International (FERDI). Public Development Banks and Development Financing Institutions Database. Extracted online 2024. / doi:https://doi.org/10.18170/DVN/VLG6SN

Implementers of sustainable development solutions

Beyond financing, PDBs serve as strategic partners in sustainable development, leveraging their local expertise and technical capacities for policy and strategic advice, stakeholder mobilization and dialogue, effective project origination. National and local development banks, deeply embedded in their contexts, act as honest brokers, aligning financial resources from both public and private sectors with local and national priorities. This unique positioning not only enhances country ownership of development processes but also channels funds directly into projects that benefit public welfare and align with national strategies and global goals. Meanwhile, international PDBs—whether MDBs or national development banks with broader geographic mandates—often provide technical assistance and capacity-building resources, delivering training, knowledge transfer, and support that enable local institutions to independently manage and sustain development projects.

Collectively, PDBs bring the technical expertise necessary to identify, prepare, implement, and monitor quality projects that effectively address sustainable development goals. From initial project design to execution across various sectors, PDBs ensure projects are well-structured and impactful, with rigorous monitoring and evaluation processes to maximize impact and integrate lessons learned into future initiatives. Their operations are conducted under public scrutiny, adhering to stringent standards of accountability and transparency to build trust with governments, stakeholders, and the public. Additionally, PDBs facilitate forums and platforms that foster collaboration across governments, private sector actors, academia, and civil society, creating valuable spaces to refine public policies and respond to evolving development needs. Finally, as knowledge banks, PDBs document best practices, analyze regional challenges, and disseminate insights that support sustainable development efforts, making practical expertise widely accessible for the benefit of all sustainable development stakeholders.

Mobilizing Finance for Territorial Development: The Case of CDG

Established in 1959, the Caisse de Dépôts et de Gestion (CDG) has long served as a steadfast guardian of national savings through rigorous deposit management. Over the decades, as its asset base has grown substantially, CDG's mission has expanded in tandem with a continuous modernization of both its operating methods and organizational structure. In the process, CDG has emerged as a genuine catalyst for long-term investment, developing a singular expertise in the execution of large-scale structural projects. Its public status combined with the private character of the funds it manages demands an exceptional degree of discipline in both asset management and investment selection. In fulfilling its dual mandate to secure collected savings and to foster the economic development of the Kingdom, CDG has forged the cornerstone of its identity.

The Group's motto, For Future Morocco, encapsulates its founding purpose and reflects its unwavering commitment to the nation's progress. By mobilizing every available resource, CDG seeks not only to collect and safeguard savings but also to expand social welfare, finance economic growth, execute major infrastructure projects, and support targeted sectoral policies. Today, the role of CDG is evolving toward a new model: one that leverages its capacity to catalyze financing and mobilize funds to drive territorial development while maximizing positive impacts across the three pillars of sustainable development.

A prime example of this renewed commitment is CDG's strategic partnership, forged in 2021 with a local public financial institution. This collaboration is structured around three complementary components: co-financing territorial development projects, refinancing, and the mutual exchange of expertise with Territorial Communities to address their specific needs. In doing so, CDG remains acutely aware of the following priorities:

- Expanding Financing Volumes: Increasing the availability of funds in line with the intensifying requirements of Territorial Communities.
- Supporting Climate Adaptation: Financing projects of considerable scale that are integral to major infrastructure policies, particularly those aimed at adapting to climate change.
- Innovating Financial Instruments: Developing novel financial tools to meet national imperatives such as water scarcity, energy transition, and social inclusion.

CDG is resolutely committed to participating in the new dynamics emerging within local territories, thereby adding a vital dimension to support critical initiatives, including :

- Addressing the challenges of sustainable development and the adaptation to and mitigation of climate change ;
- Advancing the National Sustainable Development Strategy;
- Implementing the National Low Carbon Strategy;
- Realizing the objectives of the National Climate Finance Strategy ;
- Facilitating Regional Development Plans, among other strategic endeavors.

In this way, CDG not only reinforces its traditional role as a custodian of national savings but also redefines itself as a transformative force capable of channeling financial resources into initiatives that drive sustainable and inclusive economic progress across Morocco.

BNDES: Strengthening Local Development Banks and Scaling Sustainable Projects

Founded in 1952, the Brazilian Development Bank (BNDES) is one of the largest and most emblematic PDBs, specially as regards green finance, renowned by the Amazon Fund and for being the top renewable energies financier in the world. Besides its role for a just ecological transition and decarbonization, BNDES also supports the social development, decent work and income, productive diversification of the Brazilian economy and innovation and digitalization, operating through financing, guarantees, equity participation, funds, non-reimbursable support and services. BNDES provides strategic services in origination, by structuring bankable projects in sectors such as highways, smart cities, public lighting, sanitation, waste management and forests, reducing bottlenecks and creating investment opportunities.

In 2023, BNDES approved USD30 billion in operations and disbursed USD20 billion. Supporting a portfolio of 151.2 thousand clients, BNDES' technical expertise and activities also are key to disseminate standards in the preparation and implementation of projects in Brazil, including to subnational development banks covering Brazilian states or regions.

Among BNDES' initiatives involving subnational PDBs, a highlight to be noted is the sanitation project structured by BNDES with the Brazilian State of Alagoas including water distribution and sewage treatment, to cover 102 municipalities and benefit 1.4 million people. BNDES also financially supported the project with the amount of USD 94 million by means of subscribing bonds issued in 2022, and BNB (Northeast Region PDB) financed it with USD154 million in 2023.

Also with BNB, in 2024 BNDES launched the "Caatinga Viva" within its "Floresta Viva" (Living Forest) match-funding initiative. Caatinga is a fragile Northeastern semi-arid tropical biome found exclusively within Brazil characterised by its distinct shrub, cacti and thorn vegetation, and also by its efficiency in CO_2 capture – higher than rainforests such as the Amazon. The "Caatinga Viva" aims to invest USD 1.5 million to implement up to 4 projects of at least 100 hectares each in size for forest recovery and sustainable economic activities, also promoting social improvement.

Finally, BNDES also played a crucial role mobilising USD 4.4 billion in 2024 to support Rio Grande do Sul State to face the climate crisis due to floods, reaching 464 municipalities, including via on-lending transactions with BRDE (Southern Region PDB), fostering job generation as well.

Shapers of sustainable development markets

Lastly, PDBs are increasingly serving as market shapers, mobilizing and channeling both public and private capital to drive sustainable economic growth. Originally designed to address market gaps – or failures - in high-risk sectors or underserved regions, PDBs have an increasing crowding-in effect that attracts private investment to critical development projects, through targeted funding and risk-sharing mechanisms. They also act in non-financial terms through policy and regulatory support, capacity building, dialogue facilitation. By building essential market infrastructure and setting rigorous standards, they create an environment that fosters sustainable, inclusive economic growth. Renewable energy financing provides a prime example: PDBs' leadership has reshaped the energy market by setting impactful standards and trends that accelerate the transition to cleaner, greener energy solutions. In this way, PDBs steer both the scale and direction of capital flows, ensuring they contribute to a more resilient and sustainable economy.

EIB: Shaping Renewable Energy Markets and Scaling Wind Power in Europe

To achieve a 45% renewable-energy share in the EU by the end of the decade, installed wind capacity should reach 117 gigawatts (GW). EIB Group's comprehensive initiatives and extensive set of instruments will enable building 32 GW, significantly shaping the wind energy market under the framework of the EU Wind Package.

Providing Investment Loans:

The EIB offers favourable conditions long-term financing that reduce the cost of capital for developers. For instance, the EIB supported the Borssele Offshore Wind Farm in the Netherlands with a EUR 500m loan which accelerated the growth of offshore wind capacity and set a precedent for future offshore wind projects, demonstrating the bankability and attractivity of large renewable projects.

Risk-Sharing Instruments and Guarantees:

The EIB also plays a crucial role through guarantees and risk-sharing mechanisms. A major initiative is the **Pan-EU Wind Power risk sharing EUR 5bn facility** (Wind Package-WP), to enable new investments through counter-guarantees used by EU Financial Intermediaries (FIs) for advance payments and performance bonds associated with supply contracts of wind energy actors. Launched in 2023, the WP shall be fully utilised by 2025 targeting EUR 80bn total investments in the whole value chain. 6 transactions were already signed in 2024 for EUR 3bn. This is also a step towards a unified capital market as in many cases Original Equipment Manufacturers (OEMs) will be served by FIs headquartered in another country.

Green Bonds:

Green bonds are a powerful tool to channel capital into the sector. By issuing bonds specifically earmarked for renewable energy projects, including wind farms, the EIB helps institutionalize green finance in the sector, proving the viability and profitability of clean energy investments, and encouraging other actors to adopt similar strategies.

Supporting Innovative Wind Technologies:

Shaping the market also means investing in clean technologies, especially for Renewable Energy. In 2024, the European Investment Fund (EIF) committed EUR 30m to **Wind II**, a fund focusing on early-stage tech firms developing climate adaptation solutions for essential services and infrastructure across the EU.

Cross-Border Integration and Market Connectivity:

The EIB helps facilitating the integration of wind power into the European grid. A major project is the **North Sea Wind Power Hu**b, creating a vast offshore wind network. Providing financing and advisory services, the EIB ensures that wind energy generated can be efficiently distributed across Europe. This integration promotes greater market liquidity and market connectivity.

By providing financial resources and strategic guidance, the EIB contributes to the EU's renewable energy goals and fosters long-term market growth and stability.

C. WHY ARE PDBs NOT DOING MORE? KEY CHALLENGES

Despite their potential, PDBs face significant challenges that undermine their effectiveness in financing sustainable development.

The fragmented landscape of PDBs

First, structural weaknesses impede them to work as one coherent system, with a coordinated framework. Operating across local, national, regional, and global levels, PDBs function under divergent mandates and priorities, without clear, harmonized targets and accountability mechanisms. Uneven alignment of operations to the SDGs and limited adoption of best practices primarily affect the most pressing funding gaps. Furthermore, scarce cooperation among PDBs including still limited co-financing arrangements leads to inefficiencies, missed opportunities, duplicated efforts, and competition for resources.

This lack of common groundwork is even more regrettable that stark disparities in these institutions' financial and technical capacities across regions exacerbate geographical inequalities.

On one end of the spectrum, a small group of mega PDBs dominates the landscape. Eleven institutions alone hold 70% of all PDB assets, amounting to $16 trillion. Among these, the China Development Bank leads with $2.7 trillion in assets, while the European Investment Bank (EIB) and the U.S. mega-mortgage banks, Fannie Mae and Freddie Mac, contribute significantly to this concentration. Conversely, 74% of PDBs—primarily in low- and middle-income countries—are classified as small or micro-institutions, collectively controlling only 1% of total assets. The unequal share of financial means among geographies is evident in Africa, where PDBs represent 19% of the global total but account for just 0.9% of global PDB assets.

Access to capital markets also varies widely. PDBs in high-income countries often enjoy robust market access, raising funds at relatively low costs. By contrast, those in developing economies face higher borrowing costs and limited access due to perceived credit risks. For instance, African PDBs, despite their critical role, struggle to secure financing for the continent's significant development needs. Even when they do access capital markets, they frequently face higher borrowing costs due to perceived risks associated with their operating environments. This financial burden limits their capacity to fund large-scale or long-term development initiatives.

On the other hand, technical capacity constraints further deepen these divides. While smaller PDBs, especially in low-income regions, hold precious knowledge on their local context and stakeholders, as well as on the most pressing financing needs they often lack the institutional capacity to address them. Improper governance structures, inadequate technologies and systems, scarce human resources, or lack of scaling-up expertise deters them to design and implement complex projects. Larger institutions that benefit from economies of scale and greater institutional maturity have not been able to fully tackle the need for enhanced project origination, and asymmetrical technical capacities remain a barrier to sustainable development financing.

The disparities in financial and technical capacities among PDBs reflect an urgent need for greater integration and targeted support within the system of PDBs. Strengthening regional and global coalitions, such as the FiCS initiative, and fostering resource-sharing among these institutions could help bridge these gaps. Without addressing these inequalities, the potential of PDBs to act as enablers of sustainable development will remain unevenly distributed, leaving the regions most in need further behind.

Unincentivizing regulatory frameworks

Diverse regulatory challenges also shape PDBs' ability to fulfill their developmental mandates. These challenges vary across institutions, particularly between MDBs, NDBs, and bilateral institutions, reflecting differences in their governance structures, funding models, and operational contexts. While MDBs often benefit from exemptions or tailored regulatory frameworks aligned with their international governance and systemic importance, many NDBs and bilateral PDBs must operate under national regulations that closely adhere to prudential frameworks like Basel III. Such frameworks, originally designed for commercial banks, fail to account for the distinct characteristics and missions of PDBs, creating significant constraints for many institutions.

Key aspects of Basel III, including capital adequacy and liquidity requirements, prioritize financial resilience but inadvertently disincentivize the type of long-term, high-impact investments that PDBs are uniquely positioned to support. The emphasis on higher capital quality and additional buffers restricts available credit for innovative projects, such as climate finance and infrastructure development, which often carry higher perceived risks. Moreover, credit risk regulations, including high collateral requirements and stringent loan loss provisions, raise the cost of lending in high-risk geographies, such as Least Developed Countries (LDCs). These regulations further exacerbate global financing disparities, particularly in regions most in need of sustainable development investments.

Investments in developing and emerging economies are also penalized under current regulatory frameworks, with capital costs often rendering such ventures prohibitively expensive. This creates significant barriers to mobilizing private sector involvement, which is critical given the scale of funding required to meet sustainable development goals. The situation is particularly acute for bilateral PDBs and DFIs, which are well-positioned to channel resources to underserved regions yet face specific regulatory hurdles. For example, investments in jurisdictions without regulatory equivalence to institutions like the European Banking Authority (EBA) are treated as high-risk corporate exposures, attracting the most punitive capital requirements. Similarly, the high-risk weights applied to structured fund investments, despite their importance in mobilizing private investors with limited risk appetites, further disincentivize their use. Even co-financing with other development banks—despite evidence of lower default rates and reduced project risks—fails to receive preferential prudential treatment, undermining collaboration and limiting the scale of interventions.

Prudential regulation is fundamental to address financial risks. Yet, the dissonance between the design of prudential regulations and the realities of PDB operations affects some PDBs by narrowing the scope of their activities, forcing them to focus on low-risk projects and reducing their capacity to address critical financing gaps in high-risk geographies or sectors. Unlike commercial banks, PDBs do not typically engage in speculative activities, take retail deposits, or play a major role in payment systems, making them less prone to systemic risks. Yet, most NDBs and bilateral PDBs remain subject to regulatory requirements that treat them similarly to profit-driven financial institutions. Without undermining the fundamental goal of financial stability, regulations could maintain proportionality to reflect the business models and risk profiles of individual institutions (for example, liquidity requirements under Basel III may be unnecessary for non-deposit-taking institutions like many NDBs). A one-size-fits-all approach perpetuates disparities in global financial flows, leaving key regions and sectors underserved and increasing the reliance on private financing in contexts where it remains costly and insufficiently mobilized.

Risk perception, appetite, and management

Similarly, for many PDBs operating in emerging markets and developing economies (EMDEs) risk perception poses a significant challenge to scale up financing for sustainable development. These constraints arise from both internal risk assessment practices and external evaluations by credit rating agencies, which amplify borrowing costs and constrain the ability to operate effectively in high-risk environments.

Internally, restrictive risk assessment models used by many NDBs in EMDEs limit their ability to engage in projects perceived as high-risk, such as those in LDCs. A review of their levels of capital adequacy ratios – often above regulatory minimums – suggests overly conservative lending practices. Indeed, institutional cultures that prioritize financial sustainability and reputational stability often emphasize counterparty risks and traditional financial metrics over developmental impact. This aversion to risk is compounded by capacity limitations in advanced risk management tools and methodologies, which are particularly acute for smaller NDBs. As a result, and without strong political backing, concessional resources and strategic push, PDBs frequently avoid high-impact projects in underserved regions, perpetuating financing gaps where developmental needs are greatest.

Externally, credit rating agencies exacerbate these challenges through methodologies that inadequately account for the specific risk profiles of PDBs. Three key shortcomings are particularly detrimental to PDB operations in developing economies:

1. Bias in sovereign ratings: serving as a baseline for PDB borrowing costs, opaque sovereign ratings have undergone critique for subjective assessments of political risks and "willingness to pay," perpetuating bias against developing countries. For example, during the COVID-19 pandemic, over 95% of sovereign downgrades affected developing countries, despite these nations experiencing milder economic contractions than advanced economies. In response to such challenges, the African Union has launched an initiative to establish an African credit rating agency, aiming to provide fairer evaluations tailored to regional contexts.

2. Pro-cyclical downgrades: Ratings downgrades following crises, such as natural disasters trigger a vicious cycle of reduced access to finance and increased borrowing costs. For instance, Grenada's post-hurricane downgrades (hurricane Ivan, 2004) underscored how such actions amplify vulnerabilities in already fragile economies. This dynamic directly impacts PDBs' ability to provide countercyclical financing, which is crucial during crises.

3. Short-term outlooks: Existing credit rating practices emphasize short-term economic and fiscal metrics over the long-term benefits of investments in resilience, climate adaptation, and sustainable development. This penalizes countries and institutions that increase public debt to fund critical SDG-related projects, despite the potential for long-term growth and improved creditworthiness.

These shortcomings have tangible implications for PDBs that rely on access to capital markets to finance their operations in high-risk geographies. Unfavorable ratings raise borrowing costs and deter private sector participation in regions and sectors most in need of investment, limiting the scale and scope of development projects.

Currency exchange challenges for international flows

In their activities, PDBs also face substantial challenges in managing currency risk, which directly undermines their ability to finance sustainable development effectively. Currency volatility, a common issue in many countries where PDBs operate, poses multifaceted risks that affect their funding, liabilities, and development portfolios. Significant foreign exchange fluctuations create an environment of instability that deters foreign investors. This reluctance to invest restricts the flow of foreign direct investment (FDI) to critical projects, limiting the financial resources available. Yet, the effects of currency risk extend beyond funding to affect PDBs' financial positions. On the liabilities side, PDBs (regional, national and local) often borrow in foreign currencies to fund large-scale projects. When local currencies depreciate, the real cost of servicing these debts increases, straining financial stability and reducing their capacity to engage in new or ongoing projects. On the asset side, depreciation amplifies repayment burdens for borrowers repaying loans in foreign currencies, increasing the risk of defaults and undermining the quality of PDBs' loan portfolios. These dual pressures—rising liabilities and deteriorating assets—further erode the financial resilience of PDBs.

Moreover, many PDBs are unable to mitigate currency risk effectively due to limited hedging practices. Financial constraints, lack of expertise, and the unavailability of appropriate hedging instruments, particularly in less-developed markets, exacerbate their vulnerability. A 2023 survey[3] highlights the severe impact of these challenges, with 53% of PDBs reporting financial losses linked to currency depreciation and 42% identifying complications in repaying debts denominated in foreign currencies. These financial strains often force delays or cancellations of essential development projects, directly slowing progress toward the SDGs.

These systemic constraints are even more marked in low-income and lower-middle-income countries (LICs and LMICs), where structural challenges amplify PDB inefficiencies. Macroeconomic instability —characterized by structural deficits, volatile exchange rates, high inflation, and fiscal fragilities— raises borrowing costs and deters private investment. Weak governance and regulatory uncertainty further undermine confidence in development projects, discouraging both domestic and foreign investments. Limited fiscal space constrains concessional financing, reducing the availability of long-term grants and loans critical for advancing sustainable development. These compounded barriers make it particularly challenging for all PDBs to mobilize resources effectively and deliver transformative investments in the regions that need them most.

[3] "How currency depreciations/risk impact PDB's ability to reach the SDGs and to be sustainably resilient" (2023, TCX et al.)

Financial and capacity constraints

Although manifesting in distinct ways depending on the mandates, geographies, and institutional structures of the diverse range of PDBs, financial constraints remain a common challenge across these institutions. These constraints impede the scale, scope, and transformative impact of their operations, thus preventing them from unleashing their full enabling capacities.

Capital shortfalls are a general challenge, though the severity varies by institution type and region. While benefiting from strong shareholder backing, larger capital bases and access to international capital markets, MDBs often face political reluctance among shareholders to increase paid-in capital or leverage balance sheets further, despite growing pressure to scale operations. Regional and NDBs, particularly those in LICs and LMICs, struggle with even more pronounced capital limitations. These institutions often rely on constrained national budgets and face challenges in raising equity or accessing international capital markets on favorable terms -whilst limited local capital market development hampers access to local currency funding. For smaller and local PDBs, these challenges are compounded by limited financial sophistication and institutional capacity, leaving them heavily reliant on public funding or development assistance.

Concessional finance, particularly for project origination, is critical for addressing systemic investment gaps. Many PDBs, especially those operating in underserved regions, rely on concessional resources to fund the preparatory stages of projects, such as feasibility studies, technical assistance, and capacity-building. These preparatory stages are crucial for developing bankable projects that can attract private investment, but also plays a key role in strengthening the capacity of government institutions. Without sufficient concessional finance and ability for country-led long term master plans and project level feasibility studies, PDBs struggle to create pipelines of bankable opportunities, leaving many high-impact projects unfunded. However, the availability of such resources remains inadequate across the board, limiting PDBs' ability to act as catalysts for transformative change.

Limited scale up and innovation capacities

The financial and technical constraints faced by PDBs directly undermine their ability to scale up successful initiatives and support the innovative approaches needed to address complex, multidimensional challenges. In light of the FfD4 narrative, which emphasizes the urgency of closing global targeted financing gaps and advancing transformative solutions to achieve the SDGs, these limitations are critical.

PDBs often lack the resources to replicate and expand projects that demonstrate positive impacts, confining their reach to small, localized efforts. This inability to scale undermines their potential to generate systemic change or address cross-border. Larger PDBs, such as MDBs, have the capacity to replicate successful programs across regions but often face political or operational hurdles that slow progress. Meanwhile, smaller PDBs and NDBs, despite being well-positioned to address local needs, lack the resources to scale pilot projects or adopt innovative approaches that challenge conventional investment paradigms. This inability to scale restricts PDBs' capacity to generate systemic change and address cross-border challenges such as climate resilience, infrastructure development, or regional food security.

In parallel, resource limitations hurdle the exploration of innovative, frontier financing solutions—projects that challenge conventional approaches or introduce new technologies critical for achieving the SDGs. Investing in renewable energy technologies, digital infrastructure, or sustainable agriculture requires not only financial resources but also technical expertise, risk tolerance, and time horizons that many PDBs cannot afford under current conditions. These innovative approaches are particularly critical in underserved regions and sectors where traditional solutions fall short.

Despite the market shaping potential of PDBs, private sector mobilization remains another significant challenge leading to an overreliance on public finance and de-risking mechanisms. While blended finance approaches and de-risking strategies play a crucial role in mobilizing private investment, they fall short of addressing the systemic funding gaps for sustainable development. Public finance alone is insufficient to cover all risks or incentivize private investment in high-risk, underserved areas on a global scale. While pragmatic in addressing immediate needs, the overreliance on de-risking fails to tackle the root causes of investment gaps: these approaches should be treated as temporary or last-resort solutions rather than primary strategies. Additionally, excessive dependence on blended finance can exacerbate public debt burdens, especially in vulnerable countries already facing debt sustainability crises—a trend that is increasing globally. In this context, PDBs risk being confined to de-risking and blending operations, acting mostly as intermediaries for risk mitigation. Without addressing structural barriers to investment, setting a common framework for transition finance and building a machine able to originate way more quality projects, PDBs' capacity to scale up funding for sustainable development and shape markets in transformative ways will remain constrained.

2.

HOW TO UNLOCK PDBs' POTENTIAL TO FINANCE SUSTAINABLE DEVELOPMENT? KEY RECOMMENDATIONS

To fully realize PDBs' game-changing potential as sustainable development enablers, it is crucial to increase coordination among them. By working as a system, clearly prioritizing the achievement of the SDGs and empowered with adequate capacities, PDBs will facilitate the redirection of a significant share of financial flows towards sustainable development.

The Fourth International Conference on Financing for Development (FfD4), to be held in Seville in June 2025, comes at a critical time. With setbacks on the achievement of the SDGs, and climate commitments falling behind, FfD4 must bring bold and transformational changes to align finance with development and climate priorities. To address the challenges that limit PDBs' capacity to finance sustainable development, and in order to unleash their potential, Member States should go beyond incremental changes.

Building on the "Heads of MDBs' Viewpoint Note: Working as a System for Impact and Scale", and the G20 Roadmap towards better, bigger and more effective MDBs, FiCS' contribution to FfD4 seeks to offer a comprehensive outlook on a reformed financial system, at the service of sustainable development. From reframed narratives to reformed systems and more effective instruments, this implies redefining PDBs' role and purpose in the broader financial architecture (i), before streamlining the organization of the PDBs system for enhanced efficiency (ii), and ensuring this new framework is implemented through enabling environment and suitable capacities (iii).

A. SETTING AN AMBITIOUS FRAMEWORK: MAKING PDBs EFFECTIVE "SDGs ENABLERS"

Historically, PDBs' mandates have been oriented toward economic development, particularly through sectors like SME financing, infrastructure projects, and industrial development —areas that fall into the "Prosperity" dimension of the 2030 Agenda. An overview of PDBs' main pursued mandates shows that 81% of all PDBs prioritize SME financing, 65% focus on infrastructure projects and 64% support industrial sector development. The crucial pursuit of sectoral national development priorities often falls short of the urgency to address cross-cutting issues like climate change, biodiversity loss, and gender inequalities. While climate considerations are gradually gaining traction, significant gaps remain in PDB mandates: only 1 in 2 PDBs explicitly incorporate climate-related objectives in their strategic plans, and biodiversity is the least addressed public policy objective. Moreover, this data reflects stated intentions in strategic plans rather than actual financial commitments or measurable impacts of PDBs' financing – further highlighting the potential gap between rhetoric and actionable strategies.

The limited integration of social and environmental sustainability in PDBs' mandates risks perpetuating fragmented approaches and missed opportunities to redirect financial flows toward the SDGs, at scale. To address this, **it is imperative to establish a shared ambition for PDBs as SDG enablers, embedding prosperity and sustainability at the core of their mandates, strategies, and operations**. The objective is not to transform PDBs into purely "SDG banks" or disregarding their specific sectoral or geographic focus. On the contrary, it is about emphasizing financing within their areas of expertise while adhering to the overarching principles of the 2030 Agenda and taking into account the interconnectedness of the SDGs, to ensure sustainable and context-responsive development.

Aligning mandates with the SDGs is not merely a procedural adjustment; it represents a foundational shift that will enable PDBs to address the multifaceted challenges of sustainable growth. By embedding SDG objectives into their core strategies and in their operating models, PDBs can act as true catalysts for transformative change.

Recommendation 1: Converge the mandates of all PDBs, around a "dual mandate" model that integrates

- **(1) National development priorities— such as poverty reduction, industrialization, job creation, and economic growth—and**
- **(2) Addressing cross-cutting challenges, including urgent climate action, biodiversity and gender inequalities.**

This dual mandate ensures that PDBs balance local and global objectives, fostering a more coherent and aligned contribution to sustainable development. By harmonizing these mandates, PDBs can become central players in scaling up climate and SDG-aligned investments globally.

Aligning Mandates with the SDGs: The Case of AFD

The Agence Française de Développement (AFD) has taken a pioneering approach to aligning its financing with the Sustainable Development Goals (SDGs). Through its "100% SDG" strategy, AFD ensures that all its interventions actively contribute to the 2030 Agenda, embedding sustainability at the core of its mandate and operations.

A Systematic Approach to SDG Alignment

AFD's alignment framework is structured around the five pillars of sustainable development: Planet, People, Peace, Prosperity, and Partnerships. This approach builds on its previous commitments, including the "100% Paris Agreement" and "100% Social Link" strategies, which ensure that all funded projects align with low-carbon and climate-resilient pathways. The agency excludes financing for fossil fuel-based power generation and adheres to a stringent exclusion list that reflects environmental, social, and ethical considerations.

An Ex-Ante Tool for SDG Screening

AFD has developed an "SDG Alignment Assessment" tool to evaluate projects before approval. This methodology assesses each project's contribution to key sustainability dimensions, such as climate action, biodiversity, social inclusion, and governance. Projects undergo a dual evaluation: an initial review by the project team followed by an independent assessment assigning one of four ratings—favorable, favorable with recommendations, reserved, or negative. Since its creation in 2014, this tool has assessed over 1,500 projects, with 96% receiving favorable ratings. Projects with potential negative impacts are either rejected or modified early in the process.

Scaling SDG Finance through Capital Markets

AFD is leveraging capital markets to scale SDG-aligned finance. In 2020, it launched an SDG Bond Framework, integrating its sustainable finance assessments into bond issuance criteria. Green and sustainable bonds have since grown to represent nearly 50% of AFD's total financing, demonstrating the potential of financial innovation to accelerate SDG investment.

Setting Global Standards for Development Finance

AFD's approach is gaining international recognition, inspiring institutions such as the Asian Development Bank, KfW, and the European Commission. A 2023 benchmark study highlighted AFD as a leader in integrating sustainability into development finance. Moreover, IDFC—the global network of public development banks—has adopted ex-ante SDG alignment tools as a best practice, reinforcing a collective push towards global standards for sustainable finance.

Recommendation 2: Mainstream sustainability considerations among all PDBs, at both the entity and operations level, to encourage and monitor the redirection of financial flows towards SDGs

In order to encourage and monitor the redirection of financial flows, foster the adoption and refinement of sustainability mainstreaming among all PDBs, at both the entity and operations levels. This notably entails:

- **Setting clear metrics for climate and SDG-aligned finance projects,** particularly in developing countries
- **Encouraging and assisting all PDBs to adopt sustainability impact assessments filters as an internal steering mechanism** for financing decisions, enabling better characterization of alignment or misalignment with sustainability goals, in line with PDBs' sustainable development financing mandate
- **Bolstering the adoption on a global level of the MDBs-IDFC Common Principles for Climate and SDG-Aligned Finance**

Common Principles: A Shared Climate Finance Framework by MDBs and IDFC

In 2009, at the COP 15 in Copenhagen, the Parties agreed to a volume of USD 100 billion of climate finance from the developed countries to developing countries from 2020 to 2025; this commitment was renewed in Paris's COP 21 in 2015. However, the characterization of the climate finance was not included with the definition of these ambitions.

This lack of standardization drove a group of Public Development Banks, which were already the practitioners of the climate finance, led by some MDBs, to work on their own set of definitions that would be used to ensure the comparability of the numbers reported by these PDBs. Indeed, when the main providers of public climate finance globally are using the same indicators, it translates into more transparency and comparability. It would then result into bringing peers to constantly higher ambitions in favor of the global response to climate change to remain the leaders.
Accordingly, in 2015, the MDBs who were reporting climate finance together, quickly followed by IDFC, the main global public finance provider, developed together a set of guidelines to track climate finance for mitigation and for adaptation, which were updated in 2023. The mitigation climate finance tracking guidelines consist of a list of eligible activities to be considered as contributing to the mitigation efforts and will go through a deep revision in 2025-2026 to integrate any new knowledge or need on mitigation. The adaptation climate finance tracking guidelines consist of an assessment approach for each project, given that adaptation's contribution is more context-specific.

To go further in the characterization of climate finance and recognizing the magnitude of the climate challenges and the urgency to act, a landmark global coalition of financial organisations and initiatives - including the International Development Finance Club (IDFC), UNEP Finance Initiative (UNEP FI), the Principles for Responsible Investment (PRI) network, and the Mainstreaming Climate in Financial Institutions initiative, is joining forces, in a whole-of-financial-system approach, towards an ambitious post-2025 finance framework for climate (more than 40% of the global financial sector, spanning developed and developing countries and bridging both public and private sectors) . This coalition is notably advocating for the importance of system-wide coherent frameworks to guide action, and the characterization of "Transformational finance for climate", i.e. finance aiming at the sustainable transformation of entire systems or catalytic effects on mobilizing and reorienting larger financial flows. This implies, among others, acting on systemic levers and making, in a structural manner, Paris-aligned investments more financially attractive than non-aligned or misaligned investments.

IDFC's Ongoing Efforts to Align PDBs with the Sustainable Development Goals

Since 2015, IDFC members have worked to mainstream SDGs into their financial practices, understanding the critical role PDBs play in achieving the 2030 Agenda.

In 2019, the creation of the SDGs Alignment Working Group marked a significant step in this effort. The group focused on Sustainable Finance and SDG alignment, building on PDBs' previous climate-related work, including their alignment with the Paris Agreement. This group advocates for the catalytic role of PDBs in advancing the SDGs and develops frameworks, tools, and processes to help IDFC members operationalize the SDGs in their daily activities. This effort was complemented by promoting dialogue with other stakeholders, including private investors, to create a shared language for SDG-aligned finance.

In 2020, IDFC published the position paper "Aligning Finance with the Sustainable Development Goals," which laid the foundation for further SDG alignment work. Building on this, in 2021/2022, IDFC members collaborated with Natixis CIB on a comprehensive study to provide practical ways for implementing SDG alignment within PDBs. Published in December 2022, this study offered a literature review, a stocktaking of existing practices, and concrete recommendations to help PDBs better contribute to the SDGs.

A key output of this ongoing effort has been the development of the SDGs Integration Trackers. These self-assessment tools, introduced after the study, enable PDBs to evaluate and track their alignment with the SDGs across both entity and activity levels. Comprising 15 criteria and an evaluation grid that ranks performance on a scale from 0 to 5, the Integration Trackers provide banks with actionable steps to continuously improve their SDG integration. These trackers are an essential tool for PDBs to assess their progress and identify areas for further improvement in their alignment with the SDGs.

Through these initiatives, the IDFC demonstrates a long-term commitment to supporting PDBs in fully integrating the SDGs into their financial operations and governance structures, fostering a culture of continuous improvement and accountability.

Strengthening sustainability mainstreaming across all PDBs will improve transparency and accountability while creating a unified standard for assessing the alignment of investments with sustainability goals. This approach enables PDBs to steer resources effectively toward projects that generate the highest impact.

Recommendation 3: Better recognize the role of national PDBs and embed them upstream, in national planning and sustainable investment strategies

This includes:

- **Including national PDBs, closely articulated with their multilateral and international peers, in the operational design of country platforms**
- **Explicitly mentioning the role of PDBs of all sizes in the assessment, design, and implementation of the national green investment strategy in Nationally Determined Contributions (NDCs), Long-Term Strategies (LTS), National Adaptation Plans (NAPs), and National Biodiversity Strategies and Action Plans (NBSAPs).**

By embedding PDBs in national planning processes and country platforms, they can play a more proactive role in in both the design and implementation of sustainable development financing strategies that align with national priorities and global commitments. That integration enhances the essential country ownership of development processes, and ensures all PDBs' expertise contributes to coordinated and impactful action.

PT Sarana Multi Infrastruktur (PT SMI): Advancing Indonesia's Sustainable Development through National Planning

PT Sarana Multi Infrastruktur (PT SMI) is a state-owned enterprise under Indonesia's Ministry of Finance, designated as a Special Mission Vehicle (SMV) to mobilize resources for infrastructure development. PT SMI plays a key role in catalyzing the national infrastructure developments through financing strategies, to achieve the Indonesia's sustainable development objectives and contribute to the country's long-term growth.

To achieve this, PT SMI implements the SDG Indonesia One (SIO) platform, a blended finance initiative launched in 2018 to attract private and international investment into sustainable infrastructure. As of January 2025, SIO has secured $3.11 billion in commitments from 37 partners, of which $810 million has been formalized into agreements, and $396 million has been deployed to critical projects across Indonesia, including renewable energy, waste management, health, and water sectors

Integrating PDBs into National Development Strategies

In addition to SIO, PT SMI has been appointed as Indonesia's Energy Transition Mechanism (ETM) Country Platform Manager, coordinating efforts to retire coal-fired power plants early and scale up renewable energy. The ETM approach blends concessional and commercial finance to de-risk investments, facilitating Indonesia's shift towards a low-carbon economy. This initiative is embedded within Indonesia's Nationally Determined Contributions (NDCs) and Long-Term Strategies (LTS), ensuring that financial flows align with national climate commitments.

Strengthening Country Ownership and Coordination

PT SMI's experience demonstrates how national development banks (NDBs) can be integrated upstream into national planning and sustainable investment strategies. By acting as a financing hub, PT SMI ensures that infrastructure projects are aligned with Indonesia's broader development priorities, reinforcing country-led approaches to climate and sustainable finance. The structured approach highlights the benefits of country-led financing platforms, emphasizing the role of PDBs in enhancing national ownership, improving financial coordination, and ensuring that development financing is aligned with global sustainability goals.

From Policy to Action: How Brazil's BIP and BNDES Are Driving Climate and Ecological Transformation

The Brazil Platform for Climate Investments and Ecological Transformation – BIP is an initiative of the Brazilian government created with the ambition of increasing investments in ecological transformation towards the decarbonization of the economy, sustainable use of resources, and improving the quality of life of the population. Led by the Ministry of Finance (MF), in collaboration with the Ministries of the Environment and Climate Change (MMA), Development, Industry, Commerce, and Services (MDIC), and Mines and Energy (MME), the Platform supports the Ecological Transformation Plan and other government climate transition and adaptation plans in key sectors. The National Bank for Economic and Social Development (BNDES) will serve as the Secretariat for the Platform, managing the day-to-day operations.

The Platform's multisectoral approach will support three main sectors and subsectors for ecological transformation: Nature-Based Solutions and Bioeconomy, Industry and Mobility, and Energy. Focused on financing, the initiative will connect Brazilian climate projects to an extensive network of financial institutions to help scale up the mobilization of public and private capital directed toward the financing of programs and projects. BIP will promote connections between key financial stakeholders (e.g., banks, Multilateral Development Banks (MDBs), investment funds etc.) and non-financial stakeholders (e.g., sectoral initiatives, civil society organizations etc.) in the ecological transformation ecosystem.

To enter BIP, projects must align with four minimum parameters:

1. Alignment with national transition plans and programs – The project must be aligned with the definitions and priorities of the Ecological Transformation Plan, the Climate Plan, New Industry Brazil, the National Energy Transition Plan, and other government plans and programs;
2. Material environmental impact – The project must generate a significant impact by reducing, sequestering, or avoiding Greenhouse Gas (GHG) emissions;
3. Need for capital mobilization and Platform support – The project needs relevant support from the Platform to raise capital;
4. Socioeconomic co-benefits – The project brings additional benefits beyond environmental impact, such as job creation and improvements in quality of life.

In addition to the minimum parameters, projects must also be compatible with specific criteria depending on each sector.

The Platform is led by a Steering Committee composed of the four ministries (MF, MMA, MDIC, MME), with leadership from the Ministry of Finance, responsible for the Platform's agenda within the government and for defining its strategic guidelines. BNDES will serve as the BIP Secretariat, providing general administrative and project management support, facilitating communication and collaboration among stakeholders, as well as coordinating relationships with financial institutions and communication with the external public.

Recommendation 4: Leverage PDBs' expertise to build capacities and contribute to policy reforms

Leverage PDBs' expertise to build capacities and contribute to policy reforms. Beyond financing, multilateral and bilateral PDBs, as well as some national PDBs are well structured and positioned to offer technical assistance and strengthen institutional frameworks. By doing so, they can:

- **Support governments, regulators and other stakeholders in creating enabling environments for sustainable investments.**
- **Foster long-term resilience by promoting systemic changes aligned with sustainable development.**

Through these actions, PDBs can bolster institutional capacity and foster an environment conducive to transformative investments, ensuring that financing delivers measurable impacts aligned with the SDGs.

Leveraging Public Development Banks for Policy Reform and Institutional Strengthening

Public Development Banks (PDBs) and Multilateral Development Banks (MDBs) play a key role in supporting policy reforms and institutional capacity building for sustainable development. A prime example of this is the Joint MDB Long-Term Strategies (LTS) Program, a collaborative effort hosted by the World Bank's Climate Support Facility. This initiative helps countries develop and implement Nationally Determined Contributions (NDCs), Long-Term Strategies (LTS), and National Adaptation Plans (NAPs)—critical frameworks for guiding public and private investments in climate-resilient growth.

By working together, MDBs provide technical assistance, knowledge sharing, and financial expertise to integrate climate action into national economic policies. The program focuses on lower-income countries, ensuring they have the necessary institutional and policy frameworks to attract investment. However, additional financial resources are needed to scale up support.

Case Study: Bangladesh Climate and Development Platform (BCDP)

A concrete example of MDBs' policy support is the Bangladesh Climate and Development Platform (BCDP), launched in 2023 by AIIB, ADB, the World Bank, IFC, EIB, AFD, JICA, and others. This multi-donor initiative aligns with Bangladesh's Resilience and Sustainability Facility (RSF) and aims to:

- Strengthen climate governance, linking climate action with fiscal and economic policies.
- Mobilize private capital for adaptation and mitigation investments.
- Enhance project preparation through a dedicated facility that improves bankability.

The policy-based lending framework ($1.85 billion) supports reforms in green finance, air pollution reduction, water security, and energy transition, creating an enabling environment for future investments.

By integrating policy reform, financial commitments, and institutional strengthening, initiatives like BCDP demonstrate how MDBs and PDBs can work together to scale climate action and attract sustainable investment at the national level.

B. DESIGNING A SEAMLESS, AT SCALE ARCHITECTURE: ONE COHERENT PDBS SYSTEM

While PDBs play pivotal roles at national, regional, and international levels, they often operate in silos, with overlapping efforts and uncoordinated priorities. This lack of cohesion hampers their collective capacity to effectively address global and national challenges. **For more efficient sustainable growth financing, reframing PDBs as a unified system is essential, leveraging their comparative advantages through enhanced partnerships.**

Recommendation 5: Reframe all PDBs as one PDB system and broaden ongoing reforms of the MDBs to ensure a more efficient "whole-of-PDBs system"

In dialogue with all stakeholders and with support from academia, Member States should move away from focusing exclusively on MDBs in international financial architecture discussions, to rethink all PDBs – multilateral, regional, national and local - as one PDB system in which MDBs play a crucial role. This requires broaden the current reforms of MDBs to renew the overall public finance architecture, notably national development banks. This systemic approach would enhance resource utilization, rebuild trust in the multilateral governance of sustainable development financing, and foster shared accountability.

MDBs' Coordination to "Work as a System": The Group of Heads of MDBs

The world faces interconnected crises that profoundly impact people and the planet. These challenges are just too big for any single country or institution to tackle alone.

Multilateral Development Banks (MDBs) are evolving, individually and collectively, to respond to these challenges and improve people's lives by becoming a bigger, better and more effective MDB system.

The Heads of the Group of MDBs is a forum for dialogue and coordination among the leaders of major MDBs. In 2024, the Inter-American Development Bank (IDB) held the rotating chair of the Group and, during its tenure, the Group published a joint Viewpoint Note, committing to concrete actions in key priority areas. In 2025, the Council of Europe Bank (CEB) is spearheading the effort.

Consistent with the call from G20 Leaders and driven by the ambition of our clients and shareholders, MDBs are enhancing their efforts to evolve, individually and collectively, into a "better, bigger and more effective" MDB system.

Key priorities are to enhance MDBs' agility and efficiency working as a system, and to deliver concrete results on five areas:

1. Scaling-up MDB financing capacity;
2. Boosting joint action on climate;
3. Strengthening country-level collaboration and co-financing;
4. Catalyzing private sector mobilization; and
5. Enhancing development effectiveness and impact.

Recommendation 6: Foster synergies within the Finance in Common system (FiCS), based on comparative advantages and allowing all PDBs – multilateral, international, national, subnational – to leverage their respective strengths in complementary ways

In a more collaborative and synergistic system, MDBs could focus on upstream roles, such as driving innovation, providing technical support, conducting diagnostics, and fostering collective action through global and regional platforms. Meanwhile, Regional and National Development Banks would take the lead in downstream roles, leveraging their proximity and local expertise for project origination, implementation, and tailored solutions that address local needs.

To enable this seamless collaboration, PDBs should prioritize harmonizing procedures, standards, and mutual reliance mechanisms through global and regional platforms, such as those initiated by the World Bank Group. This approach ensures that all PDBs can contribute according to their comparative strengths, reducing inefficiencies and fostering greater trust and complementarity. By pooling resources, sharing risks, and working collaboratively, the Finance in Common system would maximize its overall impact, creating a virtuous cycle where upstream and downstream efforts reinforce each other to deliver sustainable and scalable outcomes.

Recommendation 7: Improve the channeling of financial flows to ensure they address national priorities

Member States should reinforce country ownership within the PDB system, by placing NDBs and local actors at the core of efforts to address national and local challenges, thus promoting a coherent, bottom-up PDB system where financing aligns with country-led development strategies rather than donor-driven agendas. Key actions include:

1. Placing country-led collaboration at the center of a unified PDB system, from MDBs to NDBs, notably through country platforms, Integrated National Financing Framework (INFFs), and regional initiatives.
2. Encouraging MDBs and international PDBs to set collaboratively agreed targets with borrowing countries, ensuring that long-term financing is channelled through NDBs.
3. Enhancing the role of NDBs by bolstering their project origination capacity, thus minimizing risks such as currency mismatches, and ensuring alignment with national development priorities.
4. Extending the reallocation of SDRs through MDBs' balance sheets to help refinance smaller PDBs by relying on the credibility and rating of their multilateral regional platform.

By fostering a bottom-up approach and placing country priorities at the heart of financing decisions, these measures will ensure that PDBs at all levels work cohesively to deliver sustainable development outcomes tailored to local realities.

Unlocking SDRs to Finance Development: A New Approach by AfDB and IaDB

MDBs, led by the African Development Bank (AfDB) and the Inter-American Development Bank (IDB), are working together to develop an innovative financial instrument: SDR-denominated hybrid capital. This mechanism is designed to unlock additional financing for sustainable development while ensuring that Special Drawing Rights (SDRs) retain their status as a reserve asset.

SDRs, issued by the International Monetary Fund (IMF), are an international financial resource that countries hold in their reserves. However, their direct use for development finance has been limited. The proposed approach would allow donor countries to rechannel SDRs into MDBs in a way that is both safe and highly effective. Specifically, SDRs would be used as a form of low-risk subordinated debt, meaning they would strengthen MDBs' balance sheets without compromising the financial security of contributing countries.

This structure enables MDBs to multiply the impact of SDRs by up to eight times, attracting additional capital from markets and mobilizing both public and private financing. By leveraging their expertise in poverty reduction, infrastructure development, and economic transformation, MDBs can direct these expanded resources towards projects that benefit member countries and advance the SDGs.

This initiative also enhances cooperation between MDBs and PDBs, reinforcing the broader development finance system. By working together, these institutions can create synergies that improve the effectiveness and reach of development finance.

The rechanneling of SDRs through MDBs aligns with global efforts to strengthen development financing, including discussions at the G20, the IMF, and multilateral development forums. If fully implemented, this mechanism could help redirect global financial resources more effectively to where they are needed most, ensuring a stronger and more sustainable global financial system.

Regional Collaboration Between MDBs and NDBs: the Example of IDB

The IDB has a long tradition of working with National Development Banks (NDBs) in Latin America and the Caribbean (LAC) since the 1980s. Over the past 50 years, the IDB has helped NDBs build institutional and technical capabilities to design and implement high-impact socio-economic, environmental, and climate interventions.

The IDB supports NDBs in deploying financial solutions to address market failures and mobilize private capital for development. Collaboration often occurs through conditional credit lines for investment projects, providing a long-term partnership to help advance sustainable development outcomes. These lines typically include technical assistance to align financial products with the SDGs and enhance ESG and evaluation capabilities.

In the last decade, the IDB approved over 75 loan operations with 40+ NDBs in 17 countries, totaling more than US$9 billion and leveraging twice that in additional SDG-aligned investments. Climate finance collaboration to support national climate priorities has intensified in the last years. The IDB channeled over US$500 million in international climate finance for NDB-led programs, leveraging more than three times that amount for sustainable investments.
IDB prioritizes interventions towards reducing poverty and inequality; addressing climate change; and bolstering sustainable growth. Most IDB-NDB projects have focused on financial inclusion, SME financing, and developing digital infrastructure, clean energy, and social housing. Recent collaborations include first-of-a-kind programs: a social housing financing program with FSV in El Salvador in 2021; a women entrepreneurs financing with COFIDE in Peru in 2022; a green hydrogen de-risking facility with CORFO in Chile in 2023; and a sustainable investment program for the Amazon with BNDES in Brazil in 2024.

The IDB fosters knowledge generation and peer exchange through its strategic partnership with the Latin American Association of Development Financing Institutions (ALIDE). Together, they lead efforts in LAC to support NDBs in exchanging best practices about aligning their business models with the SDGs and enhancing their capacity to improve development effectiveness.
Another key collaborative initiative is the Green Coalition, created in 2023 by IDB and BNDES. This alliance of 17 NDBs and three MDBs focuses on designing financial solutions and technical support to scale environmentally and socially responsible projects in the world's most important biomass regions.

Recommendation 8: Enhance operational cooperation among PDBs through capacity-building, peer learning, and mutual reliance mechanisms

PDBs of all sizes and maturities should work together to harmonize procedures, adopt common standards, and establish mutual reliance mechanisms to improve the efficiency and cohesion of their financing operations. Key actions include:

- Foster capacity-building and technical assistance: create peer-learning platforms for PDBs, aid agencies, and philanthropic entities to exchange best practices, share technical expertise, and provide targeted support to smaller or less mature PDBs. This would ensure that all institutions are equipped to meet evolving global and local challenges effectively.
- Develop harmonized standards and mutual reliance mechanisms: encourage the adoption of shared procedures and agreements for mutual recognition, enabling PDBs to collaborate seamlessly, pool resources, and share risks while reducing inefficiencies in financing operations.
- Integrate sustainability systematically: provide systematic support to embed environmental, social, and governance criteria into all PDB operations, ensuring that projects align with sustainable development goals.
- Leverage global and regional platforms: Build on initiatives like the World Bank's global platforms to facilitate the alignment of processes and foster trust and interoperability among PDBs.

By reducing disparities and promoting cohesive operational practices, this approach would enhance the overall efficiency and impact of the Finance in Common system.

A Pooled Technical Assistance Platform to Strengthen Project Pipelines and Scale Up Sustainable Investments

Complex, high-impact infrastructure projects require early coordination, rigorous project preparation, and strong institutional backing. However, many developing economies face challenges in securing high-quality technical assistance (TA) and financing at the pre-investment stage. Recognizing this gap, MDBs—including AIIB, ADB, EBRD and IsDB, are working together with National Development Banks, Development Cooperation Agencies and UN agencies, to roll-out a series of Pooled TA Platforms, aimed at streamlining project origination, preparation, and financing across institutions, in specific sectors and geographies.

These platforms bring together various TA facilities and funding mechanisms to create a consolidated, demand-driven approach to upstream support, ensuring that high-quality, infrastructure projects can access the resources they need to become bankable.

Key Features of Pooled TA Platforms

- Joint Pipeline Development & Project Origination – MDBs and participating partners work together to identify and prioritize high-impact infrastructure projects, particularly in climate-aligned and cross-border sectors.
- Coordinated Financing for Project Preparation – The platforms pool grants, concessional finance, and advisory services, allowing multiple MDBs and donors to co-finance upstream project development.
- Sectoral & Geographic Focus – The platforms prioritize hard-to-reach sectors (e.g., green cross-border connectivity, smart infrastructure, clean energy) and geographies most in need of TA support.
- Flexible and lean partnership Model – MDBs and participating partners align their TA funding strategies relying on their own institutional governance and decision-making mechanisms while leveraging digitally-enhanced tools, ensuring greater scale and efficiency in project preparation efforts.

Example - Pooled TA Platform for ASEAN Connectivity

MDBs and participating partners including PDBs and UN agencies are working together with the ASEAN Secretariat to co-create a coordinated TA platform which pools financial and technical resources needed to enhance the capacity of the ASEAN Member States (AMS) in developing a high-quality regional connectivity project pipeline aligned with the forthcoming ASEAN Connectivity Strategic Plan. A particular focus will be given to TA activities in response to the specific needs of key connectivity projects under the ASEAN Power Grid (APG) and the Rolling Priority Pipeline of ASEAN Infrastructure Projects.

Example - Pooled TA Platform for Central Asian Connectivity (CAC)

In response to the increased demand for improving connectivity infrastructure in Central Asia along the Middle Corridor, MDBs such as AIIB and IsDB are working closely with multilateral mechanisms and National Development Banks, to roll-out a pooled TA platform in Central Asia, with the aim to provide scalable and streamlined upstream support for identifying and preparing climate-resilient connectivity projects in transport, energy, and digital sectors. The effort also aims to enhance coordination and linkages between key regional initiatives such as the Trans-Caspian International Transport Route (TIRR) and the Central Asian Regional Economic Cooperation (CAREC), ensuring alignment with relevant policy frameworks.

This approach demonstrates the growing role of PDBs and MDBs as facilitators of investment, beyond traditional lending. By pooling resources, harmonizing processes, and creating a structured framework for co-financing technical assistance, the Pooled TA Platform aims to bridge the gap between project preparation and implementation, accelerating sustainable development investments at scale.

C. EMPOWERING PDBS: MOBILIZING RESOURCES AND TOOLS TO UNLEASH POTENTIAL

A unified system of PDBs anchored in an ambitious sustainability framework requires adequate resources and enabling conditions to achieve sustainable development financing goals. Increased capital, improved access to funding mechanisms, tailored regulatory frameworks and enhanced technical capacities for innovative sustainable financing are necessary to deliver greater impact.

Increasing PDBs' financial means to finance sustainable development

To further contribute to financing sustainable development, PDBs require increased capital, improved access to funding mechanisms, and enhanced technical capacities. Strengthening their operational frameworks and leveraging their collective expertise will enable them to deliver greater impact.

Recommendation 9: Increase the volume of capital available to PDBs, in order to measure up to ambitious sustainable development targets

Enhancing capital availability entails:

- Strengthening the capacity of MDBs to play their leading role in the new FiCS architecture.
- Increasing the capital and concessional finance flows for all PDBs, building on their respective comparative advantages, to enhance both the scale and quality of their operations.
- Conducting a Capital Adequacy Framework (CAF) review and implementing balance sheet optimization measures across the FiCS perimeter to unlock additional lending capacity.

Recommendation 10: Create a fast track or "one for all" accreditation process that would simplify access to multilateral funds for PDBs that have undergone substantive efforts of climate and SDG alignment and work towards streamlining the negotiation process after accreditation

- Ensure that PDBs demonstrating substantive progress in climate and SDG alignment benefit from streamlined negotiations and simplified access mechanisms.
- Develop technical assistance (TA) and capacity-building programs to support PDBs lacking sufficient resources, helping them meet accreditation requirements for multilateral funds.

A unified accreditation process for multilateral funds would reduce administrative burdens for PDBs, allowing them to access multiple funds through a single streamlined mechanism. This would save time and resources, particularly benefiting smaller or capacity-constrained PDBs, while incentivizing stronger climate and SDG alignment by rewarding substantive progress with fast-track access.

[4] In line with the G20 Independent Expert Group's "Triple Agenda: A Roadmap for Better, Bolder and Bigger MDBs" and with the Heads of MDBs' Viewpoint Note

Improving Access to Vertical Climate and Environmental Funds (VCEFs): Lessons and Opportunities

The 2024 G20 IHLEG review identifies critical inefficiencies in accessing Vertical Climate and Environmental Funds (VCEFs), particularly the Green Climate Fund (GCF), Global Environment Facility (GEF), Adaptation Fund (AF), and Climate Investment Funds (CIF). Key barriers include fragmented accreditation processes, inconsistent reporting requirements, and high transaction costs, which disproportionately impact smaller PDBs.

To address these challenges, the IHLEG advocates for a fit-for-purpose accreditation approach. A unified "one-for-all" framework would streamline accreditation across VCEFs, significantly reducing duplication and enabling faster resource deployment. Such mechanisms would be particularly beneficial for smaller or less mature institutions seeking access to critical climate finance.

Additionally, the review emphasizes enhancing technical assistance, particularly through readiness programs tailored to local and regional contexts. These efforts should prioritize capacity building for NDBs, enabling them to originate bankable projects and align with stringent VCEF requirements while maintaining flexibility in operational approaches.

By adopting these measures, VCEFs can reduce inefficiencies, improve equity in fund allocation, and amplify the role of PDBs and NDBs in delivering transformative climate and development outcomes.

Reference: G20 IHLEG Vertical Climate and Environmental Funds Review, 2024

Enabling regulatory environments for PDBs unleashed action

PDBs operate within regulatory frameworks that often prioritize stability and risk avoidance over development priorities. While these frameworks are crucial for maintaining financial soundness, they can be ill-suited to the unique roles and risk profiles of PDBs and constrain their ability of PDBs to scale up investments needed to achieve SDGs. Addressing these gaps requires dialogue, collaborative efforts, tailored regulatory adjustments, and enhanced mechanisms for risk perception and data sharing.

Recommendation 11: Encourage the structuring of a dialogue on a suitable regulatory framework for sustainable development financing by PDBs

A more structured dialogue should take place between national policymakers, regulators—specifically the Bank of International Settlements (BIS)—and PDBs through FiCS. This dialogue would focus on designing a regulatory framework that is better suited to PDBs' mandates and aligned with national development priorities. This could include:

- Clarifying regulatory conditions and requirements of PDBs in line with their development mandate, and the distinctive nature of their business models and risk profiles
- Calling for governmental decisions to replace conservative parameters on the PDBs under their jurisdiction and implement dedicated regulatory frameworks that do not necessarily mirror norms set for the private sector entities.

Fostering private finance mobilization through PDBs market-shaping capacities

As public finance alone will not cover existing financing gaps, Members States should actively seek private finance leveraging. Likewise, to mobilize the private sector effectively, PDBs must engage with financial markets and develop mechanisms to mitigate risks, define harmonized standards, and provide targeted incentives for private investors. These actions will align investments with sustainable development goals and expand the financial flows directed toward impactful projects.

The term "development finance" is used here to emphasize the broad spectrum of financing mechanisms PDBs can deploy, which may include, but are not limited to, concessional finance. By shifting from "blended finance," this terminology acknowledges that arrangements such as guarantees or equity investments can catalyze private funds effectively, even when concessional elements are absent. This approach is particularly relevant for maximizing PDBs' capacity to shape markets and bridge financing gaps in underserved regions.

Recommendation 12: Set targeted incentives to increase development finance transactions

Scaling blended finance can be supported by:

- Adjusting capital requirements to make development finance more viable for PDBs.
- Introducing specific benchmarks for PDBs to increase their deployment of catalytic capital, ensuring maximum leverage of private funds.
- Encouraging philanthropic entities to expand their role in de-risking investments, particularly for high-impact projects in underserved regions.

Recommendation 13: Develop globally recognized standards for development finance

To enhance transparency and comparability:

- Define and adopt a globally recognized taxonomy for development finance transactions to ensure consistency and reliability across markets.
- Expand and consolidate databases on blended finance projects, increasing visibility and access to investment opportunities for private stakeholders.

While blended finance and de-risking mechanisms remain essential tools in mobilizing private investment, their limitations underscore the need for more ambitious approaches. To fully harness the potential of private capital for sustainable development, PDBs must move beyond intermediary roles and actively shape markets in transformative ways. This requires elevating PDBs' market presence, building trust with investors, and addressing structural barriers that constrain private sector engagement.

Positioning PDBs as a distinct asset class, backed by credible sustainability labels, offers a pathway to achieving these goals. These innovative strategies can enhance access to private capital, align investments with sustainable development objectives, and solidify PDBs' role as key actors in reshaping financial flows for global impact.

Recommendation 14: Position PDBs as a distinct asset class with sustainability labels

To enhance market access and mobilize private sector capital for sustainable development, PDBs could be established as a distinct asset class defined by rigorous sustainability criteria. This transformative initiative would ensure PDBs remain credible to private investors while reinforcing their commitment to sustainable development goals. Key actions include:

- Collaborate with private sector actors and market regulators to define and adopt specific criteria that distinguish PDBs as a unique asset class. These criteria should emphasize strong governance, financial soundness, and measurable contributions to sustainability goals.
- Introduce sustainability labels for PDB financing to build investor trust by:
    - Certifying alignment with sustainability goals and providing assurance on the quality and impact of PDB-financed projects.
    - Reducing information asymmetries and encouraging broader private sector participation in sustainable development finance.

This recommendation lays the foundation for redefining PDBs' market role, enabling them to unlock substantial private capital flows while maintaining their leadership in advancing global development priorities.

Risk assessment and management methodologies

Risk perception remains a significant barrier, driven by both internal assessment practices and external pressures such as credit rating methodologies. Addressing these challenges requires innovative approaches and strengthened collaboration among key stakeholders.

Effective risk management is central to the ability of PDBs to mobilize private capital for sustainable development, particularly in high-risk environments. Internally, conservative risk assessment models focused on financial stability (e.g. strong emphasis on counterparty risks and conservative metrics that result in underutilization of capital potential) may limit PDBs' ability to engage in high impact projects in underserved regions. Externally, credit rating agencies (CRAs) methodologies sometimes fail to capture the unique risk profiles of public development finance institutions operating in EMDEs. Sovereign downgrades, pro-cyclical assessments, and short-term outlooks further distort the real picture of risks and return potential, leading to higher borrowing costs and less private sector participation.

To overcome these obstacles, PDBs must adopt robust risk management frameworks that incorporate advanced methodologies, leverage collective data, and advocate for regulatory reforms that recognize the transformative impact of sustainable investments.

Recommendation 15: Strengthen risk management frameworks through dialogue and data-driven innovation

- PDBs should engage in multistakeholder dialogues with credit rating agencies, financial regulators, and private sector actors to develop more granular, region-specific risk assessment methodologies. This will improve internal risk management models and help PDBs adopt a more balanced approach to risk and development impact.
- Expand contributions to the Global Emerging Market Risk Database (GEMs), facilitating better-informed credit risk evaluations. Align GEMs' metrics with established frameworks like Fitch and S&P to ensure greater visibility and reduce the risk of mispricing in high-risk markets.

Recommendation 16: Promote financial instruments to mitigate risks and incentivize investment

- Increase the use of first-loss capital, guarantees, and concessional financing to mitigate perceived risks and enhance investor confidence in high-risk projects.
- Introduce long-term exchange rate hedging mechanisms to provide stability for investors and protect them from currency volatility, making investments in emerging markets more attractive.
- Develop mutualized risk mitigation platforms to pool resources from larger PDBs and enable smaller institutions to access the necessary tools for engaging in more risky but impactful projects.

Innovative Financial Instruments: PDBs Collaboration to Mitigate Risks and Incentivize Investments

Public Development Banks (PDBs) are increasingly collaborating to develop innovative financial solutions aimed at addressing major development challenges, including economic growth, resilience, and climate adaptation, in alignment with the UN Sustainable Development Goals (SDGs) and the Paris Agreement. By pioneering innovative financial models, these collaborative efforts aim to create scalable solutions that effectively mobilize both public and private resources and that can be replicated globally.
Two significant examples of these innovative financial instruments are the Growth and Resilience Platform for Africa (GRAf) and the green hybrid bond issued by the West African Development Bank (BOAD).

The Growth and Resilience platform for Africa (GRAf) is a financial tool that Cassa Depositi e Prestiti (CDP) and African Development Bank (AfDB) jointly developed with the aim of supporting Africa's private sector through the mobilization of risk capital. GRAf operates through a co-investment platform with an indirect investment mandate (via funds) and a lean governance framework. The platform intends to raise up to 750 million euro over the course of five years from like-minded investors. Up to 400 million euro over five years were already pledged by CDP and AfDB in 2024 and the platform became operational at the end of last year.

Another pioneering initiative is the 100-million-euro green hybrid bond issued by the West African Development Bank (BOAD) and subscribed by the Italian Climate Fund (Italy's climate finance instrument, managed by CDP on behalf of the Italian Government). This is the first euro-denominated green hybrid bond for climate change mitigation ever issued by a multilateral development bank with this exclusive purpose.

The hybrid bond aims at supporting renewable energy projects in West African Economic and Monetary Union (WAEMU) countries while strengthening BOAD's capital base.

This instrument provides substantial financial leverage, enabling 400 million euro in new financing for BOAD's member countries and local economies at favorable terms. Proceeds will be allocated to the construction and rehabilitation of electricity generation infrastructure from renewable sources, providing access to electricity to hundreds of thousands of citizens, diversifying the energy mix, reducing CO2 emissions, and lower energy production costs across WAEMU member countries. This initiative can serve as a replicable model for financing sustainable infrastructure projects in other regions, contributing to global climate change mitigation efforts.

Recommendation 17: Address procyclical risks in credit assessments

- Advocate for credit rating reforms to mitigate the procyclical effects of downgrades following economic shocks. Introducing longer-term perspectives on recovery and resilience can reduce the tendency for overreaction during crises, allowing PDBs to provide much-needed countercyclical financing during times of economic distress.

Leveraging the Global Emerging Markets (GEMs) Risk Database: Informing Credit Risk Assessment

The Global Emerging Markets (GEMs) Risk Database Consortium, launched in 2009 by the European Investment Bank (EIB) and the International Finance Corporation (IFC), aggregates credit risk data from 27 multilateral and bilateral development banks. Members, including the African Development Bank, Asian Development Bank, and Inter-American Development Bank, contribute anonymized data on default rates, credit rating migrations, and repayment outcomes in developing economies.

GEMs provides members with aggregated benchmarks and insights, enhancing their ability to assess and manage credit risks in regions often underrepresented in global data. Recent publications, such as the 2024 reports on private and sovereign credit quality, highlight the consortium's value. For example, the average default rate for private loans in emerging markets (3.56%) aligns with non-investment grade corporate benchmarks in advanced economies, while recovery rates (72.2%) exceed many global indices. Similarly, sovereign loans show a remarkably low average default rate of 1.06% and a high recovery rate of 94.9%, offering granular insights into credit dynamics across 40 years of data.

Despite its achievements, GEMs faces challenges in ensuring its data is widely adopted by credit rating agencies and private investors. Harmonizing GEMs' metrics with established frameworks (e.g., Fitch, S&P) is crucial to make its benchmarks indispensable in risk pricing and to attract private capital to emerging markets. Progress on these fronts will also bolster broader efforts to create a "Public Development Bank" asset class and support balance sheet optimization for MDBs and DFIs.

The GEMs initiative demonstrates the transformative potential of shared data for improving risk assessment and enhancing confidence in investments across developing economies, yet its full potential remains contingent on greater comparability, visibility, and stakeholder engagement.

Currency risk management

PDBs can play a pivotal role in attracting domestic private capital by addressing the challenges posed by currency risk and exchange rate volatility

Recommendation 18: Mobilize domestic private capital by leveraging local currency solutions and expanded risk mitigation instruments

Exploring local currency solutions includes:

- Prioritizing the development and deployment of local currency solutions, including capacity-building programs for currency risk management, to attract domestic private capital while minimizing exposure to exchange rate volatility.
- Promoting concessional hedging mechanisms and other risk mitigation instruments that enable local financial institutions and investors to engage in sustainable development financing with greater confidence.
- Encouraging collaborative efforts through platforms like FiCS and IDFC to share best practices, scale up local currency financing, and tailor solutions to the needs of developing and emerging markets.

Capacity building and financial innovation

Enhancing the institutional capacity of PDBs is critical to fostering sustainable development. This notably involves targeted measures to improve project preparation and operational frameworks.

Recommendation 19: Support Technical Assistance for capacity-building and systematic environmental and social integration into PDB operations

To rebalance the resources of PDBs, and provide them with more institutional and technical capacities:

- Provide dedicated grants to improve project preparation, with a focus on "greening" PDBs' activities across sectors.
- Establish widely accessible project preparation funds to help develop bankable, sustainable projects.

PDBs Fostering Peer-to-peer Technical Assistance :IDFC Facility

Climate finance has been a core focus of the International Development Finance Club (IDFC) since its inception. In 2019, the Club established the Climate Facility, its first operational tool, to help members further integrate climate change into their activities. Its objectives are to:

1. Increase the volume and improve the quality of climate finance.
2. Enhance cooperation among members, including joint co-financing opportunities.
3. Strengthen IDFC's global and regional influence on climate issues.

In 2022, biodiversity was added to the Facility's scope, reflecting its growing importance.

The Facility provides technical assistance to its members to mainstream climate finance and align with the Paris Agreement. This includes support in adopting methodologies, strategies (both institutional and sectoral), tools, and adapting project cycles and organizational frameworks.

Example: Toolbox Webinars
In 2024, Bancoldex hosted the IDFC Facility Toolbox Webinar, focusing on Greenhouse Gas Accounting and Green Finance Instruments. Topics covered included biodiversity, nature conservation, carbon accounting, and data measurement. The training aimed to:

1. Build members' skills to assess climate risks in investments and operations.
2. Link sustainability issues with finance, climate, and biodiversity.
3. Provide knowledge for strategic client dialogue and business development.
4. Improve climate experts' performance with hands-on site visits.

Knowledge Sharing Examples
The Facility also promotes peer-to-peer exchanges on themes like CO_2 emission counting, climate risk assessment, adaptation projects, and energy efficiency in buildings.

Additional knowledge-sharing initiatives include:

- Updating common principles for green finance accounting, with new taxonomies for mitigation and methodologies for adaptation.
- A mentorship program that, in its pilot phase, connected nine members for nine months to collaborate on climate strategy and Paris Agreement alignment.

Through these efforts, the IDFC Facility helps PDBs enhance their role in advancing climate and biodiversity goals.

Facing unprecedented challenges requires scaling up innovation and implementing cross-cutting financing solutions. The PDB system is uniquely positioned to do so: by harnessing internal expertise and promoting collaborative initiatives, PDBs can pioneer transformative financial solutions

Recommendation 20: Leverage expertise within the PDB ecosystem to foster innovative financial instruments

Exploring local currency solutions includes:

- Develop innovative financial tools: Examples include climate-resilient debt clauses, local currency risk management solutions, and debt-for-nature swaps. These instruments enhance resilience and align financial flows with the Sustainable Development Goals (SDGs).
- Strengthen knowledge-sharing platforms: Initiatives like FiCS Financial Innovation Lab can serve as incubators for groundbreaking ideas, enabling the scaling of best practices across the PDB network

FiCS Financial Innovation Lab: Driving Innovation in Development Finance

Launched after the FiCS 2023 Cartagena Summit, the FiCS Financial Innovation Lab is a collaborative platform to help Public Development Banks (PDBs) create and test innovative financial instruments. It focuses on mobilizing private capital and scaling climate finance in Emerging Markets and Developing Economies (EMDEs). The Lab is hosted by the FiCS Secretariat General, the Inter-American Development Bank (IDB), and the Climate Policy Initiative (CPI), with funding from the Children's Investment Fund Foundation (CIFF).

The Lab addresses key systemic barriers, including:

- Limited knowledge sharing and dissemination of best practices among PDBs.
- A lack of standardized financial instruments, increasing costs and inefficiencies.
- Insufficient capacity to scale climate finance and implement solutions in EMDEs.

Core Activities

The Lab works through three pillars:

- Knowledge Sharing: Promotes collaboration and mainstreams climate considerations in PDB operations.
- Policy and Standardization: Develops frameworks and taxonomies to simplify climate finance implementation.
- Innovation: Provides technical and financial assistance to design and pilot tools like guarantees, equity instruments, and blended finance mechanisms.

Funding and Focus Areas

Under the framework of the FiCS Lab incubator (pillar 3), the Lab funds projects with grants ranging from $250,000 to $500,000. Examples include:

- Climate-resilient debt clauses to manage risks from climate shocks.
- Debt-for-nature swaps linking debt relief to conservation.
- Local currency solutions to reduce exchange rate risks in development finance.
- Support for domestic carbon markets through policy framework.

Collaboration and Implementation

The Lab facilitates partnerships between PDBs and development experts, offering resources for project preparation, financial modeling, and environmental impact assessments to enhance scalability.

Timeline

After a competitive call for contributions between October and December 2024, selected projects will enter a one-year piloting phase (2025–2026). CPI will provide light-touch support to evaluate the tools' effectiveness and scalability.
By fostering innovation and partnerships, the FiCS Lab helps PDBs lead in sustainable finance, attract private capital, and deliver high-impact solutions.

CONCLUSION

A reframed, unified and empowered PDBs system to enable and catalyze the transformation of the global financial system

FiCS considers that the Fourth International Conference on Financing for Development (FfD4) presents a critical opportunity to redefine the global financial architecture in support of sustainable and inclusive growth. With just five years remaining to achieve the SDGs, the world cannot afford to rely on incremental progress. The international financial system must undergo a systemic transformation to ensure that all available financial resources—domestic and international, public and private— are aligned with long-term sustainable development objectives.

Public Development Banks (PDBs) hold the potential to be central actors in this transformation. As institutions with public mandates and long-term financing capabilities, PDBs are uniquely positioned to bridge financing gaps where market failures persist. Yet, despite their critical role, their collective impact remains constrained by fragmented mandates, regulatory limitations, and inadequate capital allocation. The time has come to unleash their full potential by making them work as a system, ensuring they operate in synergy to deliver the financing required for sustainable development at scale.

Unlocking the Full Potential of Public Finance for Sustainable Development`

The success of FfD4 will depend on a renewed commitment to public finance as a catalyst for sustainable and inclusive economic growth. Development finance must be about more than mobilizing private investment; it must guarantee that essential public goods—such as climate resilience, social protection, and infrastructure—are adequately funded, particularly where private capital remains scarce. PDBs, as a system, have a unique role to play in optimizing the use of domestic and international public resources:

- **Enhancing the management of domestic public resources:** National Development Banks (NDBs) can act as vehicles to channel and optimize domestic public finance for long-term development priorities. By blending budgetary allocations with financial instruments, NDBs can maximize the efficiency of public funds while ensuring sustainable debt management.
- **Ensuring that concessional finance is deployed where it is most needed:** The international community must recognize that concessional finance remains indispensable, particularly for Least Developed Countries (LDCs) and vulnerable economies. A more structured PDB system could ensure that concessional resources are deployed strategically and efficiently, addressing historical disparities in global financial flows and mitigating excessive reliance on short-term or expensive financing options.
- **Strengthening domestic resource mobilization (DRM) efforts:** PDBs can play a proactive role in supporting national governments to improve DRM capacities, fostering stronger fiscal systems, and channeling local savings into productive, SDG-aligned investments.

Driving Systemic Financial Transformation

Beyond public finance, a coordinated PDB system has the potential to act as a catalyst for broader systemic reforms in the global financial landscape. A well-structured PDB network could:

- **Foster the alignment of financial flows with sustainable development objectives:** A harmonized PDB system could work toward a common understanding of sustainable finance standards, helping to reshape financial markets by establishing clear taxonomies, disclosure frameworks, and investment criteria that guide capital toward long-term sustainability.
- **Strengthen the role of public finance in shaping markets:** By deploying innovative financial instruments, de-risking high-impact projects, and fostering blended finance approaches, PDBs can help create enabling conditions for private investment in sectors and regions where financing remains scarce.
- **Advance financial system reform to improve resilience and inclusivity:** PDBs can engage with financial regulators, multilateral institutions, and standard-setting bodies to promote a financial system that is more attuned to long-term sustainability challenges. This includes revisiting prudential regulations, refining risk assessment methodologies, and ensuring that the international financial system enables, rather than restricts, SDG-aligned investments.

A More Equitable and Just Global Financial Architecture

Achieving a truly inclusive and sustainable financial system requires rethinking the governance of global finance. PDBs can help create a more equitable distribution of financial resources by ensuring that capital reaches underserved countries, regions and communities. By working as a system, PDBs can:

- **Rebalance global financial flows** to ensure that capital is directed not only toward commercially viable projects but also toward critical social and environmental priorities.
- **Promote country-led development strategies** by ensuring that financial solutions are aligned with national priorities rather than donor-driven agendas.
- **Ensure fair access to concessional finance** by strengthening mechanisms that enable all developing economies—not just a select few—to access the financial support required for sustainable growth.

Seville: The Beginning, Not the End

The FfD4 Conference in Seville must be understood not as the culmination of efforts but as the beginning of a more ambitious and sustained process to reform the global financial system. While discussions at FfD4 will set the stage for policy commitments, real impact will depend on their implementation in the years that follow. Ensuring that Seville serves as a launchpad for systemic change requires:

- **A commitment to follow-through mechanisms** that ensure Member States, international institutions, and financial actors translate commitments into measurable progress.
- **A framework for ongoing dialogue and coordination** beyond FfD4, integrating key financial reform discussions into other global platforms such as the G20, the UN General Assembly, and regional development forums.
- **An inclusive approach to governance reform**, ensuring that all countries—regardless of size or income level—have a meaningful voice in shaping the future of the global financial system.

A Call to Action at FfD4

FfD4 must send a clear and ambitious signal: financial resources must be urgently redirected toward sustainable growth, and PDBs must be empowered to act as a key lever of change. To achieve this, the international community must commit to:

- **Establishing a global framework that recognizes and integrates all PDBs into a coherent financial system**, ensuring that they work collaboratively to achieve sustainable development objectives.
- **Ensuring that domestic and international public finance is strategically allocated to support long-term, high-impact investments** in climate resilience, sustainable infrastructure, and social development.
- **Reforming financial regulations to enable PDBs to deploy their full potential** while safeguarding financial stability.
- **Advancing financial innovation** by scaling up mechanisms that drive the transition toward a more inclusive, resilient, and sustainability-oriented global economy.

The Finance in Common System (FiCS) remains fully committed to working with all stakeholders to advance these objectives, ensuring that PDBs serve as one of the pillars of the global financial system's transformation. This is not simply about reforming financial institutions—it is about rethinking the role of finance itself in shaping a more prosperous, just and sustainable future.

The time for incremental change has passed. FfD4 must be the turning point where the world collectively commits to bold, systemic action. The stakes could not be higher: the global financial system must be transformed to serve all, not just a few. By harnessing the power of PDBs as a system, we can lay the foundations for a financial architecture that is fit for purpose in the 21st century—one that ensures no one is left behind.

Annexes: Key Recommendations

Recommendation 1: Converge the mandates of all PDBs around a "dual mandate" model integrating:

- (1) National development priorities—such as poverty reduction, industrialization, job creation, and economic growth.
- (2) Addressing cross-cutting challenges, including urgent climate action, biodiversity, and gender inequalities.

Recommendation 2: Mainstream sustainability considerations among all PDBs at both the entity and operations level to encourage and monitor the redirection of financial flows towards SDGs.

Recommendation 3: Better recognize the role of national PDBs and embed them upstream in national planning and sustainable investment strategies, including:

- Inclusion in the operational design of country platforms.
- Explicit mention in NDCs, LTS, NAPs, and NBSAPs.

Recommendation 4: Leverage PDBs' expertise to build capacities and contribute to policy reforms.

Recommendation 5: Reframe all PDBs as one PDB system and broaden ongoing reforms of the MDBs to ensure a more efficient "whole-of-PDBs system."

Recommendation 6: Foster synergies within the Finance in Common system (FiCS), allowing all PDBs—multilateral, international, national, subnational—to leverage their respective strengths in complementary ways.

Recommendation 7: Improve the channeling of financial flows to ensure they address national priorities by:

- Placing country-led collaboration at the center of a unified PDB system.
- Encouraging MDBs and international PDBs to set collaboratively agreed targets with borrowing countries.
- Enhancing NDBs' project origination capacity.
- Extending SDR reallocations through MDB balance sheets to refinance smaller PDBs.
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Recommendation 8: Enhance operational cooperation among PDBs through:

- Capacity-building, peer learning, and mutual reliance mechanisms.
- Adoption of shared procedures and agreements for mutual recognition.
- Systematic integration of sustainability across operations.

Recommendation 9: Increase the volume of capital available to PDBs, including:

- Strengthening the capacity of MDBs in the new FiCS architecture.
- Increasing capital and concessional finance flows.
- Conducting a Capital Adequacy Framework (CAF) review and implementing balance sheet optimization measures.

Recommendation 10: Create a fast-track or "one for all" accreditation process to simplify access to multilateral funds for PDBs with strong SDG alignment, including:

- Streamlined negotiations for aligned PDBs.
- Dedicated technical assistance to support accreditation efforts.

Recommendation 11: Encourage structured dialogue on a suitable regulatory framework for sustainable development financing by PDBs, ensuring:

- Regulatory conditions reflect PDBs' development mandates.
- Tailored frameworks replacing rigid private-sector-based norms.

Recommendation 12: Set targeted incentives to increase development finance transactions by:

- Adjusting capital requirements for development finance viability.
- Introducing specific benchmarks for catalytic capital deployment.
- Expanding philanthropic de-risking mechanisms.

Recommendation 13: Develop globally recognized standards for development finance, including:

- A unified taxonomy for development finance transactions.
- Expanded databases to improve blended finance visibility.

Recommendation 14: Position PDBs as a distinct asset class with sustainability labels by:

- Establishing criteria for governance, financial soundness, and sustainability.
- Introducing sustainability labels to enhance investor trust.

Recommendation 15: Strengthen risk management frameworks through:

- Structured dialogue with credit rating agencies and regulators.
- Expansion of Global Emerging Market Risk Database (GEMs) contributions.

Recommendation 16: Promote financial instruments to mitigate risks and incentivize investment, including:

- First-loss capital, guarantees, and concessional financing.
- Long-term exchange rate hedging mechanisms.
- Mutualized risk mitigation platforms for smaller PDBs.

Recommendation 17: Address procyclical risks in credit assessments by:

- Advocating for credit rating reforms to reduce crisis-driven downgrades.
- Introducing longer-term resilience perspectives in assessments.

Recommendation 18: Mobilize domestic private capital through:

- Expansion of local currency financing solutions.
- Concessional hedging and risk mitigation mechanisms.
- Best practice sharing within FiCS and IDFC to scale solutions.

Recommendation 19: Support technical assistance for capacity-building and systematic environmental and social integration by:

- Providing dedicated grants for project preparation and sustainability integration.
- Establishing project preparation funds to support bankable projects.

Recommendation 20: Leverage expertise within the PDB ecosystem to foster innovative financial instruments, including:

- Development of climate-resilient debt clauses and debt-for-nature swaps.
- Expansion of financial innovation hubs like the FiCS Financial Innovation Lab.

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