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Scaling Up Public Development Banks' Transformative Alignment with the 2030 Agenda for Sustainable Development

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About the research program

This paper is published in the framework of the International Research Initiative on Public Development Banks (PDBs) and Development Financing Institutions (DFIs) working groups, part of the research program: “Realizing the Potential of Public Development Banks for Achieving Sustainable Development Goals”.

This research program aims to deliver concrete policy recommendations to decision-makers on how to scale up Public Development Banks’ potential at achieving the Sustainable Development Goals (SDGs). The academic research focuses on five major themes:

• Characterization of SDG-compatible investments
• Business Models
• Governance
• Financial regulation
• Global Development Finance Architecture

Partners and coordinators

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All the information about this program, and all working papers published are available at INSE’s website: https://www.nse.pku.edu.cn/en/research/df/oaa/index.htm and AFD’s website: www.afd.fr/en/carte-des-projets/realizing-potentialpublic-development-banksachievingsustainable- development-goals.

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Abstract
Before the Covid-19 crisis struck, numbers said that implementing the 2030 Agenda and its Sustainable Development Goals (SDGs) would cost between USD 50 trillion and USD 70 trillion, over a 10-year period (2020-2030). Although traditional financing approaches, such as ODA and domestic resource mobilisation, remain essential, a vast amount of additional funding is needed to finance the 2030 Agenda. Public development banks (PDBs) can accelerate SDGs implementation, by coupling their leverage capacity with systemic and cross-cutting 2030 Agenda alignment practices that catalyse real transformations in their behaviours and investments.

This new research assesses how PDBs–from different sizes and geographies–have interpreted and are including sustainable development priorities in their day-to-day discussions, processes and operations. It shows that most PDBs have the interest and willingness to take the necessary steps to mainstream SDG priorities into their strategies and operations. Nonetheless, findings suggest that both strategic and operational endeavors are at early stages of alignment. Actions are still scattered and are not systematised at the portfolio level as a whole, therefore losing forcefulness and visibility of its possible impact.

Some PDBs have so far implemented innovative practices which should now be shared among all PDBs in a view of harmonisation and coherence, as a crucial prerequisite to a scaled-up alignment. As for governments, shareholders and other stakeholders, they should also contribute to this alignment endeavour by an enhanced political backing and support to PDBs.

Keywords
Public development banks, SDG alignement, 2030 Agenda, Sustainable development.

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Résumé
Avant la crise de Covid-19, les chiffres indiquaient que la mise en œuvre de l'agenda 2030 et de ses objectifs de développement durable (SDG) coûterait entre 50 000 et 70 000 milliards de dollars sur une période de dix ans (2020-2030). Bien que les approches de financement traditionnelles, telles que l'APD et la mobilisation des ressources nationales, restent essentielles, un financement supplémentaire est nécessaire pour financer l'agenda 2030. Les banques publiques de développement (BPD) peuvent accélérer la mise en œuvre des ODD, en associant leur capacité de levier à des pratiques d'alignement systémiques et transversales de l'Agenda 2030 qui catalysent de réelles transformations dans leurs comportements et leurs investissements.

Cette nouvelle recherche évalue la manière dont les BPD - de tailles et de géographies différentes - ont interprété et incluent les priorités du développement durable dans leurs discussions, processus et opérations quotidiennes. Elle montre que la plupart des BPD ont l'intérêt et la volonté de prendre des mesures nécessaires pour intégrer les priorités du développement durable dans leurs stratégies et leurs opérations. Néanmoins, les résultats suggèrent que les efforts stratégiques et opérationnels en sont aux premiers stades de l'alignement. Les actions sont encore dispersées et ne sont pas systématisées au niveau du portefeuille dans son ensemble, ce qui fait perdre de la force et de la visibilité à leur impact éventuel.

Certaines BPD ont jusqu'à présent mis en œuvre des pratiques innovantes qui devraient maintenant être partagées entre toutes les BPD dans le but d'harmoniser, condition préalable essentielle à un alignement à grande échelle. Quant aux gouvernements, aux actionnaires et aux autres parties prenantes, ils devraient également contribuer à cet effort d'alignement par un soutien politique renforcé et un appui aux BPD.

Mot clés
Banques publiques de développement, ODD, alignement, 2030 Agenda, développement durable.

I – Introduction

1.1. Setting the scene: 2030 Agenda and its promises – Why the concept of alignment with Agenda 2030 is important

Although the world is not on track to achieve the Sustainable Development Goals (SDGs), the UN 2030 Agenda for Sustainable Development (United Nations, 2020) remains the widely endorsed reference framework to bring about the necessary social, economic and environmental transformations for communities to recover and thrive. A key added value of this agenda is that all governments have made an explicit commitment to engage their countries on a transformation pathway that will drive their society and economy towards more sustainability. This overarching goal is even more relevant in the context and aftermath of the 2020 global health crisis linked to the Covid-19 pandemic: its emergence and impacts in health, economic and social terms revealed the multisectoral and embedded vulnerabilities and inequalities of our societies. Public development banks (PDBs) around the world can play a vital role not only in minimising economic decline and supporting recovery, but also in financing structural transformations. Fulfilling this role requires that these institutions are able to fully capture the interconnected and transversal nature of the 2030 Agenda and therefore align their practices, operations and investments accordingly.

In 2015, Member States of the United Nations adopted the 2030 Agenda for Sustainable Development in a context when the sense of urgency was shifting away from the tyranny of short-termism and the desire for cooperation was prevailing over the unilateral expression of the narrowest interests.

Although their negotiations were sometimes fierce, the SDGs were nevertheless a statement of confidence that a set of universal ambitions, a sort of draft global social contract, could take shape and be adopted by the United Nations. Entitled *Transforming our world: the 2030 Agenda for Sustainable Development*, this programme is clearly presented as an action plan for humanity, the planet and prosperity.

Integrated and inseparable, the 17 SDGs and 169 targets reconcile the three dimensions of sustainable development: economic, social and environmental. The ambition of the adopted text is clear from the Preamble and concerns all the actors, countries and stakeholders:

"*All countries and all stakeholders, acting in collaborative partnership, will implement this plan. We are resolved to free the human race from the tyranny of poverty and want and to heal and secure our planet. We are determined to take the bold and transformative steps which are urgently needed to shift the world onto a sustainable and resilient path. As we* *embark on this collective journey, we pledge that no one will be left behind.*"[1]

The 2030 Agenda promised integrated solutions and contributions from all countries and the different actors. Thanks to its specific objectives and indicators, it also promised to make the abstract concept of sustainable development more operational. By presenting today's many challenges in an integrated manner and by introducing transformative goals such as the one on sustainable production and consumption patterns, it promised a project for structural change.

The 2030 Agenda and the SDGs have often been presented as a "paradigm shift", welcomed by numerous academics and NGOs, who highlight its potential and its promises, even if other researchers (and sometimes the same ones) also emphasise its possible risks (Hege *et al.*, 2019).

Many stakeholders often wrongly focus only on this list of goals and objectives. However, the adopted text that precedes the list of different goals and objectives is just as fundamental and key to really implement and reach the SDGs. This 2030 Agenda is based on promises and fundamental principles.

1.1.1. A holistic and integrated Agenda

As mentioned at the beginning of the 2030 Agenda, "*the interlinkages and integrated nature of the Sustainable Development Goals are of crucial importance in ensuring that the purpose of the new Agenda is realised.*"[2]

The indivisibility of the SDGs is described as the most "visible" innovation of the 2030 Agenda, and is an opportunity to create more synergies between social and environmental policies, thereby increasing the weight of these two dimensions of sustainability compared to the economic dimension.

The more inclusive nature of the SDGs in relation to the Millennium Development Goals (MDGs, 2000-2015 period) was seen as long overdue by communities whose issues had so far received less attention. This is also what makes the SDGs richer in conceptual terms and more sophisticated than their predecessors (Stevens & Kanie, 2016). The 2030 Agenda can also be seen as an opportunity to make human and ecosystem well-being central to international relations (Martinez & Mueller, 2015).

In fact, although the indivisibility of challenges is underlined in the unanimously adopted official documents, the 17 SDGs can be easily cherry picked and tackled in silos. This integration clashes with the reality of national governance systems, which struggle to achieve it. In response to this challenge, the SDGs can provide a reference framework for governments to enable them to monitor and assess public policies in light of the three dimensions of sustainable development, as well as their interrelationships.

[1] https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E

[2] https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E

Concretely: this means for stakeholders, whoever they are, to carry out a real reflection, a real analysis, on how to maximise the impact of their actions, projects or investments on all the SDGs, but also to manage the potential negative impacts and frictions with other SDGs.

1.1.2. An Agenda for all? and Leaving no one behind

One of the innovations of the SDGs in relation to the MDGs is that they apply to all countries, in both the North and the South, whether developed, developing or least-advanced. Moreover, they favour a bottom-up approach, which gives the countries the flexibility to define their implementation approach and which, in order to function, should not be seen as an invitation to interpret the promises of the 2030 Agenda so as to make them consistent with existing practices, without questioning these practices. The SDGs should instead encourage each country to define its own pathway of change. However, the lack of "instructions" does not facilitate implementation. The idea was to protect the sovereignty of countries, to avoid being prescriptive on the means, and to stick to the results while leaving each country to follow its own path (Hege & Barchiche, 2019).

Beyond an agenda for everyone, the 2030 Agenda intends to leave no one behind and targets the most vulnerable as a priority. This is one of its strongest messages.

"*As we embark on this great collective journey, we pledge that no one will be left behind. Recognising that the dignity of the human person is fundamental, we wish to see the Goals and targets met for all nations and peoples and for all segments of society. And we will endeavor to reach the furthest behind first.*"

This is a key dimension of the 2030 Agenda that points out the fact that the entire set of SDGs cannot be achieved if the lives of the poorest and most marginalised people are not improved. The 2030 Agenda wording suggests that the call to leave no one behind has three interrelated, but still distinct, implications: to end absolute poverty—in all its forms—, to stop the group-based discrimination that has resulted in unequal outcomes for so many disadvantaged and marginalise populations, and to prioritise and fast-track every form of action for the poorest and most disadvantaged (OECD, 2018).

Leave no one behind, too, is inherently integrated and concerns the three dimensions of sustainable development. The most vulnerable need for example better access to health, education and social protection, but also higher quality and better-paid employment to increase their productivity and incomes and to live free from the burdens of environmental degradation, climate change and climate-related disasters (OECD, 2018).

1.1.3. A transformative agenda

The SDGs are thus presented as a "transformative project", leading ideally to a "systemic change". The Agenda 2030 can be considered as transformative agenda BUT under certain conditions such as respecting Leave No One behind and the integrated character of the Agenda.

Since 2016, some analyses have shown that the SDGs could be used more "subversively" to steer discussions and practices if enough actors highlight their transformative content rather than their content that reinforces business-as-usual (Koehler, 2016). However, several authors acknowledge that some goals are more consistent with the transformation agenda than others. Among the goals with high transformative potential, we can identify SDGs 5 (gender equality), 10 (reducing inequality), 12 (transforming production and consumption patterns) and 16 (institutions, justice, peace) (Bhattacharya *et al*., 2014). Koehler (2016) proposes that the SDGs could be used "subversively" to steer discussions and practices if enough actors highlight its transformative content rather than its content that consolidates business-as-usual. Moreover, the SDGs were not designed as targets to be met independently, but as a mutually supportive package (Korosi, 2015).

This is what makes the 2030 Agenda transformative, since no current development pathway can achieve all of the SDGs together.

Five years after its adoption, the United Nations Development system restructured[3] to support the 2030 Agenda implementation in the countries, at the initiative of the Secretary-General Antonio Guterres, and more and more references are being made to the 2030 Agenda by the G20, the G7, international organisations, governments, the private sector and non-state actors (Hege & Barchiche, 2019). However, they rarely question practices, nor do they initiate a transformative project.

The true transformative potential of the 2030 Agenda lies in its integrated and indivisible nature, which can help tackle and reduce the structural causes of vulnerabilities that the world currently faces.

In this regard, there is a need to develop a clear vision of what does or does not contribute to the SDGs, and to prevent the SDGs from falling victim to an overly vague game of interpretation that everyone can join without questioning the real impact of their actions on the agenda as a whole. PDBs can play a critical role in this regard.

1.2. What do these promises mean for PDBs – the specific role of PDBs for the implementation of 2030 Agenda, particularly on the example of the Covid 19 crisis?

1.2.1. PDBs at the forefront of the implementation of the 2030 Agenda?

In order to achieve the 2030 Agenda and its SDGs, all these promises should be implemented. All actors should take steps in this direction, but PDBs have certain advantages that enable them to position themselves at the forefront of this movement. With a clear knowledge of the specific context in each region or country where they operate, and unequaled flexibility in the design of concessional loan programmes, in recent years these banks have positioned themselves as an essential and complementary voice for traditional Official Development

[3] Repositioning the United Nations development system to deliver on the 2030 Agenda: our promise for dignity, prosperity and peace on a healthy planet. Report of the Secretary-General (https://undocs.org/en/A/72/684)

Assistance (ODA) and commercial investors (Xu *et al.*, 2019).

Mostly set up by their national or regional governments as specialised financial institutions providing long-term financing and technical assistance to economic sectors to vitalise the country's development and growth, PDBs are not uniform in their size, scope, or business model among other aspects (Xu *et al.*, 2019).

Both academics and policymakers are recognising the importance of PDBs in playing countercyclical roles, bridging financing gaps in key development sectors, addressing defects in capital markets, and enhancing structural transformation. PDBs–multilateral, regional, national, sub-national–have the ability to adapt their roles to changing development needs at different stages of development. Thus, PDBs are not only better suited for carrying out countercyclical lending during a crisis but are also particularly suited to reignite growth after a crisis.

The fact that PDBs were conceived as "government bishops" to foster sustained development and growth sets them by default on the frontline of the 2030 Agenda financing. However, are they making use of their vast portfolio of funding tools (equity, loans, grants, etc.) and network-building capacity to uplift the social wellbeing of communities, preserve the environment and promote economic growth? And if so, what has been their approach so far to align and internalise this transformative agenda for sustainable development?

It is clear that Multilateral and regional PDBs are important sources of financing, especially for emerging and developing countries. By making use of their credit and lending instruments—concessional and non-concessional—and by providing non-reimbursable technical cooperation resources, they allow governments to access new funding at preferential rates and terms. Provision of public aid through PDBs comes mainly in the form of grants, guarantees on loans, subsidised loans or equity, either directly or channeled through credit institutions or other financial institutions. Given that PDBs can borrow from other financial institutions or issue debt, these guarantees allow them to borrow at a relatively lower cost and eventually transfer that lower cost to final borrowers.[4]

In this regard, the more than 400 PDBs around the world can play a vital role not only in economic decline and supporting recovery, but also in financing structural transformation, helping to lay the foundations for a financial model that is conducive to an equitable and sustainable growth, in line with the SDGs.

1.2.2. What does "financing the 2030 Agenda" really mean?

How to align with the 2030 Agenda to better target and mobilise the funding needed to achieve a successful implementation of the SDGs? We pointed out that one of the true transformative potential of the 2030 Agenda lies in its integrated and indivisible nature, which

[4] https://www.iddri.org/en/publications-and-events/blog-post/role-public-development-banks-supporting-post-covid-19-crisis

can help tackle and reduce the structural causes of vulnerabilities that the world faces.

Contributing to the financing of the 2030 Agenda must therefore involve ensuring that the impact of funding on the overall agenda is minimised. This raises the question of how to act: can PDBs do better, and otherwise, to maximise the impact of one's action in favour of the 2030 Agenda in its entirety and transformational nature, even if the objective of the action is aimed at a single target?

For instance, driving investment for sustainable infrastructure energy in Africa implies understanding that "*building infrastructure does not automatically bring broad-based growth and social development*"(Altieri *et al.*; 2015; Johnson *et al.*, 2017). Efforts should therefore focus on channelling funding to infrastructure that reduces inequalities in access to energy and thus, to development, and at the same time, meets local needs in a socially acceptable, and environmentally friendly manner (Riaño & Barchiche, 2020).

For PDBs, aligning with the 2030 Agenda would mean that the design/implementation of project and strategies, the structuring/financing of projects, as well as monitoring of its effects, should focus on maximising synergies and co-benefits, while reducing possible trade-offs. In other words, the successful implementation of this paradigm shift would rely upon disentangling complex interactions between the goals and their targets. As stated in the 2030 Agenda, this is very context specific, and needs to be analysed and discussed at least at national scale, if not subnational. The long-term insertion of PDBs in national contexts is an asset in this regard, that could enable them to better analyse the needs and the solutions to these needs from a national perspective. How they actually perform in this role depends heavily on the processes and institutional arrangements developed by these banks.

1.2.3. Avoiding "SDG washing"

Financing the 2030 Agenda entails ensuring investments are not contradictory to environmental and social goals like climate and biodiversity, but also inequalities and food security. A significant proportion of financial flows—in both the public and private sectors—are still not aligned or even compatible, with the SDGs (Rain Forest Action Network *et al.*, 2020).

Public and private financial systems as well as some donors within development cooperation, who are responsible for the allocation and intermediation of resources in developing and developed countries, still favour predominantly fossil fuel-related investments. And the financial support provided by some governments to industries/activities harmful to the environment–focused mainly on fossil-fuel subsidies and backing of agriculture that is potentially damaging to biodiversity–exceeds by a factor of 10 the investments made in favour of the conservation and sustainable use of biodiversity (OECD, 2019a, 2019b).

In addition, if PDBs are to play a transformational role to redirect, mobilise and unlock the necessary funding to attain the 2030 Agenda while helping countries out of the crises, standalone, "cherry picking" approaches are definitely not enough. Investing to fulfil certain SDGs, without simultaneously ensuring that other areas of their own activities do not counteract those objectives, evidently undermines efforts to achieve sustainable development at large. How synergies and trade-offs among goals play out in a particular setting is also worth taking into account. Synergies cannot be taken for granted and do not occur automatically: one missing element—be it efficient governance, health system, or energy provision, or better management of natural resources—can have dripping effects throughout the economy and society.

Stepping up and undertaking transformative changes is certainly challenging, especially for National Development Banks (NDBs)—given the fact that in many countries, the national PDB is either "forgotten" or takes an intentionally low profile. Furthermore, moving from strategic intent to true ownership implies high-level commitment together with profound governance and, probably business model restructurings.

Making sustainability an integral part of their DNA PDBs can easily create socially and environmentally sustainable economic opportunities —in synchrony with the 2030 Agenda—that are now more urgently needed than prior to the coronavirus crisis.

1.3. Focused literature review

In recent years, literature on PDBs—both coming from academic sources and from relevant stakeholders in the field—has been slowly growing. Academic research on PDBs has mostly focused on understanding their roles, business & lending models, financial products and the challenges the might face to fulfil their tasks (i.e., Griffith-Jones & Ocampo, 2018; Mazzucato, 2015; Xu *et al.,* 2019). Since the 2007/9 financial crisis, interest in and support for these institutions has broadly increased and some studies (Luna-Martinez & Vicente, 2012; World Bank, 2018 and in 2019 Xu *et al.*) have also tried to map and understand how they operate, what are their mandates, financial services, clients, governance, investment sectors, among other aspects. Little has been said by scholars on PDBs role and contribution to implement and finance the 2030 Agenda.

As presented by some studies, PDBs can play an important part in supporting one country's economy. On oneœ hand, they can invest in sectors and give their support to long-term developm1ent projects, whereby private sector and commercial banks fear to go -because of the high uncertainty of their future success (Mazzucato, 2015). On the other hand, they have the ability to carry out countercyclical lending during a crisis and are above all, suited to reignite growth after a crisis (Brei & Schclarek, 2018). Nevertheless, it is essential to be careful not to generate distortions in the market that could displace or discourage private actors from investing (Mazzucato & Penna, 2016; OECD *et al.*, 2018; Smallridge e*t al.*, 2019).

Others studies have signalled that building projects and investing in critical sectors for development might imply higher costs, as it requires designing and evaluating projects with positive impact that sometimes will entail more social returns than private returns (Spratt & Griffith-Jones, 2013).

Building on this research about the roles that PDBs have in society Mazzucato & Penna (2016) developed a typology of the different functions of PDBs. They demonstrate theoretically and empirically that PDBs act contra-cyclically during economic crises, have a development role promoting projects with public good characteristics and positive externalities, addressing the funding gap for innovations and SMEs and financing the societal challenges that have costs that are not reflected in prices, such as climate change. They also conclude that "in a time in which many countries are trying to not only stimulate growth but to address key societal challenges, State Investment Banks (SIBs) seem well positioned to effectively promote the much-needed capital development of the economy in a smart, inclusive and sustainable direction" (Mazzucato & Penna, 2016).

On the other hand, studies coming from international organisations (IDFC, 2019; OECD, 2018, 2019a; OECD *et al.*, 2018, 2019; Sedemund *et al.*, 2018; Thwing Eastman *et al.*, 2018; UNCTAD, 2018), think tanks (Clark *et al.*, 2019; Cochran & Pauthier, 2019; Engen & Prizzon, 2018; Griffith-Jones et al., 2020; Morris, 2018a) and PDBs (BNDES, 2017; Carlino *et al.*, 2017; Fernández-Arias *et al.*, 2019; Olloqui *et al.*, 2013; World Bank, 2018) have recently started to assess how PDBs can contribute to climate change and SDGs implementation and have started to place more attention to National Development Banks (NDBs) and Sub National Development Banks (RDBs).

For instance, a 2019 report by the Climate Policy Initiative (CPI) shares data that illustrates that the largest amount of public climate investments comes from NDBs (Clark *et al.*, 2019). The academic book *The Future of Development Banks* also confirmed that the sample of NDBs assessed, were increasing long-term finance in fostering innovation and entrepreneurship in national economies, financing infrastructure and contributing to green-growth (Griffith-Jones & Ocampo, 2018). Furthermore, according to a study published by the UNCTAD (2018) due to the expertise in designing and implementing long-term development projects and the experience in leveraging private resources for development purposes, PDBs are showing progress in the implementation of sustainable development in economies.

However, it is necessary to review much more in detail the internal and external changes that PDBs need to embark on at a strategic and operational level, so that their financial efforts will be aligned with the 2030 Agenda. Different papers and reports have provided some insight on the integration of sustainable development in the vision and the overall strategy of PDBs, like the one published by the Center for Global Development-CGD (Morris, 2018a) which provides an interesting overview of IDFC member practices. Nonetheless, we see that they have so far remained at the scale of strategies.

In 2019, I4CE published a framework for financial institutions to align with the Paris Agreement (Cochran & Pauthier, 2019). It offers a guide for selecting activities, scaling up the impact and adopting a comprehensive scope of climate action. While the framework is intended for the climate agenda, the authors suggest this proposal could also serve for SDGs, on the basis that they seek similar goals, with the difference that SDGs possess an integrated and holistic nature.

Other researchers have proposed practices and sectors that could help PDBs to accelerate the achievement of SDGs. The Interamerican Development Bank published an article *(Carlino et al.*, 2017) of how PDBs in Latin America can contribute to the SDGs. The authors recommend PDBs should invest in critical sectors, rather than in sectors that will harm other dimensions of sustainable development. Once critical sectors are covered, it is important to maximise the positive synergies. They also recommend prioritising investments on SMEs, building programs with specific targets, ensuring resources for the most vulnerable populations and providing preferential rates to projects with innovative ideas aligned with SDGs. In addition to the development of sustainable projects directed to critical sectors, PDBs need to accompany the projects with indicators that measure the impacts and progress of PDBs' actions (Carlino *et al.*, 2017). Most recently, Griffith-Jones *et al.,* (2020) suggest that PDBs, as experts in pipeline development, are capable to identify and develop bankable projects that will foster sustainable trajectories.

As generally described, current research recognises the critical role PDBs can play in solving market failures and supporting country´s economies and development. The existing body of literature also has started to reflect upon the role and potential contribution that PDBs—from all sizes, business models and geographies—could have in terms of SDG implementation and finance. However, to date, only a limited number of studies have explored how PDBs are trying to align in practice with the 2030 Agenda. Adding on existing efforts, the present study seeks to go a step further by analysing in much more detail how PDBs–from different sizes and geographies–have interpreted and are including sustainable development priorities in their day-to-day discussions, processes and operations. For this purpose, we conducted qualitative research– -through interviews with PDBs– in order to understand their business models, governance structures and the specific practices they have developed to align their whole organisation with the

2030 Agenda and its SDG. From another angle, we also assess quantitatively the lending practices and leverage capacities of a sample of PDBs, in order to observe their financial potential to contribute to sustainable development and SDGs' implementation.

Research question: what are the best practices and innovative solutions developed by PDBs, and in particular NDBs, to align all their functioning, processes and practices with the 2030 Agenda in order: (i) to have a transformative effect; (ii) at a desired scale.

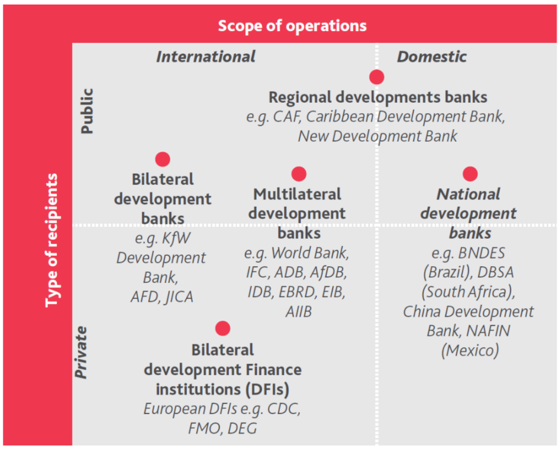
1.4. The choice of the PDBs nomenclature

PDBs are financial institutions with an independent legal status that are supported, owned and administered by central or local governments and with aim to promote economic development and address market inconsistences (Finance in common, Eurodad).5 They can operate at a sub-national (RDBs), national (NDBs) or multinational level (MDBs) and each PDB has a defined mandate that will describe the sector(s), the beneficiaries or activities that the institution is expected to support (Luna-Martinez and Vicente (2012). Depending on the scale of mandate and the geographical level, PDBs will have to face different contexts or specific conditions that will affect their effectiveness to attaint their targets. For example, the recent book on NDBs published by Oxford University, The Future of Development Banks (Griffith-Jones et al., 2018), explains that NDBs can be more effective if there is an existing clear development strategy or mandate linked to a modern production sector. A political stability will also help PDBs to have a long-term planning for development.

This paper focuses on the broader definition for development banks, the so-called PDBs. Our choice is based on the diversity of the PDBs' interviewed sample. The aim was to assess PDBs in different continents with different mandates and acting in different economic contexts and sectors, in order to find solutions and innovative practices to achieve the SDGs for the global community of PDBs. However, in some cases we differentiate between NDBs or RDBs from the broader term of PDBs, because as said above, their mandate and geographical scope of operations will determine the bank's activity and effectiveness to achieve its goals.

[5] https://financeincommon.org/wp-content/uploads/2020/04/Booklet-Finance-in-Common-Summit.pdf and Public development banks: towards a better model April 2017 by Eurodad

Figure 1: Main categories of public development banks (PDBs)



The paper unfolds as follows. We first look at lending behaviors of a sample of PDBs in order to understand current leverage capacity of these DFIs. In this section we will discuss their capacity to scale up loans and reflect on their potential to contribute even more to the SDGs implementation. Making use of their leverage capacity will allow PDBs to accelerate SDGs implementation, as long as this is accompanied by good practices of alignment with the 2030 Agenda. Then we go in detail in the variety of practices, scales and processes in PDBs to identify existing and innovative practices that enable to align the bank, its strategies, its portfolio, and its partnerships, with the 2030 Agenda. In the end, we identify recommendations in terms of both best practices that could be adopted by other banks, as well as concerning the processes to drive organisational change in PDBs to move towards alignment with 2030 Agenda, since it is also a matter of changing organisational culture.

II – An overview of public development banks' lending and leverage in the last decade

PDBs can certainly become major financial tools in support of the 2030 Agenda. In this section, we will discuss which has been their behaviour scaling up loans over last decade and reflect on their potential to contribute even more to the SDGs' implementation. To do that, we look at leverage and loan-to-equity ratios of a sample of PDBs,[6] most of them interviewed and whose results are presented in the following sections. Making use of their leverage capacity would allow PDBs to accelerate SDGs implementation, as long as this is accompanied by good practices of alignment with the 2030 Agenda.

Once the SDGs were adopted in 2015, it would have been expected that both leverage and outstanding loans would increase at a higher rate. However, the data shows a slowdown in the growth rate. These results are also indicative of institutions whose lending has been stymied by the capital constraints and risk appetite. There is a widely held concern that even if risk appetite may permit an increase of leverage, this would impact the PDBs AAA rating status—which is essential to the ability to raise funds to finance operations-, and consequently materially impact its funding costs. Under this belief, many PDB prefer to keep conservative approaches (Humphrey, 2018; UNCTAD, 2018).

It is important to stress that this sort of indicators varies considerably between PDBs, due in part to the fact that each institution faces institutional, structural and cyclical factors that constrain their lending practices. They also differ in terms of size, mandate, instruments, scope of activity and methods for measuring risk exposures. Nevertheless, the aim of this study is not to explain in depth the factors and causes that explain the results of these financial metrics, which should be viewed as rough estimates, but rather to comparatively, show the evolution and level of loans granted by PDBs—which is the main instrument at their disposal for financing sustainable development.[7] Due to lack of information and in order to ensure comparability between PDBs and across the years, these ratios do not take into account the guarantees, technical assistance and co-financing extended by PDBs.

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[6] The financial statements' information was gathered for the following PDBs: Bancoldex, Bancomext, BDE, BDMG, BNA, BNCR, BNDES, BRDE, COFIDE, DBSA, FINAGRO, FMO, NAFIN, SIDBI, EXIM, CDG, DPB, DFCC, FDB and BancoEstado. In addition, some selected multilateral, bilateral and regional development banks were included: AfDB, IADB, ADB, AFD, KFW, TDB and BCIE. See Appendix A for more detailed information of each abbreviation.

[7] For the sample of PDBs, the loans contribute, in average, with the 69% of their total assets.

In order to expand their operations and development impact to beneficiaries, PDBs' business model allows them to borrow funds from capital markets at relatively cheaper rates than what could be obtained by sovereign borrowers or beneficiaries. Financial leverage is the ability of PDBs to use shareholders capital to mobilise and raise more money (liabilities) which in turn, will be later lent (assets). Over the last 10 years, several PDBs have increased their leverage ratio, calculated by dividing the PDBs' liabilities by total shareholders' equity (Table 1). This measure indicates how much debt PDBs leverage to finance their assets, relative to the value of their capital. Between 2009 and 2013, the simple average of this indicator for the NDBs' sample,[8] grew from 6.9 to 7.5, and from 13.6 to 16.1 according to the weighted average (using liabilities as weights). However, this upward trend does not continue in the following two analysed years (2018-2019), in which, on the contrary, a minimal increase in the simple average and a fall in the weighted indicator are observed. Nevertheless, once the Brazilian development bank (BNDES) is excluded from the NDBs sample,[9] the weighted average remains stable between 2013 and 2019.

The raise in the PDBs' leverage and shareholder equity (includes paid-in capital and accumulated reserves)[10] has enabled them to raise effective lending, by increasing their gross loans. For instance, between 2009 and 2013, the selected NDBs' outstanding loans increased around 43% (both simple and weighted average using loans as weights). However, once the loans levels between 2018 and 2013 are compared, they increase on average at 17% but decrease 4% according to the weighted average, driven once again by the BNDES' loans portfolio. Even though, the loan portfolio raises 11% when this institution is excluded, this growth rate is still lower than the one observed in the period 2009-2013.

[8] From now on, the NDBs sample excludes IADB, AfDB, ADB, AFD, KFW, BCIE, TDB.

[9] An abrupt change of economic orientation of the Brazilian federal government since 2015, and particularly in 2016, led to a structural change about BNDES role play in Brazil's future development path. For additional information see (Griffith-Jones & Ocampo, 2018)

[10] Taking into account that they lend for development purposes rather than to make a profit, the majority of shareholder equity comes from paid-in capital than accumulated profits.

Table 1: Leverage ratio: Liabilities over shareholder equity, selected PDBs

	2009	2013	2018	2019
National development banks				
Simple Average	6,9	7,5	7,8	7,7
Weighted average	13,6	16,1	11,5	9,4
Banco Estado	17,1	22,6	22,5	22,9
Bancoldex	3,2	3,4	4,6	4,5
Bancomext	15,5	14,2	12,0	12,0
BDE	2,2	2,7	2,6	2,5
BDMG	1,9	1,9	2,8	2,4
BNA	9,0	9,4	8,7	8,7
BNCR	9,1	10,1	9,8	9,4
BRDE	5,8	5,9	5,4	4,8
CDG	6,5	8,6	11,4	11,4
COFIDE	1,6	2,7	4,7	4,1
DBSA	1,3	2,2	1,6	1,4
DFCC	3,2	3,4	7,3	7,2
DPB	6,3	9,5	12,0	12,0
Exim	9,3	9,1	6,8	7,0
FDB	2,8	1,8	2,0	2,0
Finagro	9,0	11,0	9,0	9,3
FMO	1,8	2,2	1,8	2,0
NAFIN	19,6	14,5	14,7	12,9
SIDBI	6,1	7,0	8,3	8,9
BNDES	13,0	16,1	9,1	5,9
Other PDBs				
AFD	5,4	8,1	5,9	6,5
IADB	3,1	3,1	2,9	3,0
AfDB	2,6	2,6	3,7	3,8
ADB	4,6	5,8	2,8	3,3
KfW	29,5	21,7	15,0	15,1
BCIE	2,2	2,3	2,4	2,4
TDB	3,6	4,3	3,7	3,8

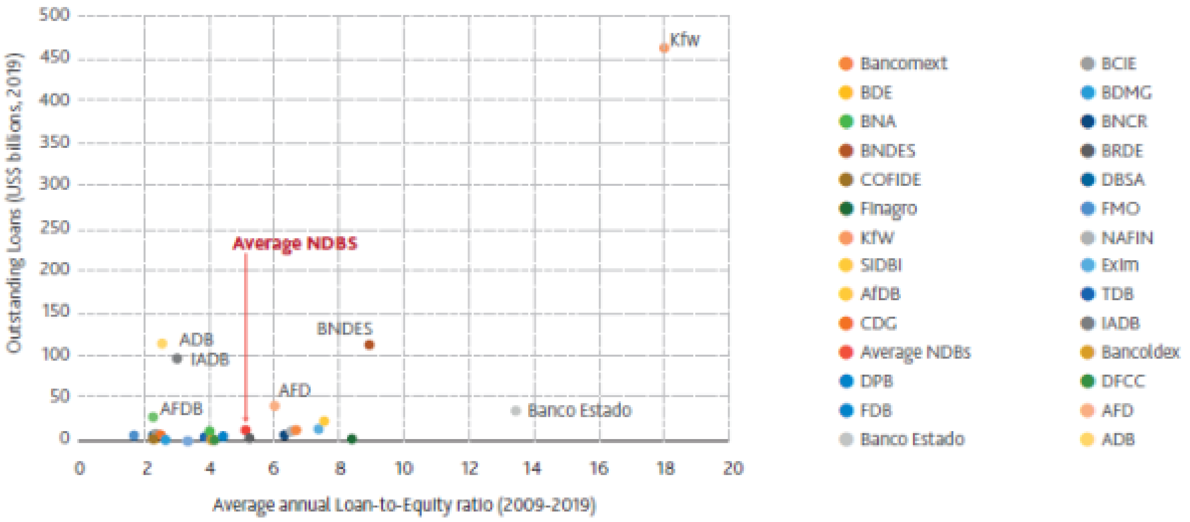
Source: Authors' elaboration based on respective banks' annual reports and financial statements. Nominal exchange rate at the end of the period was used in each case. Information available at December of each year or at March of the following year. It depends on the fiscal year used by each country. AfDB and ADB includes ordinary capital resources. It excludes the Fund for Special Operations and other funds.

Like commercial banks, PDBs have to have a certain amount of own resources—shareholders capital—to back up the loans they make. This gives PDBs a cushion to pay off creditors, even in the event that some borrowers don't repay their loans. Based on a given amount of shareholders' equity, each PDB selects a financially prudent level of loan operations. This ratio is widely known as the bank's loan-to-equity "gearing" ratio.

The loan-to-equity "gearing" ratio for each PDB is shown in Figure 2, which contrasts the loan-to-equity ratio of NDBs vis-à-vis those of selected multilateral, bilateral and regional development banks (IADB, AFDB, ADB, AFD, KFW, BCIE, TDB). The horizontal axis is the average of loan-to-equity gearing ratio of each development bank between 2009 and 2019, and the vertical axis represents the gross loan portfolio levels in billions of dollars for 2019 (or 2018 in case 2019 information was not available). Although NDBs gearing ratios are not strictly comparable with respect to MDBs, the latter serve as important comparators by which to assess the scale of lending by existing NDBs. Also, it is important to stress that these loan-to-equity gearing ratios include only the mobilisation of own resources and do not take into account both the capital that PDBs raise through co-finance and the funds off-the balance sheet like guarantees.

For the NDBs sample, the simple average of loans-to-equity ratio is close to 5.1 which means that for every dollar in equity, this group of banks has extended 5.1 dollars in outstanding loans (Figure 2). This average is higher than the one calculated for two of the biggest MDBs (2.3 for AFDB, 2.5 for ADB and 3 for IADB), which have tended to have a conservative lending approach (Humphrey, 2017, 2018; Settimo, 2017; UNCTAD, 2018). Nevertheless, it is lower compared to the selected bilateral banks (6.0 for AFD and 18 for KFW) who count with the explicit support of their national Governments if a need arises and benefit from the relatively high-grade country credit rating assessment. This result of 5.1 for the loans-to-equity ratio can also be expressed the other way around: in terms of the equity-to-loans ratio, which, in turn, would be equivalent to 27%. The above means that, in average, NDBs hold \$ 2.7 in equity for every \$ 10 in outstanding loans—well above the \$1–1.50 held by most commercial banks (Humphrey, 2020) —showing that NDBs take a conservative approach to capital adequacy, but lower if compared to MDBs.

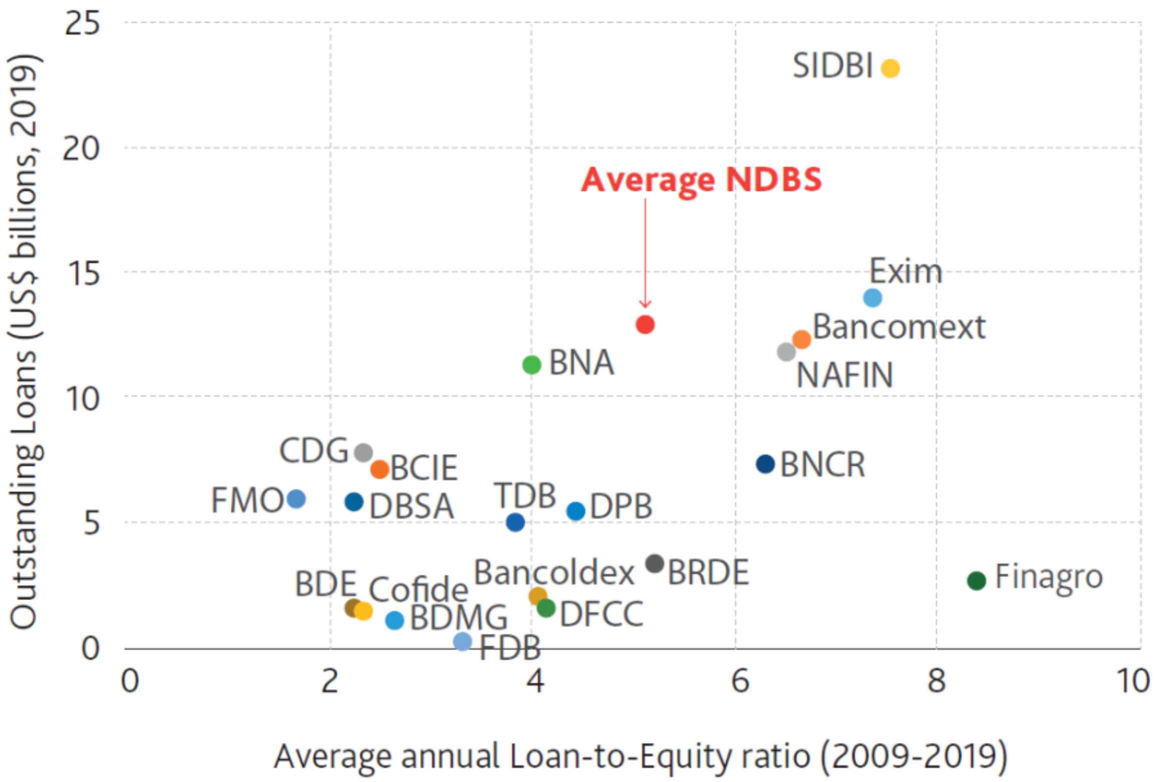
Figure 2: Gearing ratios and loans levels selected PDB.



Source: Authors' elaboration based on respective banks' annual reports and financial statements. Nominal exchange rate at the end of the period was used in each case. Loans levels correspond to gross levels before provision for impairment.
Information available at December of each year or at March of the following year. It depends on the fiscal year used by each country. Average between 2009-2019 includes information for 2009, 2013, 2018 and 2019. Average of NDBs excludes IADB, ADB, AfDB, AFD, KFW, BCIE and TDB. Outstanding loans include direct lending to customers and intermediated by credit institutions. AfDB and ADB includes ordinary capital resources. It excludes the Fund for Special Operations and other funds.

Figure 2 shows a large heterogeneity between PDBs (standard deviation of 3.7 and average of 5.3). At the higher end of the spectrum are KFW, Banco Estado and BNDES, which have, both the bigger loan portfolio and the gearing ratios than any of the other institutions included in the sample. Putting these extreme cases aside, Figure 3 does a zoom on the other PDBs (excluding Banco Estado, IADB, BCIE, AFD, KFW, AFDB and ADB). The heterogeneity between PDBs still remains (standard deviation of 2.9 and average of 5.2). Some of them operate at very conservative leverage levels with gearing ratios close to 2 (FMO, DBSA, BDE, COFIDE, CDG), while others close to 6 and 8 (NAFIN, BNCR, Bancomext, SIDBI, EXIM, Finagro).

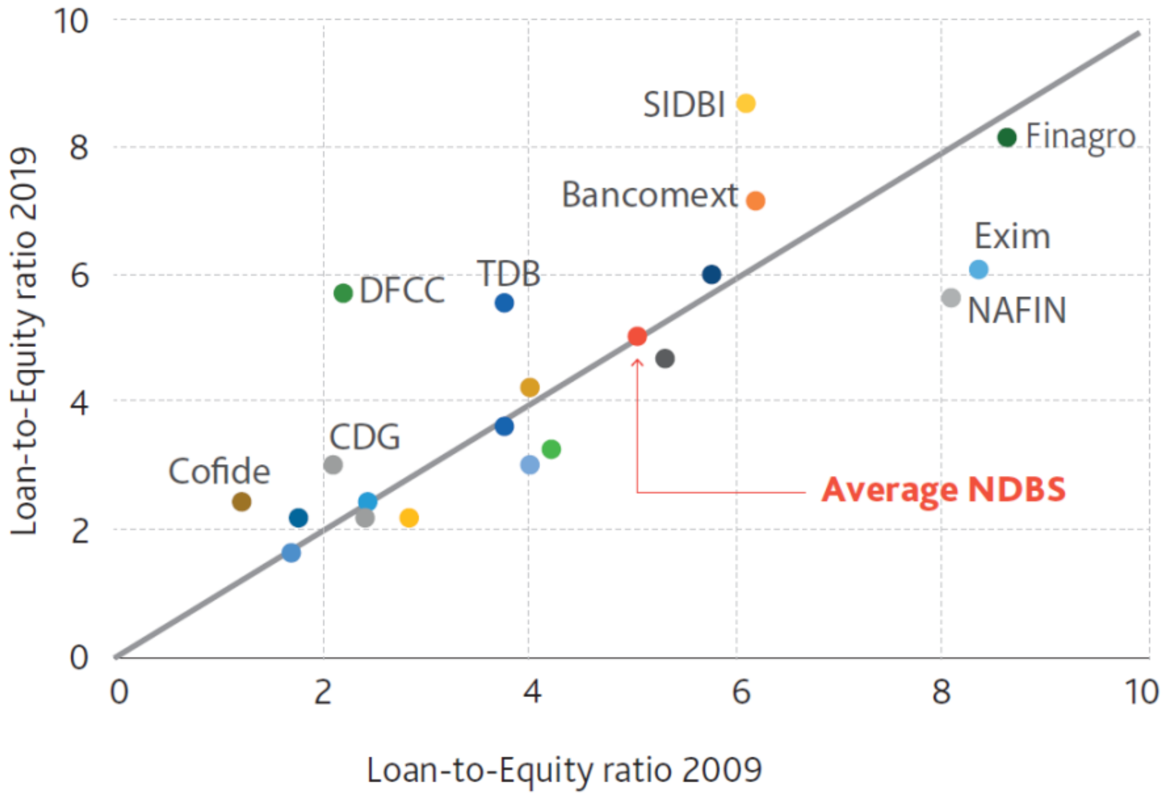
Figure 3: Gearing ratios and loans levels selected PDB.



Source: Authors' elaboration based on respective banks' annual reports and financial statements. Nominal exchange rate at the end of the period was used in each case. Loans levels correspond to gross levels before provision for impairment.
Information available at December of each year or at March of the following year. It depends on the fiscal year used by each country. Average between 2009-2019 includes information for 2009, 2013, 2018 and 2019. Average of NDBs excludes IADB, ADB, AfDB, AFD, KFW, BCIE and TDB. Outstanding loans include direct lending to customers and intermediated by credit institutions.

In addition, it is quite clear that this indicator has not improved substantially during the last decade, once the values registered in 2009 and 2019 are compared. Figure 4 plots the gearing ratios for 2009 (on the horizontal axis) and 2019 (on the vertical axis). If the dot lies close to the 45-degree line, it means that Loan-to-Equity ratio has not changed between 2009 and 2019; below that line, the indicator has decreased and if it lies above represents that it has augmented. From the graph we can see that during the last decade, just some banks have improved substantially the loans disbursed in relation to their shareholders capital, and a remarkable percentage of them have reduced or kept unchanged this ratio and still remain at very conservative levels (Figure 4).

Figure 4: Gearing ratios 2009 and 2019.



Source: Authors' elaboration based on respective banks' annual reports and financial statements. Nominal exchange rate at the end of the period was used in each case. Loans levels correspond to gross levels before provision for impairment. Information available at December of each year or at March of the following year. It depends on the fiscal year used by each country. Average between 2009-2019 includes information for 2009, 2013, 2018 and 2019. Average of NDBs excludes IADB, ADB, AfDB, AFD, KFW, BCIE and TDB. Outstanding loans include direct lending to customers and intermediated by credit institutions.

It is important to highlight that PDBs' leverage capacity goes much further and they also offer a wide range of financial and non-financial products to their customers, which due to lack of information were not included in the financial ratios shown along this section. Apart of their strength and ability to get funding in the local and international capital markets at reasonably low costs, PDBs collaborate with other partners such as private investors in co-financing development projects (through different modalities like PPPs or private finance initiatives), and are also able to provide technical assistance to both public and private actors through screening, evaluation and monitoring (as will be described in the following sections). Besides, these ratios are underestimated because do not take into consideration the amount of guarantees offered by PDBs, which are one of the instruments at their disposal to encourage private institutions to lend with their own resources, and which are still underexploited in their efforts to support the financing of the 2030 Agenda. According to the Global Survey of Development Banks (Luna-Martinez & Vicente, 2012), 73% of them offer public guarantees in addition to, or instead of providing credit.

Seen from other perspective, a lower gearing ratio denotes that shareholder equity is being leveraged less to provide financing. Apart of taking less conservative practices, increased lending can be achieved in principle either through an injection of capital to support new loans, or through an increase in the funds that it borrows from the bond markets in order to grant more loans. Given that PDBs' business model is crucially based on their ability to maintain a high credit standing, a conservative approach on the part of rating agencies ends up placing a significant constraint on the possibility these institutions have to expand their balance sheets (Humphrey, 2018). Although an increase in capital is desirable—though sometimes politically and fiscally difficult—some authors have suggested to relax banks' capital requirements to allow for higher leveraging, since banks currently have some "headroom" (Humphrey, 2017).

The main binding constraint that PDBs face to support the 2030 Agenda for Sustainable Development is their lending capacity, due to limited capital base and their conservative lending practices (UNCTAD, 2018). More lending space would allow PDBs to play a countercyclical role without putting in risk a downgrade in the credit standing. As an example of this, Humphrey (2020), based on the most recent MDBs data and following S&P's methodology (the world's largest credit rating agency), extrapolates the amount of outstanding loans each MDB can have while maintaining a AAA rating. The author estimates that this group of institutions can expand their lending by at least $750 billion (160% above current levels) while maintaining a AAA rating, or as much as $1.3 trillion (nearly triple current levels) if they are willing to risk a rating downgrade to AA+.

The above means that scaling up lending does not require any additional capital contributions from shareholders countries, and it will not endanger the financial stability of MDBs. However, given the small size of NDBs relative to the size of the SDG gap that low-middle income countries face[11], it is important to start from an adequate capital base and many PDBs have to be fairly well capitalised (Studart & Gallagher, 2016). New capital injections would pay off in banks that have already been scaling up development loans and therefore have gearing ratios above the average. It is also imperative that NDBs are able to leverage their capital by catalysing investment finance, not just from private and domestic investors, but also from other public investors. Even in the cases in which the financial resources constraint is not a straitjacket, development banks are often under pressure to obtain better financial results and praised when they succeed in contributing to the fiscal pot (Fernández-Arias *et al.*, 2019).

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[11] Before the crisis struck, numbers said that implementing the SDGs would cost between USD 50 trillion and USD 70 trillion, over a 10-year period (2020-2030). Out of the USD 3.5 trillion mobilised per year for SDGs implementation, 1.6 trillion come from public sources, and 1.9 trillion come from private sources. In the case of developed countries (USD 1.4 trillion per year), the remaining gap to the target is of less than 10%, whereas in emerging markets and developing countries, especially in Africa, the annual gap is of USD 2.5 trillion per year (UNEPFI, 2018).

Given the commitment of countries worldwide to the Sustainable Development Goals, they should foster their PDBs to push their financing within the threshold imposed by financial markets and credit rating agencies. PDBs have spare lending capacity. Shifting PDBs policy and expanding lending to face the current crisis should be done with the explicit support of the shareholders. For instance, not all PDBs benefit from an explicit sovereign guarantee that would allow them preferred access to softer financing terms. It is mandatory to find mechanisms to bridge the financing gap.

Making use of their leverage capacity will allow PDBs to accelerate SDGs implementation, as long as this is accompanied by good practices of alignment with the 2030 Agenda as we will further describe in the upcoming sections of the study.

III – What practices are PDBs implementing to align their behaviors, lending practices and actions with the 2030 Agenda?

Scaling up lending has to come hand in hand with transformative behaviours and investment practices. It is not just a question of encouraging banks to leverage their capital to grant more loans. It is about making use of this underutilised potential–as seen from data on section below–in order to contribute more deeply and strategically to sustainable development.

Likewise, beyond their role of fixing market failures, these institutions have an untapped potential to drive policy change towards more sustainable development trajectories, providing experience-based inputs to policymakers or actively engaging in SDG oriented discussions. Moreover, it is precisely by assuming a more active role, not only as financers but also as mobilisers of investments (Griffith-Jones *et al.*, 2020) that PDBs will be able to support truly transformative changes in the countries or regions in which they operate. Changes that will hopefully lead to the attainment of the 2030 Agenda and its SDGs, with the sufficient impact and scale to generate real change in the territories and communities that they seek to support.

Thus, what are the best practices and innovative solutions developed by PDBs and in particular NDBs in order to align all their functioning, processes and practices with the 2030 Agenda in order to have a transformative effect, at a desired scale? Here lies the need to provide empirical information on how these institutions have interpreted and included sustainable development priorities in their day-to-day discussions and operations.

Drawing on interviews with high-level officials and creditors from a number of PDBs that cover the Latin-American, African, European and Asian regions (Appendix C), together with the analysis of year-end/sustainability reports, strategy and policy documents, the following sections will characterise the main SDG alignment efforts observed at both inner and external levels. From the interviews carried out, we noted that an important number of PDBs are implementing different measures and initiatives aimed at aligning their strategies, practices, processes and operations with the 2030 Agenda. And analysing the answers received from the different questions that were discussed with the interviewed banks (Appendix B), we grouped together identified practices in three levels: i) practices undertaken at strategic level, ii) practices displayed at the operational level and iii) practices deployed in PDBs' external engagements with clients and other stakeholders.

3.1. Strategic level

Regardless of their size or nature, most PDBs are aware of the existence and relevance of the 2030 Agenda and its SDGs. However, are they making use of the 2030 Agenda to carry out analysis of their strategies, elaboration of the project pipeline, intervention analysis in certain sectors or geographies or for an analysis of their portfolio as a whole? How do they do it in practice? If SDGs are to be delivered effectively by PDBs, positioning the 2030 Agenda at the strategic level is of outmost importance. Mainstreaming the 2030 Agenda into the banks' strategic vision is one way to ensure that the different actions, programs and initiatives promoted by the entity will be carried out under an SDG lens.

Not every bank has in place strategies that make reference to the 2030 Agenda or mention a certain number of SDGs. In fact, a recurring concern expressed by respondents was their limited capacity to translate this Agenda into their priorities and being able to find a way to turn its promises into practice. Most reviewed banks are in what we could call an "initial phase of alignment", in which they have started to link and assign certain SDGs to their current sectors of focus, existing programs or projects. In the words of one of the banks interviewed, PDBs have understood SDG issues gradually or in a segmented way–showing a higher degree of relevance of SDGs in their existing operations, but a lower evidence of their use to drive strategy (Authors Interviews, 2020). In occasions, the window of opportunity that has been presented to kick-start the incorporation of the 2030 Agenda at a strategic level has been the green growth or climate change issues. For instance, Bancoldex has chosen green growth as one of its strategic fronts and in recent years has managed to structure solid green growth products and credit lines to encourage companies to focus on sustainability in their businesses, to be more productive and competitive in markets that demand high environmental standards, and to include, within their portfolio, goods and services with added value in terms of environmental protection and care. From there on, it has been possible for some banks to go further and engage into discussions on how to incorporate sustainability criteria in their current lines of credit or on the disposition of SDG credit lines.

Another recurring practice that can be observed when reviewing banks' documents and annual reports is the existence of 'flagship projects or programs' through which PDBs, depending on their scope of action—sector specific mandate or general development growth—are trying to fund key fields of SDG promotion. In recent years, NDBs, including subregional DBs, have been prominent supporters of important new sectors, such as renewables and energy efficiency, innovation, sustainable infrastructure, development of rural productive capacities or sustainable production and consumption. BRDE's (Regional Bank for the Development of the Extreme South of Brazil) Sustainable Production and Consumption Program serves as an interesting example of a first step taken by this regional bank to fund SDG-related priorities.

Being a fully-fledged SDG PDB is not necessarily tied to the bank's given mandate and sector of focus. During the investigation, we found that both banks with a broad mandate and banks with defined sectors are implementing actions to align their strategies with the 2030 Agenda. "NDBs that focus exclusively on one market segment (housing, trade, MSMEs, industry, infrastructure etc.) may find themselves somewhat more limited in their ability to ensure their investments appropriately align with national development plans" (Smallridge *et al.*, 2019). However, another valid approach is to say that a NDB's singular sector expertise may be uniquely suited to effectively channel SDG-related investments for that sector.

However, in order to speak of a true integration of the 2030 Agenda at a strategic level, more is required. Until they deliberately embed SDG considerations into existing mission and vision statements, as well as in definitions of strategies and policies, banks will unlikely be able to strategically and systemically align themselves with the 2030 Agenda as a whole. This includes integrating environmental and social considerations into the banks' strategies, adopting independent policies (eg, sustainability framework policy), as well as strengthening and permeating governance structures with SDG considerations (a practice that will be addressed in detail in the last chapter of this study).

3.1.1. Including or making the 2030 Agenda part of the PDBs' multiannual or long-term strategy

Something worth noting is that many PDBs have taken the opportunity of updating their long-term strategies or annual corporate goals to intensify actions in support of the 2030 Agenda or even, as some stated during the interviews, place it at the core of their strategies. By doing so, PDBs are reflecting upon how to develop suitable courses of action for enhancing their management from a sustainability perspective. Concrete actions that we were able to identify both in interviews and in annual reports range from rearranging their sectors of intervention, defining new dimensions to frame their strategies, or establishing drivers that will ensure financial sustainability, while maximising impact and development, to generate value for the society at large. One of the subnational PDBs interviewed pointed out that through its 2020-2024 new strategic road map, they will pursue development impact in line with the SDGs, based on specialised local and regional knowledge, strengthening global partnerships and increasingly transforming the bank into a digital and innovative bank. Furthermore, this effort is reinforced by its new corporate goal of having a percentage of its total disbursements related to the SDGs

Table 2. Distribution of reviewed PDBs according to mandate

Foreign Trade	Agriculture and rural development	Financial market	SMEs		Infrastructure	Broad Mandate			
NDB	NDB	NDB	SDB	NDB	NDB	SDB	NDB	BDB	MDB
Exim	Finagro	NAFIN		SIDBI	DBSA	BRDE	COFIDE	AFD	ADB
Bancoldex	FDB			Bancoldex		BDMG	BNDES	KfW	AfDB
Bancomex				BNA		BCIE	BDE		IADB
BNA							BancoEstado		
							BNCR		
							TDB		
							FMO		
							DFCC		
							DPB		
							CDG		

Source: Authors' elaboration

A key aspect that should be kept in mind while establishing the strategic objectives within the multi-year plans of a PDB is to assess where the market gaps are, why they exist and whether and how they can be addressed by them (Smallridge *et al.*, 2019). This analysis should encompass the nature of existing opportunities and potential customer demand, so that the gap between supply and demand for financial services can be quantified and their relevance determined. Based on this, the types of projects to be financed and the instruments—financial and non-financial—that can be used can be better defined. In this way, PDBs will be able to concentrate on addressing market weaknesses without encumbering or crowding out other local financial institutions, investors or private enterprises. PDBs, especially NDBs, should act as partners and not as competitors of the other private financial institutions and commercial banks that are present in the countries or regions where they operate.

On the other hand, our research shows that PDBs are deliberately embedding SDG considerations into their strategies either by selecting certain SDGs as focus for action or defining cross-cutting dimensions to guide their portfolio. This practice also appears useful for banks to have clarity of their value creation and even propose a holistic approach that can define how they will internalise and systematically apply this agenda throughout every operation. The preamble to Agenda 2030 for Sustainable Development calls for a focus on the weakest and most vulnerable and to leave no one behind in sustainable development. Furthermore, the Agenda is based on five dimensions which serve as guiding principles for action: humans, the planet, prosperity, peace and partnership, which at the same time highlight the existing interdependencies between the goals. Thus, are PDBs taking into account these promises and interlinked vision when aligning their strategies? Which are some current prominent examples of PDBs that are pushing harder on this endeavour?

FMO, the NDB of the Netherlands, focuses its efforts on generating a greater impact with its portfolio by investing in underserved markets and fragile states. Prioritised sectors are agribusiness, food, water, energy and financial Institutions. Three SDGs (8, 10 and 13) have also been chosen as umbrella themes to have, together with the priority sectors, a comprehensive and coherent intervention that we believe goes hand in hand with the promises and principles defended by the 2030 Agenda. In other words, and as stated in its 2019 annual report, FMO is building its value creation model in ensuring additionality—providing financial services that the market does not provide or does not provide on an adequate scale or on reasonable terms—, stressing its mobiliser role—by maximising the growth in and utilisation of its equity and the leverage provided by its financing activities—and enhancing its governance structures.

There are other banks that are even going further with their alignment efforts. AFD and KFW, two of the major European bilateral development banks, have interesting approaches at strategic level, which can serve as examples even for smaller PDBs. AFD's strategy is grounded on 6 transitions,[12] 5 engagements and 2 commitments and links (100% Paris agreement and 100% social links). Their thematic strategies are periodically revised and renewed and together with their SDG Assessment Framework (AADD), they are building a bold strategic framework oriented to financing only SDG projects. Furthermore, their efforts are focusing on trying to move away from pure sectoral projects and support projects that will contribute to the alignment with the long-term SDG trajectories prioritised by the different countries. In the case of KFW, besides having a new mission statement that incorporates the SDGs, business is managed on the basis of "key megatrends"**,** aligned with the German Sustainable Development Strategy and thus with the core messages of 2030 Agenda. To this end, it provides funding in key priority areas: climate and environmental protection (SDGs 6, 7, 12, 13, 14, 15 and others), innovation (SDG 9 and others), small and medium-sized enterprises and start-ups (SDG 8 and others), infrastructure investments by cities, communities and municipal enterprises (SDGs 9, 11 and others), student and educational loans (SDGs 4, 10 and others), export and project finance (SDGs 7, 8, 9 and others) and the promotion of developing and emerging-market countries (SDGs 1, 2, 3, 5, 16, 17 and others).

Therefore, although interesting things are being done to align long-term strategies, commitments and missions, it would be interesting to propose as a future discussion to structure PDBs strategies around the 6 transformations[13] proposed by the 2019 *Global Sustainable Development Report* (Independent Group of Scientists appointed by the Secretary-General, 2019), which points out that co-benefits, trade-offs and tough choices are at the heart of sustainable development, but have not always been appreciated as such. Indeed, early interpretations that focused on the three dimensions of sustainability (economic, environmental and social) tended to reinforce decision-making in thematic silos, often prioritising immediate economic benefits over the social and environmental costs that would materialise in the longer term. At the same time, this approach has also consistently deferred consideration of the hard choices that need to be made. Yet, the 2030 Agenda is much more than a long wish list, it is also an integrated vision of how to achieve

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[12] Demographic and Social Transition, Energy Transition, Territorial And Ecological Transition, Digital And Technological Transition, Political And Civic Transition, Economic And Financial Transition

[13] The 6 transformations are: human well-being and capabilities; sustainable and just economies; food systems and nutrition patterns; energy decarbonisation and universal access; urban and peri-urban development; and global environment commons.

SDGs, while jointly advancing the well-being of humanity and the planet. Within this framework, objectives and targets are useful, but above all, the interactions between them need to be optimised. GSDR's systemic entry points are a way to exploit important synergies, multiplier effects and trade-offs between several objectives, but also to identify levers and actors that can help achieve these objectives.

3.1.2. Establishing a sustainability policy with some priority SDGs

PDBs are not only devoting efforts to rethink and update their long-term strategies in order to include SDGs, but are also making use of additional policies or frameworks, such as their sustainability policies. Many PDBs are developing independent sustainability policies to serve as frameworks and guidelines for their investments at all different scales (project, sector, and portfolio).

In some cases, we see these sustainability policies becoming the cornerstone of the banks' SDG alignment. Banks such as BRDE or BNA in Argentina have developed a comprehensive policy that incorporates their SDG priorities and vision. This framework document is then to be followed by all employees when assessing credit proposals, defining new products or assessing ongoing investments. In these cases, interviewees state that this constitutes a first step for the bank to get involved in SDG alignment efforts, which can then escalate to board level and influence future long-term strategy discussions.

Whereas in other cases, sustainability policies are being drafted to reinforce and strengthen banks' commitments towards mainstreaming the SDGs into their strategies and operations. Having both strategies and additional policies in line with sustainable development priorities serves to anchor the 2030 Agenda at the heat of banks' decision-making processes.

It is worth mentioning that in some cases, banks are devoting their SDGs implementing efforts solely in their sustainability policy, with no reference or mention whatsoever within their main strategies. Hence, despite being consecrated in a guiding policy, it is not always embraced as a central and determinant part of the banks' financial decision-making.

3.1.3. Constituting SDG-focused pipelines of projects

Finally, are PDBs making use of the 2030 Agenda to build their pipelines of projects and have they come up with any practice that helps them assess and steer their entire portfolio with an SDG lens? Most of the revised PDBs are still in a stage where alignment efforts are mostly seen at a project level. It is uncommon to find banks that are using the 2030 Agenda as a driving force to comprehensively build and assess new and existing projects, programs, areas of intervention, desired impacts, etc. Most banks have yet to realise that having a systemic analysis at the project level may come with many advantages, but that if they do not widen their scope of analysis to the portfolio scale, they will certainly fall in wrongful assumptions, e.g. facing the temptation to say that any project can solve all challenges of sustainable development (Authors Interviews, 2020). This sometimes leads PDBs to overload a project; initially destined for a sector, the bank tries to have positive effects on the governance of the sector, effects of maximising economic benefits and also a concrete effect for poor recipients, all-in-all to comply with the SDGs' cross-cutting issues related to the social inclusion and reduction of inequalities.

Building a project pipeline and ensuring bankability is a key first step in the investment cycle and a crucial hurdle to further investment (Griffith-Jones *et al.*, 2020). While this theme is critical if banks are to fulfil their potential as 2030 Agenda transformative financers, our interviews revealed that there are still many pitfalls in the development of project pipelines able to meet the needs and demands related to the SDGs. One of the key challenges is to not just develop a pipeline of good individual projects, but to try to develop a comprehensive portfolio. A portfolio with an SDG lens that aims at reallocating capital flows towards critical sustainable development priorities, instead of allocating available funds to invest in projects/programs that tend to deplete natural capital or reinforce the low environmental sustainability of economic activities. For instance, BDMG, in the process of providing a portfolio in line with the 2030 Agenda, has steadily increased the availability of credit for initiatives related to clean energy, innovation and infrastructure, in addition to expanding specific programmes and lines for the valorisation of female entrepreneurship and for obtaining working capital by micro and small enterprises. Thus, it is a matter of choosing a new guiding compass for action—an SDG compass—that drives investment decisions and allows the bank to discern how to better distribute its funds and support, to expand sustainable investment and accelerate progress.

A bank that has been able to mainstream SDGs into its logic of pipeline construction will focus on financing projects that accelerate sustainable transitions and support clients who provide solutions to environmental and social challenges. That exemplifier bank proactively identifies and takes advantage of opportunities to finance sustainable projects. It all starts with making decisions about how, where and with whom the bank does business and being transparent about these transactions.

One interesting practice implemented by one of the interviewed NDBs to constitute its pipeline of projects with an SDG focus clings on the need to have a new systemic approach to promote development. It draws on the importance of delivering robust support and investment across the entire value chain, while being aware of the existing interlinkages and trade-offs amongst sectors. As stated by this bank's director, "we cannot promote productive value chains without also thinking about poverty reduction" (Authors Interviews, 2020). In this sense, the systemic approach consists in providing solutions that can guarantee the sustainability of the value chain, in straight cooperation with the development of small producers. It is no longer a matter of acting as mere financers, but also taking the time to reflect upon building bankable projects and an entire portfolio that offers integral responses to sustainability challenges on the ground. Hence, dedicating efforts to better understand the territories, communities and countries where PDBs operate is absolutely essential. Regardless of their business model—1 tier or 2nd tier PDB—these institutions need to know the true challenges and necessities that their end-beneficiaries are facing, in order to be more effective and have a greater impact with the products and services they provide. An innovative practice in line with the above, highlighted by two 2nd tier NDBs during the interviews, is having specialised dedicated technical experts that serve as first hand eyewitnesses and helpers on the ground. These banks are sending technical officials to the ground to understand how projects are being implemented, have active dialogues with end-beneficiaries and use this information to feed back on the construction of their project pipeline. This allows the efforts to align banks' portfolios with the 2030 Agenda to be strengthened with information gathered directly from the territory.

Discussions on how to provide a pipeline of projects in line with the 2030 Agenda becomes even more relevant in the current COVID-19 crisis. Resources that are being made available must be aligned with the SDGs, including stimulus packages and bailouts, as well as international development cooperation in all its forms. There is also need for scaling up the availability of concessional financing for developing countries struggling to rebuild, especially the least developed ones. The recovery will only be sustainable if the systemic and structural vulnerabilities exposed by the pandemic are adequately addressed. Thus, PDBs have a vital role to play in this endeavour: ensuring they strategically use the array of instruments at their disposal—financial and non-financial—in a way that supports development within more sustainable trajectories, building SDG-conducive economies and societies.

On the other hand, PDBs are earmarking funds to establish project preparation facilities that will assist in identifying and developing bankable projects. DBSA, for instance, has created its Project Preparation Fund, reserved for projects the bank's financing divisions can include in its pipeline. The funds are to be used to build an enabling environment for infrastructure project implementation, to conduct pre-feasibility and bankable feasibility studies and to assist with costs to reach financial close (DBSA, 2019a, 2019b)This alignment practice is about ensuring that when designing new projects or a new pipe of projects, governments or local authorities or beneficiaries can not only optimise their projects to minimise negative impacts, but really design the project in line with the SDGs from the very beginning. Likewise, PT SMI in Indonesia and NAFIN in Mexico are two institutions that employ recoverable grants or grants that are convertible to loans to help a project/program find the balance between achieving its bankability and ensuring sustainability (Authors Interviews, 2020). In this way, these banks are optimising the setting up of potentially funded projects by providing additional support at early stages of project preparation. Certainly, PDBs need to get involved much earlier in the development phase of a project and support projects throughout the entire life cycle if their aim is to embed and mainstream the 2030 Agenda in every stage of project preparation, funding and follow-up.

In the end, what is important for PDBs to take into account when reflecting upon how to better structure their new project pipelines and align themselves with the 2030 Agenda is the sustainable development challenges that the region/country faces, which are not the same for every country. And thus, try to build a portfolio that is well oriented in relation to these key issues and with the trajectories that the country wants to pursue for the attainment of the 2030 Agenda and its SDGs (in the next section, practices employed to operationalise portfolio alignment efforts will be further discussed). Driven by this idea of better adapting its interventions, AFD is in a deep process of technifying its portfolio approach. This new approach includes having: i) portfolio analyses (strategies, pipeline, projects in execution) around the notion of trajectories and transitions, mobilising learning mechanisms and internal capitalisation; ii) ex-ante projects' analysis of alignment with sustainable development in order to give the correct orientation to the multi-year programming and allow adjustments; iii) awarded projects' periodic reviews (established by each technical directorate) with respect to the transition strategy, with the support of the AADD to learn from their successes/failures and inform their future choices.

As food for thought, the potential of PDBs to generate additionality in sectors and economic segments with credit restrictions and with positive contributions to sustainable development is significant. It is not about financing, just for the sake of meeting financial performance goals, as if PDBs were private banks. For instance, as suggested by Fernández-Arias *et al.* (2019), "subsidised lending to SMEs may be futile or counterproductive on productivity grounds unless such lending targets young firms that bring innovation and have high-productivity potential". Same goes for financing traditional approaches within sectors such as agriculture or housing, that may solve market failures but will marginally contribute to catalyse structural transformations needed to attain the SDGs.

3.2. Operational level

At the operational level, alignment requires changes in how investments are assessed and how capital is deployed. Most of the interviewed PDBs are in the very beginning of the process of creating mechanisms to align their investments with SDGs. We identified different practices that PDBs are implementing and that are explained below.

3.2.1. Mapping operations with different SDGs

The most common mechanism that PDBs use for analysing and measuring the contribution of their activities with the SDGs is what we call "Mapping". This practice consists in linking the bank's activities with one or more of the 17 goals. The interviewed banks using this practice explained that this approach to characterise their operations proves useful as it allows them to have a general picture about the bank's input for SDGs. Furthermore, it facilitates the communication between stakeholders about the importance of their activities to achieve SDGs and it raises a general understanding and a commitment to the 2030 Agenda.

KfW has recently elaborated and published a mapping methodology14 with the aim of creating transparency regarding the KfW's annual contribution to SDGs. The proposed methodology consists in understanding their impact chain of investments and collecting the data for each step of that impact chain to finally be able to attribute the financial volume to an specific SDG. As for AFD, as shared during the interviews, the institution is working on a methodology to label all their projects: transcending from a classical approach of classifying projects for disbursements or execution timeframe to a logic of differentiation, according to the intensity by which the project supports sustainable development, while taking into account the challenges faced by them (the projects). This innovative practice is meant to allow the PDB to monitor SDG alignment throughout the entire cycle—from instruction to project evaluation—and distinguish between: i) "problematic projects" in terms

[14] https://www.kfw.de/nachhaltigkeit/Dokumente/Sonstiges/SDG-Methodenpapier-DE-EN-2.pdf

of sustainable development; ii) good avant-garde projects and; iii) "New Frontier" sustainable development projects.

Other banks have developed different methodologies to align with SDGs. Certain align their annual disbursements, others their total portfolio. Since there is not a unique methodology for mapping, PDBs create their own approaches. This entails different interpretations of alignment and therefore, different results. The majority of the interviewed banks have several questions and difficulties to understand what it means to be aligned with the SDGs. Does contributing to one or few SDGs already mean that they are aligned? Do they need to prioritise one SDG over the others? Or are still considered a SDG-aligned PDB when they contribute to an SDG but harm another one. To deal with these complexities, several PDBs are working together to build the same understanding of what it means to be aligned with the SDGs and be able to develop common methodologies. They are doing so through their national PDBs associations like ALIDE, ADFIAP, AIAFD/AADFI or ABDE in Brazil and by actively participating in international organisations such as the International Development Finance Club (IDFC) or the Association of European Development Finance Institutions (EDFI).

No matter how important these efforts are, if PDBs want to take advantage of their potential as strong and leading contributors to the 2030 Agenda implementation, they have to go beyond mapping their operations at project level. Practicing this alignment approach leaves behind a much deeper comprehension of the 2030 Agenda, one that reflects upon capitalising on synergies among objectives and targets, while deploying strategies on alleviating trade-offs.

3.2.2. Ex-ante verification

Establishing assessment methodologies before investments are disbursed is fundamental. Ex-ante verification practices comprise actions undertaken by PDBs to run initial scans and discard proposals that might not decisively contribute to sustainable development or that will bring negative impacts to prioritised SDGs. During interviews, we identified that PDBs have different mechanisms to prevent a negative impact on social or environmental dimensions. The most used are the following ones:

3.2.2.1. Screening for SDGs

As reported by the OECD in its study on scaling up climate-compatible infrastructure, "several MDBs have started rolling out climate risk-screening measures to support the climate-proofing of projects" (OECD et al., 2019). Regarding SDG related screening approaches, we observe that PDBs—equally MDBs, NDBs and subregional DBs—are beginning to include at early stages of project preparations and assessment, practices that help them to carefully research the financing opportunity and assess its impact on the environment, employees and workers, communities and other stakeholders. As an example, we have TDB in Africa, who ensures that the projects it finances meet required environmental and social regulations and standards. The Bank applies social and environmental considerations in line with its Environmental and Social Management System (ESMS Framework, also referred to as Sustainability Framework) to ensure that all nascent activities benefit society and consider the impact to future generations in the Member States (Authors Inverviews, 2020; TDB, 2019).

Other banks such as KfW or AFD have developed stringent eligibility criteria within their screening processes to be able to analyse potential projects with an eye of finding out if they are likely to have an unacceptable environmental or social impact that cannot be prevented or mitigated by suitable measures and therefore, will not be eligible for funding. First developed in 2013, AFD's "sustainable development analysis and advice" (AADD) system[15] aims to facilitate the cross-cutting consideration of sustainable development issues in projects financed by the bank. The AADD raises questions and encourages consideration on sustainable impact, as early as possible in the process of project preparation. The mechanism is composed of six dimensions that englobe the 17 SDGs. Projects need to be analysed under these dimensions in order to identify the expected impact of each investment. The procedure consists in answering a list of questions about every project in order to identify and evaluate its impact on every dimension. The evaluation is done by several AFD teams for the purpose of ensuring an objective assessment.

3.2.2.2. Environmental Social Governance (ESG) criteria - Environmental and Social Risk Analysis System (SARAS)

Most PDBs have developed frameworks to identify and evaluate the social and environmental risks of credit operation (SARAS) and to establish mitigation measures to minimise the losses. These systems also include standards verification (Environmental, Social and Governance-ESGs) of practices that PDBs are implementing at project, sector, portfolio or country level (depending on their degree of alignment to the 2030 Agenda and their scope of action) that takes place before investment decisions. These tools serve as a mechanism to avoid or exclude areas of investment that are not compatible with SDG goals or priorities that might have been traced at the strategic level.

During the interviews, the greater part of PDBs claimed to have a system to assess social and environmental impacts and risks. An interesting example is BNCR in Costa Rica, who has been working since 2018 in sustainability risk identification. During 2019, an action plan was implemented to design and develop the Environmental and Social Risk Analysis System (SARAS). The system seeks to evaluate direct operations of the bank that have high environmental and / or social impact. Moreover, it will provide an additional service to clients by allowing the identification of possible negative impacts (environmental and social) of their investment project that could put the community and the environment at risk, and therefore, their finances and ultimately, their ability to pay.

KfW also considers the ecological and social risks generated by its business activity. They consider the risks from two perspectives, the possible impact of their business activities on the socio-environmental issues and the socio-environmental risks generated from the bank activities. KfW doesn't have a unique methodology; the method is developed for each specific program, according to the effects to be measured.

[15] https://www.afd.fr/en/ressources/sustainable-development-analysis

Risk assessment and standards verification performed by PDBs is still very narrow; inability to identify and quantify environmental and social risk is still the norm. Although is a good start, approaches still lack a comprehensive understanding of the 2030 Agenda multidimensional nature. Likewise, not all PDBs use these mechanisms for both their 1st tier and 2nd tier operations, hence, actual knowledge of impacts and risks of their total portfolio is still very poor. Lastly, it would be important that more PDBs, throughout the lifetime of their financing, monitor client's progress on meeting the requirements of the environmental and social risks mitigation plan, and support them in building a sustainable business for the long-term.

3.2.2.3. Exclusion criteria

BDMG uses the ESG risk assessment to identify sectors of exclusion. This practice is very common, and it consists in developing a list of sectors that PDBs refuse to finance. For example, Bancóldex decided to stop financing transport powered by polluting fuels and mining related projects. Whereas AFD, in line with its 100% SDG mandate and bold sustainable development priorities established at its strategic level, does not finance any project that is not aligned with SDGs or cannot be mapped with at least one dimension of the AADD framework (Authors Interviews, 2020). The AFD group has a consolidated exclusion list since 2011, which is periodically revised and that also becomes visible through its thematic strategies -updated every 4 years.

The sectors or activities normally identified as ineligible for investment include gambling, arms trade, tobacco, mining etc. However, a robust taxonomy that will helpfully avoid sectors with negative sustainable development impacts—do no harm approach—is still inexistent for the majority of PDBs. There should be a careful evaluation of the destination of the funds when reflecting upon exclusion lists. At the top of mind should be for instance, avoiding that investments accentuate the lock-in in carbon intensive technologies, the financing of activities aimed at the production of fossil fuels, or the production of goods with a high unfavourable impact on the environment or that, for example, still indirectly drive deforestation (Carlino et al., 2017).

Lastly, interesting learning opportunities may arise when refusing applications. It can create awareness to the refused part and can yield valuable information about the conditions under which the project would have been approved (Fernández-Arias et al., 2019). PDBs have to take advantage of this and open a window of opportunity for possible guidance to their clients. The bank can provide feedback and accompany the client to make better decisions in the future; nudging upcoming proposals towards sustainable related sectors. During interviews, some banks shared their practices of helping clients to change their mindset and adapt their businesses to sustainable development. For example, FMO requires their clients to identify and evaluate the environmental and social risks and supports them to adopt a mitigation plan if there are any risks. They monitor their client's progress on meeting the environmental and social standards and support them in building a more sustainable business in the long run.

3.2.3. Ex-post impact assessment

Ex-post assessment is required to evaluate the impact and the progress towards the 2030 Agenda. It is key for PDBs to discern impact from exposure. Most of the interviewed PDBs include in their annual reports—sometimes they even have individual sustainability reports—the results related to the attainment of certain SDG targets. However, the majority of these reports still focus a lot on volume of flows—loans provided—rather than on outcomes and qualitative impacts of their portfolio as a whole. There is a lack in quality performance indicators, segmentation of end-beneficiaries, estimated lifetime results of projects to measure how much the various flows actually contribute to sustainable development. The assessment of direct results as number of companies served, credits granted or disbursements are insufficient due to the fact that it does not reflect the additionality achieved by PDBs for SDGs.

PDBs must translate their goals into performance indicators that will be latter included within lending conditions and monitored to verify ex post results. A few NDBs are making efforts to develop methodologies and indicators for impact evaluation but report having obstacles such as lack of consistent information, costs related to data collection and lack of follow up capacity. BCIE16 is an example of a regional development bank that has put in place an interesting development impact evaluation system, which operates through the Development Impact Index (I-BCIE). The I-BCIE is based in the Corporate Policy Project Rating (GPR) of the DEG (Deutsche Investitions-und Entwicklungsgesellschaft mbH) of KfW. The index is generated within a development impact evaluation system (SEID) that measures qualitatively and quantitatively the development impact of each operation. This system is composed of indicators that measure the main development variables such as jobs created, national income, compliance with labour and environmental standards, contribution to trade balance or even the contribution to the SDGs. The tool has been designed in order to identify the expected impacts of operations. BCIE states that each initiative must demonstrate, through the I-BCIE, its impact on development and the alignment to the bank's strategy.

KfW utilises the GPR in their Development Effectiveness Rating system (DER) to rate the effectiveness of its projects in terms of promoting local development and contributing to the SDGs. The DER system observes impact on five categories based on the SDGs: decent jobs, local income, market and sector development, environmental stewardship and community benefits.

In sum, for PDBs to have a more comprehensive ex post impact assessment of their operations and accurate knowledge of their SDG contributions, more systematic integration of monitoring and evaluation components at early stages of project preparation are required. Lessons learned after evaluation should be introduced into subsequent strategic plans and turn them into criteria for credit allocation. Under this logic, AFD is placing greater emphasis on the post-concession phase, ensuring that their monitoring systems for

[16] https://www.bcie.org/fileadmin/bcie/espanol/archivos/novedades/publicaciones/estrategias/Monitoreo_y_Evaluacion_Estrategia_Institucional_BCIE_2015-2019.pdf

projects under implementation are properly adhered to not only good financial execution (respect for environmental and social procedures, acquisitions, fiduciary circuit), but are able to go further and question throughout the life of the project about the probability of achieving sustainable development results and having the means to verify that they are achieving the objectives that were set.

In addition, PDBs can build commitments on environmental or social impact, as complementary to their financial impact, to address the issue of trade-offs between SDGs. The annual performance results and commitments need to be discussed at the Board level or with key stakeholders to give more weight to the commitment in the bank orientation.

Finally, PDBs should standardise their indicators and evaluation systems, as well as their other practices at the operational level, with the aim to simplify the development of a comprehensive assessment of their contribution to SDGs implementation.

3.3. External engagement

When analysing how PDBs are approaching and implementing the 2030 Agenda in their daily operations, it is important not only to assess their practices at internal level, as we have done so far, but also at external level. Alignment efforts are permeating and defining how PDBs relate and engage with their beneficiaries and other stakeholders. Thus, it is important to review: i) how these institutions are engaging with their clients, beneficiaries of their funding, ii) if they are actively taking part in any dialogues or partnerships with other stakeholders in which the 2030 Agenda is used as a lever for scaling up their impact and efforts and, iii) if they are making use of the different investment instruments at their disposal—besides their loans—to mobilise additional funding, catalyse sustainable development transformations and scale up their efforts—at national, regional or global level, depending on their scope of action-.

This section will be devoted to presenting an overview of how we see PDBs are dealing with these different engagements at external level and how they are embedded or not in sustainable development.

3.3.1. Understanding and engaging with beneficiaries

An important practice in order to facilitate an SDG alignment is to ensure long and permanent dialogue with PDBs' beneficiaries (governments, local authorities, communities, private commercial banks that serve as intermediaries). Understanding clients and end-beneficiaries allows PDBs to identify what are their most important needs, the unsustainability problems of the specific territory, the main blocking factors to achieve sustainable development, the tensions between SDGs that particularly matter for the territory or country where they will be providing their support. Furthermore, having a better knowledge of their counterparts allows banks to internally ponder what pipe of projects would be the best fitted to foster the transformation that is needed in the corresponding sectors that they are meant to support through their investments and services (health, agriculture, energy, mobility, etc.).

Thus, incorporating these practices into the bank's engagement culture allows them not only to have a better understanding of their context, but also to become more strategically involved with stakeholders that will benefit from their financial and non-financial support. As mentioned in a previous section, some directors and managers said during the interviews that their banks are trying to have a better grasp of what is happening on the ground, by holding regional consultations and by having more technical experts in the field. Accompaniment programs for structuring sustainable development projects is also something that is being done by PDBs in order to support clients to have the necessary specialised technical equipment to conduct the technical and financial assessment of markets and evaluate their projects' viability. NDBs, who are closer to national contexts than MDBs might be, are starting to realise that is vital to engage with its customers before and during the lifetime of an investment to understand their context and risks. This enables them to offer products and services that suit the specific needs of its customers.

It is worth mentioning that in this respect, sub regional banks are taking the lead—as we were able to observe from conducted interviews. Since they are closer to local reality and to underserved communities and municipalities, they have the possibility to better accompany and guide their potential beneficiaries. Thus, despite being smaller, and lacking the financial strength possessed by other NDBs or MDBs, they have realised that expanding their advisory role is a key opportunity to contribute to the implementation of the SDGs in the territories.

On the other hand, banks expressed their interest of devoting additional efforts to educate their beneficiaries on the shared benefits that come along with promoting and financing projects that contribute to sustainable development. It is important that both PDBs and beneficiaries see SDG related priorities as strategic investments, rather than as costs. Therefore, educating and communicating the importance of SDG's when talking to clients is a key practice that should be grounded on PDBs' daily activities. This applies both for 1st tier banks as well as for 2nd tier banks, where the challenges are even tougher and of even more relevance: these PDBs need to ensure that private commercial banks and institutions that serve as their intermediaries have the awareness, knowledge and capacity to assess if a project proposal positively contributes to the attainment of SDGs or not. This is an area where, to date, we see there is still a lot to be done; 2nd tier PDBs are not devoting enough efforts to instruct and support their intermediaries in matters related to 2030 Agenda and SDGs financing. It is true, that by operating through other financial intermediaries PDBs widen their scope of action and reach to far more beneficiaries. But it is also true that by doing so, they lose control on how these institutions decide to disburse their funds, to which projects they provide funding and if they really will contribute to catalyse the desired sustainable development transformations that perhaps the PDBs has established in its long-term strategies or sustainability frameworks. The European Bank for Reconstruction and Development (EBRD) serves as a good reference to follow in this regard. Over the years they have put in place guidelines and manuals for their private intermediaries to follow, including banned activities, prioritised projects that will probably have significant positive social and environmental impacts and other sectoral directives to guide these intermediaries in their task of making the best use possible of the available funds. They also provide capacity building and constant training to credit operators working on these private institutions, to ensure they have the required sustainable development knowledge to assess credit solicitations.

Therefore, providing capacity building and follow-up support from the side of PDBs seems as a key practice to prepare and accompany its beneficiaries and thus, ensure alignment with the 2030 Agenda throughout the entire project cycle and value chain. As highlighted by one bilateral DB manager, "including a capacity building component in all our projects make us more attractive than a private bank; is not only about providing concessional financing, but also offering within the package technical assistance" (Authors Interviews, 2020). For instance, one can think that the case of the German government is an interesting example in this regard: they decided to put in place two different institutions to provide financial cooperation (KfW) and technical cooperation (GIZ) to its partners. Hence, KFW as the development bank combines efforts with GIZ, so that the project finance goes hand in hand with GIZ's capacity building, all in line with their sustainable development framework and SDG priorities—described below in other sections. Indeed, through technical assistance or other non-financial services, they work towards assuring that received proposal—seeking funding—can become viable and can access funding latter. In the public infrastructure and non-renewable energy sector, for example, there are experiences of PDBs that support the design and structuring of projects so that they are viable and bankable.

Finally, as another interesting practice meant to support PDBs alignment efforts with the 2030 Agenda, we identified that some PDBs, such as BRDE or BDMG are structuring strategies to offer favorable credit conditions as an incentive for their beneficiaries to strengthen their own sustainability practices. Although this might result more costly for PDBs, it should be seen as an investment for the sustainable transition. In fact, concerns regarding additional costs that may arise in this effort to align PDBs operations—both at project or portfolio level—arose throughout the interviews. Not every PDB is prepared to uphold the additional financial and non-financial costs that come with the task of assessing if their investments are financially viable but most importantly, if they are grounded on an integral approach that will accelerate sustainable development transitions and thus, contribute to the attainment of the SDGs. Therefore, it is vital for PDBs to identify levers that can serve to support them in this practice of not only engaging with their beneficiaries at the early stages of project design and preparation—even choosing to offer favourable credit conditions as incentives to promote sustainable related investments—but also provide follow-up support once the project is under implementation.

3.3.2. Stakeholders dialogue

Besides devoting efforts to understand and support their beneficiaries so that they are better prepared to structure SDG related project proposals, feel encouraged to improve their own social and environmental practices or be able to deliver expected outcomes, PDBs are also paying attention to how they can build up a strong network with the array of actors with which they work. Engaging with relevant stakeholders (Government institutions, shareholders, NGOs, Investors, Partner DFIs, and Think Tanks) is proving to be key for PDBs to ensure their strategy and business are better aligned with the 2030 Agenda. Actively participating in dialogues on the Bank's priorities and strategy for sustainable development with these diverse actors is allowing PDBs to gain visibility of their sustainable development contributions, receive feedback on their impact and even engage in discussions related on how to better drive countries towards transformative sustainable development trajectories.

Several interviewees noted that they see themselves as conveners of all main actors within the system; acting as bridges, local anchors, articulators. Certainly, PDBs, especially NDBs or subregional banks, are able to perform as neutral bodies between the private and public sector to bring them together and exchange on their perception of sustainable development, existing challenges that hinder SDGs implementation in the country/region. For instance, FMO, DBSA or BDMG are banks that have been working hard to fulfill their role as last mile specialists able to create value to society and promote local development (Authors Interviews, 2020). This value comes from shaping the development landscape, bringing together the specific needs of municipalities and companies and thus, ensuring more prosperous, integrated and resource efficient decisions are taken. PDBs are beginning to play a pivotal role acting as policy leaders and innovators, becoming strategic first-hand implementers of the 2030 Agenda and its SDGs.

Given their in-house technical expertise, governments should more openly welcome PDBs, especially NDBs, to the policy table. Having the opportunity to have a say and a seat at the policymaking table will allow PDBs to provide relevant information on the state of the art of the economic sector(s) in which the operate. By holding on their both economic and technological knowledge, PDBs are taking bolder steps to provide policy advice, help shape new national development policies and, in some cases, even support governments revise legislation proposals. For instance, “KFW helped the German government design feed-in tariffs and other policies to support the development of renewable energy and energy efficiency” (Moslener *et al*., 2018). However, bank officials expressed that there is still not an active invitation from governments’ side to integrate them in the policy process and this has undermined their ability to truly become a government partner in supporting SDGs implementation.

Therefore, if PDBs are to engage in proactive discussions with government authorities to feed in sustainable development implementation efforts, clear lines of communication need to be established. On one side, the government has to be clear on the policies and sectors being prioritised to achieve the SDGs and thus, the bank will provide the funding to incentivise new behaviors or help fund projects on key SDG sectors that may be underfunded. On the other side, achieving this policy synergy with the government will certainly place the PDB in a strategic position, whereby it will start to be perceived by other stakeholders—government included—as facilitating the sustainable development agenda and contributing to the attainment of specific SDG priorities. AFD’s new focus will comprise an important 'learning' and 'open source' approach to contribute to international debates while constantly assessing their practices: the bank’s objective is to build a dynamic management framework based on lifelong collective learning, which will include, among other things the establishment of an annual feedback program on "SDG Trajectories" to be presented to the Board.

Some PDBs are also devoting an important part of their efforts to actively engage with their key stakeholders with the purpose of receiving feedback on their performance, as a tool to identify the topics that are most material to them and assess how these engagements contribute to realising the bank's long-term sustainable development objectives. FMO who has introduced important SDG related practices—both at strategic and operational level—for example, has instructed its Management Board to continuously get involved in key stakeholder dialogues to improve their decision-making process and reporting. Furthermore, they are eager to work with NGOs and think tanks as subject matter experts to tap on their local knowledge and in turn, inform their investment process and policy development.

Existing well-established PDBs are hence playing a significant role within their own ecosystems—either regional, national or subnational depending on their nature and scope of action—as catalysts of change and most importantly, as conveners of other relevant stakeholders that can also contribute to the financing and implementation of the 2030 Agenda. Hence, these institutions need to start taking advantage of this privileged position and see themselves as instruments for the formulation—not only the execution—of public policies aimed at promoting sustainable development. In the near future, it would be interesting for banks to have a louder voice in ongoing discussions on how to align to a virtuous trajectory in terms of sustainable development; bring to the table inputs and arguments of what these trajectories should be at the scale of the territory in which they operate.

3.3.3. New financial instruments

The 2030 Agenda and its SDGs are very ambitious in terms of targets and levels of finance. PDBs are certainly strategic actors that can help bridge the financial gap of this international agenda by performing different catalytic roles—financers, mobilisers, intermediaries, policy influencers, niche levers of sustainable transformations (Griffith-Jones *et al.*, 2020; Mazzucato & Penna, 2016). However, thus far, PDBs haven't made use of the wider range of financial products at their disposal and we believe that is one of the largest limitations for unlocking their SDGs investment potential.

Entities motivated by the desire to contribute to generating sustainable transformations on the ground -like PDBs should-, must reinvent themselves and provide innovative financing mechanisms. The above entails diversifying existing portfolios and conscientiously determine which instrument best suits the purpose for the particular case. Since PDBs still favour loans as their primary financial product, they have dedicated limited structuring efforts towards maximising potential of guarantees, bonds, or direct capital injections.

Nonetheless, the interview and research process allowed us to identify successful examples of innovative approaches to financing that a number of PDBs are starting to use. Although there is still a long way ahead, these first attempts can serve to stimulate a more accelerated diversification on the part of its other Peers.

3.3.3.1. Guarantees

Guarantees possess an interesting potential to unlock private investment in countries, sectors and segments that traditionally these financers will avoid since risk levels are deemed higher. These financial products require the bank to serve as guarantor of financial intermediaries that will provide a loan to a particular project or programme (Fernández-Arias *et al.*, 2019). Backing up the financial operation serves as an incentive for private investors since the development bank will assume all or part of the project's credit risk. Governments can also serve as sovereign guarantors of their NDBs, thus supporting them to scale up their lending, have more appetite to innovate and engage in transactions of higher financial additionality.

The case of NAFIN results interesting. This NDB has dramatically increased the share of guarantees in its portfolio (Griffith-Jones & Ocampo, 2018) and is also leveraging its shareholders equity and thus, scaling up its impact, based on sovereign guarantees received from the Mexican Government (Authors Interviews, 2020). The guarantee Program of NAFIN signified 44% of their total balance of private sector credit portfolio (NAFIN, 2019). Furthermore, NAFIN is working with COFIDE, within the framework of the Pacific Alliance, with the aim of strengthening cooperation in guarantees and other financial services.

This financial instrument has a great leverage potential. In fact, between 2012 and 2017 44% of the capital mobilised for the energy sector was in the form of guarantees (Sangare and Hos, 2019). Surprisingly, despite its leverage capacity, conversations with banks lead us to think that not all PDBs are using guarantees and if they do, they represent a small portion of their portfolios. The last green finance survey of the IDFC -a global network of PDBs and finance institutions based in OECD and non-OECD countries –states that only 1% of the commitments for green energy and mitigation activities came from guarantees (IDFC, 2019).

Reasons for why PDBs are not availing guarantees as a tool might lie in the complexity for setting them up and the capacity required to do a proper monitoring of the ongoing project (Griffith-Jones *et al.*, 2020). Furthermore, they require good management of liabilities and large provisions in order to preserve financial indicators. This can at the same time limit the lending capacities and henceforth, the development impact. PDBs need to keep working on strengthening their selection schemes to determine those cases in which guarantees represent the best risk / benefit option and at the same time, catalyse the finest behaviours concerning sustainable development.

3.3.3.2. Venture capital

An interesting novel practice that we observe PDBs are beginning to explore in order to contribute to sustainable development comprises investing through acquiring equity in innovative start-ups that have a major financial risk. Acting as direct investors allows banks to develop new markets or strengthen nascent industries that can catalyse sustainable development transformations. Moreover, bank's participation in such ventures renders useful in two ways: i) as part of the venture's internal decision structures, the bank is able to share its expertise and provide guidance to safeguard the project delivers sustainable development impacts; ii) by taking this stake, it sends a signal of reliance to other potential investors that thereafter will be interested in investing as well (Fernández-Arias *et al.*, 2019).

There are several examples of investment through venture capitals as the FMO's Venture Program aiming to invest a total of € 200 million in both fund and direct investments in Africa, the European Neighbourhood and Asia (excluding China)[17]. This program is grounded on a guarantee agreement signed with the European Commission (EC) in 2019th within the European Fund for Sustainable Development (EFSD) (€ 40 million in guarantees). The aim of this program is to boost investment for young entrepreneurs and local businesses that use innovative practices to support vulnerable communities and promote sustainable development. This guarantee is also enabled by a blended finance solution (practice to which we will refer later on), supported by both the EC and the Dutch Government, coupled with a technical assistance program. Due to all these financial arrangements, the mechanism allows FMO to pursue direct or indirect investment during early stages of investment, in order to attract private investors on sectors such as financial inclusion, access to renewable energy, agribusiness and technology for education, health, transport and digital commerce.

In the same line, COFIDE will inject 70 millions of soles (around US$ 21 million) through the Capital Fund for Innovative Ventures (FCEI) in order to close the existing financing gap for local start-ups in an advanced stage. The targeted sectors are similar to those of the FMO: fintech, agriculture, education, health, e-commerce and mining. COFIDE expects that the FCEI fund leverages US$6.5 for each invested dollar [18].

This financial instrument is very interesting as it can be led towards catalysing sustainable development by economically helping innovative ventures that need more capital to develop. Moreover, PDBs can capitalise on those that can potentially have good impact on key SDG related sectors. Though, as the guarantees, venture capital is an instrument that can be risky and needs a good selection process to opt for the opportunities with a potential of financial success. Coupling direct investment together with technical assistance, for those ventures still lacking adequate conditions for investment, is also a good practice that PDBs should foster.

[17] https://www.fmo.nl/news-detail/1ec71ceb-43a9-4f6d-a8f2-47cd41869605/fmo-ventures-program-signed-by-ec-commissioner-neven-mimica-at-africa-investment-forum

[18] https://www.cofide.com.pe/COFIDE/noticia/126/

3.3.3.3. Labelled bonds

PDBs are exploring new ways of generating income and are designing specialised bond frameworks. Although issuing debt in international or domestic financial markets is not something new for these institutions, what is noteworthy in this case is ongoing efforts of PDBs to shape issuance and investment conditions in order to channel obtained funds towards green or sustainable development priorities.

Green bonds are the most developed ones but there is a growing trend to define frameworks for social bonds, blue bonds and SDG bonds. In the case of green bonds, many NDBs such as Bancóldex, BNCR, PT SMI, NAFIN report being first or early movers in the issuance of these types of bonds for their countries or regions (Authors Interviews, 2020; Morris, 2018b) One of the contacted PDB from Asia region mentioned that bonds are their main fund-raising instrument and that they are betting for green labelled bonds to help develop the local capital market, which until then had no familiarity with that type of debt issuance. In addition, this bank sees green bonds as a tool to mobilise private financers with appetite for green investments.

As part of BDMG's new strategy to intensify the bank's actions in support of the 2030 Agenda, they recently launched (2020) a Sustainability Bond Framework[19] which reinforces the charter developed in 2018 on green bonds. The framework outlines a process by which proceeds will be tracked, allocated, and managed and includes categories of social and environmental projects that they say are in line with 13 of the 17 SDGs and with 28 of 169 SDG targets. This guideline also delimits the eligible activities for each category. Clients will need to demonstrate that their project belongs to a category by providing certifications or demonstrating internal practices such as having well established irrigation systems or energy efficiency equipment. As highlight, the funds raised via sustainable bonds will be used to (re)finance projects or operations which present clear and relevant environmental and social impacts and are aligned with the SDGs.

However, there are still many unresolved questions regarding green or SDG bonds: Do they really bring additionality? What is their added-value? Do they attract capital into investments that are more novel? Are bonds an important innovation for sustainability or just the same business-as-usual with a new cover?

Some reflections can be gleaned from the conversations with the interviewees. On one hand, NDBs mentioned that once they issue their bonds on local capital markets, MDBs usually support them by leveraging the bond and thus, allowing them to get credit enhancement. This enables them to tap the market without paying costly interest rates and using spare funds to invest in SDG related priorities. Besides, bonds can be in themselves transformative instruments since they imply following international standards and undertaking profound internal reforms at all levels—strategy, operations, interaction with other stakeholders—in order to structure, issue and monitor the instrument.

[19] https://www.bdmg.mg.gov.br/titulos-sustentaveis/

On the other hand, NDBs and RDBs noted that they face many challenges at all different stages of labelled bonds issuance and follow up: i) issuing labelled bonds entails many additional costs which represent an expensive overhead for the bank. These type of bonds tend to have higher transaction costs than traditional bonds and on the contrary, they may limit bank's flexibility (Maltais & Björn, 2020); ii) pricing green/SDG bonds can be a difficult task because domestic investors are still not aware of the importance of sustainable development and on the benefits of complying with additional conditions to access these financial instruments. In most markets, acquisition prices between traditional and labelled bonds are almost the same, which makes the issuance of these bonds more expensive for the NDB. During an interview, the idea of thinking about creating exchange insurance for national and subregional banks came up as a suggestion; iii) reporting and assessing projects to allocate bonds is very expensive because it requires a specialised team and consistent data collection; iv) lastly, NDBs say inability to obtain good credit ratings represents a barrier to increasing labelled bond issuance on capital markets.

3.3.4. Partnerships

In their efforts to align and implement the 2030 Agenda, PDBs are actively participating and fostering the rise of partnerships with an SDG focus. Harnessing the potential of partnerships is paving the way for PDBs to provide practical results and catalyse sustainable development transformations. In our interviews, we came across different ways in which these banks are working together with other DFIs, private investors, governments and regional banks' associations with the aim to find the path to a sustainable finance and achieve the SDGs.

Interesting practices in this domain are: i) joining forces to develop common methodologies and standardise existing approaches; ii) fostering alliances that will allow PDBs to learn how their peers are adapting to the Global Agenda and; iii) establishing partnerships seeking to crowd in technical and financial support from other stakeholders also willing to contribute to the attainment of the 2030 Agenda.

This section of the study will highlight what new partners have been explored by PDBs in the implementation of 2030 Agenda and what existing partnerships have been mentioned as crucial for its implementation.

3.3.4.1. Harmonisation of standards and practices

Respondents expressed that one of their main concerns is to understand the best path to accomplish SDG alignment. The 2030 Agenda is multisectoral and interconnected in nature, meaning an integrated approach is needed to maximise the impact of investments. Thus, one of the main challenges of achieving true alignment lies in understanding how synergies and trade-offs among goals play out in a particular setting. For that reason, providing common frameworks and standards that facilitate the task of understanding which investments are sustainable is of the outmost importance.

PDBs are fostering agreements between their peers who are in similar geographies or conditions (country, economic context) in order to spread the awareness of SDG's and define common principles and methodologies for SDG interpretation and alignment (Authors Interviews, 2020). In this regard, regional national banks associations and wider organisations such as the IDFC are starting to play an active role creating common grounds for discussion and support their associates harmonise their alignment efforts. For example, the Brazilian association for development (ABDE) has put in place different projects to help Brazilian PDBs to align with SDGs and raise capital for Brazilian development. Furthermore, SDGs are now included in their strategic planning and are envisioning the creation of a set of common principles to facilitate the introduction of SDGs in Brazilian PDBs operations and strategies (Authors Interviews, 2020). The ultimate goal is to contribute to the 2030 Agenda by incentivising Brazilian banks to implement measures such as defining an SDG framework, developing SDG related assessment methodologies or strategies on how to crowd in private capital in line with sustainable development.

On the other hand, in the African region, DBSA has been working closely with the Association of African Development Finance Institutions (AADFI) and governments that require support and assistance. DBSA has signed agreements with other smaller DFIs with the purpose of sharing their knowledge on how they have established their existing environmental and social policies and most importantly, how they have refocused their business to offer end-to-end solutions across their value chain in order to enable sustainable infrastructure development (Authors Interviews, 2020; DBSA, 2019a).

3.3.4.2. Partnerships for research

In the same line as the practice above, PDBs need to invest in research on SDG alignment, financial instruments for sustainable development, how to deal with trade-offs between SDGs, on blocking factors, etc. Alliances where PDBs can learn from other stakeholders and from their peers facing the same challenges can help the emergence of new financial instruments and practices to align operations with SDGs.

Over the interviews, we identified some examples of scientific research for the design of financial instruments and SDG projects. For instance, ABDE together with IDB, the Securities and Exchange Commission of Brazil (CVM) and the GIZ launched a couple of years ago a financial innovation laboratory (LAB)[20]. The purpose of this platform is for government representatives together with other stakeholders to discuss and promote practices around innovative financial instruments that can support the accomplishment of SDGs and the Paris Agreement. LAB is formed by 4 working groups: Green finance, financial instruments and impact investments, fintech and ESG risk management.

The Green Finance working group contributes to the strengthening of sustainable finance in Brazil by the diffusion of knowledge between issuers and investors, the identification of new sectors of investment, risks' mitigation, policies and regulation improvements, etc. The lines of action of the fintech group are: the development of a regulatory framework for fintech,

[20] http://www.labinovacaofinanceira.com/

advisory to improve sustainable practices and the linking of fintech and Public financial institutions. The financial instruments working group is in charge of contributing to the development of alternative financial instruments for investments with social impact. They discuss and work on topics as crowdfunding, impact evaluation methods, venture philanthropy or even about SDG bonds. Finally, the ESG risk management working group was created with the aim of helping financial institutions to deal with ESG standards and transform social environmental risks in business opportunities. The 4 working groups cover all the actions that need to be transformed in order to become an SDG financial institution.

Another interesting example is a recently established partnership between PT SMI and the University of Indonesia focused on jointly discussing and developing their new SDG Framework (Authors Interviews, 2020).

The exposed examples show that associations, MDBs, DFIs and international organisations are playing a key role in building capacities and providing technical support to scale up the funding and improve internal capacity to align with SDGs. In this regard, the G7-OECD-UNDP SDG alignment initiative, created at the Development Ministers meeting at France's G7 in 2019 could be very useful. They have been working to develop a framework which will be supported by recommendations to align private finance to the SDGs and Paris agreement built around three pillars: standards, tools and regulation.

Coalitions for research between development institutions can spread the knowledge about different sectors, practices or financial solutions and demonstrate by the experience of others the success of certain exercises. This can also attract private investors that will be more aware about the benefits of investing in some underserved sectors and successful practices used for SDGs (Olloqui *et al.*, 2013).

3.3.4.3. Create incentives to change behaviour

Partnerships can also improve behaviours by imposing some criteria to the counterpart in order to benefit from the outcome of the partnership (fund, technical assistance etc.). This type of partnership encourages and incentivises PDBs to enhance the sustainable performance within the institution. In the course of interviews, we came upon some experiences between NDBs and MDBs, whereby the latter establishes certain impact indicators or socio-environmental criteria as a prerequisite to deploy the capital. By doing so, MDBs are accelerating in certain cases the alignment of PDBs with the 2030 Agenda. However, in most cases, the aforementioned conditions are still focusing mainly on ESG standards or climate change goals. Thus, it is important that PDBs, in their different levels of engagement, are more accurate in the inclusion of SDG related conditionalities that comprise the integrated and cross-cutting dimensions the 2030 Agenda stands for.

As an interesting example, we have AFDs position for investing in other PDBs. AFD is increasingly trying to have lines of credit that do not necessarily aim to finance investments already financed by banks. Rather, they are focusing on financing projects that aim to help banks integrate into the alignment trajectories of the SDGs; changing their portfolio in the long-term by abandoning the financing of certain sectors and finance others that are more favourable to the 2030 Agenda. Their ultimate purpose is to try to enter into a logic of financing, dialogue and support with banks, so that they can think about how they themselves can enter into the discussions of aligning their portfolios and assets with respect to the Paris Agreement and the SDGs (Authors Interviews, 2020). For example, the BRDE received 50 million euros from the AFD to carry out a pipeline of sustainable projects such as biomass and photovoltaic energy generation, waste recycling, energy science projects in public lighting, small hydroelectric plants, among others (BRDE, 2018). In addition to the financial facility, AFD and BRDE signed an agreement for technical assistance with the purpose of improving the management of environmental issues and ESG standards. The president of BRDE state that this technical assistance provided to the bank an expertise to build and evaluate sustainable projects and construct an environmental and social analysis system that the bank never had before[21]. In August 2020, these institutions renewed their alliance signing a new financing agreement: BRDE will receive € 70 million from AFD in order to invest in SDG related projects, supporting this RDB's endeavour to become 'an SDG PDB' - as is always recalled by its President -. This new partnership will enable financing with a high social and environmental impact in the south of Brazil -region where BRDE operates-, consolidating the bank's green, social and sustainable portfolio and enabling private investments connected with the vision of the 2030 Agenda. BRDE is also working closely with other partners, such as IDB and CAF, for the promotion and implementation of SDGs in their region (Authors Interviews, 2020).

The Green Climate Fund and some European Funds also ask for improvements in some indicators depending on the project -such as energy efficiency, social inclusion, gender equality. The stringent accreditation process to access these international funds—GEF, GCF, EU DEVCO—obliges PDBs to improve their internal systems, increase transparency and tighten reporting standards (Smallridge *et al.*, 2019). Therefore, since PDBs are highly interested in fulfilling the terms and conditions of these funds, it operates as an incentive to develop and set up internal indicators to evaluate their impact and contribution to sustainable development.

3.3.4.4. Blended finance partnerships

PDBs are engaging, and in some cases, leading or administering platforms where private investors, businesses, philanthropists and other public entities are investing to fund SDG aligned projects. The aim of these platforms is to blend the PDBs finance with concessional resources from governments and public finance in order to improve the terms and conditions of their funding and attract the private capital.

Some SDG related investments such as financing sustainable infrastructure require large initial investments and long maturity financing; commercial viability takes longer and thus, these projects have in most cases long payback periods (Griffith-Jones *et al.*, 2020).

[21] https://www.brde.com.br/noticia/brde-e-afd-contratam-mais-r-425-milhoes-para-investimentos-sustentaveis-na-regiao-sul/ ; Webinare « BRDE e AFD reafirmam parceria com novo contrato https://www.youtube.com/watch?v=H6wfj1qI8cc

Moreover, most financial markets are weak or still immature in developing countries, making it harder to find loans with long-term repayment (Authors Interviews, 2020). This is partly why PDBs are devoting important efforts to strengthen their role as mobilisers of investments and co-financing these type of projects with other lenders, in order to share risks and maximise the positive impact on SDGs.

We were able to identify some innovative examples on how PDBs are making use of blended finance instruments to assure they have a greater collective impact with the funding they provide. For instance, FMO is an example of a bank taking bolder steps to develop more efficient mobilising vehicles with commercial investors and insurance companies such as the new Unfunded Risk Participation Program FMO established with Munich Re at the end of 2019. Munich Re will contribute to the SDGs by participating in FMO transactions for up to US$500 million in the next three years (FMO, 2019).

DBSA has shown as well appetite for unlocking private capital to improve their developmental impact and has even adopted a corporate target and is reporting on finance catalysed as a result of their operations(DBSA, 2019b, 2019a). A sample of this effort is the creation of a blended platform called Climate Finance Facility, approved by the Green Climate Fund, to crowd-in commercial capital in local currency. The goal is to improve the risk profile of infrastructure climate related projects and demonstrate their commercial viability (OECD *et al.*, 2019). However, to get international investors to shift their portfolio towards a long-term SDG investment it is necessary to have the capacity to assess and supervise the long-term risks. For this purpose, PDBs still need to develop expertise in project design, evaluation and follow-up in order to pave the way for private investment.

Another innovative example of an SDG related blending platform is that of PT SMI. PT SMI, although not entirely a PDBs,[22] serves as such for the Indonesian government and has as main purpose the promotion of sustainable development in the field of infrastructure. In 2018th, PT SMI and the Ministry of Finance of Indonesia created SDG Indonesia One, a platform composed by different facilities and fund with the aim to channel resources to support the roadmap for SDGs created by the government of Indonesia. According to their records, during 2018th they reunited 25 partners among them donors, multilateral banks, climate funds and mobilised almost $2.46 billion[23]. The platform arranges tailored facilities according to the lender's appetite and cover the project from end-to-end. There are four types of facilities: the development facility, the financial facility, the equity fund and the de-risking facility. The first one, is for fostering preparation of infrastructure projects. The second one, is deployed if a stimulation is necessary to attract private capital. The third one, is intended to

[22] PT SMI is a state-owned company under the Ministry of Finance that is engaged to finance infrastructure projects. During the interview, the bank stated that PT SMI was transitioning to a National Development Bank. This new broad mandate will allow them to have more public funding and more support from the government of Indonesia when catalysing capital for SDGs.

[23] https://ptsmi.co.id/sdg-indonesia-one/

foster private investors and strengthen capital capacity for infrastructure projects. Finally, the de-risking facility is aiming to increase the commercial viability of infrastructure projects.

Although blended finance mechanisms are an innovative way for public and private investors to work together, they not always contribute to financing the 2030 Agenda. Harnessing the potential of those tools demands real commitment to invest in areas critical to sustainable development and overcome the short-term approaches and aversion to invest in fragile settings that has characterised private investors so far (Riaño & Barchiche, 2020). PDBs need to take the lead when structuring bending platforms and be assertive when determining areas of focus—cross-cutting transitions that catalyse sustainable development— since in the end, they are the ones assuming the largest part of the risk compared to their private partners.

IV – Conditions for success

Achieving the SDGs is not only dependent on internal adjustments and alignment from PDBs, but also on complementary effective actions from governments, the international financial system and the private sector, in addition to collaboration among all stakeholders. Furthermore, as pointed out by Thorne & du Toit (2009), PDBs are unlikely to be successful and accomplish their developmental objectives if certain conditions—both internal and external—are not also in place. Most NDBs and RDBs operate in countries or contexts where public institutions are still weak and provide no clear guidance on governments' priorities; internal staff has some but not all skills or qualifications that allow them to catalyse sustainable development priorities; or they find it harder to access international financial markets that could support their efforts in leveraging funds and scaling up their impact.

This section addresses observed factors that shape PDBs lending practices and provides recommendations, based on the research that was undertaken.

4.1. Internal conditions

A recurring theme throughout our research and interviews has been the importance of the 2030 Agenda and its SDGs to permeate culture and governance structures within PDBs. Undertaking structural governance and culture reforms is an indispensable requirement for these institutions to move from strategic intent to actual 2030 Agenda alignment and implementation. Ownership of this agenda needs to come from the very inside, from the core of the bank. In other words, it has to become part of its DNA, meaning that from top to bottom—from the high-level executives to those who hold the positions of planning, reviewing and approving credits—the 2030 Agenda is used as a cornerstone for action.

However, catalysing the desired internal adjustments is not always easy for PDBs and can become a challenging task, due to lack of resources, capacity, time constrains, among others. As mentioned by some interviewees, mainstreaming sustainable development within their structures requires the existence of bold high-level commitment towards SDGs implementation. Otherwise, the bank's business-as-usual will absorb any isolated effort to encourage the use of the 2030 Agenda as a framework for action.

Qualified board and employees who are standard-bearers of the SDGs and have the determination and interest to permeate the strategy, operations and external engagements with the promises of the 2030 Agenda. The board of directors, the Bank´s President and main Chief Executive Officers should possess qualifications—knowledge and experience on sustainable development domains, for instance—that allow them to drive decisions towards the achievement of inclusive, equitable and sustainable development. The above will definitely serve as lever for PDBs to foster breakthrough thinking capacity and capability, especially amongst management and leadership. In a recent study published by the Centre for Global Development-CGDev (Morris, 2018b), IDFC members expressed that within some DFIs, SDGs are perceived more as an obstacle to financing than as a core business goal, which was confirmed by some of the contacted banks. Therefore, there is still a long road ahead for PDBs to ensure senior-level support for the goals and thus foster a true alignment of their institutions with the 2030 Agenda. The Principles for Responsible Banking[24] developed by UNEP-FI for private banks could also be relevant for PDBs. It is a framework with concrete guidance for banks aiming at ensuring that signatory banks' strategies and practices align with the vision embedded in the SDGs and the Paris Climate Agreement.

Box 1. Observed SDG-related governance structures within PDBs

- Position of Chief Sustainability Officer
- Environmental committees/Inclusion & Sustainability Department attached to the President's office
- Impact & ESG governance structures
- Specialised divisions (energy, carbon neutrality, human rights, gender and diversity)
- Planning Department with SDG focus
- Decentralised sustainable development specialists in every agency of the bank, central departments and core business sectors

[24] https://www.unepfi.org/banking/bankingprinciples/ and https://www.unepfi.org/wordpress/wp-content/uploads/2019/09/PRB-Guidance-Document-Final-19092019.pdf

Strengthening existing governance structures and internal restructuring with an SDG focus. PDBs should engage in internal discussions to identify their governance gaps, in view of their efforts to align with the 2030 Agenda, to establish whether: i) they need to create new positions; ii) new committees or departments; iii) or perhaps new specialised teams that strengthen decision-making in the different managerial and operational levels. In this regard, conducted interviews and performed research point out that some PDBs are devoting important efforts to undertake significant internal reforms with the purpose of better embedding sustainable development within their structures.

The capacity and alignment necessary to effectively serve as game changers in this process of SDGs implementation also implies bringing all different areas onboard—planning, risks assessment, operations, finance, IT—assigning clear roles and responsibilities within the staff. The above will be a positive step towards building pipelines of technically sound and bankable projects that focus on crosscutting sectors aligned with the 2030 Agenda and procuring to have a more holistic assessment of the entire portfolio throughout the invest cycle.

Expanding culture of sustainable development across the employees. PDBs need to have adequate internal capacity and skills to scale up transformational action on SDGs. To do this effectively, the staff—especially those working on designing, approving, following up and assessing investments—needs to have sufficient training and access to information to be able to factor SDGs into their decision-making and analysis throughout each stage of the investment process. Embedding a sustainable development culture means much more than informing employees on what the SDGs are or how many targets do they have—which is mainly where PDBs have been focusing their educational efforts. It entails fostering critical, innovative thinking that goes beyond understanding sustainability issues as the environmental component/risk of investments and that will provide personnel with the necessary tools to capitalise on the interconnected nature of the 2030 Agenda.

Finally, as part of their intentions to expand sustainable development culture, PDBs should put in place incentives for board members, executives and staff to act accordingly to the SDGs and 2030 Agenda objectives. One of the RDBs banks mentioned in its interview that they have managed to link staff performance with their SDGs strategy and that this has given their workers a purpose to contribute to the accomplishment of this strategy. This practice will prove useful for PDBs to invest in strategic or underserved SDG related sectors and avoid a bias towards more traditional projects within their areas of focus, when assessing investment opportunities.

4.2. External conditions

4.2.1. Public policies and national context

Allowing PDBs to assume more risks and be contra-cyclical in time of crisis

Political instability and economic vulnerability have always been seen as a constraint for efficacy in economic development. This applies also to social and environmental development. Countries at global level and governments at national and local level need to create a financial, economic and political environment that will allow PDBs to assume more risks and be contra-cyclical in time of crisis.

Many countries will not be able to service their debt, fight the pandemic, and invest in recovery. Sudden economic halts entail the destruction of the productive capacity, of the employment, income reduction of many companies, even bankruptcy for some of them. Governments' responses to the economic shock have included stepping up their support for PBDs, in order to play a countercyclical role and ease financing and liquidity constraints. PDBs have the ability to adapt their roles to changing development needs at different stages of development. Thus, PDBs are not only better suited for carrying out countercyclical lending during a crisis, but also particularly suited to reignite growth after a crisis (Brei & Schclarek, 2018).

PDBs have extended both short and long-term credits to existing and new customers who were facing difficulties in debt refinancing and in receiving new lines of credit. Furthermore, by massively reallocating funding and putting in place easing measures, PDBs have given their support to most affected sectors and contribute to maintaining jobs,[25] as seen from the examples of Peru (COFIDE), Colombia (Bancoldex, Finagro) or Brazil (BNDES).

With the support of their government, National PDBs can act as a "financial arm" of many countries, using a full range of instruments including the moratorium and rescheduling of existing loan obligations, working capital loans, and portfolio insurance policies.

Sending the right "SDG signals" for investments

It is important to recall that the 2030 Agenda and its SDGs are a matter of public policies. PDBs have a leadership to play but cannot succeed on their own as they are usually working under governments priorities. They often depend on the orientation and priorities established by their governments or local authorities. Their actions need to be upheld by a clear context. To be really effective in aligning with and financing SDGs, PDBs need to intervene in national or regional context with cleared and identified priorities related to SDGs. In some cases, it seems that the PDB is more advanced in its alignment with the 2030 Agenda than the domestic government or local authorities. In particular when achieving the 2030 Agenda as a global/national plan might not be the priority for some authorities.

[25] https://www.idfc.org/idfc-response-to-covid-19-crisis/

However, in 2019, in order to reach the global goals in 2030, the GSDR highlighted the urgency to transition towards long-term decarbonised and sustainable development that maximises positive human impacts, equalises opportunities among social groups and women and men, and minimises environmental degradation is essential. To do so, changing volumes and patterns of investment—both public and private—will be key to realise this transformation.

An adequate financing of the 2030 Agenda should imply putting in place policies and regulations that send the right signals to catalyse the desired behaviours and investments. Shaping effective policy responses requires understanding the deeper systemic interconnections between individual goals and targets, but mostly, assessing how they unfold at the national/local level.

Establishing an environment of investments "pro-SDGs" is fundamental. In this regard, the GSDR recommended that governments, international organisations and the private sector work to encourage investment that is more strongly aligned to longer-term sustainability pathways and to facilitate disinvestment away from those that are less sustainable. PDBs can be an important part and act as a driver of this transformation. However, PDBs are often assessed and measured by the same standards as commercial banks or conventional financial institutions. Thus, regulatory incentives tailored for their specific nature are imperative for PDBs to have more room for action.

Financing sustainable development strategies

There is a clear lack of national financing strategies to implement the 2030 Agenda. Although some countries have set up policy frameworks for SDG implementation, as observed from the Voluntary National Reviews (VNRs), only very few have presented an associated financing plan. Thus, this effort falls short, given the complex and ambitious set of transformations needed to deliver on the 2030 Agenda: an overarching policy that provides general remarks on the country's objectives without relying on budget allocation or on a financing plan will remain as a mere intention, rather than becoming a vehicle for change.

Both in the Addis Ababa Action Agenda and in the 2030 Agenda, Member States agreed "*that cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks (INFF), will be at the heart of efforts*". Operationalising INFFs is an option to foster public and private investments that are truly aligned with the SDGs.

According to the UN Report on Financing for Sustainable Development (2019, 2020), INFFs could consider the full range of financing sources and non-financial means of implementation that are available to countries, and therefore help define financing strategies that are grounded in the country's specific context and risks and that will connect financing and related policies more explicitly with longer-term objectives; in short, a blueprint on resources needed and where to invest them.

These powerful planning tools, still overlooked by countries, can definitely help overcome many of the existing impediments to financing sustainable development. Once countries know what needs to be funded—laid out in their sustainable development strategy—INFFs will map how this plan ought to be financed and implemented.

Such a process will allow stakeholders and financial actors, in particular PDBs, concerned at the local, national and global levels to target their investment efforts with the needed clarity on where their funds could provide effective results. And it will clarify the leading role of PDBs in supporting investment and financing of SDGs within a country and identify where PDBs can make a real difference. PDBs will be in a better position and scenario to assume more risks and become strong enablers of SDGs financing.

In the post-crisis period, such planning might prove particularly useful in managing the emergency relief, economic recovery and long-term structural transformation sequence of investments and action, and in avoiding lock-in situations and path dependencies where short-term recovery investments would hamper long-term goals in relation to inequalities reduction or environment protection, and even increase vulnerabilities.

4.2.2. Private market and credit rating agencies

PDBs can play the role of capital mobilisers and actively contribute to SDGs implementation and financing. In the third section of this study, we showed different innovative ways that PDBs are putting in place to leverage finance for SDG-related projects as co-investors. The added value that is attractive to private investors comes from the ability to share risks, and knowledge sharing on local development needs, among others. Nevertheless, relying on borrowing from the international capital market continues to be the traditional *modus operandi* to acquire more funding (UNCTAD, 2018). PDBs have access to international markets with lower interest rates than private institutions, sometimes explained by sovereign guarantees provided by governments.

Yet, access to international capital markets can be costly and difficult for some PDBs, especially NDBs or subregional DBs. In Latin America, according to the IDB (Authors Interviews, 2020), capital markets are limited and still underdeveloped, except for Brazil's and Mexico's markets. The same goes for Africa where, in the words of a bank's manager, these markets are still poorly developed. In developed economies, raising capital from international markets can be easier than in middle- or poor-income economies; this is partly due to the strength of the markets, its well-functioning banking systems, together with robust national macroeconomic variables, such as inflation or exchange rates.

Furthermore, advanced economies are backed-up by government guarantees with better qualification from credit rating agencies than low-income economies, which allows them to have a high creditworthiness since capital markets are reassured on their capacity of financial return.

Credit rating agencies definitely have an impact on how PDBs take decisions in terms of where to invest and what to finance. “We are told to be careful in fragile markets so how can we invest in down-rated countries?”(Authors Interviews, 2020). Therefore, credit rating agencies might represent an obstacle not only for PDBs to be less risk averse and invest in areas or regions most in need, but also affect their ability to raise additional funds, since investors will base their decisions on existing ratings. In the end, PDBs end up being conservative and pro-cyclical.

Taking into account that market conditions and scores given by credit rating agencies might have an important impact on PDBs contribution to SDGs implementation, future research could focus on how these institutions should consider impact as a return of investment. During interviews, the idea of creating an SDG credit score emerged, which would be a major step to support the job of PDBs and DFIs in allowing financial actors to include in their investment considerations SDG related criteria, beyond plain market assessments.

Conclusions and recommendations

As stated in the UN Secretary-General's annual progress report towards the Sustainable Development Goals,[26] "what began as a health crisis has quickly become the worst human and economic crisis of our lifetimes". While the ongoing COVID-19 pandemic has exacerbated the challenges to attain the 2030 Agenda, it also calls for bolder and decisive action to bring about the necessary social, economic and environmental transformations for communities to recover and thrive. All actors should take steps in this direction and, in this context, PDBs do have certain advantages that enable them to position themselves at the forefront of this movement.

As seen from section 2, through issuing debt in the capital markets, PDBs are able to raise resources, which, in turn, can enable them to extend more loans—the main instrument used by PDBs to foster sustainable development. As proportion of the shareholders' equity, the ratio of outstanding loans for the sample of NDBs lies close to 5.1, which means that for every dollar in equity, this group of banks has extended 5.1 dollars in loans. Despite being higher in comparison with MDBs, this average is lower compared to the selected bilateral banks, and according to the literature well below than most commercial banks. Some NDBs have low leverage levels with loans-to-equity gearing ratios close to 2, which shows that several NDBs take a conservative approach to capital adequacy. In addition, during the last decade, a remarkable amount of NDBs (according to our sample) have reduced or kept unchanged the loans disbursed in relation to their shareholders' equity and still remain at very conservative levels, while just a small group of banks has improved this ratio.

In conjunction with their leverage appetite, we also have provided an overview of the different existing practices observed that PDBs—from different sizes and geographies—are putting in place within their structures in order to align with the 2030 Agenda. As a general remark, it is important to highlight that most PDBs have the interest and willingness to take the necessary steps to mainstream SDG priorities into their strategies and operations. However, both strategy and operations endeavours are at early stages of alignment.

In some cases, we found out that banks are indeed contributing to sustainable development through their financial and non-financial instruments, but they have not systematised these scattered actions in their portfolios, so that the forcefulness and visibility of the possible impact of their actions is lost. In some other situations, we observed that PDBs have already taken the decision to either modify their strategies, update their sustainable development policies, introduce new processes and approaches within their operations or place a stronger emphasis on their advisory, mobiliser and catalyser roles to accelerate SDG impact. But then again, undertaken efforts, although very important and in some cases innovative, still lack an overall coherence that can truly bring PDBs to the required level of alignment to decisively contribute to SDG implementation and financing. Existing innovative practices are

[26] E/2020/xxx. (2020). Report on progress towards the Sustainable Development Goals: report of the Secretary-General

nevertheless a very good basis for exchange and inspire all PDBs to bring their alignment with the 2030 Agenda to a more ambitious stage.

Moving from strategic intend to true ownership of the 2030 Agenda and its promises implies understanding that its true nature lies in its interconnected and transversal focus. It is not a matter of just adjusting marginally strategies and processes or classify current efforts across the 17 goals. It is about undertaking structural transformations to really contribute to attain the SDGs and move from high-level declarations towards concrete mainstreaming actions.

As propositions to build up on current alignment efforts, we provide some recommendations together with a chart that encompasses the main practices that PDBs should pursue to act accordingly with the 2030 Agenda and its SDGs:

Defining coherent mandates, clear strategies, policies and targets that guide their interventions and investments with SDG priorities. Defined SDG strategies should be focused not only on classification of current projects by individual SDGs, but also identifying cross-cutting transformational entry points—such as those proposed by the GSDR (Independent Group of Scientists appointed by the Secretary-General, 2019). The development banks' strategies should lead to a complete, comprehensive and systemic integration of the SDGs by making them the main objective of their activities.

Sustainable development theory of change (ToC). PDBs should develop a plausible ToC clearly outlining how they see themselves contributing to sustainable development though their financial and non-financial services. Furthermore, the ToC should identify where the bank can have the most impact in terms of contribution to the SDGs and depict the strategies, tools and targets it will set in this regard.

Reinforcing incentives, capacity and SDG culture. It is crucial to count on permanent engagement and commitment from staff, but most importantly from high level positions such as the CEO, executive managers and the Board of Directors. Setting up a dedicated, specialised team of sustainability experts (either in a new area, e.g. sustainability department, or deployed throughout the bank) with strong leadership and clear roles and responsibilities, to facilitate sustainable finance and the implementation of the SDGs across all functions of the bank is also key.

Sound SDG governance and management. Formally include **sustainability criteria** into the terms of reference or charter for Board's nomination, remuneration and audit committees or create a dedicated Board Committee focused on sustainability and responsible banking. Taking steps toward these reforms can enhance the banks' ability to actively contribute to SDGs implementation.

Periodically revise, update and strengthen PDBs' mandates.. In general, contacted PDBs perceive that their current mandate is broad enough—even those who possess sector specific mandates—to integrate the SDGs and they do not feel it holds them back from acting. Nonetheless, it would be convenient to revise if these mandates, together with their mission statements, serve as effective beacons for SDG implementation and financing. Mandates should be clear, aligned with public policies on the economic segments or sectors targeted for intervention and flexible enough to adapt to changing market conditions.

Stronger commitments to in-depth monitoring and evaluation at the project level and on an aggregated basis—at portfolio level. Although in most interviews PDBs stressed that impact assessment can be very costly—in terms of data collection, specialised employees, etc.—and challenging due to interlinkages and trade-offs among and between SDGs, implementing a strong methodology is crucial. SDG impact should be assessed during the complete process of the project (*ex-ante* and *ex-post*) and should be able to measure how much the various flows actually contribute to sustainable development. Furthermore, having a portfolio assessment provides the bank with a coherent approach that will take into account the complementarity between its projects and synergies among them.

Shifting mindset of sole funding providers and embrace roles of enablers and mobilisers. As seen from the external engagement section, PDBs can have an exponential impact of their investments if they partner with key stakeholders and make use of the other instruments/roles at their disposal, besides lending. Engaging in "external SDG-related endeavours" will serve to catalyse required transformations. The above includes: i) setting up efforts to help governments forge the right policies and translate the SDGs into meaningful country-level policies, programs, and projects; ii) earmarking funds to provide technical assistance and strong support at initial stages of project preparation; iii) leveraging its position as a partner of choice to intermediate and crowd-in partners, including through risk-sharing and co-financing strategies.

Harmonising concepts, methodologies across PDBs. Although there is no "model bank" since political, social and economic circumstances are unique in each country— a certain practice in one country may be harmful in another context—there is a need for the international network of development banks to harmonise their practices and develop common norms and standards on the way they align with the SDGs. There are various forms and methodologies of alignment, which produce different results. Developing a framework on how SDG alignment is understood and common methodology would facilitate PDBs' support to SDG attainment. In this context, the role of development banks associations and networks such as IDFC is highly relevant. Their guidance and support as common ground discussion platforms can help PDBs learn from their peers and engage in consultations on how to harmonise their practices.

Exchanging on best practices and efforts of SDG alignment with private actors. PDBs should actively engage in discussions on challenges and best practices with other international organisations, commercial banks, private investors and businesses who are part of sustainable investing and SDG alignment initiatives, such as the Global Investors for Sustainable Development initiative, OECD's initiatives of SDG Lab, Impact Management Project (IMP), and TOSSD or UNEPFI's Principles for Responsible Banking. Definitions, frameworks and methodologies being discussed under these initiatives, although addressed to private actors, can also provide PDBs with tools to align with SDGs and scale up transformational action on sustainable development, as innovative practices of PDBs can also be inspirational or guiding for private actors.

Expanding lending capacities. As several NDBs take very conservative lending practices, these institutions would face some "headroom" to leverage new resources and increase the amount of loans granted. Maximising PDBs' lending capacity is a priority which, in turn, requires paying attention to new ways for increasing this lending headroom. This would allow PDBs to play a countercyclical role without putting in risk a downgrade in the credit rating. Although an increase in capital could be politically and fiscally difficult, PDBs have a limited capital base and many of them have to be fairly capitalised. This would improve PDBs' ability to use shareholders capital to mobilise more money and increase the extended loans. These new capital injections would pay off in banks that have already been scaling up development loans and therefore have gearing ratios above the average. In addition, there is room to maximise the PDBs' balance sheets through financial tools commonly used by commercial banks, such as securitisations, insurances, creation of separate investment funds and risk diversification.

Political backing and support from governments, shareholders and other international stakeholders (donors, MDBs, NGOs, think tanks and the academic and scientific community). Although the potential is there, and as many PDBs are implementing concrete efforts to align their portfolios or strategies with the 2030 Agenda, the truth is they cannot succeed on their own. Their actions need to be upheld by a clear SDG national policy—think through an Integrated National Financing Framework (INFF)[27] for instance—and tailor-made regulations that treat them as what they are, i.e. public financial institutions working to support sustained social, economic and environmental growth in countries and regions.

Credit rating agencies as enablers of sustainable development financing. Accessing capital markets implies following private standards and going through the scrutiny process of credit rating agencies, which in most cases reduces PDBs appetite to take risks and invest in poor/fragile settings. Therefore, it would be interesting for future discussions and research to think about how these institutions could and should contribute to facilitate investment in fragile settings—most in need in all dimensions of sustainable development.

[27] United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2020. (New York: United Nations, 2020), available from: https://developmentfinance.un.org/fsdr2020

Using private financial intermediaries as means of investment can be a double-edged sword: private banking does not have the same laudable goals and is driven by other interests. An additional effort by PDBs will then be required to not only internalise the SDGs in their own entities, but also to find mechanisms to permeate these private actors who are sometimes responsible for disbursing their resources. On a first basis, second-tier PDBs should be more proactive in their relations with their intermediaries: i) raising awareness of key sustainable development concepts, being clear about their own priorities and goals in this regard; ii) following up to ensure that they are not ruling out projects that may be strategic for the SDGs, purely for financial utility reasons. On a second basis, think about generating regulations that eliminate intermediation costs from the financial sector to second-tier banks. It might be interesting to consider imposing minimum quotas for the mobilisation of resources oriented to sustainable development that are exempt from charge.

Table 3 : Possible internal and external practices PDBS can implement to align with the 2030 Agenda

	SDGs Systemic Alignment	Maximising Synergies & Reducing trade-offs	SDG impact Assessment	Scale up funding/ Mobilizing resources for SDGs	Leaving no One Behind
Strategy level	• SDG Framework grounded on systemic & cross-cutting dimensions • SDG Mission Commitments • Bold SDG Governance and culture	• SDG ToC as cornerstone of pipeline structuring & portfolio management	• Anchor SD impact based approach	• Outline striving annual leverage goals, tied to bank's ToC SDG impact strategy • Make partnerships a shared value strategy for SD	• Geospatial eligibility criteria in credit lines or portfolio to target end-beneficiaries in vulnerable population groups
Operational level	• Sound SD Exclusion lists • Thematic performance frameworks(i.e. human rights, climate change, gender equity)	• SDG overall portfolio coherence • Proactive screening to capitalise on SDG synergies	• SDG widespread impact tracking • SDG qualitative results-based indicators	• Harness the potential of innovative financial instruments (guarantees, venture capital, labelled bonds) • SDG Bond Frameworks • Shift mindset from 'safe • investments' to 'impactful investments'	• Earmark funds for project preparation support • Expand non-financial services within all stages of project development
External level	• Assess how deep interconnections btw Goals & Targets unfold at national & local level • Call for harmonization of SDG alignment methodologies across PDBs	• Reconcile short-term needs with long term SD transformations • Steer context-based interplay between beneficiaries, investors, areas of focus and territories	• Systematic feedback rooted on ground-based results • Hold specialized technical groups for first-hand assessment	• Take ownership and leadership as enablers & catalysers of sustainable finance • Leverage forceful alliances to deliver systemic solutions	• Strengthen investments in fragile settings. • Offer preferential credit conditions to entrepreneurs & start-ups focusing on SD transformations

Source: Authors' elaboration

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Appendix - 1

Sample of PDBs reviewed in Section 2

Table A1: Sample of PDBs reviewed in Section 2

Bank Abbreviation	English name	Name in original language	Country/Region
		America	
Bancoldex	The Bank of Foreign Trade	Bancoldex S.A.	Colombia
Bancomext	National Foreign Trade Bank	Banco Nacional de Comercio Exterior	México
Finagro	Fund for the Financing of the Agricultural Sector	Fondo para el Financiamiento del Sector Agropecuario	Colombia
BNDES	Brazilian Development Bank	Banco Nacional de DesenvolvimetoEconômico e Social	Brazil
COFIDE	Finance Development Corporation S.A.	Corporación Financiera de Desarrollo S.A.	Peru
BRDE	Far South regional Development Bank	Banco Regional de Desenvolvimento do Extremo Sul	Brazil
NAFIN	National Development Bank	Nacional Financiera	Mexico
BDMG	The Development Bank of Minas Gerais S.A.	Banco de Desenvolvimento de Minas Gerais	Brazil
BNCR	National Bank of Costa Rica	Banco Nacional de Costa Rica	Costa Rica
BNA	Bank of the Argentine Nation	Banco de la Nación Argentina	Argentina
BancoEstado	Bank of the State of Chile	Banco Estado	Chile

BDE	The Development Bank of Republic of Ecuador	Banco de Desarrollo del Ecuador	Ecuador
BCIE	Central American Bank for Economic Integration	Banco Centroamericano de Integración Económica	Americas
IADB	Inter-American Development Bank	Inter-American Development Bank	Americas
ASIA			
Exim	Export-Import Bank of India	Export-Import Bank of India	India
FDB	Fiji Development Bank	Fiji Development Bank	Fiji
SIDBI	Small Industries Development Bank of India	Small Industries Development Bank of India	India
DPB	Development Bank of the Philippines	Development Bank of the Philippines	Philippines
DFCC	DFCC Bank PLC	Development Finance Corporation of Ceylon	Sri Lanka
FDB	Fiji Development Bank	Fiji Development Bank	Fiji
ADB	Asian Development Bank	Asian Development Bank	Asia/Oceania
Africa			
DBSA	Development Bank of Southern Africa	Development Bank of Southern Africa	South Africa

CDG	Deposit and Management Fund	Caisse de Dépôt et de Gestion	Morroco
AFDB	African Development Bank	African Development Bank	Africa
TDB	The Eastern and Southern African Trade and Development Bank	The Eastern and Southern African Trade and Development Bank	Africa
Europe			
FMO	Netherlands Development Finance Company	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden	Netherlands
KFW	KFW Banking Group	KFW Bankengruppe	Germany
AFD	French Development Agency	Agence Française de Développement	France

Appendix - 2

Interview guide

Questions related to inner aspects of PDBs' practices

Awareness:

a. The 2030 Agenda and the SDGs have often been presented as a "paradigm shift", and as a "transformative project", leading ideally to a "systemic change". What do you think about the transformative role that has been given to the 2030 Agenda and its SDG?

b. What is the bank's understanding of sustainable development and of the 2030 Agenda?

c. What particular role do you think DBs are poised to play in the implementation of the 2030 Agenda?

d. How do you think your bank, through its business, can contribute to its implementation?

e. Do you consider that DBs may play a key role to promote projects, and leverage and crowd-in private capital to transformational investments that sum up to the achievement of the 2030 Agenda?

f. What is the place of the SDGs in the bank's strategy or goals?

g. Which year did the bank start developing sustainable strategies in its operations?

h. Do the concepts of indivisibility, interconnectedness, crosscutting resonate to you? How do you think the banks' SDG strategy contributes to the 2030 Agenda promises?

Alignment Efforts:

a. Has your bank developed an explicit SDG framework to help drive operational strategy or to track 2030 Agenda related financing activities?

b. If the SDGs are integrated into the bank's strategy, is there any prioritisation among the objectives of the Agenda 2030? If so, what are the objectives that are prioritised, and why?

c. Does the Bank make any analysis of synergies and trade-offs throughout the stages of the investment process? (product/service development and capital allocation decisions: plan, design, implement the investments, assess results) If so, how does the Bank cope with the conflicts/incompatibilities that may arise?

d. How could the synergies and trade-offs between SDG targets be reconciled/tackled when structuring projects or defining investment priorities?

e. What methodology/approach would you implement within the Bank to promote building pipelines of technically sound and bankable projects that focus on cross-cutting sectors?

f. Regarding synergies and trade-offs between SDGs, how is the Bank translating that insight into practical action across its different financial and non-financial operations?

Governance and Culture

a. Has the Bank assigned clear and specific roles and responsibilities at the Board level and across all functions of your bank regarding your bank's sustainability agenda and provided adequate resource allocation to implement these roles?

b. Is the Bank working to build internal expertise on the environmental, social and economic topics relevant to your bank's context, such as climate change, deforestation, pollution, biodiversity, human rights, gender equality. And if so, which strategies have you put in place to inform, educate and train your staff regarding the 2030 Agenda?

c. Since the adoption of the SDGs, have you set up a dedicated, specialised team of sustainability experts (e.g., a corporate sustainability department) with strong leadership and clear roles and responsibilities, to facilitate sustainable finance and the implementation of the SDGs across all functions of your bank? If yes, how has this worked out?

d. Would you consider useful for the Bank to put in place incentives for board members, executives and staff to act accordingly the SDGs and 2030 Agenda objectives? If yes, which sort of incentives?

e. Do you believe that it could be feasible to formally include sustainability criteria into the Terms of Reference or charter for your Board's nomination, remuneration and audit committees or create a dedicated Board Committee focused on sustainability and responsible banking? How do you think this strategy could enhance the Banks' ability to actively contribute to SDGs implementation?

f. Would pursuing a broader SDG mandate for DBs be a plausible option to move from strategic intend to a more effective implementation of the 2030 Agenda?

Impact Assessment, Accountability

a. Besides measuring the volume of flows that the Bank allocates annually, does the Bank has monitoring and evaluation frameworks to measure how much the various flows actually contribute to sustainable development?, Can you share how are they structured and what results they are providing?

b. Has the focus of annual reporting changed (annual report, sustainability report) since the adoption of the SDGs in 2015? Is the Bank focusing on outcomes and impacts, rather than process?, Do you include for example, an analysis in relation to the expected environmental and social benefits, do you use quality performance indicators, any segmentation of end-beneficiaries, estimated lifetime results/economic lifespan of projects?

c. During the analysis of the development banks' sustainability reports, we have observed that several banks conduct *a posteriori* analyses of their alignment with the SDG's. Banks are trying to align their year-end results with various SDG's. Do you consider this as an effective practice or an obstacle? Why?

d. How do you demonstrate that your bank has, through consistent processes linked to its own governance mechanisms, identified where it can have the most impact in terms of contribution to the SDGs and the targets it has set in this regard?

Undertaking Transformative Changes

a. What practices of the bank are aligned with the 2030 Agenda or the bank's understanding of sustainable development? And Why ?

b. Since the 2030 Agenda adoption, has the bank restructured the types of subsidies, credits or other financial instruments given to align with the SDG? Can you recount if there has been an evolution?

c. Does your bank commercialise, or has it commercialised 'green financial products'?

d. Could you cite some of them? Is there a mechanism for analysing the environmental, social and economic impact of these products? If so, what is the tangible impact of these products in terms of sustainable development?

e. During the process of project development and implementation, is there a method for assessing environmental risk or alignment with SDG/sustainable development)?

f. Can you describe how does the Bank builds the pod of 'sustainable development bankable projects'? Are there any exclusion or screening criteria to avoid certain incompatible sectors or impacts?

g. Have you structured metrics to deliver palpable impacts through investments and projects? For example: For every investment you do, do you thinking about the theory of change and the pathway to impact, and then define metrics around those?

h. During our analyses of sustainability reports, we have highlighted that there are several common practices among banks. These are:

   - Green energy financial products
   - SARAS
   - Green Bonds

i. Does your bank use any of them? If so, why do you consider them as an innovative approach to comply with the 2030 Agenda?

j. Are there any initiatives, projects or practices currently underway that you consider innovative for implementing SDGs? How do you think they can bring the transformative changes the 2030 Agenda is expecting to achieve?

Questions Related to external engagements, drivers, pathways

Beneficiaries and Customers

a. Are you a first tier - second tier development bank?

b. Does the Bank have any geospatial eligibility criteria in your credit lines or portfolio to target end-beneficiaries in vulnerable population groups? (for example groups living in extreme poverty, indigenous, elderly, children)

c. Is the Bank developing new products and services that encourage and support more sustainable business models, technologies, practices, and lifestyles? Which ones will you highlight and why?

d. Do you offer "sustainability-linked loans" or "positive impact loans", where some of the terms could be linked to corporate progress on sustainability? (e.g., discounts could be provided based on the use of the funds or the achievement of certain sustainability-related targets).

e. Is the Bank providing specialised financial products and services to social enterprises and social entrepreneurs making a positive contribution to sustainable development, for example through innovation hubs, incubators, and supplier development programmes?, Could you share an example?

f. Under the non-financial activities that the Bank offers, do you have any that encourages/builds capacity of clients to improve their own social and environmental impacts and adopt robust sustainability standards?, Can you share an example where the Bank has provided technical expertise to undertake a long-term sustainable development project?

g. For the year 2018, what is the amount of disbursements granted for projects aligned with the 2030 Agenda and in how much do you estimate the corresponding to non-financial services, such as technical assistance, monitoring, etc.?

h. Is the Banks' lending capacity, due to limited capital base, a constrain for scaling up lending to support the 2030 Agenda? What implications does it have?

Stakeholders Engagement

a. What initiatives or partnerships does the bank support or endorse that aim at sustainable development?

b. Why do you think these multi-stakeholder partnerships or coalitions are an innovative example to deliver on the 2030 Agenda?

c. Does the Bank engage actively in ESG discussions with shareholders, investors, private companies, beneficiaries? Do you see ESG criteria as a tool to implement the SDGs, or do you think it falls short?

d. What is the role of 'blended finance' in attracting investment aimed at the implementation and achievement of the 2030 Agenda? What are valuable experiences of your Bank in this regard that could be replicated where DBs could lead this effort?

e. Is the Bank working in any project together with the Government aimed at shaping policies, revising legislation, or improving operations towards sustainable development? If so, can you share why do you consider this will contribute to the achievement of the SDGs?

Drivers and Barriers

a. Does the country/countries in which the Bank operates has in place an SDGs Framework Policy? How having clear comprehensive strategies within countries, regions and across sectors of SDG implementation (i.e. SDG integrated national financing frameworks) facilitate DBs role as financers of the 2030 Agenda?

b. Which are the key enabling conditions for DBs to be agents of change in the 2030 Agenda implementation?

c. In your regional/national experience, which market failures have you encounter that make it challenging for the bank to drive change towards an effective implementation of the 2030 Agenda? How would it look like to have "adequate market" conditions?

d. What are the most important factors that have prevented a substantial financial expansion? For example, low equity capital, conservative behaviour, lack of access to the international financial market?

e. Do credit rating agencies have an impact on how DBs take decisions in terms of where to invest and what to finance? What would be the suggestions to improve the evaluation standards of these agencies?

f. Have you identified that fiscal space in governments within your country or region is a barrier to scale up SDG financing by DBs?

g. How can government guarantees or loans from other DFIs support this endeavour to accelerate action towards sustainable development?

h. What are the most significant obstacles to implement SDGs in bankable projects?

i. In your experience, what is missing for DBs to assume a more active role within countries in order to mobilise funds aligned to sustainable development priorities, either from public entities (local/regional/national), private investors or other international finance institutions?

SDG Compatible Development Pathways

a. How do you think the Bank can foster the emergence of projects linked to sustainable development pathways? Do you consider DBs could engage more actively in channelling funds towards these trajectories?

b. Rather than financing projects linked to one or a set of SDGs, would you consider as a feasible path to refocus the Banks' portfolios to transformational entry points such as:

c. Human well-being and capabilities

d. Sustainable and just economies

e. Food systems and nutrition patterns

f. Energy decarbonisation with universal access

g. Urban and peri-urban development

h. Global environmental commons.

i. How to better align lending policies with scientific and robust approaches, which may be developed via multi-stakeholder processes?

Appendix - 3

Revised and interviewed banks

Bank Abbreviation	Description
America	
COFIDE	National Peruvian development bank focused in generate development in 3 areas: economic, social and environmental. COFIDE is a second tier bank (they disburse and invest in to other commercial and financial corporations).
BNA	National Argentinian development bank.
Bancoldex	Bilateral Bank for the foreign commerce of Colombia. It is a second tier bank (they disburse and invest in to other commercial and financial corporations). Bancoldex promotes competitiveness and productivity of the entrepreneur sector of Colombia.
ABDE	Brazilian association for law and economy created to develop research between law and economy. It supports the Brazilian development banks.
BID	Multilateral bank in the Latin America and the Caribbean. It provides loans, grants and technical assistance to achieve development in the region in a sustainable, climate-friendly way.
BDMG	Regional Brazilian development Bank in Minas Gerais, Brazil. It aims to participate in the economic development of the Minas Gerais Federal State of Brazil.
BRDE	Regional Brazilian development Bank in the South Region of Brazil. It aims to participate in the economic development of the Rio Grande do Sul, Santa Catarina and Parana.
NAFIN	National Mexican development Bank that contributes to the economic development facilitating the access to finance SME, entrepreneurs and other development services.
BNCR	Biggest National Development bank in Costa Rica and Central America.
Bancomext	Mexican National Bank for the foreign trade that aims to contribute to the Mexican development through the Mexican foreign trade finance.
CFN	National Ecuadorian development bank that aims to promote development in the productive and strategic sectors of Ecuador.
BDE	National development bank in Ecuador.

BancoEstado	National development bank of Chili.
BNDES	National development bank of Brazil. It is the principal instrument of the government for the long-term investments in every sector of the economy.
BCIE	Multilateral bank of the Central America region for the economic development and integration of that region, including the country founders but also the rest of the Central American countries.
Asia	
ADFIAP	NGO that regroups all development banks and other financial institutions engaged in the financing of development in the Asia-Pacific region (131 member-institutions), based in Makati city, Philippines.
PT SMI	Indonesian national entity under the Ministry of finance serving as a catalyst for accelerating national infrastructure development in Indonesia.
Exim	National Export-Import Bank of India. Exim provides financial assistance to support Indian exports and imports.
DFCC	National development bank of Sri Lanka, very focus in provide innovative and responsible solutions for Sri Lanka development.
FDB	National development bank of Fiji that provides financial and advisory services to assist in the economic development of Fiji and in particular in the agriculture, trade and industry sectors. Fiji Development Bank
LBP	Asian Development Bank
DBP	First development bank of Philippines with a focus in developing the country's infrastructure.
Africa	
TDB	Multilateral South and Eastern African trade and development financial institution. It finances economic integration and sustainable development through trade finance, project and infrastructure finance and business advisory services.
CDG Capital	Moroccan investment bank and subsidiary of the Caisse de Dépôt et de Gestion.
DBSA	National South African development bank that seeks to play a role in development infrastructure in South Africa and the rest of the continent.
Europe	

FMO	Bilateral Dutch entrepreneurial Development Bank.
AFD	National French development bank focused in reducing inequalities and promoting sustainable development.
KfW	National German development bank that supports economic and social progress in developing countries and finance German and European companies, municipal enterprises, public institutions and private individuals.