From Multi- to National- and Back Again: Realizing the SDG Potential of Public Development Banks

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From Multi- to National- and Back Again

Realizing the SDG Potential of Public Development Banks

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Abstract

Public multilateral (MDBs) and national development banks (NDBs) are already working to advance the 2030 Sustainable Development Goals (SDGs). But can they do more to help deliver finance at the right pace and scale and on the terms appropriate for catalyzing global green and just transitions? What potential roles might enhanced cooperation between multilateral and national development banks play in achieving green and just transitions?

This paper contributes to our understanding of the potential of public development banks by mapping out the inter-relations between nine MDBs and select NDBs in four regions. The analysis finds that MDBs are lending to NDBs in their regions, but unevenly so; that MDB reporting of cooperation with NDBs is uneven; that MDBs see multiple barriers to lending to NDBs; and that, with a few exceptions, MDBs are not aligning or tracking SDG financing systematically.

Based on this, the paper makes three recommendations to help advance a more integrated and catalytic MDB-NDB ecosystem of SDG public finance.

- First, MDBs and NDBs need to co-develop simple yet meaningful metrics to track cooperation.
- Second, MDB and NDB governing boards must require their public banks to meaningfully and transparently report on and align with the 2030 Sustainable Development Goals (SDGs).
- Third, leaders, regulators, public bankers, and civil society need to start thinking and acting according to a 'whole of public financial ecosystem' approach.

Keywords

Sustainable finance, Global Financial Architecture, Public Development Banks

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Résumé

Les banques multilatérales publiques (BMD) et les banques nationales de développement (BND) œuvrent déjà à la réalisation des objectifs de développement durable (ODD) pour 2030. Mais peuvent-elles faire davantage pour contribuer à fournir des financements au bon rythme, à la bonne échelle et aux conditions appropriées pour catalyser les transitions vertes et justes au niveau mondial ? Quels rôles potentiels une coopération renforcée entre les banques de développement multilatérales et nationales pourrait-elle jouer dans la réalisation de transitions vertes et justes ?

Ce document contribue à la compréhension du potentiel des banques publiques de développement en cartographiant les inter-relations entre neuf BMD et une sélection de BND dans quatre régions. L'analyse révèle que les BMD prêtent aux BND dans leurs régions, mais de manière

inégale ; que les rapports des BMD sur la coopération avec les BND sont inégaux ; que les BMD voient de multiples obstacles à l'octroi de prêts aux BND ; et qu'à quelques exceptions près, les BMD ne s'alignent pas systématiquement pour le financement des ODD.

Sur cette base, le document formule trois recommandations pour aider à faire progresser un écosystème de financement public des ODD plus intégré et plus catalytique entre les BMD et les BND.

- Premièrement, les BMD et les BND doivent développer conjointement des indicateurs simples mais significatifs pour suivre la coopération.
- Deuxièmement, les conseils d'administration des BMD et des BND doivent exiger de leurs banques publiques qu'elles rendent compte de manière significative et transparente des Objectifs de développement durable (ODD) 2030 et qu'elles s'alignent sur ceux-ci.
- Troisièmement, les dirigeants, les régulateurs, les banquiers publics et la société civile doivent commencer à penser et à agir selon une approche de "l'écosystème financier public dans son ensemble".

Mots-clés
Finance durable, Architecture Financière Internationale, Banque Publique de Développement

Biodatas
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Introduction

There is global recognition that more needs to be done to deliver finance at the right pace and scale and on the terms appropriate for catalyzing global green and just transitions to sustainable development (UNCTAD 2019 & 2021). As institutions capable of advancing public policies according to public purpose, the world's public development banks must play a new leading role in financing green and just transitions.

While it is clear public development banks have the capacity, it is not clear that they are doing enough. According to the United Nations Development Programme, 'there is an urgent need for public development banks to reorient and leverage all financial flows in the direction of SDG achievement', the effectiveness of which depends on collaboration between public development banks and coordination with multilateral development banks (UNDP 2022, 2, 3). The multilateral development banks (MDBs) are widely acknowledged as having to 'play a crucial role in driving and enabling country-owned ambitious climate action linked to the goals of the Paris Agreement and 2030 Agenda' (G20 SFR 2021, 12). Despite their greater numbers and combined assets, the place of national development banks has received relatively less attention. Even less is known about how MDBs connect to NDBs.

The purpose of this study is to begin mapping out the inter-relations between MDBs and NDBs. This fact-finding endeavor looks at nine MDBs active in four regions (see Table 1) to better understand current levels of cooperation and to make preliminary assessments of how to optimize MDB to NDB cooperation to better advance the United Nations 2030 Sustainable Development Goals (SDGs).

The mapping study reveals four important results. First, MDBs are lending to NDBs in their regions. However, there is significant unevenness of financing between MDBs and across regions, ranging from extensive financial cooperation to relatively non-existent lending. The implication is clear: MDBs and NDBs have not formed a coherent global ecosystem of public-public financing. Second, the research process itself revealed an important result. Existing MDB reporting of financial cooperation with NDBs is also uneven among MDBs. Just as there is no coherent ecosystem, so too is there is no global reporting standard or institutional commitment to the tracking and reporting of MDB to NDB financing. Third. there is universal agreement among MDBs that there are multiple barriers to lending to NDBs. The research identified some of the most prominent, such as currency mismatch, market conditions, availability of concessional financing, fiscal barriers, and political factors, to name a few. Yet there was significant differences and little common agreement on the exact nature of those barriers between regions or MDBs. Fourth, save a few exceptions and a growing concern on climate, there is no systematic global alignment or tracking of SDG financing within or among MDBs, let alone between MDBs and NDBs in their respective regions.

The implication is clear. A more purposively oriented and collaborative MDB to NDB ecosystem of public-public financing is needed to advance sustainable finance at the pace, scale, and on the terms appropriate for achieving green and just transitions.

The paper proceeds as follows. The first section explains the paper's research objectives, scope, questions, and methods. The second section positions the study of MDB to NDB cooperation within the wider world of public development banks. The third and fourth sections analyse the research findings in terms of MDB to NDB cooperation and of sustainable public-public climate finance. The fifth section provides conclusions and recommendations for the future of cooperative and sustainable public-public finance.

1. Research Objectives, Scope, Questions, and Methods

The objective of this study is to scope out the inter-relations between two important scales of public development banks: multilateral development banks (MDBs') and national development banks (NDBs). The study asks (1) what are MDBs financial relationships and forms of cooperation with NDBs and (2) are these relationships aligned with the 2030 Sustainable Development Goals? These two research questions are motivated by an underlying question: Can more be accomplished through a clearly SDG-aligned, SDG-motivated, and collaborative public development bank global ecosystem?

The fact-finding study looks at nine MDBs located in four different regions (see Table 1). To gather data, researchers circulated a Survey to ten MDBs in late June 2022. Nine responses were returned in July and August 2022. The Survey, composed of 13 questions, was co-designed by researchers at SOAS University of London and the Agence Française de Développement (AFD) (see Appendix A). To facilitate Survey data verification and triangulation, the researchers conducted a parallel review of publicly available MDB Reports from 2017 to 2021 and of select NDB Reports from 2019 to 2021. The reviews of MDB and NDB reports were checked against the responses given in the MDB Surveys.

Table 1. Multilateral Development Banks Survey Respondents and Focus Regions

Multilateral Development Banks Surveyed	Focus Region
African Development Bank (AfDB)	Africa and Middle East
Trade and Development Bank (TDB)	Africa and Middle East
Islamic Development Bank (IsDB)	Africa and Middle East
Development Bank of Latin America (CAF)	Central and South America, plus Mexico
Inter-American Development Bank (IDB)	Central and South America, plus Mexico
Council of European Development Bank (CEB)	Europe
European Investment Bank (EIB)	Europe
Asian Development Bank (ADB)	Asia
Asian Infrastructure Investment Bank (AIIB)	Asia

The research was conducted using a specific order of operations to not saturate the data and to better understand the reporting methods of each MDB. 'Reports' we define as institution-wide reports that are publicly available and which do not typically include more specific sustainability reports, climate reports, financial reports, or reports on specific sectors (that is, we used mostly annual reports). The review of the MDB Reports was initiated as the Surveys were distributed to the MDBs. Then, a brief review of the MDB Report was conducted to understand the methods of reporting followed by a keyword document search using "bank," "development bank," "national development bank," "public bank," and "development fund." If data could not be found within the MDB Report, other types of reports were accessed to understand if the MDB reported its financing to NDBs elsewhere. Data from Reports was then cross analyzed with the Finance in Commons Public Bank database to ensure consistency and relevance. The MDB to NDB financing data was then compiled into our "Financial Ecosystem" spreadsheet (hyperlinked below).

Researchers cross analyzed the information provided in the MDB Survey responses with publicly available information in a selection of NDB annual reports. We drew our selection of NDBs from the results of our survey conducted on MDBs. The review of NDB Reports was limited to the last three years due to the high number of NDBs referenced and time constraints. For each NDB, a similar brief review of the annual report was conducted to understand the method of reporting in its institution-wide annual report. Likewise, a keyword document search for "bank," "development bank," "national development bank," "development fund", and for the specific names of the relevant MDB in the region. The financial data was added to our "Financial Ecosystem" spreadsheet.

Box 1. Reading the Financial Ecosystem Chart

In the Chart, there are two data sets separated by a line. The information provided *above the line* is representative of the information collected from the five-year Review of MDB Reports. This is the data collected from publicly available resources issued by the MDBs. This information is identified by the year and type of report the information was collected from.

The information *below the line* is representative of the information collected from the MDB Survey responses. This information is identified by the tag: "Survey (Financed in *Year of Finance*)." Answers from the Asian Development Bank (ADB) varied responses from country offices. Some information is omitted due to confidentiality requests.

This method of financial data collection provides a snapshot of existing levels of MDB to NDB financing over the last five years. This snapshot helps to illustrate MDB to NDB financial collaborations and to illustrate unevenness across regions. The results of the data collection are accessible here in the hyperlinked Financial Ecosystem Chart. Box 1 explains how to read the data provided. The financial data captured represents a small fraction of that circulating within the world of public development banks.

2. The World of Public Development Banks

There is a vast world of public banks and financial institutions existing locally, nationally, and internationally. By one account, there are more than 900 public retail, universal, and developmental banks with combined assets of $49 trillion (Marois 2021, 43). Therein, public development banks represent a powerful and unique type of financial institution (Xu et al. 2021).

Public development banks typically do not provide retail financial services to households like savings, mortgages, and insurance. Rather, public development banks (that are also referred to as investment, policy, or promotional banks, as well as development finance institutions) tend to focus on structured finance and bond issuances in order to finance often larger and longer-term projects in the public and private sectors. While public development banks do not usually lend to individuals or households (with the exception of some sub-nationals pursuing an objective of financial inclusion), they often provide direct financing to municipalities, public sector entities, national governments, other banks, and larger corporations and businesses. Public development banks may lend directly to micro-small- and medium-sized enterprises (MSMEs) but more often public development banks will support MSMEs through on-lending programs with local public and private retail banks and development financial institutions (Marois 2021, 33-34).

Public development banks will often be owned by a government or other public sector enterprise, with government shareholders having a steering role in the bank's long-term strategy (Xu and Marodon 2021). The mandates of public development banks are often focused on proactively fulfilling the public policy priorities of its shareholders. To do so, public development banks provide loans, equity investments, and guarantees, as well as other specialist financial services. To protect their long-term financial stability, public development banks tend to generate sufficient returns so as not to be reliant on regular budget transfers (Marodon 2022). Public development banks are rarely oriented towards maximizing returns.

Public development banks are more abundant than commonly believed. According to the Institute of New Structural Economics Beijing University and the French Development Agency database, there are more than 500 public development banks across more than 150 countries that collectively hold over $23 trillion in assets (INSE/AFD data base 2022 – available online at : https://www.nse.pku.edu.cn/dfidatabase/). In 2022, it is estimated that public development banks provided $2.7 trillion in new financing, which equals 12 per cent of global investment. Moreover, public development banks operate at all geographical scales – from the multilateral and international scale to the regional, national, and sub-national scales to the municipal and local scales. While there are a few European public development banks that are more than a century old (the French "Caisse des Dépôts et Consignations" was created in 1816 in the aftermath of the Waterloo Battle), most have been in existence for several decades. Governing authorities are increasingly establishing new public development banks as a means of directly addressing persistent economic, social, and ecological challenges through the public provisioning of long-term, low-cost, and appropriate financing.

Yet despite their contemporary resurgence and historical legacies, there is relatively little research on public development banks – particularly compared to their economic power and geographical scope. There remain significant gaps in our understanding of the theory, policies, and practices of public development banks (Griffith-Jones and Ocampo 2018; Clifton et al. 2021; McDonald et al. 2021; Mertens et al. 2021). This study seeks to advance our understanding of how MDBs engage with NDBs within their regions, first in terms of financial cooperation and then in terms of advancing the 2030 SDGs.

3. Public MDB and NDB Financial Cooperation

Multilateral development banks (MDBs) are significant financial actors worldwide. As of 2022, there are 51 MDBs in total ranging in size from mega-size MDBs like the European Investment Bank (EIB) with over $750 billion in assets to medium-size MDBs like the Nordic Investment Bank with $43 billion in assets to numerous smaller-size MDBs like the West African Development Bank with nearly $6 billion, the Caribbean Development Bank with just over $2 billion, and the Pacific Island Development Bank with $15 million in assets (INSE/AFD 2022).

The significance of MDBs, however, should not be understood solely in terms of asset size. That MDBs exist and persist in and across all regions suggests that they have an enduring role to play in financing and coordinating regional and local development projects.

Nowhere do MDBs exist and persist without challenges or the need to be made better. Like all public banks, MDBs are complex and contested institutions within society. MDBs are subject to contending economic, social, political, and environmental forces that seek to shape and reshape what MDBs do, why, and for whom. As public banks, MDBs are therefore dynamic institutions that are made and re-made over time and in specific contexts (Marois 2021). It follows that MDBs, as public banks, are not essentially better or worse than private banks. Being publicly owned predetermines nothing. However, public ownership does open up a particular public realm of possibilities wherein change becomes possible and is a result of society making it so (Marois 2022). For this reason, public MDBs (and NDBs) are dynamic entities.

The changes desired, however, need to be driven by accountable public purpose and realized in ways that are evidence-informed (Barrowclough and Marois 2022; Marodon 2022). This is especially important when confronting climate change. As agreed upon globally through the UN 2030 SDGs and repeatedly evidenced in leading inter-governmental reports like the 2022 Intergovernmental Panel on Climate Change (IPCC) Report, 'Any further delay in concerted anticipatory global action on adaptation and mitigation will miss a brief and rapidly closing window of opportunity to secure a liveable and sustainable future for all.' To succeed in the long-term, however, green transitions must also be socially just and based on constructive dialogue, negotiation, and consent with affected communities, workers, women, and the world's vulnerable and marginalised peoples (ILO 2015; Newell 2021; Táíwò 2022).

Table 2. The Multilateral Development Banks Surveyed, at a Glance, 2020

Multilateral Development Banks Surveyed	Year Established	Total Assets (USD Million)
African Development Bank (AfDB)	1964	50,912
Trade and Development Bank (TDB)	1985	7,248
Islamic Development Bank (IsDB)	1974	35,174
Development Bank of Latin America (CAF)	1970	46,846
Inter-American Development Bank (IDB)	1959	147,533
Council of European Development Bank (CEB)	1956	34,189
European Investment Bank (EIB)	1958	766,757
Asian Development Bank (ADB)	1966	271,741
Asian Infrastructure Investment Bank (AIIB)	2016	32,082

Source: INSE/AFD 2022 – Assets in local currencies converted at current exchange rate of Dec 2020

Cooperation between public MDBs and NDBs can, and should, play a leading role in financing green and just transitions. However, we need to have a better understanding of how MDBs and NDBs are currently interacting, if they are at all. The following begins to map out financial cooperation of nine MDBs (Table 2) with NDBs in their respective regions to provide a starting point for future change in how and why public MDBs and NDBs cooperate. The research suggests that there is scope for significant improvement: MDB reporting of financing to NDBs is uneven; and there are many barriers to increased MDB and NDB cooperation. Yet there are some positives. The research also shows that there are existing forms of cooperation that can be built upon to better advance green and just transitions: MDBs already have diverse financing mechanisms, interactions, and beneficiaries; MDBs themselves identify important areas of promise in existing and future interactions; and training and staff exchanges can be extended and broadened to increase expertise and understanding.

Lending, but Unevenly

MDB to NDB financing is most extensively seen in Europe. From 2017 to 2021, the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) financed 22 NDBs.[1] The financing mechanisms used include concessional loans, non-concessional loans, loan guarantees, and risk-sharing activities. Aggregated financing to the top five NDBs (in the last five years, based on Survey responses) in the region totaled EUR23.85 billion.[2]

In Central and South America, plus Mexico, the Development Bank of Latin America (CAF) and the Inter-American Development Bank (IDB) reported lending to 15 different NDBs from 2017 to 2021. The financing mechanisms include concessional loans, non-concessional

[1] The EBRD was unable to respond to the survey within our timeframe and its publicly available resources do not explicitly report its investments in NDBs/DFIs.

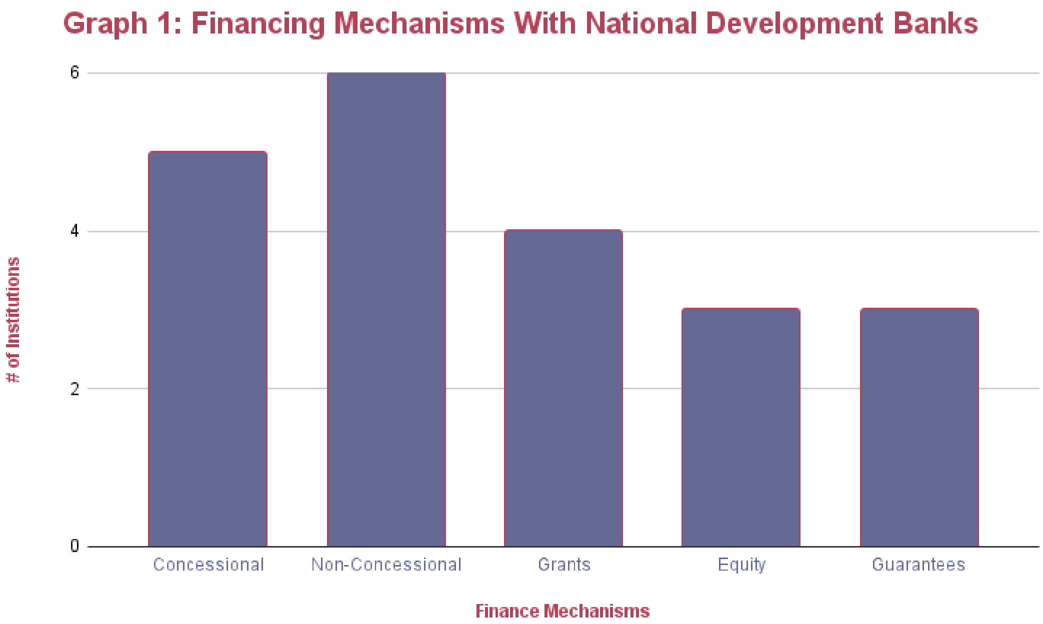
[2] Converted from USD to EUR on 29 September 2022.

loans, grants, equity, and guarantees. Based on the MDB survey responses, financing to the top five NDBs in the region totaled EUR8.2 billion.[3]

In Asia, the Asian Development Bank and the Asian Infrastructure Investment Bank financed 15 NDBs from 2017 to 2021 through the use of concessional loans, non-concessional loans, grants, and equity.[4] Aggregated total financing provided to the top five NDBs is EUR 1.75 billion.

In Africa and the Middle East, the Trade and Development Bank (TDB), the African Development Bank (AfDB), and the Islamic Development Bank (IsDB) together financed seven NDBs from 2017 to 2021. The financing mechanisms used include concessional loans, non-concessional loans, grants, and equity. Aggregated financing to the top five NDBs equals EUR 182.64 million.[5]

Diversity of MDB to NDB Financing Mechanisms, Interactions, and Beneficiaries
The MDBs are engaging with NDBs in their regions, if unevenly so. Within these engagements, there is a diversity of financing mechanisms, non-financial interactions, and intended beneficiaries and purposes.

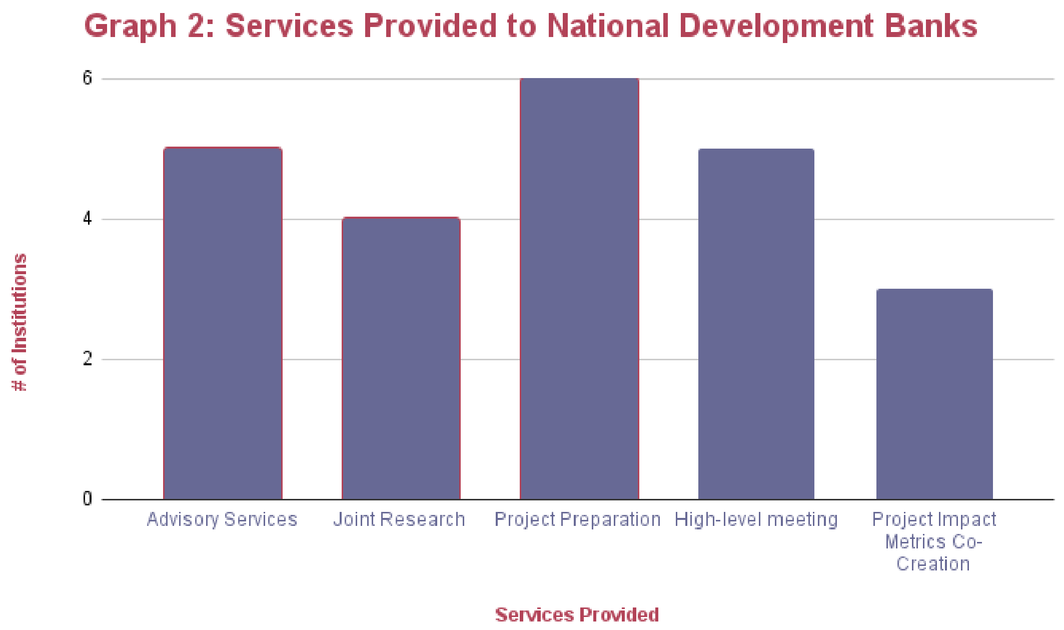


Aggregated across the MDBs, the most common types of financing mechanisms used by the MDBs are non-concessional, concessional, and grants, followed by the use of guarantees and equity (Graph 1). The relatively high level of grants and concessional financing, however, delivered by regional institutions that are not directly connected to a national fiscal source, is quite interesting. It confirms the very dual nature of development banking, and the need for MDBs to develop cooperation with NDBs that is not only financial.

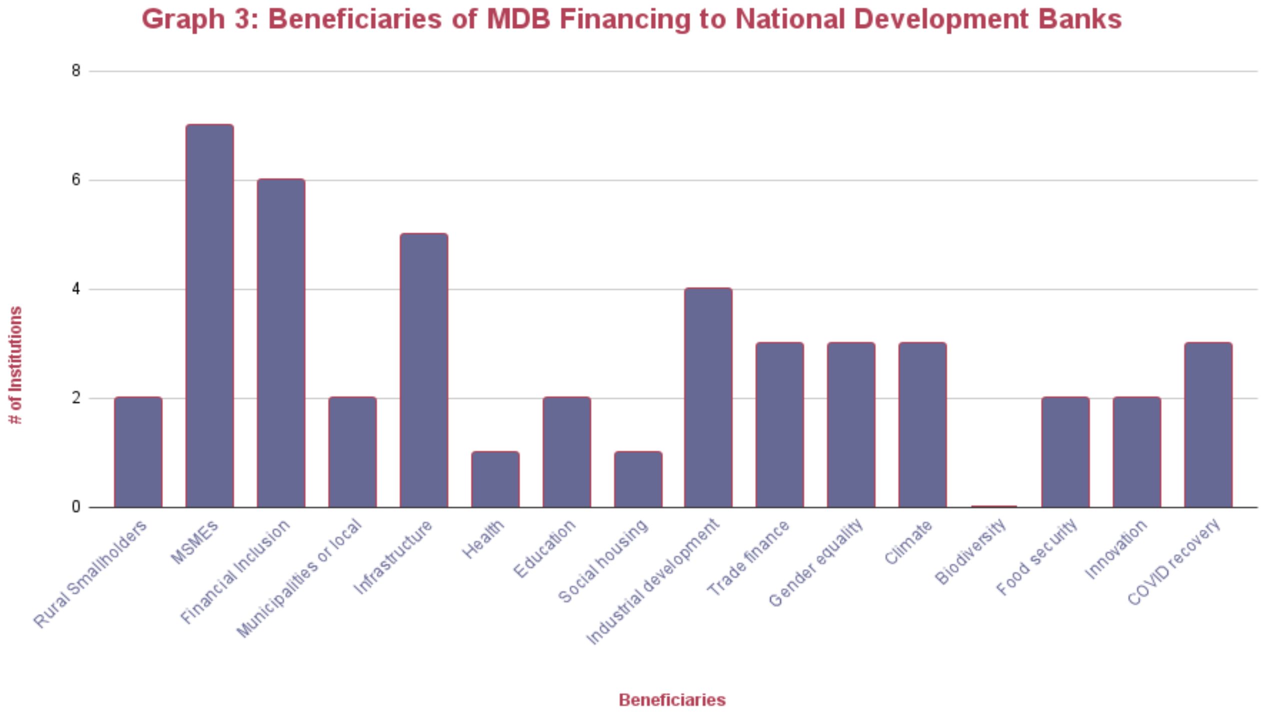
3 Converted from USD to EUR on 29 September 2022.
4 Asian Development Bank (ADB) Survey Responses were provided by a few separate country offices rather than at an aggregate level overall by the ADB.
5 Converted from USD to EUR on 29 September 2022.

Mobilizing "soft" financial instruments is probably a pragmatic way to drive financing for priority sectors or customers, notwithstanding the associated profitability. When considering climate and nature, the same method for channelling international grants is likely to prove efficient.

In terms of non-financial services and interactions between MDBs and NDBs in the aggregate, project preparation, high-level meeting organizing, and advisory services stand out (Graph 2). These are followed by joint research activities with NDBs and co-creation of project impact metrics.



The diversity of intended beneficiaries and purposes of MDB to NDB financing is extensive (Graph 3). Micro-, small-, and medium-sized enterprises (MSMEs) topped the list, followed by financial inclusion, and infrastructure. Less common beneficiaries and purposes include industrial development, trade finance, gender equality, climate, and COVID-19 recovery. It was relatively uncommon for MDBs to report as target beneficiaries or purposes rural smallholders, municipalities or local governments, education, food security, innovation, health, and social housing. No MDB identified biodiversity while one 'Other' category response added private sector businesses as a beneficiary.



Promising Aspects of Cooperation

In the questionnaire, the MDBs were asked to reflect on the most promising aspects of cooperation with NDBs in their regions. On the one hand, the MDB responses reflected existing practices. For example, the ADB, CAF, IsDB, and TDB signalled MSME support and financing. The ADB, IDB and CAF signalled infrastructure. The ADB, IsDB, and TDB refer to inclusion.

On the other hand, however, some promising aspects of cooperation cited were not strongly reflected in existing practices but point towards future aspirations. The ADB, CAF, and IDB, for example, point to the promise of climate finance. The ADB cites gender and diversity. The CEB singles out municipalities. The AfDB, CEB, EIB, and TDB referred to different local aspects, such as connecting to local authorities, complementarity, knowledge, markets as well as access to local currencies and strengthening local financial institutions. Other areas of promise include policy alignment, financial leveraging, scaling and blending, collaborative participation and financing, coordination and information sharing, capacity building, risk management, goal orientation, and shared missions.

Barriers to Increased Cooperation

The MDBs agreed unanimously that there are multiple barriers to increasing their financing to NDBs. However, these barriers differ and vary according to region.

In Europe, the CEB and EIB do not identify access to local currency or exchange rate risks as barriers given the predominance of the Euro in the Eurozone. By contrast, the CAF and IDB specify access to local currency (and related exchange risks) at competitive rates as a barrier. The CEB and EIB point to aspects of market competition and the availability of other, perhaps concessional, funding as barriers. The IDB and ADB signal fiscal constraints and challenges of external debt levels while European lenders do not.

The IDB, AfDB, and TDB highlight different aspects of governance, government, and politics as barriers to increased cooperation. The African MDBs are concerned with the operations of NDBs in the regions, including weak balance sheets, risk management, credit underwriting, monitoring, reporting (in line with international standards), and Information Technology (IT) systems. Contending operational models can also act as a barrier. For example, the CEB has an explicit social mission and points out that in Europe NDBs can be focused on 'income generating projects' in ways that do not necessarily align with the CEB's mandate. By contrast, the TDB cited a lack of bankable projects to increased cooperation.

Training and Staff Exchanges

One means of working and thinking through the barriers to increased MDB and NDB cooperation is through joint training and staff exchanges. Four MDBs responded that they undertake joint training and staff exchanges while four others reported that they do not (responses from the country offices of the ADB varied). The CAF plans to include these activities in a new technical cooperation program with NDBs. The AfDB, while it does not have any specific agreements with national development banks, states that it works closely with the Association of African Development Finance Institutions (AADFI) to organize related events, workshops, and trainings that benefit NDBs in the region.

4. Sustainable Public-Public Climate Finance

Getting the financing needed, in terms that are appropriate, at the right time and place, and at the scale and pace needed for achieving the United Nations (UN) 2030 Sustainable Development Goals (SDGs) is a major societal challenge (Spratt 2015; Riaño et al. 2022). This challenge is shared broadly – from fulfilling national climate goals, to European Net-Zero Emissions by 2050, to local and international commitments to Indigenous communities and to the Global South to advance reconciliation and climate reparations. How to finance it all and do so appropriately and justly (Naidoo 2020; Bigger and Millington 2020; UNCTAD 2019; Stadheim 2022; Perry 2021; Hossein 2022; Marois and McDonald 2022)?

For the last four decades, conventional wisdom has been that market-based and private financial institutions are the best-placed, effective, and efficient entities capable of financing social, economic, and, more recently, green development. This convention has now been seriously questioned by recent severe financial crises (sub-prime of 2008, the debt crisis in Greece, the Spanish Crisis of 2010, the Shanghai stock market 2015) as much as by the global crisis linked to Covid-19, and the global climate and the loss of nature crises in conjunction with the energy crisis of 2022. Academics, policymakers, governing authorities, and civil society are reminded that public banks and development financial institutions have proven abilities to provide a substantive alternative through long-term, affordable, and appropriate public financing (UNCTAD 2019; Barrowclough and Marois 2022; Bourgin and Sol 2021). Private finance and investors will continue to have a major role. But as the

European Commission affirms, private finance's short-term horizons do not always match long-term societal ambitions in the economy and environment (EPSC 2017).

For this reason, the UN's 2015 International Conference on Financing for Development Report has proven to be a global tipping point, tying finance to advancing global green and just transitions while underscoring the need for "well-functioning national and regional development banks" that can play a critical role in delivering "essential public services for all", calling on them to "expand their contributions in these areas" and in achieving the 2030 SDGs (AAAA 2015, 13-14). This call recognizes that virtually all countries with successful experiences of transformation and development have relied heavily on public development banks (UNCTAD 2019; Scherrer 2017).

Now with the pressing need for scaling up climate finance, the challenge is to remake public development banks in ways that are green, democratic, socially fair, and financially stabilizing (*cf*. EPSC 2017, 8; UNEP 2015, xxi; Ribeiro de Mendonça and Deos 2017; Romero 2017; UNCTAD 2019; Marois 2021). This is because public development banks are important, powerful, and proven alternatives that are able to pursue social, economic, and environmental goals in ways that are often impossible for private banks or investors to emulate. Moreover, public banks can mobilize financial resources rapidly, accountably, sustainably, and in ways sensitive to racialized and gendered social inequalities.

While public banks are not without their pitfalls (Barth et al. 2006), they hold great promise for the financing of green *and* just transitions locally, nationally, and globally in ways not guided by profit but by public policy.

NDBs are also unique in their capacity to finance "the last mile" thanks to their local identities and knowledge of the prevailing local conditions and customers. NDBs can make the benefits of transitions more visible, responsive, and concrete to their respective governments, communities, and people than typically possible through international institutions, which are driven by standardized mandates and across the board bureaucratic procedures.

Because of their potential role in addressing an array of social, economic, and ecological challenges, public banks have recaptured the interest of scholars, policymakers, and civil society worldwide (Ferrari et al. 2017; UNCTAD 2019; UNDP 2021; Marodon 2022; Mertens et al. 2021; Demos 2022). However, more needs to be known about public development banks and how to tap their financial potential to help the world confront our shared global climate change challenges justly.

The following scopes out existing forms of sustainable climate finance between public MDBs and NDBs. There is significant room for advancement. Climate and SDG finance is effectively unaligned among MDBs and NDBs although there are promising cases of MDBs adopting sustainability criteria themselves. Similarly, there is promise in MDBs leading technical assistance programs to support NDBs in green finance, but this remains largely unrealized globally. MDBs are also not universally seeing it as part of their due diligence to verify if NDBs have the institutional capacity to track and verify SDG financing. Consequently, direct policy action needs to be taken in order to maximize the catalytic potential of public-public financial cooperation for climate mitigation and adaptation.

A Lack of Alignment

There is no systematic global alignment or tracking of financing for the United Nations 2030 Sustainable Development Goals (SDGs) between MDBs and NDBs globally. Within regions, alignment and tracking is uneven. Only two MDBs, the TDB and CEB, have a formal mandate to track climate financing in ways related or according to the United Nations 2030 Sustainable Development Goals (SDGs). A third MDB, the EIB, does so voluntarily. A fourth MDB, the CAF, is working on enhancing its ability to track SDG financing. In this case, the CAF requires those NDBs that do track 2030 SDGs (and there are growing numbers) to report the impact of financing provided by CAF. The remaining six MDBs did not respond or responded negatively to having a formal SDG finance mandate. The IDB, however, pointed to its Vision 2025 (IDB 2021), which the IDB states has commonalities with the 2030 SDGs.

The mandate of the TDB, as stated in its Sustainability and Development Impact Report, is to 'finance and foster trade, regional economic integration and sustainable development, through trade finance, project and infrastructure finance, asset management, and advisory services' (TDB 2021, 7). Within the TDB, tracking is made part of the loan agreements, with metrics and impacts reported in its annual sustainability reports. Moreover, the TDB is only one of three MDBs with a dedicated team or department to track SDG-related financing to NDBs. In this sense, the TDB is an exception.

The CEB is committed to financing environmental sustainability, that is, to 'supporting a livable society that promotes environmental sustainability, mitigates and adapts to climate change' (CEB Website 2022). The CEB's Development Plan 2020-2022 includes a strategy to identify the SDGs connected to its financing activities (CEB 2019, 22-23; cf. CEB 2022, 72-75). Like the TDB, the CEB has a dedicated team for tracking sustainability financing within the Bank. The CEB does not explicitly track SDG-related impacts in lending to NDBs. The CEB assesses its contributions to those SDGs it sees as most relevant (CEB Survey 2022):

> The CEB does not track the 2030 SDGs with NDBs to measure impacts. However, since early 2020, the CEB has been making the link between the projects it finances and their potential contribution to a set of relevant SDGs. Early in the project cycle, each project is reviewed and mapped to a number of the CEB's ten key SDGs – that is, those that best align with the institution's mandate and priority lines of action. Derived from the Bank's core social mandate, each of the 57 projects financed in 2021 was linked either to, primarily, SDG 10 (Reduced inequalities) or to SDG 1 (No poverty), or to both. Almost half of the projects the Bank approved also contributed (at least) to the goal of Sustainable Cities and Communities (SDG 11). Close to one in three projects contributed to Good Health and Well-Being (SDG 3) or to Climate Action (SDG 13). About one in four projects contributed to Decent Work and Economic Growth (SDG 8) or to Quality Education (SDG 4).

Spotlight: The EIB and Mapping the SDGs

The EIB has used project-level data to track and publish its contribution to the SDGs since 2016. In 2019 the EIB Board of Directors approved new ambitious targets and a roadmap for climate action and environmental sustainability, with the EIB emerging as the EU climate bank. As the EU climate bank, the EIB has expanded its reporting on its SDGs contributions to demonstrate the full impact of its investments throughout the world.

In deciding how to report its contributions to the SDGs, the EIB consulted widely with other multilateral development banks (MDBs), notably through the MDB Working Group on Managing for Development Results. The EIB's new methodology enables its contribution to each of the SDGs to be recorded in financial terms as well in terms of physical project outputs and outcomes, while remaining aligned with the approaches adopted by its peers.

The EIB mapping methodology formalises the relationship between the EIB's project-level indicators and the SDGs. All indicators are mapped to the appropriate SDGs independently of project context and may be mapped to up to three different goals. Each project thus contributes to all of the SDGs for which its data has been mapped. This approach offers a number of benefits. It takes into account the full range of interactions and interlinkages among the SDGs, minimises the number of arbitrary decisions required in the mapping process, and is in line with the methods used by other development banks. It therefore has the potential to facilitate comparability and aggregation among different development banks.

For each project, an automated, rules-based process maps the following data to the SDGs:

- **Project results** — concrete, sector-specific measures of project outputs and outcomes, expressed in physical units (such as the number of people receiving improved healthcare, GWh/year of energy saved, etc.)
- **Economic sectors** according to the NACE[6] classification
- **Eligibility** criteria or policy objectives based on the EIB's public policy goals
- **Geographical location** — country or region in which a project is located • Operation and product type (such as microfinance)
- **Mandates and initiatives** (such as the Economic Resilience Initiative)

[6] NACE is the acronym used to designate the various statistical classifications of economic activities developed since 1970 in the European Union. NACE provides the framework for collecting and presenting a large range of statistical data according to economic activity in the fields of economic statistics (such as production, employment and national accounts) and in other statistical domains.

Mapping the output and outcome indicators of individual projects to the SDGs allows the EIB to present the impact of its financing operations clearly and concisely. The process to measure SDGs financing contributions applies to all EIB operations, including operations with NDBs. Like the CEB and TDB, the EIB has a dedicated team or department to track SDG-related financing, including financing to NDBs. For the presentation of the EIB's 2021 contribution to SDG financing, see EIB 2021 (pgs. 19-21).

Note: Adapted from EIB Survey response.

Technical Assistance and Due Diligence for Sustainable National Transitions

To advance public finance for green and just transitions, the MDBs should be leading technical assistance programs for NDB transitions to sustainable finance. However, only two MDBs, the CEB and EIB, specified that they offer such technical assistance programs to NDBs. The EIB pointed to the Joint Assistance to Support Projects in European Regions (JASPERS) and to the European Investment Advisory Hub (EIAH).

Two other MDBs, the CAF and the AfDB, noted that they are in the process of implementing a sustainable transitions technical assistance program, with the CAF expected to unveil its in 2023. The CAF linked its emerging sustainability program to offering technical cooperation resources to NDBs and to issues of financial inclusion and education, gender equality, and economic recovery. The AfDB specified that its emerging sustainability facility is to be resourced with donor money, with the objective of strengthening the corporate governance structures of national development banks in low income and transition states in Africa.

MDBs are also not universally seeing it as part of their due diligence to verify if NDBs have a dedicated team or department (that is, dedicated institutional capacity) to track SDG impacts. Four MDBs state that it is a part of their due diligence and four reported that it is not. The provisioning of technical assistance can help to bolster expertise and knowledge locally. The verification of local SDG tracking capacity can provide an impetus for national authorities to dedicate greater resources to climate impact tracking where it is insufficiently provided. Both are necessary (if not sufficient) for advancing climate goals.

5. The Future of Cooperative and Sustainable Public-Public Finance: Conclusions and Recommendations

Four Conclusions

Four main conclusions on MDB to NDB lending, reporting, barriers, and SDG alignment can be drawn from the study. These conclusions can be used to inform possible ways of enhancing MDB-NDB cooperation for advancing green and just sustainable transitions.

First, MDBs are lending and mobilizing grants to NDBs in their regions. However, there is significant unevenness between MDBs and across regions, ranging from extensive to relatively limited financial cooperation. In short, MDBs and NDBs have not formed an integrated global ecosystem of public-public financing. As a result, not enough is being done with existing financial and institutional resources to make public-public financial collaborations truly catalytic for green and just transitions.

Second, MDB reporting of financial cooperation between MDBs and NDBs is also uneven. There is no standard commitment among MDBs to the tracking or presentation of financing to NDBs. This creates a policy and accountability blind spot.

Third, MDBs agree that there are multiple barriers to lending to NDBs. While research identified some of the more prominent ones, such as local currency mismatch, market conditions, and forms of market competition, there remain significant and context-dependent differences among MDBs at the regional and institutional levels.

Fourth, save a few exceptions, there is no systematic alignment or tracking of SDG financing between MDBs and NDBs globally.

Three Recommendations

Reflecting on these four conclusions, what can be done to enhance MDB to NDB financial cooperation and to enable public development banks to do more to finance global green and just transitions at the pace, scale, and appropriate terms needed to combat climate change fairly? Three recommendations can help to advance public financing for green and just transitions by fostering a more integrated and catalytic MDB-NDB ecosystem of sustainable public finance.[7]

Recommendation 1: MDBs and NDBs need to co-develop a simple and standardized template or set of metrics capable of tracking existing financial cooperation. This recommendation is not new and is very commonly pointed out in international fora, but still far from being implemented. These metrics need to be included in annual reporting, which is in turn publicly available. Adapting to a transparent, coherent template for metrics of financial cooperation between MDBs and NDBs helps to better inform the public and to hold these institutions accountable. Such a template can be adapted in the future to further

[7] While not addressing this paper's focus on MDB-NDB interrelations directly, there are areas in which the 2022 Indonesia G20 Sustainable Finance Working Group Report (see G20 SFWG 2022) recommendations reflect those made here. For example, the 2022 G20 Report points towards the following recommendations for MDBs: MDBs could play a key role in providing technical assistance and long-term financing to countries, especially developing countries, to support transition projects; MDBs should develop transition finance demonstration cases that explicitly incorporate "just" elements of transition; MDBs could promote knowledge sharing and technical assistance programs; MDBs can focus on capacity building programs (around sustainability alignment, sustainable finance policies and regulation, verification, ESG rating methodologies, policy incentives, etc.); MDBs should cooperate with development finance institutions to develop comparable indicators; among others.

capture NDB lending to sub-national public banks. An operational opportunity could be to leverage the Finance in Common System (FICS – see more on line: https://financeincommon.org/#who-we-are), the recently constituted international coalition of Public Development Banks, to set up a specific working group to address the issue and disseminate this commonly mentioned recommendation in a systematic way.

Recommendation 2: Governing Boards of MDBS and NDBs should demand that their public banks meaningfully and transparently report on and align with the 2030 SDGs. By aligning SDG lending at the multilateral and national scales of public banks, these powerful public financial institutions could trigger a catalytic effect across the financial system. Public development banks should be the first movers, setting the global 'gold' standard for green lending that is also socially just. However, a catalytic demonstration effect will not happen naturally or on its own. Multilateral and national policymakers and shareholders must make it so. This must involve making more of the SDG practices identified above by MDBs, particularly in the areas of climate finance, financial access, and gender inclusion. There is promise in doing so through the extension of technical assistance programs (TAPs) from MDBs to NDBs. Those MDBs that reported specific TAPs also report having some of the highest investments in NDBs in their regions.

Recommendation 3: Leaders, regulators, public bankers, and civil society need to start thinking and acting according to a 'whole of public financial ecosystem' approach.
Only by understanding, aligning, and mobilizing in concert the combined financial capacity of all public banks at all scales will we be able to advance global green and just transitions at the pace, scale, and appropriate terms needed to combat climate change fairly. This needs doing transparently and accountably. This demands a new approach and new thinking about the promise (and potential pitfalls) of enhanced global public-public financing for green and just transitions.

By way of conclusion, it is clear that we need more research on the existing barriers to enhanced MDB to NDB cooperation. Public development banks can and should be at the forefront of financing a global green and just transition. But if public MDBs cannot effectively lend to public NDBs, this undermines the catalytic power of public finance to drive the global transition at a time when leadership is urgently needed. The research will need to be sensitive to the differences that exist among regions and between countries in the global north and south. A deeper understanding of barriers should then form the basis of a high-level political discussion about how public MDBs and NDBs can best interact to mobilize the right types of finance at the right scale and on terms appropriate to advancing the UN 2030 SDGs globally in ways that are both green and just.

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Appendix

Appendix A: Survey Questions Distributed to MDBs in the Summer of 2022

Survey Questions	
Q1	In your region, list the NDBs that you have financed over the last five years? Please feel free to limit your response to the top 5 NDBs (if applicable).
Q2	What are the main types of financing provided to NDBs in your region?
Q3	What other services and interactions do you have with NDBs in your region?
Q4	Who are the intended beneficiaries or what are the intended purposes? Please indicate the top 5.
Q5	What do you see as the three most promising aspects of your development finance interactions with NDBs?
Q6	Are there barriers to increasing your financing to NDBs? If so, what are the main barriers?
Q7	Do you have a specific technical assistance program to accompany NDBs in their sustainable transformation?
Q8	Are there joint trainings or staff exchanges between your organization and NDBs?
Q9	Do you have a formal mandate to track financing according to the 2030 SDGs?
Q10	How do you execute your mandate to track the 2030 SDG with NDBs to measure impacts?
Q11	Do you have a dedicated team or department to track SDG-related financing to NDBs?
Q12	Is it part of your due diligence to verify if NDBs have a dedicated team or department to track SDG impacts?
Q13	If available, please provide the following data. Disaggregated by year and by individual NDB, how much financing have you provided to NDBs in your region over the last five years? Please feel free to limit your answer to the top five to ten NDBs.

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