National and Sub-National Development Banks and the SDGs

Hosted at Ford Foundation
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Organizers: Communitas Coalition, Tellus Institute and Sustainable Development Solutions Network

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Main Topics

1) ODA alone will not fund the SDGs – both the Addis Ababa Action Agenda and the 2030 Agenda on Sustainable Development acknowledged this.
2) Domestic finance will have a huge role to play in financing the SDGs.
3) The AAAA recognized an increased role for national and sub-national banks (mentioned 30 times throughout every section of the AAAA)
4) Development banks exists in many countries, but so far, they have been under-utilized in helping to deliver the MDGs and now the SDGs
5) How can development banks be re-tooled to enable them to play a greater role in helping to implement the SDGs?'
6) Can development banks' funding be used to leverage more private sector capital?
7) The International Development Finance Club (IDFC) is a network of renowned national, sub-regional and international development banks. IDFC Members have a proven track record of outstanding successes, innovation and competence in the area of development finance. But as of yet there is no network of development banks engaging in the implementation of the SDGs nor one that is engaged in the ongoing discussions of the AAAA and SDGs.

Conclusions and any Next Step

To prepare a concept note to bring as many development banks to the UN Finance for Development Forum and to host prior to it a full day conference to:

- Share experiences;
- Identify capacity building requirements;
- Map out which goals and targets that the banks are engaged in work on
- See what knowledge platform can help national development banks engage in implementation of the SDGs
- Are there indicators around implementation of the SDGs developed by the Banks? What could they be?
- What voice could a Network working together on the SDGs bring to the table?

Workshop presentations and discussions

8:45 - 9:20 Registration

9:20- 9:30 Welcome by **Ana Marie Argilagos**, senior advisor Ford Foundation

9:30 - 9:40 Introduction: **Felix Dodds** Senior Advisor Communitas Coalition and Associate Fellow at the Tellus Institute

9:40 – 9:50 Participants Introduce themselves

9:50 10:05 Development Banks over the years
Aniket Shah Investec Asset Management and Head of Financing for Sustainable Development Initiative Sustainable Development Solutions Network

10:05-11:15 The **Role of Development Banking for SDGS:**
Introduction: **Aniket Shah**

- We are all scratching our heads when it comes to SDG financing.
- We hear so many things when it comes to this issue:
    - Important to have cross border flows, public and private. We need more money.
    - There is so much money but not enough projects.
    - If only we remove the fossil fuel subsidies, a lot of capital would be opened.

    - Need more domestic resources (tax better, close down tax loopholes, etc.).
    - We need more aid.
- So these are the five major themes we hear over and over.
- But an institution which have existed for over 150 years and exist in every country in the world, but are not given enough work: Development banks.
- There is a psychosis in terms of how we think of this issue, as if with the SDGs, we have a tabula rasa… As if nothing came before.
- Development banks are mostly government owned institutions. Capital does not go into things that need it is because the desires of the capital owners and the projects that need financing do not match. You need an intermediary that can bring these things together.
- Development banks can play this intermediary role.
- Development banks were started in the 1800s in France to help continental Europe catch up with the industrialization of the UK.
- From a purely scalable perspective, we have nothing that comes close to this when it comes to sustainable development.
- Main points:
    - Most national development banks are quite small.
    - Many are quite new.
- Role of national development banks needs to be elevated within national economies in developed and developing countries.
- An academic and research analysis of these institutions needs to happen.
- National development banks need a voice at the UN in a clear and concerted way.

From the floor:

Global Economic Governance Initiative - Boston University shared the work they are doing currently comparing development banks of China, Brazil, Korea, Mexico, India, and South Africa. Some of the early findings show that there are not enough loans are going into infrastructure. We want to see if we can encourage them to become more involved in platforms like the SDGs and work more closely with other key institutions.

The China development banks have engineered a massive overhaul of the economy at an unprecedented speed. The international loan book is larger than the World Bank.

In Germany, these banks are mostly active through private channels. There are also in Germany local networks of development banks. KFW, the national bank, plays a role in terms of refinancing projects and such.

The meeting discussed the proposition that smaller states need development banks more than large ones. A study of this issue in Rwanda helps to show this, The conclusion was that no country or region or economy is too small for a development bank.

One of the problems raised with national development banks was that shareholders control the direction. They are almost like commercial banks, because of shareholder expectations. It was expressed that you should never underestimate the vested interests. Even in Europe, these banks are often used to promote the private sector in those countries. This often dictates the markets that operate, so it is not a developmental impact but a political one.

Access to capital is a big problem. There is competition among all of these institutions, even the Global Climate Fund (GCF) has to compete. The GCF seeks to shift paradigms around carbon. Its deals with risks that investors are not willing to take. These investments require high risk appetites. Discussion should be less about what we have done, and more about what we could have done.

Politically, how can we make this happen? Risk appetite of development banks, in China, a lot of money was lost with failed projects. But a lot of money would come from the collateral of land appreciation. How can these institutions open up more capital?

Interventions from:

The role of development banks in the Addis Ababa and 2030 Development Agendas **Shari Spiegel**, Chief of Branch Policy Analysis and Development Branch ***UN Financing for Development Office***

- How do functions of development banks link to the SDGs and sustainable development?
- Development banks have been in FfD process for a very long time. Brought up in the Monterrey consensus and highlighted as providers of long-term financing, including SME financing. Brought up in Doha as well.

- Addis brought this to another level. AAAA has 30 mentions of development banks across a range of sectors, including: Infrastructure, agriculture, industrialization, technology and innovation, financial inclusion, trade finance, regional integration and transport. The counter-cyclical role of development banks, including in stabilizing the financial system is also highlighted.
- In particular, environmental issues are new.
- Para 33 of the Addis Agenda is specifically about national and regional banks, the areas where they are active and important, including a commitment to strengthen NDBs. This is surely a step forward from Monterrey.
- Monterrey happened at the height of Washington Consensus, when markets were seen as perfect and best left to function o their own, without government interventions. We now know that governments matter and that markets can fail, highlighting the importance of development banks.
- The IDFC contributed to the preparatory process of the Addis Ababa Action Agenda, and to the Addis Ababa Conference.
- There is thinking about how to further bring national development banks into the discussions on the follow-up process, including the role that the IDFC can play.
- There is also a focus on having greater NDB involvement in the Global Infrastructure Forum, which is hosted by the MDBs, in close cooperation with the UN.
- Challenges we need to address include the risk of market distortion, political capture, cronyism; ensuring financing is additional; the appropriate use, instruments, structures to be most effective in different circumstances; reporting, particularly on climate and environmental issues; fiscal challenges and re-financing.
- One important challenge is the issue of safeguards and doing no harm. How should national development better align their investments with the SDGs?
- In Addis, governments called on MDBs to make better use of their balance sheets to make sure their actions are in line with sustainable development banks.
- In Addis governments also committed to supporting NDBs. How can the international community support countries in expanding contributions of and supporting national and regional DBs
- What are the instruments? Equity investment is becoming more popular.

- When is it appropriate to have a development bank and when is it appropriate to have another instrument do the same thing? The importance of diversification in investment, and taking a portfolio approach. A good example of this is Solyndra.
- When should there be a fund vs. a development bank? When do you want to operate like a bank to use leverage? We know better how to regulate and manage risks with a banking structure rather than a fund.
- Development banks have to follow compliance and reporting, similar to commercial banks.

NY Green Bank: collaborating with the private sector to transform clean energy financing markets: **Jason Moore**, VP Investment Team **New York Green Bank**

- NY Green Bank is a $1 billion specialized financial entity sponsored by NY State to mobilize private capital towards the achievement of state climate goals. Look towards the market to achieve these goals.
- We partner with large and small developers, which are often too small to go to large investment and commercial banks.
- So we are addressing financing barriers in the market, and use a market-based solution that would allow the private sector to participate in partnership with NY Green Bank or take off our balance sheet entirely.
- Financing barriers can include lack of scale, standardization, and liquidity, among others.
- Huge carbon reductions in the assets in NY State.
- We have done a lot of solar investments over the last year.
- We receive the bulk of our funding as part the NY Clean Energy Fund.
- If the private sector is willing to do a project, we would participate in ways that provide additionality rather replacement of private capital. We have a higher tolerance of dealing with financial barriers, but we do not offer different terms from private capital.
- We encourage faith in the private sector. There have been times when we participate in the process of financing and then allow the private sector to step in and take on the full amount.
- We operate in the wholesale markets.

Coalition for Green Capital and their strategy of establishing and supporting state- and national-level green banks in the US. **Rob Youngs** Programme Director at the **Coalition for Green Capital**

- We are a non-profit that does consulting particularly with governments who want to set up Green Bank initiatives or structured finance products for low-carbon infrastructure.

- We helped create the first Green Bank in the United States. There has been growing interest in this model around the world, including in India and Latin America.

- We define a Green Bank as a public or quasi-public entity established specifically to facilitate private investment into domestic low-carbon, climate resilient infrastructure. Purpose-built for and by their local community.

- We believe that if we can lower the cost of capital we can expand the market. Green Banks often target markets MDBs can struggle with, such as distributed energy resources and small to medium enterprises. Green Banks also work in sectors with limited track record, but where technology risk is low.

- Case study: UK GIB Offshore Wind Fund. UK was able to put together a fund that attracts alternative, long-term investors to the wind space, bringing down the cost of capital and ultimately the cost of the wind power.

- CGC and NRDC, along with six Green Banks, founded Green Bank Network to share best practices from Green finance and consult with governments interested in the Green Bank model.

The role of development banks implementing the SDGs. **Chantal Line Carpentier**, Ph.D. Chief, UNCTAD New York Office Representative from ***UNCTAD***

- We have been given a mandate to further support developing countries to access investment and implement the SDGs.
- It is true that not enough attention is paid to investment banks, whether MDB or naitonal.
- We also lead the sustainable stock exchange initiative.
- We seek to help align the market with the SDGs.

- For the LDCs especially, it is so hard to attract FDI so all of these pieces need to be put together.
- Development banks can invest during downtime when private sector does not invest espeially important for commodities dependent countries

Role of public finance providers, including multilateral lenders in financing the SDGs. **Gail Hurley** Policy Specialist: Development Finance Bureau for Policy and Programme Support ***UNDP***

- Public finance will have a huge role to play in financing the SDGs.
- We see in our country offices, huge demand for advice and support on financing the SDGs.
- The public sector is a major source of innovation, and in particular bilateral and multilateral development banks have been the ones to create and drive the expansion of major recent innovations, such as green bonds. Public sector finance providers can help create and shape new markets, provide initial market liquidity and show the viability of new instruments and approaches.
- There are different types of financial instruments being increasingly used by official finance providers, like blended finance for example, which aims to leverage additional public or private capital for investments in developing countries. Blended finance is often associated with PPPs. But at UNDP, we also do a lot of blending of public resources with other public resources to increase the volume of resources available for development. National and regional development banks are important partners in this. 11:15 – 11:45 Brainstorm on key challenges facing development banks in the implementation of the SDGs introduction

It was raised as a concern that one person will give you X solution, and another person will give you Y solution. Politics and viewpoints make a major impact on how people discuss these things. One question we should consider is are we pioneers or followers? For example, everyone is going into the energy space. In the context of the GCF there is a great need to build capacity of countries to engage. The GCF seeks to support capacity on the ground. It wants to do something different. So far there hasn't been much innovation These institutions have to not feed on the lack of capacity of so many. The GCF for example needs to do all of these things and have the money, but nobody is coming yet with innovative ideas.

For broadly there are different scales that need to be considered. How do we get an extra trillion to 2 trillion a year into SDGs and related subjects? Perhaps one way is to get there is the reframing of public finance and public finance institutions. It will require a mindset shift.

Markets are not able to solve all this. We now know we need public financial institutions to get these things done. But these public financial institutions have been underrepresented and pushed aside. Not everything has to be innovative. You need scalable capital to achieve what we are trying to do and you need a change of the mindset.

SDSN are setting up an SDG center of excellence in Kigali (SDSN).

A lot of capacity development has come from experts from different countries talking to one another as opposed to flying people in for a day to build capacity. When you think about implementation, development banks are about this and this is something that is an element that cuts across all of this. There is a shift in the discussion about infrastructure to development banks.

UNDP often are an important partner especially in small countries. In terms of centers of excellence, are they being supported and do they have political influence?

The approach of the development banks should have at their core social justice and the eradication of inequality, which is at the heart of the SDGs.

11:45 – 12:00 **Conclusions and any Next Step**

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