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Reconstruction and transformation: the key role of financing for sustainable development and the public development banks

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While all the countries of the world are trying to emerge from the economic and social crisis caused by COVID-19, a crisis whose duration and scope are still unknown, the urgency of reconstruction is compounded by the critical need for transformation: rebuilding and decarbonising economies, and reducing the inequalities and vulnerabilities that the crisis has laid bare and exacerbated. The international deadlines of COP 15 on biodiversity and COP 26 on climate, which will take place in 2021, will be political milestones that will gauge our capacity to simultaneously achieve this dual objective of reconstruction and transformation. In the meantime, what can be done to trigger the action needed from public and private actors, and to establish the international coordination required to meet such a challenge? The “Finance in Common” summit, to be held in November under the auspices of the French President and with the

participation of the Secretary-General of the United Nations, is one of the key moments of the political agenda for the coming months, and will tackle a crucial issue: the financing of sustainable reconstruction and transformation efforts.

How to finance the recovery and transformation of entire sectors of the economy

Every country and every territory is different: each one will have to find its own path to the reconstruction and restructuring of its economy, in the context of the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs), which must remain the global compass to address the underlying causes of the inequalities and vulnerabilities affecting all societies.

However, it is clear that recovery efforts, for the countries that have the budget resources required, are still too rarely aligned with the environmental and even social objectives of the SDGs: in most cases, with a few notable exceptions in Europe for example,¹ recovery efforts are primarily aimed at kickstarting economic growth, to avoid bankruptcies and the destruction of jobs, without necessarily ensuring that this public expenditure is consistent with the sustainable reconstruction of the country in question. And when it is indeed geared towards changes in line with the SDGs, the monitoring and accountability mechanisms needed to ensure expenditure is on the right path do not exist.

Recovery plans, especially when they demonstrate new types of solidarity such as the European plan between EU Member States, are therefore essential tools, but the release of huge amounts of money must be coupled with the capacity to steer and accompany these funds to ensure they reach their targets; this is illustrated by the issue of energy renovation in buildings, which is very aptly prioritised in the French recovery plan, but for which the mechanisms needed to target and steer funds are the next major challenge.²

In this context, a permanent dialogue is needed, in all territories, between economic actors, local authorities, civil society, unions, investors and the financial sector; in the absence of such dialogue, the huge amounts now released may not correspond to future-oriented projects for these territories, and the democratic crisis could be intensified if citizens can neither verify nor direct the use of these funds.

In the countries that prior to the crisis already lacked the fiscal resources needed to develop a real economic reconstruction plan, this situation has been exacerbated by the crisis. The informal sector, which has been very hard hit, cannot be helped by the wage support schemes such as the ones implemented in Europe and, where it is still operating, does not contribute to government revenue. The need for state intervention is thus even more acute in these situations, bluntly questioning the capacity of these countries to borrow, when reducing their debt has cost them sometimes extremely violent efforts over the past few decades. It also raises the question of the establishment of a tax system that improves their capacity for intervention, and their economic rescue efforts will also need to carry the seeds for the future development of their national fiscal instruments.

For these equally critical situations, the capacity for financial intervention is absolutely central, but it is at risk of failing the challenge of reconstruction if not coupled with the capacity to understand the specificities of territories and the needs of populations, as well as their own particular strengths and resources.

Aligning the public development banks with the 2030 Agenda for Sustainable Development: an emerging revolution that must be accelerated

Within this diversity of economic and fiscal situations, the public development banks have a key role to play, given their capacity for counter-cyclical action during the crisis³ and their knowledge of the specific needs of the territories and countries in which they operate. Today, their investment portfolios are still insufficiently aligned with the SDG agenda for change and, for the most part, still do too little towards the decarbonisation of the economy.⁴

But many of these development banks are innovating and beginning to test some very interesting ways of integrating the 2030 Agenda (combining goals on climate, biodiversity, reducing inequalities and gender discrimination) not only into the affirmation of their key strategic priorities, but also at all levels of their business processes, from the assessment of individual projects to the management of their project portfolio, and even to the radical transformation of their relations with actors in the territories in which they operate, to include the whole range of stakeholders present in these territories and also to effectively support the construction of new sustainable future projects for these territories.⁵

These banks must therefore be encouraged to rapidly establish a collective learning curve enabling them to revolutionise from within, and all together, to align their whole organisation and their investments with the transformative ambition of the 2030 Agenda. They will thus send a very clear signal to all of their partners in the territories, and also collectively to the international financial sector.

Working together in the context of the [Finance in Common](#) summit, the banks will therefore need to both objectively assess the gap between their current situation and the objective of alignment with the 2030 Agenda, but also to work as quickly as possible to integrate the most innovative solutions developed by several of them, to ensure that this alignment can be achieved without delay, alongside financial efforts towards reconstruction. They can potentially deliver a critical solution to simultaneously achieve reconstruction and transformation: the fact that they are coming together, in all their diversity, to exchange with one another under the gaze of experts and civil society, is a positive sign. They must now be both encouraged and assisted in accelerating the momentum that is beginning to build.

¹ <https://www.iddri.org/en/publications-and-events/blog-post/green-and-social-recovery-european-union-and-its-member-states>

² <https://www.iddri.org/en/publications-and-events/blog-post/energy-renovation-buildings-french-recovery-plan-opportunity-be>

³ <https://www.iddri.org/en/publications-and-events/blog-post/role-public-development-banks-supporting-post-covid-19-crisis>

⁴ [https://www.cell.com/one-earth/fulltext/S2590-3322\(20\)30484-X](https://www.cell.com/one-earth/fulltext/S2590-3322(20)30484-X)

⁵ <https://www.iddri.org/en/publications-and-events/study/scaling-public-development-banks-transformative-alignment-2030-agenda>

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