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Reconciling recovery and sustainability on the ground: the role of subnational public development banks

Authors

Maria Alejandra Riaño

Associate Researcher

Sergio Gusmão Suchodolski

Senior Researcher, Brazilian Centre for International Relations (CEBRI)

Cinthia Helena de Oliveira Bechelaine

Manager for Impact and Sustainability Affairs, Development Bank of Minas Gerais, BDMG (Brazil)

Adauto Modesto Junior

Chief Economist, Development Bank of Minas Gerais, BDMG (Brazil)

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The upcoming Finance in Common Summit and 14th AFD International Research Conference on Development place public development banks (PDBs) in the spotlight as key actors for a responsible and sustainable recovery in the context of the global crisis linked to Covid-19. PDBs can certainly become a powerful force to drive change in territories and help shape a better future from a global and local perspective. Now is the best time to unlock their largely untapped potential, especially in the case of national public development banks (NDBs) and subnational public development banks (SDBs), and take the stage as key financial actors to build back better and accelerate the implementation of the 2030 Agenda and its Sustainable Development Goals (SDGs).

This blogpost is co-signed by an IDDRI research fellow (author of a [study on public development banks' practices to align with the 2030 Agenda](#)) and three members of BDMG (Brazil).

Thinking local, acting global

A recent study published by the OECD estimated that 65% of the 169 targets underlying the 17 SDGs will not be reached without proper engagement of and coordination with local and regional governments.¹ Furthermore, the Covid-19 crisis has been a strong reminder of the integrated and interconnected nature of the common and global challenges we face, positioning the local sphere at the forefront of the fight against the pandemic.

Actions to deliver on the 2030 Agenda for Sustainable Development need to be universal, while trickling down to the national and local level, where vulnerabilities become tangible and deeper systemic interconnections between individual goals and targets can be observed.

Reconstruction plans must therefore be anchored in the territories. To do so, financing efforts need to remain tied to strengthening the development of local economies and communities, accelerating the implementation of the 2030 Agenda. We must appeal to the commitments of all financial actors—public and private—PDBs, especially first-tier NDBs² and SDBs, being potential strategic tiles in this puzzle.

NDBs and SDBs as catalysers of territorial transformations and sustainable reconstruction

In addition to their traditional roles, such as acting in the financing of long-term investments,³ mitigating market failures,⁴ granting credit to vulnerable sectors and segments with higher risks,⁵ operating counter-cyclically helping economies to recover from financial instability,⁶ PDBs are also becoming prominent developers of new business models and key allies in SDG implementation and financing.

At national and local level, NDBs and SDBs can act as sustainable development drivers of their territories. By being closer to the necessities and challenges that they are meant to tackle with their interventions, these banks are able to identify place-based priorities, reorient their inner existing strategies or shape new ones that address the needs and peculiarities of their regions, while supporting sustainable reconstruction efforts. Furthermore, by thinking local, these PDBs can support the structural transformations needed to build sustainable societies.

NDBs and SDBs are strategic portals for channelling financial support to local communities, businesses and entrepreneurs. Besides, by acting in partnerships with larger national and multilateral institutions, they contribute to better channel available global financial and technical resources to promote local impact by adapting sophisticated governance and operational requirements to practical and pragmatic approaches that are suited to their local environment.⁷

Best practices

PDBs are certainly implementing innovative practices, at all levels of strategic and operational processes like project assessment or portfolio management, but also within the culture of the organisation, and their relationships and partnerships with other players. Despite being still at early stages, these practices are a very good basis to share and inspire action among banks and other financial actors.⁸

Of particular interest is the case of SDBs, who are the closest to local reality and to underserved communities and municipalities. Even though they are smaller and may lack the financial strength of other NDBs or multilateral development banks, they have realised that expanding their advisory role is a key opportunity to contribute to the implementation of the SDGs in their territories. On one hand, they are seeking to foster long and permanent dialogue with their clients and end-beneficiaries—before and during the lifetime of an investment—providing guidance and support for project preparation. On the other hand, they are beginning to play a pivotal role acting as policy leaders and innovators, serving as bridges, local anchors, and articulators, capable of convening key public and private actors around sustainable development priorities.

Betting on SDG alignment, the case of BDMG

The case of the Development Bank of Minas Gerais (BDMG), the larger state development bank in Brazil, is an interesting example of a SDB striving to become a first-hand implementer of the 2030 Agenda and its SDGs.

SDBs, such as BDMG, have the capacity to direct resources to the regional or local context, in countries like Brazil, implementing the global agenda on the ground and acting as a gateway to global sustainable investments for developing countries. BDMG has been positioning itself as a financial service and knowledge platform, which offers credit lines, but is also engaged in project preparation and technical assistance. It is also the main credit supplier of Minas Gerais' pool of 853 municipalities.

As stated in its 2019 Sustainability Report and its new strategic roadmap (2020-2024), BDMG is aiming for achieving development impact in line with the SDGs by undertaking important transformations both at strategic and operational level. In the process of providing a portfolio in line with the 2030 Agenda, it 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. Furthermore, it has just launched a framework with the objective of financing or refinancing investments that have clear and significant socio-environmental impacts and that contribute to the SDGs: the Sustainability Bonds Framework⁹ outlines a process by which proceeds will be tracked, allocated, and managed and includes categories of social and environmental projects intended to be in line with 13 of the 17 SDGs and with 28 of 169 SDG targets. In addition, it provides clear guidelines on eligibility criteria for sustainable and social projects, exclusion of sectors with negative impacts and indications for impact reports. In the post-Covid-19 period, this SDG Framework can also be useful for driving investment decisions for economic relief and recovery, while linking short-term needs with long-term transformations.

¹ OECD (2020), A Territorial Approach to the Sustainable Development Goals: Synthesis report , OECD Urban Policy Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/e86fa715-en> .

² PDBs can provide funding directly or through financial intermediaries, such as private commercial banks.

³ Bruck (2001). Development banking concepts and theory. In Principles & practices of development banking ; Vol. 1, Association of Development Financing Institution in Asia and the Pacific.

4 Stiglitz (1993). The role of the state in financial markets. The World Bank Economic Review, Volume 7, Issue suppl_1

5 La Porta, Lopez-De- Silanes and Shleifer (2002). Government ownership of banks. NBER Working Paper No. 7620.

6 Brei, Schclarek (2013). Public bank lending in times of crisis. Journal of Financial Stability, vol. 9, Issue 4, pp. 820-830.

7 Suchodolski and Modesto Junior (2020). Let's Think Small When it Comes to Development Banks and COVID-19. Americas Quaterly

8 Riano et al. (2020). Study N°

9 BDMG (2020). Sustainability Bonds Framework. Avaliable at: <https://www.bdmg.mg.gov.br/sustainable-bonds/>

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