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Aligning finance with the 2030 Agenda: Operational principles for public development banks

Auteur

Maria Alejandra Riaño
Associate Researcher

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At the First [Finance in Common Summit](#) (FiCS) held in 2020, public development banks (PDBs) committed to collectively shift their strategies, investment patterns, activities and operating modalities to contribute to the achievement of the 2030 Agenda for Sustainable Development and the objectives of the Paris Climate Agreement, while responding to the Covid-19 crisis. Here and now, an ongoing collective dynamic of PDBs is emerging, grounded by exchanges and experiences from all financial stakeholders (public and private), to concretize the strategic debate about PDBs as gateways for SDG-aligned finance. During the second edition of the FiCS movement^{[1](#)}, over 500 PDBs from around the world made it clear that they are ready to respond

to expectations and transform commitments into forceful actions capable of catalysing public and private resources towards sustainable transformations aligned with the 2030 Agenda and its Sustainable Development Goals (SDGs). Can they, and how, walk the talk?

Need for a common language on SDG alignment

Moving from this radical ambition to an operational approach is not an easy task. It is a continuing process, and where to begin with might depend on the PDBs mandate and the context in which it operates. Lack of SDG alignment starts with lack of a common language and interpretation of the objectives underlying the SDGs in the public and private sectors. Up to now, many SDG alignment discussions have been limited to mapping exercises at the project level. However, in order to align with the multidimensional scope of the 2030 Agenda and SDGs, PDBs must incorporate the imperative of the transition to low-carbon, climate-resilient and equitable socio-economic models in all their financing decisions and project cycles.

The true transformative potential of the 2030 Agenda lies in its integrated and indivisible nature, its emphasis on adopting a long-term time horizon, the primacy of systemic changes and its commitment to enhancing the lives of the poorest and most marginalised people while achieving sustainable development. The challenge therefore lies in better aligning all forms of financing in support of the 2030 Agenda, to drive a fundamental transformation of society and economy at the scale, pace and direction ambitioned by this Agenda, in ways that make a positive contribution to sustainable development and do no harm across the SDGs.

Thus, as a contribution to the 2030 Agenda alignment debate, IDDRI, together with colleagues from the [European Think Tanks Group \(ETTG\)](#) has developed a framework with practical starting points for PDBs to embed the SDGs in their existing and future activities and investments. Concretely, [ETTG's contribution for this second edition of the FiCS](#) aimed both to propose a definition of SDG alignment and to provide four straightforward principles to further operationalise and promote such alignment in practice.

How to make alignment operational?

Implementing the 2030 Agenda requires PDBs to ensure coherence and spur a profound change at the scale of their entire organisation and across the full range of operations. As such, SDG alignment demands high-level commitment, together with deep governance and, probably, business model restructuring. Any PDB seeking alignment with the 2030 Agenda will have to bring the entire institution on board, to embed environmental, social and economic considerations throughout bank decision-making and day-to-day operations, thus maximising its positive contribution to sustainable development. ETTG's proposal calls for a bank-wide approach, which can lead to a complete, comprehensive and systemic integration of the SDGs.

Figure 3 - Four guiding operational principles

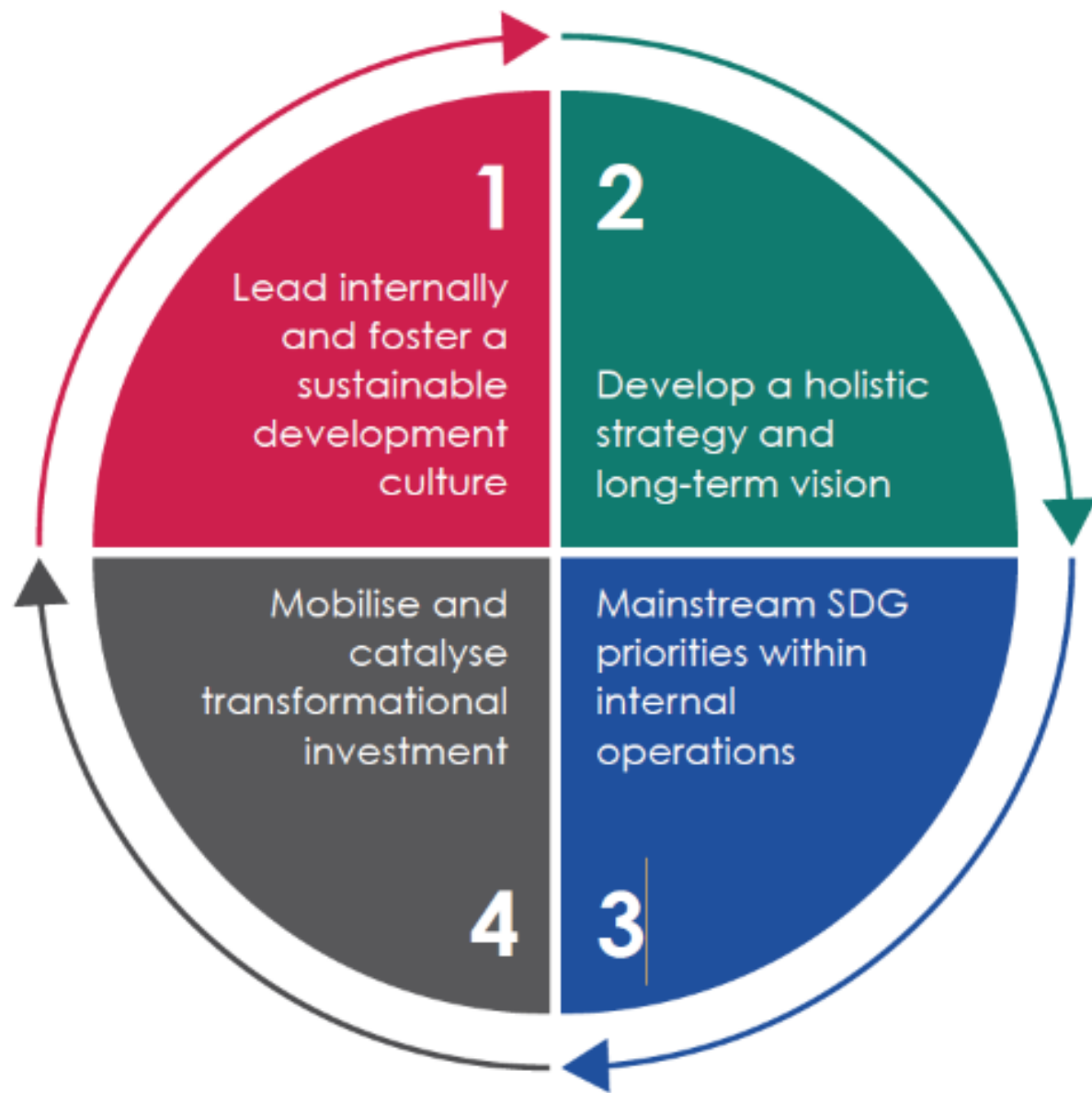


Figure 4 - Framework to Operationalize PDBs alignment with the 2030 Agenda

Operational principle 1: Lead internally and foster a sustainable development culture. PDBs need to facilitate and enable a sustainable development culture throughout their respective organisations. The bank's DNA has to be fundamentally and prominently linked to sustainable development. From top to bottom – from the highest-level directors to those in planning, review and credit approval positions –, the 2030 Agenda needs to be a cornerstone for action. To this end, banks could, for instance, start to require qualifications in strategic sustainable development areas when hiring new financial experts – as has been done by the newly created Scottish National Investment Bank or Germany's KfW – and ensure regular monitoring and development of these skills in performance appraisals. As a result, awareness and buy-in of the overarching principles of the 2030 Agenda could be both deepened and accelerated among all employees, leading to more systemic, coherent and integrated decisions.

Operational principle 2: Develop a holistic strategy and long-term vision. Strong and determined internal leadership should materialise in a vision and strategy that can transform the PDB into a driving force for the 2030 Agenda and SDGs. For alignment to be impactful, it is crucial that the bank's strategy, mission, vision and other medium- and long-term frameworks are not just cosmetic communication papers but are actually linked to the strategic choices made in daily operations, as is the case of Netherlands' Entrepreneurial Development Bank (FMO).

As PDBs have differing mandates and geographical scopes, they should promote open exchanges with one another to maximise their collective contribution in this regard. Our study presents practical tools to guide such a strategy-building process. These can provide a basis for discussion between stakeholders and help ensure that a new or aligned strategy reflects a balanced approach, particularly across the social and environmental dimensions of the SDGs. The presented tools can also help PDBs analyse interactions between different bank priorities within a specific context.

Operational principle 3: Mainstream SDG priorities within internal operations. This entails building a systematic and coherent internal process for analysing finance with SDG considerations embedded in both the ex-ante and ex-post phases of investment. Such an approach to management will ensure that alignment becomes part and parcel of the whole investment cycle. Pioneering PDBs such as the Agence Française de Développement (AFD) or the Asian Development Bank (ADB) have developed promising tools to support such a process. Examples are portfolio alignment applying categorisation and differentiation according to context and adopting a value chain approach to finance sustainable transformation. Merely approving disparate SDG-aligned projects is no guarantee for an aligned and coherent portfolio.

Operational principle 4: Mobilise and catalyse truly transformative investments supporting sustainable development trajectories. This is where PDBs can be game changers. Doing so requires fostering proactive external engagement within their ecosystem of partners, capitalising on both their financial and non-financial services. PDBs thus need to move beyond projects that respond to opportunistic, standalone opportunities, and broaden their investment philosophy and approach. In other words, they need to move from transactions to transformations, with local actors; be ready to engage in policy dialogue at the country level to affect transformational change, but also support SDG alignment of their counterparts and beneficiaries. This entails developing new competencies and incentive structures within their organisations like project preparation facilities to ensure SDG bankability like Indonesia's PT Sarana Multi Infrastruktur (PT SMI) with its SDG One Platform, the Development Bank of South Africa (DBSA) with its Project Preparation Fund or the Inter-American Development Bank (IDB) with its Natural Capital Lab.

What's next?

Most PDBs can and should find collaborative ways to cover this range of activities by working together, building on the power of partnerships. However, many banks are still focused on the investment dimension. For all PDBs, cooperation with other transformative actors will be needed, particularly other relevant PDBs and financial actors, donors, and international and local entities, in order to complement and synergise the different types of interventions. The overly fragmented nature of many PDBs' activities, being insufficiently coordinated with development partners and local initiatives, is a major hurdle to achievement of more ambitious, longer-term transformative agendas.

Now that the FiCS is becoming an institution and powerful platform, it is essential to show that it can create real dynamics between Peers and bring out **SDG Champions** within the PDBs community that can inspire and draw other banks with concrete examples of how to operationalize SDG alignment.

¹ The event was hosted by Cassa Depositi e Prestiti (CDP) in partnership with the International Fund for Agricultural Development (IFAD, a UN specialised agency for the increase of agricultural activities in backward countries) and with the support of the World Federation of Development Finance Institutions (WFDI), the International Development Finance Club (IDFC), Agence Française de Développement (AFD), as well as the entire FiCS coalition.

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