Supporting Public Development Banks in their Commitments to Financing the Sustainable Development Goals and Paris Agreement

Based on UNDP's support to financing the SDGs

Input paper to the 2nd Finance in Common Summit
2021

FINANCE SECTOR HUB

The decisions you make will send a signal to the global financial community and to policy makers around the world. You can lead the way in transforming our approach to development finance. You can help build the foundations of a new economy fit for the 21st Ceuntry.

UN Secretary General's remarks at the Finance in Common Summit, 2020

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Input paper to the 2nd Finance in Common Summit

I. Context:

Six years after the adoption of the 2030 Agenda and anniversary of the Paris Agreement, we can see more than ever, given the COVID-19 pandemic and its effects on lives and livelihoods worldwide, that these two agendas are inextricably intertwined and present urgent investment requirements.

To achieve the Sustainable Development Goals (SDGs) as outlined in the 2030 Agenda will require actors across public and private sectors to work together at scale. Global financial assets stand at a value of $431 trillion but this finance does not necessarily align with the SDGs or flow to the geographies that need it most for progress on the SDGs. Hence the problem is one of alignment and delivery of both public and private capital.

The challenge of financing the SDGs is not just a challenge of mobilizing more money - it is more systemic than closing any financial gap. The challenge demands the re-orientation of how public and private investors, banks, businesses and governments interact with each other to create a system to achieve results in the three dimensions of sustainable development: economic, social and environmental.

Public development banks (PDBs) are uniquely positioned to play a leading role in this transformation by providing concessional finance where it is most needed and leveraging private finance for a shift of the whole financial system. There is an opportunity for PDBs to invest in just transition programs, scale up SDG-aligned financing mechanisms, increase sport for adaptation and resilience, particularly for the most vulnerable groups, and adopt norms, standards and certification mechanisms for sustainable finance.

The first edition of the Finance in Common Summit was a first step in strengthening joined-up approaches and underscored the crucial role of PDBs in reconciling short-term countercyclical responses with sustainable recovery measures that will have a long-term impact on the planet and societies.

We also know that the action required to achieve these results happen at the country level and require governments and partners both public and private to align and integrate resources, technical capacities and strategies to SDG and climate results in the recovery context. As such, the United Nations, including UNDP as the lead technical agency present at the country level, is committed to partnerships and collaboration that reinforces putting the SDGs at the heart of the financial system and manifesting integrated approaches to financing the SDGs at country level.

II. Background and objectives:

At the first edition of the **Finance in Common Summit (FiCS)**, the UN expressed their support for the coalition, encouraging PDBs to scale and implement commitments for SDGs and climate impact, and as observers to the FiCS, support commitments aligned to the Secretary General's Roadmap for Financing the 2030 Agenda.

The Summit's **Joint Declaration** affirmed banks' willingness to collectively shift their strategies, investment patterns and operating modalities

[1]Global Outlook on Financing for Sustainable Development, OECD 2021

to align with sustainable finance principles and contribute to the achievement of the SDGs and the objectives of the Paris Agreement while responding to the Covid-19 crisis. The Declaration also included the role of PDBs alongside other development finance stakeholders for investments to translate into sustainable and accountable impacts, building on countries' **Integrated National Financing Frameworks (INFFs).**

As observers to the FiCS Executive Committee and lead of the UN cluster on alignment of both public and private finance with the SDGs, UNDP has identified key tools, standards and initiatives which support the commitments of the Finance in Common Joint Declaration. As such, this note aims to: i) share how UNDP is contributing to the Finance in Common action areas alongside relevant PDB and partners; and ii) present how UNDP can support PDBs to implement their commitments, providing information on key tools, initiatives and country-based support available.

III. How UNDP is taking action to achieve Finance in Common ambitions

The SDGs and the Paris Accord provide the framework to direct finance towards development impact. This is how the UN approaches putting the SDGs at the heart of the financial system - through public-private collaboration and linking finance with impact through the SDGs. This also speaks directly to the FiCS' Joint Declaration commitments and subsequent action areas, where UNDP and DESA[2] as observers to the coalition is supporting policies, institutions and instruments that maximize the impact of public and private finance on the SDGs at both global and country levels.

At the global level, this includes convening of key institutions to advance collaboration across sectors and set common global objectives, such as the annual **SDG Investment Fair** where partners including PDBs to discuss concrete investment opportunities, and the **Global Investors for Sustainable Development (GISD) Alliance** in which the UN Secretary-General gathers prominent business leaders from all regions of the world to generate solutions to scale up finance and investment for the SDGs, including through leveraging on initiatives and networks that have already been launched as well as delivering concrete reforms to promote and accelerate long-term finance and investment in sustainable development. In addition to engagement with the FICS, the GISD has collaborated with the International Development Finance Club (IDFC) and PDBs for example regarding the Harmonized Indicators for Private Sector Operations (HIPSO) and G20 Sustainable Finance Working Group. **See more in Annex 2 and 3.**

In respect to access to private capital, UNDP complements those working on pipeline development in emerging economies with services that facilitate the flow of that capital to SDG related investment opportunities. UNDP does this through **SDG Investor Maps** which identify key SDG-related investment opportunities at the country level, and the recently created SDG Investor Platform, together with the SG's Global Investors for Sustainable Development Alliance and DESA. This Platform now includes the results of SDGs Investor Maps in 15 countries, with 252 **concrete investment opportunity areas.** **See more in Annex 1.**

UNDP's Finance Sector Hub

Given its track record working in public finance and private sector development, and more recently in unlocking private capital for the SDGs, UNDP established the SDG Finance Sector Hub (FSH) which offers a comprehensive package of methods and tools to enable governments, the private sector and international financial institutions to accelerate financing for the SDGs. From supporting national strategies that deepen public-private collaboration to developing global Standards for Private Equity funds, SDG Bonds and Enterprises, and investor maps for SDG-enabling investment at global, regional and national levels, the FSH brings the best of UNDP to accelerate progress of the SDGs.

Supporting its public and private partners, UNDP prioritizes response to COVID- 9 in ways that contribute to the overall objective of strengthening the finance systems necessary to achieve the SDGs. There can be no sustained COVID-19 recovery without building back better and adopting a more robust approach to financing the SDGs. Critical to a strengthened financing system will be ensuring complex risks are at the heart of financial decision making. Pandemic, climate and disaster risk, and economic shock will all need to be considered simultaneously as we consider financing a next generation of development plans. Equally important will be renewed trust in the institutions that make the financial decisions that determine our future.

[2]DESA Financing for Sustainable Development Office is part of the research program that supports IDFC and has co-authored a research paper on "Matching instruments with risks in development banks".

An example of UNDP's efforts to harness greater collaboration at the global level is in its support to the **G20 Sustainable Finance Working Group** for which UNDP been asked by the Italian Presidency to function as a Secretariat, under the leadership of USA and China. In that function UNDP is supporting evidence-based discussion for the creation of a G20 Sustainable Finance Roadmap[3] , which aims to provide guidance for the acceleration of sustainable finance around the world.

Recognizing the crucial role played by IFIs in driving and enabling country-owned ambitious climate action, as well as unlocking private climate financing, one of the five Roadmap's focus area prioritizes actions for enhancing the role of IFIs and public finance incentives in supporting the implementation of the Paris Agreement and the SDGs. As part of SFWG deliverables, the Secretariat has developed a list of international organizations, networks, and initiatives that are undertaking work supporting MDBs and NDBs in raising their ambition on climate action and assisting developing country partners in helping domestic financial systems align with the goals of the Paris Agreement.

Among its three priority areas advanced in 2021, the SFWG studied the role of International Financial Institutions, especially Multilateral Development Banks (MDB), in supporting the goals of the Paris Agreement and Agenda 2030. Building on inputs from the Paris Alignment Working Group (joint MDB working group), the SFWG developed a series of recommendations aiming at accelerating MDB progress and closing the gap between the scope of MDB climate work programs and the scale and speed required to achieve the goals of the Paris Agreement and the Agenda 2030. **See more in Annex 2.**

UNDP also recognizes the centrality of enabling improved impact management at the global level, so as to shift current systems of decision-making to put impact on people and the planet at the center of how business and investments are done. This is essential to successfully, authentically and verifiably put the SDGs at the heart of the financial system and moving from alignment to the SDGs to actions and actual impact. . The **OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD)** provide a framework for donors, development finance institutions (DFIs) and their private sector partners to make financial decisions and manage projects in ways that generate a positive impact on sustainable development, and improves the transparency of development results. The Standards seek to strengthen impact integrity and the capacity of investments to optimise contributions to sustainable development outcomes. In combination with **SDG Investor maps** which ensure capital is allocated where it can be most profitable and impactful at the local level, the Standards help ensuring such capital is managed considering impact at the core thus increasing its chance to contribute positively to the SDGs. **See more in Annex 1.**

At the national level around the world many countries are putting in place new or revised medium-term sustainable development plans to drive recovery from the effects of the covid-19 pandemic and build forward better toward their long-term sustainable development visions. The financing contexts in which this new generation of national development plans will be implemented are characterised by high financing needs, major recent or ongoing shocks across the public and private financing landscape and heightened uncertainty about the medium-term outlook.

Within these contexts, countries are using **Integrated National Financing Frameworks**, as highlighted in the FiCS Joint Declaration, to structure and bring together robust financing strategies that articulate the measures to be taken to mobilise, leverage and align the financing needed to realise their national development plans. These financing strategies bring together existing policies with opportunities for innovation and reform within a holistic, integrated framework. They aim to enable government to use and align the full range of policy tools (both existing and new) at its disposal for mobilising, leveraging and aligning investments in national priorities.

With UNDP's support as INFF technical lead in 70 countries, financing solutions and technical assistance opportunities are being identified to support the mobilization, leveraging and effective management of financing for development for national priorities. The INFF is also serving as a partnership platform, for example with the EU, IMF, UNDP and UNDESA establishing a 'scorecard' approach to map their respective activities which has been applied across a number of countries pursuing INFFs across the Africa and Asia-Pacific regions. UN DESA is also supporting selected countries to mobilize and align financing with national sustainable develop

[3]Note that the G20 Sustainable Finance Roadmap is still in a draft version and needs to be agreed by SFWG Members.

ment priorities under the framework provided by INFFs, together with UNCTAD and the 5 UN Regional Economic Commissions, in close coordination with UNDP and country Resident Coordinator Offices. . Additional INFF global guidance materials targeting specific sectors (e.g. climate change, transport, health), financing instruments (e.g. green and blue bonds), and types of countries (e.g. SIDS, LDCs) is being produced by the **Financing for Development Inter-agency Task Force**[4] under DESA's leadership. **See more in Annex 4.**

As a voluntary, country-led approach, SDG financing strategies are being tailored to national contexts and priorities including gender equality, youth empowerment, social protection, green growth and NDCs, education, health, and territorial development. INFFs offer a flexible approach for strengthening financing for these priorities within national institutions, bringing together existing elements within a more integrat-ed, holistic financing framework including regulatory and policy reforms. They also are serving as partnership platforms for SDG finance at the country level, with IFIs and MDBs engaging in the design process.

For example, Public Financial Management or Public Investment Management reform is a well-established area of support from the IMF, IFIs and other partners. When requested, UNDP complements their support with specific assistance to accelerate the integration of the SDGs into those government led reform agendas. For example, supporting **SDG budget coding and tracking in Ghana** or integrating the SDGs into **budget guidelines in Mongolia.**

Example: UNDP support to the Development Bank of Mongolia

UNDP has been cooperating with the Development Bank of Mongolia (DBM) in their adoption of the sustainable financing principles into their strategic planning and operations. As the DBM raises its funds from international financial market through loans and bonds, it has become increasingly important for DBM as well as a requirement from global investors that they have a proper framework in place and align their operations with sustainable financing principles.

UNDP has been supporting the practical implementation of their goal to integrate sustainability into their operations, by collaborating on the development of the sustainability policy, ESG risk policy, ESG risk assessment (generic as well as sector-specific) tools and guidelines. Based on the adoption of the complete ESG framework and alignment of their activities with the sustainable financing principles, the DBM aims to be able to better meet the demands from modern global investors and tap into the concessional sustainable financial resources, from partners such as the GCF.

Due to its size and importance in the financial industry, the alignment of DBM operations with sustainability has the impact of shifting the weight of financial flows to sustainable flows. It also has the unique opportunity to be a pioneer in the implementation of the other sustainable financing work that the country and international partners are doing, such as being the first adopter of the SDG taxonomy and MRV system that the UNDP is developing in Mongolia.

As governments and the private sector look to mobilise resources, via debt instruments, there are already well-established services provided by many organizations, as well as private sector outfits, to help financially structure and issue bonds. UNDP complements these services by providing support for governments and companies who want to ensure the use of proceeds delivers on the SDGs. UNDP is working to help bond issuers build impact into their work at all stages, using the SDG framework. We believe best way to do this is to provide guidance to bond issuers, with information and instructions in the form of assurance standards, that will help them be more accurate and impactful in developing and issuing SDG-enabling use-of-proceeds bonds.

[4]The IDFC is a member of the Inter-agency Task Force on Financing for Development and contributes to its annual report, the Financing for Sustainable Development Report. The IDFC made significant contributions to the 2021 FSDR, with most chapters of the 2021 FSDR including some mention of PDBs. In particular, the IDFC made significant contributions to the 2021 FSDR thematic chapter on risk-informed sustainable finance and development. The IDFC has also contributed to prior year reports, including a section on PDBs in the systemic chapter of 2019 FSDR.

Examples of SDG-related bond support

China

An example of a PDB adopting the SDG Impact Standards is the New Development Bank (NDB) which successfully issued a 3-year fixed rate RMB 5 bn ($767m) SDG Bond in the China Interbank Bond Market in March 2021. The SDG Bond was issued using the UNDP SDG Impact Standards for Bonds and UNDP SDG Finance Taxonomy (China), which verifies and authenticates the bonds' contribution to SDGs. The issuance garnered strong interest from a diversified investor base both onshore in mainland China, as well as offshore. The China SDG Finance Taxonomy, which is the first project classification system based on the SDGs, is a practical tool for operationalizing the "management approach" component of the Bond standards, by providing indicators/metrics to verify and benchmark the bonds contribution to the SDGs.

Indonesia

Since leading as the world's **first sovereign Green Sukuk issuer** in 2018, the oversubscription of which signaled huge interest from the global market, the Indonesia Ministry of Finance has raised more than US$2.75 billion from three annual issuances. The proceeds have financed and re-financed projects in renewable energy, energy efficiency, sustainable transportation, waste to energy and waste management, as well as climate resilience for vulnerable areas.
UNDP has **provided ongoing support** to the Ministry of Finance and relevant line ministries in developing and issuing Green Sukuk, including providing technical assistance and capacity-building, assisting with project selection, impact reporting, advocacy at national and international events, as well as analysis and research development.

In order to support countries in their strategies for alignment with Paris Agreement and in support of implementation of Nationally Determined Contributions (NDCs), **UNDP is also supporting countries** to achieve transformational development progress by scaling up action on climate change. Specifically, countries will use their NDCs as a tool for transitioning to a climate-resilient, zero-carbon pathway which will help them lock in adequate sustainable infrastructures to meet the complex economic, societal and planetary needs of the 21st century. **UNDP's Climate Promise** is the world's largest offer of support to countries on NDCs, assisting 119 countries in collaboration with 35 partners, as a contribution to the NDC Partnership. It draws upon UNDP's extensive portfolio of expertise across priorities such as energy, forests, water, resilience, agriculture, health, youth, finance, governance, gender equality and green jobs. **See more in Annex 5.**

Aiming to tackle poverty and inequality and to support "just transition", UNDP has developed a corporate social protection offer building on the social protection component of COVID-19 2.0 offer which aims to provide not only immediate relief but also look beyond recovery, towards 2030. As such, it is part of UNDP's response to the new economic paradigm called for by the current crisis and is centered on a new social contract that is people centred and creates equal opportunities and respects human rights. The offer leverages opportunities for digital, green and governance transformations, and focuses on (i) protecting people from multiple vulnerabilities, targeting the poorest and most vulnerable, and (ii) empowering them by increasing productive capacities and enhancing capabilities. This multidimensional approach to social protection is a key policy lever to connect and contribute to other development goals, such as fighting climate change,