REPORT

The State of SDG-Era Lending

An independent assessment of development lending reforms to date and practical proposals for the way forward

german cooperation
DEUTSCHE ZUSAMMENARBEIT

Implemented by
giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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United Nations Research Institute for Social Development

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Executive Summary

The Addis Ababa Action Plan on Financing for Development (AAAA) (2015), negotiated by the world's governments to support the financing of the 2030 Agenda for Sustainable Development, states that development banks should "update and develop their policies in support of the post-2015 development agenda, including the sustainable development goals" and that "multilateral development finance institutions [should] establish a process to examine their own role, scale and functioning to enable them to adapt and be fully responsive to the sustainable development agenda".

In light of this commitment, this study reviews trends in development finance since 2015, including since the onset of the COVID-19 pandemic.

The paper is written on the basis of a theory of change that lasting reform in Multialteral Development Banks (MDBs) can only come through multiple levels and with multiple actors involved – from the strategic to the specific level – permeating MDB coordination, board discussions, loan portfolio choices, analytical frameworks, and even procurement processes. It also demands a re-alignment of entire portfolios and principles of lending with the Sustainable Development Goals (SDGs), rather than just thinking of specific loans or loan categories.

The study is written with a number of stakeholders in mind. First, the Multilateral Development Banks and Regional Development Banks (RDBs) themselves. Second, the majority of UN member states, often minor shareholders of the banks, who are aligning their national goals with the SDGs. Third, the large shareholders of the banks who, through their decision-making status have significant opportunity to encourage greater alignment and progress in this area.

The study uses five sets of evidence for the review.

Figure 1. Evidence Reviewed

Document analysis	Review of (loan documents, plus policy positions and evaluations where available to assess the definition(s), purpose, design, use, and processes.
Literature review	Identify trends in academic and think tank discussions regarding lending in the SDG era and link to development effectiveness literature.
Country-level analysis	Information on resource allocation (loans) by (sub)regions, five case study countries, thematic areas, type of donor, etc.
Data and loan analysis	Analysis of randomised loan samples from four MDBs (WB, AfDB, AIIB, NDB) to identify the quantity and quality of SDG tagging and alignment.
Interviews	Calls/online interviews with current/ ex- MDB officials, recipients, and donor governments, academia and civil society (incl. regional networks on debt and development).

The study also uses five specific country case studies for the review – Ghana, Cambodia, Egypt, Mexico and Colombia.

This study is crucial for two reasons.

First, because many low- and middle-income countries have worked hard over the last six years to align their national development frameworks with the SDGs. It is important to analyse how responsive the international system has been in supporting these significant efforts.

Second, because development finance is a scarce resource. Ultimately, as recognized at the Addis conference, all public and private finance needs to be aligned with the objectives and principles of the 2030 Agenda for Sustainable Development. It is therefore important to assess the extent to which any changes in lending modalities have ensured full responsiveness to the Agenda, understand the barriers to doing so and seek to resolve them.

Using five groups of SDG-related directions we would expect the sector to adopt as it moves in an SDG direction, and considering the 12 specific assessment metrics illustrated in Table 1, we find that overall little has changed within pre-existing development banks since the SDGs were agreed upon and the Addis Ababa commitments were made. In some cases, where there are changes in results, they are externally driven, not due to internal efforts. Although some newer banks explicitly focus on the SDGs strategically, there is little evidence of the difference this is making in analysis and delivery, especially with regards to the rest of the ecosystem of the MDBs. The only key exception is loans "tagging", which is taking place although not systematically.

Table 1. Overall assessment scorecard for twelve SDG alignment metrics

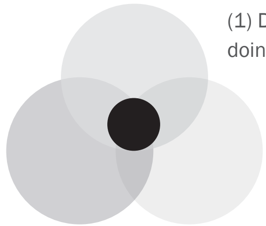
Expected change due to AAAA	Effort	Results
1. Management-level coordination amongst MDBs	Red	Red
2. MDB board discussions	Yellow	Red
3. Newer themes	Yellow	Yellow
4. Increased volumes	Yellow	Red
5. Assessing synergies/trade-offs	Yellow	Yellow
6. Actively reaching the furthest away	Yellow	Yellow
7. Considering universality	Yellow	Red
8. Reducing conditionality	Red	Yellow
9. Participatory approaches	Red	Red
10. Increased concessionality	Red	Yellow
11. Assessing spending needs and spending quality	Red	Red
12. Tagging loans for impact	Green	Yellow

Traffic light scoring legend

- Green: High level of effort / result
- Yellow: Medium level of effort / result
- Red: Low level of effort / result

The key question is *why* such a lack of progress – because understanding why can help to elucidate on the path ahead. There are three possibilities for why there has been little change, shown in the diagram below.

Figure 2. Reasons for lack of progress



(1) Development banks are already doing enough against these metrics

(2) The recipient governments are not committed to the SDGs

(3) Shareholders and the senior leadership of development banks are not sufficiently aware of and/or committed to the SDGs to demand and drive change

Our assessment is that amongst these, lack of awareness and commitment by shareholders and senior leadership of banks (3) is the most credible source of challenges in aligning with SDGs – an assessment that is backed up by several interviews and the literature review.

This suggests the following five key actions are necessary over the next year (i.e., during 2022) if the commitment made at Addis Ababa to align with the SDGs is to be met.

Figure 3. Five key actions to achieve the AAAA

TAKE ACTION NOW

Initiate an independent annual review of progress

Design and publish consistent metrics to measure progress

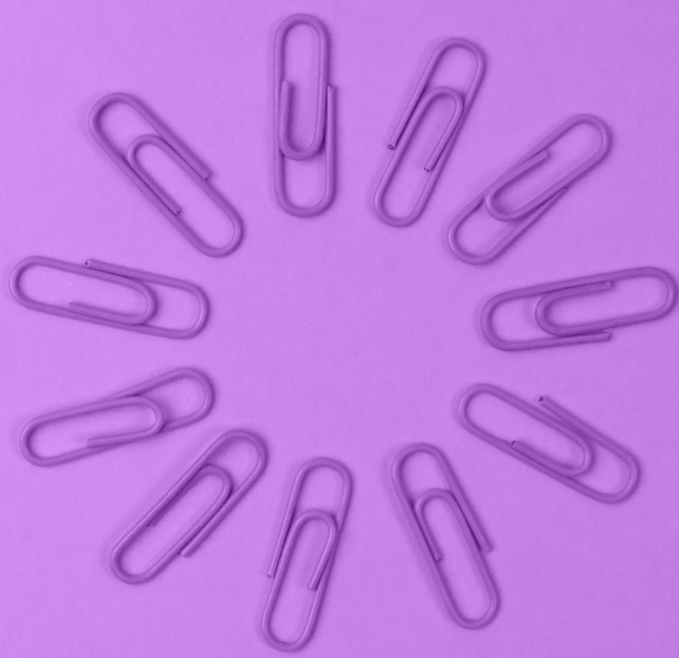
Improve MDB group convenings

Deliver on some "low hanging fruit" to demonstrate trust

Work to increase diversity in MDBs senior leadership, staffing and procurement

With these five steps, we are hopeful that development bank practices – including policy advice support – can lead to a forward oriented crisis recovery and reforms in the transformative, integrated spirit of the 2030 Agenda. Overall, the aim within all of these should be to use a framework such as the twelve means of practical SDG alignment we have used for the analysis above to drive substantive progress.

SECTION 1



Introduction

Objective and rationale

The Addis Ababa Action Plan on Financing for Development (2015), negotiated by the world's governments to support the financing of the 2030 Agenda for Sustainable Development, states that development banks should, "update and develop their policies in support of the post-2015 development agenda, including the sustainable development goals" and that "multilateral development finance institutions [should] establish a process to examine their own role, scale and functioning to enable them to adapt and be fully responsive to the sustainable development agenda".

In light of this commitment, this study reviewed trends in development finance since 2015, including since the onset of the COVID-19 pandemic. It sets out a clear, impartial, and holistic framework for assessing – six years later – what development lending currently looks like, and then makes suggestions for what can be done to ensure a stronger alignment between development lending and the Sustainable Development Goals. The study is particularly interested in stimulating alignment between policy-based lending and the 2030 Agenda – if that is possible.

This study is crucial for two reasons.

First, because many countries, including in the Global South – developing countries in particular – have been working hard over the last six years to align their own national frameworks and development objectives with the SDGs. It is important to analyse how responsive the international system has been in supporting these significant efforts, particularly in respect to the provision of development finance.

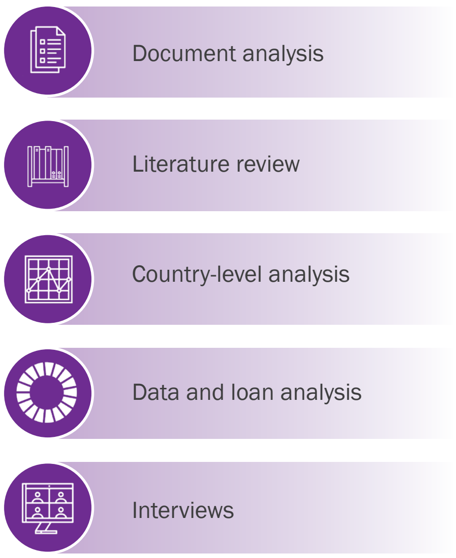
Second, because development finance is a scarce resource. Ultimately, as recognized at the Addis conference, all public and private finance needs to be aligned with the objectives and principles of the 2030 Agenda for Sustainable Development. It is therefore important to assess the extent to which any changes in lending modalities have ensured full responsiveness to the Agenda, and/or to understand the barriers to doing so and seek to resolve them.

This paper was written with a number of stakeholders in mind. First, and most importantly, the majority of UN member States, often minor shareholders of the Multilateral Development Banks (MDBs) and Regional Development Banks (RDBs), who are aligning their national goals with the SDGs and seeking to make progress across all dimensions of sustainable development. Second, the large shareholders of the MDBs and RDBs who, through their shareholding and therefore decision-making status, have significant opportunity to encourage greater alignment and progress in this area.

Methodology and approach

This study has been conducted using five particular sources of evidence, as shown in Figure 1.

Figure 4. Evidence reviewed



The five sources of evidence are explained as follows:

Document analysis

A desk-based review of documents (loan documents, plus policy positions and evaluations where available)

and areas of improvement regarding governance, accountability, and effectiveness in lending in the SDG era. The study also examines overall trends in lending by multilaterals in Latin America, Africa and Asia and the literature around SDG alignment.

Data analysis

Obtain information on resource allocation (loans) by (sub)regions, case study countries, thematic areas, type of donor, etc. Furthermore, institutional documents of the studied MDBs (e.g., Annual Reports, Institutional Strategies, Sustainability Frameworks, etc.,) are analysed with the objective of understanding the degree of inclusion of the SDGs serving as guidance for the institutions' work, specifically to investigate whether the approval of the SDGs signified a change in the MDB's approaches regarding debt sustainability, thematic focuses, conditionality, and processes, among others. Similarly, the MDBs official websites are analysed to determine the extent to which reports, infographics and databases specifically focus on the bank's work regarding SDGs.

Loan analysis

Beyond the insights gathered from the Document and Data analysis, this report is also supported by an analysis of randomised loan samples from four major development banks (the World Bank (WB), the African Development Bank (AfDB), the Asian Infrastructure Investment Bank (AIIB), and the New Development Bank (NDB). This randomised examination seeks to identify the *quantity* and *quality* of SDG tagging and alignment of the four banks' loan portfolios, looking specifically if the randomised loan mentioned the SDGs, where it was mentioned, and how it was mentioned, so as to gather the actual extent of the banks' SDG commitment. The analytical criteria are kept identical across the four