Center for Global Development

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Rising to the SDG Challenge

The Unique Contribution of the International Development Finance Club

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KEY TAKEAWAYS

- The IDFC represents a unique model for the international development system, defined by a diverse set of institutions with a strong country-led focus and private sector orientation.
- IDFC institutions collectively bring considerable financial and strategic resources to meet SDG financing needs and appear to be well matched to respond to key SDG requirements, including the call for nationally led development strategies and the need for substantial private sector and non-sovereign investment, particularly in infrastructure.
- Through a greater commitment to SDG-oriented activities, IDFC members could demonstrate the value of organizing around national, bilateral, and multilateral development institutions to address the leading development challenges in the years ahead.

THE SDG CONTEXT FOR IDFC FINANCING

The Sustainable Development Goals face a key dilemma. Major multilateral institutions like the World Bank and the other core multilateral development banks (MDBs) have played a leadership role in shaping the SDG financing framework. However, there is a significant misalignment between the structure of these institutions and the SDG financing needs.

Specifically, the SDGs put countries, not multilateral institutions or foreign donors, at the forefront in achieving the SDGs. Further, the SDG financing agenda identifies an important role for the private sector and other non-sovereign actors, including state/provincial and municipal governments. For the MDBs, non-sovereign engagement has been an important but lesser element of their business models, which continue to rely primarily on direct lending to national governments.

This brief is based on a forthcoming CGD report, *The International Development Finance Club and the Sustainable Development Goals: Impact, Opportunities, and Challenges.*

While the MDBs will have an important role to play, institutions that have stronger ties at the country level to these non-sovereign actors would be better suited to drive SDG progress. From a multilateral perspective, linkages between leading country-level actors, bilateral development finance institutions, and regional development banks hold particular promise in better informing the SDG agenda and motivating action at the national level.

From this standpoint, ***the IDFC is uniquely positioned to play a leadership role on the SDGs going forward***. The 22 IDFC member institutions surveyed in this study embrace a variety of models, though all share in common that they are located or operate in developing economies. Some act as national banks, focused primarily on domestic financing. Others act as bilateral aid agencies and development finance institutions; still others act as regional and multilateral development institutions. Irrespective of their models, IDFC member institutions "share a similar vision of development strategies to be pursued inter alia to support sustainable improvements in economic, environmental, social and human development."[1]

BOX 1. SDG BEST PRACTICES

When asked about best practice on SDG financing, IDFC members reported a wide range of activities and innovations across relevant sectors.

Small and medium enterprise engagement. Members reported significant engagement in SME finance as an important channel for development progress around key objectives like climate change mitigation and gender equality.

Financial product innovation. There are multiple examples of successful innovative approaches to financing, such as green and social bond issuances. Several IDFC institutions report being first or early movers in the issuance of these types of bonds for their countries.

Non-financing activities. Members reported technical assistance in various forms, including training programs, as key to ensuring success in the institution's project finance and supporting overall development progress. Members also reported research activities with significant reach and influence in informing the global development community.

Institutional partnerships. IDFC members cited the importance of leveraging the their financing and expertise by working with complementary geographic and sectoral partners, with IDFC members themselves, and with other development partners, such as MDBs and foundations.

MAPPING THE IDFC LANDSCAPE

If the characteristics of SDG financing challenges and opportunities suggest that IDFC members are uniquely positioned to provide leadership, just how fit for purpose are they? Below is a snapshot of IDFC member activities, drawn from more extensive research contained in the forthcoming CGD report.[2]

The IDFC has a diverse membership that extends well beyond a collection of national development banks

The IDFC member institutions vary considerably by type when it comes to ownership and operations in relation to ownership. Most of the IDFC's members are national institutions, but six are multilateral with ownership distributed across member countries. Among the nationally owned institutions, six only operate domestically; eight operate domestically and internationally; and two only internationally. ***See Figure 1.***

The IDFC is well-positioned to lead the SDG agenda due to the collective magnitude of its financial assets

Measured on an asset basis, IDFC members in aggregate represent a far larger share of SDG-relevant financing than the core MDBs—\$3.7 trillion compared to \$1.5 trillion. China Development Bank (CDB) alone has significantly more assets under management than the MDBs as a group. Setting aside CDB, the balance of IDFC assets is roughly on par with core MDB assets. This scale of official finance points to the potential power of the IDFC as an organizing platform for the SDG agenda. ***See Figure 2.***

1 Official IDFC website, https://www.idfc.org/Who-We-Are/who-we-are.aspx

2 Not all graphical presentations in this brief reflect complete information for all IDFC institutions.

A SNAPSHOT OF THE IDFC

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Figure 1. The IDFC is more than a collection of development banks

Multilateral	National		
	Domestic Only	Blend	Int'l Only
• BOAD - Banque Oueste Africaine de Développement • BSTDB - Black Sea Trade and Development Bank • CABEI - Central American Bank for Economic Integration • CAF - Development Bank of Latin America • ICD - Islamic Corporation for the Development of the Private Sector • TDB - The Eastern and Southern African Trade and Development Bank	• BE - Banco Estado • CDG - Caisse de Dépôt et de Gestion • HBOR - Croatian Bank for Reconstruction and Development • NAFIN - Nacional Financiera • SIDBI - Small Industries Development Bank of India • TSKB - Industrial Development Bank of Turkey	• Bancóldex • BNDES - Banco Nacional de Desenvolvimento Econômico e Social • CDB - China Development Bank • COFIDE - Corporación Financiera de Desarrollo • DBSA - Development Bank of Southern Africa • KDB - The Korea Development Bank • KFW - KfW Bankengruppe • VEB - Vnesheconombank	• AFD - Agence Française de Développement • JICA - Japan International Cooperation Agency

Figure 2. The total assets of IDFC institutions are significantly greater than the total assets of core MDBs ($US millions)

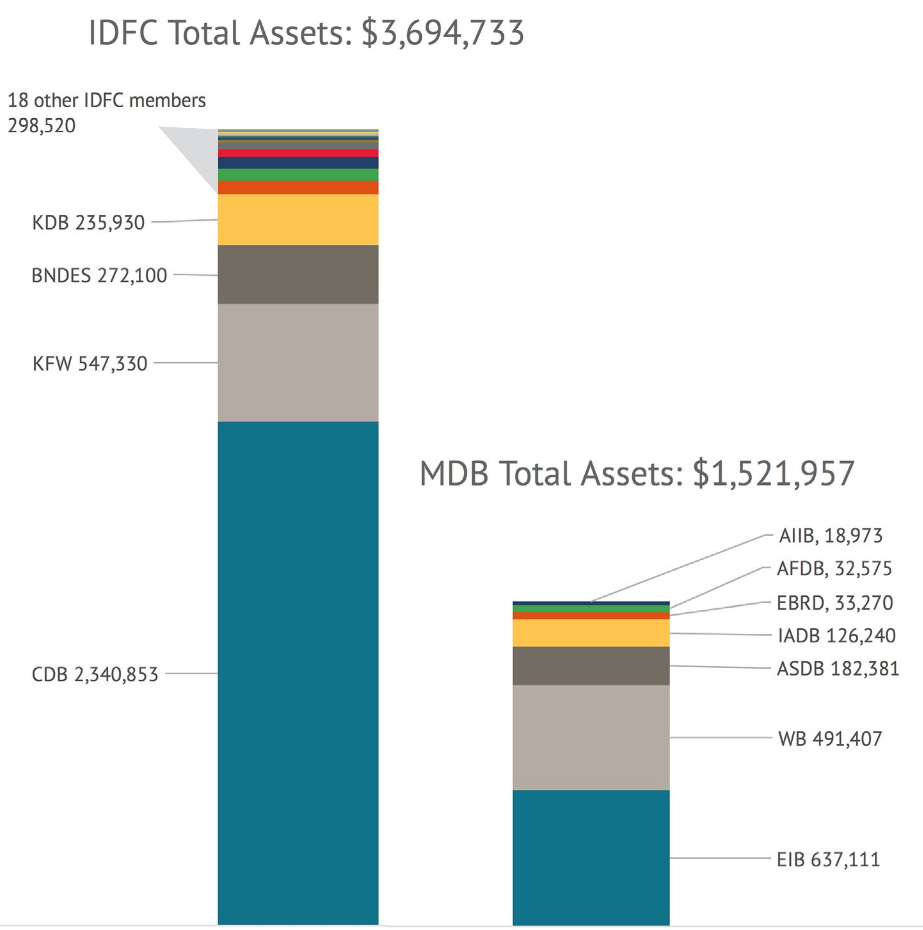


Figure 3. Loans make up the vast majority of IDFC commitments

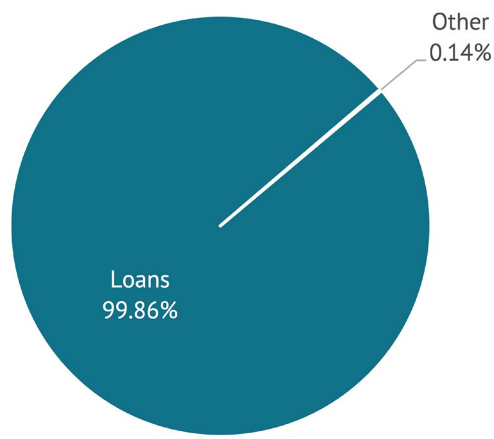
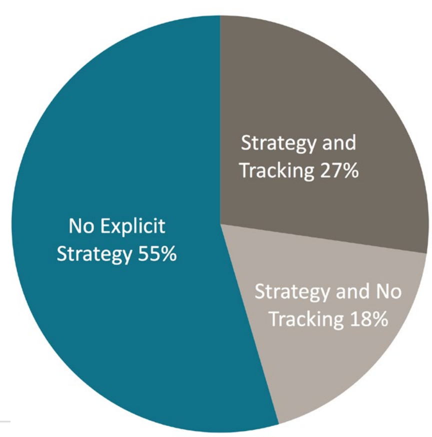


Figure 4. Most IDFC members do not have a clear SDG strategy



These graphics are drawn from a forthcoming CGD report, *The International Development Finance Club and the Sustainable Development Goals: Impact, Opportunities, and Challenges.*

Figure 5. A number of IDFC institutions are working on most SDGs

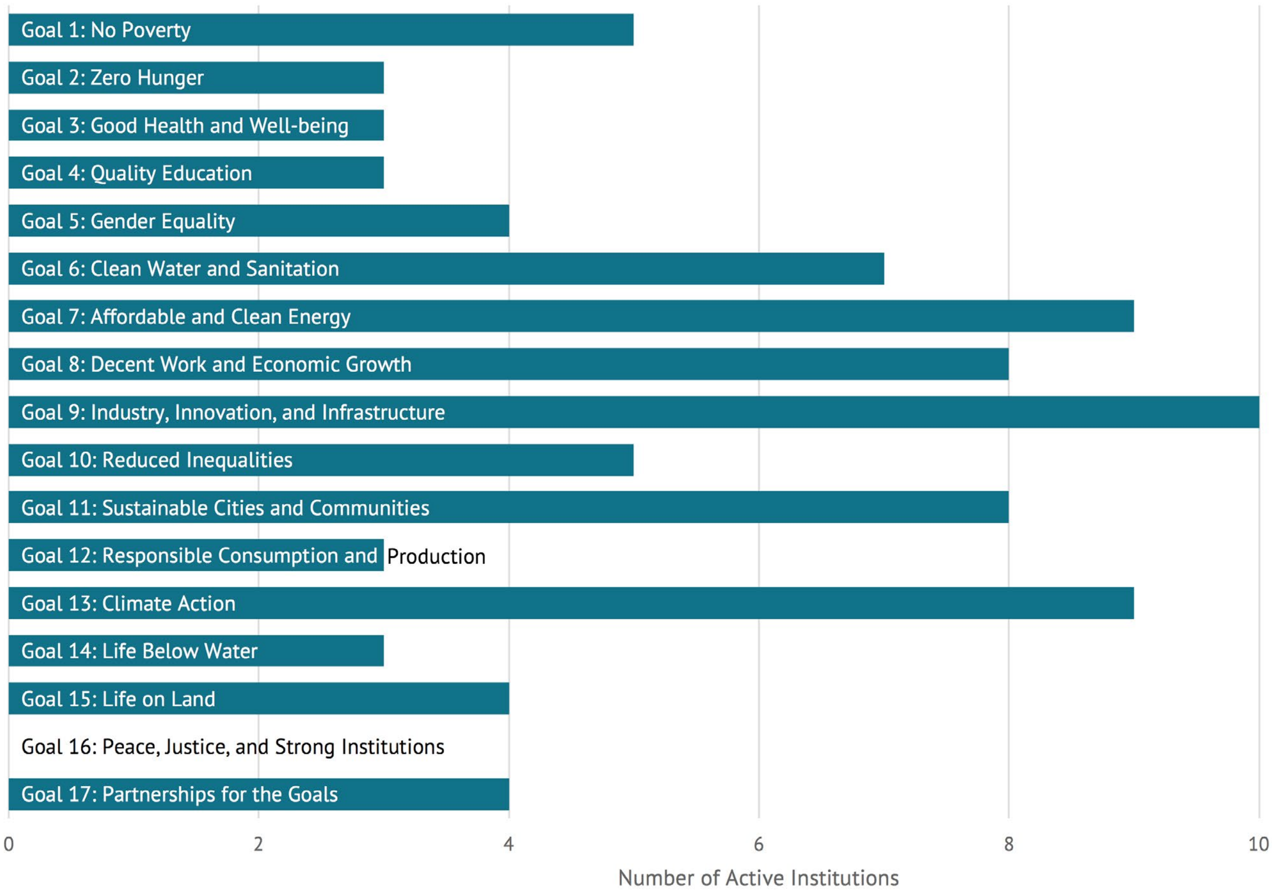


Figure 6. IDFC members follow environmental and social safeguards

	Uses ESS Safeguards	Aligned with international standards	Partially adopted / working towards international standards	Compliant with domestic / regional standards	Green Climate Fund Accredited
AFD	x	x			x
Banco Estado	x		x	x	
Bancoldex	x		x		
BNDES	x		x	x	
BOAD	x			x	x
BTSDB	x	x			
CABEI	x	x		x	x
CAF	x		x		x
CDB	x		x		
CDG	x				x
DBSA	x	x		x	x
HBOR	x		x	x	
ICD	x	x			
JICA	x		x		x
KDB	x	x		x	x
KFW	x	x		x	x
NAFIN	x		x	x	
SIDBI	x			x	x
TDB	x			x	
TSKB	x	x			
VEB	x			x	

Loans account for the large majority of IDFC commitments

IDFC members predominately rely on loans among possible financial instruments, with a very small share of resources devoted to guarantees, equity, grants, and technical assistance; more than 99 percent of IDFC commitments are in the form of loans. Going forward, increased attention to crowding in private investment for development purposes may lead to greater diversification of financial instruments and activities among the membership. ***See Figure 3.***

A minority of IDFC members have an identifiable SDG strategy that informs their operations

More than half of IDFC members do not have an explicit SDG strategy that informs their operations. Among those that do, few track their operations according to their strategy. ***See Figure 4.***

Even so, there is a high degree of alignment between IDFC-reported activities and the SDGs

IDFC members report some degree of relevance for all the SDGs except SDG 16, "Peace, Justice, and Strong Institutions." SDGs related to infrastructure, industry, and environmental goals are most commonly identified among IDFC members, consistent with the patterns of financing identified in the report. ***See Figure 5.***

All IDFC members report using environmental and social safeguards, with most either aligned with or working toward international standards

More than two-third of IDFC members have fully or partially adopted, or are moving toward adopting, environmental and social safeguards consistent with international standards such as the IFC Performance Standards, the World Bank Environment and Social Framework, and the Equator Principles. Some members also report that they are aligned or compliant with domestic standards in these areas. Revealed in this reporting are clear mandates to provide safeguards, but a wide range of practices and standards in this regard. ***See Figure 6.***

BOX 2. BARRIERS TO SDG PROGRESS

IDFC members reported many barriers to progress on the SDGs, including:

- Lack of clear and comprehensive SDG strategies within countries, regions, and across sectors
- Lack of technical capacity in assessing project risk
- Weak market conditions that deter private investment
- Weak logistics infrastructure, including lack of long-term planning and coordination
- Constraints in concessional finance availability and fiscal space in governments
- Constraints due to the assessment standards of credit rating agencies
- Negative attitudes towards SDGs as an organizing principle within development finance institutions

THE AGENDA AHEAD

Despite a large presence in the SDG landscape, the IDFC and its members could be better aligned with the SDG agenda in ways that would drive development progress globally. The IDFC could play a stronger role on behalf of its membership in this regard in a number of areas:

Adopting SDG frameworks and tracking

IDFC members have a high degree of relevance for the SDGs, but few have a clear strategy focused on SDG achievement. Few of the members reported using an SDG framework to help drive operational strategy or track financing activities. IDFC members should consider the degree to which an explicit adoption of the SDGs as an input into strategy and operations could help to identify gaps and opportunities consistent with their existing missions and strategies. The club secretariat would likely need to play a strong coordinating role in seeking member commitments to adopt SDG frameworks and tracking mechanisms.

Pursuing a broader SDG mandate

Members should consider the degree to which they wish to make the club **a meaningful platform for coordination, deliberation, and visibility** for the broader SDG agenda. A broader agenda implies **a wider set of demands on members**, and also suggests that IDFC members could be asked to deliberate on issues, some sensitive, that have not been invoked in discussions to date, such as data transparency broadly defined or debt sustainability standards. A decision by IDFC members to support a broader operational mandate implies **a more robust secretariat** to support a wider range of reporting activities, information gathering, agenda setting, and convening.

Considering the elements of a broader SDG agenda

A broader focus on SDG financing for IDFC member institutions could include the following elements:

- collaborative annual reporting
- dialogue and deliberation on standard setting and operational strategies
- project collaboration
- information sharing on best practices in blended finance
- prioritizing learning from investments in fragile settings

The IDFC represents a unique model for the international development system, defined by a diverse set of institutions with a strong country-led focus and private sector orientation. To date, the club has demonstrated strong leadership on the climate finance agenda. But its full potential has been underexploited on the broader development agenda reflected in the SDGs.

Through a greater commitment to a range of new activities within the club, the IDFC's members could demonstrate the value of organizing around national, bilateral, and multilateral development institutions to address the leading development challenges in the years ahead.

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