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12 November 2020
Finance in Common
The first global summit of Public Development Banks

"Building resilience for people and planet"

CONCEPT PAPER

WHAT

Finance in Common, the first global summit of Public Development Banks, will be held in Paris in November 2020 to address the common need to build new forms of prosperity that take care of the living (people and planet) in a resilient manner.

In the context of our current global health crisis, Finance in Common will highlight the crucial role of Public Development Banks both during the crisis and in the recovery phase when it will be essential to help economies advance in the right direction, reconciling short term stimulus and long-term impacts on nature and society. We are not yet united enough to face the rapid health crisis and manage in a sustainable way its consequences. Gathering Public Development Banks from around the world, Finance in Common is an opportunity to:

– propose a new coalition of actors and launch a collective dynamic aimed at fostering the emergence of a global response to global challenges, and

– demonstrate their potential in linking short-term needs with long-term transformations, in redirecting finance flows towards sustainable development objectives.

WHEN, WHERE

The Finance in Common Summit is taking place 12 November 2020 in partnership with the Paris Peace Forum, an annual event focused on improving global governance. The Summit is expected to contribute to the COP26 agenda and the G20 Summit.

On 10 November Finance in Common will host a research conference, during which a consortium of prominent academic institutions will present papers and share insights about how Public Development Banks can produce better finance over the long-term.

WHO

Under the patronage of UN Secretary-General António Guterres and President Emmanuel Macron (tbc), the Finance in Common Summit is an initiative of the World Federation of Development Finance Institutions (WFDFI) and the International Development Finance Club (IDFC). Convened by the Agence française de développement (AFD), with the support of Multilateral Development Banks, all regional associations of Public Development Banks (ALIDE, AADFI, ADFIAP, ADFIMI, ELTI, EAPB, EDFI), relevant international institutions (UNDP, UNEP, OECD and the European Commission) and the Caisse des Dépôts et Consignations, the first edition of the Finance in Common Summit will gather the whole development bank community along with other key stakeholders, such as Heads of State, governments, supervisors, and representatives from the private sector, civil society, think tanks and academia."

WHY

There are about 400 Public Development Banks (also called Development Finance Institutions) around the world, operating at sub-national, national, regional, international and multilateral levels. Public Development Banks share three main attributes:

- They are public institutions controlled or supported by governments, with a mission to perform public mandates.
- They enjoy independent legal status and financial autonomy.
- They have as their primary activity the financing of positive investments, to the exclusion of speculation.

The volume of activity of these institutions amounts to about USD 2 trillion annually – a staggering 10 percent of the total amount invested in the world every year by all public and private sources combined. With their public mandates and counter-cyclical roles, Public Development Banks are more relevant than ever to contribute to the reconciliation of economic recovery and sustainable development. These institutions represent a "visible hand" that can help mobilize and direct the finance we need for the future we want.

What type of collective action is required to avoid a long recession and make the post-COVID-19 recovery a sustainable one? How can Public Development Banks achieve such a role and responsibility and take on board more private investment? How can they serve as a guide to navigate through complexity and uncertainties to better invest during and after the crisis? These questions will be at the core of the Finance in Common Summit.

Public Development Banks are already supporting the climate and SDG agendas by providing long-term or concessional resources; by initiating knowledge-sharing and technical-assistance programs; and by promoting private-sector involvement. A growing number of these Public Development Banks are also setting new requirements for the allocation of their own funding, striving to align with the goals of the Paris Agreement and the SDGs. However, the reorientation of global finance towards climate and SDGs needs a deeper and more coordinated effort.

Such coordination among Public Development Banks would eventually link international policy issues with local solutions, and governments' ability to determine sustainable development trajectories with private-sector opportunities. The role of Public Development Banks is precisely that of turning policy objectives into concrete action. These public institutions constitute a new and large coalition of actors. They are organized by region, with historic support from regional Multilateral Development Banks (MDBs), and are deeply rooted in local economies. They have a key role among local stakeholders and can deploy a wide range of powerful instruments for bridging market failures, mobilizing domestic resources, redirecting investments, supporting private sector mobilization and promoting sustainability. They are able to deliver both the "first mile" and the "last mile" of funding, connecting policy intentions with results on the ground – before, after, or in conjunction with financial markets.

Public Development Banks are currently experiencing a renaissance. Some have already been active for decades, and an increasing number of governments are strengthening, establishing or planning to create new Public Development Banks. Strengthened by a new vision of development financing – which extends beyond the scope of infrastructure investment or other traditional mandates and which is capable of mobilizing both government institutions and financial markets – Public Development Banks can help deliver the institutional change and real economy outcomes needed to turn the UN Sustainable Development Goals into reality. Their investments and their advice to governments can, for example, boost investment in social infrastructure (for healthcare, notably) and can also enable internal combustion engine phase-outs, give countries the confidence to put in place coal moratoria, roll-out efficient, climate-friendly cooling and industrial heat, increase the use of nature-based solutions, and get serious money into adaptation, recovery, and resilience.

IDENTIFIED ISSUES

Renewed academic research is under way to assess the roles, strategies, business models, operations and effectiveness of these institutions, explore their potential, but also identify their needs in terms of governance and regulatory environments to better meet and stimulate demand. Preliminary results identify four major issues that need to be addressed:

1. Mandate and Governance: Governments could bring a significant contribution to unlock the full potential of Public Development Banks by clarifying and strengthening the mandates of their development banks to better recognize their counter-cyclical role and integrate the goals of the Paris Agreement and the SDGs. Very few Public Development Banks currently benefit from explicit mandates related to these agendas, to finance both green and social infrastructure, notably healthcare, and to contribute to making the financial system sustainable. Best practices on how to effectively govern development banks (financial autonomy, transparency, accountability, etc.) could also be discussed during the Finance in Common Summit. Public Development Banks could also share the value of implementing best common environmental and social standards in their policies, in order to improve the quality of their financing as well as to better cooperate.

2. Characterization of "SDI", climate and SDG-compatible investments: In a post-COVID-19 world, common frameworks to characterize what is aligned with long-term climate and SDG-compatible trajectories – and what is not – are essential to ensure that all types of investors (public and private, local and international) are working in the direction of sustainability. The absence of such overall guidance represents a major challenge to coherence of action. The adoption of such a "*Sustainable Development Investment (SDI) Label*" by the UN was a key recommendation of the Global Sustainable Development Report (GSDR) 2019. On SDG alignment, the G7-mandated initiative led by the UNDP and the OECD will present its first results at the end of 2020. The use of taxonomies, including the framework for sustainable investment developed by the European Union, can also be a useful basis to support investment in certain assets or to support climate-related risk analysis. MDBs and the IDFC, committed to aligning with the Paris Agreement, are also making progress in defining the appropriate methodology. Building along with others on their experience regarding climate finance tracking and accounting, Development Banks are well placed to contribute actively to the elaboration of this SDI label.

3. Business models and Incentives provided by governments to support the strategies of Public Development Banks also need to be reviewed to better serve their innovative and transformative roles. In order to help "*shift the trillions*", Development Banks should rethink their intervention with the public sector while enhancing their collaboration with the private sector, including capital markets, so as to provide liquidity in times of crisis and increasingly operate as enablers of sustainable development investment through innovative instruments rather than as sole direct lenders. Public Development Banks could also refine their model to better address challenges facing low-income and fragile territories and concentrate public means on the poorest. These new policies and instruments will have a significant impact on the existing business models of Public Development Banks that will have to be redefined with the help of their shareholders. Various types of incentives (capital, funding, concessional resources, guarantees, etc.), which are already provided by governments to bolster the capacity of Public Development Banks to take more risks, could be reinforced. In addition, incentivizing financial regulatory frameworks on asset-based criteria could be useful to promote transparency and increase climate and sustainable development investments.

4. A comprehensive, coherent and efficient global development finance architecture could emerge from the Summit, building on the World Federation of DFIs, to make optimal use of the diversity of Public Development Banks (multilateral, international, regional, national and local) and support multilateralism. Their respective capacities to adopt and promote best common standards and methodologies through cooperation could improve the quality of their investments, spur collective action and foster collaboration with private actors, with the view to reorient private finance and investments towards climate and SDGs. Of particular consideration is the facilitation of direct access to concessional resources by all Public Development Banks, acting as a system.

EXPECTED DELIVERABLES

The community of Development Banks could reach an agreement by November 2020 on:

- A Public Development Banks research paper (or series of papers) explaining the role and business model of Public Development Banks, their governance and stakeholders, their operations and impacts.

- A collective Statement of all Public Development Banks declaring their willingness to align with sustainable finance principles; to incorporate the objectives of the Paris Agreement, the objectives of the Convention on Biodiversity diversity and the 2030 Agenda into their business strategy, core standards and impact analysis; and to account for progress made. MDBs and the IDFC, which are more advanced in this process, could unveil or share a detailed joint framework for alignment with the Paris Agreement. The UNDP-OECD initiative on Aligning Finance with the SDGs, which will produce a draft report by November 2020, will help provide a technically robust framework that defines what financing sustainable development means.

- Within the Paris Peace Forum, the purpose of which is to advance concrete governance solutions and scale-up projects, the Finance in Common Summit could be the occasion to launch concrete measures and initiatives. A specific Call for Projects to select innovative projects, focused on the operational response to the COVID-19 crisis and financed by Public Development Banks, could also be showcased during the Forum in Paris. Donors could take the opportunity of the Summit to announce initiatives to support and incentivize the alignment of Public Development Banks with SDGs.

Moving forward, the Finance in Common Summit could also welcome individual statements from a number of Heads of State and governments and all willing stakeholders outlining concrete commitments to adjust their mandates and support the work of their Public Development Banks towards climate and SDGs.

By mobilizing and challenging a new and significant global community with enhanced capacity of action, and by promoting sustained collective action, the Finance in Common Summit seeks to contribute significantly to the success of the UNSG's "*Decade of Action*".