PDBs' catalytic role in achieving the UN SDGs

November 2022

Natixis CIB is delighted to release this study on development finance alignment with the Sustainable Development Goals (SDG), authored by its Green & Sustainable Hub. It is the final written output of an advisory mission performed on behalf of the International Development Finance Club (IDFC) from September 2021 to October 2022[1]. It aggregates the findings of exchanges and workshops with IDFC members, interviews with stakeholders, an investor survey[2], a literature review on SDG advancement, as well as a stocktaking of current practices.

The main audience of this report is logically Public Development Banks (PDBs). Nevertheless, the concepts and tools developed may inspire other institutions. This study indeed includes recommendations related to national officials, development planers, consultancy firms, impact assessment specialists, institutional investors or credit rating agencies (CRAs).

The views and recommendations expressed here only engage Natixis' authors. Nonetheless, the IDFC Secretariat and the members of the Club acknowledge their soundness. These proposals are not meant to remain on paper. Now begins a time for appropriation and implementation. The most salient proposed concepts have been tested during a dedicated seminar held in Paris on September 2022 with several IDFC members[3]. Appropriation and action can be pursued by individual entities, or groups of banks, depending on their needs and priorities.

For this advisory mission, Natixis dialogued with many actors such as the IDDRI whose work on the 2030 Agenda was contributory to the present report[4]. A coalition of the willing is necessary in anticipation of the SDG Summit in 2023[5]. Commitments from PDB's CEOs, particularly around ambitions and targets setting, is utmostly needed. There is a collective need to replicate the dynamics around Paris Agreement related individual and collective pledges and unleash subsequent accountability forums and procedures. Natixis would be pleased to share its experience, notably drawn from the implementation of its Green Weighting Factor[6]. Its teams are keen to accompany development finance institutions (DFIs) that are trying to launch SDG contribution related ambitions and transformation plans.

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Presented below are a set of principles and methodological guidance to support International Development Finance Club (IDFC) members in their effort towards "SDG alignment". It accommodates the **members' large array of characteristics, strategies, and mandates heterogeneity**. This study maps current challenges and frames the notion of "SDG Alignment", based on a **"stakeholder centric" perspective** which splits remit areas.

This "conceptual framework" is supplemented by **operational advice and conceptual tools** with regards to the **accountability and monitoring dimension of the SDGs.** When relevant, guidance is provided on what **departments and officers are relevant to implement recommendations,** and primary users are identified.

[1] Natixis CIB (20 October 2021), Press release "IDFC appoints Natixis CIB to develop a SDGs alignment framework for public development banks", available here.
[2] Natixis GSH conducted a survey to capture investors' expectations towards PDBs and more specifically IDFC members when it comes to SDGs integration. The sample was made of 11 investors highly active on the PDBs bonds market, representing above than 15 trillion USD in AuM. Questions related to sustainable & SDB bonds appetite, credit assessment and sustainability profile, sustainable issuance format preferences, or satisfaction vis-à-vis impact and reporting practices.
[3] IDFC (September 21, 2022), "IDFC seminar on SDG alignment with Natixis", available here.
[4] See IDDRI (October 2020), Scaling up public development banks' transformative alignment with the 2030 Agenda for Sustainable Development, available here. See also the report from the European Think Tanks Group (ETTG) "Financing the 2030 Agenda: An SDG alignment framework for Public Development Banks", available here.
[5] The UN High-level Political Forum on Sustainable Development (HLPF) will convene at the level of Heads of State and government under the auspices of the UN General Assembly (UNGA), in September 2023. The meeting in 2023 – also known as the "SDG Summit" – will be the second since the adoption of the 2030 Agenda.
[6] The Green Weighting Factor (GWF) is an internal capital allocation mechanism identified by the Intergovernmental Panel on Climate Change (IPCC) as relevant for the Financial Sector to assess investments' climate consistency and tilt capital allocation accordingly (AR6 WGIII IPCC report, p. 2,524, available here).

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Abstract

While 2030 is looming, **countries remain far from reaching the quantitative targets set in the 2030 Agenda**. To maximize their chance, they need the support of an **overarching "SDG alignment ecosystem"**. In this regard, Public Development Banks (PDBs) can **play a catalytic role,** notably through **concessional funding, de-risking mechanisms and technical assistance**. There are over 500 Public Development Banks (PDBs) and Development Finance Institutions (DFIs) worldwide which had around $23 trillion in assets and committed $2.3 trillion in public development finance in 2020, a staggering 10% of the total amount invested in the world by all public and private sources combined annually (Xu et al, 2021). In comparison, in 2020, the 27 member institutions of the IDFC had about $ 4.8 trillion in assets and committed $ 930 billion in new investments. Contribution to SDGs cannot be assumed. It must be demonstrated and steered, notably by **tilting lending toward contributive projects**. The latter can be identified through granular taxonomies and country adjusted criteria[7].

A review of current SDG integration practices reveals that most PDBs do not monitor and manage their country-by-country contribution. **SDG mapping is a widespread practice**. It is often backward looking, limited to sectorial exposures (SDG-sector code being used as a proxy), and for reporting purpose. If monitoring, demonstrating and enhancing their contribution to reaching the 2030 targets, **PDBs need to reshape their models of intervention and anchor them in national SDG roadmaps**.

Objectives & research questions

PDBs cannot strictly be aligned *per se* with the SDGs, neither a company, because the 2030 Agenda is a framework designed by and for countries. Is the notion of "alignment" so easily transposable to the multidimensional nature of the 2030 Agenda? How can PDBs act as alignment catalyzers or enablers?

Although SDGs are quantified targets, **the causal pathways to achieve them are hard to decipher**. Many exogenous factors influence their fulfillment. Contrary to carbon and climate finance, **"SDG accounting or budgeting" does not exist yet**. It raises the question of efforts allocation between actors, and **methods to set individual contribution targets in proper units**.

Method

Natixis CIB Green & Sustainable Hub performed:

- A review of PDBs' SDG integration/alignment practices (a stocktaking exercise);
- A survey of private investors' opinion on PDBs' sustainable financing frameworks, impact demonstration practices and disclosure;
- Bilateral interviews with IDFC members, impact data providers, alternative data collectors/vendors, credit rating agencies, think tanks, consultancies, and NGOs;
- A series of workshops to further explore, test and fine-tune the concepts and tools[8].

Main results

The study spells out a set of "**SDG contribution principles**" and "**integration trackers**" at entity and activity levels. It proposes **a practical and simplistic canvas** designed to accommodate different maturity levels: **the SAAU Framework** (Stop, Adjust, Amplify, Undertake). It can be used by an individual bank for diagnosis and strategy setting purposes, but also by coalitions or groups looking for collective commitments. **Tools to guide the integration of SDGs in core operations**, including **strategic capital allocation**, are proposed ("SDG Adjusted Return Tool" to tilt financings towards highly contributive projects).

Key recommendations

Suggested actions are designed for PDBs but can inspire other actors or require their participation.

[7] What is defined as "truly transformative investments" in *ETTG study (October 2021),"Financing the 2030 Agenda An SDG alignment framework for Public Development Banks",* available here.
[8] IDFC (September 21, 2022), "IDFC seminar on SDG alignment with Natixis", available here.

- Call for governments to **refine their SDG national roadmaps**, with **quantitative guidance and granularity** about the **expected role from private actors and financial actors**, including on the mandate and incentives given to the PDBs;
- Systematically map the **assets and/or investees' spatial locations**, and identify most **acute and pressing SDG gaps** in those areas;
- Measure impacts ***ex-ante*, *in itinere* (current) and *ex-post***, notably through timely and **disaggregated data**, with emphasis on **end-beneficiaries segmentation**;
- Rate the "**SDG contribution potential" of each financing** by using an **SDG Taxonomy** (preferably made of **quantitative thresholds or specific features**, adapted per activity, geography and financing type);
- Use this "contribution potential" assessment for **capital allocation purposes**, i.e. ahead of credit approval decision, as an **incentive/disincentive**, and not as a due diligence or exclusion criteria only;
- Call to shareholders and regulators for the adaptation of financial regulatory frameworks on asset-based criteria that could bolster PDB's capacities to enable SDGs compatible investments and promote transparency of investment portfolios;
- Optimize the use of **PDB's instrument mix** – technical assistance, policy-based loans, grants, subsidies and other financial tools – to **maximize synergies between projects and SDG gaps bridging**;
- For PDBs coalitions, prioritize both individual and **collective target setting and annual enforcement accountability** to spur emulation around tangible and comparable decisions and results;
- Call for common principles and harmonized practices between public and private finance and common understanding of what to stop, adjust, amplify and undertake to reorient and align all financial chains towards sustainability.

EXECUTIVE SUMMARY

Our proposal at a glimpse

Aligning with the SDGs requires a **whole-of-bank approach**. Public Development Banks (PDBs) can act at three echelons: entity[9], activity[10] and external levels.

The involvement of a wide range of stakeholders is necessary. PDBs can support **SDG national and local roadmaps** and engage with public authorities to ensure that the **most pressing needs are addressed in their bilateral relations**. Such an iterative dialogue helps PDBs inform their policies and processes (entity level) and adapt their operational model (activity level).

A study from the **European Think Tanks Group (ETTG, 2021)**[11] proposed **four operational principles**: lead internally and foster a sustainable development culture (i), develop a holistic strategy and long-term vision (ii), mainstream SDG priorities within internal operations (iii), mobilize and catalyze truly transformative investments (iv) that could be used by PDBs to better integrate the SDGs in their policies, strategies and processes.

In supplement, Natixis has identified **fifteen SDG integration trackers** to support PDBs catalyzing changes in their organization. Banks can evaluate themselves against such trackers and verify that their **policies, strategies and processes** are aligned and **consistent towards the same contributory goal.**

The operational level is crucial, if SDG integration remains "locked" at the strategic layer, PDBs will fail to contribute to SDG achievement at national levels. To reach operations, Natixis has identified **five SDG contribution principles usable at balance sheet and investment level**: geographic contextualization (i), prioritization between SDGs (ii), beneficiaries' segmentation (iii), interlinkages safeguards (iv) and progress accountability (v).

The **Stop, Adjust, Amplify, Undertake (SAAU) Framework** was designed as a simplistic canvas for PDBs to make a diagnosis both at entity and activity levels and set priorities and actions.

- At entity level, each department can use the SAAU framework to adjust its policies and processes to maximize SDG contribution by identifying *what it should halt doing (stop)? What should be rectified in processes, human capacity and strategies (adjust)? What should be deepened (amplify) and what should begin (undertake, e.g., develop new procedure or expertise)?*

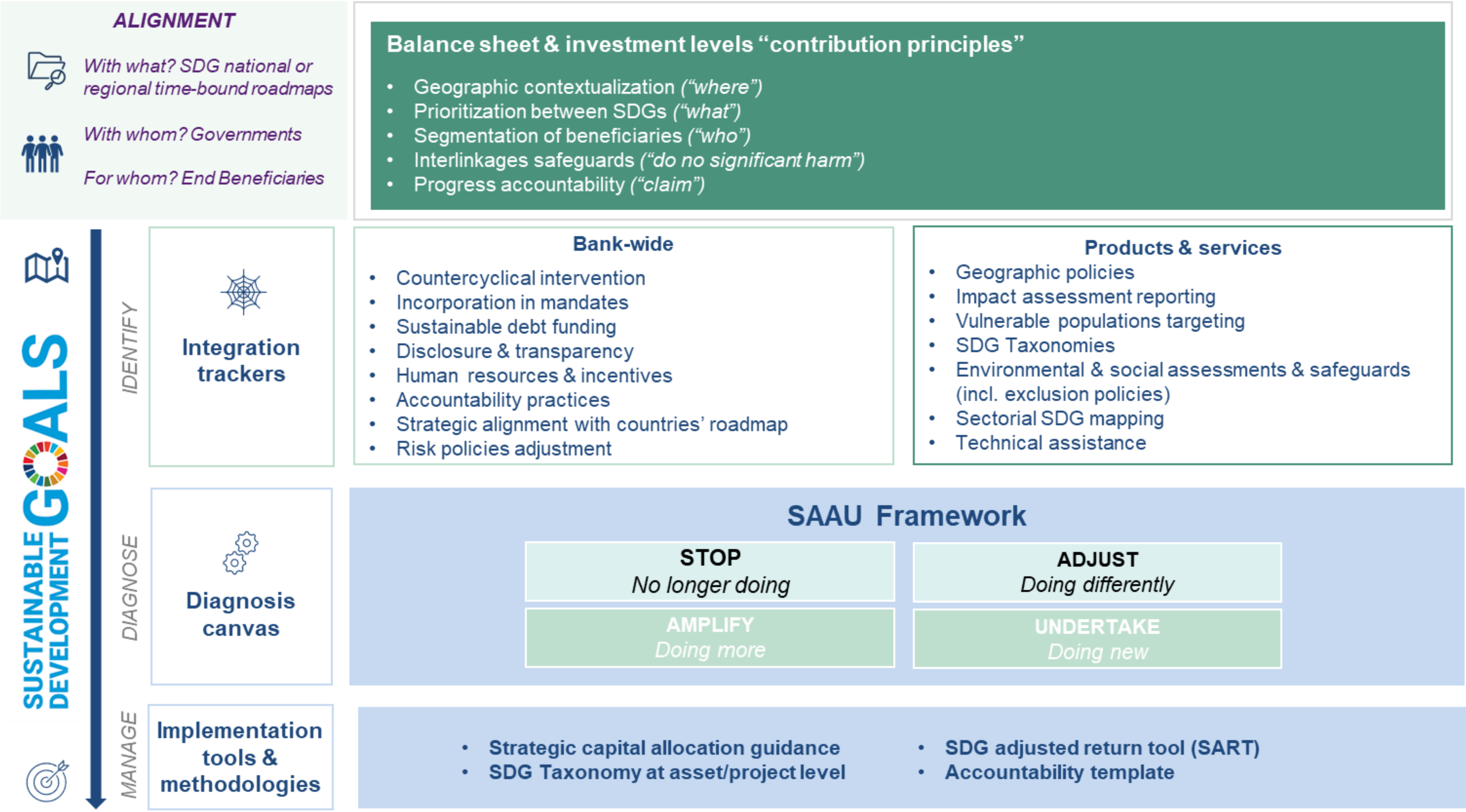
- At activity level, operational teams can use the SAAU framework to guide resources allocation by identifying *what type of projects are harming or maximizing SDG contribution.*

To steer transformation, Natixis has developed a set of practical tools: a **guidance on resource allocation** (i), an example of **SDG Taxonomy** (ii) as well as an accountability template (iii). Natixis also designed a tailor-made **SDG adjusted return tool** (iv) to tilt financial flows towards most contributive projects.

The figure below (Figure 1: Overview and articulation of this study's guidance and tools) illustrates the articulation between the various concepts and proposals laid out in the study.

[9] The entity level refers to the policies and processes implemented by the PDBs at the strategic level.
[10] The activity level refers to the products and services offered at the operational level.
[11] *ETTG (October 2021), "*Financing the 2030 Agenda An SDG alignment framework for Public Development Banks*",* available here.

Figure 1: Overview and articulation of this study's guidance and tools



Source: Authors (Natixis Green & Sustainable Hub)

SDGs are worth it

The United Nations Sustainable Development Goals are highly material. Thus, financing and non-financing assistance to implement countrywide SDG strategies should be a priority for PDBs because of their remit[12].

At both national and transnational levels, PDBs are in an **ideal position to serve as financing arms to achieve the 2030 Agenda**.

Reasons and incentives to enhance and demonstrate contribution to SDG achievement are manifold:

i) **Managing risks stemming from the non-achievement of the SDGs** (social and political unrest in areas of intervention, development bottlenecks, volatile and fragile economic growth, borrowers' weakened ability to repay).

ii) **Supporting the prosperity opportunities harbored in the UN goals' fulfillment** (business thriving and jobs creation potential).

iii) **Using the 2030 Agenda as a "navigation compass" in strategic planning**, and not only for reporting and communication purposes.

iv) **Embracing trends towards corporate and finance sustainability, at the benefit of PDB's capital access by meeting investors' demand** (mainstreaming of ESG/sustainability fixed-income instruments, see the results of our investor survey).

v) **Fostering international cooperation through robust practices and know-how sharing.** Wealthier and most advanced PDBs can accompany "beginners" with less financial and staff endowment. They can **share practices, protocols or data**. This type of cooperation usually helps lowering data collection or impact demonstration costs for both investees and project sponsors.

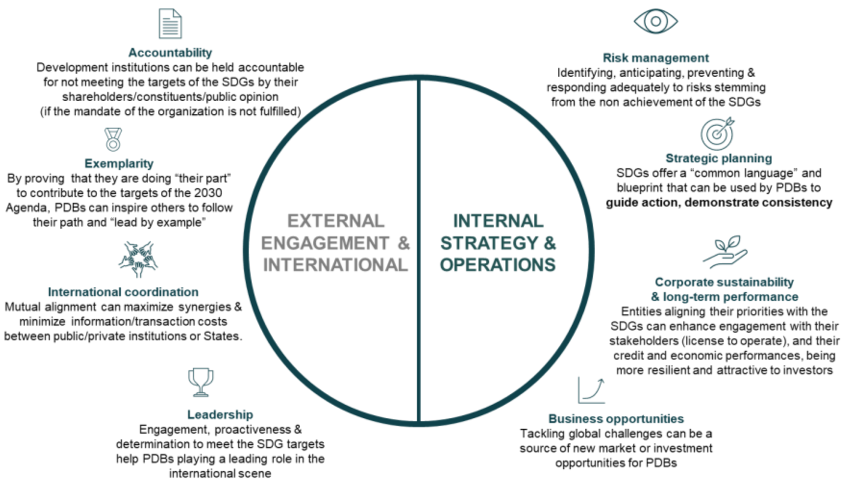
vi) **Being exemplary and accountable,** in particular, vis-à-vis citizens and taxpayers, and demonstrating leadership through action (preserving PDB's license-to-operate).

Finance is entering the "era of conditionality and sustainability mainstreaming". Development finance is not immune to this trend. Funding modalities or incentives are thus increasingly linked to sustainability related sets of conditions, efforts, or performances.

Shareholders and governments will increasingly **tie their decisions or votes to climate and sustainability-related commitments, practices and results of PDBs**. Credit rating agencies (CRAs) started to incorporate these dimensions in their methods, although in a non-conclusive and blurred manner at present.

Pressures to deliver on the SDGs arise from all sides. However, PDBs' top management leadership cannot fully play its role because implementation guidance, accountability mechanisms and peers' pressure, are lacking.

Figure 2: it always starts with a "Why"



Source: Authors (Natixis Green & Sustainable Hub)

[12] Public Development Banks's role is notably to bridge market failures, mobilize domestic resources, redirect investments, support private sector mobilization and promote sustainability.

Alignment requires an ecosystem approach

After being called to align with the Paris Agreement on climate change, **PDBs are also urged to align with the SDGs.** However, is the notion of "alignment" so easily transposable to the multidimensional nature of the 2030 Agenda?

Parallels can be drawn **between climate finance and SDG finance**. Both are underpinned by **an international agreement** and require **redirecting capital** towards assets, activities, and/or entities that are positively contributing to the objectives set out on the two treaties.

However, climate finance relies on the possibility **to breakdown decarbonization targets between countries, economic sectors** or even households, **and allocates carbon budgets down to individual actors**. "SDG accountability" does not exist yet.

The notion of "alignment" as presently used by banks and financiers – i.e., **meeting carbon emission reduction targets**, **reaching an investments portfolio temperature**, matching **a technology mix benchmark** is **not straightforwardly translatable to most SDGs**, especially social ones[13].

Indeed, every climate mitigation project can be gauged or benchmarked against **the queen metric of "carbon reduction"[14]**. When it comes to the 2030 Agenda, targets and trajectories are occasionally quantified, and with **a greater variety of contribution or achievement proxies rather than units**.

SDG metrics or units' comparability and aggregation tend to be lower than for climate mitigation, with subsequent challenges in **impact attribution and causation analysis** (except for electricity or water goals, where real life changes for end-beneficiaries can be tracked back more easily to projects or assets financed by a PDB).

On top of that, **SDGs are so indivisible**, interlinked and **tied to a local context** that they require a case-by-case assessment of geographical, political, economic, social, and environmental factors. It is therefore complex **for PDBs to precisely quantify and isolate their contribution to SDGs**

Alignment can be twofold: alignment with an overarching objective set in an international agreement, and alignment with each other: entities' processes, initiatives, or actions towards the pursued goal. For PDBs, it revolves around the **consistency and additionality of their efforts and policies** in supporting the fulfilment by countries of their 2030 Agenda targets.

By developing **a "whole of bank" approach,** spanning from policies to strategies and governance (see the European Think Tanks Group' study), PDBs could **"deconstruct" and remake their entities, activities, and external operations** with the objective of contributing to the 2030 Agenda and *do no harm* to any SDG.

Aligning with SDGs requires **complementary actions stemming from multiple organizations** (see *Figure 3: the SDG alignment ecosystem*). On the one hand, PDBs need to further **embrace their role as "SDG enablers"** of their governments. This implies **reconnecting policies and strategies to local needs and national priorities.**

On the other hand, **PDBs should be more porous to other actors** (NGOs, think tanks, SDG data providers, investors, credit rating agencies) and **cooperate among themselves** to exploit synergies and improve PDBs' current performances.

Strategic partnerships could spur innovation in cooperation with private or public partners to develop new financial mechanisms (i.e., blended finance, guarantees, SDG bonds).

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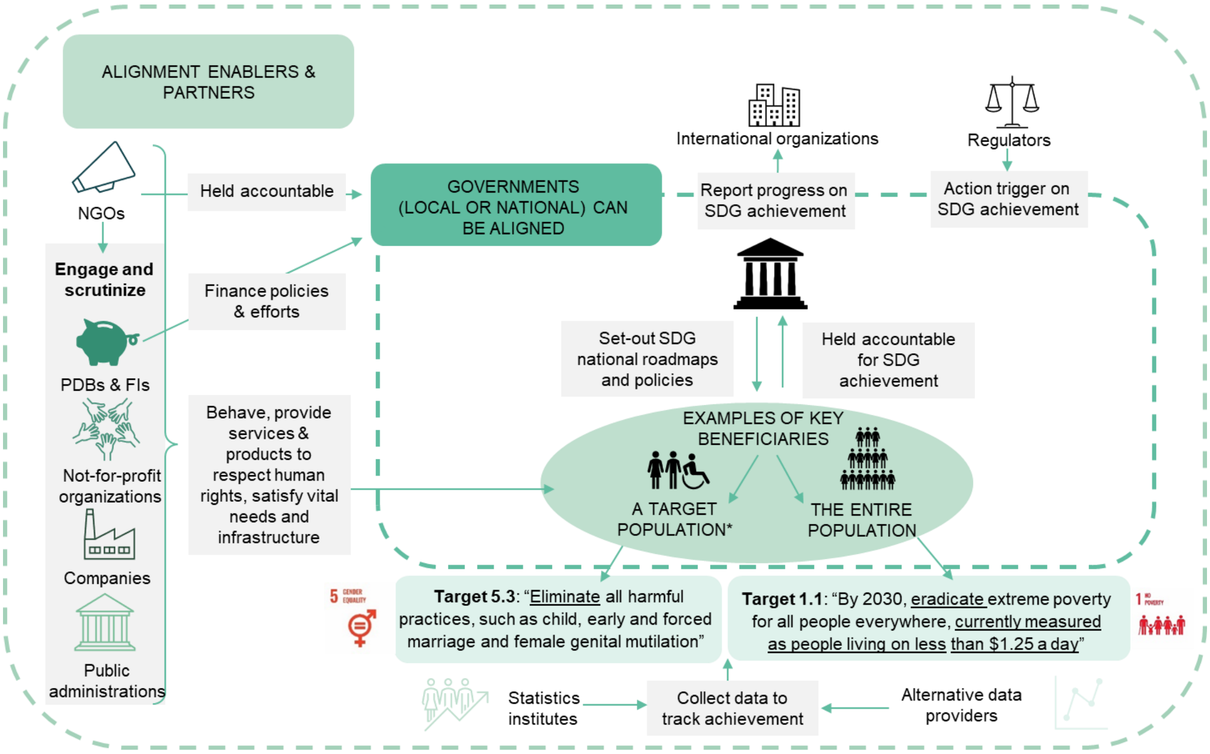
[13] The supposed compatibility or consistency of a portfolio of investment or of a financial set with a temperature trajectory is assessed. See for instance I4CE Etude Scenarios Transition & Institut Louis Bachelier et al., *The Alignment Cookbook - A Technical Review of Methodologies Assessing a Portfolio's Alignment with Low-carbon Trajectories or Temperature Goal*, 2020)

[14] Of course, with nuances, carbon reduction, avoidance, or even removal, but all the climate change mitigation initiatives become fungible.

Sustainable Development Goals unique features

The 2030 Agenda and the SDGs embed key characteristics, notably in terms of multi-stakeholder governance, context-based analysis reflecting national situations and priorities, efforts to prioritize the most enabling and pressing targets, long-term planning, public policies consistency enhancement, attention paid to vulnerable population as well as positive and negative interlinkages effects. The 2030 Agenda also relies on an ecosystem of public official statistics, cooperation with international organizations and donors, and of course, accountability mechanisms with events like the High-level Political Forum for Sustainable Development, which is the United Nations forum for the global follow-up of the implementation of the 2030 Agenda.

Figure 3: the SDG alignment ecosystem



*List of characteristics to define target populations: gender, age, income situation, employment situation, disability, living/working location, household composition, literacy, digital literacy, health situation, criminal record, migration status, race/ethnicity, sexual orientation, religion/beliefs, political views, dietary habits, solvency, transportation means etc.

Source: Authors (Natixis Green & Sustainable Hub)

What is hindering the 2030 Agenda achievement?

Whilst the consensus on the objectives that should be pursued (i.e., the 17 Sustainable Development Goals) has been reached in 2015, it remains difficult to define univocally the **reasons that prevent, slow down or hinder the achievement of the SDGs** (i.e., the nature of the problem).

Why is it so hard to eradicate poverty or hunger? And to do so not at the expense of nature and within planetary boundaries? What are the tools to succeed? **How can we harness financial flows to the achievement of SDGs?** Achieving SDGs is a multidimensional challenge that requires the identification of all "SDGs bottlenecks".

SDG achievement is challenging *per se*. There is **no common indicator for SDG progress** as the ones being used to capture economic activity changes (GDP) or climate change (CO_2e emissions or concentration). **No composite indicator encompasses the interlinkages and territorial complexities of the SDGs.**

Even if SDGs are quantified targets, the way to achieve them is hardly quantifiable as **many exogenous factors influence the targets**.

Furthermore, contribution to SDG is on a voluntary and best effort basis. **There is no SDG contribution nor budget,** such as carbon budget for companies. Even if broad estimations could be extracted from SDG gaps, **how should entities from the SDG alignment ecosystem split the efforts to bridge SDG gaps and set relevant SDG targets to drive their contribution?**

Adding to the **interlinkages and quantification difficulties**, **regulatory frameworks** may also negatively influence the integration of SDGs into PDBs' mandates according to IDFC Working group on SDGs.

The risk-benefit prism, through which mainstream investment flows, is not necessarily adapted to significant development contribution. Indeed, (**internal) prudential rules can hamper investing in geographies in which SDG gaps are the most acute**. Those geographies may be seen as "riskier" and/or investment returns as lower than in economically advanced countries for example.

Are other mechanisms such as state-program financing, guarantees, technical assistance more suitable for development finance? Their volumes remain limited. **Financial resources allocation** towards SDG achievement is challenging due to the lack of data, methodologies, and capacities to **translate SDGs into actionable principles and make informed decisions.**

However**,** PDBs are in a **unique position** to tackle SDG-alignment challenges. **To act as enablers, PDBs must assess alignment through the "contribution" prism,** by directing their financial flows towards projects which highly contribute to SDGs.

As of today, the widest-spread practice (mapping exercises) does not allow PDBs to precisely quantify their impact. Even from a qualitative perspective, the approach falls short as the *ex-post* impact is most often not evidence. Financing volumes and expected contribution therefore does not enable steer **and maximize an actual and dynamic contribution.**

SDG integration trackers

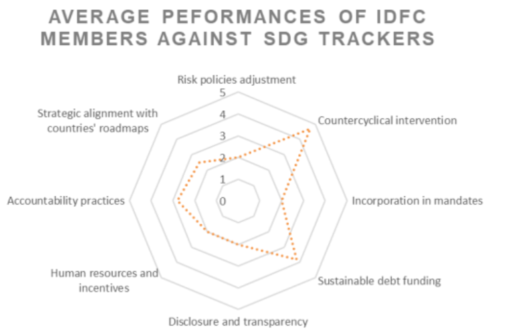
For the purpose of this study, Natixis has identified a set of **fifteen "SDG integration trackers"**, which are based on crucial items for PDBs to maximize their contribution to the 2030 Agenda at activity and entity levels.

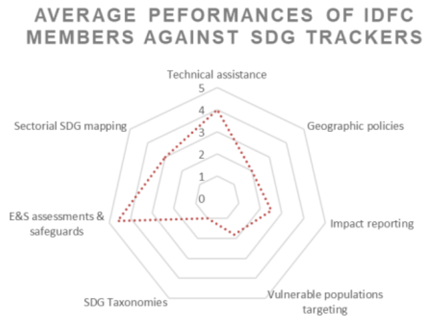
To help PDBs adapt their bank-wide approach, Natixis has identified **IDFC members' areas of improvement through a stocktaking exercise**. Their overall level of advancement or maturity (average performance[15]) against those SDG trackers was assessed. Overall, **IDFC members' SDG integration advancement is heterogeneous.** Such heterogeneity reflects members' mandate specificities, size, scale, thematic and geographical constraints.

At activity level (products and services offered at the operational level) and entity level (policies & processes implemented at strategic level), the following items were identified by Natixis as crucial SDG integration trackers.

Table 1: SDG integration trackers

Entity level	Activity level
Bank-wide operationalization	Balance sheet and investment level





Entity level	Activity level
Countercyclical intervention: evaluates PDBs' supply of credit in times of recession or exogenous shocks to maintain liquidity access (including natural hazards).	**Geographic policies**: relate to the potential prioritization of lending activities in countries or even areas/regions where SDG gaps are the most acute. It is done mostly by applying territorial filters or locations tiering (e.g. countries classification underpinning capital allocation or assistance services offering).
Incorporation into mandates: assesses whether the fulfillment of SDGs and 2030 Agenda implementation are explicitly referred to in PDB's mandates and how and with what consequences.	**Impact practices**: review whether PDBs perform *ex-ante* impact assessment in project's early stage (estimates on foreseeable outcomes), and/or *in itinere* and *ex-post* impact evaluation (observed impacts). This tracker also pays attention to impact assessment methods level of sophistication (data collection, processing, analysis, and approaches used).
Sustainable debt funding: touches upon the use of dedicated and non-conventional debt instruments (i.e., not vanilla ones). The main products falling into this category are Green, Social, Sustainable, thematic debt instruments (incl. SDG or blue bonds with Use-of-proceeds earmarking) or sustainability-linked ones (KPI linking mechanism). Such instruments help highlighting PDBs' sustainable strategies, enhancing transparency	**Vulnerable populations targeting:** this criterion relates to interventions and schemes targetting specific end-beneficiaries, requiring process to identify and survey particular segments of populations, especially deprived populations. It requires to get feedback or information on living conditions and basic needs fulfillement prior and after projects or activities commissioning.

[15] The performance has been assessed on a scale from 0 (very low) and 5 (very high).

and report on outcomes through dedicated reporting and renewed dialogue with investors.	
Disclosure and transparency: relate to public communication and analyze how PDBs ensure appropriate transparency through a regular flow of information to the markets and external stakeholders by publishing relevant and material information on their SDG contribution strategies and results, from contribution reporting to governance.	**Taxonomies**: analyze whether PDBs use classification systems to determine or assess activities or projects' sustainability or greenness (Taxonomies can be developed and used internally, externally or have other various purposes, criteria can be qualitative, quantitative, rely on standards, etc.).
Human resources and incentives: relate to the organizational and human resources devoted to SDG contribution, and so at all managerial and operational levels, from project approval to strategic decision making. Training, working groups, career advancement or remuneration incentives can help steering PDBs' contribution to the SDGs.	**E&S assessments & safeguards**: evaluate PDBs' processes such as exclusion lists, "do no significant harm principles" (avoiding negative spillovers or harmful side effects) and compliance with international standards.
Accountability practices: evaluate PDBs engagement and dialogue with their stakeholders mostly shareholders (occasionally Parliaments for NDBs), but also borrowers (localities, corporates) as well as third parties (NGOs) on their results, the implementation of their engagements, the robustness of their procedures (data collection).	**Sectorial SDG mapping**: refers to PDBs' procedures to measure and report on their presumed contribution to SDGs through sectorial exposures (economic sectors being assigned one or several SDGs to which they "intuitively" contribute). The granularity of the mapping (sub-sectors covered) and the sophistication of the demonstration vary. The main output is the oustanding financing engagements splited by goal.
Risk policies adjustment: considers both the international prudential frameworks (risk weighted assets, risk assessments, regulatory ratios…) and the internal prudential policies that could be used to support/deter investments according to their substantial contribution or harm to SDG achievement.	**Technical assistance**: assesses whether PDBs provide project developers or intermediaries with support, advisory services and/or capacity building programs. They do so to enhance projects readiness, mitigate negative impacts, maximize SDG contribution or reduce risks.
Strategic alignment with countries' roadmaps: Assesses PDBs strategic and operational orientation in bridging SDG gaps in their countries of intervention.	

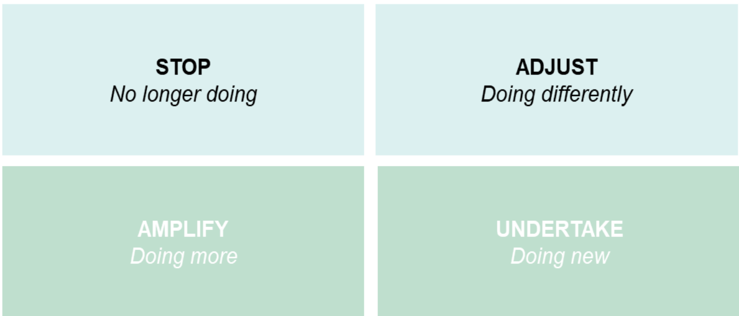
Source: Authors (Natixis Green & Sustainable Hub), based on a stocktaking analysis and bilateral interviews

The SAAU ("Stop, Adjust, Amplify, Undertake") Framework to diagnose and act

Average scores on the SDG integration trackers naturally ignore the heterogeneity of IDFC members' practices. We witness a **high disparity between members**. To accommodate different situations and starting points, we designed the **Stop, Adjust, Amplify, Undertake (SAAU) Framework**.

Regardless of PDBs' mandates, level of maturity or geographical area, the SAAU Framework is a **practical and simplistic canvas** that could be used by each PDB to further integrate SDGs into their activities. The four categories (see figure 4 below) can be filled by PDBs to **strengthen their ability to contribute to SDGs**. The results of the SDG integration tracker self-assessment exercise can help setting priorities, possibly by tackling the items with the lowest scores. They could help design action plans, thus helping PDBs to become SDG alignment catalyzers.

Figure 4: the SAAU framework



Source: Authors (Natixis Green & Sustainable Hub)

From impact-taking to impact-making

The SAAU Framework and the SDG contribution principles (as presented below) can help PDBs moving from an impact-taking to an impact-making approach. Using **SDG mapping,** which is the most widely adopted approach across PDBs and within the financial sector (e.g., ICMA high-level mapping[16]), could constitute **a first step towards alignment.** Mapping refers to the practice of associating funding volumes with the SDGs.

It mostly **measures sectorial exposure using SDGs-sector codes**. However, it is a **backward looking and often intuitive exercise**. It is currently performed as an after-thought, high-level and reporting exercise that ignores projects' actual positive and negative impacts.

Our work has found that **mapping could be improved if built on granular SDG Taxonomies**. To move from a **recording of sectorial exposure to an actual impact mapping,** mapping should be more **"result-oriented"** by setting improvement performances as criteria (e.g., quantified access increase to an essential service).

The report shows how such **mapping could be tailored to orient capital allocation and foster SDG achievement.** It aims to set guidance for PDBs to maximize their contribution to the SDGs in the territories they are exposed to.

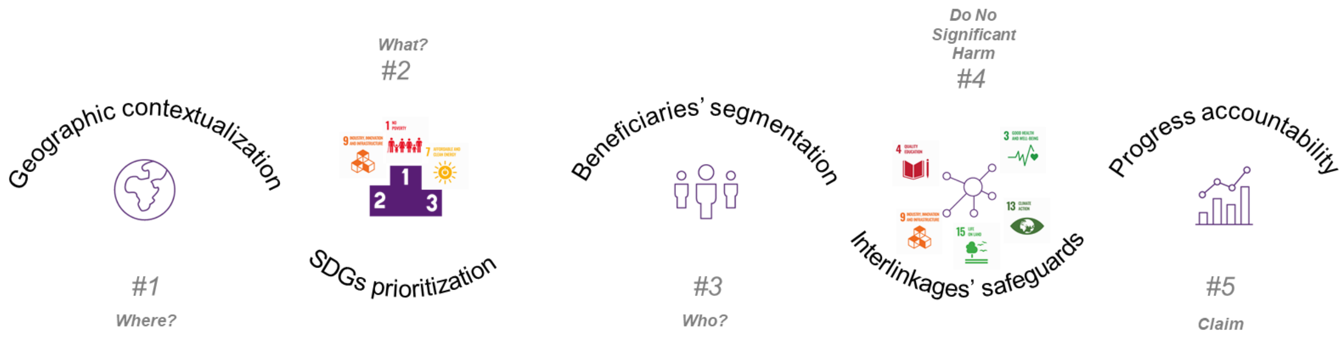
This guidance relies on a holistic approach which combines a **bottom-up** (from local needs to pipeline orientation) and **top-down approach** (strategic objectives and organizational capacities dedicated to spatialized SDG contribution). It leaves space for each PDB to borrow what seems relevant and adequate depending on its history, mandates, political considerations, geographies, and resources.

[16] ICMA (2021), Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, available here.

SDG Contribution Principles

The proposed approach is based on **five SDG contribution principles** (illustrated below in the Figure 5) particularly relevant at operational level (including investment and balance sheet). It starts with localizing the context of intervention or investment (#1 geographic contextualization), to focus on the most acute, wide and actionable/investable SDG gaps considering the PDB's mandate (#2 SDGs prioritization), targeting the most vulnerable or deprived populations (#3 Beneficiaries' segmentation) to leave **no one behind** all the while not significantly harming the advancement of other SDGs (#4 Interlinkages' safeguards). These contribution principles make it possible for PDBs to be held accountable and monitor progress (#5 Progress accountability).

Figure 5: Five SDG contribution principles



Source: Authors (Natixis Green & Sustainable Hub)

SDG Adjusted Return Tool

SDG contribution principles can and shall be operationalized. Natixis Green & Sustainable Hub has leveraged the experience of its climate tilting capital allocation mechanism – the Green Weighting Factor – to support IDFC members in their SDG contribution journey. The matrix below is inspired from this tool. It allows to **steer, report and to hold PDBs accountable** regarding their SDG contribution.

Projects are given **a "Sustainability Impact Coefficient"** which adjusts their analytical returns, or precisely creates **an adjusted, internal perception of returns**, in accordance with sector specificities and localized positive and negative impacts. It can help to **reorient financial flows towards positively impactful activities**. Coefficients integrate technical and Do No Significant Harm criteria as well as geographical considerations.

Such coefficient, matched with the project's internal rate of return, creates the SDG Adjusted Return Tool (SART). This instrument enables **projects' positioning and comparison according to both profitability and impact** (see Figure 6 below)**.** Indeed, the project IRR is adjusted according to local and sectoral impacts such that **for an equivalent IRR, impact is driving investment decision.**

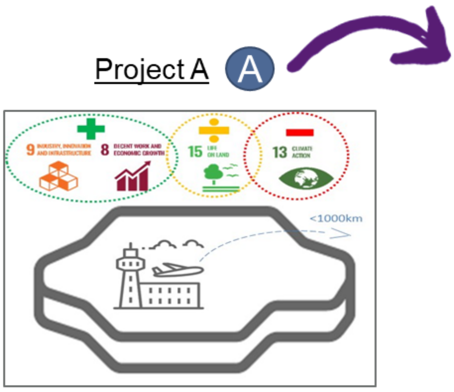
In the example below, an **airport extension is considered for investment**. Its IRR is negatively impacted by its Sustainability Impact Coefficient (SIC) as the project would increase carbon emissions in the country even though it displays a high IRR. If the project is expected to generate thousands of jobs in tourism and to improve connectivity with economic capitals (positive impacts on the SDG 8 and 9), it nevertheless has negative spillovers on other SDGs.

The matrix can also serve to **identify the right financing tools according to a project's positioning in the matrix**. Placement in the matrix can also make up for **additional financing or intervention** such that a project in the upper left part of the table with an IRR from 0 to 8% might benefit from **technical assistance to enhance its commercial maturity and/or maximize its impacts.**

Top management can also use it as **a powerful data collection infrastructure to monitor and pilot portfolios' SDG contribution** level by setting **"SIC score targets" with lower and upper bound limits,** incentivizing their collaborators.

As part of that bottom-up movement, **rating can be consolidated at sectoral or even entity level to be monitored strategically** (top-down). The Sustainability Impact Coefficient (SIC) helps consolidate projects contribution and a SIC could be given to an entire portfolio or whole PDB.

Figure 6: SDG Adjusted Return Tool (SART) matrix



The extension of a regional airport whose air traffic will mostly focus on short distance flights (<1000km)

Sustainability Impact Coefficient (SIC) \ Internal rate of return (IRR)	0%	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%
100%	0%	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%
90%	0%	2%	4%	5%	7%	9%	11%	13%	14%	16%	18%
80%	0%	2%	3%	5%	6%	8%	10%	11%	13%	14%	16%
70%	0%	1%	3%	4%	6%	7%	8%	10%	11%	13%	14%
60%	0%	1%	2%	4%	5%	6%	7%	8%	10%	11%	12%
50%	0%	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
40%	0%	1%	2%	2%	3%	4%	5%	6%	6%	7%	8%
30%	0%	1%	1%	2%	2%	3%	4%	[illegible]	5%	5%	6%
20%	0%	0%	1%	1%	2%	2%	2%	3%	3%	4%	4%
10%	0%	0%	0%	1%	1%	1%	1%	1%	2%	2%	2%
0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Formula: SIC x IRR

Source: Authors (Natixis Green & Sustainable Hub)

Forget about reporting for a while, and focus on capital allocation

The **following blueprint is made of progressive steps encompassing** the core findings and recommendations of the present study. It is inspired from **Natixis' own experience in developing a Green Weighting Factor** and fed by our discussions with IDFC members and their desire to have a contribution steering tool.

BALANCE SHEET MANAGEMENT

From "elucidation" of SDG footprint to its proper management

Some IDFC members have expressed a desire to design **tools** and adapt **approaches beyond "mere SDG reporting".** The next challenge or ultimate level of integration lies in **actively steering the SDG impact of a balance sheet.** It involves no longer being only "impact takers" (reporting on estimated or observed impacts), but rather becoming "impact makers or enablers" (acting as a catalytic and impact driving force).

Linking capital allocation and/or concessionality level[17] to the SDG footprint of each financing[18] is an appealing avenue. To avoid adding an additional layer of complexity and reporting, such **SDG-tilted capital management schemes** must be **granular and operational by design.** Systems architecture and incentives are change engines.

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The envisioned mechanism

- Attributing an **individual level of "SDG contribution" to each financing** provided by a PDB using a sort of **SDG Taxonomy** (possibly inspired by the SDG Finance Taxonomy designed by the UNDP and China's Ministry of Commerce). Taxonomies can be very **different in their nature and granularity** (whitelist, principles-based guidelines, etc.). **Quantitative thresholds or specific features must be preferred**.

- Such SDG tilting mechanism would need to be **adapted per sector and activity (i), per geography** (ii) and **per type of financing (iii)** to reflect fundamental differences between dedicated financing ("project-finance"), general corporate/public authorities financing (non-ring-fenced loan) and intermediated financing through banks or private equity funds.

- Such a tool could also be used **to disincentivize financings significantly harming progress** on any SDG (sort of "penalizing factor"), alongside or on top of exclusion policies.

- The **upper and lower bound limits of the SDG contribution rating** would need to be adjusted to **the SDG gap score of the counterpart when possible**. In practice, the higher the needs in a country on a specific SDG, the higher the potential incentive should be in case of a beneficial impact.

- Such a mechanism would apply to PDBs' interventions **ahead of any approval decision,** and not only be related to loans, but also **to technical assistance and cooperation.**

- The **magnitude or weight of the incentive** in terms of **concessionality, capital allocation or outstanding amounts** would be left to the discretion of each PDBs. However, it should be **adequate**, i.e., significant enough to possibly tilt financing or intervention decisions.

[17] Concessional finance can be grant elements or subsidies attached to an investment managed or provided by a PDB.
[18] An impactful investment should not only be apprehended as an investment that positively contributes to one or multiple SDGs but rather as an investment that **addresses SDG gaps**, meaning that the PDBs **steer resources towards vulnerable population and where private money lacks**.

- Operational teams should be allocated **"SDG contribution budgets"** combining both positive contribution and harm. Various **incentives, including career advancement and variable remuneration** can be linked to such budgets.

- To fully deploy such a mechanism, **internal information systems and credit processes would need to be revamped** to achieve a full interoperability and embedding in day-to-day IT systems.

- A team dedicated to **SDG contribution** could oversee the SDG performance, conducting SDG contribution evaluations alongside the investment cycle, identify and use the different levers to enhance SDG contribution at entity level.

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Impact practices and accountability

- **The SDG scoring of individual financings** would be compiled and aggregated, notably at country and/or counterpart level, and **put in perspective with the actual and observed SDG progress.** To draw up such parallels, PDBs might use various monitoring tools, including countries' Voluntary National Reviews and SDSN's index & dashboards[19].

- The financing-based contribution level must be the **building block of a PDB's comprehensive portfolio-alignment approach.**

- The definition of **quantitative and granular SDG contribution budgets and targets** (e.g., consisting in originating a minimum volume of loans dedicated to highly contributive projects with a sustainability impact coefficient above a certain level) **should be iterative**. It will probably span over years and requires in-depth dialogue with counterparts.

- The actual outcomes or impact of financing would need to be **assessed *ex post*** (observed benefits). In case of **large deviations** from *ex ante* forecasts, the **SDG contribution budget would need to be readjusted accordingly.**

- ***Ex post* assessments** must be based, especially for socially related matters, **on survey of the end-beneficiaries** carried by independent specialists (to assess what has changed in people's life and to what extent this change is related to the project or asset financed by the PDB).

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Strategic management

- Such an **operation-level SDG tool would feed strategic decisions and vice-versa.** It would be **bottom-up by-design** and top-down in the strategic allocation and incentivizing mechanisms.

- Regional or sectorial business lines and platforms would naturally be required to **draft and defend their action plan** to deliver on their **SDG contribution targets**, in dialogue with their clients (forward-looking scenario).

- The full process would ultimately lead **PDBs to adjust their capital allocation, client, and geographic mix,** under the constraints of their mandates and capacities. This does not involve that PDBs should only favor projects or counterparts already aligned with SDGs but rather that it should engage with them to maximize positive impacts and minimize negative ones. The idea here is **not to disinvest but to foster the transformation of actors and geographies, even the ones deemed as the less SDG-compatible ones**.

- **Lastly, new products** incorporating **SDG contribution improvement objectives** could be designed, notably **policy-based loans to which disbursement or financial terms are linked** to the achievement of official SDG targets.

[19] SDSN index & dashboards are available here.

Since the launch of the 2030 Agenda in 2015, the UN Sustainable Development Goals (SDGs) have become **an iconic, pictorial, and universal symbol** of the public and private efforts and initiatives to tackle economic, social, and environmental challenges.

Thanks to **a well-recognized visual identity**, the actors have the impression of speaking the same language when using the SDGs, without however a universal understanding and ability to **figure out the specific content referred to**.

The SDGs federate common efforts amongst PDBs, despite the **vagueness surrounding their implementation** and their tangible consequences. In contrast, **the Paris Agreement does not condense such fuzziness** since it is now associated with carbon neutrality and Paris alignment methodologies that are increasingly documented and discussed, particularly in its tangible implications (e.g., the end of investments in fossil fuels and their progressive phase out).

While SDGs were originally designed for countries and regional governing bodies, **many actors can contribute to bridging "SDG gaps"** (i.e., reducing the distance between the target to be reached and current performance level). In this sense, Public Development Banks (PDBs) have **a unique responsibility** to channel funding and assistance where they are most needed, **leaving no population group or place behind**.

Due to their **political mandate**, expected **lower risk aversion** and **profitability moderation, we** rank them second in the **2030 achievement accountability chain**, behind governments, but ahead of private and civil society actors. This should thus make PDBs the first "**SDG partners**" of their governments.

As for the Paris Agreement, PDBs have been called to "align with the SDGs". They have a variety of incentives to enhance and/or demonstrate their alignment. But it is first a matter of **democratic accountability as PDBs are recipients of taxpayer's money.**

Shareholders are increasingly inclined to link their **capital efforts and voting decisions** to a **string of SDG or ESG conditions**. Conditionality for public financing flows is a mega trend[20]. Countries may for instance adjust their votes in international financial institutions based on climate or sustainable development commitments (for instance, "green debt relief" for developing countries).

[20] Natixis (April 2020), Covid-19 economic crisis: heated debate about public support's conditionality, available here.