International Development Finance Club

NATIXIS CORPORATE AND INVESTMENT BANKING

PDBs' catalytic role in achieving the UN SDGs

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GROUPE BPCE

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 (list in Appendices), 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.

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 regarding 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).*

Acknowledgements

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This report is also the outcome of a collective effort across Natixis CIB Green & Sustainable Hub and business lines.

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.**

[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.*

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.

- 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

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.

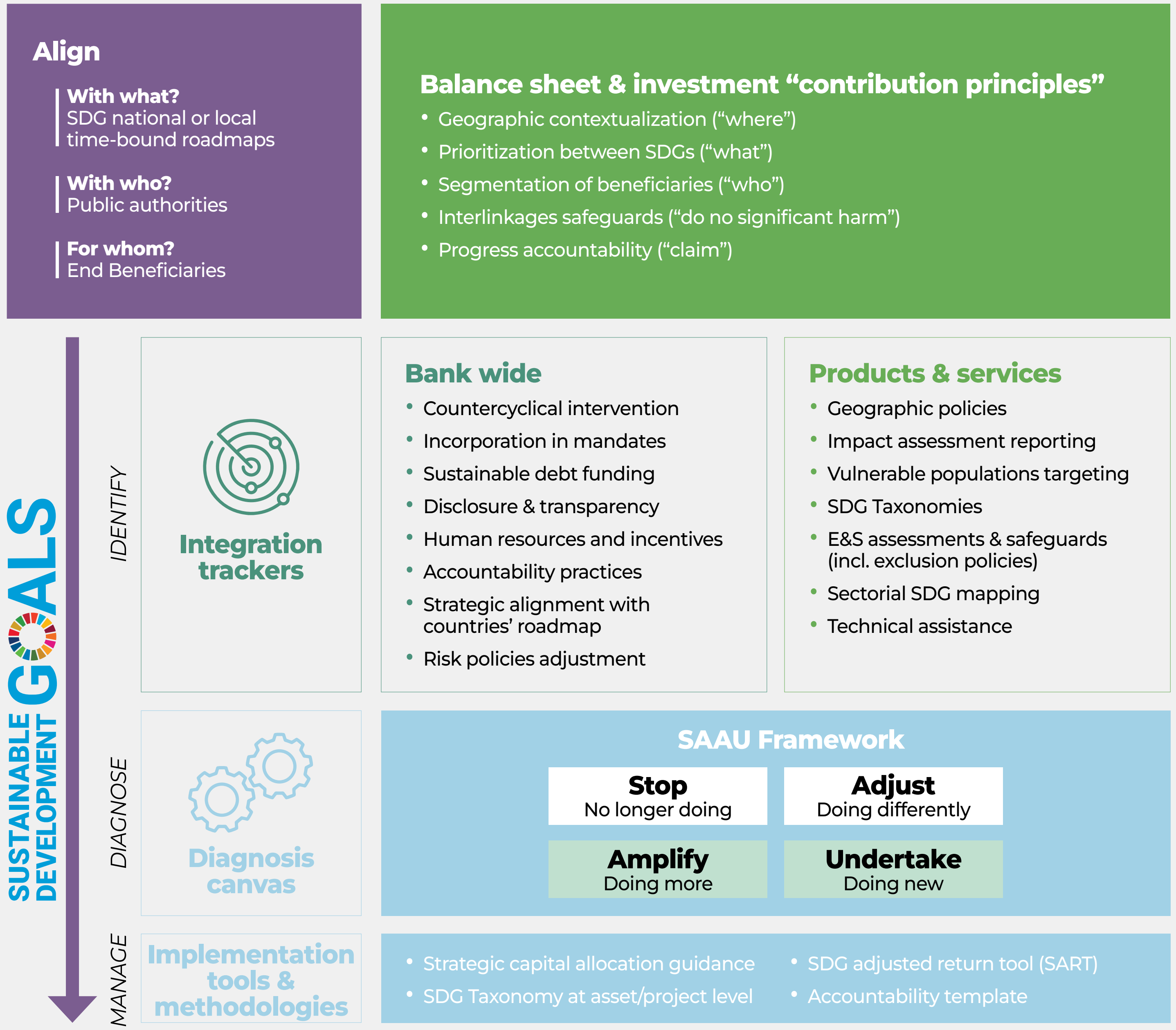
The figure on the right (Figure 1: Overview and articulation of this study's guidance and tools) illustrates the articulation between the various concepts and proposals laid out in the study.

[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 or 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

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

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 page 109 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.

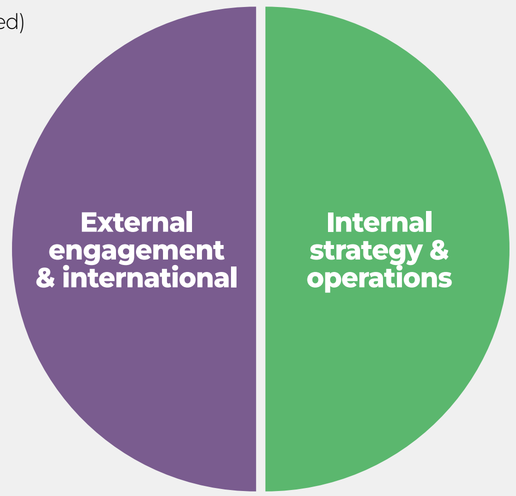
Figure 2: it always starts with a "Why"

Accountability
Development institutions can be held accountable for not meeting the targets of the SDGs by their shareholders/ constituents/public opinion (if the mandate of the organization is not fulfilled)

Exemplarity
By proving that they are doing "their part" to contribute to the targets of the 2030 Agenda, PDBs can inspire others to follow their path and "lead by example"

International coordination
Mutual alignment can maximize synergies & minimize information/ transaction costs between public/ private institutions or States

Leadership
Engagement, proactiveness & determination to meet the SDG targets help PDBs playing a leading role in the international scene



Risk management
Identifying, anticipating, preventing & responding adequately to risks stemming from the non achievement of the SDGs

Strategic planning
SDGs offer a "common language" and blueprint that can be used by PDBs to guide action, demonstrate consistency

Corporate sustainability & long-term performance
Entities aligning their priorities with the SDGs can enhance engagement with their stakeholders (license to operate), and their credit and economic performances, being more resilient and attractive to investors

Business opportunities
Tackling global challenges can be a source of new market or investment opportunities for PDBs

Source: Authors (Natixis Green & Sustainable Hub)

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).

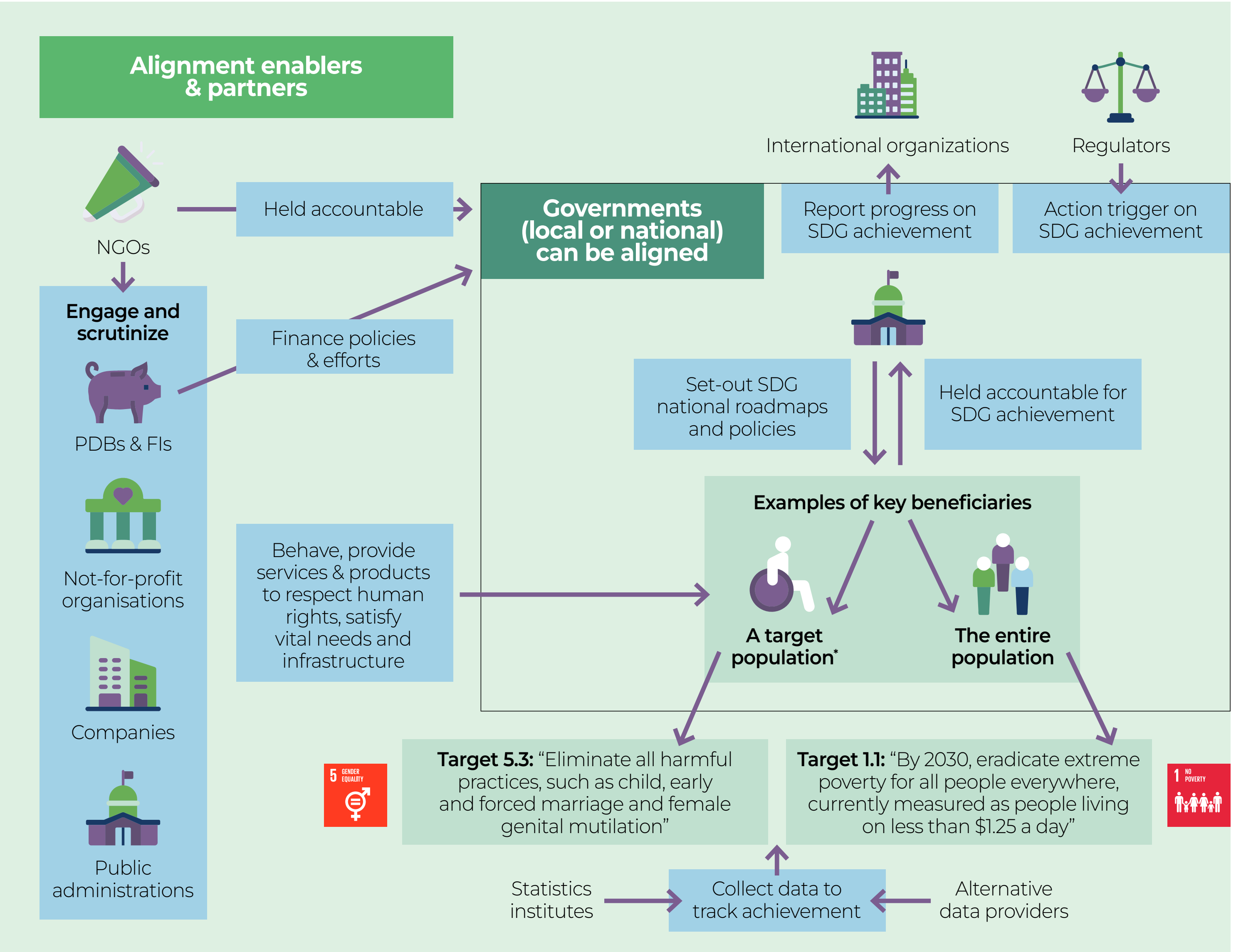
[13] The supposed compatibility or consistency of a portfolio of investment or of a financial set with a temperature trajectory is assessed. See for instance I4CE Etude Scenarios Transition & Institut Louis Bachelier et al., The Alignment Cookbook - A Technical Review of Methodologies Assessing a Portfolio's 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 distinctive 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 (CO2e 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.

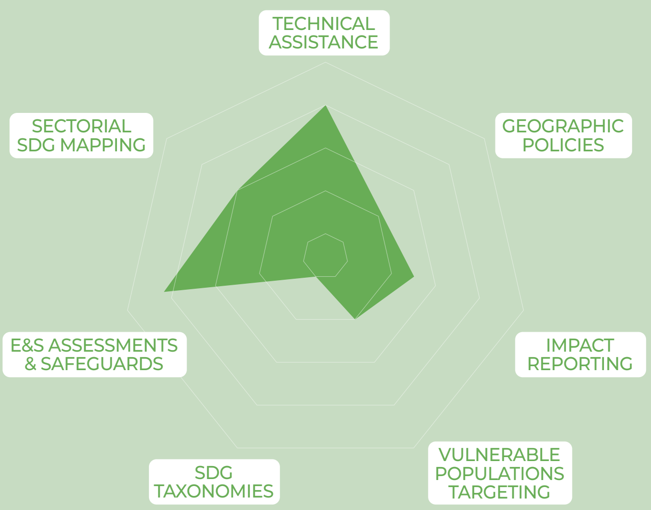
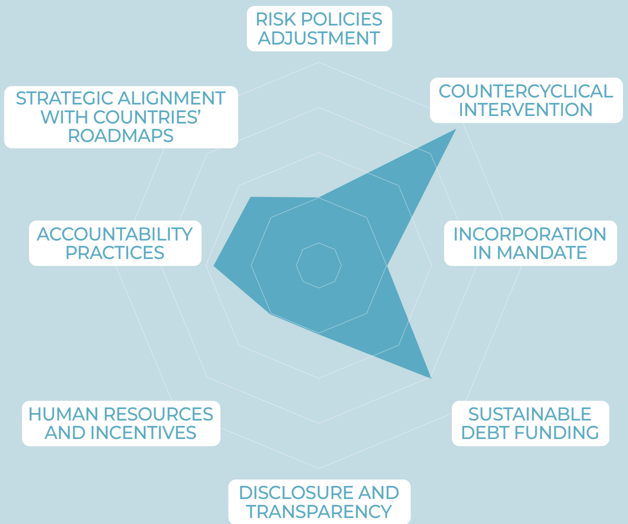
To help PDBs adapt their bank-wide approach, Natixis has identified **IDFC members' areas**

of improvement through a stocktaking exercise (see *Stocktaking findings page 44*). 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.

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

Table 1: SDG integration trackers

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:

Activity level	**Balance sheet and investment level** 	**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).	**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).	**Vulnerable populations:** 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 internally, externally or information on living conditions and basic needs fulfillement prior and after projects or activities commissioning.	**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.).	**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.	**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.	**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.
Entity level	**Bank-wide operationalization** 	**Countercyclical intervention:** evaluates PDBs' supply of credit in times of recession or exogenous shocks to maintain liquidity access (including natural hazards).	**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.	**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 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.	**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.	**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).	**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. **Strategic alignment with countries' roadmaps:** Assesses PDBs strategic and operational orientation in bridging SDG gaps in their countries of intervention.

Source: Authors (Natixis Green and 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 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

STOP *No longer doing*	**ADJUST** *Doing differently*
AMPLIFY *Doing more*	**UNDERTAKE** *Doing new*

Source: Authors (Natixis Green & Sustainable Hub)

From impact-taking to impact-making

The SAAU Framework and the SDG contribution principles 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)											
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% A	4%	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%
	0%	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%

Internal rate of return (IRR)

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.

[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.

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.

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, see the SDG finance taxonomy). 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 let to the discretion of each PDBs. However, it should be **adequate**, i.e., significant enough to possibly tilt financing or intervention decisions.

- 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.

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).

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.*

Foreword: why on earth another study and set of principles?

Foreword: why on earth another study and set of principles?

How different and with what purposes?

Despite flourishing literature on PDBs' SDG alignment – with leading institutions and research centers publishing diagnosis, findings, initiatives, and recommendations – there **is still no consensus on the definition of "SDG-alignment", particularly for PDBs**.

Contrariwise, this profusion tends to increase the **fragmentation of practices and make them unreadable**. This jam-packed landscape harms the comparisons between institutions and ultimately weakens the alignment of PDBs between themselves.

Studies and discussions on PDB's **mostly focus on shareholders, beneficiaries, recipients,** or on the stimulus exerted by officials from countries with predominant influence and voting rights. Surprisingly, **the role of investors or credit rating agencies** is barely addressed. This is why this study was underpinned by a dialogue and a survey of major investors (see part III, p. 109).

The managerial dimension of contribution to the SDGs is crucial. These challenges explain why IDFC members need **common denominators and a shared blueprint.** The envisioned guiding principles, roadmaps, framework aim to maximize PDBs' synergies to move faster and further towards the 2030 Agenda.

The inconsistency and misalignment of PDBs, which applies to all large organizations, also result from the **insufficient dialogue between stakeholders and operational functions within entities.** Advanced impact assessments are carried out by knowledgeable professionals, but their **findings are often lost between intermediaries.** This is the reason why the proposed **"SDG Adjusted Return Tool" needs to be seamlessly embedded into regular operations.**

The recommendations presented in this study are notably based on **Natixis' experience in developing a climate-change tilted internal capital allocation mechanism.**

Some fundamental principles such as **geographic contextualization, the identification of key beneficiaries and assessing interlinkages between the SDGs** (positive and negative impacts, as well as SDG spillovers) are proposed.

How does it relate to the ETTG study?

The European Think Tanks Group (ETTG) published a study "Financing the 2030 Agenda: An SDG alignment framework for Public Development Banks" in October 2021.

Natixis got to discuss its findings with the IDDRI and shared **the study's conclusions and recommendations**. Similar ideas on SDG alignment are formulated in the present study (i.e., transformative, integrated, and indivisible nature of the SDGs; target vulnerable populations). The guiding principles are in line as they call **for a greater "operationalization" of SDGs**. We also proposed similar expected contributions of the study (create a common conceptual basis for alignment with the SDGs for PDBs; share practical ways, tools & processes for implementation).

While the ETTG study has greatly emphasized on the "why" and the "what", we attempted to **draw on our experience as a bank to distinctively focus on the "how".**

We have thus focused on how PDBs should take SDGs into account, to enhance impact evaluation (*ex ante* and *ex post*), thus improving their decision-making. To support PDBs in their endeavor, we proposed an **innovative tool aiming at allowing PDBs to adjust their investment decisions and capital allocation according to both impact and profitability.**

We have also put ourselves in the shoes of a PDB through **a fictional case study** which can help IDFC members figure out how our recommendations can translate into actions.

Introduction

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.*

SDG alignment, behind the “catchword”: a conceptual bedrock

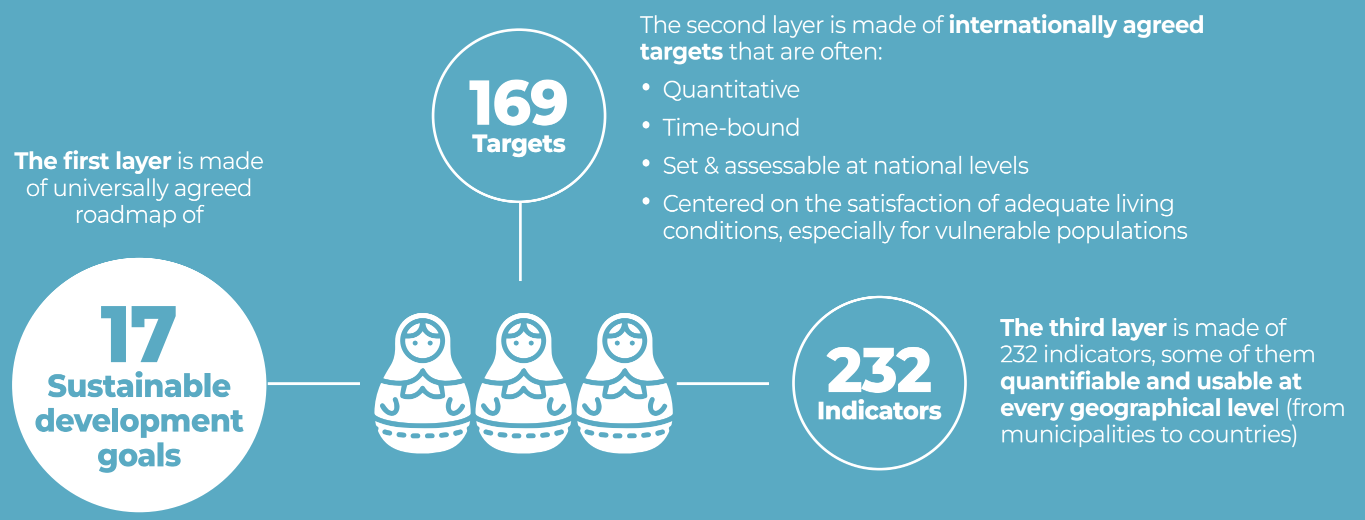
1

I. SDG alignment, behind the "catchword": a conceptual bedrock

SDGs are not a list of "themes" or "lenses"

The UN Sustainable Development Goals (SDGs) are not **a simple list of general themes but a multi-layered framework**. The second and third layers of the 2030 Agenda — the 169 targets and 232 indicators — provide **quantitative guidance for measuring progress towards the UN goals**. The 2030 Agenda can thus be seen as a "**Russian Nesting Doll**": the biggest doll of the Agenda is made of a universally agreed roadmap of 17 SDGs, the medium doll is composed of internationally agreed time-bound targets and the smallest doll leads to 232 indicators for tracking progress on the SDGs.

Figure 7: The UN Sustainable Development Goals as "Russian Nesting Dolls"



Source: Authors (Natixis Green & Sustainable Hub)

Some of the performance targets are "**science-based**", others are the **result of agreement** among UN members (e.g., double, halve, etc.). These targets are not rootless and indistinct as they occasionally explicitly target vulnerable populations (see Target 2.3 in the table below).

"SDG data" can be used to monitor international, national, and local progress towards the goals. It can also help **tracking policies, companies, or products' SDG footprint**. As shown by the literature on "localizing the SDGs", **these targets are geographically bound and mainly apply to governments, in particular local ones**.

According to the think tank IDDRI, 65% of SDG targets relate to the mandate of local and regional governments[21]. Yet some of these **targets are translatable" to businesses and other facilitators/partners**. The table shows that operationalizing alignment requires one to dig into targets' layers.

Table 2: Examples of SDG targets expressed in three ways

Nature of the target	**Relative improvement** (Reduce by half, one third, etc.)	**Absolute performance** (Thresholds)	**Qualitative performance** (Aspirational commitments)
SDG (Layer 1)	Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture	Goal 1: End poverty in all its forms everywhere	Goal 11: Make cities inclusive, safe, resilient, and sustainable
Target (Layer 2)	Target 2.3: "By 2030, **double** the agricultural productivity and incomes of small-scale food producers, **in particular women, indigenous peoples, family farmers, pastoralists and fishers"**	Target 1.1: "By 2030, **eradicate extreme poverty for all people everywhere**, currently measured as people living on less than $1.25 a day"	Target 11.4: "**Strengthen efforts** to protect and safeguard the world's cultural and natural heritage"

Source: 2030 Agenda, Authors (Natixis Green & Sustainable Hub)

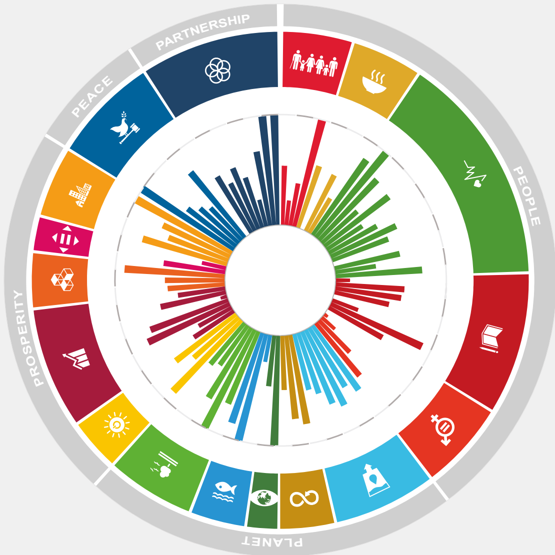
[21] According to the OECD (2020), 105 of the 169 SDG targets underlying the 17 SDGs will not be met without the engagement of and coordination with local, provincial, and regional governments. Likewise, UN-Habitat (2020) estimates that 23 % of the SDG indicators have a local or urban component.

To assess and compare progress across the 2030 Agenda, the methodology developed by the OECD, measures **how far countries need to go to achieve the SDG targets by 2030**. The "[OECD Measuring Distance to the SDG Targets Study]" covers 132 indicators and 105 targets measuring countries' performance on people, planet, prosperity, peace, and partnerships. It assesses the strengths and weaknesses of countries vis-a-vis the 2030 Agenda, using the official UN Global Indicator List[22].

Measuring distance to the SDG targets – an example with Colombia

The chart on the right shows Colombia's current level of advancement on each available target. The longer the bar, the shorter the distance to the 2030 Agenda (dotted circle). Targets are clustered by goal, and goals by the 5 Pillars of the 2030 Agenda (outer circle).

For instance, Colombia has currently achieved 11 out of 117 SDG targets for which comparable data are available, and many of the remaining targets are close to being reached. The country complies with main conventions and protocols on hazardous waste (target 12.4), experiences a strong GDP growth (target 8.1), and all residents have access to modern sources of energy (Target 7.1). However, some challenges remain; Education outcomes are low and inequalities remain high. For instance in 2018, only a thirs of 15-year-olds achieved PISA minimum proficiency level in mathematics and half of them achieved it in reading (Target 4.1).



Colombia's distance from achieving 117 SDG targets

This methodology can help PDBs orient and/or prioritize investments where targets are not met. However, as reminded by KfW in its "Sustainable Development Goals – SDG reporting by banks[23]" (published in September 2019), "a large number of these indicators cannot yet be measured because of technical and methodological difficulties". Furthermore, many of these indicators are subject to interpretation and information reported can vary from one country to another as for example the indicator 14.2.1 - Forest area annual net change rate (%).

[22] *UN Global Indicator List, available here*

[23] *Sustainable Development Goals – SDG reporting by banks, here*

Unpacking the notion of alignment

The **notion of "alignment"** has received renewed attention since the adoption of the Paris Agreement. Numerous financial actors and States have since committed to "align with the Paris agreement". Aligning became synonymous of **"respecting" "contributing"** or **"being compatible with"** the Treaty. Gradually, the notion has begun to apply to the 2030 Agenda.

However, most of the notions, concepts or tools used to characterize the alignment with the Paris Agreement **cannot straightforwardly translate to the SDGs**.

Indeed, in sustainable finance, "alignment" is often understood and used as a **proxy of investment compatibility with international commitments.**

Methods to determine such compatibility are not always robustly defined. **The notion of "alignment" is carelessly being used by some financial and non-financial actors**.

As a result, some related concepts (e.g., "carbon neutral" and "net-zero" pledges) are increasingly criticized[26]. A large part of the financial industry committed to meet Net Zero targets by 2050. It both shows that a common language was found but that it might have been at the expense of commitments' robustness. All the alliances below are gathered in the Glasgow Financial Alliance for Net Zero (450 financial firms across 45 countries responsible for assets of over $130 trillion[27]). **A similar backlash against SDG claims must be avoided**.

[26] *See for instance Ademe's recent positioning and SBTI's methodology, available here or Natixis Green & Sustainable Hub's article : "To pledge or not to pledge… Net neutrality, an international dilemma", available here*

[27] *See the Glasgow Financial Alliance for Net Zero (GFANZ) press release (November 2021), available here*

Table 3: examples of net zero initiatives in the financial sector

Initiative	Commitments	Members & AUM
Net Zero Banking Alliance	• Transition the operational and attributable GHG emissions (scope 1 to 3) from lending and investment portfolios to align with pathways to net-zero by 2050 or sooner • Within 18 months, set 2030 targets (or sooner) and a 2050 target, with intermediary targets to be set every 5 years from 2030 onwards • Short-term targets focus on priority sectors where the bank can have the most significant impact • Annually publish absolute and intensity emissions	95 banks 39 countries US$ 66 trn total assets 43% of global banking assets
Net Zero Asset Owner Alliance	• Transitioning its investment portfolios to net-zero GHG emissions (scope 1 to 3) by 2050 • Establishing intermediate targets every five years in line with the Paris Agreement Article 4.9 • Regularly report on progress	61 institutional investors US$ 10 trn AUM
Net Zero Asset Manager initiative	• Set interim targets for 2030, consistent with a fair share of the 50% global reduction in CO_2 • Take account of portfolio Scope 1 & 2 emissions and, to the extent possible, material portfolio Scope 3 emissions • Prioritize the achievement of real economy emissions reductions within the sectors and companies in which we invest • If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives • Create investment products aligned with net zero emissions by 2050 and facilitate increased investment in climate solutions	220 signatories $57 trillion in assets under management

Initiative	Commitments	Members & AUM
Net Zero Insurance Alliance	• Transitioning all operational and attributable GHG emissions from its insurance and reinsurance underwriting portfolios to net-zero emissions by 2050 • Establishing intermediate targets every five years in line with the Paris Agreement Article 4.9 • Engaging with clients and potential clients, particularly those with the most GHG-intensive activities, on their decarbonisation pathways • Developing and offering insurance and reinsurance products, solutions and arrangements	13 insurers
Net Zero Financial Service Providers Alliance (Investment advisors, rating agencies, auditors, exchanges, index providers, ESG research and data providers, and proxy research providers)	• Align all relevant services and products to achieve net zero greenhouse gas emissions by 2050 or sooner • Set an interim target for relevant services and products offered to be aligned to the net zero transition • Address or own operational impacts by setting science-based emissions reduction targets across all operational emissions (Scopes1 and 2 and, where material, 3) • Set interim science-based reduction targets within 12 months of joining for no later than 2030 across all operational emissions • Consistently raise with the importance and implications of setting net zero targets and strategies across Scopes 1, 2 and 3 emissions.	23 signatories

Source: Authors (Natixis Green & Sustainable Hub)

Aligning Finance with the SDGs: A Contribution from IDFC

IDFC International Development Finance Club

In this document, IDFC members agreed upon general principles to foster SDG alignment among themselves and in their respective institutions:

- Explicitly **mentioning SDG considerations in the mandates** of development banks
- **Reshaping regulatory frameworks** to facilitate PDB's role in the promotion of SDGs & their countercyclical role in times of emergency/crisis
- Increasing the **collaboration between PDBs and governments**
- Creating methodologies for **translating SDGs principles into operations and organizations**
- **Developing practical and standardized tools** to characterize which investments are aligned with SDGs and which are not.
- **Using mapping as a mobilization and analytical tool (with OECD SDG tracker tool)**: has revealed that half of the members focused on economic objectives (i.e., SDG 8 & 9). While a majority is committed to environmental objectives (i.e., SDG 7, 12 & 13), revealing the integration of climate considerations/Paris Agreement objectives, attention given to governance and partnerships (i.e., SDG 16 & 17). Thanks to mapping, we can also see that some goals are "neglected" (i.e., SDG 14 & 15).
- **Expanding investments and innovative tools in the "Build back better" era, especially in the in the following SDGs:** 3, 7, 9, 14, 15, 16.
- **Building common SDG frameworks and/or taxonomies**: measuring development impacts along the project cycle (appraisal, monitoring & evaluation), defining ex-ante planned impacts assessment tools, monitoring indicators and ex-post impact measurement methodologies. The frameworks should cover the entire financing and investment portfolios; be consistent, in their methodology, with the multi-dimensional impacts of the SDGs; provide quantified synthesis reflecting the positive or negative balance of a project or an investment, and therefore facilitating and influencing the final Board decision.

"Alignment" must thus be carefully understood and applied to the 2030 Agenda because of the material differences between the characteristics of global warming and the challenges of achieving the UN SDGs.

SDGs are so indivisible and interlinked that investing in line with SDGs can be detrimental or co-beneficial to another one depending on complex factors (geographical, economic, political, social, or environmental contexts). Due to the imperative necessity to fulfill basic needs outlined in the 2030 Agenda, the notion of "alignment" must be reframed and applied to the SDGs.

Under the premise that the SDGs are quantified, timely- and geographically- bound targets, **only political entities having control and exercising responsibilities over a territory can literally be aligned** i.e., namely reaching or being on track to meet national or regional statistical milestones as clearly established in the 2030 Agenda.

Accordingly, **the notion of alignment is more appropriate at a country level**. As part of their "Voluntary National Reviews" (VNRs), countries report on the implementation and progress on the SDGs (see graphs infra on India).

In this regard, alignment must be conceived as a **dynamic process**, as progress towards the 2030 Agenda requires **constant readjustment**.

Three shades of "alignment" **at country-level could be distinguished: off-track, on-track, aligned** (see the table on these three levels).

Table 4: Three shades of alignment at country-level

Off track	On-track	Aligned
The country's performances are either degrading, stagnating, or improving at a too slow pace to fulfill the targets by 2030	The country's performances are progressing at a pace that should allow it to reach the optimal performance by 2030	The country already achieves optimal performance and meets the targets as defined by the UN Members

Source: Natixis' Green & Sustainable Hub

SDG contribution principles

This section focuses on PDBs operations.

Beyond being quantified, timely- and geographically- bound targets, the SDGs also embed some core features, related to their "DNA" or intrinsic nature. To contribute to the achievement of SDGs, financial flows must therefore respect or follow these fundamental features.

Following the recommendations of the Final Report written by IDFC Working Group on SDGs, we developed a common approach to characterize sustainable development investments.

To foster SDG contribution, PDBs must respect a set of overarching principles in their operations, and in particular regarding their investment processes. Such principles are also applicable at balance sheet level.

These five contribution principles are meant to characterize financial flows (beyond strict investments, including grants, guarantees, swaps, etc.) consistent with the SDGs:

1.

Geographic contextualization:

localize the SDGs to factor territorial specificities and local achievement gaps, and do so at subnational level when possible and relevant. To support national, regional, or/and local SDG priorities, PDBs should adopt data-driven decision-making processes. This first principle enables the second (#2).

2.

Prioritization between SDGs:

based on contexts, fix bottlenecks, and address the most acute SDG gaps **according to science-based data and beneficiaries' political priorities**. Use national statistics or innovative data collection tools to identify **strategic/priority sectors** and integrate them in country strategies. Prioritization must not only rely on geographic contextualization (#1) but also on PDBs mandates, and link with government in countries of intervention.

3.

Beneficiaries' segmentation:

while identifying the beneficiaries, target by design the most vulnerable individuals and places left behind. Features leading to inequalities and people suffering from discriminations deserve particular attention. They often relate to gender, age, income situation, employment situation, educational background, or disability[28]. To identify vulnerable population, PDBs should strive for timely, reliable, and disaggregated data, using census, administrative files but also satellite imagery, mobile data, and surveys to document living condition changes.

[28] Other socio-economic features are 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.

KoBotoolbox

KoBotoolbox is a set of easy-to-use tools to produce, collect and record quality data in challenging humanitarian contexts composed of a form builder, data collection platform as well as data visualization/management. Kobo's solutions are already used by some PDBs (AFD, World Bank are already using it to monitor and evaluate impacts or identify needs). It could be used by PDBs to build internal robust data collection systems with a very high granularity of information to better target most important SDG gaps and vulnerable populations.

4.

Interlinkages safeguards:

attention must be paid to the interrelations between the goals to maximize synergies and co-benefits, identify tradeoffs, and avoid negative spillovers with a **Do No Significant Harm (DNSH) perspective**.

For example, the Covid-19 pandemic highlighted the tenet of the 2030 Agenda on the **interlinkages between the 17 SDGs** (See figure 8 below). The pandemic has rapidly mutated into a multi-faceted crisis. Lockdown measures aggravated poverty and exacerbated social and gender inequalities. In the meantime, lockdown measures resulted in a sharp reduction of pollution and greenhouse gas emissions, and "Build Back Better" calls for making economic development climate resilient.

5.

Progress accountability:

focus on ex-ante and ex-post impact evaluation gaps in an iterative way to refine impact measurement methodologies as well as investment decisions and strategies. This would allow a PDB to identify where it is most impactful (geographies & activities) and strengthen SDG contribution claims.

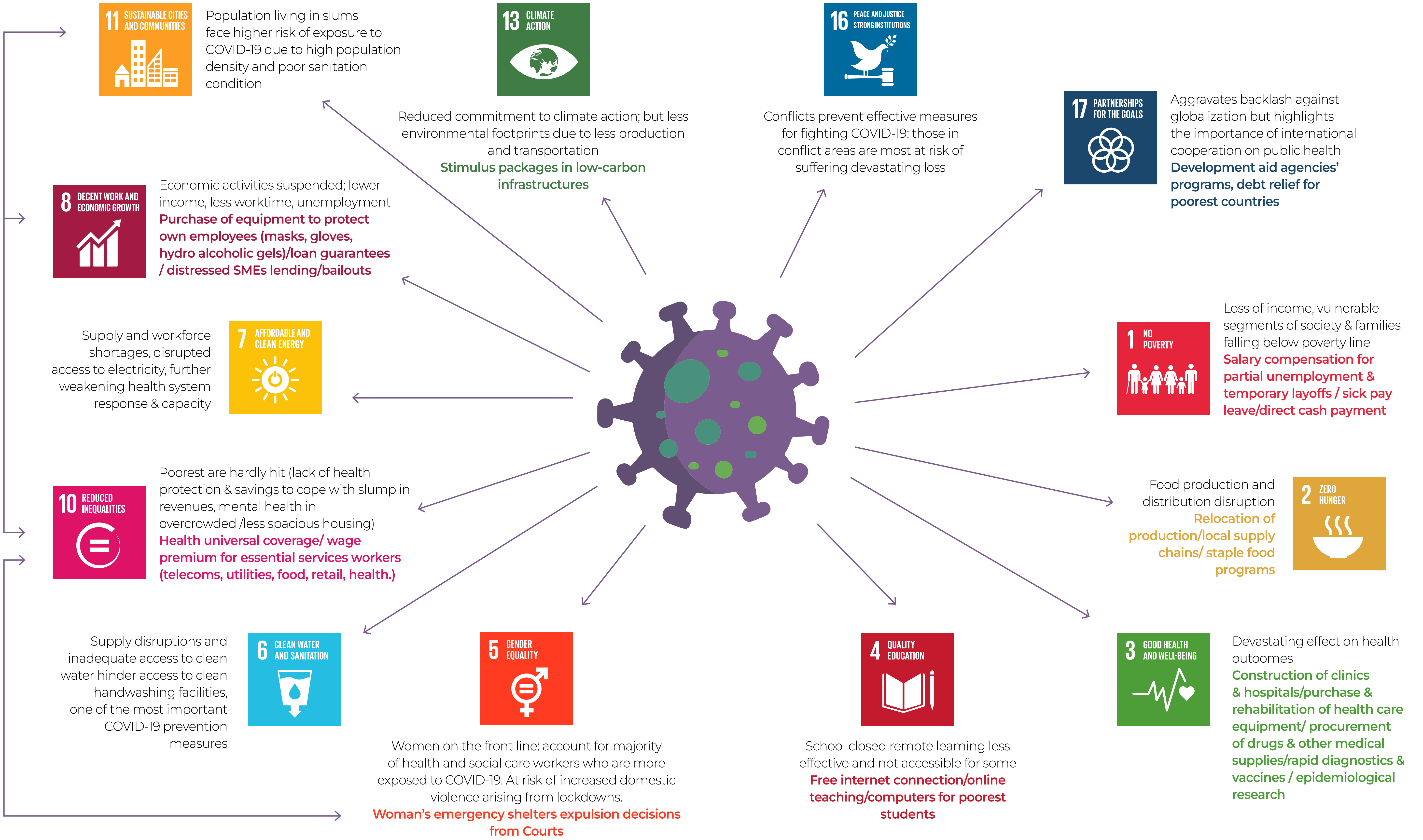
As a public funding recipient, PDBs must be transparent. Data gaps are acknowledged, but, according to the NGO Publish What You Fund, the current state of transparency makes it difficult to "see what PDBs are doing" and "what impacts their investments are making". "Greater transparency can start to lay the foundation for more informed decision[29]".

[29] According to the findings of Publish What You Fund, which launched a DFI Transparency Initiative, available [here](#).

CERISE – MetODD-SDG

MetODD-SDG is an assessment tool measuring a project's contribution to the Sustainable Development Goals. It defines a list of micro-level indicators for SDG targets. CERISE iteratively defined a list of indicators covering 73 targets for 16 of the 17 SDGs. They are working notably with the support of AFD, on the SDG Lab to set standard indicators for financial services providers, social enterprises engaged in energy access, agriculture, and gender equality. They try to gather existing macro-level indicators, national-level data, and micro-level indicators that could be collected by companies. The goal is to link a project impact with national SDG improvement.

Figure 8: Interlinkages between the SDGs: illustration with the Covid-19 pandemic and remedies



Sources: Natixis' Green & Sustainable Hub, UNDESA

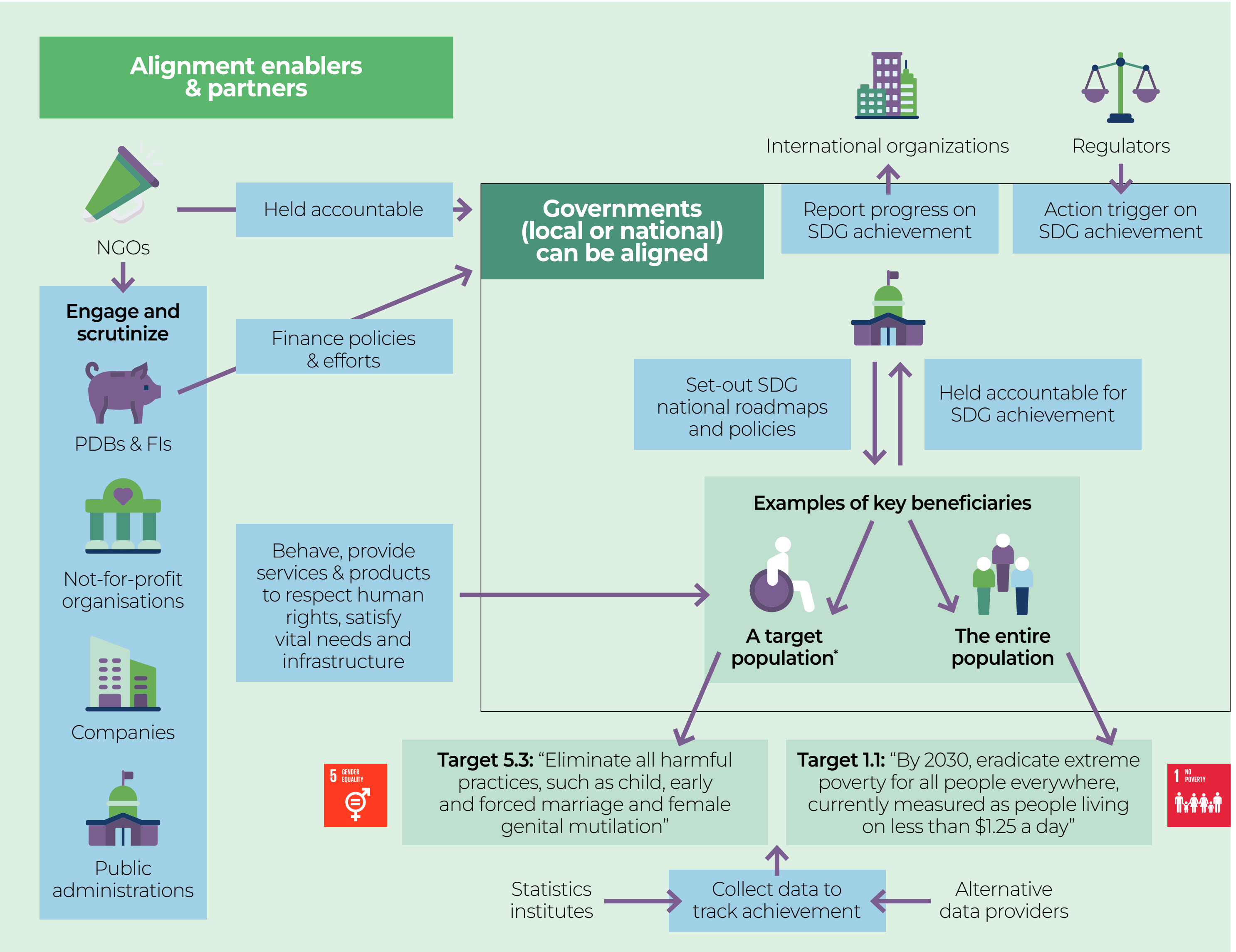
The SDG alignment ecosystem

Countries alone cannot meet the 2030 Agenda. They are part of an "**alignment ecosystem**" made of strategic enablers helping them to reach the SDGs. **Alignment is thus a co-operative process**. It is a societal movement engaging every entity (from local, regional, national supranational and international bodies), on the achievement of a target. The SDG Alignment ecosystem involves a **multiplicity of players, embracing complementary roles**.

It is impossible for a country to be aligned with the SDGs only on its own, regardless of the overall SDG situation in other countries, especially its neighbors and main trade partners.

The Sustainable Development Solutions Network (SDSN) introduces so-called "**spillovers**" in its analysis and underlines notably how **high-income countries' trade and supply chains unleash harmful socioeconomic and environmental spillovers**.

Figure 9: 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)

Meanwhile, tax havens and profit shifting in many rich countries erode other countries' capacity to mobilize the financial resources necessary to meet the SDGs. The SDSN's spillover Index assesses the **transboundary impacts generated by one country that affect the ability of other countries to achieve the SDGs** (factoring the impacts embodied in trade and consumption, financial flows and security /development cooperation).

PDBs as alignment catalyzers

PDBs cannot strictly be aligned per se to the SDGs. However, they have a **unique role as "visible hands"** and politically accountable institutions in this ecosystem. **They can help governments becoming aligned, with the participation of businesses and NGOs.**

This has been particularly true during the Covid-19 pandemic. The multi-faceted crisis accelerated **the need for partnerships** between States, regional authorities, development banks, commercial banks, the private sector, and NGOs.

PDBs can accompany project developers in integrating development impact at the core of their projects' design (through technical assistance).

For instance, **ICD adopted a new technical assistance mechanism** to assist clients to take SDG actions (2 banks benefited from this initiative since 2018, see stocktaking infra).

Takeaways from the literature: insights from IDFC members' partnerships

The study "Impact of Covid-19 on business models of IDFC members", realized by the IDFC in October 2020 analyses several key initiatives that pertains to the notion of "SDG Alignment ecosystem".

1. **CDP**: The Cassa Depositi e Prestiti participated in the European Commission's "Team Europe" initiative to coordinate the response of European development banks to the COVID-19 pandemic in partner countries.
2. **DBSA**: The Development Bank of Southern Africa, together with the Southern African Development Community, has supported the provision of humanitarian assistance and emergency medical items to Mozambique, Zimbabwe, Zambia and Eswatini during the pandemic
3. **Bancóldex** partnered with local authorities to launch specific credit lines aiming at 20 regions and cities

All examples show that alliances between public development banks, governments, and other stakeholders (e.g., the private sector; national, regional, or multilateral development banks; regions; cities) are critical to deliver positive impact and support countries' progress on the 2030 Agenda. These partnerships are needed as they can also deliver multiple benefits in terms of resources pooling, risk sharing and project execution.

Pleasant and inconvenient truths

2

II. Pleasant and inconvenients truths

The analysis presented hereafter is based on a literature review, **previous surveys, reports, and publications from IDFC members**; as well as existing frameworks on SDG Alignment developed by think tanks and international organizations. It aims at analyzing the **strengths and limits of existing approaches, initiatives, and methods related to SDG Alignment**. This review was enriched by the discussions organized with key stakeholders (see full list in Appendices, we heartily thank them).

A. Not a blank page: what IDFC members are doing well and could improve

This part assesses the collective work and individual practices deployed by IDFC members regarding the SDGs. We would like to express gratitude to IDFC members for the bilateral meetings organized. It allows one to understand the approaches and/or methodologies used by IDFC members to assess the compatibility of their activities and investments with the SDGs.

Implicit vs. explicit alignment

Too much emphasis should not be put on **mission statement** and official communication if it is not **cascaded in the bank's strategy and operations**.

Alignment claims can be grouped in **two main categories**: the ones that use the SDG official iconic representation, related semantic and materials in their public communications, especially in their reporting, and the ones which do not.

Nevertheless, beyond marketing or labeling, what matters lie in practice effectiveness. Meaning that PDBs with less advanced marketing practices and resources to evidence their contribution should not be discarded on principle.

Table 5: Explicit vs. implicit alignment patterns

Explicit vs. unexplicit	Official and explicit use of the SDGs materials & semantics		Absence of explicit references to the SDGs in the communication & accountability process	
Different cases	Use of the 2030 Agenda mostly for communication or reporting purposes (number of occurrences in documents, use of the thumbnails) but with little effectivity, tangible consequences and changes in operations compared to a business-as-usual model	Actual effects and changes in operations, respecting the DNA of the SDGs (geospatial gaps, attention to specific population groups, etc. see SDG finance principles infra)	Implicitly addressing the core features of the 2030 Agenda in a subtle manner (interlinkages, Leaving No One Behind (LNOB), localization, etc.)	No plain reference to the UN SDGs while PDB's operations and investment activities either contradict or ignore their DNA (causing significant harm to the SDGs)
Summary	CLAIM but DO NOT ACT	CLAIM and ACT	DO NOT CLAIM but ACT	DO NOT CLAIM and DO NOT ACT

Source: Authors (Natixis Green & Sustainable Hub)

Once these nuances are pinpointed; it is fair to say that an **explicit overarching policy related to the SDGs can provide impetus**. The development objectives mentioned in PDBs' mandates are often not specific to the 2030 Agenda. It is up to PDBs constituents and shareholders to decide or not to revise status accordingly.

PDBs are constrained differently by their mandates. For example, IDFC members do not usually **receive financial incentives and explicit mandates or guidelines on the SDGs** from their governments to support their operations' alignment to the SDGs.

Members tend to **deduct or presume that their activities are closely connected to SDGs**, somehow intuitively. As mentioned in a Survey on "Existing approaches by IDFC members to characterize SDG compatibility of activities and investments", few members "*have entered into a measurement of their contribution based on the indicators provided for with the list of 17 SDGs*".

In 2020 half of IDFCs' responding members (6/12) have put SDGs at the center of their strategies and incorporated (or are in process of incorporating) a direct link to SDGs into their business activities. JICA specifically mentioned that it would "*help the international community to achieve its pledges, specifically the SDGs and the Paris agreement*", emphasizing its role as a partner and enabler of SDG alignment.

It confirms that the SDGs are used **as a list of themes and not as time and geographically bound quantitative targets** (as opposed to what is recommended thereafter). Few IDFC members are involved in the promotion of SDGs among partners, and most of them behave more **like "SDG takers", rather than "SDG enablers"**.

As of today, IDFC members' SDG ambition relies on the willingness but, above all, the **capacity of clients/partners** to identify their own SDG contributions. **Contractual clauses may be hard to respect if investees' capacities remain insufficient** (e.g., know-how, IT systems, methodologies, dedicated bandwidth).

However, as capacity persists as a barrier, few financial instruments are available to go beyond requesting information. SDG progress is barely monitored. The main practice observed consists in **after-investment mapping**, in the sense of afterthought tagging of already committed investment against the SDGs.

Stocktaking findings

The radars below assess the **overall IDFC members advancement** on some critical items (see Table 1). It aims at pinpointing **the main areas of progress** from mandate specificities to impact assessment and through disclosure practices. It synthesizes major challenges and underlines best practices relevant to SDG integration in PDBs' business models. If for each category, good practices are to be emphasized, it must not hide the remaining efforts to be made.

Overall, **IDFC members' SDG integration advancement is heterogeneous** and reflects members' mandate specificities, size, scale and geographical constraints.

IDFC members agree on tackling the SDGs and contributing to their achievements, nonetheless, they are not fully aligned among themselves on how to contribute. Mapping exercises are quite popular but often only takes stock of **SDG sectorial deduced exposure not contribution**. Ex-ante Environmental and Social (E&S) assessments seem to be common practice, but **impact assessment and disclosure is falling short of what is needed to establish a link between financing and contributing to the SDGs**.

Impact monitoring and ex-post assessment are often lacking because of **missing financial resources, internal organizational capacities** (sustainability dedicated teams) and internal processes (strategic monitoring, operational integration).

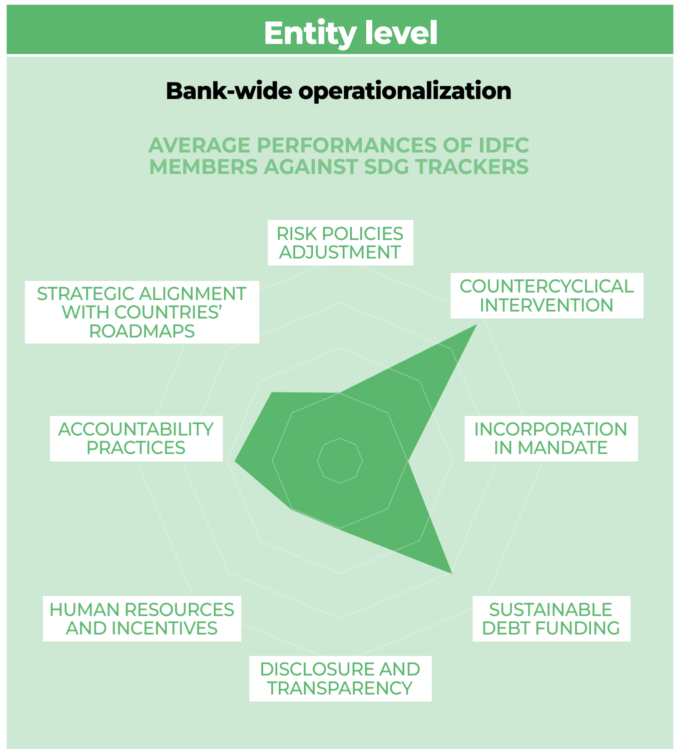
On the other hand, from a funding perspective, **members understood the interest of using Green, Social and Sustainable (GSS) debt instruments**. It is a vector of visibility and transparency through allocation and impact reporting. Depending on various factors it can also provide **a potential financing cost reduction** (so called "greenium").

Indeed, 19 out of 27 members issued sustainable debt financial products as of December 2021 (see investors' opinion on IDFC's programs infra).

As per the definition of SDG contribution given in the paper, few IDFC members have adopted an approach targeting end-beneficiaries and territorial SDG gaps to maximize their contributions to the SDGs. As these notions are relatively new, the challenges identified must not be seen as failures to align with the SDGs but as new challenges to overcome. The IDFC must rely on most advanced members to show the way towards SDG alignment.

The charts below assess IDFC members progress towards SDG integration in their own practices from strategy to operations. As mentioned above, the margin for improvement can appear quite important. Nonetheless, the complexity of SDG alignment compared to climate engagement, the difficulty to access information and the relatively recent interest for the notion, can explain these gaps.

Chart 1: IDFC SDG integration radar - Entity level



Source: Authors (Natixis Green & Sustainable Hub)

Countercyclical intervention reflects the PDB's capacity to act in order to cushion the effects of the economic cycle. Since the financial crisis of 2009, PDBs have stepped up their support through countercyclical investments to ensure that economic actors have a continuous access to finance even in times of recession or exogenous shocks (such as during the Covid-19 pandemic).

Incorporation in mandates appreciates whether development, and more specifically the fulfillment of SDGs, are explicitly referred to in PDB's mandates, or in high-level statements.

Sustainable debt funding refers to the use of Green, Social, Sustainable and Sustainability-linked bonds (GSSS bonds) or loans highlighting PDBs own sustainable strategies, enhancing transparence and investor relationship through bond reporting all the while potentially benefitting from lower funding costs (so-called "greenium").

Example of IDFC members best pratices - AFD

In 2020, through a new SDG Bond Framework, the AFD broadened the scope of eligible loans from climate to areas of social policy, primarily health and education, in line with the SDGs. It is based on an innovative methodology, a sustainable development internal opinion. Since 2020, AFD has issued 11 SDG bonds.

Disclosure and transparency tracker analyze whether PDBs are publishing relevant and substantial information regarding the identification of their SDG contribution strategies and progresses, from impact reporting to SDG governance.

Human resources refers to the organizational and human capacity to tackle the SDGs at all levels of the PDB, from project appraisal to organization wide strategic decision making. Sustainability working groups, experts, analysts and executives are needed to steer PDBs SDG contributions.

Example of IDFC members best practices – DBSA

DBSA established a **Sustainable Finance Working Group** to facilitate the integration of sustainability throughout operations and not just at the funding level.

Accountability pratices englobe the following questions: does the PDB disclose information? Which stakeholder (NGOs, localities, governments) holds it accountable and to what extent?
Are project developers/governments held accountable contractually, by-design, regarding the SDGs? It can be under the form of conditional disbursement/financing (reach an impact threshold, policy-based loans etc.). Are portfolio managers/top management held accountable regarding the SDGs (SDG-linked variable compensation, Sustainability Linked Bonds etc.)?

Strategic alignment with countries roadmaps describes whether the PDBs have taken into account the national SDG roadmaps in their country strategy.

Example of a non-IDFC member - the CDC (France)

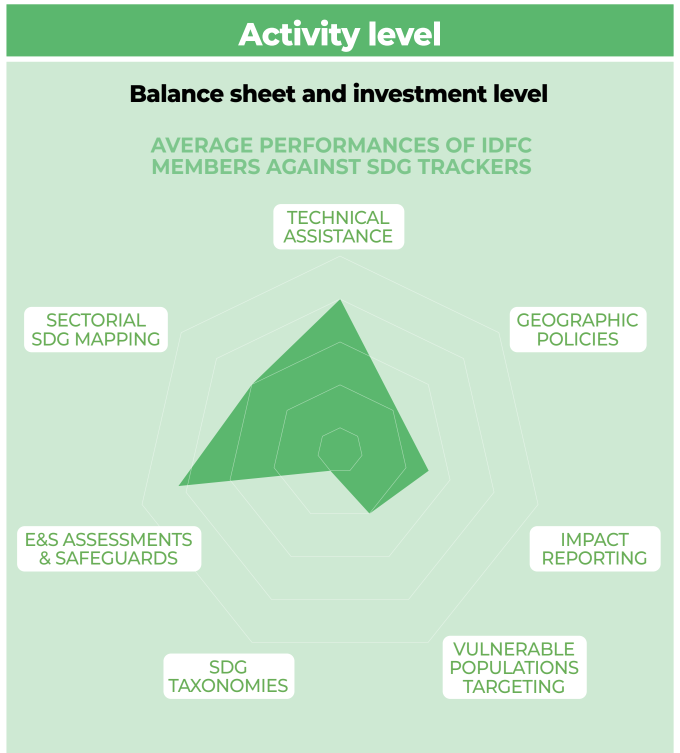
CDC aims to "support" the implementation of the French national SDG roadmap by setting related-targets that are integrated in strategic and financial plans. The Group's targets, which have qualitative and quantitative components are declined by subsidiary and monitored annually.

Examples of targets:
· Net neutrality by 2050,
· -30% of intensity of material use (economy-wide),
· 2/3 of sustainable agricultural production,
· 0 gender inequality,
· 0 "poverty in living conditions"

Examples of action plans:
· Integration of SDGs in the performance contracts of public entities,
· Investment steering towards SDGs,
· SDG integration in the reporting,
· Corporates, local actors, investors and employees' awareness-raising

Risk policies adjustement takes into account both the international prudential frameworks (risk weighted assets, risk assessments, regulatory ratios…) and the internal prudential policies to tilt investment from SDG harming projects toward more contributory projects for instance.

Chart 2: IDFC SDG integration radar – Activity level



Source: Authors (Natixis Green & Sustainable Hub)

Geographic policies refer to PDBs' countries of intervention which are usually defined by the banks' mandate. It also assesses whether the PDB is investing in areas most in need (when possible according to its mandate): applying geographic filters in its financing activities.

Example of IDFC members good pratices – JICA

JICA has strategies per sector and countries: for each country JICA identifies the goals that its counterpart countries request to support. A dedicated unit centralizes the SDG contribution objectives and is in charge of reviewing it. Moreover, JICA published a position paper on SDGs in 2016, reaffirming its strategic interest for the 2030 agenda. Additionally, JICA is currently creating strategies by sector called "Global Agenda," in which JICA specifies its contribution to SDGs. For instance, JICA has dedicated programmes in India, in Africa and in Indonesia.

Impact reporting assesses whether PDBs' have ex-ante (expected) impact reporting in project's apraisal phase and/or in itinere and ex-post (actual) impact reporting in the entire life cycle of the project.

Example of IDFC members best pratices – ICD

ICD developed an **in-house SDG development impact metric system**, tracking the annual progress towards the projected outcomes agreed upon during project's approval. The model drawn from the **SDG indicators and Harmonized Indicators for Private Sector Operations (HIPSO)** metrics allows the user to generate automated dashboards based on the observed impact against the customized reporting formats. The model provides a snapshot of how a project is performing regarding achieving SDGs and project's stated objectives and is incorporated in the annual development effectiveness report.

Vulnerable populations targeting refers to the schemes and interventions aimed at vulnerable populations or at identifying and surveying end-beneficiaries.

SDG Taxonomies assesses whether PDBs use or have in place a classification of activities or projects defining the sustainability or greenness. Taxonomies can be used internally, externally or have other various purposes.

Example of IDFC members best pratices – AFD

AFD has a Sustainable Development Analysis and Opinion (SDAO) rating tool in place. It acts as a screening mechanism for project approval. It rates both projects' positive and negative impacts on 6 dimensions, on a scale of -2 to +3. Unless exceptional circumstances, AFD's board does not accept projects with negative opinion.

E&S assessments & safeguards appreciate whether PDBs have processes such as exclusion lists, "do no significant harm principles" and compliance with international standards, in place.

Example of IDFC members good pratices – BNDES

BNDES has published an exclusion list[30]. It is detailed for each of the following sector: agribusiness, arms, banking, energy, mining, real estate, sanitation and solid waste, steelmaking, sugar and alcohol, restrictions imposed by international agreements.

Sectorial SDG mapping refers to PDBs' common pratice to "map" their contribution to SDG per goal (see the examples of KfW and JICA).

Technical assistance assesses whether PDBs have implemented support mechanisms (e.g. technical dialogues) to help intermediaries or investees align with SDGs. It aims at accompanying project developers in integrating development impact at the core of projects design and sourcing.

Example of IDFC members best pratices - PT SMI

Technical assistance is used by PT SMI to **enhance project structuration and readiness**. In the context of the **Green Climate Fund**, Phase I Technical Assistance takes the form of feasibility studies, environmental and social studies, and urban mobility plans, in collaboration with GIZ. The Phase II Technical Assistance takes the form of the preparation of detailed engineering designs, traffic impact studies, and non-ticket business studies, with the support of SECO through the World Bank.

Through the SDG One Platform, PT SMI also uses technical assistance to increase the readiness and thus "de-risk" the project by doing so. For example, on SDG 6 (Clean Water and Sanitation) and SDG 7 (Affordable and Clean Energy), USAID provides for PT SMI technical assistance and capacity building for developing renewable energy and energy efficiency projects as well as clean water and sanitation projects in Indonesia.

[30] Activities, projects and items not supported by the BNDES, available here.

Countercyclical intervention

Since the financial crisis of 2009, development finance institutions (DFIs) have reviewed their roles in supporting countercyclical investments to ensure that countries or companies continue to have access to finance through downward economic trends.

During the COVID-19 Pandemic, IDFC members provided distress financing to companies and institutions in need. For instance, CDP, and KfW offered guarantee schemes to companies in their respective jurisdictions. AFD, ICD and KfW used fast-track processes to fund companies in need. To finance themselves, AFD and the CAF issued COVID-19 bonds.

During this phase, it was emphasized by various stakeholders that **"emergency funding" should not suspend ESG screening and due diligence**. Such distress financial support is often not earmarked financing. Dialogue on the use of the funds and the schemes to be financed must take place, especially with regards to population and beneficiaries targeting.

Such dialogue helps preventing emergency measures' undesirable effects (windfall effects, GHG emission lock-in). Overall, **fast-tracked procedures implemented by IDFC members do not seem to have undermined E&S safeguards.**

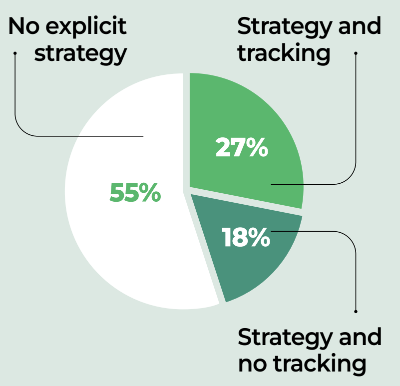
Strategy design and alignment with countries' roadmaps

SDG and development impact integration in strategic plans is key to designing a holistic organizational approach towards SDG contribution. A third of IDFC members have identifiable SDG frameworks or strategy that informs operations (27% in 2018). The ICD has pledged to focus its investments on SDG 7, 8, 9, 13 & 17 trickling down on SDGs N°1, 2, 3, 4 & 5. It pointed out a strategic tool to monitor its SDG contribution using indicators and the SDGs.

In 2018, IDFC members identified attitudes within development finance institutions that view the **SDGs as more of an obstacle to financing than a core business goal**. This was confirmed during the interview conducted with some members mentioning "extra administrative burden". This may be attributed to **a lack of resources, including senior-level support for the UN goals** as well as a shortage of technical capacity in translating the goals into a strategic and operational framework.

Existing commitments and strategic integration of the SDGs may be superficial or too broad, **without quantitative targets and little detail on how commitments are going to be met**. Strategic engagement must envision a path towards SDG contribution at every level of the company including, external engagement and partnerships.

Figure 10: Percentage of IDFC member institutions with SDG strategies and tracking mechanisms



Source: The International Development Finance Club and the SDGs, Center for Global development, 2018

Mapping: the quest for granularity and beyond reporting uses

Mapping can be performed ahead of a financial and/or technical intervention, or ex post to characterize an existing portfolio of loans or stakes (backward looking mapping).

SDG mapping offers a procedure for **reporting on the intended or expected positive contributions of committed financing activities**. KFW developed an "SDG Compass" based on its Sustainability Guideline (Oct. 2020) and Germany's National Sustainable Development Strategy (2016). This SDG mapping methodology links the bank's entire new financing activities and more globally the group's strategy to the SDGs.

Figure 11: Visualisation of KfW's allocation of the financing volumes "New commitments 2021"

Source: KfW, The SDG mapping of KfW Group

JICA has an SDGs-sector code in its internal system that allows extracting technical cooperation, grant, and loan projects to identify to which goals those projects contribute.

SDG mapping is, with the SDG costing exercise, the most used proxy of alignment. It helps financial actors **determine their exposure to sectors or activities presumably positively related to the SDGs**. It provides a framework for financial market participants to map/illustrate the expected contribution of their investments against the UN goals.

In the meantime, there are **some blind spots in the concept itself**. It indeed ignores potential interlinkages between SDGs. Furthermore, for the moment, mapping of **exposure to activities causing significant harm to the SDGs is inexistent**. According to the "IDFC Members survey synthesis", only positive impacts are being assessed and the global contribution is very difficult to aggregate.

As of today, projects are scarcely defined by the SDG gaps they are meant to bridge. Mapping remains an **afterthought exercise, often realized once financing has been granted.**

For instance, the linkage between a bridge construction and the SDGs is made afterwards. It would be relevant **to reverse the logic and start from the actual development needs** (as evidenced by the SDG gaps). Where and how would the bridge be best built to maximize access to education, health, employment, resilience to extreme weather events, etc. and minimize negative impacts on biodiversity and climate. Does the investment provide marginal or substantial improvement of living conditions?

Project pipelines could be built with such perspectives in mind thanks to enhanced mapping practices. It would facilitate identifying the type of activities or assets that would contribute the most to bridging SDG gaps and orient investments towards most SDG contributive sectors.

When too superficial, mapping can be associated to "Cherry Picking" or "SDG washing practices". The more granular and detailed a mapping becomes, the better.

Operational tools for SDG contribution

Exclusion lists

Several tools can be used to guarantee that investments do not significantly harm SDGs. Exclusion lists for sectors intrinsically harming one of the SDGs are a first step. The sectors or activities usually identified as ineligible for investment include **gambling, arms trade, tobacco, mining**, etc. Some of the IDFC members, including the AFD, BNDES, DBSA, the BOAD and KfW, already have quite comprehensive exclusion policies in place. The AFD group has a consolidated exclusion list since 2011, which is periodically revised, and which also becomes visible through its thematic strategies updated every 4 years.

Environmental & Social assessments

Environmental & Social assessments is a common practice for PDBs including IDFC members. Depending on the context it can rely on external analysis (consulting firms) or internal analysis: PT SMI established an Environmental and Social Safeguard dedicated team. Furthermore, many members comply with international standards such as IFC's performance standards or the World Bank's Environmental and Social framework.

In the "Proposal for a Social Taxonomy for Sustainable Investment" report published in 2020, Antje Schneeweiß (Südwind Institute) identified two types of sectors for a Social Taxonomy: High-Risk Social Sectors & High-Contributing Social Sectors. It would certainly be relevant to add other sectors such as tourism (incl. the hotel business), or the toy industry where human rights violations are widespread. Yet, a high level of social safeguard should be put in place in those high-risk sectors (see the table below)[31].

Sustainability ratings in project approval

Many IDFC members did not disclose or develop internal impact screening mechanisms for projects approval. Screening methodologies must be disclosed and disseminated for project developers to grasp the assessment criteria that are key to project approval.

AFD's Sustainable Development Analysis and Opinion (SDAO) tool is a transversal SDG-related impact assessment tool. It rates both projects' positive and negative impacts on 6 dimensions encompassing all SDGs, on a scale from -2 to +3. Barring exceptional circumstances, AFD's board does not accept projects with significant negative opinion. This type of process allows one to monitor pipelines according to projects' positive and negative impacts on SDGs. It is a screening mechanism that factors in local contexts and SDG interlinkages on a case-by-case basis.

Taxonomies

Robust internal Taxonomies can help reduce exposure to sectors with negative sustainable development impacts with a "do no significant harm" approach. They are still quite inexistent for the majority of PDBs according to IDDRI in its report Scaling up public development banks' transformative alignment with the 2030 Agenda for Sustainable Development, published in 2020.

Taxonomies are a prerequisite to internal impact screening mechanisms or projects' sustainability ratings.

In Part III. an impact screening mechanism based on an internal Taxonomy is proposed.

Table 6: Sectors with a high risks of SDG obstruction or harm through interlinkages

Sectors with higher level of human rights risks	Agriculture
	Textile manufacturing and trade
	Mining
	Infrastructure
Sectors with market power and significant influence over human lives	Manufacturing of information and communications technology (ICT) devices
	Automotive manufacturing
	Food retail

Source: Antje Schneeweiß (Südwind Institute), "Proposal for a Social Taxonomy for Sustainable Investment" (2020)

[31] *Authors' analysis of the "EU Social Taxonomy Proposal: simpler and meaningful but half-way through", March 2022, available here*

Costing exercise: the price of achieving the SDGs

First developed in the context of the Millennium Development Goals (MDGs), costing exercises provide benchmarks for donors and national fiscal authorities in their budgeting processes to analyze countries' financing needs to achieve the SDGs. One can see this approach as an efficient way to understand the macro and fiscal picture of country total needs in terms of development.

However, SDG costing exercises can be misleading. As explained by the World Bank, in its paper "Understanding the cost of achieving the sustainable development goal[32], costing exercises using an accounting approach can **double-count investment needs by ignoring synergies across different types of investment and across countries**. Many SDG costing exercises do not consider the operation and maintenance needs related to infrastructure. They largely ignore the critical role of policy and institutions and may put excessive emphasis on financing needs. For example, more education spending may not solve the problems of teacher absenteeism and insufficient learning in education facilities. SDG achievement is not (entirely) for sale. Costing exercises typically overlook the tendency for different types of spending to have distinct dynamics in the short and long term, as well as during economic downturns. For long-term development outcomes like climate change (SDG 13) and biodiversity (SDG 14 and 15), the benefits of policy actions that prevent damages may take many years to materialize, while many of the costs would be borne in the shorter term.

[32] *Understanding the Cost of Achieving the Sustainable Development Goals – World Bank Group, available here*

The SDG costing methodology used by the Republic of Benin

The Republic of Benin, in its 2021 SDG Bond Framework, defined the SDG costing as the assessment of the minimum budgetary expenditures required to reach the SDGs by 2030. Budgeting for achievement costs rests on five pillars (Population; Prosperity; Planet; Peace; Partnership) that serve as an analytical tool for identifying synergies among the SDGs and minimizing arbitrage effects between targets. The SDG costing methodology is subdivided in three steps; 1) identify bottlenecks in the way of achieving the SDGs; 2) identifying accelerators that can eliminate bottlenecks; 3) evaluating the cost of implementing these actions. The development of the Ten-Year Action Framework for Accelerating SDG Implementation (2021-2030) published in November 2020 estimated at circa 18 billion of euros for the period 2021-2025 alone the cost of accelerating measures for achieving the SDGs.

Impact assessment

As of today, current practices are limited to a mapping of **exposure** to sector or activities considered as contributing to the SDGs. There is no mapping of actual **impacts on SDGs. Impact assessment tools and mapping methodologies are disconnected**. Mapping of SDG contribution outcomes through impact assessment would enable one to account for SDG alignment.

Impact reporting consists in investigating, analyzing and disclosing projects' extra-financial information such as their carbon footprints, social implications and contributions to society at large. It needs both an expected (*ex-ante*) impact and actual (*ex-post*) projects' impact assessment, it can be complemented with ongoing (*in itinere*) impact assessment to monitor an investment impact along the full project life cycle.

The ICD, through its Development Effectiveness Policy, provides an ex-ante and ex-post impact assessment protocol. **A Development Effectiveness Note** is prepared to support Investment Committee decision making process. As part of this policy, ICD developed an **in-house SDG development impact metric system**, tracking the annual progress vis-à-vis the projected outcomes agreed upon during project's approval.

The model drawn from the SDG indicators and **Harmonized Indicators for Private Sector Operations (HIPSO)** metrics allow the user to generate automated dashboards based on the observed impact against the customized reporting formats. The model provides a snapshot of projects' performances regarding the SDGs and stated objectives. It is incorporated in the annual development effectiveness report.

Few IDFC members have a holistic impact assessment policy, from a project appraisal phase to the exit phase. According to the IDFC, few tools are used at board's decision level (IDFC SDG Framework Report: Towards SDG Alignment, 2020, IDFC).

B. Pages written in white ink: hidden constraints

SDG washing and cherry picking

The 2030 Agenda is indivisible. Yet some PDBs focus **only on goals and targets where their activities are positively contributing**, thereby potentially concealing negative impacts or missed opportunities on other SDGs. This practice is problematic as it does not encourage organizations to adopt ambitious and comprehensive goals and engage in a transformational process of their activities or entities.

"SDG washing points to businesses that use the Sustainable Development Goals to market their positive contribution to some SDGs while ignoring their negative impact on others" (OECD, 2017). SDG washing also lies in **unsubstantiated claims**. The risks of SDG washing are very important in the **reporting or communication phases**, where actors highlight their alleged positive contribution.

SDG washing is misleading, as positive contributions are often **unrelated to the core activities** of the entities or/**and are anecdotal in terms of scale, financial amount, or impact at stake**.

The lack of transparency is only a symptom

On the occasion of the launch of their DFI Transparency Tool, we engaged dialog with the NGO named "Publish What You Fund", the global campaign for aid and development transparency. The tool was designed to provide **granular guidance to DFIs on the types of information that a range of stakeholders require** and they should therefore seek to disclose (DBSA & Proparco from AFD participated in the design of the tool).

We discussed the reasons behind the **lack of transparency within DFIs** (e.g., commercial confidentiality agreements), the rationale behind SDG Alignment for PDBs (legitimacy crisis). Publish What You Fund pinpointed **the difficult balance to find between profit and development impacts** (according to their mandates, PDBs have to cope with different return expectations).

The NGO stressed out that the need for transparency was now clearer than ever (investors' own impact reporting, accountability vis-a-vis shareholders and stakeholders) but that disclosure guidance was missing.

The DFI Transparency Tool created by Publish What You Fund was designed to fill the gap between principles and action, standardizing disclosure requirements.

The non-profit also argue that PDBs hold a privileged position to exhibit best practices in terms of disclosure and impact reporting: advanced transparency has a powerful demonstration effect that can enhance learning across multiple spheres.

Indeed, PDBs have the ability to showcase most impactful types of investments. Second, it is broadly agreed that public money, whether in the form of Official Development Assistance (ODA) or development finance, will be insufficient if the UN SDGs are to be met. Mobilization of private finance therefore plays a critical role in reaching the goals. If PDBs are to mobilize increasing amounts of private financing, transparency is crucial. It is central to communicate development impact (consolidated and comparable impact indicators) to private capital that is increasingly seeking investment opportunities in the impact sector, whether through "green" or "ESG" investments (see our dedicated sections *infra*). Finally, transparency plays a major role in accountability processes that are inextricably linked to the UN SDGs..

On transparency and the SDGs

PDBs have the ability to demonstrate the types of investments that are most impactful but only as long as they disclose relevant data. Second, it is broadly agreed that public money, whether in the form of Official Development Assistance (ODA) or development finance, will be insufficient if the UN SDGs are to be met. **Mobilization of private finance therefore plays a critical role in reaching the goals**. If PDBs are to mobilize increasing amounts of private financing, transparency is crucial. It is vital in allowing other stakeholders (investors, governments, civil society) to identify the types of investments or activities that will most effectively mobilize private finance. It is also central in communicating development impact (consolidated and comparable impact indicators) to private capital that is increasingly seeking investment opportunities in the impact sector, whether through "green" or "ESG" investments (see our dedicated sections infra). Finally, transparency plays a major role in accountability processes that are inextricably linked to the UN SDGs.

Geographic interventions

Impacts are by nature localized and therefore influenced by the geographic policies of PDBs as per their mandate (countries/region of intervention and development mission). For example, in the case of a company, the contribution to SDGs does not solely depend on the products or services provided by the company, but also by whether the company operates in a developed or in a developing country. This relates to the principle #1 "Geographic contextualization". Indeed, its impact will be much more important in regions most in need.

Further transparency on **country-by-country intervention doctrine** is necessary. This should incorporate granular information on the diagnosis, exposure to a given country, outstanding financing (per category, type of instruments, sectors) and prospects.

Sub-national location of loans must be disclosed, i.e., information about where the activity is located within a country (a province or city, or it could be geo-coded).

According to IDDRI's report on *"Scaling up public development banks' transformative alignment with the 2030 Agenda for Sustainable Development"* (Oct. 2020), **dedicated efforts to better understand the territories, communities and countries where PDBs operate is essential**. Regardless of their business model, these institutions need to know the true challenges and necessities that their end-beneficiaries are facing, in order to be more effective and have a greater impact with the products and services they provide.

Profitability & risks constraint

Concessional finance could help better apprehend negative impact mitigation and positive impact maximization.

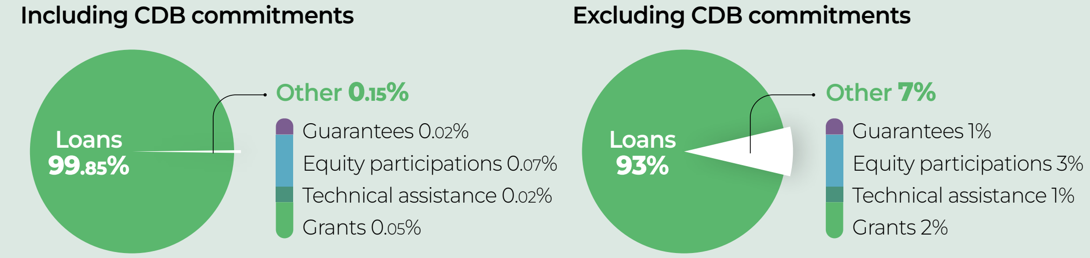
In 2018 IDFC members' main commitments consisted in granting loans (see graphs below), with a small share of resources devoted to guarantees, equity stakes, grants, and technical assistance.

Credit rating agencies

Credit rating agencies (CRAs) play an informational role in financial markets. At France's G7 in 2019, Development Ministers commended the OECD and UNDP joint initiative to define a common framework for aligning finance with the SDGs. CRAs were part of the scope of work.

Credit rating agencies recently introduced and/or disclosed new methodologies to rate issuers according to ESG criteria. In the context of this advisory mission, we consulted them. We found that **they do neither properly and/or consistently factor such criteria and thus** ignore the SDGs, **regardless of the issuer type and/or sector** (even for fossil fuel companies).

Figure 12: Total commitment amount by financial instrument



Source: The International Development Finance Club and the sustainable development goals, Center for Global development, 2018

Greater diversification in terms of product mix is being sought among IDFC members to better harness SDG related opportunities.

As of October 2022, ESG ratings do not explicitly nor implicitly factor PDBs' alignment, exposure or contribution to the SDGs. If it was to be done, it would more likely be on the risk side considering their methods.

It is **therefore impossible to go beyond intuition regarding the credit materiality of SDG**. Challenges stemming from persisting SDG gaps or even deterioration are not studied nor taken into account. The intricacies between **SDG and ESG ratings remain largely unexploited** and environmental and social sustainability is not apprehended under the lenses of the 2030 Agenda.

ESG criteria reportedly influence Public Development Banks ratings with governance being the dominant factor. Social and Environmental criteria are under-weighted. Overall, such criteria are not yet key rating drivers.

ESG Relevance Scores are **strictly "observational" according to CRAs**. They acknowledge that compared to commercial banks, Public Development Banks often have more advanced ESG strategies and contribution (higher Green Asset Ratio for example), but it has not proven to be relevant from a credit rating perspective yet.

The way CRAs actually assess sub-topics materiality/relevance remains **opaque and/or very qualitative**. They allegedly rely on historical data, meaning that their analysis is **backward looking and inept to capture new phenomena and trends** (which is highly problematic for climate change).

ESG issues are impacting credit rating when they are deemed material such that the lack of data or proven track record, makes it hard for CRAs to investigate potential correlations between sustainability impacts and credit rating.

It is hardly conceivable to take into account something which is not measured and monitored. Even existing information is not factored. CRA do not integrate carbon prices nor perform sensitivity analysis of PDBs' credit rating to such price evolution.

CRAs reportedly assess operational execution and efficient internal processes. Such methods and criteria could be extremely helpful when it comes to **SDG contribution effectiveness**.

They affirm they pay attention to internal prudential policies. CRAs are not at ease when it comes to managing **the contradiction**

between the purpose of PDBs, which is to fix market failures and take greater risks than commercial banks, and to support countries with limited access to capital markets/ fiscal space, **and creditworthiness criteria**.

This paradox is well captured in the following statement: "*providing funding to poor and sometimes insolvent countries can enhance their public policy role and have a positive impact on their ratings*". It is true that PDBs have a particular status regarding credit rating as they often have a good creditworthiness thanks to States guarantees and callable capital.

As previously explained, the correlation effects between SDG performances and creditworthiness are undocumented, however, SDG performances and trends could be a good proxy to assess the economic situation of a country, as well as its institutional stability. Specific SDG delays, bottlenecks or deteriorating performance could be a red flag regarding certain countries' economic growth and/or political stability

One notices that **Moody's** has developed an ad-hoc SDG methodology but solely for corporates.

It helps them identify sustainable products with the SDG lens. They have covered **92 products and services** which are linked to sustainable themes and then linked to SDGs. They assess the contribution that a company makes to the SDGs based on its products and services (net contribution lens).

Moody's has developed an SDG alignment screening: the assessment of a company's disclosures on policies and systems as well as its exposure to and management of controversies (net behavior lens).

The methodology is made up of the following:

1. **Positive screening** on products and services (positive screening data identifying companies in developing products and services in support of the SDGs);

2. **Controversial activities (negative screening data identifying companies involved in activities that may undermine the SDGs);**

3. **Company ESG scores** (0-100 scores provide a measure of the strength of companies' disclosures on ESG factors linked to the SDGs);

4. **ESG controversies** (regular monitoring of events to identify exposure to and management of ESG controversies).

The main downside of such a system is that it does not take geographic contexts into account. It identifies products that have a potential and intuitive contribution (negative or positive) to the achievement of the SDGs, but does not determine the company, product or service's SDG contribution level. It is such that a company would be considered similarly "aligned with the SDGs" whether its services/ products were used in a developing or in a developed country, and regardless to whom and at what prices they are sold.

And then? Operationalization & accountability

3

III. And then? Operationalization & accountability

A. Entity-wide diagnosis and starting kit

Elevator pitch for CEOs: are SDGs worth it?

The COVID-19 pandemic emphasized the importance of the cooperation between PDBs and governments. This multifaceted crisis halted or even reversed hard-won SDG progress.

Several PDBs received specific mandates and additional resources from their governments to respond to the pandemic. In the still awaited aftermath of this crisis, PDBs will be increasingly seen as key players in closing SDG gaps through fund reorientation toward SDG contributive projects (respecting the Do No Significant Harm concept and SDG interlinkages). Their contributions to meeting the objectives of the 2030 Agenda are scrutinized. The window of opportunity and implementation time budget for the 2030 Agenda has narrowed. At the same time, "Build Back Better" promises and the 2020 Finance in Common Summit have raised stakeholders' expectations.

The chart below summarizes the arguments in favor of top management endorsement and impetus on the SDGs.

Figure 13: it always starts with a "Why"

Accountability
Development institutions can be held accountable for not meeting the targets of the SDGs by their shareholders/constituents/public opinion (if the mandate of the organization is not fulfilled)

Exemplarity
By proving that they are doing "their part" to contribute to the targets of the 2030 Agenda, PDBs can inspire others to follow their path and "lead by example"

International coordination
Mutual alignment can maximize synergies & minimize information/transaction costs between public/private institutions or States

Leadership
Engagement, proactiveness & determination to meet the SDG targets help PDBs playing a leading role in the international scene

Risk management
Identifying, anticipating, preventing & responding adequately to risks stemming from the non achievement of the SDGs

Strategic planning
SDGs offer a "common language" and blueprint that can be used by PDBs to guide action, demonstrate consistency

Corporate sustainability & long-term performance
Entities aligning their priorities with the SDGs can enhance engagement with their stakeholders (license to operate), and their credit and economic performances, being more resilient and attractive to investors

Business opportunities
Tackling global challenges can be a source of new market or investment opportunities for PDBs

Source: Authors (Natixis Green & Sustainable Hub)

Synchronizing levels of action and incentives

PDBs play **a decisive role as catalyzers of alignment**. Therefore, the priority is to finance and enable further alignment of their counterparts, meaning triggering progress towards the achievement of the SDGs. Contributing to the beneficiaries and the counterparts' alignment can be achieved through increased comprehensiveness and consistency.

Therefore, PDBs should opt for a holistic approach to align their systems, strategies, structures, and partnerships on the 2030 Agenda. The SDG alignment of the entire perimeter of a PDBs' must be specified.

Figure 14: The need for a holistic approach to align systems, strategies, structures and partnerships

Entity level	Activity level	External engagement
Policies & processes implemented at strategic level	**Practices, services or products offered at the operational level**	**Strategies and actions developed in PDB's external engagements with clients and other stakeholders**
Management information systems, human resources policies (recruitment, training, remuneration), strategic planning	Investment & lending policies #conditionnality *One must only finance aligned projects or alignedcounterparts to be aligned?*	Country-level dimension and government dialogue
E.g., Impact assessment along the investment chain, defining interlinkages, data collection, reporting, training	E.g, Definition of target population geographical priorities and SDG hierarchization	E.g. strive to report and act in line with countries of interventions' SDG roadmaps
	Technical assistance & external capacity building	Strive to build a common approach of SDG alignment with peers and stakeholders
	E.g. improve projects business maturity, maximize positive impacts and mitigate negative ones	E. g. Setting market standards, dialogue with stakenolders. for instance on mitigation tradeoffs between SDGs

Sources: Authors (Natixis Green & Sustainable Hub), ETTG, IDDRI

Incentives play a key role **in synchronizing levels of action.** They enable one to steer and maximize positive contribution and not only measure it.

The range of potential incentives is large. It could revolve around **the improvement of projects features depending on their level of maturity, and/or the financing terms.** For instance, favorable credit conditions for a project that integrates development Impact at the core of their business models would create an incentive to consider the impact of the project during its entire life cycle.

Outcome linked financing integrating conditional disbursement clauses based on impact evidence can also help in maximizing and monitoring policies or projects' actual impacts.

Some public or commercial banks provide **discount rates based on the greenness of the asset financed**. The Finish actor MuniFin for instance offers discount rates for low emission vehicles or green building for instance. This is also a practice followed by several IDFC members (see boxes below).

Example of IDFC members best pratices

SDG Loan

Since 2020, TSKB has introduced sustainable innovative products such as an **SDG Loan Model**, developed with its subsidiary, ESCARUS.

For the purpose of this loan, an **internal SDG Evaluation** has been created. It lists approximately **150 criteria that relates to the 17 SDGs and their targets** to enable companies to go through a self-assessment of their economic, social and environmental performance. This serves as the basis of a gap analysis exercise which aims **to identify SDG-related areas of improvement** (i) and to propose **tailor-made action plans** to help companies to **better align with SDGs** (ii).

Depending on the expected impacts, and to **incentivize** companies to improve their SDG performance, TSKB provides corporates with more **favorable loan terms and lower financing costs**.

SDG One Platform

Through its SDG One Platform – and notably the ADB SIO Green Finance Facility and the AFD Financing Facility – PT SMI provides concessional loan with or without government guarantees. Such a long-term financing at a competitive rate can catalyze commercial financing.

The SAAU Framework

The proposed "Stop, Adjust, Amplify and Undertake" (SAAU) Framework is a **diagnosis and guidance tool.**

It is a **practical and simplistic canvas for PDBs** to identify "how" they could become better SDG alignment partners.

Naturally, starting points vary considerably between PDBs depending on the mandate, the level of maturity or the geographical position of the bank. However, the four categories must be filled to design "coherent/consistent action plans".

This canvas is meant to guide action. It is equally meant to be **flexible by nature, as the same identified item/action could already be pursued by a PDB**, therefore falling into the category "amplify" (or "adjust" if ineffective and ill-designed), and being totally new for another PDB, thus fitting into the "undertake" category.

The **only category whose items must be shared across all PDBs is the category "Stop"** (i.e., stopping all activities that are or could be detrimental to meeting one of the goals: exclusion lists, criteria and principles should be established according to the Do No Significant Harm principle).

That being said, it does not mean that measures subsequent to this "Stop" category must strictly use the same criteria and/or time horizon. For instance, the phase out of fossil fuels can intervene at different points in time.

Figure 15: The SAAU framework

STOP: no longer doing

The PDB assesses its activities, organizational practices and strategies through SDG lenses. It then identifies practices delaying or derailing the advancement of the SDGs and takes steps to halt the most negative practices.

Examples:

· Exclusion policies: the PDB stops investing or phases-out investments in activities harming one or more SDGs i.e.. delaying the achievement of the goal and its sub-indicators (fossil fuels harming SDG 13: combat climate change urgently)

· The PDB stops investing in activities that overpass a sectorial threshold in line with Do No Significant Harm Criteria (DNSH) defined in internal SDG Taxonomies. It works as a red line that investable projects cannot cross.

ADJUST: doing differently

The PDB adapts its processes to integrate the SDGs at the core of strategic and operational decision-making processes. These changes do not mean overhauling existing ones and are rather incremental.

Examples:

· Link ex-ante, in itinere and ex-post impact assessments with local SDG gaps and national SDG roadmaps

· Publish consolidated extra-financial reporting annually

· Use alternative (to) financial products to foster SDG advancement (technical assistance, grants, subsidies)

· Integrating SDG target achievement in policy-based loans

AMPLIFY: doing more

The PDB scales up and/or mainstreams practices that revealed to be highly contributive. These alternative operational practices are scaled up.

Examples:

· Use the SDG as a multi-layered framework (see "SDGs are not a list of "thematic" or mere "lenses")

· Increase the use of technical assistance, grants and subsidies to maximize impacts in pre-appraisal phases

· Collaborate with local authorities, NGOs, governments and local communities in order to address most acute needs and leave no one behind

· Attract private investment to scale total investments (blended finance).

UNDERTAKE: doing new

Some activities/practices have a positive impact on SDG as evidenced by peers' practices or by experts and the scientific community but are not implemented yet by the PDB in question.

Examples:

· Build internal SDG Taxonomies to identify projects eligible for investments according to their impacts

· Build capital allocation tools to tilt investments towards more impactful/less harmful projects

· Use new data sources to build impact reporting and claim contributions to the SDGs (end beneficiaries surveys, satellite, data, national statistics institutions etc.)

· Build sustainability working groups, recruit sustainable analysts and experts

· Build sustainability executive committees to steer the PDB's SDG contribution

Source: Authors (Natixis Green & Sustainable Hub)

B. Operational guidance

Inspiration from worldwide taxonomies

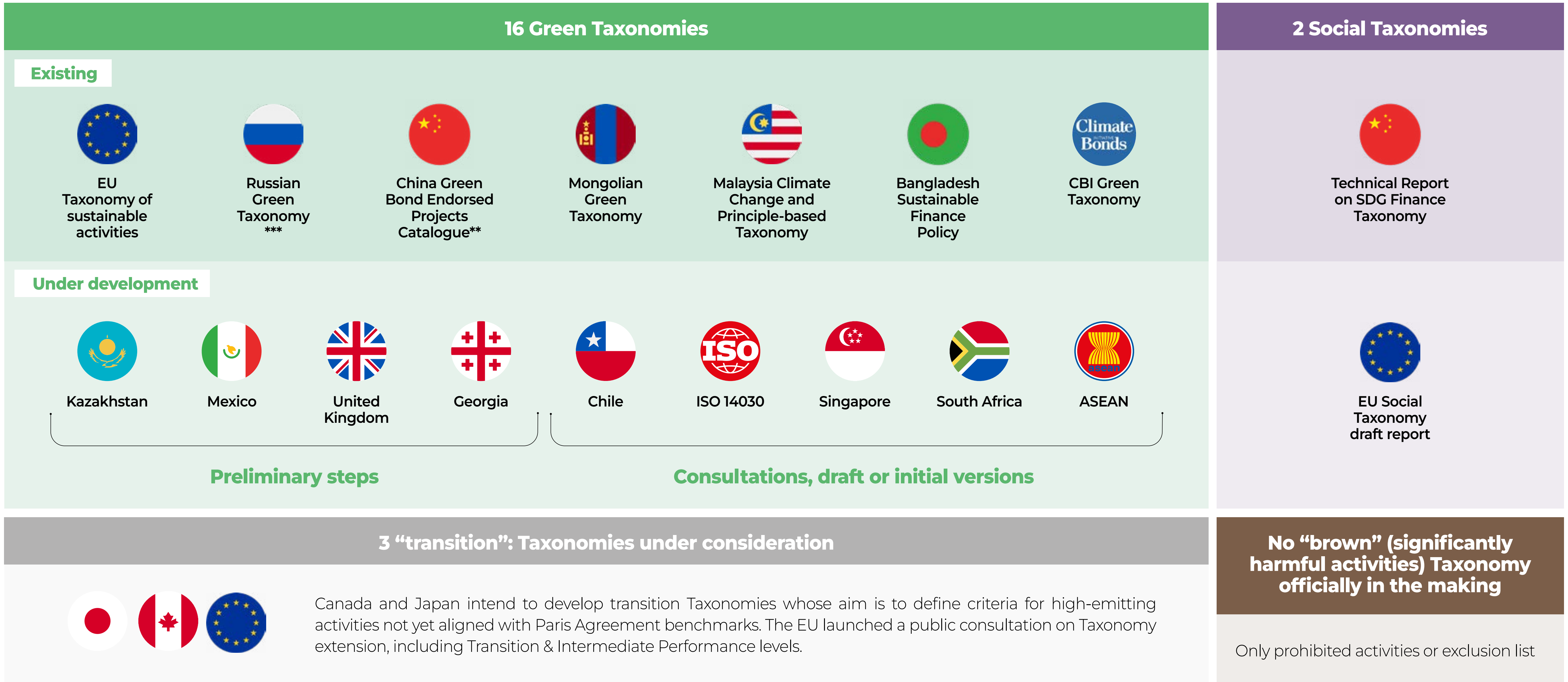
In the field of sustainable/development finance, guidelines and standards are the **bedrock of product design and market integrity**. Investing and funding strategies need anchoring definitions and official criteria that are preferably undisputed.

It holds true as well for governments in their attempts to green their interventions or spending. To introduce environmental caveats into stimulus packages, subsidies or tax systems, **policy makers need a common understanding of what is unquestionably** (or at least consensually) **sustainable**.

Taxonomies of sustainable activities are the **linchpin of sustainable finance and aim at providing clarity and standardization to market participants**. Put simply, a sustainable finance Taxonomy is a classification tool. It serves as a technical guidance and disclosure yardstick.

Taxonomies identify specific economic activities (based on economic nomenclatures), technologies or set of conditions (performance improvement against a baseline) to define "greenness" or "sustainability" – ideally with quantitative and technical thresholds anchored into scientific evidence & industry best practices.

Figure 16: A Global Phenomenon: the multiplication of Taxonomies worldwide



Source: The New Geography of Taxonomies, Natixis Green & Sustainable Hub, 2021

In the context of PDBs, it is relevant to differentiate dedicated/general direct corporate purpose financing, versus intermediated financing through private equity funds or banks.

For dedicated purpose finance, there are already some sectorial or technological lessons.

Figure 17: Examples of activities that are included, excluded and covered in most Sustainable Finance Taxonomies

	Based on the nature of the technology used		Based on relative or absolute performance and/or non-climate objecties		
Sectors or activities	• Renewable energy • Electric mobility • Public mobility	• Fossil fuel extraction, transport and distribution • Thermal power plants • Coal related activities • Forest and land exploitation on protected areas • Internal combustion engine (ICE) vehicles	• Energy efficiency • "Green" buildings and construction • Sustainable agriculture, land use, forestry and biodiversity measures • Heavy industries (cement, steel, aluminum)	• Gas heating and power generation • Nuclear energy • Large-scale hydro • Industrialized agriculture	• Metals & mining • Air & maritime transport
Type of alignment	Recurrently included in Taxonomies with little caveats	Often excluded from Taxonomies	Whose alignment/ eligibility is determined on the basis of relative levels of performance	With discrepant criteria due to their ambivalent impacts and social/ political sensitivity	Absent despite their economic and emission sheer weight
Comments	Life Cycle Analysis (LCA) are not required (despite legitimate concerns, but simplicity prevails), a few Do No Significant Harm (DNSH) criteria exist especially for biomass/biofuels, geothermal, hydropower and public transport.	The Russian Taxonomy considers eligible projects increasing efficiency and reduction in harmful emissions of thermal power plants. Hybrid vehicles are in general not excluded.	Quantitative performance criteria (quantitative or qualitative) are set in the CBI, EU, Mongolian Taxonomies. Agriculture and land use are assessed according to location, maintenance of the ecosystem and protected areas.	Gas related activities or products (including gas-fueled vehicles) tend not to be excluded from Taxonomies due to its lower emission intensity compared to coal. Nuclear energy is included in the Chinese and CBI Taxonomies	Criteria for air and maritime transport is lacking as well as for mining, which is rarely assessed against its impact on water and soil pollution.

Source: Authors (Natixis CIB Green & Sustainable Hub)

The SDG Finance Taxonomy

In June 2020, **the UNDP China and the Ministry of Commerce of China** (its Center of Economic and Technical Exchanges) proposed a "Technical Report on SDG Finance Taxonomy" (available here), which offers a classification system of projects contributing to the 2030 Agenda. To this day, it has no legal power and remains a voluntary standard.

It builds a common ground for policy makers, financial institutions, businesses, industry bodies and communities, analysts, advisers, research houses and media. It is meant to be used by companies for fundraising, for lawmakers and investors both as **a reference document and a reporting tool**. It has reportedly been used by the New Development Bank in March 2021.

The Chinese Taxonomy adopts a **"Leaving No One behind" (LNOB)** perspective on impact such that it "**urges investments flowing into those projects which will benefit groups left furthest behind**". It recognizes the necessity to measure and report on impact and mentions several compatible tools in order to bridge SDG gaps.

It is a sectoral mapping, listing infrastructure having the most direct and indirect impact on SDGs. A major part is devoted to infrastructure, financial services, agriculture, health and education. There are three levels of classification in the SDG Finance Taxonomy (see supra). It contains 60 economic activities, structured around 6 sectors that mimic the ICMA SBP's eligible activities (basic infrastructure - affordable housing – health – education technology and culture – food security – financial services).

It builds on the EU Taxonomy Do No Significant Harm (DNSH) criteria for activities making a substantial contribution to SDGs and **excludes specific activities** (gambling, weapons, adult entertainment, tobacco and **projects violating human rights, among others) or projects where alternatives with fewer negative impacts exist**.

For each activity, specific eligible projects are defined, linked with Chinese national policies and strategies, associated with possible industry codes and **SDG sub targets** as well as impact areas, goals and populations. **Impact indicators** are also proposed. The Taxonomy specifies that **it relies on the Chinese green bond Catalogue**.

It is reportedly aligned with existing sustainability and impact principles[33].

The report has been developed after consultations with Chinese and international experts and could be used by business, financial institutions and policy makers. It has been developed for the same reason green Taxonomies are developed.

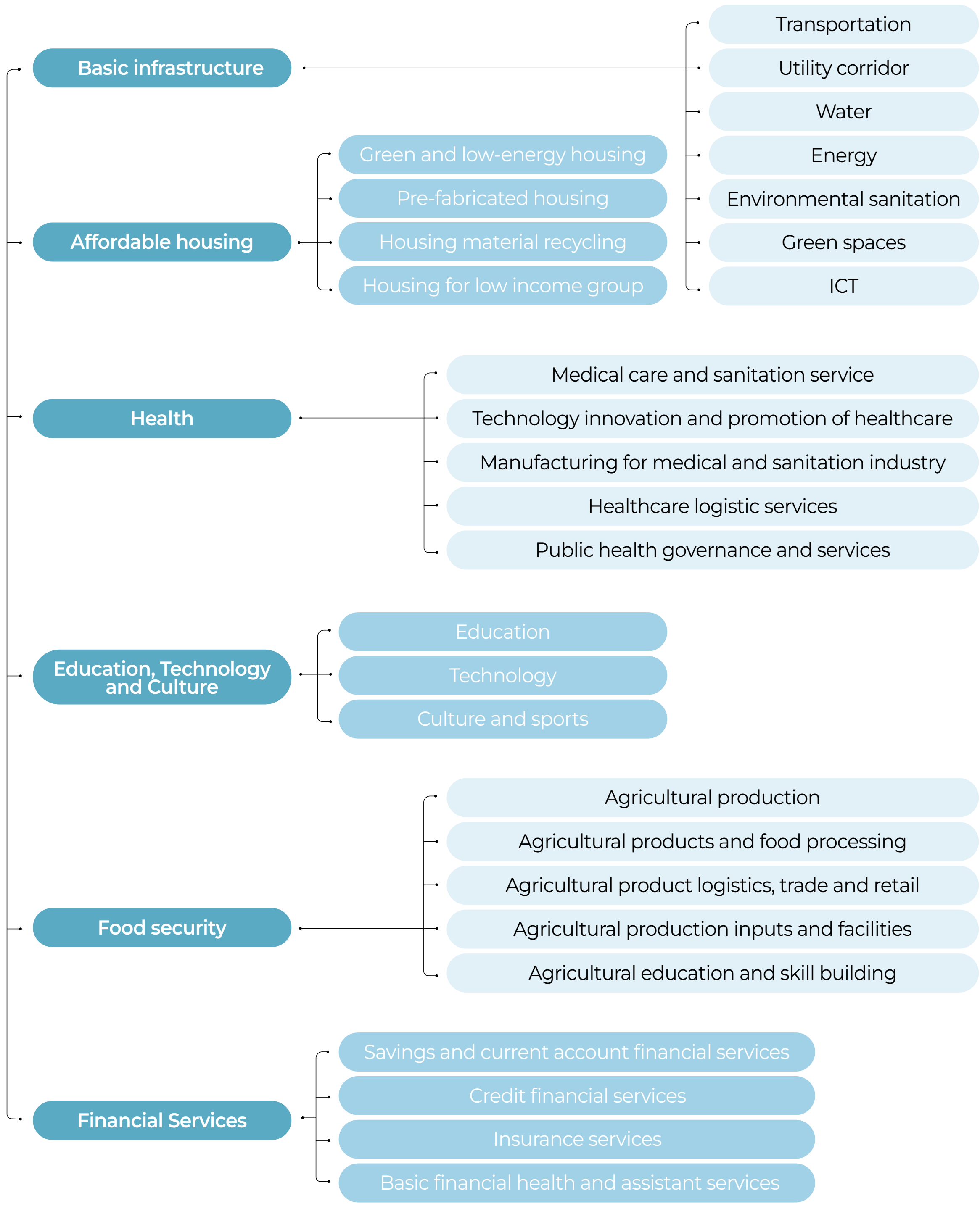
Sectors and sub-sectors covered

There are three levels of classification in the SDG Finance Taxonomy.

- Level I is based on the **ICMA Social Bond Principles**, distinguishing 6 thematic areas (1. Basic Infrastructure, 2. Affordable Housing, 3. Health, 4. Education, Technology and Culture, 5. Food security and 6. Financial services).
- Level II is based on national guidelines or international best practices. Basic infrastructure is declined under 7 subcategories designed by the **Chinese Ministry of Housing and Urban Development**.
- Level III corresponds to specific projects chosen and detailed according to their specific relevance for national development priorities (e.g., Chinese Five-Year Plans, line ministries regulation).

[33] Namely the Social Bond Principles from the International Capital Market Association (ICMA); the UN-supported Principles for Responsible Investment (PRI); the Global Reporting Initiative (GRI); the International Finance Corporation (IFC) operating principles for impact investment; the EU Taxonomy for sustainable activities; and the Global Impact Investing Network (GIIN) Characteristics of Impact Investors.

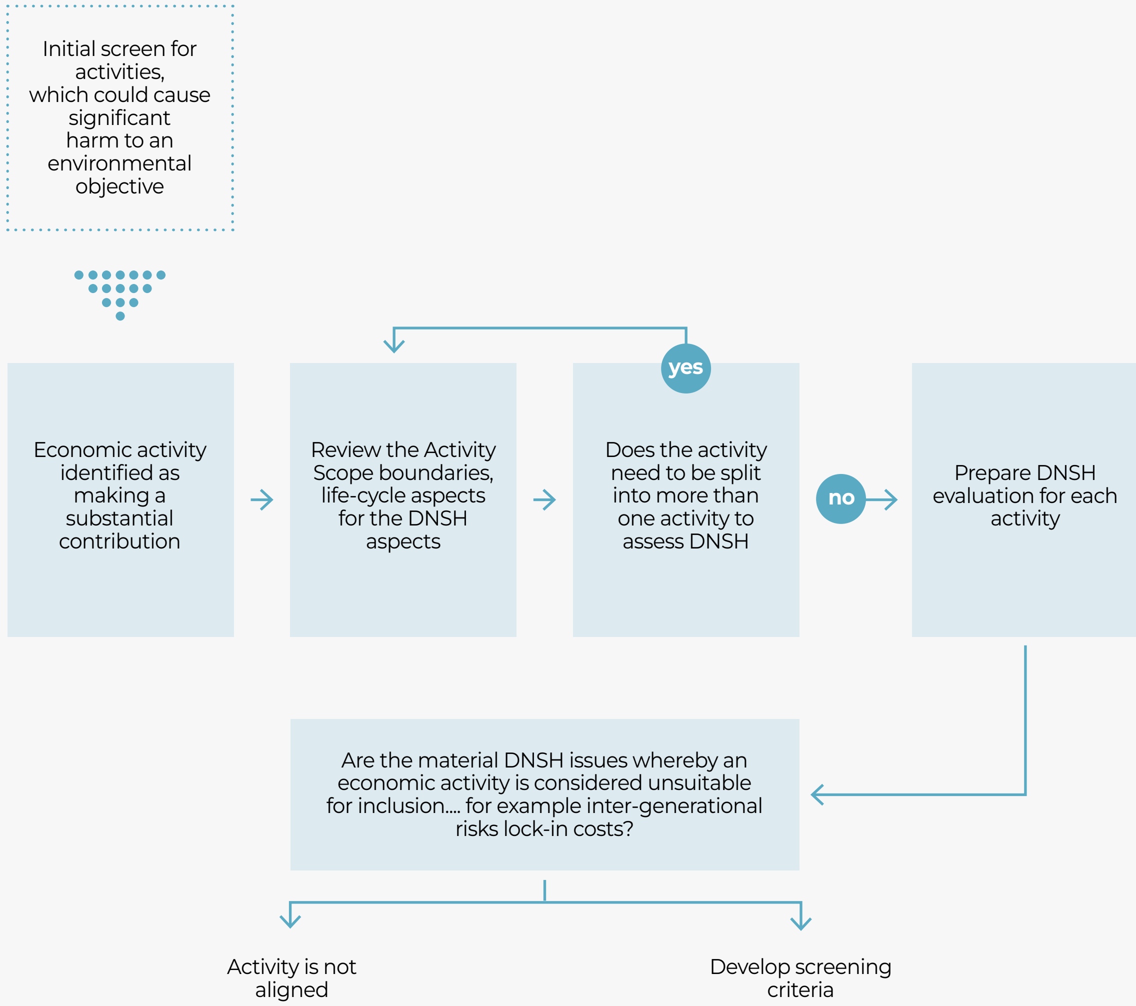
Figure 18: Sectors and sub-sectors covered in the UNDP/Chinese SDG Finance Taxonomy



Source: Technical Report on SDG Finance Taxonomy, NDP China and the Ministry of Commerce of China, 2020

Decision trees can also be useful to simplify decision-making, when facing SDG complexity. The example below provides a useful decision-making tool on whether a sector or asset is aligned with or should be considered to enter a Taxonomy.

Figure 19: Decision tree used for the Chinese SDG Taxonomy



Source: Technical Report on SDG Finance Taxonomy, UNDP China and the Ministry of Commerce of China, 2020

Towards "SDG adjusted returns"

This part builds on the example of the SDG Taxonomy presented above.

From a Taxonomy, a comprehensive whole-of-a-bank approach to drive SDG contribution can be derived. Below are **four steps PDBs can take to build a comprehensive decision making and strategy monitoring tool.**

- **Step 1: Internal acceptance thresholds and exclusion list**

A majority of IDFC members already use exclusion lists to discard projects that are deemed too harmful or not aligned with their mandates. Activities that are not excluded but raise concerns because they harm or delay the advancement of certain SDGs may need another level of granularity by adding eligibility thresholds. The inclusion of sectoral thresholds to limit negative impacts combined with SDG considerations at local level (see in step 2 and the decision tree in step 3), can help creating SDG Taxonomies (geographically and time-bound).

Table 7: Example of thresholds to determine "greenness"

Sensitive activity list	Main negative impacts	Metrics	In or out ?	Thresholds
Transport (when not collective) and related infrastructure	Biodiversity (soil erosion, artificialization) Climate (GHG emissions)	MSA.km2 tCO_2e over asset lifetime (scope 3)	✓	<100gCO_2/km
Steel	Climate (GHG emissions)	tCO_2e/t of steel	✓	<0.352 tCO_2e/t of steel
Cement	Climate (GHG emissions)	tCO_2e/t of cement	✓	<0.469 tCO_2e/t of cement
Oil & Gas (upstream)	Climate (GHG emissions)	gCO_2e/MJ	✗	✗
Electricity generation (gas, coal)	Climate (GHG emissions) Air pollution	gCO_2e/MWh	✓	<270gCO_2/kWh
Housing	Climate (GHG emissions) Biodiversity (soil erosion, artificialization)	tCO_2e over asset lifetime (scope 3)	✓	Certification (BREAM. LEED etc.)

Source: Authors (Natixis Green & Sustainable Hub)

• Step 2: From an SDG Taxonomy to a change management tool

Inspired from existing Taxonomies worldwide, tailor-made internal SDG Taxonomies could be established in order to characterize economic activities according to their SDG contribution potential. This classification should be science-based (IPCC, IEA, socioeconomic studies). Changes in the PDB's contribution to the SDGs could then be tracked against the criteria established in such an internal SDG Taxonomy.

This internal Taxonomy would not be binary as most of Taxonomies are (determining whether an activity is aligned or not). It would allow a cross-sectoral comparison of a sector's contribution to the SDGs. In order to track and measure improvement, the comparison could entail in a base rating between 0% and 100%.

For example, a sector would be given a rating between 0% and 100% such that:

• 100%: the activity is highly contributing to reach given SDGs not harming any other.

• 50%: the activity contributes to bridge given SDG gaps but has negative impacts on other SDGs.

• A 0% rating would mean that the activity is not contributing at all to the SDGs worldwide, or it is significantly contributing to SDG gap widening and its positive contribution is marginal.

This score is a preliminary sectoral analysis reflecting the interlinkages between the SDGs as well as characterizing their positive/negative interplay.

Application to a desalination project:

The Intergovernmental Panel on Climate Change (IPCC)[34] states that:

• Desalination will be **maladaptive if fossil fuel is used** (Tubi and Williams, 2021).

• The expected **growth of desalination**, if not coupled with renewable energy (RE), **causes a projected 180% increase in carbon emissions by 2040**.

• In some dryland areas facing critical water shortages, transformational adaptations may be needed - for example, **large-scale water desalination** when they have access to sea water, **despite high energy use and negative environmental impacts of waste brine**.

From a global standpoint, desalination has a role to play in water stressed areas in which it provides a reliable source of water, increasing access to basic drinking services, providing water for agricultural irrigation hence increasing resilience of the population.

Nonetheless, waste management is critical as the brine[35] issued from the desalination process has negative environmental impacts on land and below water and must be carefully treated. The technology is also energy-intensive and quite often, depends on carbon intensive electricity mixes.

In this example it is assumed that desalination is given a first base rating of 60%, contributing slightly to bridge SDG gaps worldwide compared to other sectors. This rating should be compared with other water-related projects (wastewater treatment, water networks/pipelines etc.).

Table 8: Internal SDG Taxonomy and Sustainable Impact Coefficient base rating

	Positive SDG Impact (ex-ante)	Negative SDG impact (ex-ante)	Base rating (0 to 100%)	Impact maximization and mitigation for a given activity
A given infrastructure / project			60%	Engage dialog with local authorities to maximize the contribution to the SDGs taking local SDG gaps into account. Measures taken: • Frequent water quality monitoring around the brine discharge point(s) • Modelling of the optimal brine discharge point(s) and brine discharge infrastructure characteristics • Treatment of brine before discharge • Reuse of brine for other purposes

Source: Authors (Natixis Green & Sustainable Hub)

This base rating is put in perspective with local SDG gaps thanks to a string of pre-defined SDG-related criteria to refine the assessment based on projects' characteristics. It is presented under the form of a decision tree according to which the base rating is being up-notched or down-notched.

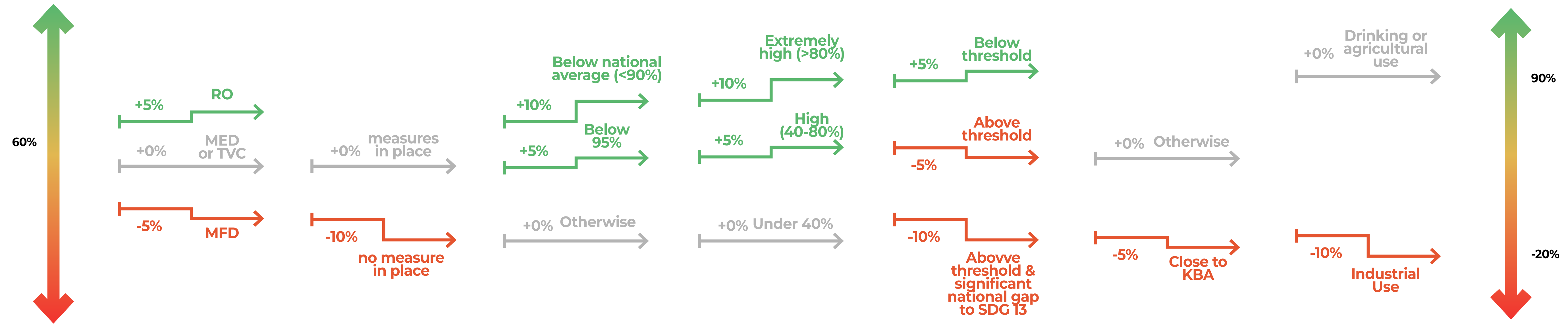
IIn the case of a desalination facility, Natixis has proposed a set of criteria to be assessed. They are exposed in Figure 18 below. The technology used, brine management measures, the gap in access to basic drinking water services as well as locally projected water stress, the carbon intensity of energy used, the final use of the water supplied and the plant location regarding local biodiversity are taken into account to catch-up with the broadest picture of the project's capacity to bridge SDG gaps all the while not significantly harming other SDGs. As a result, the project is rated between 0% and 100%.

[34] *IPCC AR6 Working Group II, Full Report, available here*

[35] *Brine is a high-concentration solution of salt in water*

Figure 20: Example of decision tree for a desalination project

Technology	Brine management measures	Water supply need	Projected water stress	Carbon intensity of energy	Key Biodiversity area	Final use
• Reverse Osmosis (RO) • Multiple Effect Distillation or Thermal Vapor Compression (MED or TVC) • Multistage Flash Distillation (MFD)	Any of the following: • Frequent water quality monitoring around the brine discharge point(s) • Modelling of the optimal brine discharge point(s) and brine discharge infrastructure characteristics • Treatment of brine before discharge • Reuse of brine for other purposes	Population using at least basic drinking water services (%) in the region.	Projected water stress in 2040, based on a +2°C by 2100 climate scenario (SSP2 RCP4.5) in the region	EU Taxonomy threshold for low-carbon energy (100gCO_2e/kWh).	If the facility is located in or adjacent (terrestrial <10km, marine <50km) to a Key Biodiversity Area.	High-value use of water (human consumption, agricultural irrigation)



Source: Authors (Natixis Green & Sustainable Hub)

The decision tree can come on top of environmental & social analyses. It can be used directly by front officers, experts or not, and filled according to projects' characteristics.

The score provided by the decision tree can be used to weigh projects SDG contributiveness and enhance capital allocation accordingly. This tool helps science-based decision making in investment committees.

The SIC relies on local datasets analysis to identify where gaps are more acute and estimate projects' contribution to bridge SDG gaps. Below is an example of what type of local statistics can be relevant. World Bank's databank is being used as an example, but National Statistics Institutions can be used as well as alternative data sources such as end-beneficiaries surveys through kobo toolbox or satellite data highlighting ex-post impacts of agriculture related projects for example (this practice was underlined by KfW).

Table 9: Example of positive and negative SDG contribution

Local statistics (fictitious) on positive contributions	Local statistics (fictitious) on negative contributions
SDG 1: Only 60% of population living in households with access to basic services **SDG 2**: 20% of people are undernourished **SDG 3**: 50% of births are attended by skilled health personnel **SDG 4**: 60% of people completed primary education	**SDG 13:** The country is responsible for 0.1% of global GHG emissions since 1850 **SDG 15:** 10% of national land is degraded

Source: Authors (Natixis Green & Sustainable Hub)

A more qualitative analysis – as it has, most of the time, already been conducted by dedicated services, but not necessarily with SDG lenses – can be conducted through the canvas elaborated below. Both the decision tree and the qualitative analysis canvas can provide for guidance to maximize a project SDG contribution or mitigate its negative effects. Options to make the project more impactful (dialog with project developer, local authorities, communities) can be explored. These options can be integrated in project design as well as embedded in financial contracts or promoted in alternative financial instruments: policy-based loans (incentivize project developers to build positive impact and mitigate negative ones), grants, subsidized loans, technical assistance within the project boundary.

Figure 21: Sustainability Impact Coefficient qualitative analysis canvas

These criteria are a proxy of the additionality a PDB can have along the investment cycle.

Is the project contributing to bridge local SDG gaps...?	Is the contribution significant?	Is the SDG contribution maximized?	Does the project Do not Harm other SDGs?	Are negative impacts marginal?	Are Negative impacts mitigated?	Does the project answer local basic needs?
SDG contribution should be identified per SDG To which extent does the project contributes to bridge SDG gaps?	How far from national/ regional average (in terms of statistics) is the locality where the project is being contemplated?	Are there alternatives in technologies, management, geographic implantation to maximize SDG contribution?	Negative impacts should be estimated ex-ante: The scale of negative impacts must be estimated and refined with benchmarks	At what scale would the project delay the achievement of the SDGs it impacts negatively? How does its benefits?	Are there alternatives in technologies, management, Emorantation to minimize negative impacts?	Is the project giving access to health, education, food, energy to local population?

Source: Authors (Natixis Green & Sustainable Hub)

• **Step 3: An internal Project rating tool, to both monitor & manage SDG contribution**

The steps above are a prerequisite to build a project rating tool that can be used to pilot both project approval phases and the entire PDB contribution to the SDGs. Allowing to consolidate the contributions bank-wide, it can become a strategical tool.

The SDG Adjusted Return Tool

A large proportion of IDFC members are under supervision of an external financial authority or voluntarily complying with national or international financial regulations.

Even though they benefit from specific exemptions from these regulatory **frameworks (Basel rules), IDFC's working group on regulation identified these frameworks as hindering the expansion of development activities in 2020.**

Yet, regarding PDBs capacity to bridge SDG gaps, financial additionality is of the utmost importance. It refers to the finance that would otherwise not be provided (or leveraged) by the private sector due to real or perceived risks. This may be expressed **through terms (such as loan tenor) not offered by the market.**

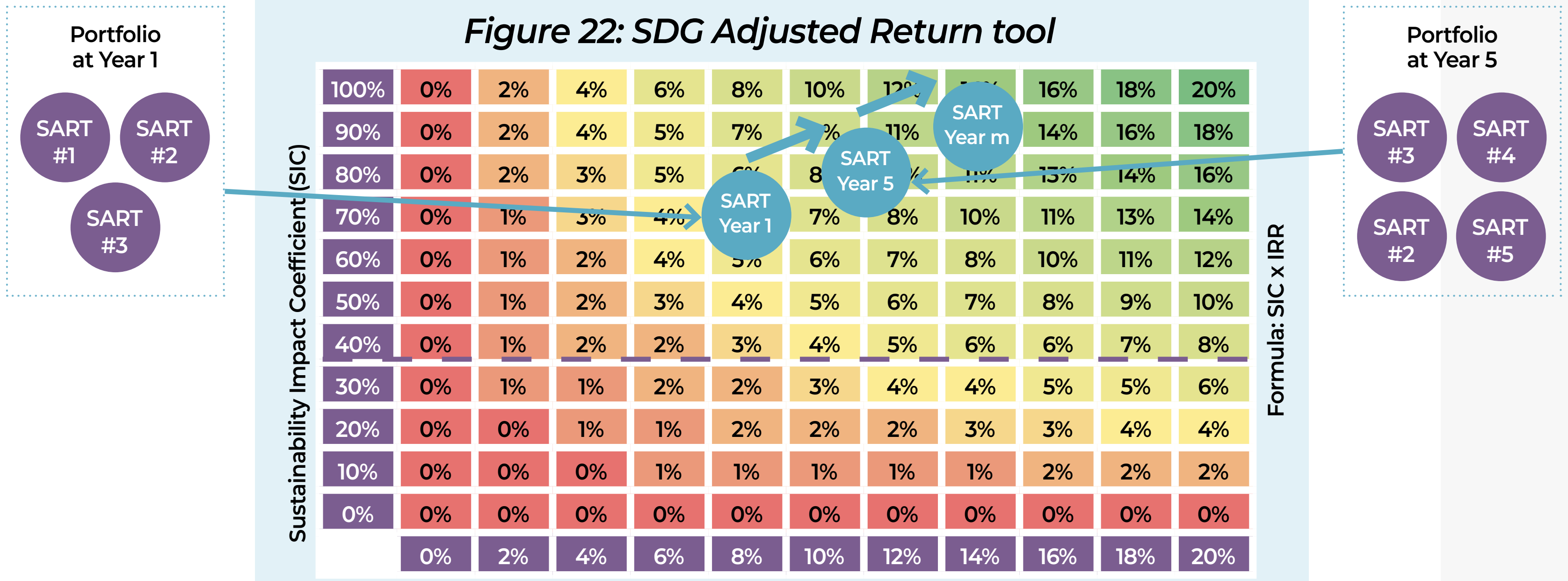
An internal project rating tool could help drive and monitor a PDB's SDG contribution. **Granting analytical returns** to every project enables the creation of **incentivizing mechanisms to improve projects' "by design" contribution to most acute SDG gaps and steer the bank's SDG contribution.**

A weighted average of Sustainability Impact Coefficients (SIC) and project's profitability can give a view of any portfolio's positioning in the matrix, allowing the PBD **to drive both its SDG contribution and return objectives.**

The matrix below is an example of what it could look like:

Project rating as a decision-making tool

Figure 22: SDG Adjusted Return tool



100%	0%	2%	4%	6%	8%	10%	12%	[illegible]	16%	18%	20%
90%	0%	2%	4%	5%	7%	[illegible]	11%	[illegible]	14%	16%	18%
80%	0%	2%	3%	5%	6%	[illegible]	[illegible]	11%	13%	14%	16%
70%	0%	1%	3%	4%	[illegible]	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%	4%	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%
	0%	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%

$$\text{Portfolio SIC (at a year k)} = \frac{1}{\sum_i^n F_i} \sum_{i=1}^{n} SIC_i \times F_i$$

SIC = *Project SIC*
F = *Funding amount*
n = *Number of projects in the portfolio at year k*

Source: Authors (Natixis Green & Sustainable Hub)

This tool should not only serve to assist investment committees decide whether a project should be invested in or not. It can also be used in **piloting impact and assess projects and portfolio progression toward pre-defined goals in terms of profitability and impact**. It can be used to monitor both variables along the investment cycle. It can also serve as a basis on which to engage with project developers.

As part of that bottom-up movement, rating can be consolidated at portfolio or even entity level to be piloted strategically (top-down). Specific SIC targets could be set at Portfolio or even PDB level.

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

SDG adjusted return can be maximized at portfolio level. Often geographically bounded, portfolios can build synergies between the different financial tools used (technical assistance, policy-based loans, grants, subsidies...) and the sectors funded to bridge local SDG gaps and increase their SDG adjusted return.

The portfolio would therefore contribute directly to national SDG roadmaps.

An example of how this SDG adjusted return matrix can be used is developed in the case study: Draw me an Aligned PDB.

Outcome financing instruments

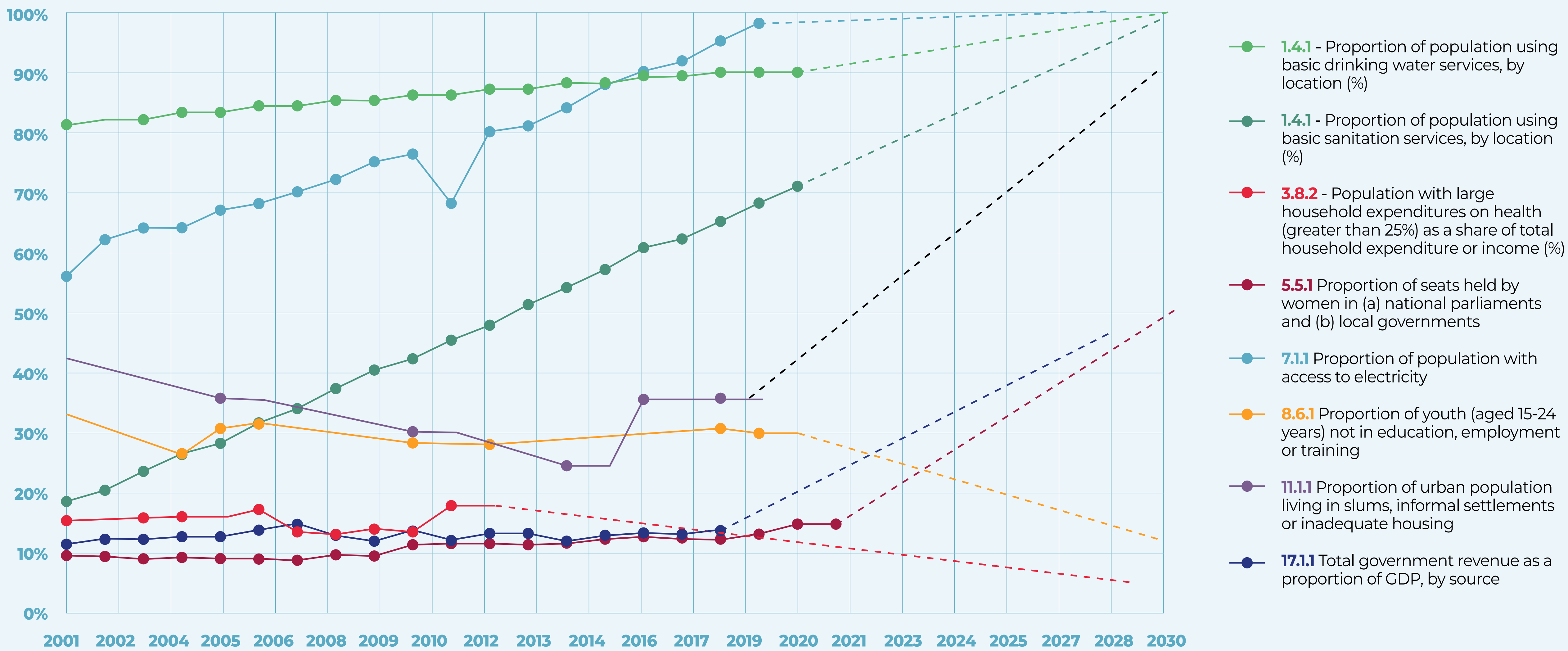
A shortsighted approach of SDG alignment could lead investors to focus on projects, assets or counterparts that are already aligned with the SDGs or well on track to be so. One avoids diverting investment from where it is most needed.

Distance to SDG targets can rather be used to design innovative financing instruments. As transformation is much needed, focus should be put on progress dynamics rather than simply looking at starting points. IDFC members could offer **loans conditioned on reaching sustainable development results**. Disbursements of the loans can be linked to indicators agreed to between the PDB and the counterpart. Such result-based funding approach must be paired with safeguards to ensure the indicators chosen are meaningful and material. **Naturally, the official SDG targets offer relevant indicators.**

In the case of India (figure 23), to contribute to the target 1.4 ("By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services"), **a policy-based loan using the percentage of population using basic drinking water & water services as a KPI could be meaningful**. Meanwhile, India did not experience real improvement for 20 years regarding its youth activity. Its performance on the target 8.6 is low (By 2020, substantially reduce the proportion of youth not in employment, education, or training). **It would be interesting to increase financial efforts on this matter.**

In contrast, for the target 5.5. (Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life), despite a low proportion of seats held by women in local governments, such indicator seems less relevant to design a financing instrument because progress is not directly correlated to specific financial investments (but rather to non-budgetary reforms).

Figure 23 : India's SDG indicators performances (2001-2020) and pathways to achievement (2021-2030)



Source: Authors (Natixis Green & Sustainable Hub) from UN-stats

Four tips to build on a substantial mapping

1. Localize assets and sectoral exposures:

Taking stock of local contexts in terms of SDG gaps and matching these with actual investments/ assets will help **spatialize PDBs potential impacts and contribution**. For example, a PDB having exposure in a geographic area could use national, regional and local statistical datasets to identify SDG gaps where projects could be (ex ante), are being (in itinere) or were (ex post) developed to assess, monitor and report its impacts.

Key advancement features:
• The PDB mapped its assets and/or investees geographical localization.
• The PDB identified the most pressing SDGs in the assets' region and country (different geographical assessment level will allow to assess the optimal location for SDG contribution).

2. Measuring impact:

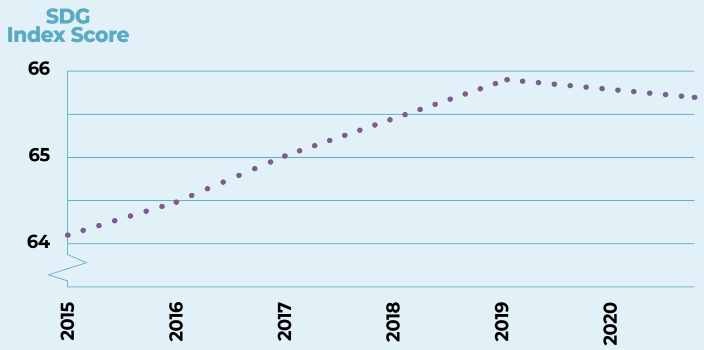
Impact assessment or demonstration is a complex process disturbed by exogenous factors (COVID-19 for example) and endogenous factors (related to the investment in question). A recurrent challenge lies in **identifying the direct link between investments and impacts.**

The graph below shows a deterioration of the world average SDG Index Score due to the impact of COVID-19 on SDG advancement, particularly in developing countries. The complexity of interactions between SDGs within a society shows that it is often very difficult to attribute, i.e., to confirm a causal relationship between observed changes and a specific action.

Therefore, impact attribution, both positive and negative, is often a tall order. For some **linear infrastructures or natural monopolies with a few operators or market participants,** it is possible to trace back the (dis)satisfaction of some social needs to identified actions, investments, or actors.

This holds particularly true for access to drinking water, electricity, public transportation, or internet. In contrast, for many other SDG targets related to health, poverty, gender or income inequalities, causal chains are entangled.

Figure 24: World average SDG Index Score since 2015



Source: 2021 Sustainable development report, SDSN

When assessing a contribution, **a distinction must be made between intended (ex-ante) and demonstrated or observed effects** (ex-post). For project or infrastructure-level financing, impact should whenever possible be analyzed at the project-level with a high level of in situ details.

Intrinsically to PDBs investing activities, from signing an investment contract, to disbursement and to the first effects of the investment on the economy, the time span is rather long. Assessing a project SDG impact requires time and changes can occur only a few years after investment.

Then, the outcome can be somewhat different from the expected one. It is therefore necessary to **distinguish intended and actual contributions in reporting.** A gap analysis of intended and demonstrated contributions could be made. This project-based impact measurement approach should hedge against SDG washing.

Table 10: guidance on ex ante, in itinere and ex post impact

Expected impact (ex-ante)	Ongoing impacts (in-itinere)	Actual impact (ex-post)
Setting out project specific context of SDG gaps Making an explicit statement of intent to address these SDG gaps through the project (by design) Articulating a clear and direct link between the SDG gap context and the specific project activities (supported by research and documentation)	Annual impact reporting from project developers Impact milestones in the disbursement of loans in tranches (policy-based loans) Continued dialog with project developers	Make an in-situ assessment of the project's impact. Collect data on end-beneficiaries relative to the related SDGs Consider exogenous and endogenous factors while attributing the impact to the investment. Disclose all the hypothesis and resources used to distinguish endogenous from exogenous impacts. Compare ex-ante impact assessment to endogenous ex-post contribution proportionally to the investment

Source: Authors (Natixis Green & Sustainable Hub)

a. Expected impact (ex ante):

While projects are being considered, a key driver for investment decision shall be the potential impact on a population to bridge an SDG gap.

i. **The first step should be to geolocate the project** to identify the SDG gap to be filled, if any. A first macro level analysis could be conducted thanks to the SDG Index and, if successful, a second one should be done more in depth with local authorities, communities and the project developer. During this phase, the development bank should be a force of proposal and come up with ideas to improve impact. Eventually it could lead to new projects to finance.

ii. A **second step** would be to **determine if the project is contributing to one or more SDGs** and to which ones.

iii. **Finally, an assessment of the negative spillovers** and the evaluation of mitigation solutions need to be performed.

Key advancement features:
i. Measure specific SDG gap bridging objectives related to the project
ii. Making an explicit statement of intent to address these SDG gaps through the project or the policy (by design)
iii. Articulating a clear and direct link between the SDG gap context and the specific project activities (supported by research and documentation)

b. Current impact (in itinere):

The PDB monitors the projects' impacts and identifies statistical trends or events in the region that might explain exogenous positive or negative contribution to the SDGs (Covid-19 might have hindered SDGs progression and projects advancement).

PDBs should have a dedicated team to **follow projects progress** to validate whether they comply with what was contractually pre-defined. It would ensure impacts are maximized at every level. The bank should keep in mind the SDG impact at every step of the project from design to implementation.

Key advancement features:

• The PDB demands annual impact reporting from project developers

• The PDB includes impact milestones in the disbursement of loans in tranches (policy-based loans)

• The PDB pushes for decisions related to the SDGs at board level

c. Actual impact (ex post):

At the end of the investment cycle, PDBs should take stock of **all the impacts that have arisen from the projects (positive and negative)** and to the extent possible link these with national/local SDG statistics progression, to **establish a link between national progression and PDBs** investment contribution to national SDG achievement.

Few months after the commissioning a global assessment should be performed, including **real output and outcome generated** by the new asset. It would be i**mportant to record positive points but even more important to notice negative ones**. Local authorities should be implicated in the process. **All feedbacks should be registered carefully** in a dedicated system per asset class and per geolocation for several reasons:

• To monitor the impact of one or many projects on a specific national SDG performance

• For future similar projects, use all the available data during the phase 1 and 2 to optimize project management and potential impacts

Key advancement features:

• Carry an in-situ assessment of the project's impact after implementation. Collect data on end-beneficiaries relative to the relevant SDGs.

• Consider exogenous and endogenous factors while attributing the impact to the investment. Disclose all the hypothesis and resources used to distinguish endogenous impacts from exogenous ones.

• Compare ex-ante impact assessment to endogenous ex post contribution proportionally to the investment

3. Mapping and impact consolidation

A mapping of both geographical and sectoral exposure can be drawn, the PDB can **reflect on the impact of its projects** (environmental and social assessment reports). It is also an important step to assess how impacts could have been maximized in collaboration with local authorities and governments. For example, the impact might have been multiplied by accompanying the local ecosystem through technical assistance, grant or subsidized loans trying to **build synergies between the investee and its ecosystem** (stakeholder approach).

Key advancement features:

• The PDB Identified assets' potential contribution to the SDGs at local and national levels. In the best case, it already has data on the impact of its investments in the region. Otherwise, it can collect data or estimate its impact in the region with a consistent methodology (common to similar projects).

• The PDB assessed the missed opportunities in terms of impact (ex-ante vs ex-post assessment).

• **To the extent possible, the PDB linked projects' impact with local and national SDG roadmaps and statistics.**

• The PDB identified local/national actors (NGOs, companies, contractors) to build co-benefits in the investment cycle.

• The PDB engaged with local/national authorities to maximize its impact in the investment cycle.

Dealing with ex-ante and ex-post impact reporting gaps

A series of questions (non-exhaustive) can be answered to assess PDBs' necessary adjustments:

· Are the projects geographically scattered or concentrated in an area, if yes, why?

· Could they have been contributing to bridge SDG gaps if they were implemented elsewhere?

· Would it have been possible to move the infrastructure to another region to provide jobs in communities or regions left behind?

· If access to the region was a problem, would it have been possible to collaborate with local authorities to engage in road construction and provide concessional loans? Would it have created new financing opportunities for the bank?

· What are the SDG gaps where the project is being developed? How could the project engage with authorities, communities and governments? How can the PDB support the investee's engagement to locally bridge SDG gaps (subsidized loan, grant, donation or technical assistance)?

· How can bridging SDG gaps enhance the investee's risk/return profile (less absenteeism, better integration in local communities and collaboration with local authorities…)?

· Could the project have been financed by private entities? If not, why?

· Have some negative spillovers been identified during the pre-project phase? If yes, how have they been mitigated?

· Did the project displace negative impacts in another region or country? Could these impacts have been avoided?

4. Building decision making tools with impact and profit as key investment drivers

Once SDG gaps and existing projects are matched, **conclusions must be drawn for adjustments to be implemented**. The ex-post and in itinere assessment of impacts and profits must help to build more efficient pipelines in terms of "impact/IRR" in the regions and for the most vulnerable populations.

Key advancement features:

On an impact/profit efficiency perspective, what are the regions and sectors where both are being maximized or does not harm each other?

In geographic areas covered by a PDB where there is no project, the bank shall adopt a pro-active position by investigating what are the regions/localities where SDG gaps are the most important. What kind of project could maximize the bridging of these gaps? And what are the barriers to invest in these regions (lack of project provider, risks, access)?

To be pro-active the bank should collaborate with local/national authorities to either find new projects providers or to establish a strategy to overcome these barriers through alternative financing solutions (blended finance, grant, subsidized loans, donations or technical assistance).

PDBs accountability

One acknowledges that data, specifically **disaggregated data, may be challenging to collect** in some context. Yet, when it comes to reporting, the lack of standardization hinders transparency, accountability and comparability in-between PDBs (macro level) and even in-between projects (micro level).

To tackle this issue, PDBs should develop a **common reporting framework** starting by identifying common key SDG integration trackers and associated SDG impact indicators. Since each bank will be reporting on the same indicators, this will allow to consolidate the SDG contribution at the IDFC level. Due to its unique position, the IDFC has a key role to play in the adoption of this common framework.

The SDG integration trackers sample identified in the table below can serve as a base for the accountability canvas. Each IDFC member could **annually report on the following items** and associated indicators which will allow the IDFC itself **to aggregate the results at the club level.**

Table 11 - Bank-wide contribution trackers

At the PDB level		IDFC level
SDG integration trackers	**Reporting indicators**	**Consolidated indicators**
Counter-cyclical intervention	· Share of counter-cyclical interventions in the bank's balance sheet (%) · Amount of resources allocated to counter-cyclical interventions ($)	· Average of counter-cyclical interventions in the banks' balance sheet (%) · Total of resources allocated to counter-cyclical interventions ($)
Incorporation in mandates	· Contribution to SDGs explicitly stated in the mandate (yes/no) · Formal integration of the SDGs in the bank's strategy	· Number of banks that have stated SDGs achievement in their mandate · Number of banks that have integrated SDGs in their strategies
Sustainable debt funding	· Issuance of sustainable / SDG debt instruments (yes/no) · Ratio of sustainable / SDG debt funding on total funding (%)	· Number of banks that have issued sustainable / SDG debt instruments · Average of the ratio of the sustainable/ SDG debt funding on total funding (%)
Disclosure and transparency	· Publication of the bank's quantitative contribution to each SDG (amount of resources allocated) by disclosing the SDG mapping (yes/no) · Publication of the bank's SDG policies and strategies (yes/no) · Publication of the bank's methodologies in open data (yes/no) · Explanation of the rationale behind the bank's policies, strategies or methodologies (e.g. use of national roadmaps, use of the SDG gaps, materiality analysis) (yes/no)	· Number of banks which published their SDG mapping · Total of resources allocated to each SDG ($) · Total of resources allocated to the 17 SDGs · Number of banks that publish their SDG policies and strategies · Number of bank that have made their methodology public · Number of banks that provide the rationale behind their policies, strategies or methodologies
Human resources and incentives	· Share of the top management provided with an SDG training in the past year (%) · Share of the staff provided with an SDG training in the past year (%) · Share of the staff whose variable pay is tied to SDG-related target (%)	· Average share of top management provided with an SDG training in the past year (%) · Average share of staff provided with an SDG training in the past year (%) · Average share of staff whose variable pay is tied to SDG-related targets (%)
Strategic alignment with countries' roadmaps	· Share of the country policies that take into account the SDG country roadmap (%)	· Average share of the country policies that take into account the SDG country roadmap (%)
Risk policies adjustment	· The bank uses a capital allocation tool based on the SDG footprint of each financing (yes/no)	· Share of banks that use capital allocation tools according to the SDG footprint of each financing (%)

Source: Authors (Natixis Green & Sustainable Hub)

Table 12 - Balance sheet and intervention trackers

At the PDB level		IDFC level
SDG integration trackers	**Reporting indicators**	**Consolidated indicators**
Technical assistance	· Share of projects benefiting from technical assistance in the past year (%) · Share of projects that have previously benefited from technical assistance and that later benefited from funding/investment (%)	· Average of projects benefiting from technical assistance in the past year (%) · Average of the projects that have previously benefited from technical assistance and that later benefited from funding/investment (%)
Geographic policies	· Share of countries covered by a geographic policy (%)	· Average share of countries covered by a geographic policy (%)

Impact reporting	· Comparison of the ex-ante and ex-post impacts (yes/no) · Use of the impact reporting to feed the strategic decision and/or allocation (yes/no)	· Number of banks comparing the ex-ante and the material impacts · Number of banks using the impact reporting to feed the strategic decision and/or allocation
Vulnerable populations targeting	· Number of projects' beneficiaries disaggregated according to the ICMA Social Bond Principles: 1. People living below the poverty line 2. People excluded and/or marginalized populations and/or marginalized populations and/or communities 3. People with disabilities 4. Migrants and/or displaced persons 5. Undereducated 6. Underserved, owing to a lack of quality access to essential goods and services 7. Unemployed 8. Women and/or sexual and gender minorities 9. Aging populations and vulnerable youth 10. Other vulnerable groups, including as a result of natural disasters	· Total number of project's beneficiaries disaggregated according to the ICMA Social Bond Principles (see on the left)
SDG taxonomies	· Building of eligibility and screening criteria linked to the SDGs (i) and local contexts (ii) (yes/no)	· Number of banks that have built an internal SDG taxonomy
E&S assessments & safeguards	· Formalization of E&S assessments & safeguards (yes/no) · Adoption of an exclusion list linked to the SDGs (yes/no)	· Number of banks that have formalized E&S assessments · Number of banks that have adopted an exclusion list linked to the SDGs
Sectorial SDG mapping	· Mapping of sectorial impacts at local level ex-ante and ex-post (yes/no)	· Number of banks that perform and ex ante and ex post mapping

Source: Authors (Natixis Green & Sustainable Hub)

All these data sets could be used to enhance the existing IDFC SDG Framework Report to demonstrate the pivotal role that development banks play in contributing to SDGs fulfillment and promoting sustainable development related investment.

This report could be presented annually during the "Finance in Common" summit but also during the high-level political forum on sustainable development (HLPF)[36]. The next forum will take place in July 2023.

It is important to note that a PDB could be interested in presenting its own SDG contributions to the government of its countries of intervention and/or the governments it is mandated by.

[36] The HLPF is the core United Nations platform for follow-up and review of the 2030 Agenda.

Funding opportunities

According to a 2020 survey of IDFC members on their financial architectures, responding members use at least two different sources of funding. Most respondents (92%) obtain their funding from **international markets** and 83 % report sourcing funds from **local markets**. 92 % manage third-party funds from **bilateral donors and climate financiers.**

Funding on international capital markets increasingly requires to **integrate sustainability criteria**, especially through the **issuances of Green/Social/Sustainable debt instruments**, which are a type of asset class dedicated to "impact" (in a looser meaning). These instruments have an objective of highlighting the positive outcomes achieved through investments.

Among the IDFC members, **19 of the 27 have already issued Green, Social or Sustainable bonds** (see the figure 25 below).

Such instruments represent **an opportunity and a relevant financial tool** to further operationalize SDG strategies and harmonize standards (especially on reporting), with high oversubscription rates, potential premium, and enhanced relation with investor bases. Importantly, Green, Social and Sustainable Bonds (GSS) issuances need to be underpinned by the implementation of broader sustainable strategies. Such instruments **shed light on the efforts and initiatives made by PDBs.**

The temptation to characterize all its activities and accordingly to cover the entirety of the debt funding in GSS format is high. It is however impeded by practical constraints, notably the impossibility to earmark proceeds to general corporate financing.

Figure 25: IDFC members Green, Social, Sustainability Bond Issuances

PDBs	Countries	Green	Social	Sustainable
International Investment Bank	Hungary			
HBOR	Croatia			
AFD	France	✓		✓
KFW	Germany	✓		
Black Sea Trade & Development Bank	Greece (HQ)			
cdp	Italia		✓	✓
TSKB	Turkey	✓		✓
ВЭБ РФ	Russia			
BICE	Argentina			✓

PDBs	Countries	Green	Social	Sustainable
BNDES	Brazil	✓		
CAF Development Bank of Latin America	Central, South America and Caribbean Region	✓	✓	
CABEI Central American Bank for Economic Integration	Central America	✓	✓	
BancoEstado	Chile		✓	
COFIDE	Peru	✓		✓
BANCOLDEX	Colombia	✓	✓	
nacional financiera	Mexico	✓	✓	
国家开发银行 China Development Bank	China	✓		
sidbi	India			
JICA	Japan	✓	✓	
KDB	South Korea	✓	✓	✓
SMI	Indonesia	✓		
ICD	Saudi Arabia			
TDB	Eastern Africa			
CDG	Morocco			
DBSA	South Africa	✓		
BOAD	Togo (HQ)			✓
AFC	Nigeria (HQ)	✓		

Source: Authors (Natixis Green & Sustainable Hub)

SDG integration in IDFC's GSS bonds

A significant number of Green, Social or Sustainable Bond Frameworks of the IDFC members include references to the SDGs in the objectives and eligible categories.

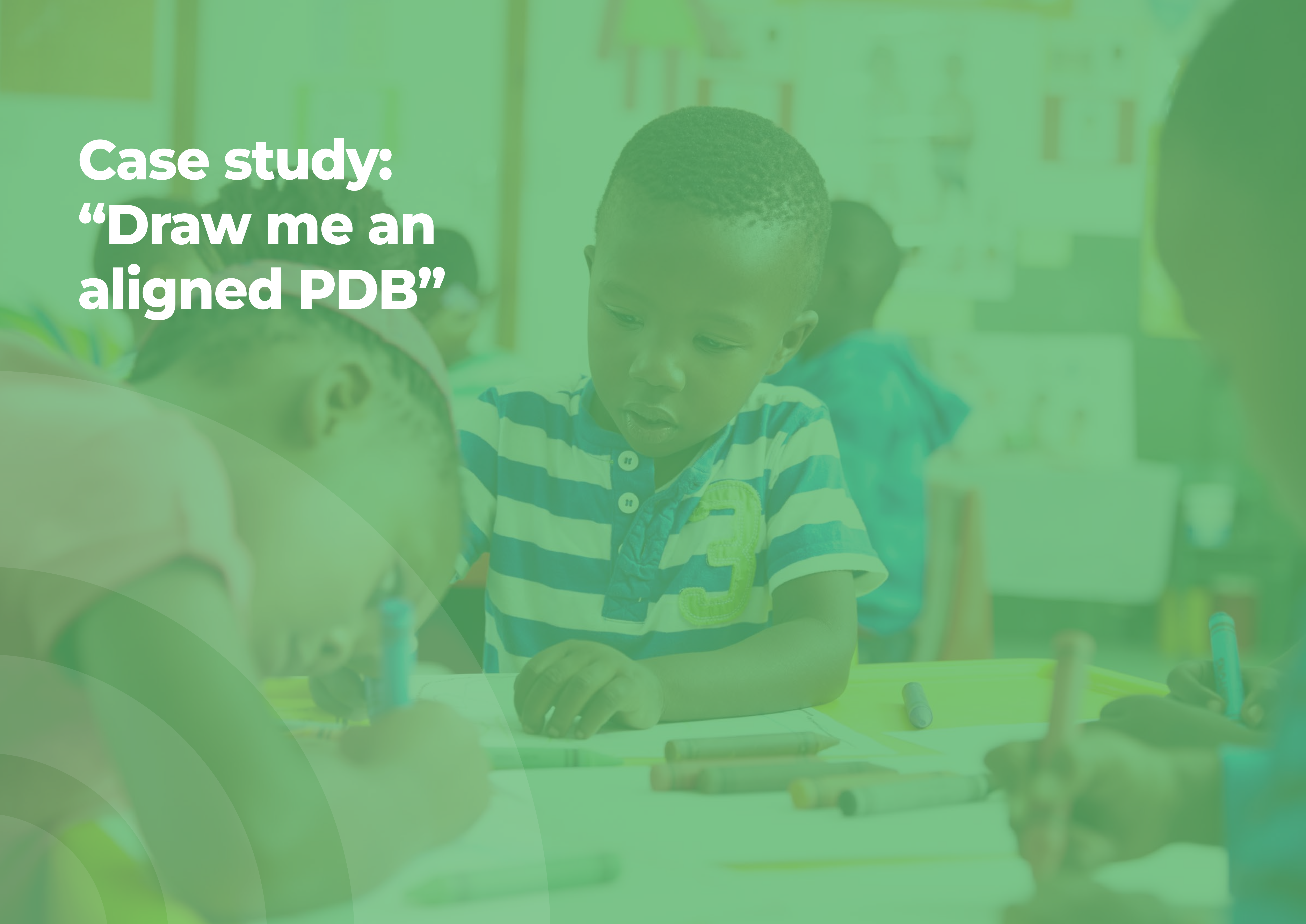
Yet, the PDBs' contribution to SDGs is **not explicit nor detailed**: in most of the cases, only a mapping is provided. The Green Bond Framework of KFW mentions a contribution to three goals (SDG n°7: affordable and clean energy, SDG n°11: sustainable cities and communities, SDG n°13: climate action). The BOAD Sustainability Framework also maps the SDG contributions. The BNDES' Sustainability Bond Framework is more granular and refers to SDG targets.

In addition, a certain number of Frameworks do **not include any reference to SDGs**, it is the case for Bancoldex's Green Bond Framework and Social Bond Framework, China Development Bank's Green Bond Framework, KDB's Green Bond Framework and Sustainable Bond Framework. Only AFD has a comprehensive and dedicated SDG Bond Framework: the eligibility of the loans to the sustainable bond depends on their direct contribution to the SDGs. The AFD "impact by design" approach takes into account **the interplays between the SDGs**.

When public development banks publish allocation and impact reports, the information available on the SDG contribution is **rarely more detailed than** the one already provided in the Bond Framework, except for PTSMI and the AFD themed issuance.

PTSMI Green Bond Report 2021 extensively presents the bank's processes to tackle SDG alignment through the SDG Indonesia One Platform. The report does not only identify direct and potential indirect contribution to the achievement of national SDG targets. One can also note the bank's efforts to **quantify** the contribution to SDGs by displaying for each project multiple indicators. Interestingly, AFD SDG Bond Report **splits the banks' contribution to all of the 17 SDGs**. The SDGs are spilt by outstanding in million Euros and by number of loans.

Case study: “Draw me an aligned PDB”



Case study: "Draw me an aligned PDB"

This "fictive" case study helps to understand how the recommendations can be put in motion.

The Robinson Bank (RB) is a national development bank based in Country A (CA), in **Latin America**. Since its foundation, in 1988, the RB has played a key role in supporting the expansion of industry, transport and communication infrastructure in the country. Since 2009, RB has a **Sustainability Department** in charge of all the environmental and social topics.

The RB's mandate is **to support trade and export**, provide specialised financial products to support companies' value-added take off, especially in the field of **commerce, industry and tourism**. It contributes to economic modernization. As the country is an important oil and gas producer, **the bank is also particularly active in the energy sector**.

Last year, the RB published its strategy and list of strategic sectors for the 2020 – 2024 period:

Table 13: Robinson Bank's strategic sectors for 2020-2024

Agribusiness & forestry	Support the development of agribusiness and forestry
Transportation	Public transportation, road, port and airport
Education	Expanding education services
Technology	Electronic, digital industry, clean energy, clean transportation
Health	Hospital, medical equipment, pharmaceutics, human biotechnology
Energy	Electricity production, oil and gas (upstream, midstream and downstream segments), energy networks
Tourism	Tourism services, hotel, business trip

Source: Authors (Natixis Green & Sustainable Hub)

In 2021, RB joined the IDFC, adhering to the club's values and sustainability agenda, including efforts to align with the SDGs. The bank investigated what the SDGs are and how to place them at the centre of its operations.

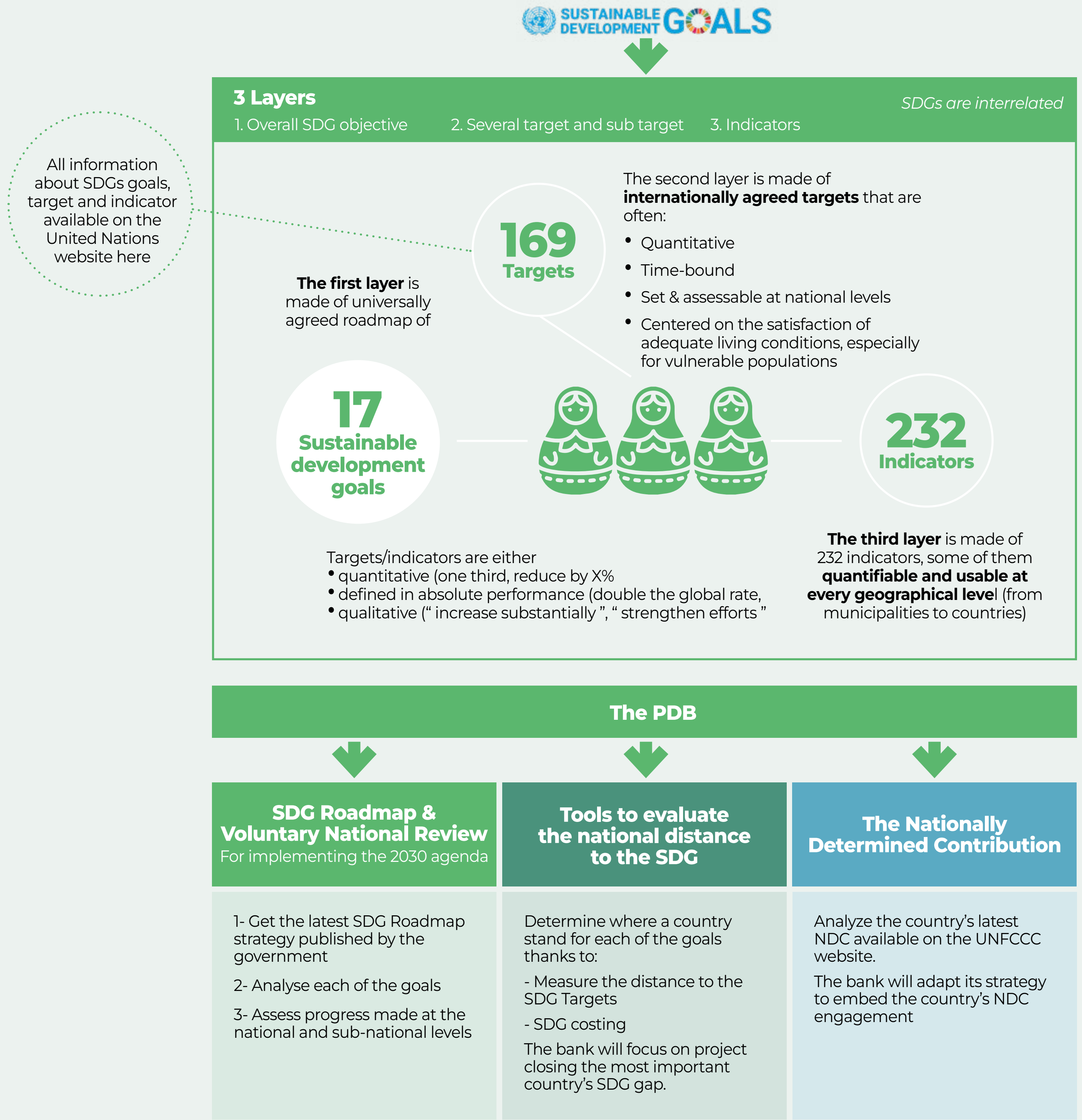
After conducting interviews with IDFC peers, the Robinson Bank witnessed that sustainability **strategies, policies, processes and/or dedicated resources were rarely leveraged to guide investment decisions**.

Given its **mandate**, the Robinson Bank spontaneously contributes to development. But as stressed by think tanks and NGOs in the country A, this is no longer a satisfactory approach. Aligning with the SDGs requires the bank to start formalizing, measuring, and monitoring its contribution to the UN goals.

To do so, the RB has set up a **dedicated Sustainable Finance working** group co-led by the Chief Financial Officer and the Chief Sustainability Officer. The team was tasked to identify best practices and propose a blueprint. The working group came up with the following resolutions:

The Working Group would define **a method to incorporate the 2030 Agenda roadmap and NDCs of Country A in its strategic plan**. Such diagnosis is aimed at identifying areas where RB should prioritize its interventions, based on current gaps.

Figure 26: Integration of national objectives and local most accute needs



Source: Authors (Natixis Green & Sustainable Hub)

Thanks to dialogues within the IDFC, the RB's sustainability team rapidly understood the specific and "all-encompassing" nature of SDGs compared to other ESG-related themes (i.e. climate change), in particular the need to anchor its SDG action into the country roadmap.

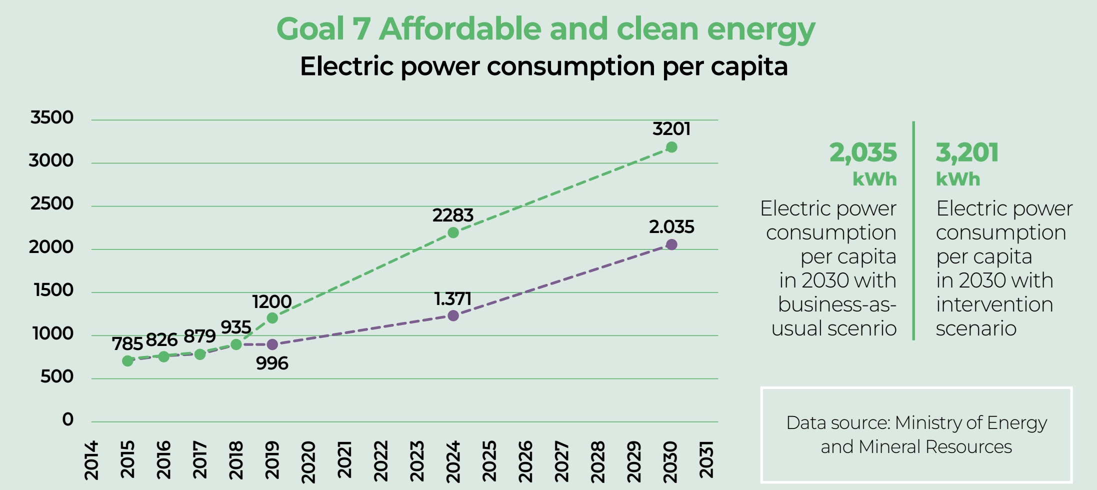
To fully align with the governmental objectives and take into account the most acute needs, the team looked at the **country SDG Roadmap updated in 2019**. It also used the Voluntary National Review (VNR) submitted in 2020. This document summarizes the targets at the country-level and the strategy to reach them.

The RB has engaged with **OECD officials** to have a comprehensive assessment of the distance between the SDG official targets and the current situation. The OECD methodology "Measuring Distance to the SDG Targets" used was presented to RB's top management. The OECD highlighted that among the most instrumental goals to unlock human development and obtain a positive effect across the 17 SDGs in country A, **the access to clean energy (SDG 7) stood out as a bottleneck**. However, increasing the electric power consumption per capita by relying on fossil fuels would derail SDG 13 performance. The country electricity is primarily generated through fossil fuels in country A, which currently represent almost 80% of the electricity generated domestically. At the very least, exposure of the Robinson Bank to the oil sector must remain flat.

Overall, the country A has currently achieved 10 (out of 169) of the 2030 targets while some of the remaining distances to targets are small. However, a significant number of challenges remain for about 28% of the targets. The country has a high prevalence of **food insecurity** (target 2.1), poor access to improved **drinking water sources** (target 6.1) and a rather **low recycling rate** (targets 11.6 and 12.5). The WG reports this information to the bank's Strategy Department to embed the largest national SDG gaps in the bank strategy.

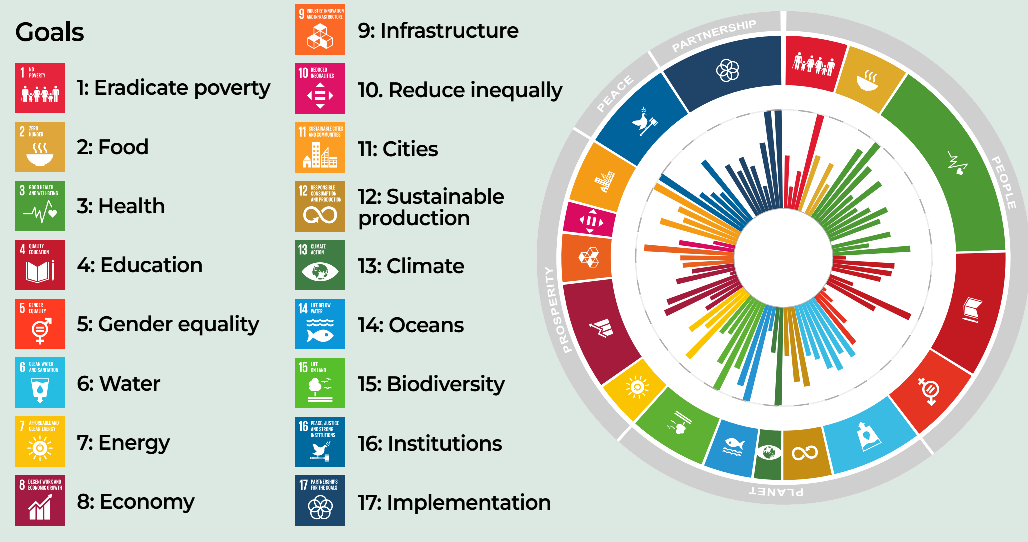
Based on data provided by the Ministry of Energy and Mineral Resources, the Robinson Bank decided to increase its **financing toward clean energy projects, especially in remote areas where social protests erupted in 2019 against local governments following recurrent outages.** Unfortunately, at that time, RB lacked disaggregated and updated data on access to energy inequalities between rural and urban communities. Knowledge of such inequalities was intuitive but having data to evidence it was perceived as key for designing robust impact reporting. Some data gaps were identified in the UN SDG Database for the Country A compared to some of its neighbouring countries.

Figure 27: Country's SDG Roadmap on the SDG 7 - Target 7.1.1



Source: Extract from an SDG roadmap

Figure 28: Country's distance to 80 SDG targets



Source: OECD - Measuring distance to the SDG targets

Thereafter, the Sustainability Department contacted national ministries in charge of monitoring such data to get a more real time information on national SDG indicators status. To fully capture and contribute to the country's sustainability commitments, the bank also evaluated the latest Nationally Determined Contribution of the Country A submitted at COP26, using the UNFCCC - NDCs dedicated website.

Figure 29 – Country A's NDC Projected BAU and emission reduction from each sector category

Sector	GHG Emission Level 2010* (MTon CO2e)	GHG Emission Level 2030			GHG Emission Reduction				Annual Average Growth BAU (2010-2030-	Average Growth 2000 - 2012
		MTon CO2e			MTon CO2e		% of Total BaU			
		BaU	CM1	CM2	CM1	CM2	CM1	CM2		
1. Energy*	453.2	1,669	1,355	1,223	314	446	11%	15.5%	6.7%	4.50%
2. Waste	88	296	285	256	11	40	0.38%	1.4%	6.3%	4.00%
3. IPPU	36	70	67	66	3	3.25	0.10%	0.11%	3.4%	0.10%
4. Agriculture**	111	120	110	116	9	4	0.32%	0.13%	0.4%	1.30%
5. Forestry and Other Land Uses (FOLU)***	647	714	217	22	497	692	17.2%	24.1%	0.5%	2.70%
Total	**1,334**	**2,869**	**2,034**	**1,683**	**834**	**1,185**	**29%**	**41%**	**3.9%**	**3.20%**

Source: Extract from an NDC

Country A has set an unconditional absolute CO2 reduction target of 29% and conditional reduction target up to 41% of the business-as-usual scenario by 2030. It will continue to intensify the efforts to reduce emissions, of which 97.2% comes from forest and land-use and the energy sectors.

Forestry sector:
- by 2030 in peat lands restoration of 2 million ha and rehabilitation of degraded land of 12 million ha

Energy sector (target share in the primary energy mix):
- new and renewable energy at least 23% in 2025 and at least 31% in 2050;
- oil should be less than 25% in 2025 and less than 20% in 2050;
- coal should be minimum 30% in 2025 and minimum 25% in 2050;
- gas should be minimum 22% in 2025 and minimum 24% in 2050.

The NDC gives new indications for the Robinson Bank to focus on energy and forestry sectors.

Based on the review of the SDG roadmap and NDC of the country A, **RB's top management decided to start working on maximizing its contribution to the country's objectives**, so as to halt financing having a negative impact on the achievement of these objectives:

Table 14: Robinson Bank's strategic orientation for the period 2020-2024

	Sub-industries or activities	Implementation challenges
Agriculture & forestry	Support the development of sustainable and productive agribusiness and forestry	Defining sustainability in quantitative and binding terms
Water	Access to drinking water and wastewater processing	Need to develop new expertise in these areas
Recycling	Support the development of a local circular economy and waste management	
Transportation	Public transportation, road, port and airport	NC
Education	Expanding education services	
Technology	Electronic, digital industry, clean energy, clean transportation	
Health	Hospital, medical equipment, pharmaceutics, human biotechnology	
Energy	Clean electricity production, oil & gas (upstream, midstream and downstream segments), energy networks	Political sensitivity of the matter, in terms revenues and jobs erosion
Tourism	Tourism services, hotel, business trip	

New activities to be undertaken or existing one to be narrowed

Decrease financing of such activities

Source: Authors (Natixis Green & Sustainable Hub)

Implementation phase

Such strategic orientations must trickle down to all department and operational units. The bank already has an ESG department, but its action is not well coordinated inside the organization. Some of the departments are using inputs developed by the team such as the "Green & Social project questionnaire" while some others are not. The department is already doing an SDG assessment of some projects, but it remains very **high-level,** and it has no **incidence at a project / credit approval level.**

Following peer review and capacity building dialogue within the IDFC, in particular with Development Bank of Southern Africa (DBSA) or PT Sarana Multi Infrastruktur (PT SMI), the bank hired a third party to create a framework focusing on the 2030 Agenda and the achievement of the SDGs embedding national priorities. The new document set **priority sectors and identified 15 localities where the Bank would like to increase its exposure.**

For the new strategic orientations to infuse into all the sectors of activity of the bank, RB has decided to **reshuffle its organigram and to enlarge the scope of responsibility of the sustainability team** to include the implementation and monitoring of the SDGs through an SDG Hub.

The SDG Hub is in charge of training all sub-teams' managers on the SDGs, in collaboration with the human resources departments which has undertaken skills audits and has been asked to incorporate sustainability criteria in career advancement processes.

Figure 30: Robinson Bank's organigram reshuffle and strategic actions

Bring the SDG in the bank

What to do?	Who is in charge?
Integrate the SDGs into the bank strategy	Strategy department
Create a dedicated SDG Hub to assist all departments in their project SDG assessment	Strategy department + Human Resources
Train the staff to integrate the SDGs in their day to day activities	Human Resources + SDG Hub
Create internal procedure to distillate SDG in every department	Operational + SDG Hub

Source: Authors (Natixis Green & Sustainable Hub)

The Robinson Bank decided to implement its new strategy at the different levels of its organization and to actively steer the SDG impact of its balance sheet, to no longer be in a solely impact taking position.

Strategy review - Apply the SAAU Framework

The Strategy Department decided to conduct a portfolio review, in coordination with the operational teams and with the support of the SDG Hub. They decided to use the **"Stop, Adjust, Amplify and Undertake" (SAAU) Framework** to make sure that every facet of their activities or operations do not directly or indirectly hinder progress towards the SDGs.

Figure 31 – Robinson Bank's application of the SAAU Framework

STOP *(No longer doing)* Stop supporting Oil activities due to negative impact on SDG 13 and on NDC	**ADJUST** *(Doing differently)* Narrow the scope of electricity production activities only to clean ones
AMPLIFY *(Doing more)* Increase the financing toward sustainable agriculture	**UNDERTAKE** *(Doing new)* Develop new expertise in water access and wastewater management

Source: Authors (Natixis Green & Sustainable Hub)

Management of the SDG in the day-to-day activities

The SDG Hub, in coordination with the HR department, has created **a set of online courses** and provided **internal training** to the different departments of the bank.

Inspired by the negotiations **on Basel III rules** (integration of sustainability criteria in capital requirements), the decision was made to **experiment with a lopsided capital allocation based on the SDG footprint of each financing**.

To underpin such mechanism, the Robinson Bank has decided to develop an SDG Finance Taxonomy inspired from the one developed by China's Ministry of Commerce and UNDP, and presented within the IDFC by China Development Bank.

The Robinson Bank created **a rating system associating the individual level of "SDG contribution" and the financial performance of each project: the SDG adjusted return (SAR)**. It began rolling it out only for dedicated financing and 3 pilot sectors (transport, telecommunication and energy), before considering its extension to other type of financing and sectors. The classification system is made of 2 major components:

i. **The Sustainability Impact Coefficient** expressed on a scale from 0% (very harmful activity for one SDG or more) to 50% (neutral contribution: negative impacts are "compensated" by positive ones, for example, a project can have great social impacts while being polluting) to 100% (very beneficial project for an SDG and co-beneficial to others) correspond to the impact of a project on a given territory.

ii. **The Internal Rate of Return** allowing one to take profit into account in decision making, alongside sustainability characteristics.

Figure 32 - Shade of SDG Contribution

High Positive SDG Impact	Medium Positive SDG Impact	Neutral SDG Impact	Medium Negative SDG Impact	High Negative SDG Impact

Source: Authors (Natixis Green & Sustainable Hub)

The result gives an SDG Adjusted Return (SAR) evaluating its SDG footprint and modifying its initial level of performance, providing a strong incentive for RB' teams to favor **project financing with a positive SDG outcome when assessing deals with equivalent credit risk.**

Once the mechanism is operational and with sufficient track-record, Robinson Bank's management intends to allocate some "SDG contribution budgets" to the operational teams to which their incentives, including **career advancement and variable remuneration** could be linked.

However, on non-environmental matters, the operational teams have expressed difficulties to the SDG Hub explaining **the complexity around its factoring in day-to-day activities.** They emphasized the challenges for the selection of meaningful indicators to gauge the potential SDG contribution of a given project.

As a result, the SDG Hub appointed **Cerise**, a consultancy with experience working with investors, financial institutions and social enterprises to identify micro indicators to monitor the contribution to the SDGs.

Cerise helped the Robinson Bank in moving from macro data to micro data, developing outcome and impact indicators. The advisor has provided **its "MetODD-SDG" tool** to measure their contribution to the UN SDGs according to a limited list of microeconomic indicators (see box page 38).

To measure social outcomes, Robinson Bank deepened dialogue with project developers and/or municipalities it finances to collect granular data. An area of concern was related to **population targeting**, RB wanted to easily collect, visualize, analyze, disaggregate and monitor data even in the most demanding settings such as in the case of natural disasters.

The SDG Hub compared different tools and ended up selecting the KoBoToolbox (see box page 36), which is an **open-source solution** facilitating online and offline data collection, including through phones, tablets, or any browser.

This tool enabled RB staff to leverage **project developers and municipalities as gateways to communities,** ensuring that projects are framed and delivered to address the communities' needs and thus maximizing the impact.

Project assessment illustration

Once these pilot sectors and methodologies defined, the **credit committee of the Robinson Bank** had to review three different projects described thereafter and to assess their SDG Adjusted Return (SAR).

Table 15: the projects submitted to Robinson Bank's Credit Committee

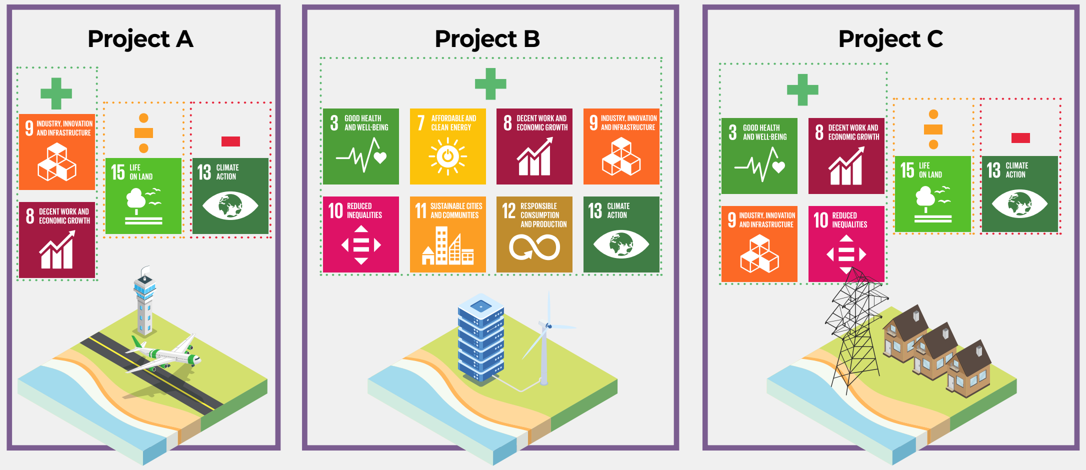
Project A	An extension of a regional airport whose air traffic will mostly focus on short distance flights (<1000km), with an internally designed prevention plan to minimize soil sealing and commercial centers with BREEAM certification (Excellent).
Project B	A data center with a power usage effectiveness below 1.5. The data center will enable the health ministry to dematerialize health passports for people affected by chronic diseases. The data center is powered by renewable energy coming from self-production (geothermal energy) and low-carbon electricity (certificates) accounting for more than 50% of the total energy consumption of the center.
Project C	Transition & distribution line for an area with an electrification rate below 70% not dedicated to renewable nor fossil fuels, in a country where the carbon content of electricity has increased over the last 4 years. The line is crossing a key biodiversity area.

Source: Authors (Natixis Green & Sustainable Hub)

The Robinson Bank's teams tested **a project rating tool** to factor expected SDG impacts in the decision-making process. Through their SDG Taxonomy, the projects were individually assigned a Sustainability Impact Coefficient (SIC) computed with their respective internal rate of return.

Figure 33: Robinson Bank's SDG adjusted return matrix

SDG Impact project selection process



Apply the Sustainability Adjusted Return Tool

Sustainability Impact Coefficient (SIC) / Internal rate of return (IRR) — Formula: SIC x IRR

SIC	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% B	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 C	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% A	4%	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%

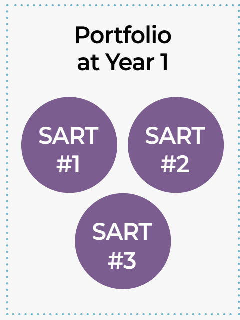
Internal rate of return (IRR)

Source: Authors (Natixis Green & Sustainable Hub)

- **Project A**'s adjusted return 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. While 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 has negative spillovers on other SDGs. The project was dismissed.
- **Project B** obtains a very high SIC, the environmental performances of the data center match best available technologies and its end-use is posed to improve health related services for a vulnerable population. The potential negative impacts are clearly mitigated thanks to a low-carbon power supply of the data center. The IRR of the project is medium; therefore, the RB may use some concessional facilities (below market conditions interest rates) or explore guarantees. The Credit Committee identified the project as one of the most contributive to the SDGs and decided to use it for the pool of use-of-proceeds in the context of its SDG Bond Program (social project with green co-benefits).
- **Project C** has a neutral SIC, the benefits from the projects in terms of access to energy in remote and low population density areas are high. However, it will not contribute to greater penetration of renewable energy as the country' energy mix is not undergoing a decarbonization. For the obvious social benefits of the project, Robinson Bank considered providing the project developer with technical assistance to mitigate the negative impacts on terrestrial biodiversity, especially measures to relocate endangered species in a protected park. The investment committee decided to implement a specific in-itinere and ex-post monitoring process, with sanction clauses in case of major infringements of the environmental red lines agreed with the project developer.

At portfolio level

Figure 34: SDG Adjusted Return tool (portfolio level)



Sustainability Impact Coefficient (SIC) / Internal rate of return (IRR) — Formula: SIC x IRR

SIC	0%	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%
100%	0%	2%	4%	6%	8%	10%	12%	[illegible]	16%	18%	20%
90%	0%	2%	4%	5%	7%	[illegible]	11%	[illegible]	14%	16%	18%
80%	0%	2%	3%	5%	6%	8	[illegible]	11%	13%	14%	16%
70%	0%	1%	3%	4%	[illegible]	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%	4%	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%

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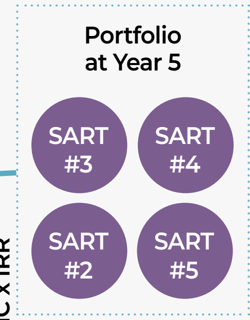

Internal rate of return (IRR)

$$\text{Portfolio SIC (at a year k)} = \frac{1}{\sum_i^n F_i} \sum_{i=1}^{n} SIC_i \times F_i$$

SIC = *Project SIC*
F = *Funding amount*
n = *Number of projects in the portfolio at year k*

Source: Authors (Natixis Green & Sustainable Hub)

- Looking at the adjusted returns in year 1, the Portfolio Manager decided to **use more technical assistance, grants and subsidies to increase its portfolio Sustainability Impact Coefficient.** On top of alternative financial products, it decided to **put an emphasis on high-impact but low-profitability projects in the geographical context**.
- In parallel, the Portfolio Manager put in place a **systematic review of local context's SDG gaps** in the project appraisal phase.
- This analysis allowed it to use alternative financing tools on the project's sidelines **to maximize co-benefits on most acute SDG needs.** It first appeared to be disconnected to the project but improved the project's social acceptance and financial performances on the long run.

External Engagement and accountability

As a result of the SDG adjusted return tool implementation, the Robinson Bank was able to score its portfolios with a Sustainability Impact Coefficient and maximize its contribution to the SDGs. It used the score as a strategical tool to orient investment decisions and make its balance sheet more impactful.

At the occasion of the High level Political Forum in July 2022, the PDB disclosed its SDG contributive mapping and a consolidated extra-financial report highlighting bank wide progresses materialized by an increase in Sustainability Impact Coefficients (SIC). It committed to reach a bank-wide SIC of 55% by 2030 (versus 35% in 2022).

It defined an action plan exposing different levers (target regions where SDG gaps are larger, address most vulnerable populations needs, cooperate with local and national authorities while aligning to their SDG roadmaps) and means (use of alternative financial products: policy-based loans, technical assistance, grant, subsidies, linking portfolio managers' variable remuneration to the SIC, SDG training) to reach the target. This commitment was quantified under the format of contribution trackers:

Table 16: Robinson bank's contribution trackers

SDG integration trackers	Reporting indicators
Counter-cyclical intervention	· Share of counter-cyclical interventions in the bank's balance sheet (%) · Amount of resources allocated to counter-cyclical interventions ($)
Incorporation in mandates	· The goal of reaching an SIC of 55% by 2030 (versus 2022 baseline) was set
Sustainable debt funding	· Issue USD 1bn of SDG bonds per year
Disclosure and transparency	· The Robinson Bank (RB) discloses its SIC progression in its annual sustainability report.
Human resources and incentives	· 100% of top management provided with SDG training in 2023 · 90% of managers variable remuneration linked to the SIC in 2025
Strategic alignment with countries' roadmaps	· 60% of RB's investments are addressing SDG gaps highlighted in national SDG roadmaps of countries of intervention in 2025
Risk policies adjustment	· The RB implemented the SDG adjusted return tool to tilt capital allocation toward SDG contributive projects

Table 17: Robinson Bank's balance sheet and intervention trackers

SDG integration trackers	Reporting indicators
Technical assistance	· The RB committed to multiply by 3 the amount dedicated to technical assistance towards SDG countries with stagnating or slightly improving performances for 2025 (2022 baseline)
Geographic policies	· The RB updates geographic policies every three years according, notably,to local SDG gaps
Impact reporting	· Each year, the RB publishes the result of the gap assessment between ex-ante and ex-post impacts and how it intends to adjust impact estimations at project appraisal
Vulnerable populations targeting	· The RB discloses the number of beneficiaries each year and the results of its vulnerable population targeting (Leaving No One Behind)
SDG taxonomies	· The RB reviews every two years the criteria of its internal SDG Taxonomy, joining the International Platform on Sustainable Finance
E&S assessments & safeguards	· As part of its SDG Taxonomy refinement, the RB updates its DNSH criteria and exclusion list every three years
Sectorial SDG mapping	· It discloses a substantial sectorial and geographical mapping on a yearly basis

Source: Authors (Natixis Green & Sustainable Hub)

Investors' appetite for SDG integration

Investors' appetite for SDG integration

Investors' approach on sustainability

To date, investors have mostly focused on climate and environmental topics. As mentioned in the definition of SDG alignment, it is much simpler to identify a positive contribution to reducing greenhouse gas emissions than it is in "SDG terms".

Also, green projects pipelines are considerably larger, allowing capital to flow at scale, or to count as green pre-existing flows. **The SDG investable universe is large but less clearly delineated or with risks of SDG washing.**

Attention to the SDGs or social criteria has thus been more disseminated, without or with less dedicated pockets or criteria.

As shown in the table below, social bond issuance, has particularly decreased compare to last year. It is mainly due to the slowdown of the Covid-19 pandemic.

The market size for **sustainability-themed bond** (such as Climate awareness bonds, Sustainability awareness bonds, SDG Bonds blue bonds, Green transition bonds...) has **almost reached 2,900 $bn eq as of October 2022.**

Table 18: Current State of the Sustainable Themed Bond Market (All sizes, all geographies, all sub-markets)

Size of the Sustainable-themed bond market ($bn eq.)	Green	Social	Sustainability	Sustainability -Linked	Total
Total Market Size (Issued amounts)	1 721	464	536	165	2 885
2022-YTD new issuance (Issued amounts)	328	85	131	55	598
Change YoY (%)	-26%	-50%	-21%	-23%	-29%
Change vs 2021 FY (%)	-36%	-54%	-32%	-43%	-39%

Source: Authors (Natixis Green & Sustainable Hub), Market Data, October 21st, 2022 (Bloomberg, Dealogic, Bond Radar)

In the sustainability categories, three types of bonds can be identified:

1. **Sustainable bonds** as defined by the International Capital Market Association (ICMA), regroup both green and social use of proceeds in line with green and social bond principles respectively.

2. **Sustainability-linked bonds** are a type of bond in which issuers are committing explicitly (including in the bond documentation) to future improvements in sustainability outcome(s) within a predefined timeline according to the ICMA.

- **Emerging market (EM) issuers have embraced market developments** and the introduction of sustainability-linked bonds (SLBs)

- **SLBs issuances have increased rapidly**: In 2021, it has grown enormously while the number of issuances has slowed down in 2022. Emerging Markets' issuers have shown themselves quite open to embracing such innovative instruments.

- **By funding the transition to more sustainable business practices**, SLBs allow venture issuers to broaden their base of ESG investors (those who are not necessarily ESG mandated/limited, but who are asked to be more ESG sensitive)

- The less rigid structure of the product's use means that SLBs can **be more flexible for EM issuers**.

Results-based sustainability-linked bonds can be good tools to hold countries and sub-sovereign agencies accountable regarding their SDG strategies. They could integrate SDG related targets as performance indicators and KPIs.

3. **SDG bonds** recently appeared in the market and there is no consensus on the format they should adopt. And on their specific features The UNDP developed an SDG Impact Standards for Bond Issuers published in March 2021. It frames holistic principles in four categories regarding issuer's impact Strategy, Management, Transparency and Governance. For each of the 4 categories, best practices are highlighted allowing one to assess the issuer's SDG contribution robustness. Very few bonds were spiritually in line with these principles before they were published.

A large part of SDG-related issuances came from countries or sub-sovereign agencies (Mexico, Indonesia, Benin, BICE, TSKB, KDB, BOAD and AFD). What UNDP's standard is advocating for **is going further than mapping SDG contribution** to claim the SDG alignment of a bond and further change internal practices to include impact in strategies and decision-making processes.

Figure 35: The SDG Impact Standards for Bond Issuers

Standard 1 (Strategy): Embedding foundational elements into purpose and strategy

Standard 2 (Management Approach): Integrating foundational elements into operations and management approach

Standard 3 (Transparency): Disclosing how foundational elements are integrated into purpose, strategy, management approach and governance, and reporting on performance

Standard 4 (Governance): Reinforcing commitment to foundational elements through governance practices

Source: SDG Impact Standards for Bond Issuers, UNDP (2021)

ESG and impact-oriented funds (i.e., funds and portfolios that are by-design and/or management using or referring to impact metrics), attracted **most of emerging market segment inflows** in 2020, despite the limited size of the funds offer. The demand is strong and illustrates market interest for impact. More transparency and accountability through reporting can contribute to increasing the size of the investable universe and create favorable financing conditions for PDBs. From a technical standpoint, PDBs could benefit from dedicated purpose financing tools (directed towards specific assets) targeting specific development projects contributing to SDGs or going through a standardized investment process guaranteeing projects' SDG contribution.

One can distinguish two types of investors: i) Sustainable funds focused on emerging markets and ii) impact-driven investors:

i) **Sustainable funds focused on emerging markets: mainstream, ESG and broad sustainable funds**, mainly investing in financial products on primary and secondary markets as well as equity investments to fit a given strategy. They often invest **at scale** (several hundred million dollars) in products fitting their strategies. They rather have a **top-down approach**, applying a set of criteria to available investments to integrate or reject financial products from their funds. They often invest in **emerging countries** bond issuances that are either Green, Social or Sustainable as per ICMA Principles or Guidelines. They do buy SDG bonds from both public and private entities.

Two examples of investment funds

Amundi's Planet Emerging Green One (EGO): Amundi is the first European asset manager as per total assets under management. This fund (USD 1.5 bn) created in 2017 focuses on climate mitigation financing in emerging markets.

Table 19: Amundi Planet Emerging Green One

AuM (USD m)	ESG investment basics of the fund	Impact measurement by the fund
USD 1,924m (as of 30th June 2022	• The Green Bonds in portfolio are defined as debt securities and instruments issued by financial institutions active in emerging markets, the proceeds of which fund eligible projects meeting the criteria and guidelines of the Green Bond Principles • In terms of sector coverage, the use of proceeds is concentrated in six sectors: renewable energy, green transport, green building, water management, energy efficiency, and waste and pollutants management	• The Fund calculates annual avoided emissions per million euro invested to estimate the avoided GHG impact associated with the bonds in portfolio, with a sector coverage (Avoided GHG emissions through renewable energy and through clean transportation) • The GHG Avoidance Intensity is calculated as total reported GHG avoidance divided by the total issuance amount covered by impact report

Source: Annual Impact Report (p. 24), and Amundi Planet, SICAV-SIF Quarterly Report (March 2021)

BlackRock - Emerging Markets Impact Bond Fund

BlackRock - Emerging Markets Impact Bond Fund (USD 38.5m as of Sept. 2021) was created in July 2021. It invests in Green and Sustainable bonds from emerging markets but also in best-in-class ESG issuers. The challenge is for these funds to **collect the associated impact data from their investees and establish their contribution proportionally to the amount invested**. The Fund invests at least 80% of its total assets in a concentrated global portfolio **of "Green, Social and Sustainability" (GSS) bonds** issued by governments and agencies of, and companies domiciled or exercising the predominant part of their economic activity in, emerging markets, where the proceeds of such GSS bonds are tied to green and socially responsible projects. Reportedly **more than 90% of the investees are ESG rated or have been analyzed for ESG purposes**. For the selection of GSS bonds, the Investment Adviser (IA) analyses the **use of proceeds** of the bonds and the issuer framework for alignment of the bonds with the Green Bond Principles (**GBP**), Social Bond Principles (**SBP**), and Sustainability Bond Guidelines (**SBG**) of the ICMA to determine suitability within the investment universe.

Impact-driven investors:

These investors, or portfolios managers (as a few specialized funds can be hosted within mainstream investment companies) often develop dedicated purpose funds towards the achievement of a specific goal (e.g., generating employment, fighting land degradation, protecting oceans etc.). They rather have a **bottom-up/project** level approach, engaging with project developers, assessing projects' impact and whether it aligns with the dedicated fund philosophy. These types of funds often co-invest with Public Development Banks into development projects.

In 2020, on the fifth anniversary of the adoption of the United Nations Sustainable Development Goals and the Paris Climate Accord, **the Global Impact Investing Network (GIIN) released its second edition of The State of Impact Measurement and Management (IMM) Practice**[37].

The report captures data from 278 so-called impact investors (among them, 67% were fund managers, 9% foundations and 5% were Development Finance Institutions). It is made of a survey that took place between July and September 2019. **Respondents were asked about how they measure, manage, and report their impacts**. Barclays, BNP Paribas, BlueOrchard's, Mirova Natural Capital, Credit Suisse, FMO, NN Investment Partners and UBS were among the respondents.

Key findings:

• All impact investors agree on the **importance of measuring and managing impact results**

• Practices become more sophisticated as investors strengthen their integration of impact into investment processes.

• Impact investors increasingly **demand insight on impact performance:** 89% of investors cited a **lack of transparency on impact performance as a key challenge**

• Impact measurement and management incur some costs – yet also generates financial benefits. On average, impact investors spend an estimated 12% of their organization's total budget on IMM-related activities. Data collection representing around 25% of IMM-related expenses. Reporting efforts, representing another 24%.

[37] Source: January 2020, The State of Impact Measurement and Management Practice, Second Edition, Global Impact Investing Network (GIIN), available here

BlueOrchard is a leading impact investment manager. It has several impact funds addressing key sustainable development challenges such as financial inclusion, climate change, education, job creation and women's empowerment. They partner with multilateral development banks (MDBs) through risk/return adjusted co-investments in blended financial structures. In its impact management processes, it distinguishes ex-ante impact objectives from ex-post impact assessment and introduces the equivalent of a Do No Significant Harm (DNSH) criteria to manage potential negative effects. In their 2019 impact report, they both use **geographically and socially focused data**. For example, they reached 191,000 students and learners with dedicated Education financing. They essentially use mapping to support their contribution to the SDGs, they rely on their counterparts (microfinance institutions for example) to underline their contributions. They derive impact metrics from their investees' geographical context (remote, rural areas or cities) and their clients' sociologies (sex, age poverty).

Results of our investor survey

As part of the advisory mission carried on behalf of the IDFC, **Natixis has conducted a survey to capture investors' expectations towards PDBs and more specifically IDFC members** when it comes to SDGs integration. It questions investors' own SDG approach and their analysis of current practices. As of December 15th, 2021, **11 investors that are highly active on the PDBs bonds market, and whose firms[38] represent more than 15 trillion USD in assets under management have answered the survey or accepted interviews.**

[38] We collected answers and feedback from Advent Capital Management, Alliance Bernstein, Allianz Global Investors, Amundi, Artesian Capital, Barings, BlackRock and NN Investment Partners PIMCO and RPIA.

PDBs regular and sustainable/SDG oriented bonds' appetite

All investors surveyed and interviewed have significant exposure to PDBs and are actually bond holders of several IDFC members' tranches. **IDFC members' bonds represent a relatively important share (13% on average) of their sustainable portfolios**, ranging from 2% to 20%. The share of the sustainable portfolio in total varies widely between investment firms, notably depending on their size. To some extent, the way they define sustainable portfolios, make it difficult to assess.

For examples:
- Mirova manages EUR 20bn of AuM, 100% of which is composed of sustainable portfolios.
- Allianz GI has EUR 582 bn in AuM and EUR 205 bn in sustainable assets (35%).
- BlackRock has EUR 7800+ bn in AuM and about EUR 85 bn in sustainable assets (1%).

This occurs at a moment when sustainable funds are skyrocketing, and the segment of these funds that is most likely to invest in bonds issued by IDFC members experienced two remarkable successive years in 2020 and 2021.

Indeed, when analyzing a large sample of funds invested in emerging markets fixed income products – which usually devote a significant part of their assets to public bonds and development banks, whether or not they are located in emerging countries – there is a very clear decoupling between traditional and sustainable funds.

The table below compares the evolution of EM bond funds between 2018 and 2021, particularly those with a significant proportion of bonds issued by public players (sovereigns, agencies, development banks...), between traditional funds, funds with an ESG integration approach, and impact funds, focused on sustainable bonds, whether green or linked to the SDGs.

Table 20: evolution of EM bond funds inflows (2018-2021)

Sub panels	Emerging Markets Bond Funds	Emerging Markets Bond Funds (Min 50% of public issuers)	Emerging Markets ESG Bond Funds	Emerging Markets ESG Bond Funds (Min 50% of public issuers)	Emerging Markets Impact Bond Funds	Emerging Markets Impact Bond Funds (Min 50% of public issuers)
Number of funds	1,145	728	107	61	49	28
Total Assets (USD m)	423,816	321,395	40,422	31,238	21,097	15,736
Av. Fund Size USD m)(%)	370	521	378	512	431	569
Total Inflows in 2021 (USD m)(%)	-438	-202	5337	3834	4847	3514
% Inflows in 2021	-0,10%	-0,06%	13,20%	12,27%	22,97%	22,33%
Total Inflows in 2020 (USD m)	3854	-905	4455	4074	2557	2136
% Inflows in 2020	0,91%	-0,28%	11,02%	13,04%	12,12%	13,57%
Total Inflows in 2019 (USD m)	39524	21392	9720	7708	1577	1034
Total Inflows in 2018 (USD m)	17788	15675	3762	3808	1081	1011
Average share of public issuers' bonds	69,90%	93%	63%	87%	69,50%	93%
2021 Annual Return (avg)	-2,44%	-3,32%	-2,11%	-3,12%	-2,49%	-3,65%
2020 Annual Return (avg)	2,14%	1,75%	3,31%	2,90%	3,30%	3,10%

Source: Natixis GSH based on Morningstar

It is striking to observe that, notably due to the interest rate environment, the last two years have been unfavorable to emerging bond funds while they have been quite **favorable to ESG funds and even more when comparing cumulative returns of Impact/SDGs funds to**

conventional emerging market funds with a minimum 50% of public issuers. Good financial performance of the Impact/SDGs funds could certainly explain some of their success in 2020, but they were finally quite similar from the other funds in 2021[39]. This **confirms the intrinsic appeal of sustainable products** and in particular impact funds to investors for this category of investments structurally positioned on PDBs bonds.

It is also noteworthy that **funds invested in sustainable bonds issued by public entities are – on average – already bigger than those which are not sustainability oriented and/or rather invested in corporate bonds from emerging countries**[40]. This is a huge advantage for IDFC members willing to issue SDGs oriented products, as those will feed a burgeoning market that already attracts most of the segment's inflows despite the limited size of the funds offer.

[39] *Impact funds for which investments in SSA (Sovereigns, Supras & Agencies) securities represents more than 50% of portfolios amounts to EUR 562M as compared to EUR 521M for similar funds that do not have a sustainable approach.*

[40] *In 2020, the performance gap between conventional and ESG/impact funds ranges from +1.15% and +1.35%, which is significant for funds that perform between 1.75% and 3.31% yearly (see table 20 above). 2021 was more nuanced, ESG funds performed slightly better (between 20 and 33 basis points) but impact funds performances were below conventional ones (between 10 & 50 basis points).*

Assessing credit and sustainability profile of PDBs

According to the responses of our panel, there appears to be **no clear consensus on which PDBs' characteristic is more attractive**; either credit or sustainability profile. **Some find PDBs attractive on a credit angle and others on the sustainability side**, assuming PDBs are contributing to sustainable development by design. But this should not be considered too quickly, as further questions tend to show the importance of the sustainable element and of its demonstration for our respondents.

About a third of investors surveyed have **specific methodologies dedicated to the analysis of PDBs credit and sustainability profiles**, generally conducted by their public sector and/or financial institutions or emerging markets analysts, in partnership with ESG experts or green bonds analysts.

Almost all respondents use ESG ratings in their investment strategies dedicated to PDBs, and while they usually source data from external providers, they are also **rather dissatisfied with the quality of external assessments when it comes to the sustainability features of PDBs.**

Therefore, most of them tend to **use their own methodologies to rate PDBs on ESG criteria.** One investor declares to conduct its own credit assessment, showing critical distance or willingness to limit reliance on the input provided by CRAs.

Sustainable issuance formats' preferences

When it comes to the existing Green, Social and Sustainable bonds issuances, a large majority **(80%) of respondents are satisfied with GSS bonds frameworks that have been published. 80% of them prefer the use of proceeds format while only few currently consider the sustainability-linked format** (with KPIs but without earmarking of proceeds) as relevant for PDBs financing.

All of them invest in PDBs green bonds while half of them invest in other social and sustainability bonds formats. References to SDGs are encouraged. For example, PIMCO explains that simple **tagging cannot be considered as sufficient, and that further explanations about the eligible activities or assets contribution to SDG achievement was highly welcomed.**

For sovereign issuances for instance, PIMCO highlighted Indonesia, Mexico or Benin's SDG bonds which offered relevant details on the link between SDG issuances and SDG national roadmaps, beyond superficial mapping. Several respondents declared that they **were always seeking greater transparency, more details and specifics on alignment**

Assessing and reporting impacts under the lenses of the SDGs

On the other hand, on **allocation and impact reporting**, the level of satisfaction is more limited with 35% being unsatisfied and the others globally less satisfied than they were for the frameworks.

In the end, if **PDBs intentions are praised, the transparency over realization and reporting is being scrutinized and for now, can be improved.**

One of the respondents criticized the lack of transparency of PDBs, which use **their mandate as an argument for limited or too tailor-made disclosure.** This also came out from the interviews conducted with investors, as both survey participants and interviewees mentioned **the need to split proceeds between green and social projects**.

One of the respondents highlighted that the **indicators provided are almost always output** ones, with little impact metrics, and even less ex-post ones. **Project level reporting, i.e., granular ones, are deemed as a plus** (when relevant and feasible).

Investors also mentioned the need to use ICMA's High-Level Mapping to the Sustainable Development Goals to report on allocation and provide standardized and relevant information to investors. PIMCO expects impact reporting to be in line with ICMA principles and the SDGs.

Practically speaking, several respondents mentioned **the usefulness of Excel spreadsheets detailing the allocation of proceeds on a project-by-project basis**, with associated impact KPIs.

One may regret the lack of details provided by our survey respondents when it comes to their impact reporting requirements. But assuming the expectations are not there would be a mistake. **Investors, especially fund managers, are bound by the necessity to consolidate and aggregate impact assessment at the level of their portfolios**[41].

[41] *See Environmental Finance (2021), Green Bond Funds Impact Reporting Practices 2021, available here*

This does not mean they expect simple reporting, but rather that they need to see the standards globally raised to implement the results into their templates of impact assessment. To push in this direction, some leading firms (e.g., PIMCO in its Best Practice Guidance for Sustainable Bond Issuance), provide examples of what they consider being best practices that should be generalized by peer issuers.

SDG related Investment targets

Over the last 2 to 3 years, investor commitments towards SDGs have become popular. **Large asset owners** (pension funds, sovereign funds, insurance companies, especially in Europe), **have integrated SDGs into their global strategy.** In doing so, they forced asset managers to integrate SDGs into their portfolio construction, or at least reporting.

Indeed, some 75% of our panel of respondents noted that their companies had **official commitments regarding SDG Finance**. Two of them mentioned that these commitments are related to **funds allocation toward SDG achievement**, making it even more important for PDBs to assess their contribution to the SDGs.

PIMCO for instance sees bonds linked to the SDGs as an emerging best practice for issuers seeking to demonstrate positive sustainability outcomes.

SDG integration in impact reporting and portfolio management has already started, at least for a small majority of asset managers.

Appendices

Appendices

List of interviewees

Meetings held with the IDC Members

Name of PDB
Bancoldex S.A.
Caisse de Dépôt et de Gestion (CDG)
Islamic Corporation for the Development of the Private Sector (ICD)
Black Sea Trade and Development Bank (BSTDB)
PT Sarana Multi Infrastruktur (PT SMI)
The Eastern and Southern African Trade and Development Bank (TDB)
Cassa Depositi e Prestiti (CDP)
Development Bank of Southern Africa (DBSA)
Banco Nacional de Desenvolvimento Econômico e Social (BNDES)
Africa Finance Corporation (AFC)
Banco de Inversión y Comercio Exterior S.A. (BICE)
Japan International Cooperation Agency (JICA)
Türkiye Sınai Kalkınma Bankası (TSKB)
Kreditanstalt für Wiederaufbau (KfW)
Agence Française de Développement (AFD)

Meetings held with third parties

- International organization

Name	People	Topic
OECD	Olivier Cattaneo, Priscilla Boiardi	Rating methodology

- Investors

Name	People	Topic
Amundi	Severine Alloy	Investors' appetite
PIMCO	Monica Bianco, Ryan Greenwald	Investors' survey

- Non-members

Name	People	Topic
CDC	Nathalie Layani, Yona Kamelgarn, Damien Navizet	Investors' appetite

- Credit rating agencies

Name	People	Topic
Fitch Ratings	Arnaud Louis, Janine Dow	Rating methodology
Moody's ESG/ Investors Service	Marie-Charlotte Bourjac, Ines Salen	Rating methodology

- Think-tanks, Consultancies and NGOs

Name	People	Topic
IDDRI	Damien Barchiche, Maria Alejandra Riaño	Coordination
Finansol (FAIR)	Jon Salle	Data & Alignment
CERISE	Cécile Lapenu	Data & Impact
International Institute for Sustainable Development	Lucile Dufour	Alignment
Impact Invest Lab/FAIR	Raphaëlle Sebag	Impact
Eurodad	Maria José	Transparency
60 Decibels	Tom Adams	Data & Impact
Publish What You Fund	Gary Forster, Ryan Anderton, Paul James, Farzana Ahmed	Accountability
Citizing	Julie De Brux	Socioeconomic evaluation
KOREIS	Adrien Baudet	Impact measurement
Kobo Tooldbox	Tino Kreutzer	Data

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- "Reclaiming Public Development Banks to finance a sustainable and equitable recovery post Covid-19", Maria José Romero
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- Joint Statement to align financial flows with the Paris Agreement, IDFC
- Survey: Existing approaches by IDFC members to characterize SDG compatibility of activities and investments
- Scaling up public development banks' transformative alignment with the 2030 Agenda for Sustainable Development, October 2020, IDDRI
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