Global Research Network on PDBs (GRN)

Finance in Common

Finance in Common 2025
Key Recommendations from Research

→ For Governments

→ For Regulators

→ For PDB Chief Executives

MOBILIZING EFFECTIVE PDBs TO FINANCE THE TRANSITION

The Finance in Common Summit 2025 in Cape Town provided a unique opportunity for researchers and think tanks, organized through a Global Research Network (GRN), to showcase the last advancements of their work on the role of Public Development Banks (PDBs) in addressing global challenges such as climate change, sustainable growth or multi-faceted crises.

A general statement from most panels is that development banks, and in particular national development banks (NDBs), have the potential to enhance their resources and achieve greater outcomes. Governments could mobilize them to contribute more significantly to the financing of the Sustainable Development Goals (SDGs), which fundamentally entails promoting economic growth that is consistent with improved social and environmental outcomes. This requires not only implementing strong environmental and social safeguards in NDB's procedures, but also actively seeking positive impacts by financing operations that enhance the effectiveness of the financial system.

A number of recommendations for governments, regulators and for NDBs themselves emerge from the diverse panels and papers presented at the summit. These insights are accompanied by the publication of a **groundbreaking Reference Book on PDBs** - the first of its kind. This publication is based on **an extensive bibliography of 400+ references and a comprehensive database on PDBs**. This database was initiated by the Public Development Finance Research Program at Peking University, jointly developed by the PKU and Agence française de développement (AFD) with the support of the Fondation pour les Etudes et Recherches sur le Développement International (FERDI).

Key recommendations can be derived from the PDB reference book. Below are some of them; the references supporting these recommendations can be found in the book itself or the research section of the Finance in Common System (FiCS) website[1].

FOR GOVERNEMENTS

1. Implement a strategic and operational framework for NDBs to support the SDGs. Most countries have committed to the Paris Agreement on climate change and the SDGs. They have now to ensure that their NDBs actively contribute to achieving these objectives. A clear mandate from governments to the NDBs under their jurisdiction could accelerate progress. G20 governments are particularly expected to spearhead these efforts, especially during the present time of diminishing Official Development Assistance (ODA).

2. Appoint an independent and qualified board to oversee operations and financial sustainability. International experiences vary significantly, and different governance models exist. In some countries, boards are composed entirely of independent directors, while in others, boards include a majority of independent directors alongside shareholder representatives. Regardless of the structure, boards must actively oversee the corporate strategy, ensuring alignment with the mission. They must also ensure that risks are properly assessed, priced and balanced with the opportunity costs. Furthermore, board members are responsible for establishing clear ethical standards and implementing a robust code of conduct.

[1] https://financeincommon.org/research

3. Establish a transparent selection process for key positions. Successful NDBs appoint key management positions, such as the Chief Financial Officer, based on experience, competence, and leadership on sustainable development matters. A transparent and merit-based selection process is essential to ensuring strong leadership and effective governance. In contrast, political appointments have often been associated with weaker financial performance and reduced institutional efficiency.

4. Require environmental and social accountability reporting. NDBs must ensure the sustainability of the projects that they finance by conducting thorough environmental and social impact assessments, maintaining continuous monitoring, and ensuring public disclosure for transparency. To enhance accountability, NDBs should adopt standardized key performance indicators (KPIs) and implement efficient, streamlined monitoring and evaluation (M&E) processes. This approach will help align their operations with sustainable development objectives while reinforcing public trust and institutional credibility.

5. Support policy and institutional frameworks that enable local currency lending by MDBs and NDBs. Governments and central banks should work with MDBs and NDBs to reduce currency mismatch and foreign exchange risk by creating an enabling environment for local currency financing. This includes facilitating the development of local capital markets, supporting the issuance of local currency bonds by development banks, and contributing to Local Currency Funds that pool hard currency reserves for risk mitigation. By doing so, governments can help ensure that development finance is better aligned with macroeconomic stability and more resilient to external shocks.

6. Call on national and multilateral development banks to foster an accountable and transparent financial ecosystem. By working together, PDBs can improve the pace, the scale, and the appropriate terms for global green and just transitions. A global PDB ecosystem can enable coherent, consistent, concessional, and action-oriented collaborations between national and multilateral development banks. Strengthening and coordinating the efforts of MDBs and NDBs through "public-public collaborations" to deliver public goods holds significant potential. It would enhance the financing of essential public services such as energy, water, housing and transport, but could also catalyze broader systemic change within the global financial system, fostering more effective and impactful development outcomes. Governments, in their capacity as owners and governors of both MDBs and NDBs, bear the responsibility of this policy impulse.

FOR REGULATORS

7. Safeguard financial stability without compromising the development mandate. NDBs must maintain financial stability while fulfilling their development objectives. Achieving this requires a careful balance between regulatory compliance and the flexibility needed to support high-impact development projects. Enhanced supervision, stress testing, and tailored risk assessment mechanisms can help ensure that NDBs remain financially viable while effectively contributing to economic and social development. Additionally, government support, such as preferred creditor status, should be considered as a financial risk mitigation tool and a means to attract additional capital for high-impact projects.

8. Adapt Regulatory Frameworks Tailored to NDBs. There is no research consensus and few robust analyses on whether national regulatory frameworks should accommodate the unique risk profiles of project funded by NDB, particularly in emerging markets. NDBs are mandated to finance long-term projects that offer significant social or environmental returns, even if these entail higher risks and lower financial profitability. Some advocate that regulators should develop risk assessment, regulatory, and audit frameworks specifically designed for NDBs. This would enable them to leverage their capital base to fulfil efficiently their development mandate. Other contend that even if their business model differ substantially from those of commercial banks, NDBs must still operate within the boundaries of financial realities and therefore follow standard regulation and supervision frameworks.

FOR PDB's CHIEF EXECUTIVES

9. Maintain acceptable levels of financial viability and adequate asset performance. NDBs are essentially banks and as such, they must ensure that their transactions and investments are priced appropriately, taking into account the associated risks, costs, and expected risk-adjusted returns on capital. This approach is crucial for ensuring financial viability and capital efficiency, enabling NDBs to optimize their resources while achieving development goals and generating sufficient returns. Adhering to these fundamental financial principles is essential, as failure to do so has often resulted in ineffective operations and compromised long-term impact.

10. Implement internal policies that go beyond safeguards to promote positive outcomes. Safeguards are essential and should be deeply embedded in governance structures, with strong board oversight and effective stakeholder coordination. NDBs should align their operations with standard sustainability frameworks and taxonomies to ensure that compliance not only avoids negative impacts but also maximizes ambition for sustainability and climate action. This includes incorporating both national and global climate plans into investment decisions to account for both national needs and global climate goals. By integrating such an approach into their strategies, NDBs can uncover new opportunities to advance environmental goals and create lasting social and economic value. Additionally, NDBs must respect indigenous peoples and uphold human rights, fostering a more inclusive and equitable development process.

11. Mainstream sustainability targets into strategies, recognizing the interlinkages between biodiversity, climate, social investments and development finance. NDBs should address the SDGs with the same urgency as they did for the COVID-19 crisis. Recognizing that economic structural transformation is critical to achieving green and just transitions, NDBs must lead efforts to promote long-term economic change. By prioritizing sustainability and inclusivity, NDBs can help overcome short-term thinking and drive the transition to a more resilient and equitable economic system, ensuring that long-term environmental and social objectives are integrated into development strategies.

12. Increase funding for climate resilience and environmental sustainability projects. NDBs have proven their relevance, particularly in times of major disruption, by providing counter-cyclical funding. Now is the time to leverage this experience and mobilize additional financial resources from markets, national governments, private sector investors, and other development partners to scale up funding for transition projects. Whether focused on economic development, infrastructure, access to clean energy, or environmental protection, NDBs need to actively mobilize their balance sheets with a clear strategy focused on supporting the transition to a more sustainable and resilient future. This strategic approach will help increase the financial resources available for projects that contribute to climate resilience and environmental sustainability.

13. Stimulate operational cooperation between MDBs and NDBs to enhance effectiveness. While Multilateral Development Banks (MDBs) dominate the international development finance landscape, NDBs hold the majority of assets. The lack of strategic coordination between MDBs and NDBs limits their collective impact. NDBs in low-income countries often depend on MDBs for funding and non-financial support, such as policy dialogue, capacity building, research, and the establishment of standards and norms. MDBs should proactively develop tailored cooperation services for the varied and, in some cases, sector-specific mandates of NDBs. If NDBs do not have any climate-related policies or strategies, and respective state regulation is absent, MDB cooperation can start with capacity building support to identify Paris-aligned projects. Collaborations between MDBs and NDBs as well as among NDBs themselves constitute concrete means of rapidly delivering low cost and high-quality financing for sustainable investments. MDBs and bilateral DFIs also need to rethink technical assistance to make it fit-for-purpose for the domestic financing of green and just transitions vis-à-vis specific national contexts.

14. Leverage private investments through blended finance arrangements. While it is clear that public finance alone is insufficient to meet the financing needs of the SDGs, the strategy for mobilizing private finance at scale remains uncertain. NDBs can play a key role in this by establishing formal targets and operational guidelines that facilitate co-lending and co-financing, thereby attracting and leveraging private investments in development projects. By combining concessional resources with commercial capital, NDBs can finance projects exhibiting high development impact but may not be financially viable otherwise. To achieve this, NDBs must learn from the successes and failures of existing schemes, acknowledging that potential distortions, drawbacks or moral hazard experiences are inherent realities. However, NDBs can develop a variety of innovative and secured "blended" financial instruments, such as smart grants, performance-based disbursements, and products designed to mitigate foreign exchange risks.

15. Develop and implement institutional strategies for local currency lending to minimize foreign exchange risk. Chief Executives should prioritize the design and deployment of local currency lending mechanisms—especially in countries vulnerable to balance-of-payment shocks. This includes diversifying loan portfolios across currencies and jurisdictions, issuing local currency-denominated bonds where feasible, and collaborating with MDBs or central banks to establish Local Currency Funds. These tools reduce currency mismatches for clients, strengthen loan sustainability, and contribute to domestic financial market development. Integrating these approaches into the bank's strategic planning enhances both developmental impact and institutional stability.

16. Participate in and contribute to coalitions of NDBs. Despite differences in their mandates, ownership structures, and business models, NDBs share common objectives and challenges. Strengthening global coalitions allows for the exchange of best practices, peer learning, and the development of technical assistance programs. Regional associations of NDBs and networks such as the Association of European Development Finance Institution (EDFI), Finance in Common System (FICS), the International Development Finance Club (IDFC) or The Montreal Group are vital platforms for fostering NDB peer dialogue and collaboration, helping to advance shared objectives and strengthen collective impact. Peer-to-peer exchange has been identified as a key lever for progress by banks seeking to further align with the Paris Agreement.

17. Increase data transparency to support market understanding of NDBs. Reporting on the impact of NDBs is often fragmented, with no globally standardized reporting guidelines in place. To enhance market understanding and trust, NDBs should systematically disclose data on their processes, operations, and financial performance. Many NDBs still provide incomplete information on critical aspects such as financial statements, governance structures, strategic documents, loan portfolios, and areas of intervention. For informed decision-making, investors need access to transparent, high-quality data that allows them to assess the practices and financial health of NDBs. By increasing transparency, NDBs can improve accountability and facilitate better investment and collaboration opportunities.

APPENDIX

Global Research Network on PDBs

Presentation document

Following the inauguration of the Finance in Common Summit (FiCS) in 2020, an international collective of researchers and think tanks has been investigating the resurgence of public finance as a driving force for societal transitions.

Since then, research on Public Development Banks (PDBs) has been structured under the umbrella of the Global Research Network on PDBs (GRN), a collaborative effort involving more than 50 researchers and think tank who have generated over 40 papers in the past three years. The primary goal of the Network is to nourish the thematic working groups and/or coalitions within the FiCS or IDFC, and to address their inquiries and priorities through pertinent academic and policy papers. These contributions are designed to be both rigorous and practical, aligning with the objectives of the FiCS initiative. The GRN aims to build a community of researchers worldwide, to identify important research topics on PDBs, promote collective research, and foster policy dialogue with policy makers and practitioners to turn research into development impact.

It is structured around 5 work-streams:

Work Stream	Main areas of research	Coordinators
Global Financial Architecture	MDB-NDB interactions; local currency financing; governance; MDB reform.	Agence Française de Développement (AFD) Stellenbosch University
Private Sector Mobilization	Blended finance; financial innovation; enabling environments; local financial systems.	ODI Global World Resources Institute
Investments for Sustainable Development	Impact investing; Alignment frameworks; Sustainable finance metrics; innovative instruments.	Institute for Climate Economics (I4CE) World Resources Institute
PDB Analytics	Typology of public financial institutions; PDB business models; Financial and extra-financial data collection.	Peking University FERDI
PDB Academics	Theory of development banks.	McMaster University UNCTAD

Active members of the GRN include the following institutions (non-exhaustive):

- Agence Française de Développement (AFD)
- Latin America Association of Development Financing Institutions (ALIDE)
- Anthropocene Fixed-Income Institute (AFII)
- Boston University
- Banco Nacional de Desenvolvimento Econômico e Social (BNDES) (Brazil)
- Climate Policy Initiative (CPI)
- Columbia University
- Development Bank of Southern Africa (DBSA)
- European Centre for Development Policy Management (ECDPM)
- European Investment Bank
- European Think-Tank Group (ETTG)
- E3G Think Tank
- Fondation pour les Etudes et Recherches sur le Développement International (FERDI)
- Global Development Network (GDN)
- Institut du Développement Durable et des Relations Internationales (IDDRI)
- Institute for Climate Economics (I4CE)
- Inter-American Development Bank
- International Fund for Agriculture and Development (IFAD)
- McMaster University (Canada)
- Overseas Development Institute (ODI Global)
- Institute of New Structural Economy (INSE) at Peking University
- Stellenbosch University (South Africa)
- Sustainable Finance Observatory (France)
- United Nations Department for Economic and Social Affairs (UNDESA)
- United Nations Trade & Development (UNCTAD)
- University of Cordoba (Argentina)
- University of Ghana Business School
- World Bank
- World Resources Institute (WRI)